WEEK 19

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Friday, 8 May 2020

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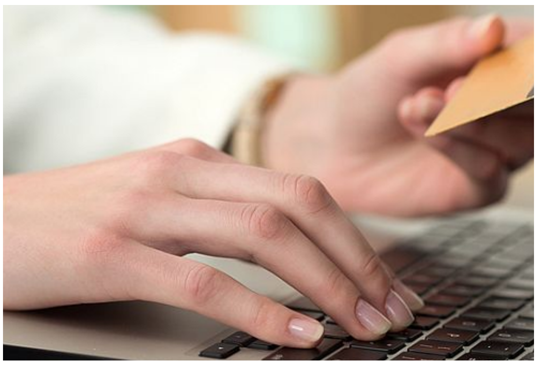

Rudi's View: Share Market Trends Will Be Tested

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AUSTRALIA

NextDC Fulfills Expectations, Now For M3

NextDC has signed a second hyper-scale customer for its M2 data centre, likely to propel the company into planning for M3 ahead of previous expectations.

-Accelerates the M3 investment decision
-Hyperscale customers looking to bring capacity online earlier
-Uncontracted capacity could be taken up quickly

By Eva Brocklehurst

Brokers have finally received the confirmation they were looking for since the company's first half result, as NextDC ((NXT)) signs up a second hyper-scale customer for M2 (second Melbourne data centre). This should underpin medium-term growth as the 6MW contract takes M2 contracted megawatts to 13MW and the total in Melbourne to 27MW.

The announcement of 12MW of new firm capacity and a further 33MW in options has surpassed the volume Canaccord Genuity assessed would be required over the second half of 2020 and would not be surprised if there is more to come, as the recent announcements have focused on Melbourne and there is capacity available in Sydney.

The broker acknowledges, six months ago, it feared M2 was a fast depreciating asset with little hyper-scale activity in evidence. **However M2 now looks to be sold out, if all options are exercised, and the focus is now on acquiring the site for M3.**

For context, Morgans points out it has taken just over two years to sell the amount in M2 that it took six years to sell in M1. The broker believes the two recent contract wins validate NextDC's expenditure to date on M2 and accelerate the M3 investment decision.

Goldman Sachs cites Alibaba as an example of the heightened demand for hyperscale space, as it announced US$28m in cloud investments in April. Enterprise demand could also accelerate as businesses look to address remote "home" workplaces.

Focus On Melbourne

The company's ability to win major deals in Melbourne was a key debate amongst investors, Morgan Stanley points out. Even as activity was picking up, feedback seemed to be signalling that Melbourne did not have the same cable connectivity as Sydney. This issue has been put to rest now.

Hyperscale leads retail and Morgan Stanley suspects this may the start of an acceleration in demand for space at M2. Data centre capacity takes time to build out, the broker explains and, if demand accelerates, uncontracted capacity could be taken up quickly.

As NextDC continues to face a positive industry backdrop with hyperscale customers now looking to bring capacity online earlier because of the pandemic, Ord Minnett finds further potential for both Melbourne and Sydney as data centres reach full capacity faster.

Morgans, too, has already factored in further contract gains into FY22 estimates but is more confident now about the earnings profile. Capital expenditure forecasts are increased accordingly, and this increases depreciation and lowers earnings per share forecasts.

The broker now assesses the investment case is more compelling as it is lower risk. Management has raised FY20 capital expenditure guidance to $340-380m, as it pulls forward 3MW of capacity to accommodate the new contract.

Ord Minnett suspects it will take some time to ramp up to full usage of the initial 6MW in the new contract and also assumes the ramp up in billing a slower than previously forecast. Still, the announcement pulls forward its forecasts by 1-2 years, increasing the internal rate of return estimate for M2.

The broker is encouraged that customers are finally making a move into the all-important Melbourne market, although the use of options on additional capacity means they are not yet 100% committed.

Valuation

Canaccord Genuity believes NextDC will be a beneficiary of long-term structural trends and retains a Buy rating. The broker, not one of the seven monitored daily on the FNArena database, points out NextDC has a **valuation substantially higher than international peers, but this is warranted** based on the large and visible growth outlook.

The broker raises the target to $11.00, principally on a reduced risk weighting attached to M2. Ord Minnett agrees the business deserves a premium in a soft macro economic environment. The current contract underpins revenue growth estimates already factored into FY22 and FY23. The broker marginally accelerates medium-term megawatt activation but still only incorporates M2 maturity in FY27.

Goldman Sachs reiterates a Buy rating, with a $9.70 target. The broker, not one of the seven, notes a high degree of expectation regarding this announcement, which comes post a $672m equity raising in April. At least one more large contract is outstanding, possibly in Sydney, and with two months remaining in the second half there is now upside risk to forecasts for FY20.

FNArena's database has five Buy ratings and one Hold (UBS). The consensus target is $9.65, suggesting 9.4% upside to the last share price. Targets range from $8.50 (Macquarie, yet to comment on the update) to $10.70 (UBS).

See also, Melbourne The Short-Term Key To NextDC on March 2, 2020.

AUSTRALIA

Is There A Slowdown Ahead For ResMed?

Brokers believe ResMed is reliant on pandemic-related ventilator sales offsetting any slump in the base sleep apnoea business.

-Ventilator sales expected to double in the June quarter
-Unlikely to offset the drop in revenue from sleep apnoea diagnosis
-Weaker global economic conditions likely to weigh

By Eva Brocklehurst

The coronavirus pandemic has boosted demand for ventilators and ResMed ((RMD)) has been a major beneficiary. However, the outlook is not completely positive. Management has reported double-digit declines in sleep apnoea diagnosis rates as sleep laboratories are closed.

The increase in home sleep testing will only provide a modest offset. As new patients account for about 50% of revenue, the downward pressure on earnings could be substantial.

ResMed has estimated a US$35m benefit from pandemic-related ventilator purchases in the March quarter but gross margins were -35 basis points below Ord Minnett's estimates, possibly signalling stronger sales in lower-margin regions.

Stockpiling measures and an ongoing response to the pandemic should mean a revenue uplift and UBS assesses ResMed has the ability to ramp up flow generator capacity, although input supplies for higher-end ventilators are constrained.

Over April ResMed was awarded a contract by the US health department for 2550 ventilators by July 13. The company produced 52,000 during the March quarter, although sales were lower. This represents a three-fold increase on normal production, Morgan Stanley points out.

Sales of these devices are expected to almost double again in the June quarter, countering an equally dramatic drop in revenue from the core sleep devices. UBS points out **diagnostic rates in sleep apnoea have declined in double digits in some areas** and relevant flow generators are likely to experience no growth in the short term.

Slowdown

Morgan Stanley's channel checks with US-based CPAP (continuous positive airway pressure) suppliers suggests, while demand for product in March was strong, there is an expectation that April and beyond will slow because of reduced doctor referrals.

Beyond this, Ord Minnett, too, expects much **weaker economic conditions across the world will weigh on any recovery. This is particularly the case in the US where individual health expenditure is more closely correlated with economic conditions**.

Mask re-supply and software revenue is less exposed to the issues as the bulk of revenue comes from existing customers. Software service sales are sticky and should hold during a recession but growth in new customers is expected to slow.

Macquarie notes a new telehealth video chat has been rolled out, allowing patients and physicians to view data and communicate virtually. Management expects this will reduce the need for a recovering patients to return to hospital for follow-up.

The long-term strategy and growth potential remains intact, Credit Suisse ascertains. The increased investment in platforms outside the hospital means the company can benefit from any behavioural shift after the pandemic has passed, amid greater demand for home health care.

Moreover, Wilsons asserts, in some respects, the pandemic may accelerate aspects of the company's respiratory care strategy that were already in play, such as the increased use of ventilators in the long-term and harvesting treatment data from those devices to optimise the economics of delivering care.

Diagnosis of sleep apnoea is under-penetrated on a global basis as is treatment of chronic obstructive pulmonary disorder. While ventilators sales may contract once pandemic-related purchases subside, UBS also expects growth as take-up of in-home therapy resumes for chronic indications.

Valuation

Ord Minnett believes the weaker earnings outlook is not reflected in the share price and downgrades to Lighten from Hold, and Macquarie agrees multiples are elevated, while the stock can retain its premium rating, in Morgan Stanley's view, as long as the market continues to believe upside in pandemic-related ventilators sales will offset any erosion of the base sleep apnoea business.

Goldman Sachs, not one of the seven stockbrokers monitored daily on the FNArena database, believes the trends warrant a premium valuation. Even excluding the pandemic-related growth, margins still expanded and earnings grew 47%.

The broker acknowledges the composition of ResMed's performance is more nuanced now but retains a Buy rating with a $27 target. Wilsons, also not one of the seven, has an Overweight rating and $29.36 target.

The database has one Buy (Morgans, yet to comment on the quarter), four Hold and two Sell ratings. The consensus target is $23.95, suggesting -1.3% downside to the last share price.

AUSTRALIA

April In Review: Highs & Lows, Plus Energy

Markets in April witnessed a surge on account of extraordinary fiscal and monetary measures, while the situation on the ground portrayed a dire picture

- ASX200 and S&P500 both posted highest one-month gains in decades in April
- Energy sector the surprising torchbearer while defensive stocks were laggards
-The rebound was led by fiscal and monetary measures, but is a correction due?

By Angelique Thakur

April - tale of highs and lows

April proved an intriguing concoction of highs and lows with deterioration in the global economic conditions and a furious surge in global stock markets going hand in hand.

It was a month full of surprises. WTI crude oil entered into negative territory for the first time in history, with futures contract owners effectively paying to have the commodity taken off their hands.

Analysts at UBS explain the extraordinary circumstance by pointing towards tight storage and pipeline capacity issues. They do think it could happen again.

Global markets rallied, in no small measure due to the unprecedented measures taken by the Fed. The S&P500 gained 12.8% posting the highest one-month gain since October 1974, while the Nasdaq rallied 15.4%.

The ASX200 climbed 8.8% throughout the month, incidentally its best month since 1992. Here the interesting tidbit is when measured in US dollar terms, the Australian index gained 16.3%, which is even better than the Nasdaq.

And gold, spurred on by further expansion of central bank balance sheets, surged 22.5% to US$1689/oz- its highest since 2012.

Energy the anomaly

Ironically the best performing sector, both globally and in Australia, was Energy. The sector ended up 24.8% in Australia, mirroring the 15.7% rise in the global energy sector while the go-to defensive stocks (read staples and utilities) lost steam in April.

The Energy sector surge locally was led by Santos ((STO)) and Oil Search ((OSH)), up 44% and 31% respectively.

Between hope and reality

How high can we go? The question will be on many an investor's mind after such a stellar performance in April.

Can we possibly go back to 7000 in Australia?

Analysts at JP Morgan have done the calculations and believe for the ASX200 to return to its February high Australian companies need to deliver earnings growth of 47% by 2021, also assuming a two-year average P/E of 15.9x.

In contrast, analysts at Macquarie expect FY20 EPS to fall by circa -15%, with the maximum decrease expected for banks and domestic industrials.

The analysts also consider the forward PE for ASX 200 (17.5x) abnormally high for a contraction, attributing this to Quantitative Easing and consequently, Macquarie expects a market correction in the near future.

Top gainers and losers

Afterpay ((APT)), up 66%, provided a business update mid- April highlighting year-to-date sales growth of 105%, in line with the first half.

Westfield shopping centres owning REIT, Scentre Group ((SCG)) surged 48.9%, helped by a new code of conduct and more certainty around lease agreements. Battered and bruised Boral ((BLD)), despite a gain of 47.3%, only came in third among the larger caps.

On the other side of the coin, Insurance Australia Group ((IAG)) fell -6.8%, followed by Whitehaven Coal ((WHC)) at -5.5% and ResMed ((RMD)) losing -5.2%.

Bucking the trend

The ASX Small Ordinaries climbed 14.3% in April with utilities bucking the trend as the best performing sector while staples continued to play spoilsport.

Mesoblast ((MSB)) rose a whopping 130% after the company's cell therapy Remestemcel-L was found to be extremely effective for covid-19 patients with respiratory distress syndrome.

Ardent Leisure Group ((ALG)), the worst performer in February, rose 61% after some states moved to reopen the economy in May.

AP Eagers ((APE)), auto dealerships with a strong balance sheet and ample liquidity, saw a rise of 57%.

Navigator Global Investments ((NGI)) was crowned the worst performer for the month, suffering a fall of -56% after withdrawing earnings guidance, while Metcash ((MTS)) fell -34% after raising $330m in fresh equity.

Capital raisings and a voluntary administration

Taken aback by the onslaught of covid-19, last month saw a noticeable number of companies raise capital across multiple sectors.

The list includes Bapcor ((BAP)), Charter Hall Retail REIT ((CQR)), G8 Education ((GEM)), Kathmandu ((KMD)), Lendlease ((LLC)), Metcash ((MTS)), Newcrest Mining ((NCM)), Oil Search ((OSH)), Ramsay Health Care ((RHC)), and numerous others.

