Week

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Stories To Read From FNArena

Friday, 6 October 2017

FNArena
Financial News, Data & Analysis

GPO Box 3145
Sydney NSW 2001

info@fnarena.com

Your editor
Rudi Filapek-Vandyck

Your dedicated team of journo's
Greg Peel
Eva Brocklehurst

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Diverging Growth Outlook For A-REITs

Brokers find picking and choosing A-REITs since the reporting season is mostly about identifying divergent growth trajectories.

-Earnings outlook diverging along sub-sector lines -A-REITs taking advantage of global debt markets -M&A activity remains prevalent

By Eva Brocklehurst

Australian Real Estate Investment Trusts, A-REITs, have underperformed recently as bond yields have risen, signalling the potential for considerable downside to valuations in the sector. Despite this, Goldman Sachs observes the trajectory for global bond yields appears to be shifting to a slower rate of increases, versus what was originally expected at the onset of the reflation trade. This may ease the immediate valuation pressures on A-REITs.

The broker believes, if spreads to bonds are maintained, the higher-growth active A-REITs are most likely to outperform in a rising rate environment, retaining a Buy rating for Mirvac ((MGR)) and Propertylink ((PLG)) and a Sell rating for GPT ((GPT)).

The former two, as well as Stockland ((SGP)) and Goodman Group ((GMG)), provided initial FY18 guidance for growth in the mid to high single digits. Goldman Sachs likes Mirvac's leverage to Sydney and Melbourne urban locations as well as largely pre-sold commercial and residential development. GPT has a large exposure to retail, which is less appealing.

The broker notes A-REITs have taken advantage of the liquidity in global debt markets and sources of debt across the sector have diversified. As a consequence, most are now relying less on domestic banks for funding and are, therefore, less susceptible to changes in costs and the availability of bank debt. This has also allowed A-REITs to secure longer-dated debt.

Mergers & Acquisitions

Macquarie observes M&A activity remains prevalent in the sector given the limited organic growth opportunities in most sub-markets. Capital is still relatively inexpensive, so a number of A-REITs have acquired strategic equity stakes in others over the last year or so.

The list includes Growthpoint Properties ((GOZ)) taking a stake in Industria ((IDR)), Cromwell Property ((CMW)) in Investa Office ((IOF)) and Shopping Centres Australasia ((SCP)) in Charter Hall Retail ((CQR)).

The broker takes a closer look at the speculation that Charter Hall Group ((CHC)) and Ascendas-Singbridge are separately considering taking a 25.3% stake in Cromwell from its larger shareholder, Redefine. At this stage any structure is highly uncertain but the broker considers the impact would be neutral if Charter Hall acquired the stake in isolation, assuming 100% equity funding.

The broker presumes Charter Hall would prefer to acquire Cromwell in its entirety. The Corporations Act requires an offer to be launched if the shareholder's interest increases over 20%. Macquarie estimates earnings accretion would be around 3.6%.

Moreover, acquiring an established portfolio would be an efficient method of growing the platform more broadly. Macquarie retains a Outperform rating for Charter Hall and, whilst there is a risk of corporate activity, an Underweight rating on Cromwell as it continues to trade above valuation, carries elevated gearing and distributions remain well above free cash flow.

In upgrading Lend Lease ((LLC)) to Overweight Morgan Stanley lifts its sector weighting towards the capital-light developers that have better growth. The broker prefers names that capture the real fund flow benefits from rising asset values. Hence, Lend Lease is a top pick as it has low gearing and an expanding funds platform, which will allow it to increasingly capture the upside from global real estate markets.

In contrast, elevated execution risks, limited free cash flow and relative outperformance versus US peers means the broker retains a Underweight rating on Westfield ((WFD)).

Retail

Morgan Stanley remains Underweight on all pure retail-exposed A-REITs. Strong cap rate compression over the past year has helped drive strong growth in net tangible assets and the broker expects this to be more subdued going forward, as compression eases to around 15 basis points. Rental growth expectations are lower, while assumptions regarding capital expenditure increase, particularly for those exposed to retail.

In this way, given investor caution regarding other large cap retail A-REITs such as Scentre Group ((SCG)) and Vicinity Centres ((VCX)) because of the worsening outlook for Australian physical retail space, Goldman Sachs believes GPT's share price is getting ahead of its underlying portfolio.

Citi finds a clear divide between retail and office/industrial A-REITs, noting only retail-exposed A-REITs experienced negative FY18 revisions to earnings per share since June 30. Furthermore, the broker is not convinced that the revisions to retail earnings have bottomed.

Macro factors such as low wages growth, increased living expenses and a declining savings ratio, as well as rising mortgage rates, combine with sector-specific factors to indicate the earnings risk is skewed to the downside.

The greatest downside risk to consensus views the broker calculates comes with Westfield. Citi prefers Goodman, Investa Office and Charter Hall for office and industrial exposure while Vicinity Centres and Stockland are protection against a tactical rally in retail A-REITs.

Merry-Go-Round In Outdoor Advertising

Yarra Trams has ditched APN Outdoor and HT&E, continuing the merry-go-round of outdoor advertising contracts.

-Future earnings may have been eroded anyway as part of the renewal process -Yarra Trams loss somewhat offset by Metro Trains Melbourne contracts -Positive trends continue for outdoor advertising

By Eva Brocklehurst

Amid heightened activity in outdoor advertising contracts this year, mandate losses were always a risk. APN Outdoor ((APO)) and Here, There & Everywhere ((HT1)) have missed out on renewing contracts for Yarra Trams. The impact on each varies. The contract was held by HT&E's Adshel for street furniture and APN Outdoor for transit advertising.

Yarra Trams has decided to bundle tram-stop or street furniture and tram siding contracts, which suggests to brokers that JCDecaux has been the winner as, while this has not been disclosed, it is the only other operator than can provide a combined contract. Morgans suspects JCDecaux probably was prepared to accept razor-thin margins.

Brokers downgrade forecasts to reflect the lost contract. Canaccord Genuity suggests the market may be surprised about the -$22m combined benefit that the two companies were accruing from the concessions and wonders, given the likely competitive nature of the tender, whether those earnings would have been eroded anyway as part of the renewal process.

APN Outdoor

Canaccord Genuity, not one of the eight stockbrokers monitored daily on the FNArena database, makes no changes to 2017 forecasts for APN Outdoor, as the Yarra Trams contract is scheduled to run for most of the rest of the year. 2018 revenue and earnings are expected to be flat year-on-year.

Digital revenues are also likely to overtake static revenues earlier than previously expected, in FY19 as opposed to FY20. The broker has a Hold rating and $4.70 target.

UBS previously downgraded APN Outdoor to Neutral on the re-contracting concerns and regarding increasingly questionable yields on digital. Even factoring in minimal margin expansion the broker now considers the stock inexpensive and upgrades to Buy. The next leg of potential upside for the industry UBS believes hinges on the yield/monetisation of data and insights, as volume and digitisation tailwinds ease.

Credit Suisse downgrades forecasts by -9% for 2018 and 2019, assuming the impact from Yarra Trams in line with company guidance and no real relief from depreciation & amortisation. The broker factors in no flow-on impact on the remaining company inventory, but suggests it might have been easier to market adjacent inventory when packaged with highly sought-after properties such as Yarra Trams.

The contract for APN Outdoor, with advertising rights for the trams held over 10 years, contributed $7m to operating earnings but, separately, the company has retained preferred partner status for Metro Trains Melbourne, with rights to roadside and cross-track signage. This is a smaller contract, admittedly, versus the Yarra Trams.

HT&E (Adshel)

Adshel has also been appointed preferred partner on a new seven-year contract with MTM, winning the deal from incumbent JCDecaux and, as this is a new contract, it will provide some offset to the Yarra Trams loss.

Yet, HT&E has guided to a loss of -$15m that is greater than brokers estimated from the Yarra Trams contract, suggesting a loss of network revenues and “halo” effect. The company has held the Yarra Trams contract for the past six years, having won it from JCDecaux in 2011.

Canaccord Genuity had expected very solid growth from Adshel in FY18 but now re-bases expectations, forecasting a -4.5% decline in operating earnings. Sharp earnings downgrades are not often a signal to buy a stock, the broker acknowledges, but, with the Yarra Trams contract being a key milestone and having passed, there may be a reappraisal. A Buy rating and $2.10 target are retained.

