WEEK 30

STORIES TO READ FROM FNArena

Friday, 22 July 2022

Time To Look At REITs, Selectively

Treasure Chest: Tough Luck For Integral Diagnostics

Rudi's Views: Pre-August Observations

CONTENTS

AUSTRALIA

FEATURE STORIES

WEEKLY REPORTS

FYI

WEEKLY REPORTS

TREASURE CHEST

RUDI'S VIEWS

FNArena
Financial News, Data & Analysis

GPO Box 3145 - Sydney NSW 2001
info@fnarena.com

Your editor:
Rudi Filapek-Vandyck

Your dedicated team of journos:
Greg Peel, Danielle Austin, Mark Woodruff & Sarah Mills

AUSTRALIA

Lukewarm Reception For ANZ-Suncorp Bank Deal

Following Suncorp Group's sale of its banking arm to ANZ Bank, brokers weigh the strategic merit for both parties.

-ANZ Bank intends to acquire Suncorp Group's banking arm
-Some brokers now expect higher multiples for Suncorp post-divestment
-Suncorp management will be able to fully focus on insurance
-Deal synergies for ANZ Bank many years out
-Separately, ANZ Bank reveals improving margins

By Mark Woodruff

ANZ Bank ((ANZ)) has announced an agreement to acquire the banking arm of Suncorp Group ((SUN)) for -$4.9bn, to be partly funded by a $3.5bn equity raise. Management at Suncorp said it will look to return the majority of proceeds to shareholders, largely via a pro-rata capital return.

While several brokers leave forecasts unchanged pending regulatory approval, there are contrasting views on the merit of the transaction for both parties.

Based on listed peer multiples, **both Credit Suisse and UBS assess a positive outcome for Suncorp Group shareholders**. After reflecting upon higher multiples for Insurance Australia Group ((IAG)), UBS feels valuation multiples for Suncorp should rise if the transaction completes.

Outperform-rated Credit Suisse lifts its 12-month target for Suncorp to $14.09 from $11.78 after allowing for the sale in its forecasts, even after applying a -5% valuation discount for regulatory approval risk.

Jarden (Overweight) raises its target to $13.10 from $12.40 and agrees with UBS on scope for the historical price gap with Insurance Australia Group to narrow. The gap is not expected to fully close, given the latter's superior personal lines franchise and margins.

Presenting an opposing view, Ord Minnett downgrades its rating for Suncorp to Hold from Buy and lowers its target to $13.25 from $14.00. The sale price is thought to be "not great" and raises questions about the value of the bank should the deal not complete.

Apart from significant transaction costs, Ord Minnett also bemoans the loss of branding synergies between the Bank and Insurance divisions, while raising concerns around a more volatile earnings stream going forward.

Underweight-rated Morgan Stanley agrees on increased earnings volatility and feels Suncorp will now become the most catastrophe-exposed insurer on the ASX, given an earnings skew towards Queensland. Reduced medium-term growth options are also expected for the group, and the broker's target price remains at $10.25.

Turning to the impact on the acquirer, ANZ Bank, Ord Minnett sees the strategic rationale for the deal and notes a better earnings balance, geographical mix and greater franking capacity. While the Accumulate rating is maintained, the transaction is thought unlikely to help close the present valuation gap with banking peers.

Morgan Stanley estimates the bank is paying a full price and feels the acquisition is neither compelling from a strategic viewpoint nor for its impact upon earnings.

Morgan Stanley also questions the bank's capital management strategy over time, highlighting ANZ Bank completed a $1.5bn buy-back at $27.71 earlier this year and is now raising $3.5bn via a rights issue at $18.90. The broker's price target falls to $23.10 from $24.30.

Separately, ANZ Bank issued a third quarter trading update which was generally better than brokers expected. Operational trends exceeded Macquarie's expectation, underpinned by robust net interest margins (NIM), and UBS suggests there's room for further NIM upside surprises.

The FNArena database drops back to six broker ratings for ANZ Bank while Macquarie is under research restriction. There are four Buy (or equivalent) ratings and two Hold ratings, while the average target price of $27.18 suggests 25.6% upside to the latest share price.

There are four Buy (or equivalent) ratings for Suncorp Group, along with one Hold and one Underweight rating, while the $13.17 average target suggests 17.5% upside to the prevailing share price.

Delayed synergies for ANZ

Jarden only sees long-dated synergy benefits for ANZ from the transaction, with only limited benefits up until FY27. The broker, not one of the seven updated daily in the FNArena database, downgrades its FY23 EPS forecast by -5%, driven largely by the removal of expected buybacks and a higher share count.

The higher share count results from the fully underwritten 1 for 15 pro rata accelerated renounceable entitlement offer to raise $3.5bn of ordinary equity. The broker cuts its target price to $23.00 from $24.50 and retains its Underweight rating, given the limited medium-term acquisition benefit and continued near-term headwinds.

Goldman Sachs, also not one of the seven, notes the timing of the synergies is longer versus previous transactions, which have tended to come through over a three-year period. This is attributed to system migration and the full integration and consolidation of platforms. The broker lowers its rating to $27.44 from $29.84 target and the Neutral rating is unchanged.

The outlook for Suncorp

With an exit from banking, both Morgans and Citi see an improved Suncorp performance due to a greater management focus on insurance.

While Citi lowers its target price to $13.00 from $13.65 after factoring-in the transaction, the broker still forecasts expanding margins, continues to see reasonable value and retains its Buy rating.

It’s thought the sale is strategically sound and marks the end of a somewhat chequered past for the bank within the group.

****

What makes the announced deal a stand-out is that, post-announcement, the consensus price target for both parties has reduced, without every analyst adjusting its modeling given the sale still needs to clear a number of hurdles.

The consensus price target for ANZ Bank has fallen to $27.18 from $27.20 prior to the announcement, and for Suncorp the target has fallen to $13.16 from $13.53.

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

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

AUSTRALIA

JB Hi-Fi Beats, But What About Next Year?

Following above-consensus preliminary FY22 results for JB Hi-Fi, some brokers remain concerned by a looming consumer spending slowdown.

-Preliminary FY22 results for JB Hi-Fi exceed forecasts
-Brokers on average leave target prices unchanged
-Macroeconomic and competition concerns weigh
-Citi upgrades its rating to Buy from Hold
-The case for a consumer spending slowdown

By Mark Woodruff

Ahead of FY22 results scheduled for August 15, JB Hi-Fi ((JBH)) has released preliminary results. Earnings outpaced consensus forecasts by double digits thanks to strong consumer demand, rising market share and gross margin expansion.

Sales rose by 3.5% on the previous corresponding period, while online sales climbed by around 53%.

However, the market's lacklustre response to the results suggests to UBS the current focus rests more upon macroeconomic issues and how consumer discretionary covid plays will compete in a post-covid world.

While brokers set both higher and lower 12-month target prices in response to the earnings 'beat', the average target price in the FNArena database remains relatively unchanged at $46.36.

Only days ago, Goldman Sachs, not one of the seven brokers updated daily in the database, cut its forecast earnings for JB Hi-Fi due to an expected softening in the housing sector. Consumer electronics and appliance spending was deemed to be vulnerable to declining household expenditure from rising cost pressures.

Following yesterday's result, the broker retains its Sell rating and notes it had expected strong comparative sales in the second half, as negative macroeconomic drivers are not expected to hit until FY23, along with rising cost inflation and increasing competition.

The analysts feel the challenges facing the company are both cyclical and structural. Despite this view, the broker's 12-month target price rises to $34.90 from $32.00 in reaction to a slightly better-than-expected gross profit margin.

Underweight-rated Jarden, also not one of the seven, agrees on looming competition headwinds in the form of direct-to-consumer, bricks and mortar (Bunnings, Kmart), online (Amazon) and business-to-business commerce. Additional concerns stem from the need for increased investment or partnerships in fulfillment and data capability.

While JB Hi-Fi Australia, JB Hi-Fi New Zealand and The Good Guys recorded like-for-like sales growth on the previous corresponding period of 3.4%, 0.3% and 2.2%, respectively, Macquarie feels this was largely due to emergency monetary policy settings that are rapidly being unwound. This broker retains its Underperform rating and $40.90 target price.

Presenting an opposing view, Citi upgrades its rating to Buy from Hold and highlights resilience in spending by households, which are seen as well-positioned to deal with a higher cost of living in FY23. While Citi's FY23 earnings forecast rises by 9.6%, its target falls to $47 from $52 on a de-rating of multiples for the market and industry peers.

Add-rated Morgans agrees that strong sales momentum can be sustained into FY23 and raises its target price to $50 from $48. It's thought JB Hi-Fi will not be the last retailer to report better-than-expected sales and margins for FY22.

The case for a slowdown in consumer spending

Macquarie believes sales at JB Hi-Fi will potentially suffer as consumers become more cautious on the economic outlook and as rising inflation and interest rates eat into disposable incomes.

The Good Guys are particularly vulnerable, given exposures to whitegoods and appliances, explains the broker.

The 'time to buy a dwelling' index is already providing a headwind, as housing turnover is Macquarie's lead indicator for spend on household goods. The 'time to buy major household items' index is also thought to show caution around consumer spending on significant purchases.

Additionally, Macquarie's high frequency consumer data reading indicates a continued shift toward services over the year and shows spending on Consumer Electronics has returned to pre-covid levels (a slowdown in spend relative to the last two years). This is considered to have negative implications for both JB Hi-Fi Australia and JB Hi-Fi New Zealand, while The Good Guys is less exposed due to a different product mix.

Meanwhile, Kitchen Appliances have followed a similar spending trend to Consumer Electronics, which represents downside risk to all of the company's segments, warns Macquarie.

The outlook

Counterintuitively, Credit Suisse feels a correction in buoyant spending by consumers may be the catalyst for the market to get past the current uncertainty around a future correction in spending.

While the broker acknowledges share price outperformance is unlikely in the near-term, it retains an Outperform rating due to the company's circa 8% free cash flow yield and a low FY23 earnings multiple.

The FNArena database has six broker ratings with three Buy (or equivalent) and two Neutral ratings, plus one Underperform. The average target price of $46.36 suggests 6% upside to the latest share price.

Buy-rated Bell Potter is outside the database and has not updated research for JB Hi-Fi's preliminary FY22 results. The broker last set a $49.60 price target on January 18.

AUSTRALIA

Two Quality Stocks For When The Tide Goes Out

Alphinity Investment Management has identified two companies (one ASX-listed) that should outperform during testing times.

By Elfreda Jonker, Client Portfolio Manager at Alphinity Investment Management

Warren Buffett famously said that only when the tide goes out do you discover who has been swimming naked.

We have been hitting lower tides in recent months as the world of 'free money' comes to an end, which is exposing 'naked' companies and assets that have crashed.

The low tide is however also highlighting great companies with strong management teams that are suited up to steer their customers – and investors – to safety during these difficult times.

Great management teams can navigate challenging periods like the present and come out stronger on the other side.

There are many examples of best-in-class management teams represented across our Global and Australian funds and several management teams that have specifically done a phenomenal job managing the increasing risks.

Some Australian examples include Goodman Group ((GMG)), Super Retail Group ((SUL)), CommBank ((CBA)), Medibank Private ((MPL)), and Orora Group ((ORA)). On the global side, we can commend the teams at McDonalds, PepsiCo, Diageo, and Waste Connections.

Below we look at 2 lesser-known domestic and global management teams.

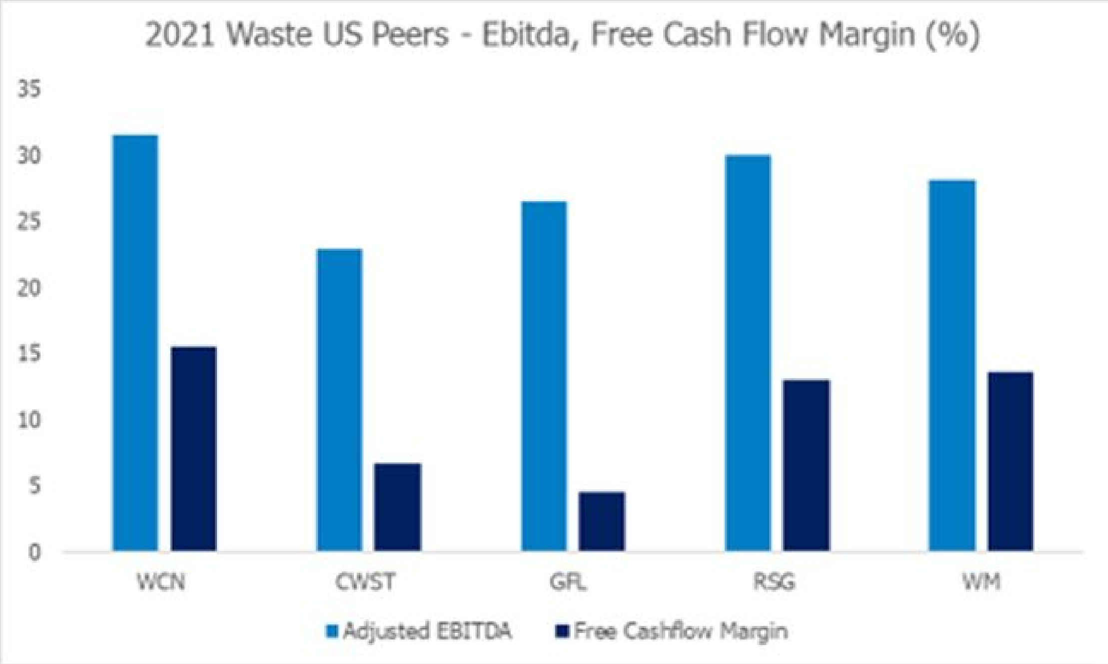
1. Waste Connections (WCN) - – Pragmatic & differentiated

Waste Connections is the 3rd largest solid waste services company in North America. They provide non-hazardous waste collection, transfer, and disposal services to millions of customers across the US and Canada. WCN was founded by the current Chairman and this entrepreneurial culture runs deeply through the organization.