On April 21, Virgin Australia went into voluntary administration after failing to secure a $1.4bn bailout from the Australian government. A potential rescue of 10,000 jobs and $1.2bn in customer ticket bookings is still feasible and the process instigated by the company administrators is ongoing.

And then there were the banks. They were due to release interim financial performance numbers.

ANZ Bank released results early on April 29, announcing a fall of -51% in profits mostly due to an impairment charge (read reserves for bad loans) amounting to -$1.67bn. The bank chose to defer its interim dividend.

National Australia Bank ((NAB)), on the other hand, paid out a 30cps dividend to shell shocked shareholders, but with the news also came the announcement of a fresh $3.5bn capital raising.

On the ground reality - A different tale altogether

A number of countries saw new infection rates drop and they are gradually planning to reopen economies. But the overall scenario continues to be grim with some nations experiencing a second wave of covid-19.

Overall, the macroeconomic backdrop deteriorated further in April, contrasting with the seemingly buoyant mood in equity markets.

JP Morgan’s Global Purchasing Managers Index plummeted to a record low of 39.4 with the Global Services PMI leading the fall. The eurozone was the worst hit, while China and other emerging markets saw some recovery.

In Australia, JP Morgan economists point out the tendency of the average Australian is to save, more so in the aftermath of a crisis. Hence JP Morgan fears a repeat reflex in the coming months, which will be a drag on the pace of recovery.

Australian GDP is expected to contract -33.5% in the second quarter, more than the -22% drop in global GDP, predicts the broker. The third quarter should provide some relief with a 6.6% gain predicted, lukewarm in comparison to the expected global bounce back of 34.3%.

Unemployment is set to rise to 11% in the second quarter, according to JP Morgan.

The NAB Monthly Business Survey reported the worst drop in confidence of -66 index pts. Profitability, capacity utilisation and forward orders have all been hit due to the lockdown and point towards weak activity in the coming months.

Conclusion

The unprecedented monetary and fiscal responses from central banks and governments globally has led to a market rebound in April when macroeconomic data pointed towards the huge economic cost of covid-19 led shutdowns.

Macquarie is cautious and considers the market to be vulnerable to a market correction, especially in case of a removal of the stimulus.

The broker advises investors to focus on building a quality portfolio, believing the market is likely to face a period of range bound trading with already high valuations restricting further upside.

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AUSTRALIA

Cautious Sentiment To Pull Down House Prices

Economists at Westpac warn a sharp fall in consumer sentiment is a bad omen for the housing market in Australia

-The Westpac Melbourne Institute Index of Consumer Sentiment has recorded the single biggest monthly decline in the history of the survey
-Additional questions in the survey indicate one in five workers have lost their entire wage income during the covid-19 crisis
-Westpac predicts -10% decrease in house prices before the end of 2020

By Danielle Austin

Economists at Westpac believe a drop in house prices by year-end in Australia is now inevitable, forecasting a likely -10% decrease.

Declining housing sentiment and confidence in the short-term Australian economy coupled with widespread income loss will take a toll on the Australian economy over the coming months, with Australia likely to suffer its first recession in nearly 30 years.

Consumer confidence has taken a hit as the financial impacts of the coronavirus crisis become more apparent, with results from the Westpac Melbourne Institute Index of Consumer Sentiment showing a -17.7% decrease in confidence during March, the steepest one-month decline in the 47-year history of the survey.

The index dropped to a low of 75.6, below the levels recorded during the global financial crisis and close to the recessionary lows recorded in the early 1990s, as the Australian economy is facing its first recession in nearly three decades.

The fall comes as economic impacts of the global coronavirus crisis take further impact. In response to the health pandemic, governments around the world have imposed shutdowns on travel and social activity and effectively banned many economic activities.

While the survey usually provides a good estimate as to consumer spending over the next three to six months, a lack of comprehensive post-virus spending data means the results may be a less useful guide than usual.

Although retail sales showed an 8.2% increase during March, this figure was overwhelmed by a more than 20% increase in stockpiling practices with basic food making up 40% of total sales for the month, not reflective of all retail sectors.

Consumers less willing to spend

Despite a $320bn coronavirus economic rescue package hoping to reinvigorate the economy, responses have so far shown the tangible impact of this package could be slow.

Consumers have indicated they are planning on spending less of their crisis benefits than they would have during the global financial crisis.

While during that time nearly two-thirds of benefit receivers spent all the money given to them, the survey indicates only a quarter of consumers plan on doing the same in 2020.

The survey did provide an indication that consumers expect the economic impacts of the coronavirus crisis to be temporary.

Near-term outlook indices showed consumers lack confidence in the strength of the economy over the next twelve months, with sentiment falling -31% compared to previous surveys. Confidence in the five-year strength of the Australian economy fell just -3.8%.

Sentiment to impact housing

One noticeable consequence of this lack of confidence is an eighteen-year low in housing sentiment.

Compared to the three-year high recorded less than one year ago, Westpac points out the March survey revealed the sharpest decline of the measure on record, and indicative of a -30%-40% drop in housing turnover over the next few months, despite further cuts in interest rates.

If correct, this will likely lead to the lowest turnover levels since the late 1980s.

According to Westpac, these figures suggest an inevitable price correction. Combined with income hits whose impacts are already reaching the housing sector, a price decline of -10% looks likely by the end of this year.

The survey also implied that one in five workers have lost their entire income during the crisis.

Additional employment questions revealed that of those employed in March, 7% had lost their jobs, while a further 14% had been temporarily stood down without pay.

Consumers on lower incomes appear harder hit, with 30% of those earning less than $40k per year reported having lost all income compared to only 16% of those earning over $100k per year.

Similarly, younger workers reported more incidences of income loss, with 42% of 18-24-year-olds reporting job losses or unpaid stand downs, unsurprisingly given that the highest rates of job loss came from the accommodation, cafe and restaurant sectors, reporting 47.5% job loss, as well as recreational services and retail.

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AUSTRALIA

Origin Energy Releases The Kraken

Retail platform Kraken is expected to improve Origin Energy's customer relations, although brokers suggest implementing the licence is not without risk.

-Substantial cost reductions expected from FY24
-Main issue is whether Kraken gives the company an "unassailable lead"
-Balance-sheet capacity not considered an issue

By Eva Brocklehurst

Origin Energy ((ORG)) has secured the assistance of Kraken, a retail billing platform that is expected to transform the customer experience, making it more transparent and personalised.

The company has acquired a 20% stake in UK-based Octopus Energy, which owns Kraken. Origin Energy will have an almost exclusive license in Australia for Kraken, as Hanwha Energy acquired the license in April 2019 and established its presence in NSW, South Australia and Queensland.

Origin Energy has committed to a staged consideration over four years of $507m. Kraken is expected to deliver pre-tax cost savings of $70-80m in FY22, increasing to $100-150m annually from FY24. Morgans assesses the company is taking a bold step, despite tighter cash flow, and upgrades to Add on the back of the cost reductions likely to emanate from the investment.

Yet Macquarie points out these cost savings come with execution risk and the **Kraken platform relies on uptake of smart metres to unlock the full value addition**. This is a hidden cost as new smart metres are more expensive.

There is also transition risk, because moving to new technology is a significant step-change for the company, despite Kraken having an operating presence in Australia. Origin Energy expects to become the lowest cost service provider in the Australian market but Macquarie expects other major energy suppliers will seek to realise similar cost benefits.

Replication

UBS interprets the stake as a "package" that came with the Kraken licence and therefore not indicative of plans to grow materially in the UK, calculating the consideration is expensive relative to recent UK transaction multiples, as Octopus Energy is currently making a loss. Still, provided risks are managed and the platform cannot be easily replicated, the transaction should be accretive, although not positive for free cash flow until FY24.

The main swing factor for Citi is replication and whether Origin Energy can attain an "unassailable" position in its cost to serve the Australian energy retailing market. This may be possible initially, but not forever and the broker assumes synergies are offset by margin implications as other retailers improve capabilities over time.

Returns could also be jeopardised by poor implementation, with Citi calculating a $100m cost increase and one-year delay would reduce the valuation uplift to 7% from 9%.

There could be other upside opportunities besides the cost savings. The equity interest, UBS points out, could provide contracted licensing revenue and/or retail revenue along with additional revenue from new products supported by the Kraken platform.

Balance Sheet

While Origin Energy has the balance sheet capacity to fund the partnership, UBS notes stresses could arise if oil prices stay below US$30/bbl in FY21. Origin Energy has indicated asset recycling can support the balance sheet if necessary.

UBS expects non-core assets will be the focus, although sales within APLNG could be considered, while Citi doubts a buyer exists for a minority interest in APLNG and suggests non-core asset sales in energy markets are more likely.

Citi is not concerned about the company's creditworthiness, expecting existing liquidity can repay the $1bn maturity in November, also assessing Origin Energy could refinance at a lower cost of debt if necessary.

The broker assumes Origin Energy raises $1bn in new debt in the first half of FY21, given the acquisition and a period when APLNG will probably be in cash lock-up. Moreover, investors should be encouraged that names such as Transurban ((TCL)) APA Group ((APA)) and Telstra ((TLS)) have raised substantial amounts in eurobonds in recent weeks, a market which Origin Energy has previously tapped.

FNArena's database has five Buy ratings and two Hold. The consensus target is $6.64, signalling 19.4% upside to the last share price. The dividend yield on FY20 and FY21 forecasts is 4.8% and 4.4% respectively.

AUSTRALIA

KFC, Taco Bell Deliver For Collins Foods

The trading performance of Collins Foods has exceeded broker expectations, amid robust consumer engagement with KFC Australia and despite a period of severe restrictions.

-Early beneficiary of the easing of government restrictions
-Food court service remains a drag but should improve in coming months
-Collins Foods unlikely to breach debt covenants

By Eva Brocklehurst

Fast food has delivered for Collins Foods ((CKF)) during the pandemic lockdown, as the company experienced relatively small reductions in same-store sales across its Australian KFC franchise. Furthermore, trends have started to improve in Europe. During the final weeks (March 30 to May 3) of the company's FY20, same-store sales in KFC Australia were down only marginally, at -0.9%.

Brokers note strong consumer engagement with KFC Australia, which is around 80% of revenue, and Taco Bell have driven most of the improvement. Taco Bell sales have recovered to pre-lockdown levels, Wilsons points out, and this is impressive, considering the business has a smaller exposure to drive-through sales.

Meanwhile KFC Australia, Germany and the Netherlands may have been constrained by the lockdowns, but the network has been an early beneficiary of the easing of government restrictions as people head back to work and grab a KFC on the way home.

UBS assesses the stock's multiples are not overly demanding, amid further opportunity for store expansion, and upgrades to Buy from Neutral with an $8.95 target. The broker attributes the company's impressive resilience to a continued focus on safety of delivery/takeaway and expects further benefits from domestic car-based holiday activity.

UBS notes conditions in Europe for KFC and Sizzler may be challenging but **KFC Australia remains the jewel in**

the crown, representing 97% of estimated FY20 operating earnings (EBITDA).

Normalising for food courts, which have suffered from significant declines in shopping centre foot traffic, same-store sales for the network outside of KFC Australia, were up 4.0%. KFC Germany has improved to a decline of -28% in the last five weeks, from -50%.

In the Netherlands, sales remain down around -40%, affected by in-line restaurants in city centres and temporary closures of Sizzler. Sizzler, while experiencing a significant fall in sales, has now implemented takeaway and home delivery.

Margins are affected by operating leverage on fixed costs, particularly for KFC Europe, but Wilsons considers the Collins Foods valuation attractive and expects significant earnings growth, maintaining an Overweight rating and $8.63 target.

Quick Service Resilience

Consumers, Morgans suggests, have adapted quickly to the removal of dine-in restaurant options, and this is more than offset by takeaway/drive-through/delivery. The broker, retaining an Add rating and $8.17 target, expects food court sales will continue to be a drag but as shopping centres re-open this should improve in coming months.

Queensland, the largest Australian state for Collins Foods, has already relaxed some measures over the past weekend which means there should be a noticeable improvement in trading. Morgans highlights that quick-service restaurants have historically been relatively resilient through various economic cycles and are therefore protected somewhat in the event of a recession.

The trading performance has exceeded CLSA's expectations, which subsequently removes a short-term risk to the balance sheet, and the broker reiterates a Buy rating with a $9.30 target.

The **incremental improvement in sales and reduced risk of Australia-wide closures mean the likelihood of an equity raising has diminished** and UBS agrees Collins Foods is unlikely to breach covenants, estimating FY21 operating earnings would have to fall by around -28% in order to do so.

AUSTRALIA

St Barbara Faces Sovereign Risk At Simberi

St Barbara's Simberi sulphides project has progressed to the final feasibility stage, but enhanced economics are highly dependent on the PNG government retaining its current mining act.