While the impact on Adshel is greater than expected it continues to have a significant presence in Sydney and Brisbane, Deutsche Bank observes, as well as the NZ market. Any further contract wins would present upside to the broker's forecasts.

Following this loss, Deutsche Bank observes Adshel will effectively have no CBD presence in Melbourne which explains the probable reduction in appeal for advertisers. Credit Suisse observes this is a significant item as Yarra Trams was the company's largest and most visible contract, agreeing that yields across the remainder of the network may be adversely affected by the loss of this premium Melbourne CBD inventory.

Providing some relief, much of Adshel's near-term capital expenditure plans were dedicated to the digitisation of Yarra Trams and the company has now lowered 2017 capital expenditure expectations by -$20m.

Credit Suisse observes the loss of the contract is the latest in a string of negative catalysts from the company that pre-date the corporate activity - acquiring Adshel and disposing of the print business - of the past two years. In hindsight, the broker considers the Adshel acquisition overpriced. Nevertheless, the stock appears compelling on valuation grounds and an Outperform rating is maintained.

APN Outdoor has four Buy ratings and one Hold (Credit Suisse) on the database. The consensus target is $5.29, suggesting 22.6% upside to the last share price. The dividend yield on 2017 and 2018 forecasts is 4.6% and 4.7% respectively.

HT&E has five Buy ratings. The consensus target is $2.78, suggesting 55.5% upside to the last share price this compares with $3.04 ahead of the announcement. The dividend yield on 2017 and 2018 forecasts is 5.2% and 4.1% respectively.

Beach Energy Becomes More Compelling

Beach Energy plans to acquire Lattice Energy, substantially increasing its scale and diversity.

-Acquisition reduces exposure to oil price movements -Stock becomes more compelling with scale -Development opportunities a-plenty as capital has likely been constrained

By Eva Brocklehurst

Beach Energy ((BPT)) is broadening its horizons, and given the size of its proposed acquisition of Lattice Energy, brokers suggest it will take time to understand the new business fully.

The company will acquire Origin Energy's ((ORG)) Lattice Energy for $1.585bn and fund the transaction via a combination of debt and new equity. Beach Energy expects a rapid reduction in gearing is still possible, outlining a near-term target of under 25% by the end of FY19.

This is expected to be achieved whilst maintaining exploration capital expenditure to replenish declining oil output in the Western Flank. The acquisition of Lattice also means the company diversifies away from the Cooper Basin, reducing exposure to oil price movements.

While the management team is considered capable, Morgan Stanley points out the risk profile has increased substantially for the business. This is compounded by the fact that some of the acquired assets, such as BassGas, historically have been troublesome, with greater expenditure required than previously anticipated and reserve performance lower than expected.

The broker suspects that in time, the market will reward the transaction, as the company has the opportunity to build a substantial business and its scale, footprint and cash flow will become more interesting.

Gas Price Risk Vs Oil Exposure

Most of the gas from the Lattice east coast assets is sold under contract to Origin Energy. While the actual price was not disclosed, Beach Energy did note its average gas price would be higher than the $6.10/gigajoule achieved in FY17. Operating cash flow is expected to increase by over 60%.

UBS believes the fixed nature of some of the acquired contracts should reduce oil price exposure and increase revenue certainty for Beach Energy. The company has also identified $20m in cost synergies to be realised within the first 12 months.

Capital expenditure programs have a large discretionary component and provide significant flexibility, the broker notes. Almost 50% of Lattice reserves are undeveloped and may require over $800m to unlock the value. Further upside could come from re-pricing of gas contracts in FY21 and exploration upside in offshore Victoria and onshore Perth Basin.

As an aside, UBS expects a continued recovery in oil prices over the next few years, assisted by the OPEC decision to reduce output. Three consecutive years of under-investment in conventional oil supplies should lead to larger oil deficits from 2018 and, in the broker's view, justify higher oil prices to incentivise new investment.

Citi agrees now that risk around the deal has reduced and the company diversifies its portfolio and cash flow away from the Cooper Basin, this has improved the earnings outlook and reduced oil dependency. Ord Minnett, too, finds a number of positives from the announcement, expecting the transaction will be significantly accretive.

Many of the new gas supply agreements signed with Origin Energy expire within three years, which provides medium-term exposure to spot gas prices. There also could be development opportunities as capital for the assets has probably been constrained.

Fair Value?

Citi welcomes the company using its debt capacity, after almost 10 years of running a lazy balance sheet, along with a $300m rights issue, to obtain Lattice Energy. The stock now appears compelling to the broker on several metrics, including an enterprise value:operating earnings (EBITDA) basis as well as free cash flow yield.

This outlook comes before factoring in the upside from the company working its assets harder and, while concerns remain regarding replacing existing production, future growth can be built from these cash flows.

Citi upgrades to Buy from Neutral and believes, while some uncertainty may exist regarding these assets because many investors are looking at them for the first time, delivery of earnings and potential for material cost savings should demonstrate value in the end.

Most of the value uplift comes from the acquisition at a discount to the broker's fair valuation of the assets, modelled for Origin, and partially offset by the diversion from the equity raising. The main issue for Citi is that while the assets generate substantial cash flow, there is a mixed performance history which has left a very high level of depreciation and negligible profits for Lattice Energy, historically, in Origin Energy accounts.

At a minimum, Citi expects Beach Energy will adjust down the carrying value for the Cooper Basin and/or Otway given recent market valuation to ensure earnings are accretive.

Morgan Stanley finds it difficult to judge whether the price for the acquisition was fair as the actual gas pricing was not disclosed. Ultimately, cash flow is what's important and, while further details on gas pricing and cash generation are required, the broker suspects the acquisition price paid was fair to full.

The price of Lattice Energy gas, as flagged by the company, makes sense to Morgan Stanley, with industry conversations pointing to new contracts across the east coast of Australia being done in the $7-10/GJ range.

Lattice Energy

Lattice Energy comprises most of Origin's non-LNG assets, including an extra 10-12% interest in the Cooper Basin joint venture, where Beach Energy already has 20-22%, as well as operating interests in gas fields in offshore Victoria (Bass Gas and Otway).

There is a 50% operating interest in Kupe, New Zealand, as well as a 50% interest in Waitsia, Perth Basin. Post this transaction Beach Energy's reserves would increase by around 200% and FY18 production by around 150%, according to the company's statement. Completion of the transaction is subject to NZ government approvals which are expected by the end of the year.

There are three Buy ratings, two Hold and one Sell (Macquarie, yet to comment on the Lattice Energy acquisition) on FNArena's database. The consensus target is $0.80, suggesting -5.9% downside to the last share price. Targets range from $0.65 (Macquarie) to $0.92 (Citi).

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Technology One On Course For Profit Growth

A delay in finalising some consulting contracts has led Technology One to downgrade FY17 profit forecasts but brokers observe the business continues to perform well.

-Several negative effects converge to cause downgrade, likely one-offs -Stock has re-rated substantially and could be vulnerable to a change in sentiment

By Eva Brocklehurst

Technology One ((TNE)) may have issued its second downgrade to 2017 expectations but brokers are not overly concerned. Pre-tax profit growth of 7-9% is now forecast, versus prior guidance of 10-15%.

The main reason for the revision to the prior guidance is that there's been a delay in the number of deals being finalised where the company is a preferred contractor. These contracts have not been lost but the revenue just pushed out into 2018.

The company now expects consulting profit of $5.4m in 2017. Underlying growth of around 20%, in Macquarie's calculation, highlights the fact the business is still performing well. A significant turnaround is expected in 2018 and the company's software offering continues to appeal to more customers, as corporations realise the benefits in moving away from customised software and on-premises systems where possible.

Macquarie expects significant improvements in performance and efficiency, as the company has separated its consulting business into two business units, one for new customers and the other for existing customers. Sales are heavily weighted to the second half, with 82% of net profit expected to be generated in second half of 2017.

Bell Potter downgrades forecasts for earnings per share in 2017 and 2018 by -6% and -4% respectively. The broker now forecasts pre-tax profit growth in 2017 of 8.5%.

Forecasts for strong pre-tax profit growth of over 20% are maintained for both 2018 and 2019. The main drivers are improved profitability in both the cloud and UK businesses and growth in licence fees.

Bell Potter, not one of the eight stockbrokers monitored daily on the FNArena database, rejigs its modelling and the net result is a -4% decrease in the target to $5.50 from $5.75, a 21% premium to the prevailing share price. As a result, this warrants an increase in the recommendation and the broker upgrades to Buy from Hold.

