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AUSTRALIA

EML Payments Targets The Open Banking Pillar

In a further move to diversify its earnings streams, EML Payments is expanding into open banking

-Higher debit volumes, new markets, cross-selling opportunities
-Robust aspirational targets can be met with good execution
-Earnings should become increasingly visible and less lumpy

By Eva Brocklehurst

As the pandemic has exposed the advantages of diverse earnings streams, EML Payments ((EML)) is expanding into open banking with the acquisition of Sentenial Group. The transition away from gift & incentive cards commenced with a move into pre-paid financial services and now EML Payments has added a further string to its bow with open banking.

Sentenial is a payments platform operating in the cloud that offers direct debit, credit, real-time payment and account-to-account transfers for enterprises and banks. I**ts key growth business, Nuapay, capitalises on the structural shift in the UK/EU towards open banking and non-card payments.**

The purchase price is EUR70m plus an earn-out of up to EUR40m. The latter is contingent on Nuapay achieving a revenue target of EUR30m in 2023. Nuapay is the core growth business, with earnings targets derived from expectations for increased gross debit volumes (GDV) from major customers, new markets and cross-selling.

Canaccord Genuity points out open banking allows third party applications to consumer banking and financial accounts and is likely to be an important offering for emerging financial technology companies, allowing payment products to be embedded in their solutions.

Sentenial, as the core business, processes around EUR45bn in GDV, while Nuapay generated EUR600m in 2020 and is targeting EUR15bn in GDV by FY23.

Open banking remains in its infancy and EML Payments has made a considerable investment to further its exposure, Wilsons acknowledges. While guidance and aspirational targets are arguably "bold", the broker believes they are still possible, although execution needs to be very good.

With two large clients already on board, Worldpay and Cybersource, Macquarie is more confident the company can achieve its forecasts, although the roll-out to merchants and usage rates will be critical.

EML Payments plans to globalise its platform and Canaccord Genuity believes the attractive nature of this emerging segment is best illustrated by the sizable M&A transactions by major payment providers that are occurring at elevated valuation multiples such as Paypal/Tink and Mastercard/Finicity.

Lofty Expectations

Wilsons expects Sentenial will generate operating earnings (EBITDA) margins of around 40% in FY23 and is aware that Nuapay ramping up GDV to EUR15bn in three years requires significant incremental volumes flowing through the platform.

This may not materialise in the timeframe for many reasons and hence the broker's forecasts reflect some conservatism. FY21 forecasts are completely unchanged and only a EUR31.5m contribution in revenue is factored in from Sentenial by FY24.

Macquarie also errs conservatively, anticipating only 60-65% of the earn-out will be achieved, although should the target be achieved thereafter, there is an additional 25-30% of valuation upside.

The broker suspects it will take around 12-18 months before there is enough momentum to begin factoring in the upside to forecasts. Management has acknowledged there are some competitors with greater scale than Sentenial, which Macquarie assesses is a risk to EML Payments gaining material share.

Nevertheless, the acquisition provides the opportunity to take part in the structural growth of the industry in the UK and Europe. Outside of this, the broker assesses further upside for EML in FY22 will be coming from a recovery in multi-currency cards and shopping centre traffic and maintains an Outperform rating with a $6.20 target.

Wilsons acknowledges the targets for Nuapay are high but EML is increasingly developing a reputation for executing on acquisitions. If the earn-out targets are met this will materially increase both vertical and geographical diversity as well as revenue and earnings visibility.

EML is expected to become a leading financial technology stock, offering both prepaid and open banking globally. The broker derives a target of $6.51 by applying a 25% premium to the peer enterprise value/EBITDA multiple of 18.5x multiplied by FY23 EBITDA and retains an Overweight rating.

Wilsons likes the stock as the business strategy is becoming increasingly visible and shifting towards a less "lumpy" earnings. Gift & incentive cards are expected to fall from 12% of GDV in FY19 to 5% in FY21, then to around 1% in FY23.