-Mine life and costs improve with the updated pre-feasibility study
-Final investment decision not expected until the March quarter
-Risk that St Barbara ends up with a gold "ore gap"

By Eva Brocklehurst

Simberi is turning out to be a larger and better gold mine for St Barbara ((SBM)) but this is highly dependent on proposed changes to the PNG mining act being watered down.

The company has updated the pre-feasibility study which reveals an 80% increase to life-of-mine production over a longer 13-year life. All-in sustainable cost (AISC) estimates of US$920/oz are also better than the prior estimate.

This is a more attractive set of numbers compared with the 2016 study, Citi acknowledges, although finds it hard to assess where the cost reductions will come from. The broker suspects St Barbara will need to re-finance and draw down another $100m to fund the project.

St Barbara has chosen to use existing infrastructure, producing a concentrate in order to avoid the higher expenditure and operating risk of downstream refining. The concentrate is low in arsenic, which may make it attractive to smelters in order to improve gold payability in copper concentrates, in Citi's view.

Simberi sulphide will progress to a feasibility study which will include further refinements to capital expenditure and operating estimates, expected to be completed by the end of 2020. Environmental and social impact permits remain necessary before the company can progress, expected also by December.

Credit Suisse's calculations generate a value for Simberi of $455m or $0.65 per share on a 100% basis and $341m or $0.49 a share on a risk-adjusted basis. Failure to secure acceptable mining terms would reduce the value by two thirds.

Citi asserts the chances of the timelines slipping and risks to delivery are likely to weigh on sentiment and valuation, noting the final investment decision is not expected until the March quarter 2021.

Construction will take two years, which means St Barbara should be able to maintain its current production at around 400,000 ounces per annum in the medium term, even if Cochrane Hill at Moose River is delayed.

For the first time, Citi incorporates the Simberi sulphide into its valuation, with a 50% risk weighting, for a value of $0.41 per share. Morgan Stanley anticipates the eventual construction will diversify the company's gold production to three low-cost, long-life sites. No value is included for the Simberi sulphide so there is upside to that broker's numbers.

PNG Mining Act

Clarity is still required on whether the special mining lease terms will enable grandfathering to 2028 and also whether proposed changes, which Credit Suisse describes as "punitive", to the mining act are forthcoming.

St Barbara is unequivocal about the proposed changes in the draft rendering Simberi sulphide uneconomic. The proposals include a new levy on the disposal of tailing & waste and a fourfold increase to royalties.

Timing on these issues rests with the PNG government which indicates the timetable for the project could be at risk as well as the economic viability. The pre-feasibility estimates assume fiscal terms remain as per the current special mining lease.

Citi anticipates the project will be grandfathered but notes the company still needs a timely decision from the PNG government on any changes before making its final investment decision.

There is a risk that St Barbara ends up with an "ore gap" as the oxide production finishes ahead of the sulphides commencing. While there are additional oxides available from sulphide reserves, Citi points out these do not make sense on a stand-alone basis. The current mine plan for oxides extends to FY22.

FNArena's database has three Buy ratings and two Hold for St Barbara. The consensus target is $3.27, suggesting 30.3% upside to the last share price.

AUSTRALIA

Headwinds Loom For JB Hi-Fi

JB Hi-Fi has had a stellar couple of months as consumers stock up on goods related to the home but this is likely to fade as the realities of higher unemployment and a softening housing market emerge.

-June trading to be of heightened interest as tax year ends
-Caveat to a better outlook is the prospect of additional bouts of infection
-Online sales growth likely to accelerate regardless

By Eva Brocklehurst

JB Hi-Fi ((JBH)) is in a purple patch as the pandemic lockdowns send consumers scurrying to snap up computers, TVs and breadmakers, but will it last? Citi points out both JB Hi-Fi and The Good Guys gained market share in the March quarter as their growth rates were twice the rate of industry growth.

Like-for-like sales growth in the March quarter was 11.3% at JB Hi-Fi and 13.9% at The Good Guys and the company has flagged strong sales continued in April and early May. Still, several brokers expect this will slow down materially over the next few quarters as at-home consumption fades and the realities of higher unemployment and a softening housing market emerge.

Continued strength in April and early May suggests the uplift associated from entertaining, learning and working from home was more substantial than Morgan Stanley had anticipated previously and this is also a positive read for Harvey Norman ((HVN)), with both stocks expected to trade strongly on the back of JB Hi-Fi's update.

However, Macquarie assesses the demand which is currently driving sales will moderate as the economy softens. Consumer categories that benefited during the lockdown are likely to give way to others as the population moves around more freely. In that way, the broker prefers Harvey Norman because of its property portfolio.

To further strengthen liquidity, JB Hi-Fi has added a $260m short-term debt facility, which is not likely to be drawn on at the present time. The company has closed three airport stores and seven CBD stores, redeploying its staff across the network. All The Good Guys stores remain open. NZ stores have been closed since March 26 while online and commercial business has resumed since the restrictions were relaxed.

Morgans assesses June is a key trading month and will be of heightened interest this year as it has been difficult to determine just how much demand is yet to be met. Credit Suisse is also interested in how business expenditure will evolve over May and June, given it is the end of the tax year. The broker maintains forecasts for like-for-like sales growth at JB Hi-Fi and The Good Guys of 10% and 5%, respectively, in the fourth quarter and flat gross margins in the second half.

Citi expects fourth quarter sales growth of 5.8% and 4.0% respectively for the two brands. While this is a marked slowdown from the March quarter it still is above the normalised levels of 2-3% which the broker expects over the longer term.

Beyond 2020

Goldman Sachs, not one of the seven stockbrokers monitored daily on the FNArena database, has revised expectations up significantly for FY21 and FY22, as the trend in fourth quarter sales appears well above that which would be expected at the start of a severe cyclical downturn. Earnings revisions are driven by this outlook plus the better than expected situation in terms of the pandemic.

The governments of both Australia and New Zealand are now talking about relaxing restrictions. The broker retains a Neutral rating with a $35.50 target and asserts one caveat to estimates: the depth and duration of the coronavirus impact, should additional bouts of infection require a return to elevated containment measures.

Citi expects Australia's economy will experience at least 12 months of income decline and retailers will suffer a similar fate. Still, more than half of retailers are expected to trade solidly and **there could be continued sales growth for home-based entertainment and DIY, as areas such as travel and mass entertainment remain restricted for longer**.

Citi ascertains higher operating costs will reduce operating leverage for JB Hi-Fi. Incremental margins on better sales are expected to slow to around 9% for both brands, below what is considered normal levels. The broker remains reluctant to extrapolate the current rate of growth, given this was boosted by the setting up of working and learning from home.

Bell Potter also envisages headwinds emerging in FY21 from the weak macro environment and the risks to the housing cycle, as well as the need to cycle tough comparables. Accordingly the broker, not one of the seven, retains a Hold rating and $34 target.

Valuation

There is enough support for the stock on the basis the market is still to fully reflect March quarter trading in its FY20 estimates and the fact technology has become the "new essential", but Credit Suisse is lukewarm about discretionary retail exposures in the early stages of a recession. That said, the business could, relatively, outperform and a dividend is also more likely.

Valuation support has ebbed, in Ord Minnett's view, and further upside would require more confidence in the external environment, and this is considered difficult given rising unemployment. Hence, the broker downgrades to Hold from Accumulate.

Morgans also downgrades, to Hold from Add, given the strong run up in the share price but finds little to fault with the retailer, noting it is one of the few that may actually pay a dividend over the next couple of half-years. The broker also points out the innovation outlook in the electronics category remains favourable.

With around 90% of valuation attributed to cash flow beyond FY21, UBS believes the risks are more than priced in. A benefit post the pandemic from market consolidation is possible, and then there is the acceleration of purchasing online. On that subject, Credit Suisse incorporates additional costs associated with a significant acceleration of online sales and believes a large proportion of the online sales growth will be sticky.

FNArena's database has six Hold ratings and one Buy (UBS), with a consensus target of $35.99 that suggests 3.6% upside to the last share price. Targets range from $32.87 (Credit Suisse) to $40.00 (UBS).

AUSTRALIA

Medibank Private Deflects Talk Of Windfall

Fewer health insurance claims have been made while elective surgery is in hiatus but Medibank Private has deflected speculation about a windfall to profits.

-Unlikely benefits from the pandemic will accrue to the Medibank Private balance sheet
-Confident second half earnings will be ahead of the prior comparable half
-Private health insurance affordability still the pressing issue

By Eva Brocklehurst

Medibank Private ((MPL)) will obtain some benefits from the pandemic, as fewer claims are made while elective surgery is in hiatus, but has deflected speculation about a windfall to profits.

The company has indicated it will return any "permanent" benefit from lower claims - as opposed to simple deferral of treatment - to policyholders, yet several brokers assert the amount and impact will be hard to ascertain.

Medibank Private argues it has already returned $170m to customers through delaying premium rate increases for six months, along with its customer support package worth $50m announced in late March.

Therefore, its commitment is simply to return permanent ancillary claim savings if they exceed this level. This allows the insurer time to assess the full impact of savings, in Credit Suisse's view, instead of having to refund premiums and then run the risk too much has been returned.

What appears likely is that little if any of the benefits from the pandemic will accrue to the balance sheet. UBS assesses any profit recognition will be a timing issue and there will be limited impact on valuation.

ASIC (Australian Securities and Investments Commission) has guided that health insurers will need to provision for the backlog of elective surgery claims that have been delayed because of the pandemic shutdowns.

Moreover, Medibank Private believes the cessation of elective private hospital procedures is likely to be more about deferral rather than permanent cancellation, although Ord Minnett asserts this is only partially true.

Many non-essential procedures/claims may not end up being made because of concerns around infections at hospitals as well as PPE (personal protective equipment) shortages and supply constraints, so there still could be a material benefit for insurers.

Only 1% of customers have so far suspended policies, largely from the younger cohort, and Medibank Private has experienced increased ancillary claim volumes as dental practices re-open. However, Citi cautions that **trends could change as the economic slowdown continues**, although the overall customer demographic may be better insulated from economic fall-out.

Medibank Private remains confident second half earnings will be ahead of the prior comparable half. The dividend pay-out ratio remains at the top end of the 75%-85% target range and the company will review its capital options at the end of FY20.

The company is likely to be one of the few where its FY20 operating earnings are resilient, in Goldman Sachs' view. Beyond this, the broker, not one of the seven monitored daily on the FNArena database, believes the outlook for the industry is difficult, because a softer economic backdrop that will impact on premium growth, and retains a Sell rating with a $2.69 target.

Out-of-Hospital Care

Over the longer term, Medibank Private anticipates there is an opportunity to build out-of-hospital care as well as telehealth offerings, as the pandemic has highlighted the value of these forms of treatment and take-up is likely to accelerate.

This is a rare opportunity for the government, Credit Suisse asserts, to trial reforms before implementation, as the pandemic has provided an insight into alternative care options, and could be used to address affordability and participation in the industry.

Citi shares the view that **demand for at-home and digital health care alternatives will accelerate** and, providing the government supports the initiative, also believes there is potential for material cost savings on claims, albeit over the longer term.

Affordability

Ord Minnett upgrades to Hold from Lighten, assessing health insurers are defensive exposures in tough economic times. The broker's main concern centres on government constraints over the last two years.

Affordability is indeed the pressing issue, compounded by the economic impact of the pandemic, UBS assesses, as even lower participation rates remain the key risk for the sector. Hence, returning ultimate savings from the pandemic to policyholders could be key to avoiding more permanent impacts on volume.

Goldman Sachs points to the dilemma, in that rising government debt following the pandemic will limit reform options but will also add impetus to attempts to contain public health expenditure. Citi agrees **reform options are also more limited, given the tougher fiscal position**, and this raises the question of whether the private sector needs to shoulder a larger share of health care funding.

Hence, the proposed fringe benefits tax deduction for corporate health insurers would now appear highly unlikely. Yet, as affordability pressures are likely to become more prevalent, the broker notes with interest that Medibank Private intends to go ahead with its planned premium rate increase of 3.27% on October 1, 2020.

Citi assesses the dividend yield is likely to prove attractive, given many other stocks have sustained reductions to their dividends, but remains wary about the potential impact in the medium term from a deteriorating economy.

Amid limited downside earnings risk, a strong balance sheet and potential for favourable reforms ahead, Credit Suisse judges the stock relatively safe in the current environment.

FNArena's database has six Hold ratings and one Buy (Credit Suisse) for Medibank Private. The consensus target is $2.84, signalling 3.2% upside to the last share price. The dividend yield on FY20 and FY21 forecasts is 4.2% and 4.4% respectively.

AUSTRALIA

Developments Peaking For Goodman?

Goodman Group stands out as solid performer in an uncertain environment, but brokers anticipate the percentage of development work in its portfolio is close to peaking.

