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AUSTRALIA

Office Assets Put Dexus In The Box Seat

Strong cash flow, positive leasing spreads and lower debt costs are delivering superior returns for Dexus Property, which is currently enjoying a robust outlook for office and industrial assets.

-Increasing certainty regarding property income and funds management earnings
-At some stage Dexus will need to pursue capital recycling or raise further equity
-Key leasing risks emerging in FY22

By Eva Brocklehurst

With many avenues for growth Dexus Property ((DXS)) is in the box seat among those Australian real estate investment trusts (A-REITs) with a focus on office and industrial assets. Operating conditions remain favourable for office landlords and the company's trading profits appear secured for FY20 and FY21.

The highlight of the first half for UBS was office income growth of 8.9%, supported by Sydney leasing spreads of 18%. Capitalisation rates (the net operating income of a property compared with its value) continue to compress but strong cash flow, positive leasing spreads and lower debt costs are delivering superior returns for Dexus in an A-REIT context.

Moreover, Citi notes visibility out to FY22 is increasing. The potential profit from the trading book has increased to $245-315m. Gearing at 25.5% leaves the company with around $1bn of debt-funded investment capacity before gearing exceeds 30%.

However, this is not enough to fund the entire development of $5.7bn that is “on balance sheet” and at some stage the company will need to pursue capital recycling or raise further equity, Credit Suisse points out. The share buyback remains a capital management option but the broker considers this a last resort and does not assume any further shares will be bought back.

There is also **scope for third-party capital injections, given global demand for good-quality real estate,** and funds management is now up to $17bn. All up, Credit Suisse considers the business well-placed to leverage continued global demand for good real estate, particularly in the office and industrial sectors in Australia.

Ord Minnett points out operating conditions have slowed, although this is not enough to bring the defensive nature of the stock into question. Net absorption in office markets, with the broker citing JLL Research, declined in 2019 for Sydney and Melbourne CBDs.

Upgraded Outlook

Free funds from operations (FFO) growth of 4% is now expected for FY20, versus 3% previously, and distributions growth has been upgraded to 5.5% from 5.0% previously. Macquarie finds the latter upgrade curious when compared with the upgrade to earnings and suspects management is being conservative.

Morgan Stanley assesses the upgrade to earnings growth is predominantly driven by lower interest rates and Dexus did not change its office or industrial rent forecasts.

The company has been actively developing its portfolio, with the pipeline increasing to $11.2bn. Dexus has a 51% share of this number and Macquarie suspects profits could be significant over time. Timing and trading profits will be key going forward, the broker adds.

Delays

Nevertheless, Dexus has indicated that the AMP Circular Quay tower may be delayed to 2023, which could mean Sydney CBD is net withdrawals in 2022. Macquarie asserts that developments expected to be completed in 2024/25 are at risk of delays, and a case in point is Dexus noting its Pitt Street development will not be completed until 2027.

Nevertheless the positive outlook for the business is based on rising asset values, and Macquarie points out **a more protracted supply outlook would be positive for office landlords more broadly**.

Several items were considered not so rosy. Office occupancy declined in December to 97.4% from 98.0% as of June and this is likely to be a drag on office income in the second half. Capital intensity is also higher, as are office leasing incentives. Under-renting, overall, is still around 1% on an effective basis, albeit declining from the 4% experienced in FY19.

The main leasing risk, Credit Suisse notes is 123 Albert Street Brisbane in FY22, which represents 3.6% of the office portfolio. Morgan Stanley also highlights the leasing challenges faced at 123 Albert Street and expects earnings growth will diminish in FY22 to around 3.0% from a forecast of around 4.5% in FY21.

FNArena's database has five Buy ratings and one Hold (Morgan Stanley). The consensus target is $13.58, suggesting 5.0% upside to the last share price. The dividend yield on FY20 and FY21 forecasts is 4.1% and 4.3% respectively.

AUSTRALIA

Challenging Second Half Ahead For REA Group

REA Group acknowledges it will be difficult to meet targets for the second half unless real estate listings volumes improve markedly.

-Revenue growth contingent on the listings environment
-REA Group retains significant pricing power but is still subject to economic forces
-Cost reductions may make it possible to meet forecasts

By Eva Brocklehurst

A lack of new property listings for sale in Australia beset REA Group ((REA)) in the first half. Morgans points out listings are now at 50-year lows and continue to put pressure on the company's revenue base. REA Group is witnessing some signs of a listings recovery but acknowledges it will be difficult to meet its targets for the second half unless volumes improve substantially.

In the first half national residential listings declined -14%, with Sydney down -17% and Melbourne down -16%. The company's performance in Asia was better, while financial services were weaker, affected by lower mortgage settlements.

The company may have maintained its commitment to the rate of revenue growth exceeding the rate of cost growth but acknowledges that the revenue growth is contingent on the listings environment.

Residential volumes were negative in January, albeit this is usually a very low listings month, and Credit Suisse suspects, given its findings, that both Sydney and Melbourne listings will be higher over the next six weeks. On the other hand, developer volumes are weak and expected to drag down media revenue for the remainder of FY20.

Initial data from January suggests any rebound in property listings is not as strong as Ord Minnett had hoped. The broker lowers listings growth expectations for the second half to 5% year-on-year and reduces FY20 earnings estimates by -6.8%.

Revenue

Ord Minnett notes a lack of new revenue drivers, although finds it hard to argue against the large audience the company commands compared with its main rival Domain group ((DHG)). While REA Group may have "almost monopolistic pricing power", the broker points out it remains subject to economic forces.

Morgans downgrades earnings estimates to reflect the weak start to 2020 but still assumes a rebound in the second half. The stock is trading well above valuation and the broker retains a Reduce rating. To some extent the valuation impact has been offset by a decision to upgrade FY22 volume growth forecasts, with the broker believing "the longer the slump the steeper the rebound".

REA has removed more than -$20m in recurring costs in the first half, a significant exercise and the biggest in the group's history. This may make it possible, just possible, Morgans cautions, to meet forecasts.

Divisions/Products

The SmartLine mortgage broking business reported its worst half-year since the company's investment as the volume of homes financed fell. However, REA has assured the market the business is improving and new applications are on the rise.

The company believes it still has room to grow the Premiere All share of subscriptions. Ord Minnett assesses penetration is close to topping out, as growth in total depth is slowing and the days of double-digit price increases have gone.

While agents don't push back much against the annual price increases as the cost is borne by the vendors, Ord Minnett believes vendors will start to question the cost once advertisements become more expensive then newspaper advertisements.

Meanwhile, **new products such as AgentMatch are proving hard to get going**. There was some anticipation that AgentMatch, Ord Minnett notes, would be the next major revenue stream. However, agents do not appear to be willing to pay for this product, which may stem from the fact that large agencies already have their own database.

Credit Suisse had expected that AgentMatch would expand the addressable market but management has stopped charging agents on an "per lead" basis which indicates this is not a straightforward proposition.

Hence, any monetisation opportunity is effectively pushed out, and this was the main negative the broker derived from the results. Credit Suisse agrees agents may be sceptical about a product which could bring portals closer to capturing a portion of agent commissions.

Morgan Stanley assesses the results and outlook confirm a cyclical recovery is underway. The issue is simply about the extent and whether listings bounce back strongly. The broker remains confident the risks for REA are skewed to the upside on a 12-18 month view, estimating second half operating earnings (EBITDA) growth of 37% is required to achieve full year consensus estimates of around $550m.

FNArena's database has one Buy rating (Morgan Stanley), two Hold and three Sell. The consensus target is $101.52, suggesting -9.0% downside to the last share price. Targets range from $89.93 (Morgans) to $110 (Morgan Stanley).

AUSTRALIA

Flight Centre Flags Coronavirus Hazard

Flight Centre has acknowledged coronavirus is starting to impact on travel plans, which creates uncertainty over the outlook for the second half.

-Chinese corporate business being negatively impacted by coronavirus
-Australian leisure outbound volumes may also be affected
-Possibility of a strong rebound in travel volumes when virus concerns allayed

By Eva Brocklehurst

Flight Centre's ((FLT)) update may have calmed expectations for the first half but brokers are nervous about the second half, as the company acknowledges the outbreak of coronavirus is starting to have an impact. This adds to a growing list of issues confronting Flight Centre and increases the probability of further downgrades to current guidance for FY20, in Citi's view.

The company now expects pre-tax profit of $100-105m in the first half, with the mid point slightly higher than the prior $90-110m guidance. FY20 guidance is for $310-350m in pre-tax profit. Flight Centre has pointed out that Brexit, US/China trade wars, unrest in Hong Kong and Dominican Republic as well as poor consumer confidence all weighed on the first half results.

While coronavirus is affecting second half travel patterns the company finds it difficult to judge the potential impact. It appears the virus has negatively affected the corporate business in greater China and Singapore, which represents 2.5% of total transaction value for the group.

This could have flow-on effects on outbound leisure and corporate travel in other regions, and Flight Centre **has indicated that its leisure business, hotels and resorts are also likely to be affected**.

The Chinese corporate business may be only a small percentage, but Macquarie believes other factors are also affecting the downgrade, pointing out travel industry contacts have indicated that January and the second half of December were the worst in memory in the local travel industry.

Ord Minnett observes the market has made a decision to sell first and ask questions later with regard to the coronavirus. However, history suggests the issue will be resolved and normal operating conditions will return within a relatively short timeframe.

Outbound travel from Australia is holding up reasonably well but the broker is alert for any worsening. As Flight Centre has risk exposure across multiple lines, importantly offshore corporate, Ord Minnett takes a cautious approach and downgrades to Hold from Buy.

Citi points out the company's Australian corporate business is skewed towards domestic travel, but from a leisure perspective Australian outbound volumes will likely be affected by travel restrictions.

This has the potential to affect demand, or move more business towards domestic travel. The broker acknowledges the one-off nature of the impact and notes the SARS experience indicated a decline in travel volume precedes a period of catching up where activity increases materially.

Morgan Stanley is encouraged by the upgrade to first half estimates, albeit slight and assesses there is upside in the medium term. UBS, too, assesses the stock offers an attractive risk/reward, highlighting Flight Centre is winning share and has the advantage of a strong balance sheet. UBS maintains earnings forecasts pending further clarity at the first half result on February 27.

FNArena's database has a target of $43.27, signalling 12.1% upside to the last share price. Targets range from $39.00 (Macquarie) to $50.50 (UBS). There are two Buy ratings and five Hold.

AUSTRALIA

Difficulties Mount For Aurizon's Coal Haulage

Aurizon Holdings has reaffirmed FY20 guidance but appears to be increasingly cautious about the outlook for the coal haulage segment.

-Will improvements in bulk earnings help mitigate pressure on coal earnings?
-Concerns over Genesee & Wyoming Australia entering the Queensland market
-ESG risks mounting regarding exposure to thermal coal

By Eva Brocklehurst

Ties to the iron ore and bauxite market (bulks) remain the major driver of earnings for Aurizon Holdings ((AZJ)) while pressures continue to arise from coal haulage.

In the first half, a weak coal segment was offset by very strong bulk earnings, which benefited from the re-pricing of the Kararra iron ore haulage contract and the better performance from bauxite, where cancellations dropped significantly.

Coal weakness was partly from softer volumes but also, UBS points out, because the company increased its labour force ahead of an expected increase in tonnage that did not eventuate.

Management has reaffirmed FY20 earnings (EBIT) guidance of $880-930m but appears more cautious about the outlook for coal. Expectations for "moderate" revenue growth from coal is interpreted by UBS to be in the low single-digit growth area.

Morgans assumes coal haulage will be able to maintain margins via cost reductions, while the improvement in bulk earnings will help mitigate the pressure. The broker also notes coal revenue quality is declining, with capacity charge or take-or-pay as a proportion of above-rail revenue reducing to the low 60% from the high 60% region.

Credit Suisse found the commentary regarding coal haulage pricing downbeat, with flat outcomes likely as lower prices offset volume growth. **While coal earnings can grow faster than revenue, Citi asserts this will be contingent on the delivery of cost reductions or improving productivity and efficiency.**

Contract extensions were a positive in the first half, although Macquarie notes this has been at the expense of price increases. Without price improvements, the broker agrees initiatives on costs are essential. There are still contract renewals to come from the likes of Glencore and several for BHP Group ((BHP)), which could extend the price declines to 2025 on the older contracts which are dragging on the group.

Genesee & Wyoming Australia

Competitor Genesee & Wyoming Australia (GWA) appears to be moving in on the Queensland coal market. While in the short term Credit Suisse assesses this is a low risk, as most of Aurizon's contract expiries have been extended, in the longer term an additional competitor is likely to put further pressure on prices.

Morgans also queries the "end game" for Aurizon's litigation against GWA regarding pre-emptive rights. If this means Aurizon will acquire some of the assets it may mean the share buyback ceases.

Alternatively, the intentions may be to extract a cash pay-out from GWA and stall its entry into the Queensland market. Macquarie suspects GWA's entry adds further complexity to any judgement about its failure to offer first right of refusal. The broker also expects the ACCC would block Aurizon's ownership of GWA as it stands currently.