WCN runs a decentralised structure where decisions and PNL responsibility is pushed out of HQ and down into the operating businesses around the country. You often see this type of management structure in Scandinavian capital goods companies, but we rarely see it in the US. If done well, it creates a dynamic and flexible business that can respond rapidly to a changing environment.

With the challenges that the waste companies have faced over the past 6 months, this approach has been a meaningful advantage for Waste Connections. We see the outcomes of this decentralisation through their industry leading margins and cashflow generation.

WCN has industry-leading profit margins



Source: Bloomberg

Further, the company generally seeks to avoid highly competitive, large urban markets and instead management target markets where they can attain high market share either through exclusive contracts, vertical integration, or asset positioning.

WCN defines their markets as either "competitive" or "exclusive/franchise" based. Competitive markets are markets where pricing is a function of supply & demand and WCN deliberately focus on the underserved markets, which are less competitive.

This affords WCN very strong pricing power and market shares. The remaining 40% of revenues are generated from markets they serve on an exclusive/franchise model basis, where pricing for contracts is done on a CPI-like or returns based basis.

Similar to its peers, WCN has faced numerous challenges of late, including input price pressures (fuel spikes), labour shortages/higher wages (with drivers and mechanics extremely sought-after) and truck shortages to name a few.

Despite this, they are managing the business well and continuing to execute on their strategy. At their recent results management achieved very strong pricing outcomes, talked to building M&A momentum, and maintained their full year FCF guidance. Waste Connections is a stable, defensive grower with an enviable track record worth backing in our view.

2. Orora (ORA) - Optimise, enhance & invest

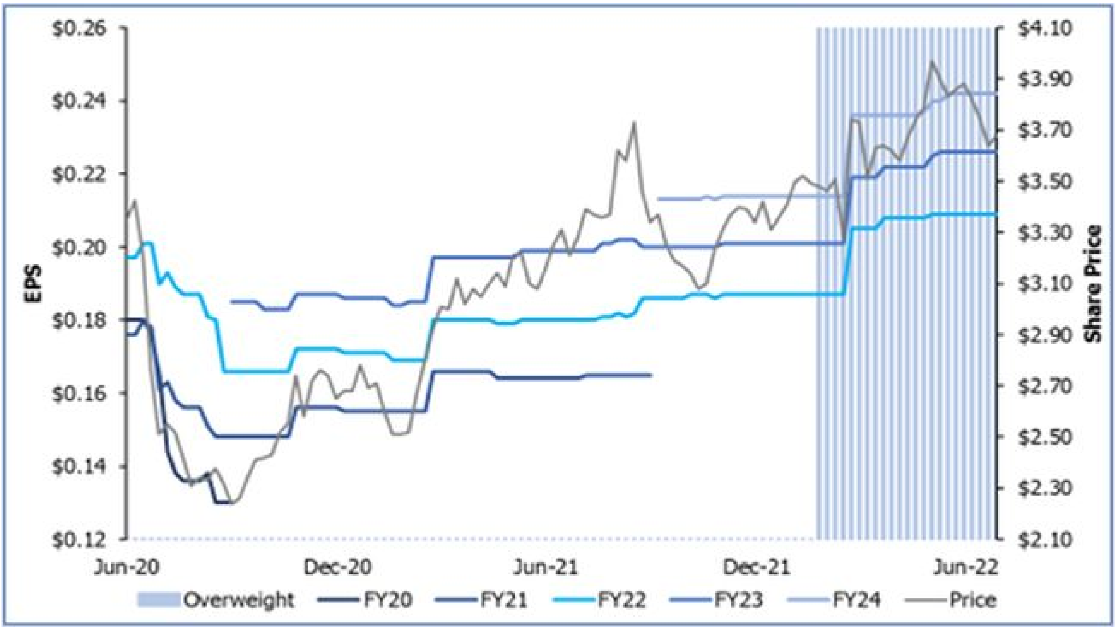
Orora is an Australia-based company that provides packaging products and services. It manufactures glass bottles and beverage cans in Australia and manages a medium sized packaging distribution services in North America.

From China wine tariffs to old legacy IT systems to higher input cost pressures, the ORA team has not had a shortage of challenges to deal with over the last few years. In response, they have addressed each of their challenges in a logical and systematic way and announced a clear growth strategy for the next few years.

Over the last few years, ORA has done a complete SAP integration process in the US that after some significant implementation challenges are now resulting in improved operational efficiencies and management of input cost pressures.

They have also implemented a mix shift towards higher product-to-package ratios (for example the recent contract with Tesla for car parts) and enhanced their digital capabilities through an e-commerce custom design platform and diversified their product portfolio.

ORA -- A quality, defensive enjoying earnings upgrades



Source: Alphinity, Bloomberg, 28 June 2022

ORA has also been able to find low risk capacity expansion opportunities such as beverage cans in Australia. Following a thorough review of some poorly judged and executed acquisitions in the US by previous management the company believes they are now ready to look at new M &A opportunities.

While not without risk we would back management given their conservative approach and successful management of the company since taking the reins. Finally, and importantly, ORA is pivoting investment towards more sustainable products and operations with a clear commitment and path to net zero greenhouse gas emissions by 2050.

Despite the tough environment, ORA has recently reiterated their guidance for FY22 EBIT to be higher than FY21. In combination with a robust balance sheet, meaningful returns to shareholders (both dividends & buybacks) and attractive Return on Capital (25%), we view ORA as a high quality, defensive company in safe hands.

Spending more time with management

When uncertainty increases and the environment becomes more challenging, we make a concerted effort to spend even more time with the management teams that are steering our investments, to understand their thinking and approach to ongoing and new challenges.

We meet with various members of the management teams across seniority levels, responsibilities, and divisions. Our due diligence process also includes site visits and meetings with the company's suppliers, competitors, and clients.

Through the ebb and flow of investment cycles, investors should continuously focus on identifying quality management teams that can perform well during high tides, but even better during low tides.

The above views expressed are not by association FNArena's (see our disclaimer).

Technical limitations

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

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

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

FEATURE STORIES

Time To Look At REITs, Selectively

Rising interest rates have led to significant real estate sector de-rating but while cutting forecasts, brokers see the sector as oversold, however picking the right names is important.

-REIT sector has underperformed the index
-Defensive nature upended by stagflation
-Not all REITs are created equal
-Brokers outline their preferences

By Greg Peel

Real estate investment trusts (REIT, or A-REIT in Australia) primarily acquire, let and manage property with the goal of achieving positive "funds from operations", which basically means earnings, to provide for distributions (dividends) to unitholders (shareholders).

On an historical basis, REITs are considered to be "defensives", offering above-market dividends that exceed the yield on the so-called "risk free rate", typically considered to be the ten-year government bond rate. They are attractive to investors looking for low-risk income more so than high-risk capital appreciation. And they come in many colours and flavours.

Note that standard REITs do not accrue franking credits.

In simple terms, REITs are spread across three categories – office, retail and industrial. Most REITs concentrate their investments in one of the three, but some have mixed portfolios across two or all three categories. Those categories can then be broken down further.

For office, most portfolios are concentrated in major city CBDs (Sydney and Melbourne primarily) but some also offer suburban/regional exposure.

Retail can be split between discretionary tenants and non-discretionary tenants – the latter including, for example, the supermarket chains. And into metropolitan and regional.

Industrial typically means factories and warehouses, but these days Australian manufacturing is minimal and warehouses (logistics) are most valuable as distribution centres for online retail.

And these days just about anything can find itself in a REIT, rather blurring the three category concept.

Sub-categories include residential apartments, retirement villages, aged care homes, childcare centres, healthcare & wellness centres, convenience stores, service stations, storage centres, data centres…

REITs do nonetheless all have one thing in common – real estate.

But just to complicate the matter further, some REITs/developers can also be fund managers, offering investors returns on unlisted property portfolios managed in the same way as a fund manager would manage portfolios of stocks and/or bonds.

REIT Returns

Critical to the value of a REIT is the prevailing yield on the “risk-free” alternative investment of the government bond, typically the ten-year yield, as REIT portfolios are longer rather than shorter term investments. While REITs are typically seen as low-risk defensives, they are not at all without risk and hence become less valuable to investors if bond yields rise.

REITs raise equity on occasion for larger acquisitions but otherwise borrow to fund acquisitions, in simple terms assuming their rent returns (net of costs) will exceed their interest obligations. So the cost of borrowing (interest rate) vis a vis yield from rents is also critical.

Of course, the values of properties acquired do also rise/fall over time, which leads us to the predominant value comparison of REITs, being the capitalisation rate (“cap rate”). While there is more than one measure, a standard cap rate is defined as operational income divided by property value, or rent returns net of maintenance costs etc versus what that property is currently worth.

Cap rates are somewhat counterintuitive. One might assume that the more money you can make out of a property the better, ie higher cap rate, but the rule of thumb is a cap rate provides a measure of how long it takes to get your money (you being the REIT) back on a property investment. A one year cap rate of 10%, for example, implies it will take ten years to achieve full return.

In short, a lower value cap rate corresponds to better valuation and a better prospect of returns with a lower level of risk. On the other hand, a higher value of cap rate implies relatively lower prospects of return on property investment, and hence a higher level of risk.

REIT analysts will constantly focus on cap rate movements – compression and expansion – in their REIT valuations.

While REITs are historically seen as defensive, lower-risk plodders, they are not at all immune to economic cycles. For example, when the GFC brought about a credit crunch and an effective halt in lending, many a REIT went belly-up.

More recently, covid has caused chaos in REIT Land, particularly during the lockdowns – shuttered shops, empty offices, landlords having to provide rent waivers/furloughs and renegotiate rent levels in a new and unfamiliar post-covid age. It was not a time when REITs could be valued on typical measures.

Another critical factor for REITs are vacancies. To make the greatest returns a property needs to be fully (or at least close to fully) leased.

While in retail most of the lockdown damage was done in High Street shopping strips, where small, independent retailers could simply not hang on, major malls – popular as REIT investments – also saw shuttered shops.

As for office blocks, to this day many are suffering high vacancy rates and given covid has enlightened the world to a new hybrid work model – a mix of office attendance and work-from-home -- it is assumed office space demand is now forever reduced.

By definition, industrial REITs should be subject to the vagaries of economic cycles, but lockdowns brought about what analysts assume to be at least a two-year pull-forward of online shopping demand, driving up demand for warehouses for logistics purposes. And as the world transitions to "the cloud", data centres are not a passing fad.

The Inflation Beast

REITs are considered defensive because in a "normal" economic downturn, as valuations are supported by the central bank easing monetary policy to provide support, leading to lower bond yields. And REITs with long lease expiries, or weighted average lease expiries (WALE), will still collect the same rent.

"Normal" economic downturns are also disinflationary. The current downturn is therefore far from normal, featuring stagflation not seen since the 1970s, driven by the exogenous factors of war and pestilence. Central banks cannot control war and pestilence, so their only weapon to fight soaring inflation is aggressive rate hikes – the enemy of REIT valuations – even if this means turning a slowdown into a full-blown recession.

The RBA has hiked its cash rate by 100 basis points year to date, to 1.10%, and is expected to hike by another 50 points in August. The market is assuming the RBA will stop hiking somewhere in the 2.5-3.0% range, hence the Australian two-year yield, which is seen as a proxy, is currently trading (at the time of writing) at 2.75%.

By mid-July, the ASX200 REIT sector had fallen -19%. June alone brought a -10.3% fall compared to -8.8% for the ASX200 index. For the financial year to end-June, and measured in total return terms, ASX200 REITs lost -12.3% versus the ASX200 Accumulation index losing only -6.50%.

The good news is having traded as high as 4.20%, the Australian ten-year bond yield is now back down to 3.50%. The bad news is that while there is some expectation inflation may by now be peaking (June quarter CPI data due this month will still show a substantial increase on March), recession fears drive long bond yields lower, and despite the fact recessions are disinflationary, recessions are not particularly good news for landlords either.

The reaction from property analysts has been a widespread de-rating of REIT valuation assumptions, leading to sector-wide target price cuts and a rethink on ratings. However, consensus has the sector being oversold after such a sharp move. Many REITs are now trading at significant discounts to their net tangible asset valuations, or at least their NTA valuations as last reported.

Property valuations also come under pressure in a downturn. Analysts don't have a lot to go by on that from presently, as there have been few property transactions in the sector recently because of economic uncertainty.

Yet while the sector may be oversold, there is divergence among expectations for the various categories of REITs as laid out above.

Factors to Consider

Balance sheet. REITs with high gearing are more exposed to further rate rises. High levels of cash provide a buffer and also the opportunity for further acquisitions at possibly distressed prices.

Tenancy. Low vacancy levels are a positive, as are "anchor tenants" – those unlikely to bail out and vacate the property anytime soon. In times of slowdown, defensive tenants such as the supermarkets are less risky than discretionary retail, for example, which could take a hit on demand.

Lease expiries. The longer it is until a tenant's lease expires, the more certain are earnings from rent, unless the tenant is forced to bail out.

Rent linkage. Different REITs across different sub-sectors enjoy CPI-linked rents, providing a hedge against inflation.

Business type. This widens the scope between the simple retail staple/discretionary comparison. Aged care and childcare are receiving increasing government support. Healthcare is at some levels non-discretionary. Data centres are a growth industry. Distribution centres remain in high demand. Office blocks are under pressure.

Longer term themes. Aged care and retirement villages supported by ageing population. Childcare supported by growing number of women in the workforce. "Wellness" is growing in popularity. Online shopping may ease in a downturn but the trend will not turn. Will CBD offices ever be full again?

So, with *all* of the above in mind, which REITs do analysts see as worthy investments in the wake of substantial de-rating, heading into the August reporting season?

Wheat and Chaff

Stockbroker **Jarden** has outlined its top picks in terms of current growth expectations, valuations and an assessment of up- down-side risk versus consensus forecasts.

Jarden expects "mall retail" to deliver double digit earnings growth, ahead of the sector average. This means Scentre Group ((SCG)) and Vicinity Centres ((VCX)). Non-discretionary retail offers defensive earnings and conservative net asset values, which favours Shopping Centres Australasia ((SCP)), HomeCo Daily needs REIT ((HDN)) and Charter Hall Retail REIT ((CQR)).