Canaccord Genuity expects investors will value EML Payments on a through-the-cycle basis and, after incorporating Sentenial into forecasts amid expectations from further upside stemming from acquisitions, maintains a Buy rating and $6.25 target.

The company is also in a strong financial position, expected to be net cash by around $120m at the end of FY21. After the first half result, UBS noted the gift & incentive card business in shopping centres was less affected by the pandemic than previously anticipated, so the recovery outlook looks better.

As a result, **further upgrade and re-rating potential exists as the market becomes increasingly comfortable with the company's business profile**. UBS has a Buy rating and $5.70 target.

See also, EML Payments Lights Up Reloadable Cards on February 18, 2021

AUSTRALIA

Magellan Becalmed

Soft flows continue to weigh on Magellan Financial Group and there is limited scope for a re-rating over the near term

-Retail net flows distorted by partnership
-Buybacks may weigh on Global Fund
-Is the stock expensive?

By Eva Brocklehurst

Fund flows for Magellan Financial Group ((MFG)) are proving erratic, with brokers finding it difficult to separate the underlying retail trend from the recent capital raising for the Global Fund partnership.

Funds under management for March were $106.1bn, up 5.4%, underpinned by positive market movements and some institutional inflows. Nevertheless, retail outflows occurred for the second consecutive month.

Morgan Stanley asserts it was the **capital raising for the Global Fund ((MGF)) partnership that actually drove retail flows** and, given this slightly displaced regular retail inflows, the extent of any slowdown in the underlying retail performance is unclear.

Institutional inflows of $346m were below estimates as well and the broker notes the performance of the Global Fund remains soft while the Infrastructure Fund ((MICH)) has improved modestly.

UBS calculates the -$15m in retail outflows in the month were largely comprised of global equities offset by net inflows into infrastructure and Australian equities. Lower margin core-series inflows of $17m in March listed on Chi-X were delivered largely to the infrastructure product.

The broker observes retail net flows are distorted by the partnership offering in February as this is likely to have captured some of the flow, agreeing the underlying retail trends need to clear before making an assessment going forward.

That said, UBS highlights the company's strong track record, although the flagship Global Fund has underperformed by -19.3% over one year while the Infrastructure Fund underperformed by -15.1%.

Performance fees are likely to be reduced in the second half and Credit Suisse suspects these are unlikely to be accrued in the Global Fund or Infrastructure Fund, although the former could stage a recovery in performance fees in FY22. Around $5-10m of accrued performance fees are in high conviction funds.

Buybacks

Credit Suisse asserts company's share buybacks are a vexed issue and could begin to weigh on the business, as the **discount to asset values is likely to prevent options being exercised**. The $3.1bn listed closed-end Global Fund is trading at a -10% discount to net asset value (NAV).

As the broker further explains, there are options on issue that allow their holders to buy up to $2bn of the Global Fund at a -7.5% discount to NAV. These are out of the money at the current price and unlikely to be exercised. Moreover, to address the discount Magellan is buying back units.

Credit Suisse reiterates a Neutral rating, acknowledging Magellan is a high-quality business which has a strong distribution channel. Nevertheless, the weaker fund performance makes the broker cautious about the short-term flows especially as most options are out of the money and the retirement income product is 6-12 months away.

In March, Macquarie downgraded to Neutral, assessing that given the track record in distribution capabilities, retail flows were not holding up as well as was anticipated. The broker also reduced performance fee expectations for the second half and concluded there was limited scope for a re-rate in the short term.

Macquarie had upgraded previously on the basis that inflows would be resilient. Yet on further assessment, although valuation relative to recent history appears attractive, there is limited scope while performance metrics and flows are under pressure.

Reporting Change

UBS is mainly concerned that with the company now reporting flows on a quarterly basis rather than monthly, an extended period of investment underperformance could translate into sustained net outflows.