Had three significant events not all occurred in 2017, then Morgans agrees profit growth would have been closer to 20%. The negatives were the Brisbane City Council dispute costs, higher-than-expected Evolve costs and delays in the consulting business contracts.

The broker notes, typically, the company's portfolio offers a more balanced outcome as one part underperforms and another outperforms, netting each other out. Morgans reduces forecasts for earnings per share by -6-10% and now reduces 2018 forecasts to be closer to 10% growth in earnings per share.

The broker takes a view that this is a one-off downgrade although acknowledges others may be concerned "as downgrades typically happen in threes". The broker reduces its target to $4.16 from $5.69 and retains a Hold rating. Morgans judges the business to be high-quality, given the relatively defensive earnings, long-term track record and impressive financials.

Still, the trading multiple over the last five years has re-rated to more than 30x price/earnings from an historical average of 15x price/earnings, and Morgans is acutely aware that a change in interest rates and/or investor sentiment could instigate a de-rating, noting that the company has not meaningfully downgraded earnings expectations since the GFC in 2007 and this has, possibly, led investors to forget that nothing is guaranteed.

FNArena's database shows one Buy rating (Macquarie) and two Hold. The consensus target is $5.20, suggesting 14.2% upside to the last share price. This compares with $5.92 ahead of the announcement. Targets range from $4.16 (Morgans) to $5.75 (UBS, yet to update on the announcement).

Citrus Looking Fruitful For Costa

Orchardist Costa Group appears well placed to deliver solid earnings growth, as it conducts efficiency programs and upgrades facilities.

-Strong outlook for citrus, mushrooms, berries and avocados -While controlling the controllable, agricultural volatility still prevails -Higher export pricing for citrus signalled

By Eva Brocklehurst

Costa Group ((CGC)) may be set to deliver higher growth from its citrus operations than previously expected. The company is Australia's largest marketer of citrus, with a 16% market share and exports making up around 70% of its crop.

Brokers have visited operations in Renmark, South Australia, where the company's entire citrus business is located. Costa Group operates five citrus farms and two packing facilities, with recent upgrades expected to benefit the business in FY18-20.

UBS suspects citrus is the least well understood of the company's five segments. Certainly, the broker acknowledges it underestimated the scale of the operations and the number of efficiency programs being undertaken. Initiatives have also been taken to minimise weather impacts.

This forms the basis for UBS expectations that citrus should grow modestly in terms of its share of produce operating earnings (EBITDA) in the near term. This expectation is coupled with a strong outlook for mushrooms, berries and avocados.

UBS considers the company positioned for low double-digit growth over the next 3-5 years. Nevertheless, while over 70% of earnings emanate from protected cropping, being an agricultural company some volatility in earnings should be expected. UBS reiterates a Buy rating and $5.70 target.

Ord Minnett agrees that despite being an agricultural business, Costa Group is relatively resilient. Product and geographical diversity support the business and de-risking of farming operations has occurred where possible, including protected cropping, water storage and back-up electricity - to protect mushroom production from power outages.

The main question for Ord Minnett is just how much more growth can be delivered, although higher prices and yields for citrus could lead to upside to forecasts. The broker notes market expectations are high, yet still suspects management's 10% adjusted net profit growth guidance for FY18 may be too low. Ord Minnett has a Hold rating and $5.01 target.

Higher Prices?

Last year Costa exported $70m of citrus product. Ord Minnett concludes from research and comments from competitors that higher citrus pricing is being experienced, although the company has not confirmed this. The broker looks forward to the AGM trading statement at the end of November, by which time two thirds of the FY18 citrus harvest will be completed.

Ord Minnett considers materially higher citrus export pricing is the main positive in the outlook. The broker also notes a $5m onerous lease provision taken within the farms and & logistics division last year is non-repeating. As well, there is growth in avocados, where prices remain elevated, raspberries and international operations. The main offsetting factors currently noted are the prices of blueberries and truss tomatoes.

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Material Matters: PGMs, Coal & Nickel

A glance through the latest expert views and predictions about commodities. Platinum group; manganese; thermal coal; and nickel.

-Palladium at a rare premium to platinum but unlikely to last -Manganese exports to China likely boosted by sharp fall in Chinese production -Thermal coal price likely to fall as northern winter gets underway -Nickel supply shortfall expected to be resolved relatively quickly

By Eva Brocklehurst

Platinum Group

Palladium is as valuable as platinum. It shouldn't be, Macquarie asserts, but has reached platinum status for the first time since 2001. At that time it spiked higher on a fund-related squeeze and the only time prior that palladium was as valuable was way back in 1913.

Macquarie notes, on the supply side, platinum is more expensive to mine and on the demand side, platinum can substitute for palladium in many automotive catalyst applications. This is not the case vice versa. Further, platinum also has a very large jewellery market.

The most important current influence on the two precious metals is automotive catalysts, where palladium and platinum compete directly. Demand for palladium has been strong whereas for platinum it is weak. The broker suggests the internal forces that normally keep palladium at a discount to platinum are presently very weak.

Still, Macquarie expects overall demand for palladium will weaken. Car sales in palladium's key gasoline vehicle markets in China and the US are expected to moderate over the next few months while the share of electric vehicles continues to rise, which in time is much more damaging for the palladium price.

Manganese

The price of manganese has been volatile, with prices jumping above US$9/dmtu at the beginning of the year, a 10-year high. The price then halved to around US$4/dmtu in March before climbing back to around US$6.50/dmtu.

Meanwhile, Macquarie notes, Chinese manganese ore imports are up by around 39% in the year-to-date. South African miners have responded by boosting exports which are now running at a record high. In Australia, Bootu Creek and Woodie Woodie, which account for around 4% of global supply and were shut amidst low prices, are in the process of re-starting.

What surprises the broker is that despite the strong supply response, visible inventories at Chinese ports remain low. It would appear that demand has not increased at the same pace as imports. The numbers show consumption cannot explain the surge in Chinese imports but rather, Macquarie suspects, there was a sharp fall in Chinese production. There are no official statistics on manganese mining in China.

The broker suspects the industry, with low grades, power intensity and polluting processing, fell victim to government-led environmental restrictions during the summer. Domestic manganese is also unlikely to be popular among ferro-alloys in the current market, given a push to quality by producers.

Macquarie's analysis still require some displacement of high-cost supply over the next three years for the market to balance. Nevertheless, higher Chinese imports should prevent a fall to the 2015 lows in price and keep some of the higher cost, seaborne mines in the market. The broker envisages price support around US$4-4.5/dmtu in the medium term, in line with the marginal cost of trucked tonnage in South Africa.

Thermal Coal

Credit Suisse expects the thermal coal price to fall over the the northern winter. Reducing air pollution in China appears to be highest priority and several local governments have brought forward their curtailments. Henan province and Handan city in Hebei are curtailing steel production by -50% from October 1, rather than November 15. Anhui, west of Shanghai, has announced curtailment to many industries including copper smelting.

The broker suggests widespread reductions in industrial activity in China during winter should reduce demand for thermal coal and, with new policies to enhance the supply side, the price is likely to drop.

Credit Suisse observes the government appears to have moved its focus to enhancing supply - accelerating commissioning of new coal mines and ceasing the practice of closing mines before the safety inspectors arrive - from one of restricting output of thermal coal.

The broker believes is every chance now that the spot price should fall back towards the targeted range of RMB500-570/t from the current rate of RMB695/t by mid winter.

Nickel

Morgan Stanley does not believe that an increased requirement for nickel sulphate in electric vehicle battery production will will drive the price substantially higher. Nickel is critical for EV battery manufacturers and the preferred feedstock is high-purity nickel sulphate. The broker acknowledges there is insufficient nickel sulphate production capacity to meet even conservative growth scenarios.

While expecting a significant impact on demand for a range of metal markets as a result of the expanding EV market, Morgan Stanley expects the shortfall in regard to nickel to be resolved quickly.

The nickel market is one of the smallest in the metals and features one of the most complex supply chains. Moreover, for a relatively small investment the industry is capable of adjusting flows to quickly deliver into a nickel sulphate shortfall, as BHP Billiton ((BHP)) has demonstrated with expansion at the Kwinana refinery in WA.