Storage should show defensive characteristics, and the FY22 impact of acquisitions should be enough to offset interest rate headwinds. That means National Storage REIT ((NSR)) and Abacus Property ((ABP)).

Jarden expects fund managers to remain volatile and is not expecting much from results, but believes Goodman Group ((GMG)) will still deliver 15% earnings growth in FY23.

Manufactured housing REITs Lifestyle Communities ((LIC)) and Ingenia Communities ((INA)) are also looking at double-digit earnings growth supported by 100% exposure to inflation-linked rents and growing development books underpinned by affordability.

Charter Hall Long WALE REIT ((CLW)) and Centuria Industrial REIT ((CIP)) are trading at extensive discounts to net tangible asset value and offer attractive yields given their defensive nature and CPI-linked leases.

Most recent valuations from quarterly reports in June showed ongoing strength in asset values, JPMorgan notes, particularly for Industrial and Convenience Retail. Charter Hall Social Infrastructure REIT ((CQE)) announced a 5.6% value increase in the second half, followed by HomeCo Daily Needs with 4.6%, Charter Hall Retail 4.5%, Growthpoint Properties ((GOZ)) 2.2%, Dexus ((DXS)) 2.2%, Charter Hall Long WALE 2.0%, Vicinity Centres 1.7% and Shopping Centres Australasia 0.8%.

Growthpoint and Vicinity both announced earnings upgrades, the latter due to a strong rebound in retail trading. Abacus and Goodman Group improved their interest rate hedging positions, and capital management remains a key focus amidst rising interest rates.

****

JPMorgan's top pick amongst all REITs is Mirvac Group ((MGR)), which the broker suggests is oversold on the basis of an implied loss of -24% of asset value. Mirvac boasts a strong development pipeline, and existing assets include an industrial portfolio that is fully let and all located in Sydney, and retail portfolio in high population density locations.

JPMorgan least prefers GPT Group ((GPT)), which borrowed late in the cycle to provide for a shift towards industrial assets and hence now has its highest gearing level since the GFC. It also has the lowest level of interest rate hedging in the sector, its office portfolio is 8% vacant and 30% of leases will expire before end-2024.

****

Macquarie notes a significant level of downside being priced into current valuations, implying more than 100 points of cap rate expansion which the broker sees as excessive, particularly for REITs with funds management or development earnings not captured in NTA values.

By sub-sector, Macquarie prefers retail and industrial over office and residential. The broker's assessment of prior downturns shows retail rents and occupancy typically show greater resilience through recessions compared to office, and while industrial has been cyclical historically, Macquarie believes market vacancy at less than 1% provides a relative level of defence moving forward.

In residential, Macquarie continues to see headwinds as the cash rate rises, albeit is conscious of the potential for an undersupply given low vacancy rates, limited apartment supply and a return of immigration.

Macquarie remains attracted to REITs that have relatively greater earnings certainty, and therefore prefers Vicinity Centres, Goodman Group and Arena REIT ((ARF)). However, if bond yields show signs of stabilising, the broker admits a more defensive positioning may prove too conservative.

Hence, Macquarie would look to supplement with additional fund managers of Charter Hall Group and Qualitas **((**QAL)), and the mid-cap REIT income vehicles of HealthCo Healthcare & Wellness REIT ((HCW)), HomeCo Daily Needs and Charter Hall Retail also screen positively on valuation.

While the broker is marginally more positive on the REIT sector as a whole, it is still seeking to avoid exposure to groups with greater downside risk to balance sheets and earnings, which include Scentre Group, Charter Hall Long WALE and Dexus Industria REIT ((DXI)), and while residential exposures are screening well on valuation basis and low vacancy rates are a positive for a medium term view, near term catalysts are limited.

Following a sector-wide reassessment, featuring a de-rating of valuations, **Ord Minnett** has upgraded Dexus ((DXS)) to Buy on a -21% discount to NTA, and minimal value being put on the funds management business and development capability. Hotel Property Investments ((HPI)) is upgraded to Buy on strong leverage to CPI, good interest hedging and a secure income stream.

Ord Minnett also upgrades Centuria Industrial and Mirvac to Buy, and downgrades Carindale Property Trust ((CDP)) to Hold, on valuation grounds. A Buy on Charter Hall Group is retained.

<u>But wait, there's more…</u>

Credit Suisse suggests that among the retail REITs, Vicinity Centres screens cheaper than Scentre Group, but the latter has lower gearing.

Among the "diversifieds", Credit Suisse prefers Stockland Group ((SGP)) based on its FY23 earnings outlook, suggests Mirvac is looking cheap on a longer term view, prefers Goodman Group among the fund managers and, for patient investors, continues to see deep value in Lendlease ((LLC)).

****

With cap rates set to expand, **Citi** prefers asset classes with positive near to medium term income growth outlooks given they will help shield the cap rate impact. This includes property types with favourable demand supply dynamics (industrial/logistics), shorter lease terms (storage) and with income benefitting from high inflation (convenience, certain long WALE assets).

The broker foresees higher investment demand in these particular asset classes as well, resulting in lower valuation downside.

For the fund managers, falling asset values create near-term challenges. Citi prefers Goodman Group and downgrades Charter Hall Group to Neutral.

Citi prefers convenience and dominant "nodal retail" supported by strong grocers. Shopping Centres Australasia and Charter Hall Retail have high exposure to defensive, growing food grocer anchors and should be better supported in a tough consumer market.

The broker suggests Vicinity and Shopping Centres are better positioned for rising rates; Shopping Centres has been double-upgraded to Buy. Scentre Group is upgraded to Neutral as the broker takes a more "constructive" view on omni-channel retail platforms. Scentre is trading at a -38% discount to NTA and boasts recovering post-covid trading numbers and inflation-linked leases.

While Charter Hall Long WALE has 46% of leases linked to inflation, Citi downgrades to Neutral due to rising debt cost. A Buy is reiterated on Abacus Property.

****

Wilsons believes that as the market grows more concerned about the economic outlook, the defensive nature of some REITs should "shine through". But despite significant discounts to NTA, Wilsons remains concerned about structural challenges for office (occupancy may never return to pre-covid levels) and retail (covid has driven more households to shop online).

To that point, Wilsons sees ongoing tailwinds for industrial/logistics and notes REITs like Goodman Group should benefit from structural growth.

HealthCo Healthcare & Wellness presents an opportunity for investors, Wilsons believes, due to its defensive earnings, discount to NTA and ongoing structural tailwinds in healthcare.

****

Drawing from recent census data, **Morningstar** warns childcare REITs are vulnerable to demographic headwinds, given a steady decline in births since the previous census. However, the tide did turn, with Australia setting an all-time record for births in the September quarter of 2020.

It is unclear if the increasing number of births is a result of a shift toward working from home, high female labour participation rates, or women in the relatively large millennial cohort approaching a biological threshold to their fertility.

However, Morningstar assumes the currently observed increased number of births is a positive leading indicator for Arena REIT and Charter Hall Social Infrastructure REIT over the next few years.

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

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

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 15-07-22

Weekly update on stockbroker recommendation, target price, and earnings forecast changes.

By Mark Woodruff

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 July 11 to Friday July 15, 2022
Total Upgrades: 15
Total Downgrades: 12
Net Ratings Breakdown: Buy 59.29%; Hold 33.74%; Sell 6.98%

For the week ending Friday July 15 there were fifteen upgrades and twelve downgrades to ASX-listed companies covered by brokers in the FNArena database.

As the tables below illustrate, broker target prices and earnings forecasts continue in a firm downtrend. The only material upgrades to earnings forecasts related to the Energy sector.

An operational update by Viva Energy revealed a 25% beat for first half earnings over the forecasts by UBS and consensus, largely due to a higher Geelong refiner margin. The broker predicted upside to forecasts should refining margins remain at current levels.

However, towards the end of the week, Credit Suisse observed market sentiment for the company had declined following weaker refinery margins in the first week of July.

Given the current market focus on the recessionary environment, the broker downgraded its rating to Neutral from Outperform. Regardless, Viva Energy received the largest percentage upgrade to earnings forecasts by brokers in the FNArena database.

Karoon Energy received the next largest percentage earnings upgrade after Morgans increased its oil price forecasts across FY22-26 and lifted its long-term real price estimate to US$65/bbl from US$62/bbl. As a result, the broker lifted its target price to $3.15 from $2.70 for its top small cap pick in the sector.

Meanwhile, 29Metals headed up the table for the largest percentage decrease in forecast earnings. Credit Suisse lowered its target to $1.15 from $2.85 and reduced its rating to Underperform from Neutral. This followed a general review of base metal stocks under coverage and a marking-to-market of current forecasts.

The broker repeated its prediction that copper and nickel prices will fall on excess supply, with potential for copper to decline to pre-covid levels. In addition, it’s thought the Golden Grove project will continue to face headwinds and underperform management’s optimistic operating and cost assumptions.

More positively, 29Metals doesn’t have any major capex spend over the next two years, explained the analysts, and has more balance sheet flexibility versus peers, with relatively low gearing.

Earnings forecasts for Insurance Australia Group also suffered last week after several brokers marked-to-market prior forecasts. Macquarie also noted heavy catastrophe impacts which could drag on second half dividends.

After a review of the Diversified Financials sector, Morgans downgraded its FY22 EPS estimate for the group by -19% on negative mark-to-market investment impacts, though the FY23 EPS forecast was increased by 5-6% due to the benefits of higher interest rates.

The broker increased its rating to Add from Hold, as there is now more than 10% upside to its new target of $5.09, up from $4.99.

Tyro Payments was also swept up in Morgans Diversified Financials sector review and came second on the list for earnings forecast downgrades last week. The target price also fell to $1.62 from $2.68 to allow for the de-rating of peer multiples since the broker last updated its research on the company.

Next up was Accent Group after Morgans lowered its FY23 earnings estimates across its coverage of the Retail sector by -5.6%, due to inflationary impacts on household budgets. It's noted retailers are also experiencing significantly higher costs from labour, energy and many key inputs.

While the analyst likes Accent Group's network growth strategy, concerns related to gearing levels (by comparison to peers) and the over-diversity of the brand portfolio.

29Metals also headed up the list for the largest percentage decrease in target prices set by brokers last week. Second on the list was Costa Group.

At the beginning of last week, Credit Suisse lowered its rating for the company to Neutral from Outperform and reduced its target price to $2.80 from $3.70 on lower forecasts for citrus and avocado revenues. This proved timely as a subsequent first half trading update caused other brokers to also set lower targets.

Neutral-rated UBS lowered its target to $2.85 from $3.35 after downgrading forecast earnings to incorporate lower citrus and Morocco blueberry returns, while Macquarie set a $3.42 target, down from $3.80.

Outperform-rated Macquarie was more upbeat and highlighted the full impact of quality issues for the weather-impacted citrus portfolio won't be fully known until the season is further progressed, and half year results are expected to be in line with previous guidance.

Finally, Morgan Stanley lowered the multiple used in its financial model for Evolution Mining to reflect a general fall in price for gold equities, and set a target price of $2.40, down from $4.60. Credit Suisse also set a lower target of $2.50, down from $2.70 as part of its general review of the Gold Sector.

While Credit Suisse upgraded its rating on Evolution Mining to Neutral from Underperform, Northern Star Resources is its preferred sector exposure from among stocks under coverage.

Upgrade

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

Morgan Stanley upgrades its rating for the ASX to Equal-weight from Underweight on a solid EPS growth outlook. The leap to an Overweight rating was prevented by operational challenges and a stretched valuation. The target rises to $80.50 from $74.00.

After a subdued 1H, the broker sees improvements in listings, the cash market and volumes for futures. Leverage to rising rates and a more active commodity market is also expected. Industry view: Attractive.

CENTURIA INDUSTRIAL REIT ((CIP)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 3/3/0

The REIT sector appears oversold to Ord Minnett, despite an 8% bounce off its mid-June lows as the 10-year bond yield has retraced -80bps from its peak of 3.40%.

The analyst lifts its interest rate assumptions due to high inflation, though points out rent reviews allow an inflation pass-through for what are considered high margin businesses.

The broker increases its rating for Centuria Industrial REIT to Buy from Accumulate, and lowers its target price to $3.80 from $3.90.

COMPUTERSHARE LIMITED ((CPU)) Upgrade to Add from Hold by Morgans .B/H/S: 6/0/1

Morgans reviews its earnings assumptions and marks-to-market earnings for stocks under its coverage in the Diversified Financials category.

The broker makes the largest changes in FY23 and FY24 for Computershare by raising EPS forecasts by around 18% on a lift to earnings from higher bond yields.

The rating is lifted to Add from Hold as there is now greater than 10% upside to the amended target price of $27.53, up from $23.97.

DEXUS ((DXS)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 3/2/0

The REIT sector appears oversold to Ord Minnett, despite an 8% bounce off its mid-June lows as the 10-year bond yield has retraced -80bps from its peak of 3.40%.

The analyst lifts its interest rate assumptions due to high inflation, though points out rent reviews allow an inflation pass-through for what are considered high margin businesses.

The broker raises its rating for Dexus to Buy from Hold and decreases its target to $11.50 from $12.00.

EVOLUTION MINING LIMITED ((EVN)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 2/5/0

In reviewing its base metals coverage and marking to market its current forecasts, Credit Suisse reiterates it anticipates copper and nickel prices to fall as the market is oversupplied, predicting copper prices could fall to pre-covid levels.

The broker expects another challenging quarter is ahead for gold and copper miners, and while it upgrades its rating on Evolution Mining, of the gold producers in its coverage Credit Suisse prefers Northern Star Resourcs ((NST)).

The rating is upgraded to Neutral from Underperform and the target price decreases to $2.50 from $2.70.

INSURANCE AUSTRALIA GROUP LIMITED ((IAG)) Upgrade to Add from Hold by Morgans .B/H/S: 5/0/2

Morgans reviews its earnings assumptions and marks-to-market earnings for stocks under its coverage in the General Insurers category.

For Insurance Australia Group, the broker downgrades its FY22 EPS estimate by -19% on negative mark-to-market investment impacts. The FY23 EPS forecast rises by 5-6% on the benefits of higher interest rates.

Morgans lifts its rating to Add from Hold and raises its target price to $5.09 from $4.99.