Bulk Outlook

Despite a strong performance in the first half, Aurizon is cautious about the second half for bulk earnings. Restoration of the Mount Isa line and the contribution from Glencore and Incitec Pivot ((IPL)) will be offset by a reduced GrainCorp ((GNC)) contribution and re-pricing of Incitec Pivot business.

Macquarie suggests Kararra may also deliver more moderate outcomes, given the change in pricing structure. Now that the cost base for bulks is under control, management is looking for growth opportunities. Aurizon estimates there is an addressable 150mt and it currently has one third of that market.

A new contract has been announced with Mineral Resources ((MIN)) and Macquarie believes the cost to bring trains back in service should not be significant. A contract with Rio Tinto ((RIO)) has also been obtained for services related to ballast cleaning.

As a result Credit Suisse doubles forecasts for the earnings of the bulks segment in future years. Yet, with **the bulk business facing competition from both rail peers and road transport**, Morgans wonders just how much impact there will be on earnings, through either volume losses and price pressure.

The broker also questions just how further cost reductions can be extracted after ten years of transformation. Still, the company may be facing a low-growth outlook but the broker believes investors will be attracted to the dividend yield and the significant buyback initiative.

Macquarie points out growth via acquisition is difficult and management is not actively seeking M&A opportunities. There is a low probability of realising further investment opportunities, such as the Wiggins Island Coal Export Terminal, as these would be blocked by the regulator. Hence, the broker notes the default strategy to return cash to shareholders.

Distributions were a highlight of the results for UBS, as 100% of earnings were paid out as dividends. Sale of the rail grinding business has netted a $105m gain on sale, allowing for the additional $100m in buybacks to be announced.

That said, the shares have missed any exposure to the outperformance related to infrastructure and this points to environmental, sustainability and governance (ESG) risks around the exposure to thermal coal, UBS asserts.

Morgan Stanley agrees that incremental ESG concerns will be dampening longer-term sentiment, although the company has pointed to efforts in emissions reduction and noted rail emissions are typically lower than road transport emissions on a net tonne per kilometre basis.

FNArena's database has two Buy ratings, three Hold and one Sell (Macquarie). The consensus target is $5.65, suggesting 1.2% upside to the last share price. The dividend yield on FY20 and FY21 forecasts is 4.9% and 5.3% respectively.

AUSTRALIA

Developments Key To GPT's Future Growth

GPT Group is increasing its focus on office and logistics assets. Brokers welcome the trend and believe the development pipeline will be a key to future growth.

-Office and industrial now comprising 85% of development projects
-More speculative development in industrial/office in NSW and Victoria
-Multiple headwinds for retail income

By Eva Brocklehurst

Office and logistics assets paved the way for strong income growth in 2019 for GPT Group ((GPT)) and more is expected as the REIT's focus on these segments increases. GPT will be developing assets with an end value of around $1bn in 2020.

First-time guidance for 2020 is for growth of 3.5% in distributions, stemming from the ramp-up of logistics acquisitions and development. Comparable income growth of 3.5% in 2019 was driven by a 6.2% rise in office, 3.3% in industrial and 1.2% in retail. Development projects now total $2bn, of which office and industrial comprise 85%.

There are now $662m in projects underway and this is expected to reduce the weighting of retail in the portfolio, which is targeted at 40% versus the current 43%. The office expiry profile has been substantially de-risked, to 17% from 29%, and logistics to 8% from 21%.

Morgan Stanley believes this is one aspect the market has under-appreciated about GPT. Around $300m in new facilities will contribute to 2020 earnings and rental income for this division should increase by around 20%.

Credit Suisse agrees that not enough focus has been placed on the commercial development. **Risks to forecasts and valuation include unexpected vacancies and greater-than-forecast variations on leasing spreads or development capital expenditure**.

With a strong balance sheet and fairly predictable earnings, the broker finds the stock fairly valued. Citi, too, assesses the shares are not cheap but expects guidance will help support the future performance.

Citi highlights that a small beat on expectations matters in the A-REIT sector, with the stock heading 2.8%

higher on the 2019 results. Guidance for 2020 is well ahead of expectations and the broker emphasises the company's tendency to be conservative.

With office and logistics continually surprising to the upside, UBS agrees leasing success across this aspect of the portfolio will mean GPT is well-positioned to refine guidance higher throughout 2020.

Developments

The company is undertaking more speculative development in NSW and Victoria, given tenant demand, while reducing exposure to its office fund (GWOF), now owning 22.9%. GPT, Macquarie believes, is unlikely to participate in the equity raising of GWOF.

The broker also notes notes media speculation that GPT may be a potential acquirer of the Qube Holdings' ((QUB)) Moorebank development. Meanwhile, the development of Cockle Bay wharf is also expected to be ready to commence in 2022 with the company aiming for a 40% pre-commitment before starting.

Retail

Retail weakness resulted from a combination of a contraction in leasing spreads and a decline in cinema turnover rent. Morgan Stanley still finds this challenged sector too large as a proportion of assets and retains an Underweight rating.

Macquarie observes there are multiple headwinds for retail income and incentives have increased. On the positive side, tenure of leasing deals is unchanged. However specialty sales growth of 0.7% over 2019 indicated a flat second half.

GPT is hopeful of a recovery in 2020 but Macquarie believes this is unlikely to be of material assistance to the segment and retail valuations will remain under pressure.

Of note, in respect of its 45 retail tenancies a large number are affected by administration. Of these, 10 have closed and there is a potential for a further 10 to shut down. The level of administration is slightly higher compared with 2018 and 2017.

While GPT's retail weakness missed even its bearish forecasts, Citi warns offshore retail portfolios have persistently surprised on the downside, despite the market being well aware of retail headwinds.

There are four Hold ratings and two Sell on FNArena's database. The consensus target is $6.21, signalling -2.6% downside to the last share price. The dividend yield on FY20 and FY21 forecasts is 4.3% and 4.5% respectively.

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AUSTRALIA

Drilling Success Crucial For Beach Energy

If Beach Energy's drilling success continues and oil & gas prices hold up, then brokers believe a substantial increase in planned capital expenditure may be justified.

-Upside price potential eroded by recent reduction in east coast gas prices
-Is momentum on cost reductions stalling?
-More explanation required regarding the extent of capital expenditure plans

By Eva Brocklehurst

Beach Energy ((BPT)) has flagged a positive outlook for the second half, expecting several projects will start to contribute significantly to growth. However, the market reaction was fixated on a substantial hike in capital expenditure.

While drilling success in the first half was above 80%, and the company has modelled a lower rate for its five-year outlook, brokers consider further success will be crucial to justifying the expanded expenditure.

A near term commercialisation path for Perth Basin gas has been outlined, which could indicate a larger-scale development, and Morgans expects the Otway and Perth developments will deliver the bulk of production gains in FY21/23.

Credit Suisse expects a probable upgrade to the five-year production outlook and reserves in mid 2020, driven by Bauer output. That said, the broker remains cautious and wonders whether more expenditure will creep in after FY20.

At this stage, Credit Suisse has faith that management's plans are solid and believes the recent sell-off in the stock is a little overdone. Nevertheless, **Beach Energy will likely require a strong second half to achieve its guidance**, in Macquarie's view.

While the company expects around 80% of gas contracts to be on updated pricing over the next three years, the broker notes upside potential has been eroded somewhat, given the recent reduction in east coast gas prices.

Oil & Gas Prices

Macquarie assesses the risk to oil and gas prices has intensified, noting, while the company has adjusted its Brent assumptions to US$60/bbl (spot price is US$53.31/bbl) which puts downside risk on earnings guidance.

However, the broker points out Beach Energy has paid down a significant amount of debt in the last two years and moved to a net cash position at the end of the first half. Morgan Stanley counters this, forecasting net debt to increase as operating cash reduces over the next 12 months, given momentum on cost reductions appears to be stalling.

This creates risks, should commodity prices come under further pressure. The broker expects prices will be lower than what was assumed by the market 12 months ago, pointing out reserve increases from the Western Flank will not last forever.

Given lower gas production, capital expenditure increases and falling commodity prices Morgans expects free cash flow in the near term will be weaker. While Beach Energy cannot do much about oil prices, free cash flow should be driven by the development program across its assets, the broker asserts.

Morgans lowers assumptions for crude in FY20/21 but maintains long-term assumptions of US$70/bbl. While the stock has fallen in the last month, the broker believes Beach Energy needs to rebuild confidence, and this will probably occur at the full year result amid reserve upgrades and more clarity on the work program.

Capital Expenditure

In order to reach its five-year targets Beach Energy has increased guidance for capital expenditure to $875-950m, well above the $447m incurred in FY19. Most expenditure is likely to be on development wells in the Western Flank and Cooper Basin.

The company had indicated back in August 2019 that near-term cash flow was being sacrificed to drive growth and Ord Minnett notes, at that time, **investors were worried about waiting longer for cash returns from growth projects**.

This concern is now exacerbated. Beach Energy has allowed an additional $50m in the second half for exploration and appraisal and another $50m has been identified for the Cooper Basin oil production.

Citi, too, points out investors are interested in further understanding why expenditure guidance has been raised and the extent to which this and other disclosures will affect future free cash flow, pulling back some of its more aggressive assumptions.

Initial concerns over the expenditure have been somewhat allayed, Credit Suisse asserts, after the conference call, noting Perth Basin upside could be larger than the market anticipates.

Still, Citi has several questions regarding the capital expenditure program, such as how management can get costs under control without jeopardising operating integrity.

The original work program did not factor in the number of horizontal wells that are now planned, although the hiring of new staff was elevated to mitigate the risk of poor execution and the broker acknowledges some of these costs could be removed in future, depending on the scope of works.

On balance, Citi suspects there is upside risk to the outlook and expects free cash flow largely in line with the prevailing five-year outlook. On the other hand, Morgan Stanley finds it difficult to envisage a further re-rating on the stock unless exploration wells perform.

FNArena's database has four Hold ratings and two Sell. The consensus target is $2.33, suggesting 3.9% upside to the last share price. Targets range from $2.00 (Morgan Stanley) to $2.49 (Credit Suisse).

AUSTRALIA

Bapcor Defensively Positioned

After fearing the worst, brokers applaud first half results from Bapcor, which underscore the company's position in a relatively defensive automotive parts industry.

-Competitive environment eases slightly
-Specialist wholesale supported by recent acquisitions
-Price increases in December enable margins to increase in January

By Eva Brocklehurst

Bapcor ((BAP)) exhibited resilience over the first half as promotional activity aided trade sales and the competitive environment eased slightly. Revenue growth was 10.4%, benefiting from a higher mix of company-owned Autobahn stores, while net profit was up 5.1%.

Credit Suisse suspects the market was bracing for a worse result, amid rumours trade earnings would be down and net profit would contract, although when examining the drivers of the growth story nothing has changed.

The “home” brand is now occupying 24% of the business in Australia and 32% in New Zealand, with the target of 35% across Australasia now in sight. Online sales doubled in retail trade, underpinned primarily by Click & Collect, which Macquarie assesses is an indication the majority of customers still prefer to pick up products for immediate use rather than have them dispatched.

The trade division sustained very strong same-store sales growth in response to the company's promotional campaign. Trade margins did decline in the first half, to 13.5%, reflecting competitive pressures, which Credit Suisse suggests were partly driven by the market and partly self-inflicted. However, the market appears to have expected an even more detrimental outcome. Remediation will be the focus for the second half.

Where Morgans previously envisaged downside risk to forecasts, the trajectory of margin recovery in the second half now presents some solid upside risk. Admittedly, growth has slowed from previous heady levels but the outlook is still intact.

Moreover, a price increase appears to have stuck and this means margins have increased in January, signalling to brokers a more rational competitive environment and favourable industry structure.

The specialist wholesale division was supported by recent acquisitions, with revenue of $235.4m, up 20%. Growth was primarily supported by the inclusion of Don Kyatt. The company added three new trade stores in the half, including two greenfield operations.

Bapcor has also pointed to **strong growth in auto electrical and engine management**. Inter-company sales grew 10% and form a growing portion of revenue as part of the strategy to support trade and retail business. UBS highlights the multiple growth and cost cutting options and expects there could be significant upside in Asia for the company.

Thailand

A formal plan for rolling out in Thailand is yet to be confirmed, although Bapcor is targeting 60-80 stores and has stated that it will not require an acquisition. Bapcor is the largest chain delivering similar services in Thailand and this will be a greenfield expansion.

A new distribution centre planned for Tullamarine (Victoria) is expected to enhance efficiencies. Credit Suisse upgrades the FY22 outlook based on the formal disclosure of the distribution consolidation economics. The upfront investment is expected to occur in the first half of FY21 with benefits accruing in FY22. Bapcor closed two stores in the first half and some franchisees remain on credit restrictions, impacting sales performance.

All up, Morgans likes the status of a relative safe haven in a volatile retail sector while Macquarie anticipates the stock's -10% discount to the market is likely to close. FNArena's database has five Buy ratings. The consensus target is $7.81, suggesting 12.0% upside to the last share price.