A price altering inflection point is flagged for 2019-20, so Morgan Stanley believes there is sufficient time for the nickel raw materials to adjust and accommodate. That said, the broker continues to forecast a growing market deficit, reducing the longstanding inventory overhang and supporting the price in the medium to longer term.

Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday September 25 to Friday September 29, 2017 Total Upgrades: 9 Total Downgrades: 7 Net Ratings Breakdown: Buy 42.24%; Hold 41.56%; Sell 16.19%

The share market has been caught in a moribund state for best of the past four months. During that time a gradual re-weighting has taken place among the eight stockbrokers monitored daily by FNArena. Today, half of them (4) carry more Buy ratings than either Neutral or Sell ratings.

The week ending Friday, 29 September 2017 delivered more positive news with total tally in rating changes showing nine upgrades versus seven downgrades. Six upgrades went to Buy, but five downgrades moved to Sell.

It has to be noted: a lot of resources stocks are among those receiving downgrades to Sell.

For the week, Monadelphous takes top spot for positive revisions to its target price; up in excess of 9%, closely followed by gold producer Perseus Mining; also up bu more than 9%. Galaxy Resources, Beach Energy and Macquarie Atlas Group follow next.

On the flipside we find Greencross, Regis Resources, Evolution Mining and Fortescue Metals; but overall reductions remain small.

There's a few more fireworks going on among changes to profit estimates. Here, Beadell Resources commands pole position with a gain of 35% to consensus projection, with Nufarm (+14%) coming second and Kathmandu (+10%) third. Premier Investments also enjoyed a gain of more than 10%.

The latter three all released financial results, reversing the negative trend that dominated the August reporting season.

Greencross suffered the largest negative revision for the week (-67%), at respectable distance followed by Brickworks (-13%), Resolute Mining (-3.9%) and Downer EDI (-3.6%).

Given Labour Day holiday in most of the country, the week ahead is poised to start off on a soft note in terms of broker research.

Upgrade

AGL ENERGY LIMITED ((AGL)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/3/0

Credit Suisse chooses to look through a period of heightened policy risk and suggests the market structure is largely unchanged and, if anything, the position of AGL in the medium to longer term is entrenched.

A -20-25% underperformance versus the electricity futures highlights the rewards for bearing the risk, the broker adds.

Credit Suisse increases net profit estimates by 6.5% for FY20 and raises the target to $27.00 from $23.25. Rating is upgraded to Outperform from Neutral.

BEACH ENERGY LIMITED ((BPT)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/2/1

Beach Energy has effectively used its "lazy" balance sheet to buy Lattice Energy for $1.585bn from Origin Energy ((ORG)), a deal that will transform the company and make it stand out from its peers in Australia, comment Citi analysts.

While it is not a given this deal will be earnings accretive in the short term, Citi sees plenty of positives and takes an optimistic view regarding options available to Beach Energy to derive additional value from the acquired assets.

With the target price jumping 20% to 92c, Citi is upgrading to Buy from Neutral. As many investors are now looking at these assets for the first time, Citi suggests Beach management must now deliver earnings and demonstrate potential for material cost savings over the coming 12 months,

COSTA GROUP HOLDINGS LIMITED ((CGC)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 1/1/0

Ord Minnett raises earnings estimates by 5% and the potential for higher citrus export pricing, offsetting margin declines in the berry category, leads it to change its view. The broker finds no clear negative catalyst now.

Rating is upgraded to Hold from Lighten. Target is raised to $5.01 from $4.68.

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

DOWNER EDI LIMITED ((DOW)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/1/1

Citi upgrades to Buy from Neutral and raises FY18-20 underlying net profit forecasts by 33-40%. This comes largely on the back of incorporating the integration of Spotless into forecasts after a period of restriction, with a subsequent transfer of coverage to another analyst.

The broker increases the target to $7.50 from $7.26 following the revisions. Citi remains attracted to the diversification and leverage to infrastructure-related sectors.

INVESTA OFFICE FUND ((IOF)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/0/2

Credit Suisse observes the stock has traded down to a -8% discount to stated net tangible assets amid soft FY18 guidance and perceptions of the stock overhang from the Cromwell ((CMW)) holding.

The broker considers the current book values are unsustainable yet acknowledges the strength of recent transactions in key office markets suggests there are plenty of direct real estate investors with far more bullish views.

The broker considers it reasonable that a portfolio with this scale and quality may come onto the radar of a purchaser that is more willing than the Cromwell consortium to adopt hostile tactics.

Rating is upgraded to Outperform from Neutral. Target is raised to $4.67 from $4.53.

MURRAY RIVER ORGANICS GROUP LIMITED ((MRG)) Upgrade to Add from Hold by Morgans .B/H/S: 1/0/0

Following the completion of a $12.1m capital raising Morgans reduces forecasts for earnings per share in FY18, FY19 and FY20 by -31.7%, -38.3% and -33.5% respectively.

Assuming normal seasonal conditions the broker forecasts strong earnings growth from the maturity profile of the vines amid synergies from food business.

The company failed to deliver on prospectus forecasts which affected credibility and the broker recognises it will take time to rebuild investor confidence.

Yet value exists, given a -39% discount to net tangible assets and a low FY18 price/earnings ratio of 8.5x. Morgans upgrades to Add from Hold. Target is raised to $0.43 from $0.42.

PERSEUS MINING LIMITED ((PRU)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/1/0

Commodity analysts at Citi have updated their price deck, which has resulted, mainly, in higher price forecasts for Q4 and calendar 2018, albeit in many cases prices remain below present spot prices.

For Australian based operations the exercise has a flipside in that a stronger-for-longer Aussie dollar is, despite the above, triggering downgrades to forecasts. This is partially offset by higher valuation multiples for the sector overall.

Citi is now projecting AUD/USD to remain above 80c for the next three years. Perseus Mining is the sole recipient of a recommendation upgrade following all of the above; to Buy/High Risk from Neutral. Price target jumps to 53c from 36c.

SANDFIRE RESOURCES NL ((SFR)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 1/6/1

A heightened risk backdrop means Morgan Stanley adopts a more defensive stance while retaining a positive view on the resources sector.

The broker lifts its rating for Sandfire Resources to Equal-weight from Underweight on valuation grounds. Target is reduced to $5.70 from $6.00. Industry view is Attractive.

SONIC HEALTHCARE LIMITED ((SHL)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 2/2/2

US Medicare has released proposed fees schedules for 2018 and the reductions are deeper than Ord Minnett expected. Final rates will be published in November following a consultation period.

The broker believes the impact of the rate reduction should be manageable and the company will probably seek savings to offset the cuts.

Rating is upgraded to Hold from Lighten despite the negative news, given the share price is now close to the target. Target is steady at $21.20.

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

Downgrade

COMPUTERSHARE LIMITED ((CPU)) Downgrade to Sell from Hold by Deutsche Bank .B/H/S: 1/5/2

Deutsche Bank downgrades to Sell from Hold. The broker believes the expansion into mortgage servicing may not deliver the operating leverage the company expects.

The broker's analysis of the industry in the US suggests regulatory scrutiny that results in changes to business practice is likely to offset any operational gains.

The broker makes a small upgrade to FY18 and FY19 earnings and lowers the target to $13.00 from $13.70.

EVOLUTION MINING LIMITED ((EVN)) Downgrade to Underweight from Overweight by Morgan Stanley .B/H/S: 3/3/1

A heightened risk backdrop means Morgan Stanley adopts a more defensive stance while retaining a positive view on the resources sector.

The broker downgrades to Underweight from Overweight on valuation grounds. Target is reduced to $2.10 from $2.70. Sector view: Attractive.

FORTESCUE METALS GROUP LTD ((FMG)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 3/4/1

A heightened risk backdrop means Morgan Stanley adopts a more defensive stance while retaining a positive view on the resources sector.

A risk of a commodity price correction by the end of the year, in addition to specific concerns for the elevated 58% grade discount, means the broker downgrades to Underweight from Equal-weight.

Target is reduced to $4.50 from $5.40. Attractive industry view.

INDEPENDENCE GROUP NL ((IGO)) Downgrade to Neutral from Buy by Citi .B/H/S: 2/3/1

Commodity analysts at Citi have updated their price deck, which has resulted, mainly, in higher price forecasts for Q4 and calendar 2018, albeit in many cases prices remain below present spot prices.

For Australian based operations the exercise has a flipside in that a stronger-for-longer Aussie dollar is, despite the above, triggering downgrades to forecasts. This is partially offset by higher valuation multiples for the sector overall.