MAGELLAN FINANCIAL GROUP LIMITED ((MFG)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 0/3/2

Magellan Financial's June-quarter net outflows hit -$5.2bn despite an improved performance, and funds under management (FUM) fell $3.5bn to $61.3bn due to foreign currency and market movements, observes Macquarie.

The main drain came from institutions and the broker expects outflows will continue in the September quarter.

EPS forecasts fall -2.1% in FY22; -10.2% in FY23; and -10% thereafter, to reflect lower forecast FUM and performance fees.

Target price falls to $11.50 from $13.25. Rating upgraded to Neutral from Underperform, Macquarie believing the de-rating is largely complete, pending market movements and performance.

MIRVAC GROUP ((MGR)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 5/1/0

The REIT sector appears oversold to Ord Minnett, despite an 8% bounce off its mid-June lows as the 10-year bond yield has retraced -80bps from its peak of 3.40%.

The analyst lifts its interest rate assumptions due to high inflation, though points out rent reviews allow an inflation pass-through for what are considered high margin businesses.

The broker increases its rating for Mirvac Group to Buy from Accumulate and retains its $2.50 target price.

ST. BARBARA LIMITED ((SBM)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/3/0

St. Barbara's June-quarter result outpaced Macquarie, thanks to an 11% beat on production (up 40% quarter on quarter) which helped the company romp in to meet guidance.

Volumes rose across all operations and cash generation was admirable, the company closing the June quarter at $98m, a 35% beat on Macquarie's forecast.

EPS forecasts rise 27% for FY22; 14% for FY23 and 1% to 6% for FY24 and FY26.

Target price rises 10% to $1.10. Rating upgraded to Outperform from Neutral, the broker spying several catalysts such as the Simberi sale and consolidation in Leonora, and given the recent share price retreat.

SCENTRE GROUP ((SCG)) Upgrade to Neutral from Sell by Citi .B/H/S: 3/3/0

Citi's latest review of the Australian Real Estate/Property favours convenience as more defensive position in a rising-rate environment.

The thesis is that convenience retailing faces less competition from online sales and Citi notes a larger percentage of food items are sold in grocer-anchored convenience stores as department stores lose wallet share.

The broker also prefers companies with defensive interest rate positions.

Cit notes Scentre Group is trading at a -38% discount to net tangible assets and is skewed to inflation-linked leases and stable financial positions and omni-channel retail platforms.

EPS forecasts ease 0.2% in FY22 and rise 7% in FY23, to reflect likely lower than expected covid costs.

Upgrade to Neutral from Sell. Target price rises to $2.81 from $2.55.

SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP RE LIMITED ((SCP)) Upgrade to Buy from Sell by Citi .B/H/S: 1/4/0

Citi's latest review of the Australian Real Estate/Property favours convenience as more defensive in a rising-rate environment.

The thesis is that convenience retailing faces less competition from online sales and Citi notes a larger percentage of food items are sold in grocer-anchored convenience stores as department stores lose wallet share.

The broker also prefers defensive interest rate positions in this context.

Citi notes Shopping Centres Australasia Property is better positioned on both these fronts and considers it defensive against margin erosion given the strength of its tenant base.

EPS forecasts ease to 17c from 18c in FY22; and to 18c from 19c in FY23.

Shopping Centres enjoys a double upgrade to Buy from Sell. Target price rises to $3.14 from $2.56.

SUPERLOOP LIMITED ((SLC)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 3/0/0

The -10.3% decline across the Australian All Technology Index in June contributes to a year to date sector decline of -36.4%, with Ord Minnett noting its sector coverage underperformed the market in the last month.

The broker highlights notable divergence between the share price performance of profitable and non-profitable companies, with nonprofitable stocks in particular being weighed by increasing interest rates and the impacts of inflation.

For Superloop, the rating is upgraded to Buy from Accumulate and the target price of $1.25 is retained.

SPARK NEW ZEALAND LIMITED ((SPK)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 1/1/0

Spark New Zealand's sale of a 70% stake in TowerCo was ahead of Credit Suisse's expectations at a 33.8x earnings multiple, leaving the company with net proceeds of NZ$900m.

The broker notes there is potential for a NZ$0.24 per share special dividend to be paid, as the company will need to retain its net debt to earnings ratio to maintain its current credit rating. Credit Suisse expects the potential dividend to be announced in August.

The rating is upgraded to Outperform from Neutral and the target price increases to $4.90 from $4.65.

SANTOS LIMITED ((STO)) Upgrade to Buy from Neutral by Citi .B/H/S: 7/0/0

With Santos' shares retracing recently, alongside a higher for longer gas price outlook, Citi now sees a stronger valuation case for the stock.

The broker has lifted its gas price expectations, driving its net profit forecasts up 24% and 72% for 2022 and 2023, anticipating production will remain as forecast but ongoing supply restrictions will continue to support elevated pricing.

The rating is upgraded to Buy from Neutral and the target price increases to $8.60 from $8.31.

WISETECH GLOBAL LIMITED ((WTC)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 2/2/0

The -10.3% decline across the Australian All Technology Index in June contributes to a year to date sector decline of -36.4%, with Ord Minnett noting its sector coverage underperformed the market in the last month.

The broker highlights notable divergence between the share price performance of profitable and non-profitable companies, with nonprofitable stocks in particular being weighed by increasing interest rates and the impacts of inflation.

For WiseTech Global, the rating is upgraded to Buy from Accumulate and the target price of $52.00 is retained.

Downgrade

29METALS LIMITED ((29M)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 2/1/1

In reviewing its base metals coverage and marking to market its current forecasts, Credit Suisse reiterates it anticipates copper and nickel prices to fall as the market is oversupplied, predicting copper prices could decline to pre-covid levels.

Credit Suisse is cautious on 29metals' Golden Grove project, expecting the company is likely to downgrade full year guidance with its June quarter results, as the project continues to face headwinds and under perform aggressive operating and cost assumptions.

The broker does note the company's limited capital expenditure spend over the next two years, and balance sheet flexibility compared to peers.

The rating is downgraded to Underperform from Neutral and the target price decreases to $1.15 from $2.85.

ADAIRS LIMITED ((ADH)) Downgrade to Hold from Add by Morgans .B/H/S: 1/2/0

Morgans expects the trading environment for retailers to deteriorate in FY23 due to inflationary impacts on household budgets. It's noted retailers are also experiencing significantly higher costs from labour, energy and many key inputs.

As a result, the broker lowers its FY23 earnings (EBIT) estimates (but still expects growth) across its coverage of the Retail sector by -5.6%, while FY22 estimates are unchanged.

The analyst holds concerns for the trajectory of like-for-like sales growth at Adairs in FY23 and reduces its rating to Hold from Add.

The target falls to $2.50 from $3.50 on earnings downgrades.

ALTIUM ((ALU)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 2/1/1

The -10.3% decline across the Australian All Technology Index in June contributes to a year to date sector decline of -36.4%, with Ord Minnett noting its sector coverage underperformed the market in the last month.

The broker highlights notable divergence between the share price performance of profitable and non-profitable companies, with nonprofitable stocks in particular being weighed by increasing interest rates and the impacts of inflation.

For Altium, the rating is downgraded to Accumulate from Buy and the target price of $32.00 is retained.

BEGA CHEESE LIMITED ((BGA)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 0/2/0

While Bega Cheese left FY22 normalised earnings (EBITDA) guidance unchanged, guidance for FY23 was lower than for FY22. Due to persistent cost pressures, Ord Minnett decreases earnings forecasts materially, and the rating falls to Lighten from Hold.

The analyst explains the company is facing significant cost pressures in FY23 as farmgate milk prices increase well above last year's. Management indicated these increases reflect strong competition amongst milk processors.

The broker feels offsetting price increases will take time to implement and take effect, while supply chain challenges are likely to continue. The target price falls to $3.10 from $4.10.

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

The REIT sector appears oversold to Ord Minnett, despite an 8% bounce off its mid-June lows as the 10-year bond yield has retraced -80bps from its peak of 3.40%.

The analyst lifts its interest rate assumptions due to high inflation, though points out rent reviews allow an inflation pass-through for what are considered high margin businesses.

The broker lowers its rating for Carindale Property Trust to Hold from Buy and decreases its target to $5.00 from $5.20.

COSTA GROUP HOLDINGS LIMITED ((CGC)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/2/0

The citrus season is not living up to Credit Suisse's expectations to date, with lower quality and disease impacting on harvests in the southern states, as well as issues with freight capacity and costs, but the broker notes Costa Group appears to be navigating the situation better than competitors.

The company's 2PH Farms acquisition means it has exposure to the currently better quality Queensland citrus. Elsewhere, avocado pricing has not recovered to the broker's estimates. Current pressures drive a -5% decrease to the broker's earnings estimate in FY22.

The rating is downgraded to Neutral from Outperform and the target price decreases to $2.80 from $3.70.

LINK ADMINISTRATION HOLDINGS LIMITED ((LNK)) Downgrade to Hold from Add by Morgans .B/H/S: 2/3/0

Morgans reviews its earnings assumptions and marks-to-market earnings for stocks under its coverage in the Diversified Financials sector.

For Link Administration, the broker reduces EPS estimates across the forecast period by -4-8%. The rating is lowered to Hold from Add as the gap has closed to the unchanged $4.33 target price.

MEDIBANK PRIVATE LIMITED ((MPL)) Downgrade to Hold from Add by Morgans .B/H/S: 4/3/0

Morgans reviews its earnings assumptions and marks-to-market earnings for stocks under its coverage in the Health Insurers category.

For Medibank Private, the broker downgrades its FY22 EPS estimate by -18% on negative mark-to-market investment impacts. The FY23 EPS forecast rises by 3-4% on the benefits of higher interest rates.

Morgans downgrades its rating to Hold from Add as upside to the amended target price of $3.42, down from $3.43, has been reduced.

OZ MINERALS LIMITED ((OZL)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 3/2/1

In reviewing its base metals coverage and marking to market its current forecasts, Credit Suisse reiterates it anticipates copper and nickel prices to fall as the market is oversupplied, predicting copper prices could decline to pre-covid levels.

The broker sees fewer near-term operating headwinds for OZ Minerals compared to other copper miners, but notes costs and capital expenditure are likely to increase.

The rating is downgraded to Underperform from Neutral and the target price decreases to $13.00 from $20.00.

SANDFIRE RESOURCES LIMITED ((SFR)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 5/0/2

In reviewing its base metals coverage and marking to market its current forecasts, Credit Suisse reiterates it anticipates copper and nickel prices to fall as the market is oversupplied, predicting copper prices could decline to pre-covid levels.

The broker raised concerns around Sandfire Resources's cash generation, and ability to service debt in the next 6-12 months, and believes the company is likely to suffer funding challenges if commodity prices continue to decline.

The rating is downgraded to Underperform from Neutral and the target price decreases to $2.70 from $6.10.

VIVA ENERGY GROUP LIMITED ((VEA)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 4/2/0

Credit Suisse notes market sentiment for Viva Energy has declined following a weakening in refinery margins in the first week of July. The broker expects, given the recessionary environment is a focus of the market, it will be difficult for the stock to achieve share price performance in the near-term.

Marking to company guidance, the broker's FY22 earnings forecast is lifted, but its refining production yield assumptions for FY23 and FY24 are reduced. The broker notes supply remains constrained, perceived demand risks have also impacted on weakening sentiment.

The rating is downgraded to Neutral from Outperform and the target price decreases to $2.77 from $3.17.

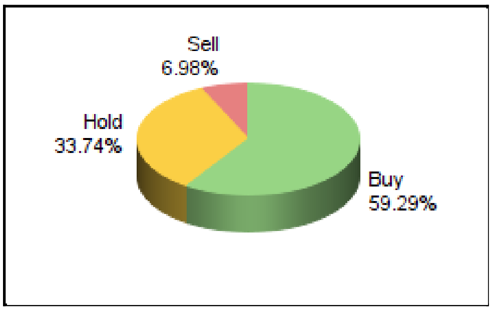
XERO LIMITED ((XRO)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 4/1/1

The -10.3% decline across the Australian All Technology Index in June contributes to a year to date sector decline of -36.4%, with Ord Minnett noting its sector coverage underperformed the market in the last month.

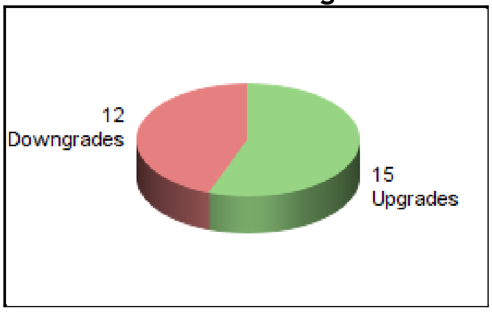
The broker highlights notable divergence between the share price performance of profitable and non-profitable companies, with nonprofitable stocks in particular being weighed by increasing interest rates and the impacts of inflation.

For Xero, the rating is downgraded to Accumulate from Buy and the target price of $97.00 is retained.