AUSTRALIA

Aventus Defies Pressures On Retail A-REITs

Aventus Group posted a robust first half result, benefiting from the spread of resilient tenancies in its portfolio of retail assets.

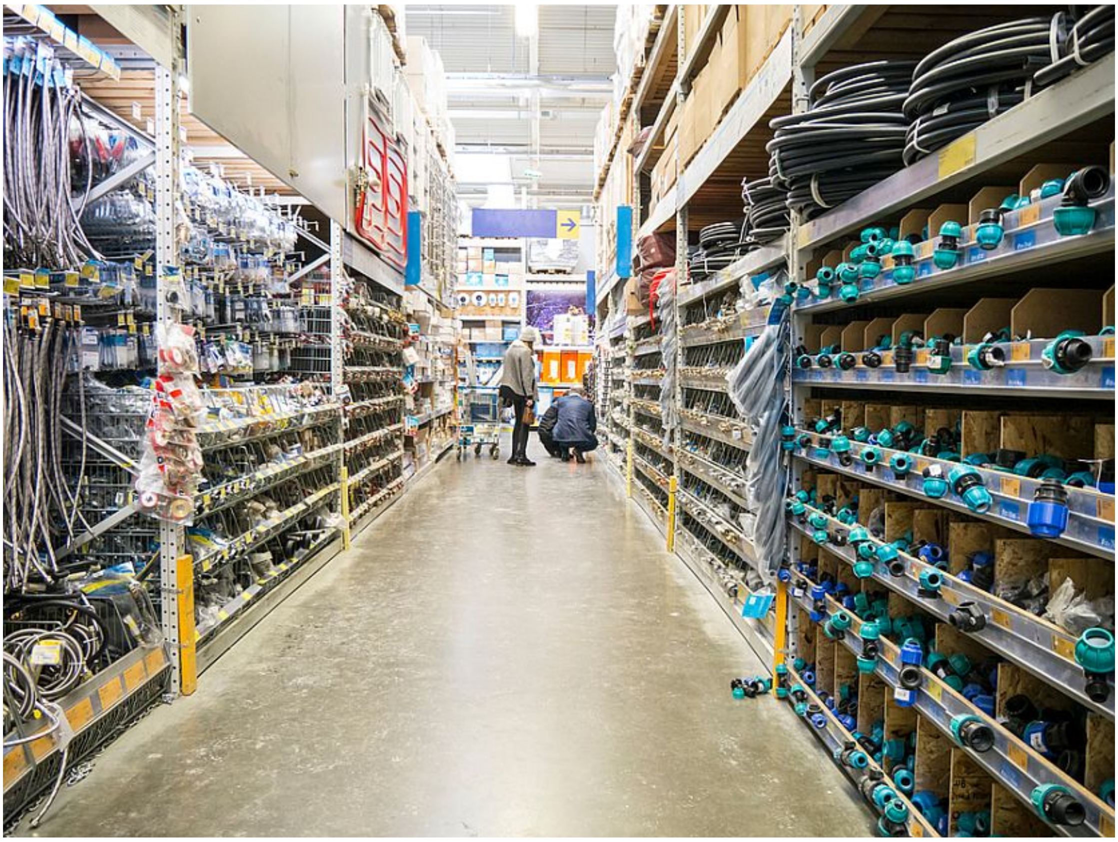
-Cost of debt declines, income growth outperforms retail peers
-Growth rates above comparable retail A-REITs
-Improved housing outlook should support the company's retail tenants

By Eva Brocklehurst

Aventus Group ((AVN)) continues to benefit from an increasing range of tenants in large format retail assets, its first half results revealing that none of the properties were directly affected by bushfires and foot traffic is still increasing.

The company obtains sales data for around 50% of its tenant base, which indicated manchester and homewares were doing well while robust categories include pet supply, automotive, leisure, sport and food.

Aventus expects to achieve the upper end of its original FY20 growth guidance range of 3-4%. The highlight of the first half result was the cost of debt declining to 3.1% versus prior guidance of 3.3%.



This benefit is material, Macquarie asserts. Moreover, leasing metrics are solid and there are initiatives on funds management. Aventus has sold the McGraths Hill asset into its first syndicate, retaining a 25% co-investment stake. Although this was a transaction that was largely neutral to earnings in FY20, the broker notes it will have diluted the earnings base in outer years.

UBS points out comparable income growth is substantially outperforming retail peers and the company has also done a good job de-leveraging the balance sheet with minimal impact on FY20 earnings.

The broker believes **Aventus is well-positioned to deliver net operating income growth of 2.5-3.5% over the medium term**. Macquarie observes comparable net operating income growth has moderated, to 3.1% in the first half from 3.5% over FY19. Still, this is a higher growth rate compared to other retail A-REITs under the broker's coverage.

Aventus has been deploying capital into developments, with $15m invested in the first half and a further $25m estimated for the second half. The current major development is at Caringbah (Sydney), expected to open late in 2020. Future developments include Cranbourne (Victoria) and Tuggerah (NSW).

Housing Outlook

UBS suggests an improved housing outlook will flow through to better household goods retailing, and support those tenants in the company's retail assets. Further cash rate reductions over 2020 are also expected to enhance spending activity.

Housing listing data is supportive and house prices in the major centres are rising. There is an offset in that housing completions are unlikely to improve until after FY22. Nevertheless, UBS believes tailwinds from the housing market, together with the company's intensive asset management strategies, are priced into the the stock.

Given a distribution reinvestment plan (DRP) is dilutive to the earnings base, **the company is using the cost of debt advantage to reduce gearing rather than upgrade earnings further**. Gearing is at the top end of the range, yet Moelis suggests Aventus can still underwrite its distributions in the near term, which generates $80m a year in new equity.

Moelis, not one of the seven stockbrokers monitored daily on the FNArena database, believes the stock is relatively attractive from an income perspective. This is particularly so in the context of the low interest rate environment, a recovering housing market and interest rates likely to be "lower for longer".

While it is hard to envisage a near-term catalyst to unwind the current multiple, the broker believes, at the current share price, there is limited upside, and retains a Sell rating with a $2.56 target.

Portfolio vacancies have declined, with occupancy now at 98.6%, an increase from 98.4% six months ago. Macquarie considers this a positive outcome, particularly in light of increasing supply.

The company had one tenant in administration in the first half, resulting in occupancy at Marsden Park declining to 91% from 100%. The tenant was an independent baby goods retailer. Macquarie also notes there is limited exposure to discretionary fashion tenants, a category that has faced significant pressure recently.

FNArena's database has two Buy ratings and one Hold (UBS). The consensus target is $3.08, suggesting 5.1% upside to the last share price. The dividend yield on FY20 and FY21 forecasts is 5.8% and 6.0% 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.

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ESG FOCUS

ESG Focus: Manufacturing Revolution, Devolution and Evolution

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

The global manufacturing industry stands on the brink of disruption as a perfect storm of digitisation, AI, robotics, and big data transforms industry. Add circularity and ESG to the mix, and it promises to be a wild ride.

-Sustainability is one of the central themes of the 4th Industrial Revolution
-Technology that drives efficiency should find strong ESG and regulatory support
-Disruptors and first-movers offer opportunities for ESG impact investors
-Sustainable suppliers to sustainable disruptors may attract best-in-class investors

By Sarah Mills

The manufacturing industry, one of the world's largest economic engines, stands on the brink of disruption, as a perfect storm of digitisation, AI, robotics, sustainability considerations, and big data transforms industry.

Much has been made of the fourth industrial revolution, which is expected to roll out over the next 10-15 years. The world's manufacturing giants are positioning for change, developing nations are seeking to carve out opportunities and investors are taking their marks.

But much less has been made of the sustainability issues in the manufacturing revolution and their impacts on investors.

BlackRock, the world's largest fund manager with US$6trn of assets under management, recently announced it has integrated environmental, social and governance (ESG) decisions into its investment process.

Many investors decried the move, claiming ESG considerations were designed to make investors pay for the fourth industrial revolution. Others welcomed it as an organising principle heading into extremely turbulent times.

Regardless, sustainability is one of the central themes of the fourth industrial revolution in that: advanced technologies bring greater resource efficiency; the most efficient are likely to not only be the most profitable but to also attract ESG investment; and in that fourth industrial revolution will coincide with, and enable, a regulator-driven shift to a circular economy.

Of all the world's impending technological disruption, disruption in manufacturing is likely to prove the most geopolitically sensitive (short of cyber security and possibly blockchain), and is likely to create instability in global financial markets for some time.

But it will also breed great opportunity in the areas of digital technology, artificial intelligence, robotics, cyber security and design.

Geopolitical tensions meanwhile, aided by advances in digital design, are likely to incentivise localising or onshoring of manufacturing, all of which conveniently dovetail with sustainability/ESG themes for investors by reducing emissions.

Manufacturing giants place sustainability front and centre

Manufacturing giants Germany and China have been preparing for more than a decade to defend their positions in the new world order.

Both have made huge steps towards building renewable energy stocks, and both have moved to substantially reduce fossil fuel dependence.

The United States has made it clear that it no longer perceives China to be a developing nation, has embarked on a largely unsuccessful trade war, and presaged a commitment to onshoring more of its manufacturing.

India, meanwhile, stands to benefit from Sustainable Development Goal (SDG) subsidies aimed at increasing the sustainable productivity of developing countries; while Japan, South Korea and Italy have largely taken a wait-and-see stance.

Shift to local on-demand manufacturing has an ESG frame

One of the more interesting reports to cross the ESG desk last year was Citi's "Factory of the Future".

The Citi report declares: "*… we are now on the cusp of a new era of productivity, driven by the declining cost of technology (data and components), a pending explosion in wireless connectivity potential for industrial devices, and developments in advanced manufacturing, including robotics. Manufacturing will become "on demand" where we can order single bespoke items in real time, at the cost of mass production.*

"… instead of raw materials and inputs assembled in large factories to produce identical products in massive scale (i.e., minimising unit costs via economies of scale) and then distributed to the end users, the rise of 'distributed manufacturing' allows fabrication and mass customisation of products in closer proximity of its end-market, helping improve the utilisation of local materials, customise products to better suit the customer, shorten lead times, maximise flexibility, and minimise waste".

So for investors, this may be the area in which having the jump on ESG flows may prove a benefit. As the competition heats up, attracting trillions of dollars in ESG investment and sustainability tax breaks may make or break many companies and countries. At the very least it is likely to be a good guide to future performance, the thermal coal industry being one example.

One of the key sustainability impacts will be the location of manufacturers closer to end-markets or supply chains aided by developments in digital design, and the resultant reduction in freight costs. This may attract ESG best-in-class investments in such projects, which may also benefit from sustainability tax subsidies, and subsidies for onshoring.

Last year, Chevron Phillips Chemical and Qatar Petroleum announced the construction of a US$8bn petrochemical plant next to a coal seam gas mine on the US west coast that produces ethylene, the building block for plastic. Given the weak gas price and gas surpluses, the plant is diverting the gas to produce super cheap virgin plastic which is then shipped out on a train line located on site, slashing transport emissions and costs.

It follows a similar $10bn deal in Texas. Both projects received up to $1bn in subsidies from the Trump government and, as plastic producers, it is conceivable they could initially receive a best-in-class ESG rating for their reduced CO_2 profiles (although it would be likely short-lived and could just as easily be offset by regulatory penalties), despite producing a fossil-fuel-based planetary scourge.

It's early days yet and the above examples, while relatively small change, are just the opening gambits in the ESG game.

For example, it is conceivable that a smart manufacturing facility could be located next to the Chevron plastic plant and gas mine, producing plastic products that will receive ESG ratings, such as medical devices, or body parts for light-weight electrical vehicles and flying taxis, and building materials – products that will either reduce fossil fuel consumption, or be of benefit to humanity in some respect as defined by the United Nations' (UN's) Sustainable Development Goals (SDGs).

Or, as the digital revolution gains pace, the plastic could be shipped straight to localised 3D manufacturers; or the plant could potentially be converted to a recycling plant. Much would depend on the future of plastic, but the flailing fossil fuel industry and plastics industries are already placing their bets.

Technology and sustainability

Technological advances will be central to the sustainable revolution. According to the UN:

"A key enabler of sustainable development in the coming years will be the digital revolution, constituted by ongoing advances in artificial intelligence, connectivity, digitisation of information, additive manufacturing, virtual reality, machine learning, blockchains, robotics, quantum computing and synthetic biology. The convergence of those new digital technologies could be explosive, with many winners and losers.

"The digital revolution is already reshaping work, leisure, behaviour, education and governance. In general,

those contributions can raise labour, energy, resource and carbon productivity; reduce production costs; expand access to services; and may even dematerialise production."

This article will briefly cover core elements of the fourth industrial revelation and its implications for manufacturing, and it lays the foundation for a second article to come on relevant SDG goals, and the manufacturing focus in ESG funds.

Digitisation and big data: The World Economic Forum expects emerging technologies will replace as much of the material supply chain as possible with digital information.