Citi is now projecting AUD/USD to remain above 80c for the next three years. On the back of all of this, Independence Group's rating has been downgraded to Neutral from Buy. Price target falls to $3.67 from $3.82.

ORICA LIMITED ((ORI)) Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 0/6/2

Deutsche Bank downgrades to Hold from Buy as the stock is trading at a 1% premium to its revised valuation. The broker believes the increased explosives volumes and strip ratios from which the company will benefit will be partly offset by foreign currency movements and increased sourcing costs in Europe.

Deutsche Bank reduces earnings forecasts by -3-10% to reflect the impact of revised FX assumptions. Target is reduced to $20.25 from $21.30.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Sell from Neutral by Citi .B/H/S: 0/2/6

Commodity analysts at Citi have updated their price deck, which has resulted, mainly, in higher price forecasts for Q4 and calendar 2018, albeit in many cases prices remain below present spot prices.

For Australian based operations the exercise has a flipside in that a stronger-for-longer Aussie dollar is, despite the above, triggering downgrades to forecasts. This is partially offset by higher valuation multiples for the sector overall.

Citi is now projecting AUD/USD to remain above 80c for the next three years. On the back of all of this, Regis Resources' rating has been downgraded to Sell from Neutral. Price target falls to $3.60 from $4.

WHITEHAVEN COAL LIMITED ((WHC)) Downgrade to Underweight from Overweight by Morgan Stanley .B/H/S: 3/3/2

A heightened risk backdrop means Morgan Stanley adopts a more defensive stance while retaining a positive view on the resources sector.

The broker envisages the stock at risk of a commodity price correction by the end of the year and downgrades to Underweight from Overweight. Target falls to $3.20 from $3.60. Industry view: Attractive.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 AGL ENERGY LIMITED Buy Neutral Credit Suisse 2 BEACH ENERGY LIMITED Buy Neutral Citi 3 COSTA GROUP HOLDINGS LIMITED Neutral Sell Ord Minnett 4 DOWNER EDI LIMITED Buy Neutral Citi 5 INVESTA OFFICE FUND Buy Neutral Credit Suisse 6 MURRAY RIVER ORGANICS GROUP LIMITED Buy Neutral Morgans 7 PERSEUS MINING LIMITED Buy Neutral Citi 8 SANDFIRE RESOURCES NL Neutral Sell Morgan Stanley 9 SONIC HEALTHCARE LIMITED Neutral Sell Ord Minnett Downgrade 10 COMPUTERSHARE LIMITED Sell Neutral Deutsche Bank 11 EVOLUTION MINING LIMITED Sell Buy Morgan Stanley 12 FORTESCUE METALS GROUP LTD Sell Neutral Morgan Stanley 13 INDEPENDENCE GROUP NL Neutral Buy Citi 14 ORICA LIMITED Neutral Buy Deutsche Bank 15 REGIS RESOURCES LIMITED Sell Neutral Citi 16 WHITEHAVEN COAL LIMITED Sell Buy Morgan Stanley Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 PRU PERSEUS MINING LIMITED 80.0% 60.0% 20.0% 5 2 BTT BT INVESTMENT MANAGEMENT LIMITED 50.0% 33.0% 17.0% 6 3 DOW DOWNER EDI LIMITED 25.0% 8.0% 17.0% 6 4 IOF INVESTA OFFICE FUND 25.0% 8.0% 17.0% 6 5 BPT BEACH ENERGY LIMITED 33.0% 17.0% 16.0% 6 6 AGL AGL ENERGY LIMITED 50.0% 36.0% 14.0% 7 7 CBA COMMONWEALTH BANK OF AUSTRALIA -13.0% -25.0% 12.0% 8 8 GXY GALAXY RESOURCES LIMITED 75.0% 67.0% 8.0% 4 9 MND MONADELPHOUS GROUP LIMITED -80.0% -86.0% 6.0% 5 10 MQA MACQUARIE ATLAS ROADS GROUP 25.0% 20.0% 5.0% 4 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 EVN EVOLUTION MINING LIMITED 29.0% 57.0% -28.0% 7 2 WHC WHITEHAVEN COAL LIMITED 6.0% 31.0% -25.0% 8 3 IGO INDEPENDENCE GROUP NL 17.0% 33.0% -16.0% 6 4 NHF NIB HOLDINGS LIMITED -33.0% -21.0% -12.0% 6 5 ORI ORICA LIMITED -25.0% -13.0% -12.0% 8 6 RRL REGIS RESOURCES LIMITED -75.0% -63.0% -12.0% 8 7 FMG FORTESCUE METALS GROUP LTD 19.0% 31.0% -12.0% 8 8 GXL GREENCROSS LIMITED 25.0% 33.0% -8.0% 4 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 MND MONADELPHOUS GROUP LIMITED 12.252 11.171 9.68% 5 2 PRU PERSEUS MINING LIMITED 0.484 0.444 9.01% 5 3 GXY GALAXY RESOURCES LIMITED 2.438 2.250 8.36% 4 4 BPT BEACH ENERGY LIMITED 0.787 0.743 5.92% 6 5 MQA MACQUARIE ATLAS ROADS GROUP 5.638 5.490 2.70% 4 6 AGL AGL ENERGY LIMITED 27.096 26.560 2.02% 7 7 IOF INVESTA OFFICE FUND 4.812 4.788 0.50% 6 8 IGO INDEPENDENCE GROUP NL 3.520 3.503 0.49% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 GXL GREENCROSS LIMITED 6.200 6.367 -2.62% 4 2 RRL REGIS RESOURCES LIMITED 3.529 3.616 -2.41% 8 3 EVN EVOLUTION MINING LIMITED 2.470 2.520 -1.98% 7 4 FMG FORTESCUE METALS GROUP LTD 6.045 6.158 -1.84% 8 5 WHC WHITEHAVEN COAL LIMITED 3.194 3.244 -1.54% 8 6 CBA COMMONWEALTH BANK OF AUSTRALIA 77.625 78.538 -1.16% 8 7 BTT BT INVESTMENT MANAGEMENT LIMITED 11.702 11.798 -0.81% 6 8 ORI ORICA LIMITED 17.463 17.594 -0.74% 8 9 NHF NIB HOLDINGS LIMITED 5.670 5.710 -0.70% 6 10 DOW DOWNER EDI LIMITED 6.680 6.713 -0.49% 6 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 BDR BEADELL RESOURCES LIMITED -0.300 -0.467 35.76% 3 2 NUF NUFARM LIMITED 54.063 47.076 14.84% 7 3 KMD KATHMANDU HOLDINGS LIMITED 19.114 17.313 10.40% 3 4 PMV PREMIER INVESTMENTS LIMITED 76.412 69.338 10.20% 6 5 SYR SYRAH RESOURCES LIMITED -8.690 -9.019 3.65% 5 6 IVC INVOCARE LIMITED 58.538 56.663 3.31% 7 7 BHP BHP BILLITON LIMITED 168.240 163.943 2.62% 8 8 OGC OCEANAGOLD CORPORATION 37.707 37.124 1.57% 6 9 MFG MAGELLAN FINANCIAL GROUP LIMITED 120.783 119.283 1.26% 6 10 PRU PERSEUS MINING LIMITED 1.990 1.970 1.02% 5 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 GXL GREENCROSS LIMITED 36.875 111.875 -67.04% 4 2 BKW BRICKWORKS LIMITED 107.300 124.600 -13.88% 4 3 RSG RESOLUTE MINING LIMITED 14.667 15.267 -3.93% 3 4 DOW DOWNER EDI LIMITED 40.565 42.115 -3.68% 6 5 ORG ORIGIN ENERGY LIMITED 50.356 51.606 -2.42% 7 6 WSA WESTERN AREAS NL 4.801 4.916 -2.34% 7 7 SBM ST BARBARA LIMITED 29.395 29.995 -2.00% 4 8 NVT NAVITAS LIMITED 20.953 21.253 -1.41% 6 9

IPL INCITEC PIVOT LIMITED 18.099 18.349 -1.36% 8 10 IGO INDEPENDENCE GROUP NL 25.827 26.160 -1.27% 6
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.

Uranium Week: Another Month Of Stasis

Another month has gone by in which the uranium spot price has been unable to break away from the US$20/lb mark.