-Pace of completed work growing at reduced pace
-Support for industrial real estate robust
-Highly leveraged to growth in e-commerce

By Eva Brocklehurst

The scale and length of development projects stand Goodman Group ((GMG)) in good stead in a period of exacerbated uncertainty. Among the $3-4bn in development projects currently in various stages of negotiation, there is one expected to take five years to develop over multiple stages.

Moreover, the company has signalled an increase in demand for both temporary and permanent space. Support is also coming from trends in e-commerce, data usage and higher inventory levels, Macquarie points out.

Work in progress stands at $4.8bn, up 12% quarter on quarter, and occupancy at 97.5%, although leasing across the portfolio has slowed down. Nevertheless, UBS assesses market concerns have been dissipated by the amount of development projects on hand, while the timing is less clear.

The company continues to focus on growth opportunities in markets where land is constrained and disposing of non-core assets. Comparable operating income growth of 3% and FY20 earnings growth of 11% have been reaffirmed.

Development Slowing

Goldman Sachs, not one of the seven stockbrokers monitored daily on the FNArena database, considers the business is not completely immune to the downturn. Although work in progress has grown by $1.2bn over the last 18 months the pace of work completed is growing at a reduced rate.

This drives the broker's forecast reductions in development net revenues as a percentage of work in progress. UBS agrees **development income appears close to a peak and management and investment income must do the heavy lifting going forward**.

Ord Minnett also expects development margins will fade in terms of significance in forecasts, while assessing FY22 growth will be predicated on development activity and maintenance of margins. Still momentum remains strong in FY20 and FY21.

The broker calculates growth in the March quarter stemmed from China and Australia and currency likely contributed 9%. There is minimal impact from tenant distress to date, as Goodman Group has indicated April rent collections were within 2% of normal levels.

Surplus Cash

Macquarie notes several positives for the investment thesis, such as structural benefits over the medium term, a solid balance sheet and capital flows that benefit fund management models.

Credit Suisse points out, while not expecting a global pandemic, Goodman Group was preparing for a downturn through maintaining low gearing, holding surplus cash and funding growth through capital recycling. There is $1.4bn in surplus cash and $1.1bn of undrawn debt, which more than covers medium-term debt expiry, and within the funds platform there is $18.8bn of liquidity.

The broker finds capital discipline a positive, despite the criticism from some quarters that the company's attitude to capital is "lazy".

Many sovereign wealth and pension funds remain relatively underweight on industrial real estate. Hence, Credit Suisse suspects Goodman Group is unlikely to find it difficult to attract third-party capital over the longer term in order to fund growth.

However, the stock does not screen cheaply on an earnings multiple basis and the broker suggests any dips in price could provide a more attractive entry point.

Goldman Sachs, while acknowledging the business has been positioned well for a downturn, has a Sell rating with an $11 target, assessing earnings are highly leveraged to movement in capitalisation rates (income relative to market value).

A global recession along with downward re-pricing of risk assets means the broker finds it hard to believe the portfolio will be completely immune to softening cap rates. Goldman Sachs bases its forward estimates on 25 basis points of cap rate expansion, which compares with -200-257 basis points of tightening over the last five years across regional portfolios.

FNArena's database has three Buy and three Hold ratings. The consensus target is $15.36, suggesting 5.0% upside to the last share price.

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

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

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 01-05-20

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday April 27 to Friday May 1, 2020
Total Upgrades: 20
Total Downgrades: 17
Net Ratings Breakdown: Buy 49.45%; Hold 41.67%; Sell 8.87%

The final week of April saw the continuation of market optimism, quickly followed up with a severe sell-off on the May 1st Friday for the first weekly stand-still in a while.

By then, stockbroking analysts had already responded by issuing more upgrades in recommendations for individual ASX-listed stocks. FNArena counted 20 upgrades versus 17 downgrades for the week.

Stocks popular among the upgrades were Charter Hall Retail REIT and supermarket operator Coles with both receiving two upgrades while the rest of the field is made up predominantly of share market laggards, including banks and property developers and owners.

In an illustration of just how tricky this market can be, and of opposing views and forces that reign in it, the table of downgrades for the week equally includes banks and property related exposures, this time accompanied by various gold producers. It's probably fitting then that Regis Resources is the sole recipient of two downgrades for the week.

The week's overview for positive revisions is populated by resource companies, and that guarantees some hefty numbers on show. Evolution Mining takes the week's honours, followed by Fortescue Metals and Northern Star Resources.

On the flip side, we find larger reductions on average, with Lendlease's price target taking the biggest hit, followed by AP Eagers, Carsales and Alumina Ltd.

Investors will be pleased to know the week equally saw some hefty increases to earnings estimates. The largest increase was reserved for QBE Insurance, followed by Premier Investments, Alacer Gold, and Regis Resources. The top ten shows noticeable increases for all companies included.

However, in line with the times, the week's top ten for decreases to profit forecasts shows how it is done properly with far, far, far bigger reductions for the likes of oOh!media, Coronado Global Resources, AP Eagers, and Pilbara Minerals.

One of the key reasons as to why many an expert believes the share market cannot continue its rally in May is because analysts will continue reducing forecasts and thus valuations and price targets, and this will provide a reality check for too optimistic sentiment that has driven quite the sizeable rally off the March sell-off bottom (25%).

Expect more of the same in the week(s) ahead, except probably without the day-to-day uptrend for share market indices.

Upgrade

AP EAGERS LIMITED ((APE)) Upgrade to Add from Hold by Morgans .B/H/S: 4/1/0

AP Eagers has reduced its workforce, applied for JobKeeper, been granted rental relief and has deferred all non-essential capex, Morgans notes. Importantly, the company has secured additional working capital facilities, taking its liquidity to $392m, greater than the broker previously assumed.

The outlook for new car sales at this point is not worth considering, but AP Eagers' liquidity position, experienced management and exposure to whenever there may be a rebound has Morgans upgrading to Add from Hold, noting patience will be required. Target falls to $7.30 from $8.92.

BRICKWORKS LIMITED ((BKW)) Upgrade to Buy from Neutral by Citi .B/H/S: 1/2/0

Citi assesses sales should be well supported through to the December quarter because of solid building approvals up until February 2020. However, housing demand is slowing and this could affect construction in early 2021.

Despite the cyclical slowdown in residential demand the dividend is likely to be maintained as cash flow is stable from the property trust and investment income, the broker points out.

Rating is upgraded to Buy from Neutral and the target reduced to $14.20 from $21.00.

CARSALES.COM LIMITED ((CAR)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 4/2/0

The company has indicated leads have started to show signs of improvement recently, while traffic and inventory are solid. The South Korean business has also held up well although conditions are deteriorating in Brazil.

While the business is not immune to the current situation, Carsales.com is a critical channel for dealers, private sellers and original equipment manufacturers, the broker points out.

Therefore, Ord Minnett expects the business will rebound well following the crisis and upgrades to Buy from Hold. Target is reduced to $15.72 from $18.98.

CREDIT CORP GROUP LIMITED ((CCP)) Upgrade to Add from Hold by Morgans .B/H/S: 2/0/0

Credit Corp has raised $120m to increase capacity on the balance sheet. In the absence of an acquisition, Morgans expects the company will have no debt by December 2020.

There are still risks to earnings for the short term but the broker assesses the business is a strong contender for capital deployment in potential industry consolidation over the next two years.

Rating is upgraded to Add from Hold and the target raised to $18.50 from $17.70.

CENTURIA OFFICE REIT ((COF)) Upgrade to Add from Hold by Morgans .B/H/S: 2/1/0

Centuria Office REIT, the only pure-play office REIT on the ASX, has withdrawn FY20 funds from operations guidance, but retained dividend guidance of 17.8c.

Uncertainty stems from the government's Code of Conduct with regard rents and a tougher outlook for leasing markets ahead, Morgans notes.

That said, the broker believes the stock has been oversold and upgrades to Add from Hold. Target falls $2.33 from $2.98.

COLES GROUP LIMITED ((COL)) Upgrade to Buy from Neutral by Citi and Upgrade to Hold from Reduce by Morgans.B/H/S: 5/2/0

The main take-out from Coles quarterly update for Citi is a -30% drop in sales in April compared to March, as pantry hoarding swings to de-stocking. However the broker does see sales growth improving from this level given April this year included none of the usual Easter/Anzac Day buying spree and as cooking at home settles in to be more popular than it was previously.

The offset will be falling food inflation and lower household spending from those on reduced incomes. Lower petrol volumes have hit earnings, but these will improve as restrictions are eased. Put it all together, and the broker cuts its target by -1% to $17.40 but upgrades to Buy from Neutral.

Strong growth in sales across all divisions occurred in the March quarter. However, this has come with extra costs which Morgans expects to remain elevated for the remainder of FY20.

Still, supermarkets and liquor sales will benefit from social gathering restrictions and Morgans assesses Coles is a very defensive business.

Now the stock is closer to fair value the rating is upgraded to Hold from Reduce. Target is raised to $15.20 from $14.72.

CHARTER HALL RETAIL REIT ((CQR)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Neutral from Sell by Citi.B/H/S: 3/1/1

Credit Suisse believes the company's $275m capital raising should address any market concerns about gearing. The issue is dilutive to earnings by around -20% but pro forma gearing reduces to 22.6% from 32.1%.

Amid uncertainty over how long the pandemic will affect trade, the broker suggests the extra liquidity means there is less of a risk of being squeezed by banks, although there could be a debate over whether the capital was raised too early.

The company still intends to pay a second half distribution so a part of this raising will be paid back to investors, Credit Suisse points out. Rating is upgraded to Outperform from Neutral and the target is reduced to $3.32 from $4.70.

The company has announced a $275m institutional placement along with the unit holder purchase plan of up to $25m. Citi considers the heavy discount quite unfavourable.

The broker was surprised that asset sales were not considered as a more viable option.

Citi upgrades to Neutral from Sell on valuation but believes that raising highlights the income and asset value problems facing retail landlords. Target is reduced to $2.99 from $3.76.

DOMAIN HOLDINGS AUSTRALIA LIMITED ((DHG)) Upgrade to Hold from Reduce by Morgans .B/H/S: 5/1/0

Domain Holdings is preparing for a tougher environment, Morgans notes, moving to a second round of cost reductions and increasing credit lines.

The company's print publications were suspended two weeks ago and will likely remain so until at least September. Digital performed well in March, but from thereon the outlook is unclear.

The broker has cut its target to $2.46 from $2.54 but upgraded to Hold from Reduce, believing investors will have a chance to buy in at a lower level ahead.

DOMINO'S PIZZA ENTERPRISES LIMITED ((DMP)) Upgrade to Add from Hold by Morgans .B/H/S: 3/2/2

Morgans assesses the trading update was "reasonable". Franchisee support is likely to step up as Domino's Pizza helps individual stores and regions where the sales performance has been affected by the pandemic.

This is likely to affect margins in the short term but the broker considers underpinning franchises is the right move. The balance sheet is robust and medium-term targets were reiterated.

Morgans believes earnings can remain reasonably defensive throughout the crisis and bounce back quickly afterwards. Rating is upgraded to Add from Hold and the target reduced to $55.57 from $57.19.

GPT GROUP ((GPT)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/1/1

Subsequent to the first quarter update, Credit Suisse cuts estimates by -13.3% for FY20 and -10.2% for FY21 and lowers the target to $4.56 from $6.15.

Revaluations of the entire GWOF/GWSCF portfolios resulted in -2% and -11% declines in book value. This was driven, as commentary suggests, by lower rental assumptions rather than a softening of capitalisation rates.

Credit Suisse assesses the market continues to discount GPT because of its retail exposure but this is excessive. The broker remains of the view that the capital position provides a bulwark against an economic downturn and upgrades to Outperform from Neutral.

HOTEL PROPERTY INVESTMENTS ((HPI)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 1/1/0

Ord Minnett expects 2020 rents to be severely affected by the pandemic and then stabilise in 2021, albeit below 2019 levels.

A-REITs are far more focused on cash flow and balance sheet preservation than short-term distributions, hence the broker expects deferred rent earnings will be retained.

The broker upgrades Hotel Property Investments to Accumulate from Hold. Target is raised to $2.70 from $2.50.

LENDLEASE GROUP ((LLC)) Upgrade to Buy from Neutral by UBS .B/H/S: 4/1/0

Lendlease has raised up to $1.15bn. UBS assesses the proceeds will be used to strengthen the balance sheet and also allow the company to take a larger share in development pipeline/profits and acquire opportunistically.

Given the improved funding position UBS upgrades to Buy from Neutral. The broker now assesses there is sufficient capital to withstand negative scenarios. Target is reduced to $15.50 from $18.00.

METCASH LIMITED ((MTS)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 2/4/0

Following share price weakness and post the equity raising, Ord Minnett upgrades back to Accumulate from Hold.

The main issue is the extent to which the independent supermarkets retain customers from increased visits because of stock availability and proximity to customers.