5G-enabled factories will spawn a digital revolution in product development and research and development, which will slash risks and costs, and in which manufacturing will be devolved as digital computational design becomes the central driver of commerce.

Products will be designed and developed in a virtual environment, cutting years of development time, will be digitally encoded, and then that product code or digital blueprint will most likely be shipped to local factories close to end markets. The phrase used to describe this process is distributed manufacturing. The resulting rise in R&D resource efficiency and transport emissions will likely attract an ESG rating.

For example, Citi's report estimates that development times for aircraft can fall from 6 years to 2.5 years using digital tools, and machine commissioning times can be cut by -25%.

It is these type of savings that will allow consumers to access bespoke products at mass produced prices, which in turn will drive greater consumer demand and hasten the transformation of manufacturing.

Sustainability: From a sustainability perspective, manufacturing factories are expected to devolve into smaller factories located near population centres, reducing carbon footprints, while producing a wider range of more individualised products, through flexible, local, on-demand supply chains.

Citi says these new factories will be easily integrated into human environments and become as common as cars or phones – suggesting they may become a mass market in and unto themselves.

The analyst expects these purpose-specific factories, aided by technological advances, should cut inventories and transport times, diversifiy the supplier base, optimise industry capacity and lower fixed assets; while differentiating the experience for the end customer and reducing consumer costs.

Zero-waste manufacturing, a combination of energy efficiency and circular manufacturing, will be a key trend that will likely find support from ESG investors.

It is expected that circular manufacturing, again enabled by technological advances, will unlock the trillion-dollar value of the waste market, reducing costs and emissions. Closed Loop Partners research found that US$2trn in annual US revenues could be generated from circular manufacturing and greenhouse emissions reduced by 500m tons of CO2 equivalent.. Accenture Strategy puts the potential economic growth from maximum resource useage at US$4.5trn by 2030, and as much as US$25trn by 2050. The Ellen MacArthur foundation found US$120bn in lost productivity in plastic waste alone.

It is also expected that there might be some changes to built-in-obsolescence. Fewer, better quality, bespoke products might deal with a large degree of fashion industry-related obsolescence, while government regulation and recycling through the implementation of circular manufacturing may redress much of the balance.

According to Forbes, engineering teams will be able to tune hardware obsolescence with precision thanks to advanced analytics using machine learning on top of petabytes of sensor data.

“As new regulations appear across the globe, and embedded software spreads across connected devices, the commercial strategy of planned obsolescence will increasingly inherit a governance paradigm. This will particularly be the case in single-use medical devices,” says Forbes.

In 2017, the EU parliament approved a resolution to ensure a longer lifetime for products and proposed fiscal incentives for products based on quality, durability and ease of repair.

France has enacted fines of up to EUR300,000 and prison terms of two years for manufacturers who plan for devices to stop functioning after a time.

ISSOP is a mark awarded by Spain’s Foundation for Energy and Sustainable Innovation without Planned Obsolescence, certifying environmentally respectful goods and services, without planned obsolescence, preferably by fair trade, contributing to emissions reduction and correct waste management.

All of this suggests a likely growth in the after-market for parts, and easily replaceable components (replaceable by the user rather than a specialist, further cutting emissions) – again a good market for highly accurate digital design.

There will also be an increased focus on data and water resource usage. A McKinsey study with the Ellen MacArthur Foundation estimated that this will save US$630bn a year by 2025 in the EU manufacturing sector alone.

Robotics and AI: The devolution and increased efficiency of manufacturing will also be enabled by developments in robotics.

The Citi report says the development of relatively autonomous multi-tasking robots that work with people through a combination of augmented reality and "cobots" (collaborative robots) and artificial intelligence, will allow more than one product to be produced in a factory, potentially reducing emissions.

The only limits will be on the types of products produced. For example, a plastics factory can only produce plastic products.

A new generation of more flexible soft and "origami robots" (made from a single sheet of material) will also be able to complete a broader range of functions. For example, scientists have just developed a robot hand that can sweat. This will have help prevent machines from overheating.

In January, a research team of roboticists and scientists produced the world's first "living robots" from stem cells – a new life form dubbed a "xenobot". It has been described as a new class of artefact: a living programmable organism". The mind boggles. The robots of tomorrow, will be dexterous, nimble, flexible and adaptable.

Prices for robots are plummeting and are expected to continue to fall. Citi estimates the cost of operation for an advanced robot will be as low as $4 an hour in the near future. This will again allow for higher quality, more durable products to be supplied to consumers for lower cost, attracting ESG interest.

Robotics will be interesting from an ESG perspective given they also represent the most obvious means of replacing low to mid-skilled labour, and the UN's sustainable development goals (SDGs) which largely guide ESG investment, take a strong stance on labour. It is estimated that 40% of United States jobs will be at risk of automation by 2030.

The disruptors – opportunities for ESG investors.

Digitisation will spawn a plethora of platforms, software, systems and processes that will disrupt the industry given manufacturers persistent search for shorter development lead times, cheaper production costs and reduced inventories.

Vertical software, owners and interpreters of data, suppliers of advanced manufacturing systems, suppliers of connectivity, 5G and infrastructure, the Internet of Things market, robotics and blockchain, cyber security, and data-managed services, are all on the list, and are likely to offer fertile ground for ESG impact investors and start-up investors. Many sectors are expected to post compound annual growth rates of up to 60% out to 2025.

Strong demand is tipped for supporting industries. Plastic, silicone, paper and food compounds, connectors and sensors will be keenly sought and offer opportunities for best-in-class ESG investors, given manufacturers will be honing the circularity and efficiency of their supply chains.

On the flip-side are the disruptees

The manufacturing industry is preparing for profound disruption on nearly every front. The automotive industry is not only dealing with the advent of electronic vehicles and digitisation, but the challenges of a circular economy. Ditto for the plastics industry and regulation. The fashion industry will face challenges on the labour front and from the growing availability of bespoke manufacturing.

Battle grounds will likely emerge between traditional industrial automation suppliers and technology companies as the old-tech/new-tech divide widens.

The tech industry, while primarily a disruptor, will also face challenges, particular in manufacturing, arising from e-waste. E-waste initiatives will be in strong demand as governments crack down on the sector.

Sovereign nations will also prove victims to disruption. As robots replace labour, then opportunities for labour arbitrage disappear, encouraging onshoring of operations closer to end markets and earning the favour of regulators and ESG investors. Some may respond by nationalising key assets.

Many companies have already moved factories outside of China in response to the US trade war, although so far at no detriment to the Chinese market, according to Michael West News. Initially Asian countries will still benefit from cheap labour but this will slowly erode as more productive robots roll out.

Supply chains will also be disrupted. Freight, transport, raw materials, labour, will likely be turned on their head, and the first movers with superior platforms are likely to have the edge. They will also be facing their own sustainability compliance and ESG investing issues.

It's early days yet and developments over the next five years will likely point the way ahead. Expect the pace to escalate from 2025. By 2030, it should be full throttle.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 07-02-20

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday February 3 to Friday February 7, 2020
Total Upgrades: 26
Total Downgrades: 16
Net Ratings Breakdown: Buy 37.60%; Hold 46.30%; Sell 16.10%

Stockbroking analysts may have been slow to jump into action in the first weeks of the new calendar year, there is no disputing they've become busy now that the February reporting season is upon us.

For the week ending on Friday, 7th February 2020, FNArena counted no less than 26 upgrades in ratings for individual ASX-listed stocks against 16 downgrades.

The real story might be found in changes to earnings estimates and valuations/price targets. While adjustments to forecasts carry a bias to the downside, valuations and price targets are most likely to be revised upwards. As such, analysts are justifying the strong start for the local share market in January.

ANZ Bank, Harvey Norman and Janus Henderson all received two upgrades during the week as 14 of the 26 upgrades provided investors with fresh Buy ratings. Oil Search was the week's sole receiver of two downgrades on the back of political stasis in PNG. Seven downgrades resulted in new Sell ratings.

Following yet another better-than-expected profit report, ResMed topped the week's table for positive revisions to price targets, followed by CSR, GUD Holdings (profit report) and JB Hi-Fi. The negative side shows a decisive lack of movement, with Oil Search and Alacer Gold the only ones worth mentioning.

A lot more action can be found in both tables for amendments to earnings forecasts. Alacer Gold, ironically, takes the week's top spot for postitive changes to forecasts, well ahead of Janus Henderson, Fonterra, Cimic Group, and Coles Group. Negative adjustments are much larger in size, with Orocobre's forecasts taking the largest hit, followed by Virgin Money UK, OceanaGold, Pilbara Minerals, and FlexiGroup.

The local reporting season steps it up one notch in the week ahead.

Upgrade

AUSTRALIA & NEW ZEALAND BANKING GROUP ((ANZ)) Upgrade to Overweight from Equal-weight by Morgan Stanley and Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 1/6/0

Morgan Stanley assesses the franchise is improving its performance while capital concerns have eased. Cost expectations have been re-based.

The broker believes the institutional strategy is working and the operating environment is now more promising, providing comfort on the outlook for growth and returns.

Rating is upgraded to Overweight from Equal-weight and the target raised to $26.60 from $24.80. Industry view: In-Line.

Credit Suisse observes the stock has underperformed the market by -17% and the bank index by -9% over the last 12 months.

Going forward, the broker considers most of the issues are now behind the bank and there is some upside emerging.

With asset divestments still to come, a capital management story could re-emerge. Hence, the rating is upgraded to Neutral from Underperform. Target is unchanged a $26.

ALACER GOLD CORP ((AQG)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/0/0

2019 net profit materially exceeded Credit Suisse forecasts as an additional tax credit was realised, partly offset by unrealised non-cash FX losses. No dividend was declared, as expected, with the focus remaining on debt repayment.

The company is intent on growing oxide reserves and production and advancing its geological understanding of Cakmaktepe and Ardich as well as increasing the sustainable Copler production.

Credit Suisse upgrades to Outperform from Neutral. Target is steady at $7.20.

BAPCOR LIMITED ((BAP)) Upgrade to Add from Hold by Morgans .B/H/S: 5/0/0

Morgans expects around 10% sales growth in FY20 noting, while the company reiterated its growth guidance at the AGM there was a softer tone from management. Bapcor foreshadowed softer margins across all businesses at the AGM.

The broker suspects earnings growth will be skewed to the second half. While cautious about the results, Morgans suspects the outlook is improving and upgrades to Add from Hold. Target is $6.90.

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

UBS observes Boral is trading at a steep discount to the market and suspects this reflects expectations that the 2019 underperformance will continue into 2020.

While the previous year was difficult, FY20 guidance assumes a catch up is possible in the second half.

The broker suspects investors are increasingly worried that the diverse operating footprint will stretch management.

However, downside risks are considered limited and UBS upgrades to Buy from Neutral. Target is raised to $6.00 from $4.90.

BANK OF QUEENSLAND LIMITED ((BOQ)) Upgrade to Neutral from Sell by Citi .B/H/S: 0/4/3

Citi believes the majority of the near-term downside for Bank of Queensland has played out. The dilution from funding the restructuring plan has been quantified and CET1 will be at the upper end of the target range.

A reduction to the final dividend is considered priced in and the broker upgrades to Neutral from Sell. Target is $7.75.

CIMIC GROUP LIMITED ((CIM)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/1/0

Cimic's result met recently updated guidance. Continuing the theme of recent results, mining once again beat forecasts and construction once again missed, Macquarie notes, although a decline in activity in protest-ridden Hong Kong offset strength in local infrastructure development.

Strong cash generation leads the broker to anticipate a return to dividends as early as the first half 2020. This, and the fact the stock is trading at its largest PE discount to the market in ten years, prompts an upgrade to Outperform. Target rises to $32.64 from $32.49.

COLES GROUP LIMITED ((COL)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/3/3

Credit Suisse remains constructive about the company's strategies to date. The second quarter sales growth accelerated to 3.6% and beat expectations.

The broker also believes the ability of Coles to catch up to Woolworths ((WOW)) in terms of performance is not difficult.

Rating is upgraded to Neutral from Underperform. Target is raised to $16.00 from $13.17.

See also COL downgrade.

CSR LIMITED ((CSR)) Upgrade to Buy from Sell by UBS .B/H/S: 2/1/2

UBS adopts a more bullish approach to property valuation and upgrades CSR to Buy from Sell. The broker would not be surprised if more land sales were used to prop up earnings and therefore assesses a negative catalyst is absent.

Aluminium's negative aspects remain a drag but the broker believes this is factored into the price. Targets raised to $5.24 from $3.60.

FLEXIGROUP LIMITED ((FXL)) Upgrade to Add from Hold by Morgans .B/H/S: 4/0/0

FlexiGroup has pre-released a first half profit result -18% below the prior first half and -10% below Morgans' forecast. No divisional details were provided but the broker suspects changes to fee structure and significantly higher marketing costs for BNPL had something to do ith it.

The broker has been waiting to see what the company's base level of earnings might be and while more detail is needed, the broker feels this result is sustainable, with risk/reward favourable if FlexiGroup can execute on stated targets. Upgrade to Add. Target rises to $2.26 from $2.00.