By Greg Peel

In positive news for the nuclear industry, the US Department of Energy last week conditionally committed US$3.7bn of loan guarantees to the owners of Plant Vogtle in Georgia, on top of US$8.3bn already committed, in order that construction of units 3 and 4 may continue.

The Palisades plant in Michigan will now remain in service until 2022, having previously been slated for shutdown in 2018, and units 1 and 2 of the South Texas project will continue to operate until 2047-48 under renewed operating licences granted by the US Nuclear Regulatory Commission.

In Japan, the mayor of Ohi last week consented to the restart of Kansai Electric's Ohi units 3 and 4. With local government approval secured, restart now needs to be secured from the government of the Fukui prefecture.

On The Spot

The spot uranium market did enjoy more positive sentiment early in the week. The spot price rose to US$20.60/lb mid-week before fading away thereafter. Industry consultant TradeTech's weekly spot price indicator rose US55c to US$20.40/lb. Seven transactions were concluded totalling 700,000lbs U3O8 equivalent. Utilities were among the buyers.

Over the month of September, 36 transactions totalling 4.1mlbs U3O8 equivalent were concluded. The month-end price of US$20.40/lb is up US15c from the end of August.

The spot price remains -23% below the 2017 peak price of US$26.50/lb booked in February. The year's low remains US$19.25/lb, booked at the end of May, but the spot price has been unable to trade above US$21/lb since that time. Rather, it has simply gyrated around the US$20/lb mark in painfully incremental moves.

It continues to be a case of utilities seeing US$20/lb as being the line in the sand under which they are prepared to pick up material, but over which they are not in any hurry.

Term Markets

There has been, nevertheless, a bit of movement in term markets. Increasing utility interest has seen TradeTech raise its mid-term price indicator by US20c to US$24.50/lb – the first increase in a long time.

Alas, while longer demand remains steady, TradeTech's long-term price indicator has fallen by -US1.00 to US$30.00/lb.

The Short Report

Guide:

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

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

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

Summary:

Week ending September 28, 2017

Last week was another choppy one for the ASX200, this time ending up about where it started.

I did suggest in last week's Report to "watch this space" regarding Myer ((MYR)), the shorts of which had fallen to 14.3% from 15.3% the week before following yet another disappointing earnings result, before the share price took off on indications Solomon Lew's Premier Investments ((PMV)) might be about to move in.

Last week saw Myer shorts fall to 13.0% on short-covering. There may be some shorters out there who once upon a time got caught out shorting David Jones.

Myer was the only stock in our 5% plus table to see a change in short position of one percentage point or last week. But what we can note is that for the second week running, the number of stocks 5% or more shorted has notably reduced.

The week before saw nine stocks drop off the table to shorted levels of less than 5% and only one come in. This week sees another five drop out and none come in. Presumably we can put this down to reassessing positions at quarter-end, and perhaps squaring up in the context of an ASX200 at the bottom of the longstanding trading range.

Other movements to note last week, while not in excess of 1ppt, were APN Outdoor's ((APO)) move up into the elite 10% plus shorted club, and Rio Tinto's ((RIO)) move up to the 9-10% bracket.

In the former case, APN's short increase came prior to this week's announcement of a lost contract with Yarra Trams, and subsequent share price fall. In the latter case, I have often noted that shorts in Rio most likely reflect a pairs trade against rival BHP Billiton ((BHP)) rather than a naked short play.

But we can't know for sure.

Nothing more to add in Movers & Shakers this week.

Weekly short positions as a percentage of market cap:

10%+

SYR 21.1 IGO 16.8 ORE 15.4 WSA 15.4 DMP 14.6 JBH 14.1 SHV 13.7 RFG 13.5 MYR 13.0 DMP 14.0 HSO 11.5 AAD 11.8 ACX 11.7 GXY 11.1 HVN 10.5 APO 10.5

In: APO

9.0-9.9%

MTS, RIO, MYX In: RIO, MYX Out: APO

8.0-8.9%

GTY, ISD, NXT, QIN

Out: RIO, MYX

7.0-7.9%

AHG, NWS, FLT, BKL, VOC

In: VOC Out: SAR

6.0-6.9%

SAR, JHC, SEK, TPM, SDA, MND, NSR, GXL, AAC, BEN, IPD, BAP, HT1, NEC, PRU, TAH

In: SAR Out: VOC

5.0-5.9%

GMA, KAR, BAL, QUB, ING, CSR, BWX, VRT, OFX, A2M, MSB

Out: BWX, VRT, OFX, A2M, MSB

Movers and Shakers

See above.

ASX20 Short Positions (%)

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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

The Wrap: Property, Mortgages And The Consumer

Weekly Broker Wrap: Equity strategy; Australian property; interest-only mortgages; the Australian consumer.

-Migration wave could inject $8.1bn into Brisbane, SE Queensland housing -Increase in A-REIT buy-backs could underpin outperformance -Are interest-only mortgages misunderstood? -Cost-of-living pressures expected to pinch consumer sector

By Eva Brocklehurst

Migration

Is there another interstate migration wave heading to Queensland? While Sydney house prices are nearly double those of other capital cities, job creation is occurring in Queensland. Macquarie notes, in the past, when these factors have aligned, on average 134,000 people have trekked north over a three-year period, predominantly out of NSW.

Over the next few years, the broker suspects a similar interstate migration could inject around $8.1bn of equity into the Brisbane and South-East Queensland housing market. The equivalent drain on the Sydney market would be much smaller, and is not large enough to affect the city as the money leaves town.

Nevertheless, a typically large inter-state migration cycle may be large enough to help bring Brisbane's apartment supply into balance by absorbing some of the current oversupply and putting upward pressure on house prices.

Macquarie expects that provided there is no global economic shock, this migration wave may leave the Australian economy in better shape, as it spreads housing equity around the country.

The broker prefers these stocks from the list exposed to interstate migration to Queensland: Adelaide Brighton ((ABC)), Boral ((BLD)), Mantra Group ((MTR)) and Star Entertainment ((SGR)). Bank of Queensland ((BOQ)), Suncorp ((SUN)), CSR ((CSR)), Cromwell Property ((CMW)), and Ardent Leisure ((AAD)) should also benefit.

Deutsche Bank also retains a positive view on Queensland, reasoning that cheap housing will mean interstate migration continues to lift. Moreover, the broker notes Queensland job growth has actually led all major states over the past year, with the industries that are hiring similar to the national level: construction, tourism and health/education. This supports the broker's positive view on Stockland ((SGP)).

One insight from the data the broker takes is that jobs growth is skewed to lower-paying industries and the lack of quality in jobs creation has been reflected in underemployment, which is broad-based by state. This lower quality jobs creation is a contributor to soft wages growth and, in turn, weighs on consumer spending. Deutsche Bank does not envisage firmer wages growth in the near-term and is generally cautious on domestic exposure.

Nevertheless, the broker is also hesitant to load up on defensive stocks, given the earnings revision momentum is worse than for cyclicals and valuations are neutral versus cyclicals, rather than cheap. A firmer Australian dollar is a headwind but the broker does not envisage this getting worse. At the stock level Deutsche Bank likes Aristocrat Leisure ((ALL)) Amcor ((AMC)), Boral, and James Hardie ((JHX)).

Australian Property

Citi observes buy-backs have become a more common theme in the Australian property sector since July, as Vicinity Centres ((VCX)) and Investa Office ((IOF)) have announced programs. The broker estimates progress to date has generated accretion to earnings per share of around 0.9% and 0.4% for Investa Office and Vicinity Centres respectively.

The numbers may appear modest, but the broker notes small revisions to earnings per share continue to have a magnified impact on share prices in the A-REITs sector, given relatively low earnings dispersion. Moreover, these results have been largely achieved in space of two months and active execution, from these two names in particular, suggests there may be more upgrades to come.

The broker also finds it unusual that each of the A-REITs conducting buy-backs has underperformed the sector and suspects future outperformance will occur, supported by upgrades to earnings per share.

Interest-Only Mortgages

UBS asks whether interest-only mortgages are being misunderstood. In the broker's Australian mortgages survey only 23.9% of respondents by value stated they had interest-only mortgages, substantially lower than the APRA system statistics at 35.3%.

The broker's concerns centre on the likelihood that around one third of borrowers who take out an interest-only mortgage have little understanding of the product, or that their repayments will jump by between 30-60% at the end of the interest-only period, depending on the residual term.

In the broker's survey, of all the interest-only customers, 53% said they were reacting to higher interest rates by reducing consumption while 24% were considering switching to a principal & interest loan.