While a local and regional skew has its advantages, the broker notes online growth from Coles ((COL)) and Woolworths ((WOW)) could moderate recent strength.

This, ultimately, is expected to be determined by the quality of the individual retailer, and variance is wide. Target is $3.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Upgrade to Add from Hold by Morgans .B/H/S: 5/1/0

National Australia Bank has released first half results earlier than scheduled and launched a capital raising. The placement price implies more damage than Morgans had expected.

Still, the broker considers it a positive for valuation in that the bank expects to continue paying dividends. Rating is upgraded to Add from Hold and the target is reduced to $16.50 from $17.00.

NIB HOLDINGS LIMITED ((NHF)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 2/5/0

The flattening of the curve of the pandemic is better than expected and suggests to Credit Suisse that its initial take on nib Holdings in this regard was too pessimistic.

The broker continues to view the lack of claims in the core insurance business while in shutdown as more of a timing change rather than a large profit uplift.

FY20 underlying operating profit estimates are increased by 7%. Following the recent underperformance of the share price the rating is upgraded to Neutral from Underperform. Target is $4.90.

ORICA LIMITED ((ORI)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/5/0

Macquarie assesses Orica's production-related earnings have proven to be relatively defensive in the past and, while there is likely to be short-term effects of the pandemic, the business has cyclical leverage globally to a recovery.

Burrup is on track to start up and the balance sheet is solid. Macquarie upgrades to Outperform from Neutral and reduces the target to $21.51 from $23.25. Orica reports its first half result on May 8.

PEOPLE INFRASTRUCTURE LTD ((PPE)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 1/1/0

People Infrastructure has announced a $17.5m capital raising. The company has also indicated revenue and operating earnings (EBITDA) were up 44% and 53% respectively in the year to February.

Since the coronavirus crisis spread the company has experienced disruption across several aspects of the business but this has not been widespread.

Disability, mining and food processing have proven resilient while IT and childcare volumes are depressed. There is also some disruption to nursing but this is expected to be short lived.

Ord Minnett upgrades to Buy from Accumulate and reduces the target to $2.49 from $4.05.

QUBE HOLDINGS LIMITED ((QUB)) Upgrade to Buy from Sell by Citi .B/H/S: 2/3/1

Citi upgrades to Buy/High Risk from Sell and reduces the target to $2.75 from $2.80, assessing the de-risked balance sheet provides scope for a strategic accretive acquisition and cost controls that will generate value for shareholders.

Operating weakness is likely in FY20-21 that may weigh on growth. The broker does not envisage scope for port volumes to improve prior to the second quarter of FY21.

Downgrade

ADELAIDE BRIGHTON LIMITED ((ABC)) Downgrade to Hold from Add by Morgans .B/H/S: 2/4/1

Since the withdrawal of guidance early in April, Adelaide Brighton's share price has risen 32%, to be within 5% of Morgans unchanged $2.85 target. Hence the broker pulls back to Hold from Add.

The broker nevertheless highlights a strong balance sheet, a favourable concentration of exposure domestically, with Australia containing the virus, and the potential for government stimulus for construction alongside low interest rates.

ALUMINA LIMITED ((AWC)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 3/2/1

Amid changes to exchange rate forecasts, which hits bulk commodity stocks hard, Macquarie downgrades Alumina Ltd to Underperform from Neutral.

Target is reduced to $1.40 from $1.50. The changes drive reductions to 2020 and 2021 forecasts of -13% and -9% respectively.

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

Ord Minnett expects 2020 rents to be severely affected by the pandemic and then stabilise in 2021, albeit below 2019 levels.

A-REITs are far more focused on cash flow and balance sheet preservation than short-term distributions, hence the broker expects deferred rent earnings will be retained.

Carindale Property is downgraded to Hold from Accumulate and the target is lowered to $3.50 from $3.60.

EVOLUTION MINING LIMITED ((EVN)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 3/3/1

Evolution Mining appears confident that June quarter will deliver higher production and Credit Suisse considers it on track to attain FY20 guidance. Free cash flow appears strong and superior to peers.

There is also no material disruption from the pandemic to date. Rating is downgraded to Neutral from Outperform on the back of the broker's gold price deck. Target is raised to $4.85 from $4.60.

ALE PROPERTY GROUP ((LEP)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 0/1/0

Ord Minnett expects 2020 rents to be severely affected by the pandemic and then stabilise in 2021, albeit below 2019 levels.

A-REITs are far more focused on cash flow and balance sheet preservation than short-term distributions, hence the broker expects deferred rent earnings will be retained.

ALE Property is downgraded to Lighten from Hold and the target lowered to $3.80 from $4.00.

MIDWAY LIMITED ((MWY)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 0/2/0

Midway now expects FY20 operating earnings (EBITDA) of $10-14m, which reflects a -27-52% downgrade from consensus estimates last reaffirmed in late March.

The company has cited a deterioration in export demand driven by the impact of the pandemic in key export markets.

Ord Minnett now expects pricing and volumes will be more difficult into FY21 as the disruption plays out.

Rating is downgraded to Hold from Buy and the target reduced to $1.12 from $2.07.

NEWCREST MINING LIMITED ((NCM)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 2/3/2

Amid changes to exchange rate forecasts, Macquarie downgrades to Underperform from Neutral. Target is steady at $23.

The outlook for the AUD/USD has been tempered because of the rapid and extremely aggressive response by the US Fed to current economic circumstances.

Should Macquarie's expectations for a materially weaker US dollar eventuate, physical gold is expected to strengthen and gold equities continue to outperform the US dollar gold price.

NEW HOPE CORPORATION LIMITED ((NHC)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 3/0/1

Amid changes to exchange rate forecasts, which hits bulk commodity stocks hard, Macquarie downgrades to Underperform from Neutral.

The outlook for the AUD/USD has been tempered because of the rapid and extremely aggressive response by the US Fed to current economic circumstances.

New Hope's target is reduced to $1.30 from $1.50. Forecasts for FY20 are cut -15% and FY21 -39%.

The broker notes downside risk to earnings forecasts for coal miners remains significant, despite the reduction to the near-term outlook. Earnings for New Hope swing from profit to loss under a spot price scenario in FY21.

NORTHERN STAR RESOURCES LTD ((NST)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/4/1

Northern Star's March quarter result fell short of Macquarie, with gold production -9% lower and costs 10% higher. Pogo was impacted by virus protocols, although grades improved. Mill shutdowns at Jundee and Super Pit compounded the issue.

The company is expecting improvement in the June quarter, but on a weaker production and earnings outlook for FY21-22, the broker downgrades to Neutral from Outperform. Target falls to $14.00 from $15.00.

ORORA LIMITED ((ORA)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 1/5/0

Orora has completed the sale of its fibre business to Nippon Paper. Credit Suisse assumes distributions of $750m by way of a special dividend.

The broker downgrades to Neutral from Outperform as the rally in the share price has closed out much of the available return, in its assessment. Target is $2.15.

PERSEUS MINING LIMITED ((PRU)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/3/0

Perseus Mining's March quarter was weak, with production -20% and costs 20% higher than forecast. Recoveries of only 61% at Edikan was the prime source of softness, Macquarie notes. The company has withdrawn second half guidance.

Recoveries at Edikan and virus management are the key risks in the near term, the broker suggests. Yaoure nevertheless remains on track, but the broker has cut its target to $1.20 from $1.30 and downgraded to Neutral from Outperform.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Hold from Accumulate by Ord Minnett and Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/4/0

March quarter production was -11% below Ord Minnett's estimates. Improvement is expected in the June quarter as first underground ore from Rosemont is delivered.

The broker observes a clear strategy is emerging which, while incremental, presents upside to valuation.

The stock is now trading at a slight premium to the target and the rating is downgraded to Hold from Accumulate. Target is reduced to $4.20 from $4.30.

Amid changes to exchange rate forecasts, Macquarie downgrades to Neutral from Outperform. Target is raised to $4.60 from $3.90.

The outlook for the AUD/USD has been tempered because of the rapid and extremely aggressive response by the US Fed to current economic circumstances.

Should Macquarie's expectations for a materially weaker US dollar eventuate, physical gold is expected to strengthen and gold equities continue to outperform the US dollar gold price.

ST BARBARA LIMITED ((SBM)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/2/0

Amid changes to exchange rate forecasts, Macquarie downgrades to Neutral from Outperform. Target is raised to $2.60 from $2.30.

The outlook for the AUD/USD has been tempered because of the rapid and extremely aggressive response by the US Fed to current economic circumstances.

Should Macquarie's expectations for a materially weaker US dollar eventuate, physical gold is expected to strengthen and gold equities continue to outperform the US dollar gold price.

SILVER LAKE RESOURCES LIMITED ((SLR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/1/0

Amid changes to exchange rate forecasts, Macquarie downgrades to Neutral from Outperform. Target is raised to $2.10 from $1.80.

The outlook for the AUD/USD has been tempered because of the rapid and extremely aggressive response by the US Fed to current economic circumstances.

Should Macquarie's expectations for a materially weaker US dollar eventuate, physical gold is expected to strengthen and gold equities continue to outperform the US dollar gold price.

TABCORP HOLDINGS LIMITED ((TAH)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/3/0

Credit Suisse downgrades to Neutral from Outperform. The share price has rallied 45% since the trough and is now approaching the broker's target. Target is $3.20.

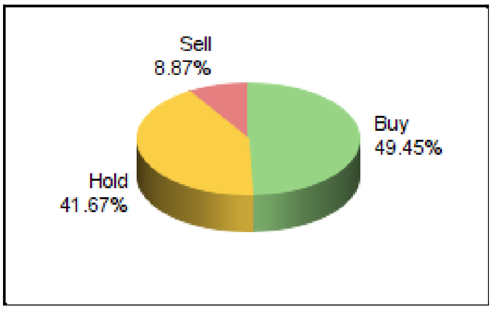
An equity issue is also included in forecasts in the near future as Credit Suisse suspects the board will come to realise that the balance sheet is not as well prepared for the disruption as it may have thought. However, this has a minimal effect on valuation.

WESTPAC BANKING CORPORATION ((WBC)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 3/3/1

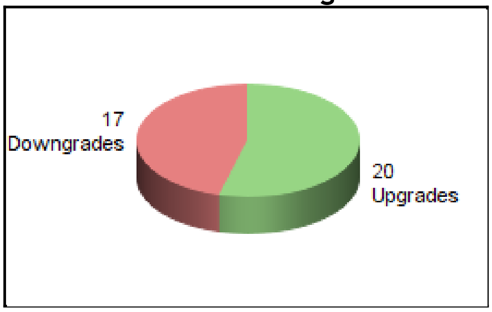
Ord Minnett believes Westpac is facing heightened pressure to address its potentially tight capital position. The broker suggests Westpac runs the risk of being left at a material deficit to peers on capital.

While having only recently upgraded to Accumulate on valuation grounds, the additional uncertainty around capital makes the broker wary. As a result the rating is downgraded back to Hold and the target lowered to $16 from $18.