GENWORTH MORTGAGE INSURANCE AUSTRALIA LIMITED ((GMA)) Upgrade to Outperform from Neutral by Macquarie.B/H/S: 1/0/0

Macquarie suggests Genworth Mortgage Insurance has signaled the end of the "run off" thesis with its 2019 result and the beginning of a growth thesis.

Gross written premium grew 32.8% in the fourth quarter compared to 24.4% in the third. The broker has increased its net earned premium forecast to above the guidance range.

Macquarie sees the opportunity for multi-year improvements to loss ratios and upgrades to Outperform. Target rises to $4.30 from $4.10.

G.U.D. HOLDINGS LIMITED ((GUD)) Upgrade to Neutral from Sell by UBS .B/H/S: 1/4/0

Underlying net profit of $29m in the first half was slightly ahead of UBS estimates. Automotive sales beat estimates, offset by a decline in earnings (EBIT) margins.

UBS expects the second round of price increases, coupled with ongoing efficiencies, should deliver an expansion in margins in the second half.

The broker upgrades to Neutral from Sell and raises the target to $11.50 from $9.50.

HT&E LIMITED ((HT1)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 0/3/1

Macquarie continues to favour digital platforms and streaming over broadcast media, given the structural trends. The broker remains cautious nevertheless, because of HT&E's limited operating flexibility.

Rating is upgraded to Neutral from Underperform on valuation appeal and strength in the balance sheet. Target is raised to $1.65 from $1.55. The company will report its results on February 24.

See also HT1 downgrade.

HARVEY NORMAN HOLDINGS LIMITED ((HVN)) Upgrade to Equal-weight from Underweight by Morgan Stanley and Upgrade to Buy from Neutral by UBS .B/H/S: 1/4/0

Morgan Stanley assesses housing turnover is set to improve although underlying consumer indicators remain mixed.

As the outlook has de-risked for housing-linked retailers, the broker "neutralises" its view and upgrades to Equal-weight from Underweight.

That said, the broker believes improving prospects are significantly captured by the current stock price. Cautious industry view. Target is raised to $4.00 from $3.20.

UBS upgrades to Buy from Neutral and lifts estimates for earnings per share by 2-6%. The broker acknowledges the rating is not without risk, with housing activity unlikely to fully recover until the first half of FY21.

The more positive view is based on favourable industry feedback, particularly across consumer electronics, and a better housing outlook. Target is raised to $4.50 from $4.00.

ILUKA RESOURCES LIMITED ((ILU)) Upgrade to Neutral from Sell by Citi .B/H/S: 0/5/0

Citi notes the coronavirus outbreak has continued to worsen and this affects both the global and Chinese economic outlook in 2020.

The broker's GDP forecasts for China have been lowered for 2020 to 5.5% growth and most of the commodity price forecasts have been downgraded.

However, while the coronavirus creates uncertainty regarding the timing of an improvement in realised zircon prices, Citi believes 2020 will be the low.

Iluka Resources is upgraded to Neutral from Sell and the target is raised to $9.40 from $9.00.

JB HI-FI LIMITED ((JBH)) Upgrade to Neutral from Sell by UBS .B/H/S: 0/6/1

JB Hi-Fi estimates are lifted by 3-11% for FY20-22 and the rating is upgraded to Neutral from Sell. Despite the 74% rise in the share price over the last 12 months, UBS envisages few downside catalysts.

Industry feedback is supportive of both sales and margin and there is a more positive housing outlook. Target is raised to $37.80 from $28.00.

JANUS HENDERSON GROUP PLC. ((JHG)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Buy from Neutral by Citi.B/H/S: 3/0/1

Janus Henderson beat earnings forecasts in the December quarter but the underlying result was weak, Macquarie suggests, given a strong market performance and currency movements offset ongoing outflows while increased performance fees were offset by higher employee expenses. Institutional flow pressures remain but the broker is encouraged by improving retail momentum.

To that end, and with the stock trading at a -22% discount to its five-year average PE, Macquarie upgrades to Outperform and sector preferred status. Target rises to $42.80 from $34.50.

Citi found plenty of positives in the fourth quarter results. Revenue trends are encouraging and ahead of forecasts and the investment performance is strong while fee margin is stabilising.

While headline net outflows were worse than forecast, the broker asserts this disguises the improvement in equity and multi-asset flows

Intech remains a risk, as the improvement was not as great as expected. A new buyback of US$200m will also support earnings per share.

Citi upgrades to Buy from Neutral and raises the target to $42.10 from $38.40.

NEWCREST MINING LIMITED ((NCM)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 0/4/3

Ord Minnett upgrades to Hold from Lighten as the shares are now trading in line with valuation. Target is steady at $30.

The broker has lifted its long-term gold price forecast to US$1500/oz or A$2027/oz, at an AUD/USD exchange rate of 0.74.

NEW HOPE CORPORATION LIMITED ((NHC)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/1/0

Citi notes the coronavirus outbreak has continued to worsen and this affects both the global and Chinese economic outlook in 2020.

The broker's GDP forecasts for China have been lowered for 2020 to 5.5% growth and most of the commodity price forecasts have been downgraded.

However, thermal coal forecasts are unchanged at US$65/t for 2020 and US$75/t for 2021.

Citi notes the New Hope shares are down -25% over the last three months as the company has announced it may be in court again over the WICET debts. The company is also awaiting approvals for New Acland stage 3.

Citi still expects New Acland will get the go-ahead and upgrades to Buy from Neutral. Target is $2.20.

NIB HOLDINGS LIMITED ((NHF)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 0/6/1

The stock is nearing fair value and Morgan Stanley upgrades to Equal-weight from Underweight. That said, margins have peaked and the upgrade cycle is over.

Moreover, cyclically low claims inflation has masked the structural headwinds. A new analyst assumes primary coverage and the target is reduced to $5.45 from $5.80. Industry view: In-line.

SEEK LIMITED ((SEK)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/2/1

The week macro environment creates a risk for near-term guidance, in Credit Suisse's view.

FY20 is expected to be affected by weak domestic volumes, the direct impact of coronavirus on the Chinese labour market and any knock-on impact on Asia.

Estimates are lowered as a result. Longer-term, the dynamics are intact.

Given the upside from current trading levels, Credit Suisse upgrades to Outperform from Neutral. Target is raised to $23.80 from $19.60.

See also SEK downgrade.

THE STAR ENTERTAINMENT GROUP LIMITED ((SGR)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 3/3/1

The Macau government will close its casinos for two weeks to inhibit the spread of coronavirus. Credit Suisse suspects the travel restrictions could directly affect the Australian casino sector.

There may also be another fairly small impact from Chinese tour groups and China's premium mass players postponing trips to Australia.

On this basis, the broker expects turnover in VIP to be down -15% over January to June 2020, and the July-December period is expected to show a -7% decline in turnover because of the opening of the Sydney Sovereign Room.

Given the share price has fallen towards valuation, Credit Suisse upgrades to Neutral from Underperform. Target is $4.

SENEX ENERGY LIMITED ((SXY)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 3/3/0

Morgan Stanley upgrades to Overweight from Equal -weighted and raises the target to $0.45 from $0.41. The broker believes the stock has underperformed for a number of years but 2020 should bring strong progress on the gas assets.

The stock is expected to slowly re-rate as investors see the production and cash flow build. Industry view: In-Line.

WESFARMERS LIMITED ((WES)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 0/4/2

Morgan Stanley assesses housing turnover is set to improve although underlying consumer indicators remain mixed.

As the outlook has de-risked for housing-linked retailers, the broker "neutralises" its view and upgrades to Equal-weight from Underweight.

That said, the broker believes improving prospects are significantly captured across the stock. Target is raised to $40 from $32. Cautious industry view.

Downgrade

BEACH ENERGY LIMITED ((BPT)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 0/4/2

Morgan Stanley downgrades to Underweight from Equal-weight. The broker observes the company is moving to a more difficult execution phase and has outperformed significantly.

The stock is now implying significant growth in reserves in the Cooper Basin and large value for the Waitsia project. Target is $2.00. Industry view: In Line.

COMMONWEALTH BANK OF AUSTRALIA ((CBA)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 0/2/5

Credit Suisse downgrades FY20 earnings estimates by -2% because of an increase in insurance claims. Commonwealth Bank will report its first half result on February 12.

The broker continues to like the bank but as it is trading well above an unchanged target of $77.60, believes it is priced for perfection and downgrades to Underperform from Neutral.

COLES GROUP LIMITED ((COL)) Downgrade to Reduce from Hold by Morgans .B/H/S: 0/3/3

The first half sales update was better than Morgans expected, as all divisions delivered solid growth. The company has advised first half earnings are likely to be between $710-730m.

While at the headline level the update appears well and good, adjusting for favourable movements in non-operating earnings means a weaker outcome than the broker anticipated.

Finding it hard to justify the stretched valuation, Morgans downgrades to Reduce from Hold. The company will report its first half result on February 18. Target is raised to $14.29 from $14.01.

See also COL upgrade.

CALTEX AUSTRALIA LIMITED ((CTX)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 0/5/0

Morgan Stanley downgrades to Equal-weight from Overweight as the stock has traded up to the price target and risks are building to the downside should takeover discussions stall.

Target is $34. Industry view is In-Line.

FRONTIER DIGITAL VENTURES LIMITED ((FDV)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

Frontier Digital Ventures' portfolio of online marketplaces continues to deliver rapid growth, Morgans notes. The December quarter saw 66% revenue growth with four portfolio components profitable and several more close to breakeven.

The company is on track to hit portfolio-wide profitability in FY20. Morgans lifts its target to $1.09 from 96c but since the stock has already run up, downgrades to Hold from Add.

HT&E LIMITED ((HT1)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/3/1

With the metro radio market down -9.4% in the December half, Credit Suisse observes the company faces difficult trading conditions.

Still, the broker continues to expect the Australian Radio Network will outperform the market as it has had a solid ratings performance.

Rating is downgraded to Neutral from Outperform, given limited upside from current trading levels. Target is reduced to $1.65 from $1.90.

See also HT1 upgrade.

MIRVAC GROUP ((MGR)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 2/4/0

First half results were slightly below forecasts. Full year guidance for earnings per share of 17.6-17.8c has been maintained.

Morgan Stanley remains cautious about the company's ability to outperform in the near term along with a perceived earnings hole in FY21.

While office comparable net operating income growth was 5.6%, incentives have crept up to 20% for leases signed.

The broker downgrades to Equal-weight from Overweight. Target is reduced to $3.40 from $3.45. Industry view is In-Line.

MOUNT GIBSON IRON LIMITED ((MGX)) Downgrade to Sell from Neutral by Citi .B/H/S: 1/0/1

Citi notes the coronavirus outbreak has continued to worsen and this affects both the global and Chinese economic outlook in 2020.

The broker's GDP forecasts for China have been lowered for 2020 to 5.5% growth and most of the commodity price forecasts have been downgraded.

While the 2020 iron ore benchmark price forecast is unchanged at US$75/dmt, the broker revises down Mount Gibson estimates by -3%.

Rating is downgraded to Sell/High Risk from Neutral/High Risk and the target lowered to $0.80 from $0.85.

MOTORCYCLE HOLDINGS LIMITED ((MTO)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

Morgans expects a weaker first half result, despite cost reductions and better dealership earnings.

The broker does not expect the company to provide formal FY20 guidance but it may signal that it is cycling a very weak base in the second half.

The broker makes no changes to forecasts but downgrades to Hold from Add. Target is $2.28.

NORTHERN STAR RESOURCES LTD ((NST)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 2/2/2

Ord Minnett downgrades to Hold from Buy as the shares are now trading in line with valuation.

The broker has lifted its long-term gold price forecast to US$1500/oz or A$2027/oz, at an AUD/USD exchange rate of 0.74.

The target is reduced to $13.00 from $13.20.

OIL SEARCH LIMITED ((OSH)) Downgrade to Lighten from Hold by Ord Minnett and Downgrade to Neutral from Outperform by Macquarie.B/H/S: 1/4/1

Discussions between ExxonMobil and the PNG government regarding the P'nyang gas expansion have broken down. ExxonMobil is the majority shareholder and operator.

Ord Minnett notes there is still a possibility the Papua LNG project will proceed with just the two-train expansion, although the likelihood is low.

As there is now substantially more risk in the stock, the rating is downgraded to Lighten from Hold. Target is reduced to $6.85 from $7.60.

ExxonMobil, the operator of the P'nyang joint venture, has been unable to reach an agreement with the PNG government on development of the project.

As a result, Macquarie delays expectations for the PNG LNG expansion, increases capital expenditure estimates and lowers risk weightings. Furthermore, there is a potential knock-on impact on the timing of the Papua LNG project.

Macquarie reduces the Oil Search target by -15% to $6.80 and downgrades to Neutral from Outperform.

RESMED INC ((RMD)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/3/1

Following the second quarter results UBS updates assumptions, which results in upgrades of 5% to earnings per share. However, based on the recent share price performance the rating is downgraded to Neutral from Buy.