The switch to quarterly flow reporting will reduce disclosures but Morgan Stanley notes this is consistent with most peers and funds under management reporting will remain monthly. The broker maintains an Underweight rating, assessing the stock remains expensive compared with peers on 20x FY22 PE (price/earnings ratio) estimates and believing there is better value elsewhere in the sector.

FNArena's database has two Buy ratings (Ord Minnett, Morgans both yet to comment on the update), four Hold and one Sell (Morgan Stanley) for Magellan Financial Group. The consensus target is $50.41, suggesting 4.9% upside to the last share price. The dividend yield on FY21 and FY22 forecasts is 4.4% and 4.8%, respectively.

AUSTRALIA

Bank Outperformance Ends, But Fear Not

Banks no longer offer deep value, but despite headwinds brokers expect the sector to benefit from a broader economic recovery

-Earnings and dividends upgrades through 2021
-Regionals favoured over majors
-Sector to trade higher on credit growth & capital management
-Dividend revisions significantly outpacing earnings revisions

By Mark Story

Banks outperformed the broader market by around 3.5% in March, bringing the year to date outperformance to 12%. Over the past six months, ANZ Bank ((ANZ)), up 58%, has been the clear outperformer, followed by National Australia Bank ((NAB)) and Westpac ((WBC)) both up around 43%.

Reflecting lower leverage to the recovery and the benefit of starting from a stronger position, without the need to raise equity during covid, Commonwealth Bank ((CBA)) has by comparison lagged (up 30%).

While still based on depressed earnings estimates, price/earnings ratios (PE) have risen from 11x to 16x across the big four banks. Relative to the market, Wilsons notes the sector trades at 0.88x, just above the long-term average of 0.85x.

Based on the prospect of further earnings and dividends upgrades through 2021 and capital management in the December quarter, Wilsons believes this gap is likely to close.

Hard to be overly bullish

But despite this marking the seventh month in a row in which banks have over-performed, stretched valuations and longer-term headwinds have made it difficult for analysts to be overly bullish on the sector.

While tighter lending standards could add to the sector's future headwinds, commentary from the banking regulator APRA suggests there needs to be clear evidence of a deterioration in lending standards before macro-prudential restrictions would be required. But assuming house price growth continues at the current pace, JPMorgan expects macro restrictions to be reintroduced later this year.

While Wilsons believes Australian banks no longer provided the deep value on offer in September quarter 2020, the broker continues to see upside across the industry as the economy recovers, lending growth improves and strategic initiatives take hold.

Given the prospect of further upward moves in long bond yields through 2021 and acceleration in the domestic recovery cycle, Wilsons also expects market conditions to continue to remain reasonably favourable for banks.

While valuations have risen dramatically from 0.9x book value in the September quarter 2020, the broker notes share prices are still 15% below levels implied by looking at the long-term measures of price to book ratios. On the same basis, share prices are -30% below 2015 levels before the multi-year bank de-rating process ended in mid-2020.

However, Macquarie believes that a positive balance sheet and margin trends, coupled with likely upside risk to earnings from lower impairment charges, provide a favourable earnings backdrop. But given these considerations are well understood, and reflected in share prices, Macquarie retains a Neutral sector view. The broker favours the regional banks over the majors, with its preferred exposures being Bendigo & Adelaide Bank ((BEN)) in regionals and ANZ among the majors.

Key areas of focus

Despite the strong rebound in banks, Credit Suisse believes the sector can trade higher in the near term due to regulatory environment - versus 12 months ago - credit growth (the fuse for revenue growth) and capital management.

While Wilsons expects the upcoming bank results season (May) to be well received by the market, the broker expects it to be shaped by four areas of focus: Bad debt provision reversals, higher dividends, pathways to capital management - which could potentially total around $20bn in size across the sector over FY22 - and new strategic initiatives.

While consensus provisions for bank sector bad debts have halved since December 2020 from around $8bn to $4bn - off the back of stronger domestic economic performance - Wilsons thinks provision levels still look excessive given the economic performance of Australia.