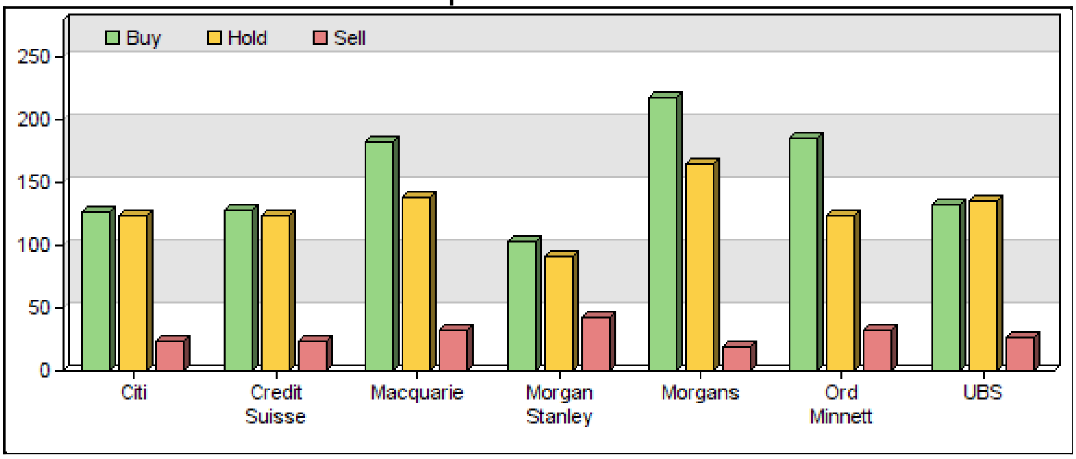
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ASX LIMITED	Neutral	Sell	Morgan Stanley
2	CENTURIA INDUSTRIAL REIT	Buy	Buy	Ord Minnett
3	COMPUTERSHARE LIMITED	Buy	Neutral	Morgans
4	DEXUS	Buy	Neutral	Ord Minnett
5	EVOLUTION MINING LIMITED	Neutral	Sell	Credit Suisse
6	INSURANCE AUSTRALIA GROUP LIMITED	Buy	Neutral	Morgans
7	MAGELLAN FINANCIAL GROUP LIMITED	Neutral	Sell	Macquarie
8	MIRVAC GROUP	Buy	Buy	Ord Minnett
9	SANTOS LIMITED	Buy	Neutral	Citi
10	SCENTRE GROUP	Neutral	Sell	Citi
11	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP RE LIMITED	Buy	Sell	Citi
12	SPARK NEW ZEALAND LIMITED	Buy	Neutral	Credit Suisse
13	ST. BARBARA LIMITED	Buy	Neutral	Macquarie
14	SUPERLOOP LIMITED	Buy	Buy	Ord Minnett
15	WISETECH GLOBAL LIMITED	Buy	Buy	Ord Minnett
Downgrade				
16	29METALS LIMITED	Sell	Neutral	Credit Suisse

17	ADAIRS LIMITED	Neutral	Buy	Morgans
18	ALTIUM	Buy	Buy	Ord Minnett
19	BEGA CHEESE LIMITED	Sell	Neutral	Ord Minnett
20	CARINDALE PROPERTY TRUST	Neutral	Buy	Ord Minnett
21	COSTA GROUP HOLDINGS LIMITED	Neutral	Buy	Credit Suisse
22	LINK ADMINISTRATION HOLDINGS LIMITED	Neutral	Buy	Morgans
23	MEDIBANK PRIVATE LIMITED	Neutral	Buy	Morgans
24	OZ MINERALS LIMITED	Sell	Neutral	Credit Suisse
25	SANDFIRE RESOURCES LIMITED	Sell	Neutral	Credit Suisse
26	VIVA ENERGY GROUP LIMITED	Neutral	Buy	Credit Suisse
27	XERO LIMITED	Buy	Buy	Ord Minnett

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	CPU	COMPUTERSHARE LIMITED	26.976	26.467	1.92%	7
2	ASX	ASX LIMITED	81.894	80.823	1.33%	7
3	VEA	VIVA ENERGY GROUP LIMITED	3.170	3.137	1.05%	6
4	SCG	SCENTRE GROUP	2.957	2.930	0.92%	6
5	SCP	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP RE LIMITED	2.908	2.882	0.90%	6
6	IAG	INSURANCE AUSTRALIA GROUP LIMITED	5.043	4.999	0.88%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	29M	29METALS LIMITED	2.525	2.950	-14.41%	4
2	CGC	COSTA GROUP HOLDINGS LIMITED	3.185	3.630	-12.26%	4
3	EVN	EVOLUTION MINING LIMITED	3.047	3.390	-10.12%	7
4	MFG	MAGELLAN FINANCIAL GROUP LIMITED	11.622	12.897	-9.89%	6
5	ADH	ADAIRS LIMITED	3.167	3.500	-9.51%	3
6	OZL	OZ MINERALS LIMITED	20.481	22.210	-7.78%	7
7	SFR	SANDFIRE RESOURCES LIMITED	6.129	6.614	-7.33%	7
8	LNK	LINK ADMINISTRATION HOLDINGS LIMITED	4.600	4.956	-7.18%	5
9	DXS	DEXUS	10.934	11.034	-0.91%	5
10	BKW	BRICKWORKS LIMITED	25.075	25.280	-0.81%	4

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	VEA	VIVA ENERGY GROUP LIMITED	39.010	32.630	19.55%	6
2	KAR	KAROON ENERGY LIMITED	12.791	11.283	13.37%	3
3	SFR	SANDFIRE RESOURCES LIMITED	68.584	64.358	6.57%	7
4	NHC	NEW HOPE CORPORATION LIMITED	108.500	104.000	4.33%	4
5	PLS	PILBARA MINERALS LIMITED	21.145	20.430	3.50%	4
6	ALD	AMPOL LIMITED	290.200	280.800	3.35%	4
7	BKW	BRICKWORKS LIMITED	313.500	303.600	3.26%	4
8	LNK	LINK ADMINISTRATION HOLDINGS LIMITED	19.632	19.097	2.80%	5
9	WHC	WHITEHAVEN COAL LIMITED	150.183	146.350	2.62%	6
10	XRO	XERO LIMITED	33.109	32.412	2.15%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	29M	29METALS LIMITED	7.575	11.653	-35.00%	4
2	IAG	INSURANCE AUSTRALIA GROUP LIMITED	13.386	18.757	-28.63%	7
3	TYR	TYRO PAYMENTS LIMITED	-3.562	-3.062	-16.33%	5
4	AX1	ACCENT GROUP LIMITED	7.450	8.575	-13.12%	4
5	SUN	SUNCORP GROUP LIMITED	59.243	65.514	-9.57%	7

6	OZL	OZ MINERALS LIMITED	121.933	134.433	-9.30%	7
7	NHF	NIB HOLDINGS LIMITED	31.214	34.357	-9.15%	7
8	TRS	REJECT SHOP LIMITED	8.767	9.633	-8.99%	3
9	CGC	COSTA GROUP HOLDINGS LIMITED	14.105	15.353	-8.13%	4
10	QBE	QBE INSURANCE GROUP LIMITED	85.552	91.044	-6.03%	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.

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

WEEKLY REPORTS

Uranium Week: Urgency Increases

Amidst an rising push towards nuclear power in the US, Europe and Asia, ongoing supply uncertainty is dominating uranium term markets.

-Spot price down on general market volatility
-Term market action a different story
-Governments across the globe push for nuclear

By Greg Peel

The news early last week that an exemption had been granted to the Canadian shipper waiting to load Russian enriched uranium product in St Petersburg lifted concerns over an imminent delivery disruption.

This, and another volatile week in financial markets in general following a US inflation print of 9.1%, had spot uranium down -US$1.85 to US$45.75/lb on industry consultant TradeTech's weekly price indicator. Five transactions totalling 500,000lbs U3O8 equivalent were concluded.

To appreciate what's going on in the "real" uranium market, we must turn to the term markets, where utilities are active.

Producers face many challenges in meeting future demand expectations on schedule and at prices that will entice utilities to commit to purchases today, TradeTech notes. Producers, while anxious to capture market share and secure contracts, are also looking to capture a return on their investment that takes into account the impact of inflationary pressure on their costs.

Yet, buyers continue to show a willingness to pay higher prices in order to secure uranium conversion supply, TradeTech points out, especially for delivery in the next 24 months.

The looming deficit in future conversion capacity is more pronounced today than it has been in recent history because of the potential for sanctions against Russian nuclear fuel, the extended shutdown of Honeywell's Metropolis Works Facility in the US -- one of only three Western uranium converters -- and the realisation that deliveries of Russian material may be secure for the moment, but are not guaranteed in the future as the war in Ukraine continues.

This uncertainty has prompted primary suppliers to seek long-term agreements that support not just current operations, but to incentivize additional capacity expansion, in order to shift away from Russian conversion supply.

A Bit Warm

The war and its impact on energy supply is one thing, but the current European heatwave is another. While Europeans are becoming more accustomed to 40 degree days, even the UK, where everyone thinks they're going to die if the temperature hits 30, is predicted to see such temperatures.

Australians are more than used to runs of 40 degree days, but mercifully have enjoyed two mild summers in a row following the devastating 2019-20 bushfires. Not so Europe. There has been much concern as to how Europe will cope with the coming winter, but the heatwave is already pressuring limited energy supply.

While US utilities are waving the nuclear flag, and the government is buying reserves of uranium, the acceptance of nuclear power in the European "green" taxonomy and the current crisis is leading to a similar nuclear push, and so is the case in Asia.

Last week Belgium's Energy minister called on the government to consider extending the operation of two nuclear power plant units slated for closure in 2023.

In South Korea, new President Yoon Suk-yeol continues to promote a return to nuclear power in a reversal of former President Moon Jae-in's nuclear phase-out intentions, revealing plans that include a schedule to resume construction of two more units as early as 2024.

Japanese Prime Minister Fumio Kishida has asked for up to nine of the nation's reactors to be ready for operation before winter as the nation prepares for a possible power shortage.

The push is on.

TradeTech’s term price indicators remain at US$52.00/lb (mid) and US$53.00/lb (long).

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
BKY	18/07/2022	0.3500	▼-10.26%	$0.64	$0.14			
BMN	18/07/2022	0.1900	▲11.76%	$0.44	$0.12			
BOE	18/07/2022	1.9700	▲ 8.79%	$3.10	$0.14		$2.600	▲32.0%
ERA	18/07/2022	0.2200	▲ 4.76%	$0.58	$0.16			
PDN	18/07/2022	0.6300	▲12.28%	$1.12	$0.42	-64.1	$0.800	▲27.0%
PEN	18/07/2022	0.1600	0.00%	$0.35	$0.12			
VMY	18/07/2022	0.1900	▲11.11%	$0.33	$0.09			

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

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

FYI

Tackling The Bear: History Versus Present

Bear markets have typically been great entry points for long-term investors and 2022 will probably be no different.

-Inflation and interest rates raise memories from the 1970s
-Record levels of global debt are changing the role of central banks
-What does history reveal about bear markets and recessions?

By Danielle Ecuyer

Within an historical context the 2020 bear market was an anomaly.

Short and sharp, thanks to the US$10trn injection of liquidity from the US Federal Reserve and other central banks.

As share markets have been in a secular bull market since 2009, many investors have either never experienced or have faded memories of how bear markets perform and how long they last.

In seeking a bottom for shares, we turn instead to historical precedents to provide answers to 'is it time to buy yet?'

Setting the stage in 2022

History never repeats but it rhymes.

2022's bear market started early January and has delivered a circa -20% fall in the S&P500.

The current debate around whether the US and the world are entering a global recession is largely dependent on how stubbornly elevated inflation remains and how much central banks raise interest rates.

What we do know is that the speed and size of this cycle of US rate hikes are comparable to the early 1980's when then Fed Chairman Volcker induced two back-to-back recessions to squash the inflationary demon of the 1970's.

Commentators continue to draw comparisons to the 1970s (high energy prices, high inflation, low growth, and low unemployment) when stock markets experienced a secular bear market, starting in 1966 and not finishing until 1982, according to Ned Davis research.

The world has changed a lot since the 1970s, so comparisons may be too simplistic.

One of the greatest concerns to policy makers and central bankers is how to tackle elevated inflation and higher interest rates in a more heavily indebted world.

According to the Institute of International Finance (IIF), global debt is estimated to have risen to US$305trn or over 350% of global GDP.

Michael Howell from CrossBorder Capital, an acclaimed expert in global liquidity analysis, continues to advocate monetary policy is more akin to a global refinancing system.

Howell estimates US$60trn per annum needs to be refinanced as the average maturity of the global debt is 5 years.

Navigating Valuations and Earnings in a Bear Market

ClearBridge Investments offers up some great statistics for investors in its recent report "The Long View: Are we there yet? The ClearBridge anatomy of a recession".

The report highlights 'recessions' are integral to how a bear market performs in both longevity and the depth of the drawdowns.

The following chart from Clearbridge depicts:

-"Recessionary Bear Markets have an average duration of 17 months and fall 39%."

-"Non-Recessionary Bear Markets have an average duration of 13 months and fall 28.2%"

S&P 500 Bear Markets

Start Date	End Date	Duration (Months)	Percent Change
May 1946	June 1949	37	-29.1%
Aug. 1956	Oct. 1957	15	-21.6%
Dec. 1961	June 1962	6	-28.0%
Feb. 1966	Oct. 1966	8	-22.2%
Nov. 1968	May 1970	18	-36.1%
Jan. 1973	Oct. 1974	21	-48.2%
Nov. 1980	Aug. 1982	20	-27.1%
Aug. 1987	Dec. 1987	3	-33.5%
March 2000	Oct. 2002	31	-49.1%
Oct. 2007	March 2009	17	-56.8%
Feb. 2020	March 2020	1	-33.9%
Jan. 2022	?	6*	-23.6%*
	Average	16	-35.1%

Recessionary Bear Markets
Average Duration **17 Months**
Percent Change **-39.0%**

Non-Recessionary Bear Markets
Average Duration **13 Months**
Percent Change **-28.2%**

*Time period reflects Jan. 3, 2022 – June 16, 2022 (trough). Data as of June 30, 2022. Source: FactSet.

The latter would infer we are halfway through the bear market if economies avoid recessions or a hard landing.

There are two components to bear markets, the change in valuation multiples and company earnings.

To date the S&P500 valuation, as per Price-Earnings Ratio, has fallen to 15.8x from 21.3x as interest rates have risen.

The longer-term historical bear market average valuation is closer to 12x.

In the last 20 years a higher valuation prevailed, around 14x, which relates to the lower interest rate environment compared to previous periods.

The second component is earnings.

Share markets are forward looking and earnings forecasts to a large degree depend on the macro-economic view, i.e. are economies entering a soft landing or deeper recession?

Jonathan Pain, author of The Pain Report, stated recently in the podcast "The BIP Show", he is expecting earnings of US$200 per share for the S&P500 in 2022.

Applying a 15x PER multiple, the index level equates to 3000 for the S&P500 or another -28% fall.

Placing this forecast in context: Yardeni Research has S&P500 2021 earnings at US$208.53 and halfway through 2022 consensus forecasts stand at US$215 and $235 in 2023.