US re-supply is showing no signs of a slowdown. Furthermore, with the success of Brightree, UBS does not believe saturation will occur in the short to medium term. Target is raised to US$174 from US$150.

SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP ((SCP)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/4/2

First half results revealed leasing markets for retail have deteriorated. Ord Minnett is concerned this will become worse.

Neighbourhood centre capitalisation rates also remain elevated, which the broker assesses largely reflects direct market inefficiencies and is something the company could exploit.

Ord Minnett downgrades to Hold from Accumulate because of a recent run up in the share price. Target is raised to $3.00 from $2.70 to reflect a lower cost of capital.

SEEK LIMITED ((SEK)) Downgrade to Reduce from Hold by Morgans .B/H/S: 3/2/1

Morgans downgrades to Reduce from Hold to reflect a view that coronavirus may be more disruptive to Asian job markets and last longer than the SARS virus. The company is highly leveraged to Asian job ads.

The broker lowers FY20 and FY21 estimates by -9.7% and -21.4% respectively. Target is reduced to $19.25 from $21.82.

See also SEK upgrade.

WESTPAC BANKING CORPORATION ((WBC)) Downgrade to Underweight from Equal-weight by Morgan

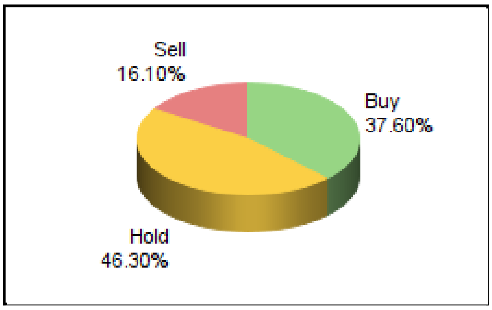
Stanley .B/H/S: 2/4/1

Morgan Stanley considers Westpac has the worst revenue outlook of the major banks with ongoing AUSTRAC uncertainty and the potential for disappointment on costs, downgrading to Underweight from Equal-weight.

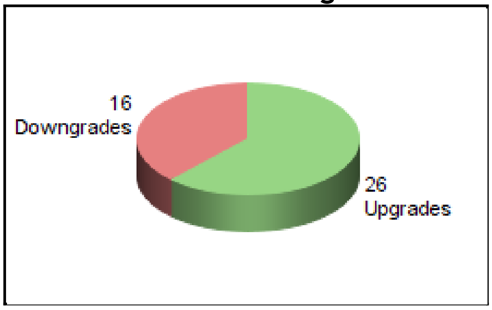
Morgan Stanley also suggests there is limited capital and dividend flexibility but does not expect another capital raising unless the AUSTRAC penalty is over -$2bn.

While forecasting reported revenue to grow 1.5% in FY20, notable items are clouding underlying trends, the broker adds. Target is reduced to $23.60 from $24.50. Industry view: In Line.

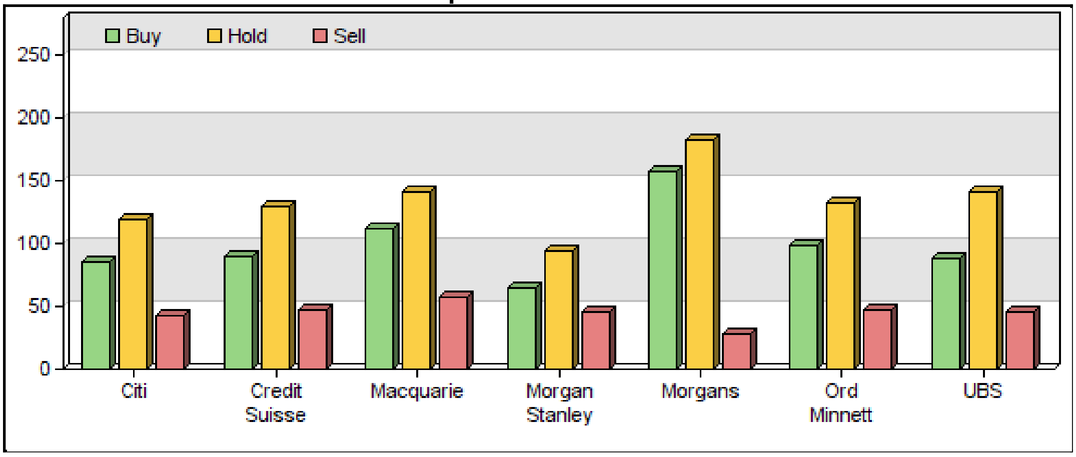
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ALACER GOLD CORP	Buy	Neutral	Credit Suisse
2	AUSTRALIA & NEW ZEALAND BANKING GROUP	Neutral	Sell	Credit Suisse
3	AUSTRALIA & NEW ZEALAND BANKING GROUP	Buy	Neutral	Morgan Stanley
4	BANK OF QUEENSLAND LIMITED	Neutral	Sell	Citi
5	BAPCOR LIMITED	Buy	Neutral	Morgans
6	BORAL LIMITED	Buy	Neutral	UBS
7	CIMIC GROUP LIMITED	Buy	Neutral	Macquarie
8	COLES GROUP LIMITED	Neutral	Sell	Credit Suisse
9	CSR LIMITED	Buy	Sell	UBS
10	FLEXIGROUP LIMITED	Buy	Neutral	Morgans
11	G.U.D. HOLDINGS LIMITED	Neutral	Sell	UBS
12	GENWORTH MORTGAGE INSURANCE AUSTRALIA LIMITED	Buy	Buy	Macquarie
13	HARVEY NORMAN HOLDINGS LIMITED	Buy	Neutral	UBS
14	HARVEY NORMAN HOLDINGS LIMITED	Neutral	Sell	Morgan Stanley
15	HT&E LIMITED	Neutral	Sell	Macquarie
16	ILUKA RESOURCES LIMITED	Neutral	Sell	Citi
17	JANUS HENDERSON GROUP PLC.	Buy	Neutral	Macquarie
18	JANUS HENDERSON GROUP PLC.	Buy	Neutral	Citi
19	JB HI-FI LIMITED	Neutral	Sell	UBS
20	NEW HOPE CORPORATION LIMITED	Buy	Neutral	Citi
21	NEWCREST MINING LIMITED	Neutral	Sell	Ord Minnett

22	NIB HOLDINGS LIMITED	Neutral	Sell	Morgan Stanley
23	SEEK LIMITED	Buy	Neutral	Credit Suisse
24	SENEX ENERGY LIMITED	Buy	Neutral	Morgan Stanley
25	THE STAR ENTERTAINMENT GROUP LIMITED	Neutral	Sell	Credit Suisse
26	WESFARMERS LIMITED	Neutral	Sell	Morgan Stanley
Downgrade				
27	BEACH ENERGY LIMITED	Sell	Neutral	Morgan Stanley
28	CALTEX AUSTRALIA LIMITED	Neutral	Buy	Morgan Stanley
29	COLES GROUP LIMITED	Sell	Neutral	Morgans
30	COMMONWEALTH BANK OF AUSTRALIA	Sell	Neutral	Credit Suisse
31	FRONTIER DIGITAL VENTURES LIMITED	Neutral	Buy	Morgans
32	HT&E LIMITED	Neutral	Buy	Credit Suisse
33	MIRVAC GROUP	Neutral	N/A	Morgan Stanley
34	MOTORCYCLE HOLDINGS LIMITED	Neutral	Buy	Morgans
35	MOUNT GIBSON IRON LIMITED	Sell	Neutral	Citi
36	NORTHERN STAR RESOURCES LTD	Neutral	Buy	Ord Minnett
37	OIL SEARCH LIMITED	Neutral	Buy	Macquarie
38	OIL SEARCH LIMITED	Sell	Neutral	Ord Minnett
39	RESMED INC	Neutral	Buy	UBS
40	SEEK LIMITED	Sell	Neutral	Morgans
41	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP	Neutral	Buy	Ord Minnett
42	WESTPAC BANKING CORPORATION	Sell	Neutral	Morgan Stanley

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	CSR	CSR LIMITED	-8.0%	-58.0%	50.0%	6
2	ASB	AUSTAL LIMITED	67.0%	33.0%	34.0%	3
3	AQG	ALACER GOLD CORP	100.0%	67.0%	33.0%	3
4	HVN	HARVEY NORMAN HOLDINGS LIMITED	8.0%	-25.0%	33.0%	6
5	ANZ	AUSTRALIA & NEW ZEALAND BANKING GROUP	14.0%	-14.0%	28.0%	7
6	FXL	FLEXIGROUP LIMITED	100.0%	75.0%	25.0%	4
7	NHC	NEW HOPE CORPORATION LIMITED	75.0%	50.0%	25.0%	4
8	CIM	CIMIC GROUP LIMITED	75.0%	50.0%	25.0%	4
9	BLD	BORAL LIMITED	10.0%	-10.0%	20.0%	5
10	BAP	BAPCOR LIMITED	100.0%	80.0%	20.0%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	VUK	VIRGIN MONEY UK PLC	67.0%	100.0%	-33.0%	3
2	SCP	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP	-33.0%	-10.0%	-23.0%	6
3	OSH	OIL SEARCH LIMITED	-7.0%	14.0%	-21.0%	7
4	BPT	BEACH ENERGY LIMITED	-33.0%	-17.0%	-16.0%	6
5	IFL	IOOF HOLDINGS LIMITED	-8.0%	8.0%	-16.0%	6
6	WBC	WESTPAC BANKING CORPORATION	14.0%	29.0%	-15.0%	7
7	RMD	RESMED INC	29.0%	43.0%	-14.0%	7
8	CBA	COMMONWEALTH BANK OF AUSTRALIA	-71.0%	-57.0%	-14.0%	7
9	BWP	BWP TRUST	-83.0%	-75.0%	-8.0%	3
10	ABC	ADELAIDE BRIGHTON LIMITED	-57.0%	-50.0%	-7.0%	7

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	RMD	RESMED INC	24.258	21.087	15.04%	7
2	CSR	CSR LIMITED	4.332	3.842	12.75%	6

3	GUD	G.U.D. HOLDINGS LIMITED	11.940	10.720	11.38%	5
4	JBH	JB HI-FI LIMITED	35.487	32.051	10.72%	7
5	SCP	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP	2.690	2.546	5.66%	6
6	HVN	HARVEY NORMAN HOLDINGS LIMITED	4.195	3.978	5.46%	6
7	WES	WESFARMERS LIMITED	36.846	35.131	4.88%	7
8	BLD	BORAL LIMITED	4.860	4.640	4.74%	5
9	CIM	CIMIC GROUP LIMITED	35.385	34.475	2.64%	4
10	IFL	IOOF HOLDINGS LIMITED	7.775	7.600	2.30%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	OSH	OIL SEARCH LIMITED	6.899	7.527	-8.34%	7
2	AQG	ALACER GOLD CORP	8.367	8.633	-3.08%	3
3	NHF	NIB HOLDINGS LIMITED	5.747	5.797	-0.86%	7
4	SGR	THE STAR ENTERTAINMENT GROUP LIMITED	4.533	4.561	-0.61%	7
5	WBC	WESTPAC BANKING CORPORATION	26.336	26.464	-0.48%	7
6	NCM	NEWCREST MINING LIMITED	28.509	28.620	-0.39%	7
7	SXY	SENEX ENERGY LIMITED	0.453	0.454	-0.22%	6

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	AQG	ALACER GOLD CORP	63.792	39.416	61.84%	3
2	JHG	JANUS HENDERSON GROUP PLC.	384.924	358.509	7.37%	4
3	FSF	FONTERRA SHAREHOLDERS' FUND	23.760	22.520	5.51%	3
4	CIM	CIMIC GROUP LIMITED	256.500	245.400	4.52%	4
5	COL	COLES GROUP LIMITED	66.821	64.813	3.10%	7
6	CL1	CLASS LIMITED	5.500	5.367	2.48%	3
7	PNI	PINNACLE INVESTMENT MANAGEMENT GROUP LIMITED	20.467	20.033	2.17%	3
8	SCP	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP	16.767	16.480	1.74%	6
9	RMD	RESMED INC	60.803	59.846	1.60%	7
10	BPT	BEACH ENERGY LIMITED	25.603	25.270	1.32%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	ORE	OROCOBRE LIMITED	-2.716	-1.627	-66.93%	7
2	VUK	VIRGIN MONEY UK PLC	14.838	24.021	-38.23%	3
3	OGC	OCEANAGOLD CORPORATION	7.928	11.643	-31.91%	5
4	PLS	PILBARA MINERALS LIMITED	-1.440	-1.203	-19.70%	4
5	FXL	FLEXIGROUP LIMITED	18.350	20.475	-10.38%	4
6	SFR	SANDFIRE RESOURCES NL	62.443	68.727	-9.14%	7
7	WSA	WESTERN AREAS NL	26.321	28.736	-8.40%	7
8	NCM	NEWCREST MINING LIMITED	140.062	150.500	-6.94%	7
9	SUN	SUNCORP GROUP LIMITED	83.080	89.183	-6.84%	7
10	S32	SOUTH32 LIMITED	7.825	8.394	-6.78%	7

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: The Nuclear Conundrum

Lack of demand continues to drag on uranium prices despite ongoing production curtailments, yet nuclear energy remains a matter of cost.