On the dividend front, the good news for investors, adds Wilsons, is that dividend revisions are significantly outpacing earnings revisions. In terms of first half 2021 dividend per share (DPS) estimates, Wilsons notes the market is currently looking for 80% growth on second half 2020.

When it comes to surplus cash, Wilsons suspects the banks will show investors a pathway to capital returns in May, but will not act until the November FY21 results.

Wilsons Australian Equity Focus List remains overweight on the banks with 300bp active position across ANZ, NAB, and Westpac. The broker has zero exposure to CBA primarily on relative value grounds and expectations around the value/growth rotation theme, which likely has at least another six months to run.

Credit growth & risked based lending

Housing credit growth improved in February to around 5%, but Macquarie notes the upside to balance sheet growth fell short of implied December 2020 commitments data.

Macquarie believes higher repayments and lower redraws limit the upside to credit growth. But the broker believes front-book (new loans) settled rates appear to have stabilised, the ongoing mix-shift towards lower-margin fixed business and front-to-back book (exisiting loans) gap is putting pressure on lending margins.

As previously flagged earlier this year, Macquarie also expects increased focus on risk-based pricing to add to the existing front-to-back book pricing gap. The Lendi Mortgage Pricing Index shows front book rates continuing to decline and now stand at around 2.35%, which is -90bps lower than in first half 2018.

Morgan Stanley notes that while ANZ's growth rate slowed again to just 1.0% from 2.4% in January, CBA was a touch stronger at around 5.0% versus 4.2%. Meantime, while NAB picked up to 2.4% from 1.3%, Westpac improved to 4.2% from 2.4%.

One of the reasons Morgan Stanley is Overweight on Westpac is the broker's expectation franchise performance and mortgage growth will improve, especially given greater focus from management and a better outlook for the Australian housing market. Westpac's first half 2021 annualised housing loan growth is now tracking at around 1.6%, comfortably above Morgan Stanley's forecast of 0%.

By comparison ANZ's annualised housing loan growth has been slowing for several months. It was greater than 10% in September and October, but mid-single digits in November and December. In the month of February it fell further to just 1.0%.

As a result of these trends, Morgan Stanley notes that ANZ's first half 2021 annualised housing loan growth is now tracking at around 3%, which suggests meaningful downside risk to the broker's first half 2021 forecast of around 8%.

Cashbacks

Macquarie also notes banks are continuing to use cashbacks to restore their market share - including Westpac ((WBC)), National Australia Bank ((NAB)), and Bank of Queensland ((BOQ)) - partly offsetting the benefits of lower funding costs. In aggregate, Macquarie estimates the majors benefiting from lower funding costs of between 16-22bps, with between 50-60% likely to be captured in FY21.

Macquarie believes the key change in housing credit growth trends in recent months is the convergence in performance across the majors and the rise of the regionals. The broker notes that CBA retained its top spot among the majors in February as it grew by around 1.2x ahead of the system, while ANZ growth declined again and is now below system at (around 0.5x).

Macquarie suspects the removal of its cashback offers and aggressive pricing have impacted ANZ's growth. NAB and Westpac also improved (with cashback and pricing support) and grew at around 0.4x and circa 0.7x system, respectively. Macquarie regards this as a significant turnaround for Westpac, albeit at the cost of margin headwinds.

Meantime, the regionals continued to take share with Bendigo & Adelaide and Bank of Queensland ((BOQ)) growing at around 2.2x and 1.9x, respectively, which when coupled with favourable deposit tailwinds, the broker believes bodes well for their earnings in FY21.

Deposit surge ends

In the ten months to December, the majors added an average of $9bn per month to their household deposit balances. However, with deposit growth having slowed materially (to less than $1bn in February) Morgan Stanley believes the surge in deposits has ended as the impact of tax refunds, tax rate cuts, early superannuation withdrawals, lockdowns and loan repayment deferrals fade.