While these IO loans are well secured, UBS believes many borrowers may still face substantial stress as rates rise, or when the loans revert to principal & interest. This suggests that the full impact of macro prudential policy tightening is yet to hit home and mortgage mis-selling and responsible lending obligation risks cannot be ignored.

Australian Consumer

Morgan Stanley also suspects that higher mortgage rates will put pressure on household consumption and encourage borrowers with interest-only loans to switch. As the environment deteriorates and consumers succumb to cost-of-living pressures borrowers are expected to shift from interest-only to principal & interest loans.

The broker believes JB Hi-Fi ((JBH)) and Domino's Pizza ((DMP)) are the most exposed to a slowing "young" consumer. This demographic is likely to be cutting back on expenditure more so than other cohorts as they have lower home equity and a higher proportion of interest-only loans, amid fewer savings.

Retailers in highly discretionary categories, such as holidays and entertainment, may also feel the pinch and the broker suspects Flight Centre ((FLT)), Star Entertainment and Crown Resorts ((CWN)) are in this category.

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.

Video Potential Is Big

Moelis initiates coverage on Big Un, which provides digital video production and related online digital search services to business customers.

-Automatic tailoring of video content at lower cost vs traditional production -Moelis envisages strong opportunity in highly fragmented video production sector

By Eva Brocklehurst

The use of video, as opposed to text and images, for companies to market their products and services highlights the potential of Big Un Ltd ((BIG)). Moelis suggests consumers will also, in turn, be able to seek small-medium enterprises and provide reviews on these businesses by recording a video through the smart phone application and uploading it to the Big Un platform.

Big Un provides digital video production and related online digital search services to its business customers in Australasia, North America, UK and Asia. Moelis initiates coverage on the stock with a Buy rating and $2.10 target.

The company's intellectual property allows for the automatic creation of tailored short-form video content, using its large and growing video content library. This enables the company to sell high-quality professional video at a fraction of the cost of traditional production.

Moelis notes small-medium enterprises have traditionally considered video production too costly, despite enhanced customer engagement and positive return on investment. Big Un can offer high-quality video production for less than $4,000 or a suite of videos for $7-12,000.

Around 40% of the world's population now use a social media platform and video is becoming a part of the consumers internet experience. Moelis notes that by 2021 global video traffic is expected to comprise 82% of all consumer internet traffic. The broker expects strong sales growth through FY18 with growth in recurring revenue streams from increased paying video subscribers and increase contribution from brand sponsorship.

As of June 30, 2017 the company had converted around 3,800 paying subscribers from its member pipeline with an average revenue per user (ARPU) of around $7,400 and an annual contract value of $28.1m.

Moelis takes this revenue per user as a base in FY18 and then anticipates ARPU to decline towards around $4,000 by FY23, as entry-level video production/content subscription becomes a greater proportion of the overall pricing mix. Customers are primarily acquired through telemarketing. Current members stand at 127,000 following recent acquisitions.

The business has three segments. Video subscription involves the production of high-quality video marketing content for SMEs and licensing it to them for marketing on their websites and social media channels as well as the Big Un platform.

The second segment involves the company's video content being re-purposed for the production of online TV shows that are suitable for licensing to third parties and/or sponsorship by large brands. Thirdly, a video review platform allows consumers to search and view video reviews of businesses, products and events as well as produce their own reviews and upload automatically.

Moelis notes the video production sector is highly fragmented, with many small private players and creative individuals offering services. This underscores the key risks such as technological competition, customer retention and intellectual property protections.

The company intends to accelerate customer acquisition domestically in partnership with strategic organisations as well as expand internationally. The company was founded in 2013 as Big Review, with a vision of creating a video-based review platform for Australian SMEs. The company listed on ASX via a reverse takeover in December 2014. Big Un recently acquired BHA Media and the hospitality vertical from The Intermedia Group.

Western Areas Could Take Off

By Michael Gable

Today we look at Western Areas ((WSA)).

WSA is Australia's premier producer of nickel. It has tested and bounced off the $2 region a few times in the last 3 years, indicating that it represents some good support. The recent rally from the June low has been pretty impressive, and a positive full year result in August saw the stock head higher again with the aid of some short covering. It has eased back in the last few weeks after hitting some resistance, but it was up very strongly yesterday on good volume. Price action suggests that WSA is now going to break above this 3-year downtrend line. If that were to occur, then we could see a fantastic move higher, not too dissimilar to what we've seen with other mid-tier resource stocks in the last year. The charts indicate a potential rally from here towards $6.

[Note: as at last week, Western Areas was the fourth most shorted stock on the ASX at 14.9% -- Ed]

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

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

Michael is RG146 Accredited and holds the following formal qualifications:

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

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Caution Required For Harvey Norman

Bottom Line 05/06/17

DailyTrend: Down Weekly Trend: Down Monthly Trend: Down Support Levels: $3.55 / $3.21 / $2.84 Resistance Levels: $4.40 - $4.56 / $4.80

Technical Discussion

Harvey Norman Holdings ((HVN)) is involved in the provision of integrated retail, franchise, property and digital systems. The Company's operations include franchising, including sale of furniture, bedding, computers, communications and consumer electrical products in New Zealand, Slovenia, Croatia, Ireland and Northern Ireland. The franchising operations section includes franchisees in Australia. The Company's franchisees offer products including white goods, small appliances and cooking. The property section includes retail property and property developments for resale. For the year ending the 30th of June 2017 revenues increased 3% to A$3B. Net income increased 29% to A$449M. Revenues highlight the total revenue received from franchisees which increased 4% to A$1.07B and the Sales revenue increase of 2% to A$1.83B. Net income benefited from Net property revaluation increment on Au increase from A$47.8M to A$107.4M. Broker consensus is currently "Hold". The dividend yield is 6.5%. Reasons to be cautious: → The cut to the dividend not taken well by investors. → A marked slowdown in sales momentum and poor underlying cash flow. → The expected share buy-back hasn't materialised. → Competitive pressure remains an issue. → A recent survey shows Amazon is around 15% cheaper than Australian retailers. → Potential for the housing cycle to slow down. → More evidence suggesting a cyclical high is close. → Cost cutting may have run its course, which has been the driving force for earnings.

Price had come within a whisker of tagging the typical retracement zone during our last review before reversing lower. In fact, results had just been announced which the market didn't take well to. Although significantly lower levels haven't been witnessed over the past few weeks price has continued South. Looking at the larger patterns shows there is room for the current leg lower to continue, albeit likely following a bounce. Zooming into the more recent price action shows that from the high of wave-B a smaller degree 5-wave movement appears to be unfolding with the final leg down at this degree of trend looking to complete over the next week or so. However, this is unlikely to complete the whole corrective pattern down into wave-C.

A bounce is on the cards over the coming weeks although this should only be the precursor to the next bout of weakness. Looking at the weekly chart (not shown) allows for a continuation down toward the 61.8% retracement level of the whole leg higher off the 2012 lows. This provides a target at $3.20. The problem is that it's likely going to take several weeks and maybe even a couple of months before that aforementioned target is met. It would take a push above the prior pivot high at $4.53 to move to a neutral stance although a continuation above $4.80 before thinking in terms of avoiding the deeper retracement. Neither is looking likely at this stage. Like many stocks we cover, volume has started to pick up during the recent retracement which is reason for scepticism. Any subsequent bounce, especially if coupled with low-volume would portend further weakness. Plenty of caution is required here over the short-term.

Trading Strategy

With wave-iii being extended we'd expect the first and final legs lower to be equal in length meaning wave-v is nearing the wave equality projection at $3.71. Buyers stepping in over next few days at those slightly lower levels would portend a bounce which should retrace between 50% - 61.8% of the whole leg down from the high of wave-B. I wouldn't be looking to trade the bounce as it's unlikely that momentum is going to be strong. In fact, a lacklustre bounce over the next three or four weeks would present a shorting opportunity if you are that way inclined. Either way, we'll stand aside.

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Confident Charlie & The Ramsay Shorters

In this week's Weekly Insights:

-Confident Charlie & The Ramsay Shorters -Rudi On BoardRoomRadio -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

Confident Charlie & The Ramsay Shorters

By Rudi Filapek-Vandyck, Editor FNArena

Shares in Ramsay Health Care ((RHC)) have found the going tougher, and not just in recent weeks.