-Uranium spot prices drift lower
-Production curtailments ongoing
-Nuclear power a costly option

By Greg Peel

The world's largest mining investment conference, now in its 26th year, began in Cape Town last week. Given the tenuous state of South Africa's energy supply, the focus this year of the "Investing in African Mining Indaba" is on a transition from coal toward renewable and clean energy resources to deal with power shortages across the African continent. (Indaba means meeting.)

The five-day conference brought together representatives from 94 countries and regions, including more than 38 ministers, under the theme "Optimizing Growth and Investment in the Digitized Mining Economy."

The CEO of the Minerals Council South Africa said at the conference the Council fully supports a transition from coal to non-fossil fuel forms of power generation such as wind and solar power and, where cost is not prohibitive, nuclear power.

"Where cost is not prohibitive" underscores the dilemma facing the global nuclear power and uranium mining industries at present. The US experience is one of US uranium miners being unable to compete with cheaper imports from the likes of Canada and Kazakhstan, with uranium prices near historically low levels. Yet the US nuclear power industry cannot compete with gas-fired and (subsidised) renewable power, *despite* historically low uranium prices.

Resolution Unclear

As the US government throws the ball to various departments to try to figure out a solution to the problem with a focus on national security, major global uranium producers Cameco and Kazatomprom continue to curtail production in order to support prices.

Canada's Cameco produced 9mlbs U3O8 in 2019, -2% down on 2018, as the Cigar Lake mine remains shuttered. The company forecasts production of 8.3mlbs in 2020.

Cameco continues to purchase material in the spot market to satisfy contract obligations, given spot prices remain below the cost of marginal production. Yet the company purchased less than it had planned in 2019, choosing to draw down some inventories. This suggests Cameco has a certain spot price tolerance, which is critical given the company's purchases are significant in supporting global prices.

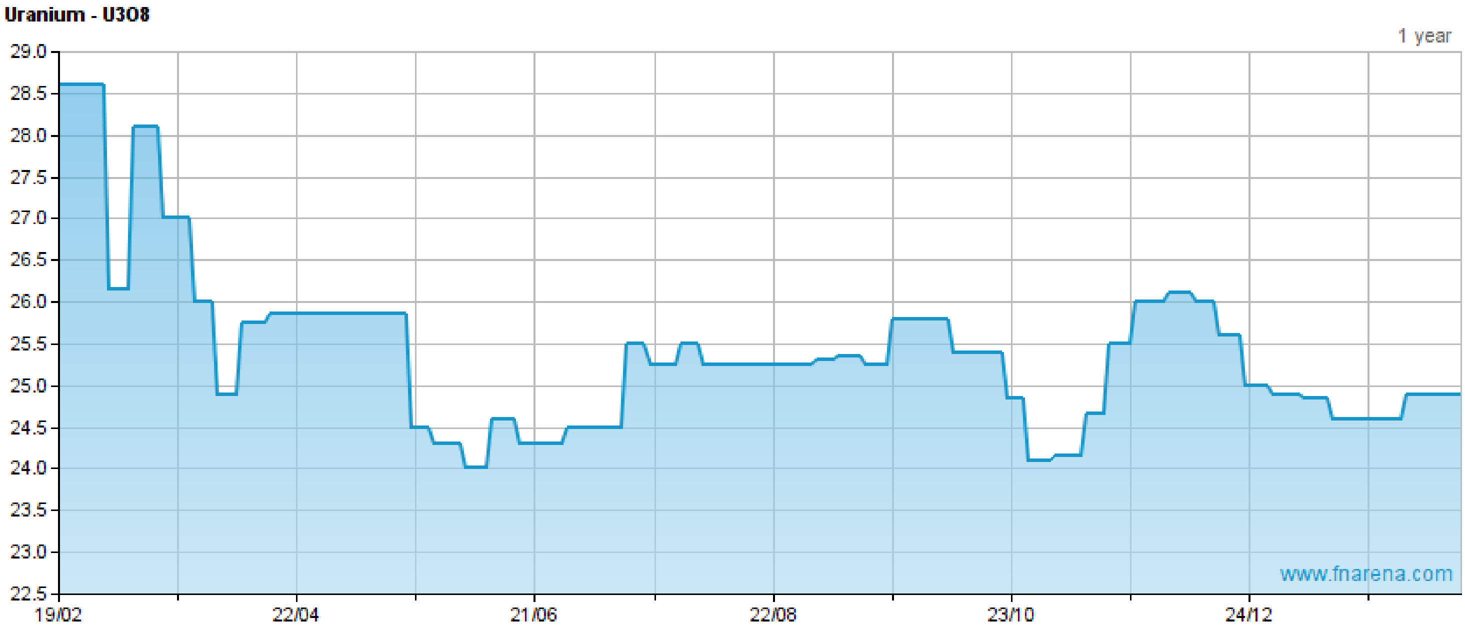
Damned if you do. Cameco plans to purchase 20-22mlbs in 2020.

Kazakstan's mostly state-owned Kazatomprom reported 2019 production in line with its commitment to a -20% cut from previously levels, which is also intended to support global prices.

One wonders how this conundrum can ever resolve itself.

Sellers in the uranium spot market weren't waiting to find out last week. Lack of demand early in the week forced sellers to chase down prices to week's end. Industry consultant TradeTech's weekly spot price indicator has fallen -US25c to US$24.65/lb.

TradeTech's term price indicators remain at US$28.25/lb (mid) and US$33.00/lb (long).



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

WEEKLY REPORTS

The Short Report - 13 Feb 2020

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

Summary:

Week ending February 6, 2020

Last week saw the ASX200 take its second leg down on the coronavirus scare before bottoming out and beginning the rebound.

The arbitrage is over, it seems, Kirkland Lake Gold ((KLA)) has disappeared off the table.

I noted in last week's Report that Nearmap's ((NEA)) profit warning sparked a -25% sell-off in the share price but an increase in short positions to 13.7% from 12.3%. Analysts have since called the plunge misguided, and while the share price has only marginally improved in the interim, short positions last week dropped to 10.8% from 13.7%.

Bit of a rethink, it appears.

The only other stock to record a change in short position of one percentage point or more last week was Pinnacle Investment Management ((PNI)), formerly Wilson Group. The fund manager reported a strong earnings result and enjoyed a share price pop last week. Shorts rose to 8.1% from 7.1%.

Otherwise we might note that last week brought some severe volatility in the prices of battery material miners - more so than is usual - on the back of a parabolic run-up in battery and EV poster child Tesla. The likes of Galaxy Resources ((GXY)), Orocobre ((ORE)) and Syrah Resources ((SYR)) surged, only to fall back again when Tesla warned of a virus impact on its Chinese factory.

Was the surge driven by short-covering? It would appear not. Short positions in all three, and in Pilbara Resources ((PLS)) and Mineral Resources ((MIN)), are barely changed from the week before

No Movers & Shakers this week.

Weekly short positions as a percentage of market cap:

10%+
GXY 19.0
SYR 16.9
SDA 13.0
ORE 13.0
ING 12.2
GWA 11.5
CGC 11.4
JBH 11.1
NEA 10.8
BGA 10.7
WEB 10.4
NXT 10.3
MTS 10.0

In: MTS Out: KLA

9.0-9.9

DMP

Out: MTS, BKL

8.0-8.9%

CUV, SUL, RSG, PPT, NUF, NCZ, BKL, PLS, BEN, PNI, IVC

In: BKL, PPT, NUF, NCZ, BEN, PNI Out: HUB

7.0-7.9%

MIN, HVN, HUB, A2M, MYR, BOQ, CTD

In: HUB Out: NUF, PPT, NCZ, BEN, PNI, BIN

6.0-6.9%

BIN, KGN, RWC, SGM

In: BIN, SGM

5.0-5.9%

CLH, BWX, CGF, MND, CLQ, FLT, IFL, MYX, COE, RFF, AMP, NEC, GMA, DCN

In: FLT Out: SGM, JIN, MSB

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
AMC	0.4	0.4	NCM	1.0	1.0
ANZ	0.5	0.5	RIO	4.1	3.8
BHP	3.4	3.2	SCG	0.3	0.4
BXB	0.3	0.3	SUN	0.6	0.6
CBA	0.7	0.7	TCL	0.4	0.4
CSL	0.1	0.1	TLS	0.3	0.3
GMG	0.2	0.3	WBC	0.5	0.5
IAG	0.5	0.5	WES	0.6	0.7
MQG	0.4	0.2	WOW	0.7	0.8
NAB	0.6	0.6	WPL	0.8	0.7

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

Guide:

The Short Report draws upon data provided by the Australian Securities & Investment Commission (ASIC) to highlight significant weekly moves in short positions registered on stocks listed on the Australian Securities Exchange (ASX). Short positions in exchange-traded funds (ETF) and non-ordinary shares are not included. Short positions below 5% are not included in the table below but may be noted in the accompanying text if deemed significant.

Please take note of the Important Information provided at the end of this report. Percentage amounts in this report refer to percentage of ordinary shares on issue.

Stock codes highlighted in green have seen their short positions reduce in the week by an amount sufficient to move them into a lower percentage bracket. Stocks highlighted in red have seen their short positions increase in the week by an amount sufficient to move them into a higher percentage bracket. Moves in excess of one percentage point or more are discussed in the Movers & Shakers report below.

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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SMSFUNDAMENTALS

SMSFundamentals: ETFs Trending Higher

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Exchange traded funds are becoming more popular as investors seek alternatives in a low-yield world.

-Convenient way for Australian investors to access global strategies
-The range of ETFs continues to grow and broaden
-Active ETFs an emerging area

By Eva Brocklehurst

As ultra-low interest rates prevail, investors are increasingly seeking alternative sources of yield and exchange traded funds (ETFs) are becoming more popular, particularly those exposed to the US dollar which has been stronger than the currencies in many developed markets.

Technology is enabling ETFs to become more sophisticated and meet investor demands. ETF Securities Australia believes ETFs provide one of the most transparent, convenient and cost-effective forms of investing, both locally and globally. The value of Australian ETFs is currently around $60.24bn.

ETFs come in many shapes and sizes, from global and local strategies in equities to fixed income to commodities and foreign exchange. There were 210 ETFs available in Australia at the end of December 2019.

One of the many advantages, given the Australian Securities Exchange (ASX) is less than 3% of global markets, is the ability to diversify a portfolio and broaden geographical reach.

Moreover, ETFs provide simple and convenient access to offshore companies without foreign market tax reporting and withholding tax complications, head of ETF Securities Australia, Kris Walesby, points out.

ETF Securities Australia believes **investors need to focus more on investing internationally and disperse the local risks such as a slowing in resources and residential property and a weaker Australian dollar**.

The infrastructure sector, which includes many essential services such as utilities, telecoms, industrials and transport, tends to be less vulnerable to market cycles and movements. Hence those concerned about volatility risks may consider infrastructure ETFs.

Moreover, those that wish to focus on sectors not widely available in the Australian market, such as technology, can do so via ETFs. Environmental investing is also developing quickly, the analysts point out, and there is likely to be continued growth of ETFs in this area.

ETFs are, therefore, **a way for investors to target specific market opinions, themes, ethical views and/or niche areas of growth**. There is also an increase in ETFs using sophisticated rules or algorithms while still remaining passive. For example, rather than weighting the investment based on company size it might be weighted based on how sensitive the business is to market movements.

Active ETFs are an emerging area and typically track the strategies of active investment managers. In December, ASIC lifted the suspension of new active ETFs and released new admission guidelines.

ETF Securities Australia believes these may appeal to self-directed investors looking for active and liquid solutions with greater ease of use compared with many other managed funds.

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RUDI'S VIEWS

February Reports: Equity Favourites And Warnings

Dear time-poor reader: a line up of stockbrokers' favourites ahead of February reports, amidst scepticism and warnings

In this week's Weekly Insights:

-February Reports: Equity Favourites And Warnings
-Four Tips For Reporting Season
-The Green Revolution Is Awakening
-Get More Out Of Your Subscription

February Reports: Equity Favourites And Warnings

By Rudi Filapek-Vandyck, Editor FNArena

Paying attention to stockbroking analysts announcing their Conviction Buys and Sells can be highly beneficial to one's investment portfolio, as no doubt experienced by many an FNArena subscriber.

Over the past two years in particular, I have methodically kept track of Conviction Calls in the market, and those have included ResMed, Magellan Financial Group, IDP Education, Cochlear, Goodman Group, Appen, EML Payments and various other high flyers.

Every now and then these Conviction Calls generate an absolute blooper; the stinker that leaves a bad taste that simply won't go away. Boral and Challenger Financial come to mind, as well as EclipX Group and G8 Education.

In January we had the profit warning from **Treasury Wine Estates** ((TWE)) which, on one hand, vindicated the persistent Sell rating maintained by analysts at Citi, irrespective of their peers releasing more bullish assessments.