Even accounting for the strength in energy prices in the first half of 2022, current earnings forecasts could prove to be overly optimistic if the rate hikes have the desired effect of slowing demand.

Bank of America recently cut earnings estimates for the S&P500 to $218 in 2022 and $200 in 2023, downgrading the calendar year end S&P500 index to 3600 with scope for falls as low as 3000-3200, before recovering.

BofA's head strategist noted "No two recessions are alike. The market typically leads the economy, peaking before recessions begin and troughing before recessions end".

The following diagram of potential S&P500 outcomes based on various earnings estimates and valuations was circulating on Twitter and reflects how sensitive the index is to changes in these two factors.

S&P 500 12m fwd EPS

P/E multiple	180	200	220	236	246
	-20% EPS	-10% EPS	+0% EPS	+5% EPS	+10% EPS
12.0	2160	2400	2640	2832	2952
14.0	2520	2800	3080	3304	3444
16.0	2880	3200	3520	Now 3776	3936
18.0	3240	3600	3960	4248	4428
20.0	3600	4000	4400	4720	4920

Source: BofA Global Investment Strategy, Datastream

BofA GLOBAL RESEARCH

Blackrock is equally negative on equities in the short term and recently downgraded developed markets to underweight in its “2022 midyear outlook”, while stating: “see an increasing risk of the Fed overtightening”.

Blackrock envisages higher levels of inflation in the future as central banks vacillate between maintaining reasonable levels of growth and targeting higher inflation, which in turn will lead to shorter economic cycles and higher risk premia for bonds and equities.

Ned Davis Research sees supply chains easing and inflation peaking and thus envisages a soft landing with its analysis suggesting we are experiencing a cyclical bear market inside a secular bull market.

Ned Davis believes there is insufficient evidence a 1970’s secular bear market will play out but nevertheless remains underweight global equities and bonds, and overweight cash.

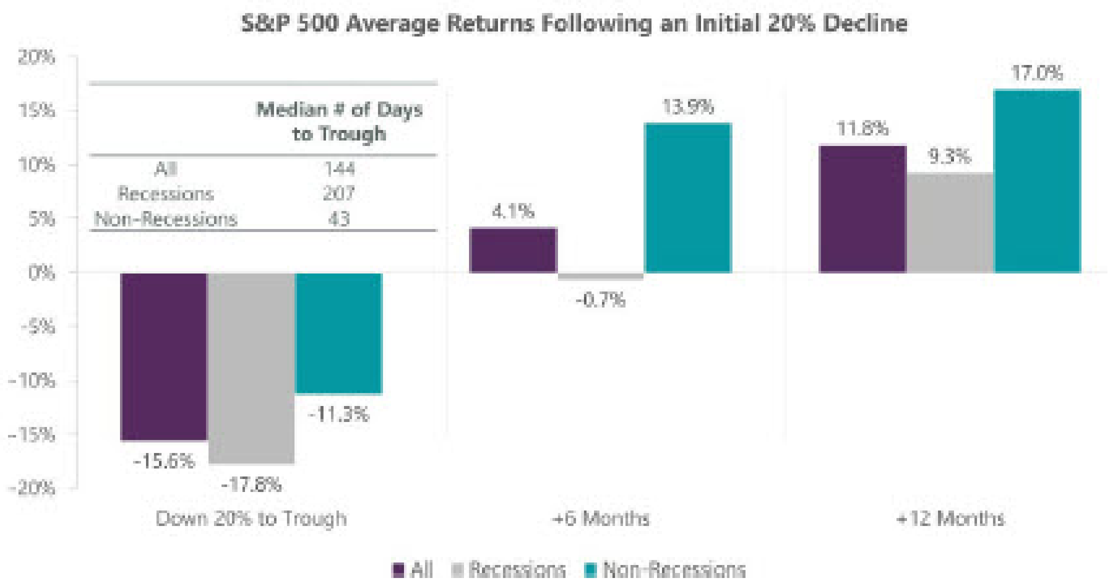
Ned Davis notes valuations have become reasonable, but earnings expectations continue to look too elevated with the risks of a severe recession still rising.

CrossBorder Capital is happy to share its views via Twitter, unabashedly tweeting “we are in the ‘not different this time’ camp”.

In plain terms, Crossborder Capital is saying aggressive Fed tightening will create a credit crisis or systemic shock (remember the high debt levels) which causes the Fed to pivot back to QE.

Historically Bear Markets are Good Buying Opportunities

Clearbridge also examined the returns post bear markets for investors, as shown in the next chart.



The conclusion: "regardless of whether we achieve a soft landing, or if the market low has already occurred, bear markets have historically been good entry points for long-term investors".

Reading the Tea Leaves

Without the magic tea leaves, investors can only operate with the information to hand.

We can use history as a guide to assist us in allocating our cash to shares on a risk adjusted basis that works for us.

Nothing lasts forever and this time might not be as different as what the perma bears are leading us to believe.

****

Danielle Ecuyer has been involved in share investing in Australia and Internationally for over three decades, both professionally and personally and is the author of 'Shareplicity. A simple approach to investing' and 'Shareplicity 2. A guide to investing in US stock markets'.

Technical limitations

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

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

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

WEEKLY REPORTS

The Short Report - 21 Jul 2022

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

Summary:

By Greg Peel

Week Ending July 14, 2022.

Last week the ASX200 dipped and recovered before a big fall the next day on weak commodity prices, followed by a Wall Street-led rally.

Last week I highlighted the number of gold miners in the 5%-plus shorted table, but there also continues to be action among the exotics.

Lakeland Resources ((LKE)), a lithium explorer/developer in Argentina, saw its shorts rise to 9.0% last week from 7.6%.

Last week brought the debut of Deep Yellow ((DYL)), a uranium explorer/developer with interests in Namibia, at the bottom of the table. While Deep Yellow has slipped back out again, it has been replaced by another debutant, 92 Energy ((92E)), which explores for uranium in Canada.

Seeing as you're wondering, 92 is uranium's atomic number.

Uranium producer Paladin Energy ((PDN)) remains 6.9% shorted.

Nothing much else to report this week, other than we're beginning to see some relief for the travel agents as travel demand returns. This could all switch again in a heartbeat, of course, with omicron rampaging on, but Flight Centre ((FLT)) shorts have been quietly reducing, now down to 15.3% from 16.0% the week before, and Webjet ((WEB)) has slipped to 7.5% from 8.0%.

Weekly short positions as a percentage of market cap:

10%+
FLT 15.3
BET 11.9
SQ2 11.3
NAN 11.2

No changes

9.0-9.9

EML, LKE

In: EML, LKE Out: RRL

8.0-8.9%

RRL, PNV

In: RRL Out: EML, WEB

7.0-7.9%

KGN, CXO, WEB, ZIP, CCX, ING

In: WEB, CCX Out: LKE, MSB

6.0-6.9%

PDN, SBM, VUL, MSB, CUV, BGL, IEL, ADH, TPW, OBL, MP1

In: MSB Out: CCX, PBH

5.0-5.9%

PNI, NHC, PBH, NEA, DEG, BOQ, AMA, APX, FFX, MFG, IMU, ANN, SYR, 92E

In: PBH, 92E Out: PME, DYL

Movers & Shakers

All covered above.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.3	0.3	NAB	0.5	0.5
ANZ	0.5	0.4	NCM	0.4	0.5
BHP	0.2	0.2	RIO	0.5	0.7
CBA	0.9	0.8	STO	0.2	0.3
COL	0.7	0.6	TCL	0.5	0.5
CSL	0.4	0.3	TLS	0.1	0.1
FMG	1.4	1.4	WBC	1.2	1.2
GMG	0.7	0.8	WDS	0.7	1.0
JHX	0.4	0.4	WES	0.7	0.6
MQG	0.4	0.4	WOW	0.5	0.6

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.

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

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

WEEKLY REPORTS

In Brief: E-commerce, Preferred Retail, Labour Supply & Banks

In Brief: Ecommerce stock picks, preferred retail shares, improvements to labour supply delayed & bank mortgage market competition.

Weekly broker wrap:

-Discretionary e-Commerce stocks: Short term pain, long term gain
-Barrenjoey's preferred retail exposures
-Australia's labour supply improvements facing delays
-Competition in the mortgage market

By Mark Woodruff

Short term pain, long term gain for discretionary e-commerce providers

While Canaccord Genuity acknowledges short-term risks and potential share price volatility for discretionary e-commerce retailers, a structural shift is responsible for the broker's bullish long-term outlook. The vast majority of the $332bn yearly retail spend in Australia is yet to migrate online.

In the meantime, these e-commerce retailers face a difficult FY23 due to lower consumer sentiment and a reallocation of spending to travel and services from durable goods, notes Canaccord. Those sourcing products globally are also expected to be negatively impacted by a lower Australian dollar.

While the broker incorporates a lower growth rate and margin profile for most stocks under its coverage of the discretionary e-commerce retail sector, most of these changes have already been captured by current share prices, which have fallen by -70% on average from 2020/21 peaks.

It's felt efficient retailers with a low cost-of-doing-business (CODB) should weather the storm. Those with a strong balance sheet may even take advantage of the downturn, while the analysts expect a wash-out of low-quality/high-cost providers.

The broker reduces its rating for Kogan.com ((KGN)) to Hold from Buy and slashes its 12-month target price to $4.00 from $6.00. Lower forecasts for Australia's largest listed e-commerce player incorporate lower private-label sales and lower margins, as well as lower growth for the marketplace business.

Even though the target price for Buy-rated Temple & Webster ((TPW)) falls to $5.20 from $8.50, Canaccord notes the company is the most well-capitalised ASX-listed e-commerce stock, with the best unit economics relative to peers.

Happily, 95% of Redbubble's ((RBL)) revenue is sourced offshore, which tempers the broker's lower FY23 and FY24 revenue forecasts, which still result in a $2.00 target, down from $3.00.

Forecasts for Marley Spoon ((MMM)) are relatively unchanged and Canaccord provides upbeat commentary around current high levels of growth and the substitution benefit of its Dinnerly meal-kits for customers wanting to reduce non-discretionary spending in a downturn. However, the application of a higher cost of capital to future cash flows lowers the target to $1.00 from $2.00 and the rating eases to Speculative Buy from Buy.

A higher cost of capital also weighs upon Toys 'R' Us ANZ ((TOY)) and the broker's target falls to $0.14 from $0.16. While a meaningful increase in market share is expected, the inventory-heavy business model and competitive gross margins are expected to slow growth.

Regardless of economic conditions, Canaccord believes revenue for Australia's largest tutoring platform Cluey ((CLU)) will grow. However, higher costs to fund growth are incorporated into forecasts, which reduces the Buy-rated broker's target price to $1.20 from $1.70.

Barrenjoey's preferred retail exposures

Barrenjoey's July retail survey suggests consumers are becoming more cautious due to cost of living pressures.

The survey revealed grocery prices remain the major cost of living issue, with petrol closing the gap fast.

Interestingly, some consumers may be in for a further surprise, as surveyed mortgage holders expect interest rates to increase by around 160 basis points over the coming year, whereas Barrenjoey notes money markets are pricing-in 235bps.

Despite the prospect of higher interest rates, the broker highlights renovation intentions are unchanged, and surprisingly, consumers see house prices at a higher level in 12 months. Also, an inclination to travel for work is adding to strong overall travel intentions.

As consumers resume overseas travel, Barrenjoey expects a net headwind for retail sales, as Australians spend more abroad than foreign tourists spend in Australia.

After taking these survey results into account, Barrenjoey prefers supermarket-linked shares over discretionary or non-food retail stocks.

Preferred exposures are Metcash ((MTS)), Woolworths Group ((WOW)), Nick Scali ((NCK)), Lovisa Holdings ((LOV)), Dusk Group ((DSK)) and Universal Store ((UNI)). Least preferred are Treasury Wine Estates ((TWE)), JB Hi-Fi ((JBH)), Endeavour Group ((EDV)) and Kogan.com ((KGN)).

Overall, the broker believes consensus FY23 expectations for consumer stocks are too high, due to a weakening macroeconomic backdrop and elevated earnings bases. Stocks considered to have the most earnings risk (in descending order) are Kogan.com, JB Hi-Fi, Treasury Wine Estates, Domino's Pizza Enterprises ((DMP)) and Harvey Norman ((HVN)).

Australia's labour supply improvements facing delays

Critical skills shortages across the economy continue to drive increased demand for offshore labour and skilled visas.

However, Jarden expects a slower rebound in migration will delay new labour supply and maintain downward pressure on the unemployment rate.

Australia's migration and population growth is likely to disappoint, according to the broker, unless material changes or reforms are made to Australia's migration and visa system.

Readers may recall the government's introduction of the priority skills list during covid. While the list has seen faster processing for some occupations, Jarden finds it has also resulted in broader delays and reduced the reliability of the overall system.

Visa processing turnaround times of 2-4 weeks prior to covid have now blown out to 6-8 months, note the analysts, due to a range of factors including labour shortages, new and inexperienced staff, manual processing and backlogs.

More positively, business travel is coming back strongly, while student and working holiday visas have also recently jumped after limits on working hours were lifted, points out Jarden.

Competition in the mortgage market

Jarden's new ranking tool, that tracks mortgage broker sentiment in the Australian mortgage market, finds Macquarie Group ((MQG)) is a clear standout on most measures, while Bendigo & Adelaide Bank ((BEN)) is performing best among the smaller lenders.

The Jarden Mortgage Competition Tracker is used in conjunction with a range of other independent data to create an aggregate view of competition in the market.

ANZ Bank ((ANZ)) remains the laggard and rates below average in all categories, according to the analysts. While turnaround times have improved, they remain above peer averages and the bank's mortgage broker net promoter score (NPS) is low by comparison to the larger lenders.

Macquarie Bank maintains a more than two-year lead over larger lenders in most categories, and is a clear winner on NPS, with National Australia Bank ((NAB)) and CommBank ((CBA)) close behind.

Recent mortgage broker feedback to Jarden suggested NAB's pricing had been out of market, which now shows up in the Competition Tracker results, while Westpac ((WBC)) exhibits improved (lower) pricing. CommBank is considered to maintain a strong overall position.