Over the month both ANZ and CBA saw their total deferrals decrease by 54% and 76% respectively. While NAB had the lowest balance of deferrals (0.2% of total loans) out of the major banks, Westpac had the highest (0.9% of total loans).

An environment of improving loan growth and slowing deposit growth is typically a headwind for margins. But the broker believes high levels of liquidity, the ongoing deposit mix-shift and the low cost of wholesale funding support the near-term outlook.

AUSTRALIA

Rio Tinto Secures Oyu Tolgoi Financing Deal

An agreement to fund a shortfall arising at the highly significant Oyu Tolgoi copper development is now in place, although iron ore is still key to Rio Tinto's outlook

-Rio Tinto to provide new debt facilities
-Other challenges at Oyu Tolgoi still exist
-Rio Tinto's valuation still hinges on iron ore

By Eva Brocklehurst

An agreement to fund the shortfall at Oyu Tolgoi has finally been nailed down between Rio Tinto ((RIO)) and Turquoise Hill. This deal sources the US$2.3bn in extra funding required to complete the ramping up of the US$7bn Hugo North underground project at this major copper development in Mongolia.

The agreement, building on the prior memorandum of understanding (MOU) in September 2020, contemplates the pushing back of US$1.5m in debt repayments that are due between 2021 and 2024, allowing for a better alignment with the revised mine plan and cash flow.

Rio Tinto has agreed to a new US$500m senior debt facility from international lenders, with a further facility of up to US$750m. The latter is an addition to the MOU, designed to address any potential funding shortfalls arising from the rescheduling of debt repayments and the new debt facility.

Turquoise Hill will undertake a rights offering and placement of US$500m within six months of the lending facility becoming available. Morgan Stanley notes Rio has rights to maintain a proportionate equity stake in Turquoise Hill (51%) although the company has indicated it has no intention of acquiring additional securities.

Rio has a 34% economic interest in Oyu Tolgoi, accounting for around 3% of Morgan Stanley's attributable valuation. This is expected to contribute around 4% to underlying operating earnings (EBITDA) for the group in 2021 and 32% of the copper division operating earnings.

The equity raising by Turquoise Hill is less than previously expected, and higher financing cost estimates drive a slight reduction to Macquarie's 2023-26 earnings estimates.

Rio Tinto's willingness to provide extra debt to the project surprised Macquarie, which had assumed Turquoise Hill would need to provide more equity instead. Oyu Tolgoi is the most important growth project for Rio, as its copper production is expected to rise to over 600,000t by 2029.

Challenges

The shortfall agreement is essential to progressing Oyu Tolgoi but there are other challenges that suggest the project is not out of the woods yet. A coronavirus outbreak resulted in a force majeure on concentrate deliveries to China in mid-March and this could potentially affect 2021 profits if deliveries do not resume soon.

Morgan Stanley notes there is also an outstanding government approval required to proceed with the underground mine and potential to renegotiate profit sharing with the Mongolian authorities could mean some further leakage of value for the owners.

Another issue is the resolving of an existing dispute with the Mongolian tax authorities with respect to tax claims and losses carried forward that could diminish the economics and cash flow from the assets. Oyu Tolgoi has started international arbitration to resolve the dispute.

UBS notes government approvals are confronted by the upcoming Mongolian presidential elections in June. A power solution is also required to avoid any medium-term production or cost disruptions.

The broker points out the **terms of supply from the government-funded power plant were supposed to be agreed by the end of March and construction commence in July**. Rio can opt to build the power plant if the terms are onerous and this would lift the shortfall by US$1bn, UBS adds.

Iron Ore

Meanwhile, iron ore keeps on giving. The company is due to report its first quarter production on April 20 and UBS expects iron ore shipments of around 80mt in the quarter, with Rio llikely to meet the upper end of its 2021 target range of 325-340mt.