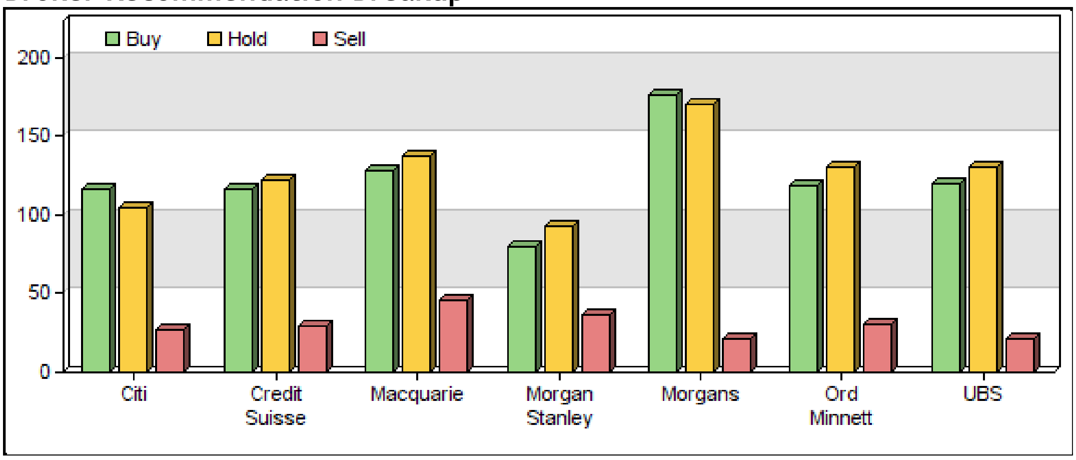
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	AP EAGERS LIMITED	Buy	Neutral	Morgans
2	BRICKWORKS LIMITED	Buy	Neutral	Citi
3	CARSALES.COM LIMITED	Buy	Neutral	Ord Minnett
4	CENTURIA OFFICE REIT	Buy	Neutral	Morgans
5	CHARTER HALL RETAIL REIT	Neutral	Sell	Citi
6	CHARTER HALL RETAIL REIT	Buy	Neutral	Credit Suisse
7	COLES GROUP LIMITED	Neutral	Sell	Morgans
8	COLES GROUP LIMITED	Buy	Neutral	Citi
9	CREDIT CORP GROUP LIMITED	Buy	Neutral	Morgans
10	DOMAIN HOLDINGS AUSTRALIA LIMITED	Neutral	Sell	Morgans
11	DOMINO'S PIZZA ENTERPRISES LIMITED	Buy	Neutral	Morgans
12	GPT GROUP	Buy	Neutral	Credit Suisse
13	HOTEL PROPERTY INVESTMENTS	Buy	Neutral	Ord Minnett
14	LENDLEASE GROUP	Buy	Neutral	UBS
15	METCASH LIMITED	Buy	Neutral	Ord Minnett
16	NATIONAL AUSTRALIA BANK LIMITED	Buy	Neutral	Morgans
17	NIB HOLDINGS LIMITED	Neutral	Sell	Credit Suisse
18	ORICA LIMITED	Buy	Neutral	Macquarie
19	PEOPLE INFRASTRUCTURE LTD	Buy	Buy	Ord Minnett
20	QUBE HOLDINGS LIMITED	Buy	Sell	Citi
Downgrade				
21	ADELAIDE BRIGHTON LIMITED	Neutral	Buy	Morgans
22	ALE PROPERTY GROUP	Sell	Neutral	Ord Minnett
23	ALUMINA LIMITED	Sell	Neutral	Macquarie
24	CARINDALE PROPERTY TRUST	Neutral	Buy	Ord Minnett
25	EVOLUTION MINING LIMITED	Neutral	Buy	Credit Suisse
26	MIDWAY LIMITED	Neutral	Buy	Ord Minnett
27	NEW HOPE CORPORATION LIMITED	Sell	Neutral	Macquarie
28	NEWCREST MINING LIMITED	Sell	Neutral	Macquarie
29	NORTHERN STAR RESOURCES LTD	Neutral	Buy	Macquarie
30	ORORA LIMITED	Neutral	Buy	Credit Suisse
31	PERSEUS MINING LIMITED	Neutral	Buy	Macquarie
32	REGIS RESOURCES LIMITED	Neutral	Buy	Macquarie
33	REGIS RESOURCES LIMITED	Neutral	Buy	Ord Minnett
34	SILVER LAKE RESOURCES LIMITED	Neutral	Buy	Macquarie
35	ST BARBARA LIMITED	Neutral	Buy	Macquarie
36	TABCORP HOLDINGS LIMITED	Neutral	Buy	Credit Suisse
37	WESTPAC BANKING CORPORATION	Neutral	Buy	Ord Minnett

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	CQR	CHARTER HALL RETAIL REIT	40.0%	-8.0%	48.0%	5
2	COF	CENTURIA OFFICE REIT	67.0%	33.0%	34.0%	3
3	CAR	CARSALES.COM LIMITED	67.0%	33.0%	34.0%	6
4	QUB	QUBE HOLDINGS LIMITED	17.0%	-17.0%	34.0%	6
5	COL	COLES GROUP LIMITED	64.0%	36.0%	28.0%	7
6	LLC	LENDLEASE GROUP	80.0%	60.0%	20.0%	5
7	APE	AP EAGERS LIMITED	70.0%	50.0%	20.0%	5
8	GPT	GPT GROUP	42.0%	25.0%	17.0%	6
9	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	75.0%	58.0%	17.0%	6
10	ORI	ORICA LIMITED	29.0%	14.0%	15.0%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	RRL	REGIS RESOURCES LIMITED	43.0%	79.0%	-36.0%	7
2	NHC	NEW HOPE CORPORATION LIMITED	50.0%	75.0%	-25.0%	4

3	SBM	ST BARBARA LIMITED	60.0%	80.0%	-20.0%	5
4	OGC	OCEANAGOLD CORPORATION	40.0%	60.0%	-20.0%	5
5	TAH	TABCORP HOLDINGS LIMITED	25.0%	42.0%	-17.0%	6
6	NST	NORTHERN STAR RESOURCES LTD	-25.0%	-8.0%	-17.0%	6
7	AWC	ALUMINA LIMITED	33.0%	50.0%	-17.0%	6
8	ORA	ORORA LIMITED	17.0%	33.0%	-16.0%	6
9	ABC	ADELAIDE BRIGHTON LIMITED	7.0%	21.0%	-14.0%	7
10	EVN	EVOLUTION MINING LIMITED	29.0%	43.0%	-14.0%	7

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	EVN	EVOLUTION MINING LIMITED	4.676	4.240	10.28%	7
2	FMG	FORTESCUE METALS GROUP LTD	11.194	10.241	9.31%	7
3	NST	NORTHERN STAR RESOURCES LTD	12.658	12.008	5.41%	6
4	OGC	OCEANAGOLD CORPORATION	3.004	2.864	4.89%	5
5	ALU	ALTIUM LIMITED	35.700	34.267	4.18%	4
6	RRL	REGIS RESOURCES LIMITED	4.921	4.807	2.37%	7
7	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	3.060	2.998	2.07%	6
8	SBM	ST BARBARA LIMITED	3.160	3.100	1.94%	5
9	COL	COLES GROUP LIMITED	17.040	16.850	1.13%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	LLC	LENDLEASE GROUP	15.600	18.670	-16.44%	5
2	APE	AP EAGERS LIMITED	9.040	10.296	-12.20%	5
3	CAR	CARSALES.COM LIMITED	14.667	16.578	-11.53%	6
4	AWC	ALUMINA LIMITED	1.817	2.008	-9.51%	6
5	TAH	TABCORP HOLDINGS LIMITED	3.203	3.475	-7.83%	6
6	COF	CENTURIA OFFICE REIT	2.580	2.797	-7.76%	3
7	CQR	CHARTER HALL RETAIL REIT	3.492	3.668	-4.80%	5
8	NAB	NATIONAL AUSTRALIA BANK LIMITED	18.492	19.329	-4.33%	6
9	GPT	GPT GROUP	4.872	5.087	-4.23%	6
10	NHC	NEW HOPE CORPORATION LIMITED	1.700	1.750	-2.86%	4

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	QBE	QBE INSURANCE GROUP LIMITED	-0.910	-1.118	18.60%	7
2	PMV	PREMIER INVESTMENTS LIMITED	64.790	54.910	17.99%	5
3	AQG	ALACER GOLD CORP	73.097	65.411	11.75%	3
4	RRL	REGIS RESOURCES LIMITED	44.211	41.133	7.48%	7
5	GXY	GALAXY RESOURCES LIMITED	-4.457	-4.817	7.47%	6
6	EVN	EVOLUTION MINING LIMITED	21.996	20.886	5.31%	7
7	OGC	OCEANAGOLD CORPORATION	7.396	7.051	4.89%	5
8	SHL	SONIC HEALTHCARE LIMITED	87.471	84.717	3.25%	7
9	SAR	SARACEN MINERAL HOLDINGS LIMITED	25.920	25.140	3.10%	5
10	MIN	MINERAL RESOURCES LIMITED	170.267	165.233	3.05%	3

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	OML	OOH!MEDIA LIMITED	1.085	5.235	-79.27%	4
2	CRN	CORONADO GLOBAL RESOURCES	8.310	18.380	-54.79%	3
3	APE	AP EAGERS LIMITED	28.104	45.444	-38.16%	5
4	PLS	PILBARA MINERALS LIMITED	-2.727	-2.007	-35.87%	4
5	VEA	VIVA ENERGY GROUP LIMITED	2.332	3.498	-33.33%	6
6	ALX	ATLAS ARTERIA	16.160	22.840	-29.25%	5
7	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	3.372	4.758	-29.13%	6

8	WSA	WESTERN AREAS NL	17.424	22.998	-24.24%	7
9	ILU	ILUKA RESOURCES LIMITED	58.005	76.163	-23.84%	5
10	OZL	OZ MINERALS LIMITED	20.413	26.427	-22.76%	7

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Biggest Price Surge In Thirty Years

Curtailed supply has led to the spot uranium price rising 24% in the month of April and 41% in six weeks.

-Biggest price rise for uranium in thirty years
-Spot volumes also surge
-Term markets remained subdued

By Greg Peel

In the month of April, the spot uranium price rose almost 24% to mark the largest monthly increase in almost thirty years. In six weeks, the spot price has risen 41%, being the fastest rise since 2007. Back in 2007, uranium's surge was all about "green" power. That bubble burst even before the GFC.

Then in 2011, Fukushima sent prices tumbling. As utilities were sitting on more than sufficient stockpiles of material for an extended time period, including the Japanese, any move up in prices from that time proved short-lived.

Low prices then forced rolling supply curtailments across the globe. While those curtailments did result in slightly higher prices, it wasn't until the virus hit that prices really began to take off, as the last of major operations shut down, this time for safety reasons.

The spot price rose 41% in the six weeks to end-April and 35% in 2020 year to date.

"While the deterioration of existing and planned production has yet to result in notable term contracting, the years-long decline in supply development has driven concerns about the availability of future supply," notes industry consultant TradeTech. "This evolving undersupply condition has been amplified by further reductions to existing production, due to precautionary measures put in place at many uranium mines to slow the spread of the novel coronavirus".

Larger uranium producers also have stockpiles they can draw upon, but this hasn't stopped the likes of major Canadian producer Cameco acting as a significant buyer of spot uranium to satisfy delivery contracts.

TradeTech reports 22 spot transactions totalling 2.6mlbs U3O8 equivalent were reported in the week ending May 1. TradeTech's weekly spot price indicator has risen by US70c to US$33.90/lb.

The month of April saw 76 deals completed totalling 9.4mlbs U3O8 equivalent, up from 6.8mlbs in March. From end-March, the spot price rose US$6.45 to US$33.75/lb.

Real End-Demand

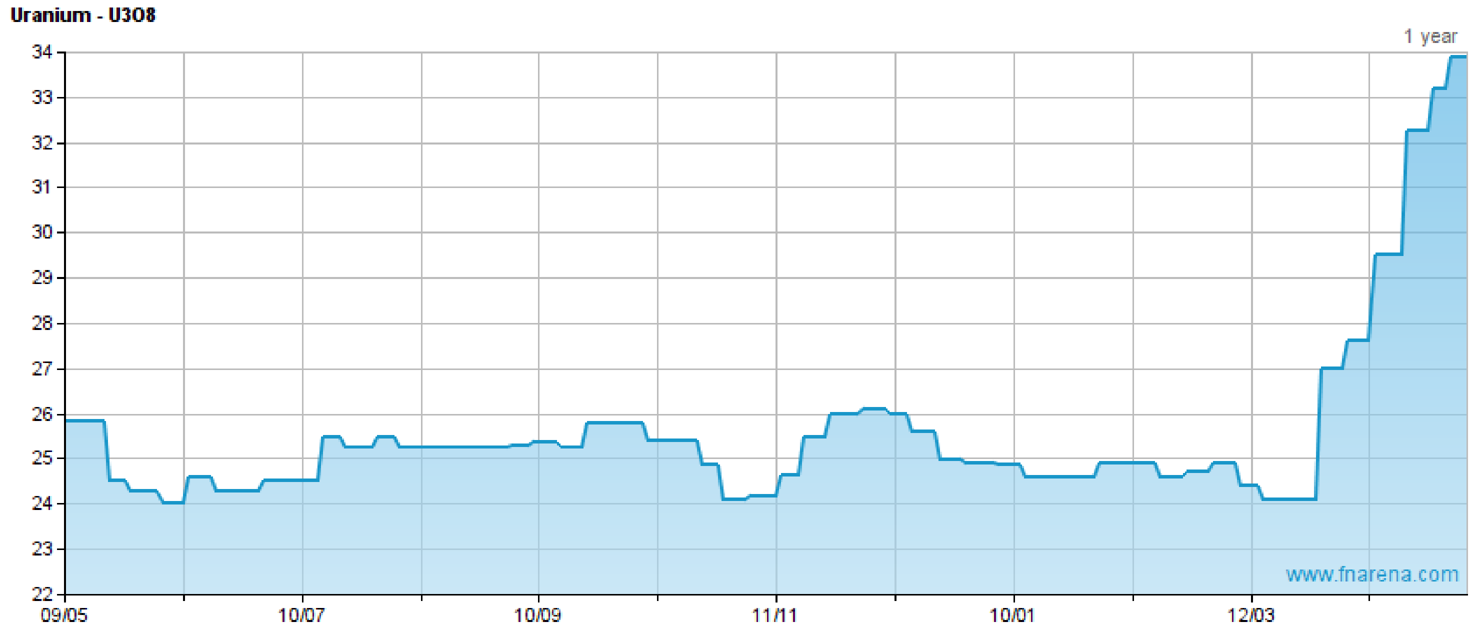
Transaction volumes in uranium term markets have nonetheless remained subdued.