On the other hand, the Buy ratings that stood out prominently in December and early January subsequently led to four downgrades to Neutral while for Citi it was time to upgrade to Neutral, as the share price tanked.

One team of analysts that hasn't budget post profit warning and quite the significant de-rating for the stock is the team at **CLSA**.

The analysts were left licking their wounds, but subsequently stated they had been negative on the US market anyway. It's the company's growth prospect in China that keeps optimism alive, and CLSA's rating on Buy.

Analysts Richard Barwick and Deija Li cannot believe how "cheap" the share price looks today (it has been falling on most days since the day of warning).

But even they have to acknowledge, Treasury Wine has now de facto become a long-term story. Short term, there are a number of investors out there who lost a lot of money, and they'd be vying for blood & revenge. Don't be surprised if Treasury Wine remains in the naughty corner for quite a while.

In the meantime, there are no guarantees the bad news flow won't continue for longer.

See also last week's
https://www.fnarena.com/index.php/2020/02/06/february-reports-global-uncertainties-profit-warnings-and/

And the previous week's
https://www.fnarena.com/index.php/2020/01/16/rudis-view-xero-treasury-wines-and-appen/

As well as
https://www.fnarena.com/index.php/2020/01/17/rudis-view-part-2-iress-oz-minerals-and-super-retail/

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On my own observations, and I have some incomplete data to support this statement, most declared Conviction Calls perform better than the market average, which is why I thought it apposite to share the various favourites and Hot Stocks that have been picked ahead of the February reporting season.

The obvious comment to make is that sudden warnings, like the one issued by Treasury Wine, if such event were to occur, can change a stock's trajectory dramatically. The same goes for share price movement and the profit report release itself this month.

Diversified financials are expected to release weak results this month, potentially with the exception of Magellan Financial. Analysts at **Credit Suisse** see potential for negative surprises and have lined up Challenger Financial ((CGF)), Netwealth ((NWL)), Perpetual ((PPT)), Hub24 ((HUB)), and Link Administration ((LNK)) as stocks carrying additional negative potential.

Noteworthy: outside of Magellan, no other stock in this sector is seen as a potential upside surprise.

Credit Suisse finds more hope could be emerging from the insurance sector where even AMP ((AMP)) is seen as a stock that might have upside on a not-as-bad-as-feared results release, accompanied by some clarification from management around customer remediation.

QBE Insurance ((QBE)), AUB Group ((AUB)) and Steadfast Group ((SDF)) are equally believed to carry upside surprise potential. The odds seem less favourable for the likes of Suncorp ((SUN)), Insurance Australia Group ((IAG)), Medibank Private ((MPL)) and nib Holdings ((NHF)), at least if Credit Suisse's pre-release assessments prove accurate.

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Stockbroker **Morgans** is concerned elevated share prices might not necessarily be followed up with robust looking earnings results this month.

On its assessment, the best looking tactical buys this season -stocks whose share price looks poised to react positively to the release of results- include **BHP Group** ((BHP)), **Rio Tinto** ((RIO)), **Telstra** ((TLS)), **Aurizon Holdings** ((AZJ)), and **Baby Bunting** ((BBN)).

Stocks that are expensively priced and probably due for disappointment, according to Morgans, include Wesfarmers ((WES)), AGL Energy ((AGL)) and Qube Holdings ((QUB)).

Morgans has also pinpointed some potential recovery stories through Ansell ((ANN)), Amcor ((AMC)), Santos ((STO)), and Woodside Petroleum ((WPL)).

Other candidates for earnings upside risk are Australian Finance Group ((AFG)), Infigen Energy ((IFN)), and Adairs ((ADH)) while yet others seem poised for a better-than-priced-in outlook guidance, including Afterpay ((APT)), Generation Development ((GDG)), IDP Education ((IEL)), Mainstream Group ((MAI)), Pro Medicus ((PME)), and Megaport ((MP1)).

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JPMorgan's key picks among small industrials are cloud services provider **Rhipe** ((RHP)) for positive news (Top Pick) and debt collector **Collection House** ((CLH)) with a negative outlook (Bottom Pick).

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Analysts at **Wilsons** updated their Conviction Insights, revealing two new additions and two removals. **Nuchev** ((NUC)) and **Telix Pharmaceuticals** ((TLX)) are now in, while National Veterinary Care ((NVL)) and Ridley Corp ((RIC)) are out.

Other stocks on the list are Bravura Solutions ((BVS)), EML Payments ((EML)), ReadyTech ((RDY)), Whispir ((WSP)), ARB Corp ((ARB)), ImpediMed ((IPD)), Countplus ((CUP)), EQT Holdings ((EQT)), Pinnacle Investment ((PNI)), Mosaic Brands ((MOZ)), Mastermyne ((MYE)), Perenti Global ((PRN)), and Whitehaven Coal ((WHC)).

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Market strategists at **Morgan Stanley** are equally worried about the ever widening gap between share price valuations and reported earnings in Australia.

It is their view that overall conditions for corporate Australia are not that flash, highlighting the need for more broader stimulus. But will the RBA and the Australian government hear the message?

Changes made to Morgan Stanley's Model Portfolio include removing Insurance Australia Group ((IAG)), Coles Group ((COL)), South32 ((S32)), Viva Energy Group ((VEA)), and Charter Hall ((CHC)) while instead buying shares in **Janus Henderson** ((JHG)), **Sandfire Resources** ((SFR)), **Karoon Energy** ((KAR)), and **Wesfarmers**.

Also, the Model Portfolio has again moved **underweight the banks**, while opting for more concentrated sector allocations, to reduce overall risk.

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Strategists at **Macquarie** suggest investors should not be deterred from growth-leveraged companies with the coronavirus temporarily putting a dent into the global recovery story, but it's only a delay, in their view. The Chinese economy will be supported by further stimulus, while the US economy is anticipated to continue its recovery.

Post coronavirus, Macquarie sees bond yields ticking higher, which will reduce the attractiveness of defensives and yield proxies in the share market.

To gain from the immediate coronavirus impact, Macquarie suggests investors should buy into falling share prices of **a2 Milk** ((A2M)), **BHP Group**, and **Fortescue Metals** ((FMG)). All three are rated Outperform and included in the broker's Model Portfolio.

Other companies facing headwinds from the coronavirus, and likely candidates to bounce back later in the year, include Star Entertainment ((SGR)) and Flight Centre ((FLT)).

Macquarie's view is certainly not widely dismissed elsewhere, but investors might also pay attention to the latest research effort put in by analysts at **Citi**. On their account, short-term headwinds are building in China, and they have not as yet been priced into global commodity markets.

Citi sees iron trade trading down to US$70/tonne, copper to US$5300/tonne, palladium to US$2100/oz and

Brent crude oil to US$47/bbl in the near term.

Citi's analysis has revealed the seven worst impacted provinces from the coronavirus in China account for 35%-40% of Chinese GDP, automotive output, property new starts, and in excess of 70% of air conditioner output.

The same regions only contribute 7%-26% of Chinese metals production, with exceptions of copper smelting at 45% and lead at 70%.

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The Large Cap Portfolio at **Shaw and Partners** managed to keep pace with the fast running Australian share market in 2019, but since the coronavirus caught the world's attention, the headwinds have been quite tangible.

In response, the portfolio has moved **Overweight local banks** while abandoning REITs that are not covered by analysts in-house.

Shaw and Partners too believes any impact from the virus will prove temporary.

The portfolio has doubled down on **Flight Centre**, while increasing exposure to **Macquarie Group** ((MQG)), **South32**, and **Goodman Group** ((GMG)).

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Potentially the most cautious ahead of the bulk of corporate results is **Baillieu** chief investment officer Malcolm Wood, who clearly believes the RBA et al are way too optimistic and the situation on the ground for the bulk of Australian companies looks a lot less promising.

The Baillieu strategist thinks market consensus is too optimistic. Top line growth will remain sluggish this season, Wood predicts, with companies about to reveal a lack of pricing power. Most companies have been enjoying some easing of raw material cost pressures, but forward guidances are likely to remain cautious, on his assessment.

What this translates to is an over-priced share market that thus becomes extremely vulnerable to any piece of negative news. Contrary to general optimism elsewhere, Wood sees earnings estimates trending lower throughout February, with companies in particular in consumer, financial, utilities and domestic facing industrials and healthcare sectors believed to be vulnerable.

To support his scepticism, Wood has kept track of local profit warnings since October last year. His line up contains **65 "significant profit warnings" offset by 16 upgrades**. While the profit warnings have been broad based, positive warnings have come from global leaders and high-growth emerging companies.

In what may surprise investors, the Materials sector has issued most of the negative warnings with Incitec Pivot, Syrah Resources, Nufarm, Boral, Perenti Global and peers pulling back market expectations on the back of disappointing operational performances.

Industrials, Consumer Discretionary and Financials are the next three market segments co-responsible for the bulk of negative warnings, led by the likes of Cleanaway Waste Management, MaxiTrans and Prospa Group, Jumbo Interactive, G8 Education and Kogan, and FlexiGroup, IOOF Holdings and Medibank Private.

Even the healthcare sector delivered its fair share. Outside the international market leaders (of course), but through Monash IVF, Mayne Pharma, Estia Health, Healius, Regis Healthcare, and Australian Pharmaceutical.

The sixteen companies having issued "significant upgrades" over the period are Bapcor ((BAP)), oOh!media ((OML)), a2 Milk, ResMed ((RMD)), Sigma Healthcare ((SIG)), James Hardie ((JHX)), Amcor, Genworth Mortgage Insurance Australia ((GMA)), Macquarie Group, Emeco Holdings ((EHL)), John Lyng Group ((JLG)), Afterpay, Bingo Industries ((BIN)), Appen ((APX)), Fortescue Metals, and Charter Hall.

FNArena monitors corporate results the whole year around. Currently we are keeping track of February results releases. Paying subscribers to the service also have access to detailed reports for past seasons going back to August 2013. Make sure you check it out regularly:

https://www.fnarena.com/index.php/reporting_season/

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Before we move on to more things financial...

Our democracies are in danger. I know this sounds extremely hyperbolic, but it is not.

Since the middle of the twentieth century we have all become accustomed to the fact societies and political systems have become more open, accessible and accountable. In particular in the West, and in particular after the iron curtain collapsed in the late eighties.

Today we take too many things for granted. We assume bad history won't repeat. And just like the proverbial frog in gradually heating up water, we don't notice or even understand how the parliamentary system, the role of government, and its institutions are being undermined and eroded away. Read *The Fifth Risk* by Michael Lewis. Read *Fascism, A Warning* by Madeleine Albright.

There are, of course, many more authors, books and publications that can be read, but the message remains the same: undemocratic forces are on the rise, and they have the momentum on their side. Increasing limitations placed on free and independent media, of which FNArena is a proud member, is but one factor that is easy to identify.

Awareness is the first step to defending our democracies, who have never been flawless, but nevertheless far superior to any of the alternatives history shows us.

Be aware.

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Four Tips For Reporting Season

Continuing from our reporting season cooperation in recent years, FNArena is sharing insights from this year's February with readers and subscribers at Livewire Markets.

This year the cooperation includes an interview with yours truly, having been titled "Rudi's four tips for reporting season success".

A written summary of the interview can be accessed here, alongside the video:

https://www.livewiremarkets.com/wires/rudi-s-four-tips-for-reporting-season-success?

The video is also accessible via YouTube:

https://youtu.be/5QvL9GSGM2g

The Green Revolution Is Awakening

Observers of the US stock markets would have picked up shares in companies that fit the narrative of green energy and sustainability are in high demand, with share prices in numerous cases in parabolic uptrends since late last year.

In Australia, investor attention is equally awakening, but applying the theme to the local share market is a lot more challenging. Analysts at **Canaccord Genuity** recently pointed their clientele towards five small cap stories that fit the mould.

Those five are Calix ((CXL)), Carbonext Group ((CG1)), SciDev ((SDV)), Secos Group ((SES)), and Vmoto ((VMT)).

A brief introduction to each nominee:

-**Calix** has developed patented kiln technology, addressing global challenges such as carbon emissions, water treatment, infrastructure, food protection and energy.

-**Carbonxt** produces non-brominated, Activated Carbons (AC), which remove toxic pollutants from industrial flue gas and wastewater streams.

-**SciDev** focuses on the separation of solids from liquids in mining, water and wastewater, oil and gas, and food manufacturing, reducing water wastage and so helping reduce clients' environmental footprint.

-**Vmoto** is an electric vehicle manufacturer specialised in electric-powered two-wheeled vehicles.

-**Secos** is a developer-manufacturer of patented biodegradable resins and packaging products.

As per always: none of these are guaranteed success stories and the small size of each company carries additional risks for early-stage investors.

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The only email that works slightly different is Weekly Insights. This email is usually mailed out to paying subscribers on Monday, but its content is only published on the website on the following Thursday morning.

Do make sure you also check the junk mail folder in case an email goes missing. Yet another misdemeanor we don't control.

(*This story was written on Monday 10th February 2020. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).*

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- Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection)
- Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow.
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