In the very competitive smaller-lender part of the market, the Competition Tracker reveals Bendigo & Adelaide Bank and ING Group have been the best performers, though Suncorp Group ((SUN)) is rapidly improving.

For non-bank lenders in general, Jarden sees shorter turnaround times and a better NPS performance compared to the major banks.

ABS data show the non-majors and non-Authorised Deposit-taking Institutions (ADI) have recently been taking market share, while the broker observes a decline in fixed rate lending has seen major bank share of new lending fall by around -3% over the last year.

TREASURE CHEST

Treasure Chest: Valuation Appeal For Ansell

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. Macquarie upgrades its rating for Ansell to Outperform from Neutral on a favourable outlook.

By Mark Woodruff

Whose Idea Is It?

Analysts at Macquarie

The subject:

Macquarie sees a favourable risk/reward outlook for Ansell ((ANN)) at the current share price and upgrades its rating to Outperform from Neutral.

Apart from potential upside from acquisitions, the broker anticipates several factors will support improved earnings growth from FY24, for the provider of health and safety protection solutions.

These factors include a degree of resilience during periods of slowing growth, particularly for single use and exam solutions (SBUs), explains Macquarie. In addition, there is expected to be progress in relation to strategic initiatives and recent capital investments.

Moreover, the broker's current forecast (and consensus) already assumes headwinds for near-term earnings growth, as covid-related demand unwinds in the second half of FY22 and FY23.

A solid balance sheet and leverage to a weaker Australian dollar assists Macquarie's investment thesis, as does valuation appeal. The current 12-month forward consensus EPS multiple is estimated to be at a -29% discount to the ASX200 Industrials index, compared to five- and ten-year discounts of -9% and -6%, respectively.

Valuation was also the reason Ord Minnett upgraded its rating for Ansell to Buy from Accumulate, just over a week ago.

Meanwhile, at the beginning of July, Morgan Stanley noted that while price earnings multiples had generally contracted for the Australian Healthcare sector, they remain above the levels when the Australian 10-year bond yield was last around 4% in 2013.

As a result, the broker looked favourably upon stocks where the growth outlook was better than in 2013, or where EPS certainty was high. For Ansell, it was felt the low multiple at the time provided compensation for any EPS risk involved, and the Overweight rating was maintained.

More info:

In early June, Credit Suisse downgraded its rating for Ansell to Underperform from Neutral and lowered its target price to $24 from $25. In addition to headwinds from a higher SBU cost inventory, higher raw material prices were cited as another reason FY23 earnings would be negatively impacted.

The broker noted raw materials account for around 55% of the company's cost of goods sold (COGS) and key raw material prices for butadiene, acrylonitrile and cotton had increased year-on-year by 82%, 15% and 65%, respectively, since 2021 lows. The key inputs into nitrile latex include butadiene and acrylonitrile.

At the end of the first half of the financial year, Credit Suisse estimated the largest raw material category was nitrile latex at around 34%, and the combined nitrile and natural rubber raw materials then represented around 40% of the raw material mix.

However, Macquarie now expects easing cost of goods sold should be incrementally positive for the company, and notes prices for nitrile latex have eased from peak levels in recent quarters. The broker increases its target price for Ansell to $27.85 from $27.65.

The FNArena database has six broker ratings with four Buy (or equivalent) ratings, one Hold and one Underperform rating. The average target price of $29.64 set by brokers suggests 21.3% upside to the latest share price.

TREASURE CHEST

Treasure Chest: Tough Luck For Integral Diagnostics

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. JP Morgan expects Integral Diagnostics has a tough couple of years ahead and initiates coverage with an Underweight rating.

Whose Idea Is It?

Analysts at JP Morgan

The Subject:

Integral Diagnostics ((IDX)).

The long-awaited covid-recovery expected for Australia's number four largest diagnostic imaging provider, Integral Diagnostics ((IDX)), is slow in coming, as consumers, dispirited by successive rounds of covid lockdowns and long elective wait-lists, prove sluggish to return.

It is a situation exacerbated by covid staff absenteeism.

Integral Diagnostics is being squeezed on three fronts: volume, rising costs, and limited pricing power, which is crunching margins – a big fall for a company that once delivered some of the highest imaging margins in the industry, notes JP Morgan.

This squeeze should temporarily trump the strong positive fundamentals underpinning the stock, such as the mid-single digit growth demand for imaging; an ageing population; an expanding range of imaging; and a large backlog of demand.

Meanwhile, inflation-indexed payments of 1.6% in FY23 from the government are unlikely to match CPI estimates of 5%.

JP Morgan now expects Integral's recovery to be protracted as labour shortages from covid absenteeism continue as infections grow a-pace.

The broker expects growth will increase late in FY22 but says nearly a year of growth has been lost and doubts Integral's growth will return to former levels until FY24.

Margin growth is expected to lag volume growth as cost growth remains an issue.

Company Specific Challenges

Integral Diagnostics also has its own demons to deal with relative to peers.

JP Morgan notes Integral experienced the sharpest margin erosion relative to peers, and sheets this back to referral losses in New Zealand to newly established self-referring practices.

The broker says Integral’s retention of radiologists is also at risk given an estimated 35% are remunerated partly through a shareholder program, which has become a less appealing prospect in a tight labour market and falling share market.

Also, the longer the recovery is protracted, the more time Integral’s competitors have to invest in similar technologies and play catch up, reducing the company's point of difference, and forcing its own capital-expenditure requirements to rise, notes the broker.

On The Upside

JP Morgan acknowledges that AI and teleradiology may boost productivity and offer radiologists greater flexibility, but doubts this will hold sway in the near term.

Many observers agree, expecting outside of staff retention, it will make little difference given it is unlikely to impact demand in the light of an overburdened hospital system which is likely to further discourage an ever-lengthening wait list for elective surgery in order to free up hospital beds.

The MRI licensing rules should also act as barrier to entry to competitors, and while deregulation is on the cards over the next decade, the broker doubts the government is in a rush. Integral also operates in less competitive states.

JP Morgan’s forecasts sit well below consensus. The broker’s EPS forecasts fall -16.4% for FY22 and it has commenced coverage ("initiation") with an Underweight rating and $2.65 target price.

Ord Minnett white-labels JP Morgan research and recently re-initiated coverage with a Lighten rating and similar price target.

Integral Diagnostics listed on the ASX in late 2015 and its shares performed well up until mid last year with the global pandemic in 2020 leaving but a short-term blip in what seemed a continuous up-trend.

That trend seems to have broken since and the shares have gradually, but persistently, eroded in price towards $2.88 today (from more than $5 a year ago).

More Info:

Wilsons also recently downgraded Integral Diagnostics to Market Weight from Overweight and cut the target price to $3 from $5, based on weaker Medicare data.

Wilsons noted a protracted recovery weighs against the company's strengths of higher operating margins, M&A execution and brown and greenfields orientation, which tend to shine in optimal industry conditions.

Other brokers still hold a positive bias.

Goldman Sachs released a Buy rating and $4.20 target price as at July 11, believing the company's AI algorithms should increase productivity, helping mitigate the near-term shortage of radiologists.

Morgan Stanley last updated its coverage on July 5 and holds an Equal-Weight rating and $3.51 target price, noting May Medicare data showed signs of an early recovery.

FNArena's Stock Analysis shows a consensus price target of $3.84, suggesting considerable upside for the shares, but three of the five brokers haven't updated since May. The two most recent updates (JP Morgan and Wilsons) have a negative slant, with a warning undertone.

FNArena monitors seven major stockbrokers daily, but JP Morgan and Wilsons are not included in these seven, but Ord Minnett is included.

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

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

RUDI'S VIEWS

Rudi's Views: Pre-August Observations

In this week's Weekly Insights:

-Pre-August Observations
-Reporting Season: Early Signals
-ASX/S&P Index Rebalance Predictions
-Conviction Calls
-All-Weather Model Portfolio
-FNArena Talks

By Rudi Filapek-Vandyck, Editor FNArena

Pre-August Observations

To borrow a famous quote from Winston Churchill and make it my own:

You can depend upon the share market to do the right thing. But only after it has exhausted every other possibility.

And so it is with great delight that I have been witnessing the return of buyers to share prices in some of the highest quality and resilient business models listed on the ASX. Think CSL ((CSL)), Cochlear ((COH)) and ResMed ((RMD)), but also Amcor ((AMC)), TechnologyOne ((TNE)) and Woolworths ((WOW)).

Both analysts and investors might at times find it difficult to warm towards these High Quality stalwarts, usually because the valuation never looks as attractive as for lower quality, smaller cap and cyclical companies, but it is my observation when times really get tough and uncertainty dominates the broader picture, these are the Go-To companies that will stabilise and rise first amidst turbulent and volatile times.

Always difficult to pinpoint exactly when that moment arrives, but in 2022 it seems to have arrived in early June, just before share prices for the likes of BHP Group ((BHP)), Woodside Energy ((WDS)) and Fortescue Metals ((FMG)) started to break down. Take a look at share price graphs for the likes of CSL, Cochlear, Woolworths and TechnologyOne and admire how strong the rebound is that has occurred over the past six weeks.

I think we can now conclude the market is comfortable with valuations for these High Quality companies following this year's general de-rating as bond yields had to reset from exceptionally depressed yields. At the same time, with the risk of an economic recession looming, or at the very least a significant slowdown, the apparent rebound is equally the market's call on (much lower) earnings risk.

In simple terms: amidst a multitude of risks surrounding the upcoming August reporting season, as well as the eight months ahead of next year's February season, where do we all think the greatest risks lay for downgraded earnings and reduced dividends?

I think the market is showing us where the risks are the lowest.

****

Traditionally, a recovery in share prices of CSL & Co marks **Phase One in the equities market recovery**, so which sectors might be up next?

With a rare exception of, maybe, coal prices, I continue to see large question marks obfuscating the outlook for iron ore, base metals, oil & gas, precious metals, EV battery materials, steel and most other cyclicals.

Serious questions remain about what exactly is happening inside the Chinese construction industry; what will happen in Europe during the upcoming winter; or the duration of the strength and direction of the US dollar.

These unanswered enigmas all represent additional risks on top of **the one key question in mid-2022: how recession-proof exactly are those businesses?**

Note: even if there won't be a recession anytime soon, it is most likely that question will still be asked by nervous investors.

My focus thus naturally shifts towards technology and smaller cap growth companies, as well as to the local REITs. All three market segments have been trading under serious duress this year, as first excessive exuberance needed to be priced-out and then the natural de-rating kicked in from higher bond yields.

There is one caveat that needs to be highlighted: that optimism that has been creeping into share markets these past weeks is based upon a general belief that inflation will peak soon, as well as that bond yields will mostly trade sideways from here onwards, i.e. the peak in 10-year bond yields is well and truly past us; at least for the time being.

These are all-important requirements for those three sectors to experience a sustainable recovery from beaten-down share prices. Plus, of course, the next question that will be asked is: how recession-proof exactly are those businesses?

If ever anyone has the feeling that investing during a raging bull market is so much easier, well, that feeling is probably 100% correct.

One problem with local technology and smaller cap growth companies is most have a rather limited track record and, with exception of the exceptionally brief recession of 2020, there's no reference or framework for how these business models operate when confronted with economic stress tests.

Which is probably why, being a cautious investor, approaching the upcoming reporting season with a great deal of caution seems but the logical thing to do. And that's assuming August does not come too early in today's cycle, leaving key questions for the next eight months.

Either way, I am of the belief that, here too, the market is providing investors with valuable clues as to the various risk profiles of companies that are either technology or promising high growth small cap opportunities.

I am generalising now, but there should be very little surprise as to why shares in TechnologyOne have not nearly fallen as much as, say, Kogan ((KGN)), Nuix ((NXL)), Redbubble ((RBL)) or Zip Co ((ZIP)), and they have been quicker in staging a noticeable recovery.

Mr Market can be a highly unreliable weather vane, and the next tantrum might be but another economic update away, but my experience is that when it comes to separating the wheat from the chaff, i.e. identifying which companies are High Quality and which ones are certainly not, Mr Market's communication is often loud and clear, and correct.

Note, for example, how both Objective Corp ((OCL)) and WiseTech Global ((WTC)) issued a positive market update in July. Yes, of course, one can potentially make a higher return out of a share price that has fallen a lot further, but what is the real trade-off when adjusted for the risks involved, as well as when taking a longer-term view?

Lower quality fly-by-nighters tend not to perform well over a longer period of time. This is the confusing message the share market throws at bargain hunters: it does not account for the risks involved.

Having said all of that, certainly following the firm bounce in share prices since early June, there should now equally be a degree of caution when buying into the local High Quality names. If they're in the portfolio already, congratulate yourself. Your decision from the past has once again been vindicated.

But as also indicated by current valuations and price targets for those stocks, buying now runs the risk of low returns in the immediate, and there always remains the risk for disappointment in August, for higher bond yields, or for inflation to stick around for longer.

This is the share market, remember? Other opportunities will present themselves.

Some of the most obvious opportunities, it would seem, are among local REITs. Just about every sector analyst has conducted a general review of the sector over the past two months, and not one has drawn a different conclusion to most ASX-listed REITs seeming undervalued.

The one requirement for this sector to genuinely and sustainably close the gap between share prices and intrinsic valuations is for investors to become comfortable with the outlook for bond yields (thus: inflation and central bank policies), about which we can all make various forecasts, but this can take a while, still.

Since most REITs are, operationally, in good health, which also applies to balance sheets, investors can opt for the waiting game, while confidently cashing in relatively high distributions to shareholders.

Exactly how to play this sector is very much dependent on personal views and preferences. Sector heavyweight Goodman Group ((GMG)) is usually singled out as a lower-risk exposure, but it also pays out a rather low yield in distributions. See the earlier remarks about quality and risks, which also applies to REITs.

Potentially higher returns, including a higher yield in distributions, can be derived from owning Charter Hall ((CHC)) or Qualitas ((QAL)), while the likes of HomeCo Healthcare & Wellness REIT ((HCW)), HomeCo Daily Needs REIT ((HDN)) and Charter Hall Retail REIT ((CQR)) look well-undervalued.