"Given the most recent cutbacks in primary uranium supply," notes TradeTech, "along with previously announced significant project postponements, primary uranium suppliers have already begun to re-evaluate their sales and pricing strategy. The re-assessment by sellers of their costs to bring forward or restart projects has led to higher offer prices. As a result of the steep increase in sellers' expectations, utilities pulled away from the market in April, which caused transactional activity in the long-term uranium market to slow significantly.

There are two questions to consider. Firstly, what happens to spot prices when virus-related restrictions are lifted and production curtailed for this reason alone comes back onto the market? And secondly, what price might ultimately encourage producers to bring back on line production that was curtailed simply because of too-low prices?

Together, these questions beg the obvious: Is this rally in uranium in any way sustainable?

That would come down to just how desperate utilities become to secure future supply. Despite a lack of volume, TradeTech's indicative monthly term prices have risen to US$37.50/lb from US$31.00/lb (mid) and US$39.00/lb from US$34.00/lb (long).



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WEEKLY REPORTS

The Short Report - 07 May 2020

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

Summary:

Week ending April 30, 2020

Last week the ASX200 put on an accelerated rally to end the month of April, before falling off a cliff on the first day of May.

From last week's Report:

"In that cohort [shorter favourites] *we see the likes of walking corpse Myer ((MYR)), which last week jumped to 14.1% shorted from 11.4%, just as lithium miner Galaxy Resources ((GXY)) saw its shorts fall to 14.6 from 16.2%. It would not be the first time in history Myer was the most shorted stock on the market, if that is to be the case."*

And so it came to pass. Myer shorts actually dipped to 13.9% from 14.1% last week, but given Galaxy shorts fell to 13.5% from 14.6%, Myer is once again top of the short pops.

I had also pointed out last week that another shorters' favourite – Metcash ((MTS)) – had been slowly creeping up the table. But having completed a capital raising, Metcash has seen its shorts fall to 6.6% from 8.4%, to be the only other stock to post a move of one percentage point or more last week.

The trend of the total list of stocks shorted 5% or more gradually reducing came to a halt last week, but only by a net one addition. Lovisa Holdings ((LOV)) and Nine Entertainment ((NEC)) came in and Webjet ((WEB)) fell out. Nine and Lovisa are not debutants.

That aside, as can be seen by the extent of green below, not only has the stock count been falling on average lately, but so too has the average shorted ratio. Short position reductions well exceeded increases.

I flagged last week I would remove Speedcast International ((SDA)) from the list despite remaining 13.2% shorted, as the company is now in a six months administration process. That leaves the total number of active shorts of 10% or more at a mere four, which is the lowest in the history of this Report.

Weekly short positions as a percentage of market cap:

10%+
MYR 13.9
GXY 13.5
ORE 12.1
JBH 10.3

Out: ING

9.0-9.9

PLS, CUV, ING, Z1P, SUL

In: ING

8.0-8.9%

BOQ, PGH

Out: NCZ, MTS, PPT

7.0-7.9%

CTD, PPT, SEK, BEN, NCZ, NEA

In: PPT, NCZ

6.0-6.9%

CGF, MTS, SGM, HVN, MYX

In: MTS Out: SYR

5.0-5.9%

GWA, CLH, SYR, RSG, LYC, BUB, PNV, IFL, AMP, NEC, CLQ, BKL, LOV

In: SYR, NEC, LOV Out: WEB

Movers & Shakers

Movers & Shakers will return when things settle down.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
AMC	1.2	1.2	NCM	0.4	0.5
ANZ	0.7	0.9	RIO	2.4	2.7
BHP	4.8	4.8	SCG	0.7	0.8
BXB	0.2	0.2	SUN	0.5	0.6
CBA	0.7	0.8	TCL	0.8	0.7
CSL	0.3	0.3	TLS	0.2	0.2
GMG	0.6	0.6	WBC	0.7	0.7
IAG	0.6	0.7	WES	0.6	0.6
MQG	0.4	0.6	WOW	0.6	0.6
NAB	0.5	0.5	WPL	1.5	1.7

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

The Wrap: Global Recovery, Offices And Residential Care

Weekly Broker Wrap: Global growth recovery, energy consumption, office property and residential care

-Best case scenario for global GDP growth is -3% for 2020 with Australia's GDP contracting -6.1%
-Commercial electricity demand gap filled by households albeit with higher credit risk
-Sydney office properties to experience more headwinds
-Westpac turns focus to core banking business
-Mortgage servicing players in the US and the UK market expected to weather the storm well
-The one-time package for residential care not enough to handle medium-term risks.

By Angelique Thakur

Covid-19 And Global Growth Scenarios

Economists at UBS predict global growth for 2020 to be circa -3%, weakest since the Great Depression. What is notable is this is the best-case scenario, and depends on restrictions being lifted in mid-May with resumption of daily activities by June-end. If all goes according to plan, we could see growth recover sharply to 5.2% in 2021.

Many major economies are expected to post record GDP contractions in the second quarter and, not surprisingly, Australia awaits a similar fate, with the economists forecasting a -10% drop in the second quarter, estimating the economy to contract -6.1% in 2020 before recovering 5.2% in 2021.

A more conservative scenario projects delay in easing restrictions to June end with global growth lower at -4.5% this year before improving in 2021.

Another outlook, which is downright scary, sees containment measures failing with the virus coming back in waves until mid-2021. This scenario pegs growth for 2020 at an abysmal -5.1% with a weak L-shaped recovery of about 2.3% in 2021.

Even in the best-case scenario, it is only the domestic restrictions that would be relaxed, with border constraints expected stay in place till next year, reminds the broker, noting this would impact migration.

Needless to say, such scenario has grim consequences for Australia, which is heavily reliant on foreign investment and migration and also does not bode well for housing, remarks UBS.

With a household debt-to-income ratio that is among the highest in the world at circa 200%, Australia may see an income recession quickly turn into a more damaging balance sheet recession, warns the broker.

Energy Retailers: No Covid-19 Related Fallout

Electricity demand leading to the March quarter remained surprisingly stable, with the slight reduction a result of milder temperatures and increased rooftop solar rather than a fallout of covid-19.

Demand vacuum from commercial quarters has swiftly been filled by households. This is a double-edged sword as smaller customers pose more credit risk, comments stockbroker Morgans.

Morgans calculates the margin difference of selling one MWh of energy to a retail customer versus a large business customer to be about $30/MWh. Lower margins coupled with rising unemployment could lead to a sharp increase in bad debts.

Morgans is optimistic about both AGL Energy ((AGL)) and Origin Energy ((ORG)), noting their strong balance sheets would be enough to weather the proverbial storm.

The broker considers AGL's customer mix resilient while the same cannot be said about Infigen Energy ((IFN)) which is finding commercial and industrial contract growth difficult to manage in the volatile electricity market.

Sydney Office Markets- A Grim Outlook

Things look grim for Sydney's office markets with plenty of headwinds ahead. A recent study by Macquarie correlating GDP growth, unemployment, and the fall in office rents estimates global GDP growth would fall -8% by June 2020, returning to pre-covid-19 levels within 15 months (quicker than the GFC's 21 months).

Unemployment is expected to rise to circa 9% but would reduce to 6% within the next two years. Overall, office vacancy rates are expected to climb to about 9% by December 2020 with net effective rents hit by around -15-25%.

The broker downgrades Mirvac Group ((MGR)) to Neutral and is keen on the Dexus Property Group ((DXS)), GPT Group ((GPT)) and Charter Hall Group ((CHC)).

A Structural Shift In Wealth Management Platforms

Westpac is keen on focusing on its core business, a point underscored with the bank deciding to move its wealth platforms business (including Panorama) into a Specialist Businesses division, even hinting at the possibility of selling some in the future.

The resulting uncertainty would be beneficial for Netwealth ((NWL)) and Hub24 ((HUB)) in the short term, expects Citi, while from a medium-term perspective, the impact could be positive if it leads to industry consolidation.

Citi is positive about both Netwealth and Hub24, expecting the structural shift to lead to strong medium-term earnings. Both platforms are expected to benefit from easing margin pressure due to reduced competition along with stronger balance sheets, which place them in a better position in case of any cost cutting measures.

Mortgage Servicing Industry – This Cloud Has More Than One Silver Lining

Mortgage servicing industries in the US and the UK are expected to face challenges in the short-term with forbearances in the US reaching 7.5% at the end of April, up from 2.7% at March end and expected to increase in May.

Mr Cooper, a key mortgage services player in the US, expects forbearances to reach nearly 20% by mid-June 2020. Broker Credit Suisse foresees earnings impacted till FY21.

Both Computershare ((CPU)) and Link Administration ((LNK)) have a sizeable exposure to the mortgage servicing industry in the US and UK, with about a quarter of Computershare's earnings coming from the US and the UK, while the mortgage industry in Europe forms about 20% of Link Administration's earnings.

Through adversity comes opportunity. The aforementioned challenges have opened up new opportunities in the form of a rise in demand for specialist loan servicers due to an increase in non-performing loans. Also, the prevailing low mortgage rates environment provides the chance to acquire long-term sticky mortgage servicing rights (MSR) with a materially lower pre-payment risk.

Residential Aged Care: Headwinds Ahead

The Federal Government announced a one-off package of $205m for aged care facilities to deal with covid-19 related costs. This includes a per occupied bed amount of $900 for metropolitan facilities and $1350 for the regional ones.

The package would boost revenues for Regis Healthcare ((REG)), Estia Health ((EHE)) and Japara Healthcare ((JHC)) by around 1% each, JP Morgan forecasts. UBS feels the package gives enough room to deal with the situation at hand. Even then, the underlying funding growth would be less than growth in costs and would hit FY21 margins, predicts JP Morgan.

Both UBS and JP Morgan are neutral on the three ASX-listed healthcare stocks with the near-term risks offsetting any long-term opportunity. UBS anticipates a rocky medium-term environment involving unemployed households coupled with low property market transactions.

Consequently, both brokers expect a shift away from refundable accommodation deposit (RAD) inflows.

TREASURE CHEST

Treasure Chest: Expansion Potential For Bapcor

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. As households and businesses hold onto vehicles longer in the face of a weak economy, automotive parts supplier Bapcor is likely to be a beneficiary.

-Resilient earnings growth expected beyond the coronavirus disruptions
-Expansion likely from private-label growth, DC consolidation
-Heightened potential for store roll-out in Thailand

By Eva Brocklehurst

Bapcor ((BAP)) stands to benefit somewhat from the looming recession, as households and businesses hold onto vehicles longer and move to cheaper independent mechanics from original manufacturer service.

Demand for after-market automotive parts increases substantially with an older vehicle fleet and, considered one of life's essentials, vehicle servicing is likely to be one of the first off the grid as the country's lock-downs are lifted, ahead of other discretionary retail items.

Bapcor also has a number of specific growth factors underpinning its outlook and recently raised $180m to add flexibility and capacity to execute on its growth strategy.

While isolation protocols were implemented across Australasia, the company highlighted its Australian store network remained fully operational and gross margins were steady. Therefore, UBS assesses, beyond the disruptions, the business should be able to deliver resilient earnings growth.

Credit Suisse also notes the business has held up well, in both trade and retail segments. Now that concerns over gearing are not overhanging the stock investors can focus on the prospect of the company being one of the first to benefit from a rebound. Morgans, too, expects the automotive parts sector will recover more quickly than some other consumer-facing businesses as the pandemic passes.

The pandemic is likely to affect short-term margins as non-essential work on vehicles is delayed. Moreover, a need to discount may increase in order to encourage consumer spending after the lock-downs ease, Citi points out.

The company has indicated like-for-like sales declined -12-15% in Australia over the first three weeks of April but, as Credit Suisse highlights, this compares with retail fuel volumes at Viva Energy ((VEA)) being down -30-40% and Transurban ((TCL)) indicating metropolitan traffic was down -40-50%.

Therefore, the business is holding up better than many previously feared, and UBS now assumes revenue will decline -9% in the June quarter, growing at 4% in the second half of FY20. Like-for-like sales are expected to improve from the second half of FY21, although minimal overall growth is anticipated.

Expansion is very likely in the months and year ahead from private-label growth, improved scale and the consolidation of distribution centres. Should Bapcor achieve its 35% private-label target by FY25 this could represent a $21m operating earnings opportunity. Citi considers the target achievable, as two US peers already have higher penetration at around 50%.

In order to expand coverage across the Australian automotive sector, the broker initiates coverage on Bapcor with a Buy rating and $6.00 target and expects compound growth in earnings per share of 14%. This should stem from international expansion, initially Thailand, and margin expansion that is underpinned by private-label growth, consolidation of distribution centres and a turnaround of Autobarn stores.