The valuation of the stock hinges on iron ore and the broker suspects prices are likely to fall with increasing Brazilian supply. On the other hand, Macquarie calculates, on current spot prices, Rio's earnings could be 43% and 155% higher than the broker's base case estimates for 2021 and 2022, respectively.

FNArena's database has four Buy ratings and three Hold for Rio Tinto. The consensus target is $124.22, suggesting 8.1% upside to the last share price. On FY21 and FY22 forecasts is 9.8% and 7.1%, respectively.

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AUSTRALIA

Will ASX Automotive Stocks Hit Top Gear In 2021?

This year's economic recovery has breathed new life in the local automotive industry, but not all share prices have been treated equally

-New car sales are back on the rise in Australia, but structural challenges remain for the industry
-History shows a close correlation with consumer confidence and a buoyant property market
-Post-covid world poses many questions, with far less answers

By Nikhil Gangaram

The Australian automotive industry has changed dramatically over the past 10 to 20 years. The impact of the internet, the emergence of electric vehicles and the demise of GM Holden highlight the cyclical nature of the sector.

In recent years, decreasing consumer confidence, lower levels of household wealth, waning unemployment and regulatory changes have dogged the industry. Prior to November 2020, the automotive industry had reported 31 months in a row of sales decline. The sector was on its knees when General Motors announced that it would cease production of the Holden brand.

Despite the doom and gloom professed by many pundits, recent data have shown there is more fight left in the industry. Earlier this month, the Federal Chamber of Automotive Industries (FCAI), released new vehicle sales figures for February 2021. The FCAI reported that a total of 83,977 vehicles were sold in February 2021. The positive result was 5.1% higher than the prior corresponding period when 79,940 vehicles were sold.

Renewed life in the industry has been reflected in the share price of Eagers Automotive ((APE)) but a lot less so for Carsales ((CAR)). Irrespective, investors are divided on the medium and long term outlook for the automotive sector.

On one side, some argue that the rise of the 'sharing economy' spells the demise of new car sales as consumers look to get more creative with their dollar. On the other hand, some pundits are adamant that 'everything is cyclical' and that the automotive sector is poised for renewed growth over a significant period of time.

Regardless, Australian investors are eager for the sector to stop stalling and address the realities of a changing economy.

Hitting top gear

There are many tailwinds that could help the ASX automotive sector hit top gear. Firstly, a changing attitude to public transport could see a surge in demand for new vehicles. In the short term, social distancing measures and personal preferences have pushed consumers to avoid public transport and drive to work instead. Limited vehicle supply and a surge in pent up demand could be fantastic for car dealerships.

In addition, sustained international border closures could see demand for air travel trickle to the automotive sector. Instead of flying interstate or overseas, consumers may opt for the humble road trip as their next holiday.

Increasing consumer confidence and the wealth effect could also play a role in the automotive sector hitting top gear. Historically, new car sales have been strongly correlated with consumer confidence and wealth measures such as house prices. Late last month, the Australian property market reported its best week since 2018, with national auction clearance rates in excess of 84%. With more consumers feeling richer and spending more, it bodes well for the automotive sector and the economy as a whole.

There is also a clear shift in the way new and used cars are being bought and sold. As a result, car dealers are also looking to extend their hand, by radicalizing how customers purchase vehicles. For example, automotive conglomerate Eagers plans to construct a mega-complex near Brisbane airport in order to tap into the "experience economy". The facility is expected to host a test track and two dozen showrooms. In addition, Eagers also plans on expanding new-car showrooms to shopping malls from the end of this year.

The recovery in the Australian automotive industry is not only limited to dealerships. A host of other auxiliary companies could also see flow-on effects. For example, with more Australians taking road trips for their holidays, expect more visits to auto shops.

Listed companies like Bapcor ((BAP)), which owns the Autobarn chains, and Super Retail Group ((SUL)) which operates Super Cheap Auto could see greater demand. In addition, the likes of GUD Holdings ((GUD)) and ARB Corp ((ARB)), which specialise in off-road accessories, could also be poised to benefit.