Some in this sector, like Waypoint REIT ((WPR)), are now closing the gap with analysts' targets rather rapidly.

Investors should, however, not ignore that parts of the sector might still have vulnerable balance sheets combined with the potential for disappointing operational performances. Macquarie in a recent report highlighted Scentre Group ((SCG)), Charter Hall Long WALE REIT ((CLW)) and Dexus Industria REIT ((DXI)) within this context.

JP Morgan, on the other hand, has nominated GPT Group ((GPT)) as its least preferred A-REIT because of low interest rate hedging, significant vacancies inside the Office portfolio and a higher geared balance sheet, ahead of a likely devaluation in asset values.

****

The **FNArena-Vested Equities All-Weather Model Portfolio** owns shares in Goodman Group, as well as in HomeCo Healthcare & Wellness REIT, alongside Super Retail Group ((SUL)) and Telstra ((TLS)) for their reliable and dependable dividends.

****

The various selections available to paying subscribers via the **All-Weather Stocks section on the website** have seen a few changes in light of this year's changing share market context.

No longer represented under the label of Emerging New Business Models are Fineos Corp ((FCL)), Megaport ((MP1)) and Symbio Holdings ((SYM)). This is not to say these beaten-down share prices cannot become a profitable investment in the months or years ahead, but I believe their respective risk profiles no longer justify inclusion.

On the other hand, earlier this year I did add Steadfast Group ((SDF)) as a Potential All-Weather Performer, and I have since also added Endeavour Group ((EDV)) and Objective Corp ((OCL)) to the same selection.

WiseTech Global ((WTC)) has made a come-back under Emerging New Business Models. It was once removed due to bad governance practices which I hope are now well and truly in the past.

The selection I umm and ah the most about are local Dividend Champions, which is now officially under review.

Paying subscribers have 24/7 access to all lists, personally curated by myself, on the dedicated All-Weather Stocks section on the FNArena website with the explicit warning that none of it is investment advice.

Reporting Season: Early Signals

The local reporting season hasn't genuinely started just yet, but early signals mimic initial reports from the Q3 reporting season over in the USA: investors should prepare for heavy swings either way.

One of the disappointing market updates in Australia stems from Jumbo Interactive ((JIN)) as the online reseller of lotteries was believed to be poised for a strong performance in August. Instead the share price got dumped on Friday. Higher costs and lower margin sales seem to have been responsible for the miss in guidance.

But there's a twist in the Jumbo story. With just about every analyst maintaining the longer-term, structural growth story remains intact, investors holding large swathes of cash would be hoping there will be more Jumbo experiences over the weeks ahead with companies that have their longer-term interest.

In the same vein, analysts thought Rio Tinto's ((RIO)) quarterly production report was weak and that share price would probably have fallen more on the day if it hadn't already weakened that much over the month past. Rio Tinto's weak quarter follows a number of soft updates and operational disappointments from smaller cap producers over recent weeks.

Credit Suisse, in its update on Sandfire Resources ((SFR)), highlighted a different kind of risk that resides within the smaller cap resources sector with the FNArena Broker Call Report stating on Friday:

"*The broker raised concerns around Sandfire Resources's cash generation, and ability to service debt in the next 6-12 months, and believes the company is likely to suffer funding challenges if commodity prices continue to decline*."

To stay with the swings and roundabouts narrative, a number of companies surprised in a positive sense throughout the week past, including Data#3 ((DTL)), Eager's Automotive ((APE)), Viva Energy ((VEA)), and WiseTech Global. Given where share prices are, generally speaking, those share prices are likely to be rewarded.

And herein lays the key challenge for investors over the coming six weeks: there will likely be an oversized number of disappointments, but not every "miss" is a bad thing. Similar to earlier in the year ahead of the February reporting season, everyone who owns shares must accept that "misses" will occur, and they are simply not always predictable.

Add the CEO suddenly jumping ship at EML Payments ((EML)) and ANZ Bank ((ANZ)) buying the banking operations from Suncorp Group ((SUN)) and there might be enough surprise and excitement on offer this season to keep even the most stoic among us on their toes.

A healthy dose of cash reduces risk and offers opportunity, as does patience. Meanwhile, the public debate -globally- rages on about recession yes/no and central bankers continuing to tighten aggressively yes/no.

Nobody ever promised this was going to be a walk in the park.

ASX/S&P Index Rebalance Predictions

The next rebalancing of local share market indices is not due until September but this doesn't stop analysts at **Wilsons** already reflecting on and publishing predictions of which stocks might get booted out or included.

With some indices, like the ASX300. currently running below capacity there's anticipation September will see a noticeable catch-up with more inclusions than exclusions.

Wilsons is expecting 13 new members for the ASX300 in September, and given six vacancies this forecast only requires seven removals.

Most likely fresh inclusions, on Wilsons' assessment, are Boss Energy ((BOE)), Mincor Resources ((MCR)), Ebos Group ((EBO)), Neometals ((NMT)), Ventia Services Group ((VNT)), Grange Resources ((GRR)), Australian Clinical Labs ((ACL)), OFX Group ((OFX)), Maas Group ((MGH)), Macquarie Telecom ((MAQ)), Seven West Media ((SWM)), Arafura Resources ((ARU)), and Argosy Minerals ((AGY)).

Those believed will be booted out in September are: AVZ Minerals ((AVZ)), PPK Group ((PPK)), Nuix, AMA Group ((AMA)), BWX ((BWX)), Redbubble, and Dubber Corp ((DUB)).

The ASX200 will already see one change on Thursday this week when soon-to-be-acquired Uniti Group ((UWL)) is to be replaced with West African Resources ((WAF)).

Wilsons sees five more probable changes in September with all of Charter Hall Social Infrastructure REIT ((CQE)), Johns Lyng Group ((JLG)), Capricorn Metals ((CMM)), Genworth Mortgage Insurance Australia ((GMA)) and Sayona Mining ((SYA)) poised to replace AVZ Minerals, Zip Co, City Chic Collective ((CCX)), EML Payments and Life360 ((360)).

As far as the ASX100 goes, Wilsons is predicting one probable change with nib Holdings ((NHF)) as a replacement for Virgin Money UK ((VUK)).

It is also possible that Shopping Centres Australasia ((SCP)) replaces Tabcorp ((TAH)), while still an option, but at this stage labeled as "unlikely" are the inclusions of TechnologyOne and Charter Hall Long WALE REIT for which Star Group Entertainment ((SGR)) and ARB Corp ((ARB)) would have to lose their spot.

As per usual, there are likely no changes to be announced for the ASX50 or ASX20 with Wilsons ascribing an unlikely chance for replacement of respectively Lendlease ((LLC)) with Lynas Rare Earths ((LYC)) and of James Hardie ((JHX)) with South32 ((S32)).

Historically, any changes to the ASX200 have the largest impact as institutions often cannot own stocks that are outside of that index. Also, when a stock moves inside the top100 it officially becomes a large cap, meaning institutional small cap investors are forced to sell it in-line with their mandate.

Standard & Poor's is scheduled to announce the September changes on Friday the 2nd, to be implemented two weeks later, on Friday the 16th, after the close of the market.

Conviction Calls

Morningstar recently updated its Global **Equity Best Ideas** which saw the fresh inclusion of Berkshire Hathaway, but for the brevity of today's report, let's stick with the ASX-listed ideas.

Morningstar's methodology is heavily weighted to valuation, and on the assumption there is a price for everything, its collection of best opportunities can sometimes lead to some odd bedfellows (so to speak).

Hence, specifically for Australia and New Zealand, the following Best Ideas have been put forward:

Newcrest Mining ((NCM)), TPG Telecom ((TPG)), Kogan, InvoCare ((IVC)), G8 Education ((GEM)), a2 Milk ((A2M)), Woodside Energy, Magellan Financial Group ((MFG)), Westpac ((WBC)), Aurizon Holdings ((AZJ)), Brambles ((BXB)), Lendlease, WiseTech Global, AGL Energy ((AGL)), and Fineos Corp.

****

Morgan Stanley's Australia Macro+ Focus List consists of the following 11 holdings: Amcor, Computershare ((CPU)), CSL, Goodman Group, Macquarie Group ((MQG)), Orica ((ORI)), Qantas Airways ((QAN)), QBE Insurance ((QBE)), Woodside Energy, and Telstra.

****

Ord Minnett has highlighted the virtues of owning Telstra to its clientele, with Australia's number one telco sharply reducing debt on the back of asset sales and offering a rather steady-as-she-goes, non-discretionary growth profile at a time when many other businesses will be challenged.

Telstra shares have provided a total positive return of 6.9% over FY22 while the market overall ended with a negative return, points out the broker. Given Telstra's balance sheet is limited in franking credits, and more asset sales remain on the agenda, Ord Minnett is anticipating share buybacks will complement the juicy dividend over the coming years.

The combination of growing cashflows and buybacks might push up the annual dividend to 22c by FY25, reckons the broker. Ord Minnett estimates capital management at the telco could reach an additional $3bn over the next three years (FY25).

Telstra was included in the All-Weather Model Portfolio in early 2021 for exact those reasons, as the Portfolio always owns a number of reliable dividend payers.

****

With **smaller cap healthcare services providers** facing their most difficult trading environment in years, according to **Wilsons'** research, the broker has identified two favourites in Silk Laser Clinics ((SLA)) and Capitol Health ((CAJ)).

In contrast, Wilsons predicts Pacific Smiles ((PSQ)) and Integral Diagnostics ((IDX)) may struggle to re-rate back to the good old times.

****

The language is finding its way into stockbroker updates these days as witnessed by the following quote from a recent report by **stockbroker Morgans**:

"*We call out key all-weather companies we think are most capable of resisting cost inflation*".

Those 'All-Weather' companies, on Morgans' assessment, are Woolworths, Coles Group ((COL)), CSL, Amcor, REA Group ((REA)), AGL Energy, ALS Ltd ((ALQ)), Corporate Travel Management ((CTD)), Treasury Wine Estates ((TWE)), and PWR Holdings ((PWH)).

The broker's Best Ideas for commodities stocks are BHP Group, Santos ((STO)), South32, Whitehaven Coal ((WHC)), and New Hope Corp ((NHC)).

Companies identified for potential disappointment in August: APA Group ((APA)), Ansell ((ANN)), Star Entertainment, Bapcor ((BAP)), Ramsay Health Care ((RHC)), and Blackmores ((BKL)).

****

Emerging companies analysts at **JP Morgan** have nominated GUD Holdings ((GUD)) as their Top Pick and Flight Centre ((FLT)) as Least Preferred.

****

Analysts at stockbroker **Morgans** have nominated their favourites among **ASX-listed retailers**: Lovisa Holdings ((LOV)), Breville Group ((BRG)), and Universal Store Holdings ((UNI)).

****

Investors looking for a positive thesis from here onwards, you don't have to look any further than **JP Morgan**

strategist Marko Kolanovic:

"*While growth risks are elevated, our base case looks for an acceleration in global growth in the second half of the year, led by China, and a moderation in inflationary forces that should allow central banks to pivot*".

All-Weather Model Portfolio

Mid-year review & update for the All-Weather Model Portfolio - better than most, but still suffering a small loss over the twelve months past. Cash really was King over the months past.

https://www.fnarena.com/downloadfile.php?p=w&n=8D20B84A-B77F-4E15-E9990983A9D4BFE6

FNArena Talks

My presentation at the Australian Gold Conference (30 minutes):

https://www.youtube.com/watch?v=J7IzgE5eQ0k&t=4s

Podcast - Spark your F.I.R.E. (57 minutes) on this year's Bear Market and how to survive it:

https://podcasts.apple.com/au/podcast/chat-w-rudi-filapek-vandyck-fnarena/id1450103785?i=1000517106346

Peak Asset Management debate whether the bottom is in for this Bear Market (I am one of five participants, 63 minutes):

https://www.youtube.com/watch?v=aL4auOWWtUM

(This story was written on Monday 18th July, 2022. 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).

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

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

****

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

These Terms and Conditions of Use, and Disclaimers constitutes your agreement with FNArena Ltd with respect to your use of its FNArena website, its weekday news periodical, Australian Broker Call, as well as any other publications (including articles) FNArena may publish on its website, or anywhere else, from time to time.

Please read the contents of this page carefully as it contains important legal information and disclaimers. By entering and perusing the website, reading the Australian Broker Call, or, if you are subscriber, by entering the password protected part of the website, you acknowledge that you have read, understood and accept this agreement.

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

1. Reference to “FN Arena” and “FNArena” means reference to FNArena Ltd, its journalists, directors, other employees, affiliates, agents, associates and subsidiaries.

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

3. Reference to “we” or “us” is reference to FNArena.

4. Reference to “this website” or the “FNArena website” means reference to www.fnarena.com, and includes reference to FNArena’s weekday news periodical, Australian Broker Call, as well as any other publications (including articles) FNArena may publish on this website, or anywhere else, from time to time.

5. Reference to “news periodicals” means reference to FNArena’s weekday periodical, Australian Broker Call, as well as any other periodicals FNArena may publish from time to time on this website, or anywhere else, from time to time.

6. Reference to “publications” in this agreement means any material, including articles, published or put in print on the FNArena website, or anywhere else, whatsoever, and includes FNArena’s weekday periodical, Australian Broker Call, and any other periodicals FNArena may publish from time to time.

7. Reference to a “visitor” means, you, a visitor to this website, and includes a subscriber to Australian Broker Call as well as any other publications or periodicals FNArena may, from time to time, publish through its website.

8. FNArena is a media company which employs financial journalists to report financial news. FNArena’s journalists perform the required research and collect the information that is, ultimately, each day, published on this website and in FNArena’s news periodicals. As is obvious, the process by which the information is collected and delivered to you is a purely journalistic one and, therefore, the comments, opinions and recommendations FNArena reports on this website are not the opinions of FNArena or any of its journalist or other employees. FNArena is ONLY and specifically a

matter-of-fact reporter of industry signals suggesting price direction probability of some shares. FNArena simply delivers the information – it does not create it.

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

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

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

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

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

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

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

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

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

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

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

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

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

take responsibility for their quality, content or suitability.

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

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

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

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

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

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

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

29. All original content is the copyrighted property of FNArena.