International Expansion

Citi's analysis of motor vehicle density per trade store in Australasia indicates there is potential for 151-269 Thai stores versus the roll-out target of 60-80, although recently Bapcor indicated it could exceed this. South Korea, Indonesia and Malaysia are also potential markets.

Further afield, Vietnam and Cambodia, while not a significant opportunity for stores, have proximity which may enable Bapcor to leverage its support base in Thailand.

Currently, Bapcor has five stores in Thailand and one procurement office. These are primarily focused on trade but also cater to a small number of retail customers. Citi assumes an earnings target of 10% in Thailand, lower than the current margin of 11.3%. While costs are similar, prices are lower as consumers are more price conscious.

Bapcor has also indicated it has been successful in establishing B2B relationships in Thailand, which Citi considers critical in driving repeat business.

Margin & Cost Savings

An increase in private-label penetration should drive better margins and **cost savings should arise from the consolidation of distribution centres and the turnaround of underperforming Autobarn franchises**.

Citi assesses the new Melbourne distribution centre, to be completed by December, could result in $10m in cost savings by FY22. The proportion of the company-owned Autobarn stores increased to 56% by the end of the first half and Citi expects ownership will remain a focus, in order to improve customer experience and brand perception.

Retail and service margins may have bottomed as a result, as a majority of franchise stores that were acquired over FY19 and the first half of FY20 were loss-making because of a lack of investment. Moreover, franchisees purchasing products from outside the group potentially resulted in sub-optimal brands being held in stores.

Vehicle attrition rates are expected to be lower in 2021-23 compared with the average attrition rate over the last five years, because of concerns regarding unemployment in the global economy. New vehicle sales in Australia, Citi calculates, are likely to decline by -10% annually between 2021 and 2023, benefiting Bapcor.

FNArena's database has seven Buy ratings. The consensus target is $5.81, suggesting 21.2% upside to the last share price.

RUDI'S VIEWS

Rudi's View: Share Market Trends Will Be Tested

Dear time-poor investor: share markets have rallied in the absence of timely economic insights. Meanwhile, not every stock is being treated equally.

In this week's Weekly Insights:

-Share Market Trends Will Be Tested
-Conviction Calls
-Rudi On TV

Share Market Trends Will Be Tested

By Rudi Filapek-Vandyck, Editor FNArena

Something happened on the weekend that made me think about what is happening in share markets.

On Saturday I went for a long walk, which took me to a national park with a pond in the middle. As I approached the water, stopped and looked around to soak up the beautiful environment, I was spotted by a small flock of geese on the opposite side.

Almost by reflex, a few started swimming towards me, gliding over the water, determined to overcome the distance. Instantly, their move was being noticed by others, who soon joined in.

As I stood there with the pond in front of me, I realised quite the spectacle was taking place on the water, with more geese, some ducks, and other birds all joining in to what by now had become quite a noticeable migration of birds swimming from one end of the pond to the other.

As I stood there, observing, I could just imagine the conversations taking place between birds.

Where are we going?
Over there, to that gentleman.
Is he going to feed us?
Why else is he standing there?

I thought if these birds are anything like humans, they'll soon start relishing in anticipation.

I hope he has some of that yummy stuff with him.
Ahhh yes, the really yummy yumm yums!

I swear, as I was observing a few dozens of swimming birds approaching I could see several happy faces with big smiles in the crowd. Anticipation was clearly building!

But I had nothing to share. As I continued my walk, I looked over my shoulder and noticed how most birds were making the best out of the situation, rummaging through the greenery with their beaks or trying to spot another potential benefactor on the horizon. As if the communal spirit was saying: you win some, you lose some. That's just life on the pond.

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Sometimes, in the share market, similar processes can be observed. In particular because life out there, in the real world, tends to move at a gradual pace while decisions need to be made every single day in financial markets.

Are we buying? Selling? Or sitting tight?

Meanwhile, the first few of the flock have started to cross to the other side and the more join in, the stronger becomes the temptation to expect there are yummy yumm yums awaiting all who make the journey.

In the share market, sometimes investors are really good in anticipating events well before they happen; other times they simply want to see the evidence. Which is why all talk about the worst economic downturn since at least one hundred years ago did not stop markets from putting in a big rally over the past five weeks.

Facilitating this rally were two narratives. One is a potential treatment or vaccine for covid-19 could be close. The second narrative is the worst economic slump ever might prove a short disaster only, with a sharp V-shaped recovery to follow.

Both narratives remain valid, of course, but they will increasingly be put to test, and under the microscope as the true magnitude of the damage done to the world economy is starting to be reflected in economic data and corporate announcements and events.

Bear market sentiment is extremely sensitive to news flow, which makes any turn in the first narrative both unpredictable and potentially game-changing at any moment (in either direction).

The second narrative appears to have a lot of credence, but my analyses from the past two weeks have already debunked this incorrect impression. Share markets are not at all pricing in the potential of a swift V-shaped recovery; quite the contrary instead.

See https://www.fnarena.com/index.php/2020/04/23/now-that-we-had-that-rally/ and last week https://www.fnarena.com/index.php/2020/04/30/rudis-view-solving-the-share-market-enigma/

We can all speculate as much as we like, but, ultimately, the duration and eventual outcome of this year's Bear Market for equities will most likely be decided by corporate earnings and investor confidence in what earnings will look like beyond the short term. Here, I believe, the current quarterly corporate results season in the US is quite telling.

At face value, the Q2 update on corporate profits appears en route to challenge the -15.7% recorded during Q3 2009. According to Factset, bottom up median earnings per share is currently down by -28% for Q2 which would be a lot worse than any quarter during the GFC (with -20.6% in Q1 2009 the worst on record).

Best performing sectors are healthcare and consumer staples, while those suffering most include consumer discretionary, financials, industrials, materials and energy. Herein lays the key message about what is happening in share markets throughout these turbulent times, including in Australia. It easily explains why the Nasdaq in the US has managed to quickly recover more than 70% of the damage suffered by March 23rd.

To put any of this down to investors' over-exuberance or excess liquidity provided by central banks is simply wrong. As the narrative goes, pandemics change the world in that they accelerate the adoption of new technologies and this time around what is attracting a lot more traction are 2020's powerful tech trends including online services, the cloud, the Internet of Things (IoT) and artificial intelligence (AI).

It is no coincidence this year's best performing stocks in Australia include data centre operator NextDC ((NXT)) and artificial intelligence and voice translation enabler Appen ((APX)). Their robust outlook is being confirmed by peer results in the US on top of positive news flow domestically.

Elsewhere, Afterpay ((APT)) is making a mockery out of investors sitting on short positions and/or selling the shares down to below $10 only a few weeks ago.

Incidentally, I don't think the ASX is doing investors a favour by colouring all these companies with the same "technology" brush. NextDC is infrastructure and a time will come, when this business is much more mature, that the market will recognise this and treat the stock accordingly.

Afterpay is simply an alternative credit provider. A lot of technology today facilitates the use of credit, but we don't call Visa, Mastercard or American Express "technology" companies. Either way, Tencent becoming a substantial shareholder is a massive endorsement for the local payments disruptor that was only founded in 2014.

For investors, the trick is to not fall into the trap of these generalised sector groupings and distinguish between which company's outlook is much more tied-in with the state and direction of economies. Such companies, irrespective of their labeling, are currently being treated as "too much risk" by investors who dare not price in a recovery in earnings next year and beyond.

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The day shall come that investors will sell and ignore all of today's winners and instead turn to those shares considered "value" and "cheap". The switch will be violent and rapid, and it can only take place once a lot more clarity has become apparent about the timing and potential shape of the post-pandemic recovery.

The switch will be violent because money will always flow where the highest rewards are waiting, even if that opportunity is only temporary in nature. Stocks that go down by -40%, -50%, -60%, and more, offer a lot more upside potential when the time arrives to get set for economic recovery.

It goes without saying, most companies that were already struggling prior to February won't have acquired super-power abilities during this year's lockdowns and economic recession, so they'll find themselves back in struggle street once the recovery turns into fact.

Investors need to make a clear distinction between the variation in scenarios that lay ahead, and decide what their strategy is. The market does not necessarily facilitate a smooth switch between, say, CSL ((CSL)), TechnologyOne ((TNE)) and a2 Milk ((A2M)) and National Australia Bank ((NAB)), Whitehaven Coal ((WHC)) and

Worley ((WOR)) at the other end.

As has become increasingly obvious outside of periods of forced and generalised selling, investors have no bones about selling shares in banks, energy producers and small cap cyclicals, but they rather hold on to shares in Coles ((COL)), Woolworths ((WOW)), ResMed ((RMD)), Xero ((XRO)) and the aforementioned outperformers.

This, in my view, is the true dynamic that is playing out during this year's Bear Market. It'll largely determine whether predictions by technical chartists that share market indices must retest their March low in the weeks/months ahead will prove accurate. Imagine, if shares like CSL, Woolworths and NextDC refuse to go back to where they were in the eye of the maelstrom in March, what this translates to for the banks and the cyclicals?

Once again, the obvious question for investors to ask is what is the real bargain opportunity here? Is it the Ferrari 488 Spider that can temporarily be purchased at a -$5,000 discount? Or is it the crappy looking second hand car for which the desperate dealer has reduced the price by -50%?

The beauty of running a portfolio means a strategy can be devised in order to benefit from opportunities on both sides of today's share market. Still, the question needs to be asked, and investors should be well aware of the different "value" opportunities, as repeatedly witnessed over the past seven years.

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One simply cannot change human nature and the natural instinct remains that we assume that what comes down the hardest must go up by a lot once better times arrive. It's why every time a company goes bust -like Virgin Australia- there are always investors on the register who lose the lot.

But companies don't necessarily have to pull the plug to prove that instinct wrong. 2020 is rapidly transforming itself as the busiest year for capital raisings on the ASX since 2008/2009. For many a share market laggard a successful raising means "saved from the abyss", but equally "low valuation chiseled in stone".

As per always, there are two sides to the story. Take Flight Centre ((FLT)) for example. As shown on the chart below, the consensus for price targets by stockbroking analysts has settled around $13.50, which implies significant upside from a share price that has sunk below $10. But anyone speculating this share price can return to levels last seen last year of around $45, or even anything remotely nearby, will surely be disappointed.

In fact, it is not inconceivable Flight Centre shares might never return to such level ever again, or at least not in a very, very long time. Watch the grey-ish part on the chart, which shows the evolution in the consensus target. The bottom compartment shows the fall in earnings forecasts.

A reminder to paying subscribers: you too can keep a watchful eye on the trends and changes in forecasts and valuations for more than 400 ASX-listed stocks. There are plenty more similar examples to be discovered on the website.

Conviction Calls

Stockbroker Morgans has published an update on its Best Ideas in the Australian share market. Let's not beat around the bush: Morgans sees plenty of opportunities around.

First, the stocks that are no longer included (all were sold in March): a2 Milk, Transurban ((TCL)), Sydney Airport ((SYD)), PWR Holdings ((PWH)), and Bapcor ((BAP)).

The latter is intriguing as Morgans' price target of $5.34 is still more than 14% above the share price on Monday. Even more intriguing, Citi initiated coverage with a price target of $6, accompanied by a fresh Buy rating.

Have been added in March: Computershare ((CPU)), Flight Centre, AGL Energy ((AGL)), Coles, Rio Tinto ((RIO)), Cleanaway Waste Management ((CWY)), Spark Infrastructure ((SKI)), REA Group ((REA), and Viva Energy REIT ((VVR)).

Stocks that remained on the list: Telstra ((TLS)), Aristocrat Leisure ((ALL)), Woodside Petroleum ((WPL)), Macquarie Group ((MQG)), Westpac ((WBC)), Sonic Healthcare ((SHL)), Aurizon Holdings ((AZJ)), Amcor ((AMC)), BHP Group ((BHP)), APA Group ((APA)), Domino's Pizza ((DMP)), JB Hi-Fi ((JBH)), Beach Energy ((BPT)), Magellan Financial ((MFG)), ResMed, OZ Minerals ((OZL)), InvoCare ((IVC)), Elders ((ELD)), Freedom Foods Group ((FNP)), Kina Securities ((KSL)), Pro Medicus ((PME)), IPH Ltd ((IPH)), Iress ((IRE)), NextDC, Orocobre ((ORE)), and APN Convenience Retail REIT ((AQR)).

Rudi On TV

Recently two new initiatives have started up in Australia for investors with an active interest in watching market commentary, analysis and stock tips from experts including myself.

AusbizTV comes in the form of an mobile app that can be downloaded with live news and interviews in the old Sky Business News style. For the next few weeks, I shall be appearing every Thursday, noon-1pm, on a program called The Call, to comment and share insights on 10 stocks suggested by viewers.

Elio D'Amato, having vacated his position at Stock Doctor, is now running a dedicated twice-each-week share market program on **TickerTV**, called **Spotee**. I shall be making regular appearances over there too, preferably on Wednesdays (the other day being Monday).

(This story was written on Monday 4th May, 2020. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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

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