Speedbumps

Despite the positive highlights, the Australian automotive sector is by no means enjoying a smooth ride. Since the shutdown of Australian-made vehicles in late 2017, the automotive industry has had to fight many battles.

Given the cyclical nature of the industry, the big question is how long could a recovery last?

The cyclical nature of the industry threatens to curb long-term optimism. The sudden surge in new car sales could be explained by consumers making one-off purchases with their newfound savings. For example, many cashed-up consumers could be more prone to splurging their holiday money on purchasing a new car. So long-term sustainability and recovery in the automotive industry comes under question.

Given the discretionary nature of cars, consumer behaviour will rely on more pertinent economic factors such as Australia's economic growth, house prices and the medium-term unemployment rate.

In addition, many are predicting the shift to working from home as a result of covid will continue after the virus has been contained and that this will lead to a decline in long term automotive demand. The emergence of the sharing economy, particularly in cities, is another curve ball that the industry will have to deal with.

Although the push to more green alternatives is also becoming a worldwide theme, Australia is lagging far behind global consensus. A survey from global auditing and accountancy firm Deloitte showed Australian consumers have little desire to go electric. Out of more than 1000 local buyers surveyed, only 4% said that they would be looking for a fully-electric vehicle as their next purchase.

This is compounded by the fact government legislation continues to trifle with emission standards. Currently, NSW is the only state that has proposed stricter regulations around noxious emissions and CO_2 standards for vehicles sold within the state.

In a recent update on the industry domestically, analysts at UBS highlighted EV sales now represent 0.7% of total sales in Australia, but the numbers are growing by 138% from last year.

The jury is still out on what the Australian automotive industry will look like in the long term. One thing is for sure though, the sector still has plenty of drive and the gears are changing fast.

The Verdict In April

The above mentioned analysts at UBS have kept their Buy ratings for both AP Eagers and Autosports Group ((ASG)), the latter remains in favour due to long term leverage to the luxury cars segment of the market.

FNArena's Stock Analysis shows most brokers remain on par with UBS, though only one price target -Morgan Stanley's $17- is still above the rising share price. Autosports Group is only covered by two of the database brokers and both still hold a positive view, with both price targets below the current share price.

Carsales, on the other hand, counts more Hold/Neutral ratings than Buys, but its share price is currently trading well below consensus target of $22.12. Bapcor shares are equally below consensus target, but at least broker ratings are all positive, with the sole exception of Morgans' Hold rating.

Super Retail, which represents a lot more than just Super Cheap Auto, is seen trading some -10% below consensus target, and only two brokers don't think that deserves a Buy (or equivalent rating).

Broker opinion on ARB Corp is a bit more circumspect; one Accumulate, two Holds and only one Buy, but all price targets remain above the share price, despite that share price more than doubling from mid last year.

One of the cheapest stocks in the sector is that of AMA Group ((AMA)), distributor of parts and provider of repair services, whose shareholders have experienced an annus horribilis as the business encountered a tsunami of disappointing developments.

Some of the lesser known names in the sector include PWR Holdings ((PWH)), Motorcycle Holdings ((MTO)), Maxitrans Industries ((MXI)), Apollo Tourism & Leisure ((ATL)), Vmoto ((VMT)) and Supply Network ((SNL)).

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AUSTRALIA

Is Zip Co Primed To Zap Lower?

Growth is stellar for payments operator Zip Co, particularly in the US, but is it being primed for a fall?

-Increasing competition a risk but growth still substantial
-Leading the sector on net customer additions
-Structural tailwinds strengthening despite risks

By Eva Brocklehurst

Is Zip Co ((Z1P)) on the verge of a major growth spurt that will narrow the gap to its main rival, Afterpay ((APT)), and create a substantial global payments operator, or is the company at risk of being enmeshed in a tighter Australian regulatory environment?