Open up a long term price chart (see further below) and there's an argument to be made things started to become a little hairier in 2015, which essentially marked a flat year in a multi-year steep uptrend. In particular after peaking near $85 in September last year, the share price has faced more downside pressure.

This need not be a bad omen. Popular peers such as CSL ((CSL)) and Cochlear ((COH)) also have had their temporary trend breaks in the past and we know now, assisted by the always wise Harry Hindsight, those breaks were just that -- temporary.

Most shareholders on Ramsay's register would still be carrying a broad smile as the stock has been one of the stand-out performers in a decade that saw many large cap stocks not add anything, net, outside of dividends. It's easily forgotten today, and certainly not highlighted anywhere,but BHP shares ten years ago were hovering around $40, National Australia Bank shares were at $38 and Telstra was firmly above $4.

At the time, Ramsay Health Care shares were trading around $10. Even after the notable de-rating over the past twelve months, total gains since are still more than six-fold, ex dividends.

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Such success means Ramsay has many loyal fans in the local investment community, but equally many naysayers and critics who never understood why a stock trading on a Price Earnings (PE) ratio in the high 20s can possibly still represent good value when the aforementioned BHP, NAB and Telstra are all trading on much lower multiples.

Another thing to take into account is that most investors, subconsciously or otherwise, are momentum driven. They are eager to jump on board, and to stay on board, when a share price is on the rise. Their view changes when this is no longer happening.

In Ramsay's case, this means many of the not so faithful have by now moved elsewhere, while the voices of those who wish the share price down have become louder. Those voices also become more credible as, you know, the share price is no longer showing the same oomph it once had.

In February, the company was able to counter those negative voices by upgrading its guidance for the year. The subsequent share price recovery is clearly visible on price charts today. Next it invited analysts over to its operations in France and in the UK. But then in August its guidance for EPS growth between 8% and 10% for the year ahead disappointed and the share price weakness that followed is also clearly visible on price charts today.

As things stand, Ramsay shares are trying to find firmer footing around $62, having tumbled nearly -20% since reaching $76 in August. Consensus forecasts are for 10.5% growth this year and 9% next year meaning analysts certainly give management under the new CEO the benefit of the doubt.

The PE ratio has now fallen to circa 21x, and trying to stabilise at that level, whereas most price targets set are double digit percentage higher. Shareholder dividends are expected to grow by more than the EPS.

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Some investors have contacted me in recent weeks, asking why Ramsay's share price kept on falling. The company didn't issue a profit warning. Was there anything negative happening overseas, maybe?

What is not always easy to understand is that the share market, outside of reporting season and major events and announcements, is a public forum. In the absence of major news, share prices sometimes simply take guidance from those who vent their views the loudest. In particular when, after an overall disappointing reporting season, most market participants only remember certain stocks "disappointed".

One only has to look at what happened to Suncorp shares in recent weeks, down -18% before starting to recover on the back of positive broker commentary, to see the validity of that statement.

Part of the weakness in Ramsay Health Care shares can also be attributed to the fact that Charlie Aitken has gone short, and he keeps on telling everybody about it.

For those who are not familiar with Charlie, and I doubt there are many among you, for many years Charlie Aitken wrote daily market commentary from his institutional desk at subsequent employers, the last one was Bell Potter. While doing so he showed his talent for giving investors exactly what they wanted to hear/read.

Most above all, Charlie quickly learned rule number one in Finance: always be confident. Charlie is the type of guy one can send into the heart of a nuclear reactor that is about to melt down. There are two buttons in the control room. One means instant death. The other saves the planet.

I don't know Charlie personally, but when in public he's the hero who strides through overheating corridors, presses the button and upon return calmly says: "You didn't think I was going to press the wrong one, did you? What's next?"

That type of market commentary has amassed him a broad following among investors in Australia.

Since a year or two ago, Charlie is running his own fund. Again showcasing how smart he is, Charlie's investment mandate is not limited to the moribund local share market. He invests globally, which offers a lot more options, and potential for higher returns.

Now that Charlie has singled out Ramsay Health Care to go short, many in the local community are paying attention.

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Truth to be told, irrespective of his confidence in public, Charlie Aitken does on occasion ruin the superhero story by pressing the wrong button.

Back in 2008, with the BHP share price descending from $49 and hedge funds targeting the Big Australian, confident Charlie declared these shorters were to be proven wrong. BHP was a great buy, he said. He also declared CSL's blood plasma essentially a commodity, just like iron ore. On multiple occasions he sang the praises of Telstra's future.

Ten years ago, before everything started to turn really bad, Charlie agreed with AMP's Shane Oliver, and many others, the ASX200 remained poised for 7000 before year-end, and beyond in 2008.

Before you start thinking my goodness, Rudi seems an obsessive scholar of Charlie Aitken's share market commentary, I can assure you this is not the case. Our mission here at FNArena is to keep track of expert views and I read Charlie's whenever it lands in my inbox, because he is smart and eloquent, and everybody knows he has a following (also among journalists).

The examples mentioned above are merely the ones that are easy for me to remember, because I was on the other side of the argument for that particular stock at that particular time.

I also know Charlie likes Aristocrat Leisure, as do I, and he likes Link Administration, as do I, as well as Treasury Wine, Star Entertainment, Crown Resorts and Baby Bunting. Maybe the latter two not so much anymore. Charlie was chosen 'Emerging Manager of the Year' at this year's AIMA Hedge Fund awards.

I still own shares in Ramsay Health Care. I am not about to join Charlie's confidence there is another -$10 waiting to be de-rated off today's share price.

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Explaining why Ramsay Health Care is now a core short position for his fund, Charlie has nominated five "bear points":

1. The shares are expensive: more than double long-term price to book ratio (currently at 6.5x book value versus long-term average of 2.9x) 2. Regulatory Risk: review into prostheses pricing could have major impact on profitability, along with tariff cuts in France & UK 3. Management Change: Managing Director Chris Rex unexpectedly stood down in February after 10 years in charge 4. Significant Insider Selling: MD & CFO sold $27m and $7.5m of shares respectively 5. Competitor Downgrades: biggest competitor, Healthscope ((HSO)), has experienced management turnover, earnings downgrades and significant insider selling. UK peer Spire also issued a profit warning recently.

Given Ramsay is now a core short, i.e. with a lot of conviction, I find the above five core reasons quite disappointing. Management has repeatedly indicated any impact from prostheses pricing reform in Australia will be minor, a Managing Director leaving after ten years in the job always creates uncertainty, but it is but logical that he cashes in his options and shares. I would do the same. It's not like you are the founder of the business; his family trust remains a loyal shareholder.

Once the MD leaves, he moves on, he probably has plans, which probably also involve the money he has at his disposal. I note recent ASX notifications involve directors buying shares in the company. And competitors issuing downgrades; that only works sometimes. Look at Bellamy's and a2 Milk, for example.

I have been saying for years Healthscope, simply, is not of the same ilk as is Ramsay Health Care.

Granted, the operational environment for the private hospitals sector has become a lot tougher over the past year or so. This in itself deserves a reduction in premium, but Charlie's short vision probably requires a profit warning from Ramsay in the year ahead to be proven correct.

Ironically, Charlie does think such a profit warning is forthcoming, though he doesn't mention it among his five key "bear" points.

So far, the first share price movement has definitely been in Charlie's favour, but I would argue this has been a rather easy win. Ramsay's FY17 report disappointed. Higher bond yields have weighed on domestic healthcare stocks. The share market itself has been lacklustre and directionless, with volumes low. Charlie's profile and following were always going to increase initial pressure to the downside.

I suspect some caution will remain among buyers, so probably best not to carry too high expectations for the near term. The best response from the company would be another upgrade to guidance, or the announcement of a major acquisition on favourable terms, but such scepticism-breakers simply cannot be forced.

In their absence, I will be awaiting management's update at the AGM, scheduled for November 16th.

Happy to ignore Charlie's early victory glowing in the meantime.

Rudi On BoardRoomRadio

Audio interview from last week:

https://boardroom.media/broadcast/?eid=59c9c28543412343aeab2905

2016 - L'Année Extraordinaire

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

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

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

All-Weather Model Portfolio

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

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

Rudi On TV

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

-Tuesday, 11.15am Skype-link to discuss broker calls

Rudi On Tour

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

(This story was written on Monday 2nd October, 2017. It was published on the day in the form of an email to paying subscribers at FNArena.).

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

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