The company's US entity, QuadPay, put in a stellar performance in the March quarter, with total transaction value (TTV) growth of 234%. While the number of transactions grew significantly in Australasia as well, up 61%, average order values fell, which UBS attributes to the 'Tap & Zip' feature.

Yet, the top line is still expected to grow rapidly and the broker continues to believe in management's strategy although, as this is a relatively early-stage investment with significant execution risks, a Sell rating is maintained.

Citi, on the other hand, is buoyed by the latest numbers, particularly for QuadPay. While acknowledging increasing competition is a risk to growth and profitability over the medium term, the broker notes US BNPL (buy now pay later) penetration is low and QuadPay's Shop Anywhere offering is likely to drive growth in the short term.

Citi asserts Zip Co's offering in Australia is differentiated from other BNPLs and expects the account-based concept will take share from credit cards, while **Tap & Zip is potentially more exposed to competition from new BNPL products, such as the Commonwealth Bank's ((CBA)) card-based offering**.

Citi expects revenue growth for Zip Co will be stronger than other financial technology/payment peers but values the stock in line with these, given the higher credit risk in the Zip Co business model.

The broker envisages BNPL will end up being a "winner takes most" market, although there are risks to medium-term growth forecasts and margins for Zip Co. Shaw and Partners notes the company is leading the sector on net customer additions and this is its preferred metric for measuring growth.

Furthermore, Ord Minnett asserts growth in the business has not come at the cost of quality, as bad debts are trending down in Australasia and QuadPay's net transaction margin remains above 2%. Morgans agrees credit quality remains sound, as net bad debts fell to 1.78% from 1.93% in the second quarter.

There were 674,000 new shoppers added to the US platform during the quarter, a seasonally quiet period for retail/BNPL. QuadPay, Morgans notes, is now annualising an impressive US$2.8bn in TTV with merchant growth of 55% sequentially in the quarter.

The broker finds the US expansion highly encouraging and anticipates longer-term upside if Zip Co can execute on its ambitions. Morgans also expects the gap to Afterpay should narrow over time.

International Expansion

International expansion continued during the third quarter with strategic investments in the Philippines and Europe via TendoPay and Twisto respectively, although the size and percentage of the stakes was not disclosed. Morgans notes Homebase, JD and Fragrance shop have signed with Zip Co in the UK and the company has also undertaken a "soft" launch in Canada.

Zip Co did not provide customer metrics for the UK, signalling growth has been modest, and Citi suspects the company may be too late to that jurisdiction. The broker also envisages risks to QuadPay's revenue yield. Yet, Citi agrees QuadPay's strong growth will help close the valuation gap to peer Afterpay and on this basis upgrades to Buy from Neutral.

International markets stood out for Shaw and this underpins the valuation, with international TTV estimates, conservatively, upgraded to $810m for the fourth quarter.

BNPL Risks

The BNPL sector has been a material beneficiary of economic stimulus but UBS is cautious about the short-term outlook as policy measures are wound back. For Zip Co this may impact the top line, in terms of growth, and amplify credit risks, which are difficult to quantify.

The broker highlights the risks in particular to fourth quarter forecasts for Australasia amid the cessation of JobKeeper on March 28. In Australasia, UBS forecasts $990m in TTV for the fourth quarter with 2.8m active customers as of June 30.

Macquarie has assessed the 46 submissions from industry participants to the Australian payment system review being conducted by the Australian government and due for completion in the next few weeks.

The broker, which has an Underperform rating, notes around 63% of stakeholders referenced BNPL, which highlights the significance of that emerging sector. Respondents, in the main, were looking for more government regulation.

Macquarie notes around one third of the submissions made critical comments regarding BNPL. In particular the unequal playing field. As a result, the broker is convinced there will be "more pain before gain" for the BNPLs and, beyond industry consolidation, envisages increasing regulatory pressure as a key risk.

Yet, Shaw considers Zip Co, now one of the largest BNPL companies globally, represents the best leverage to growth. The US business is "smashing it out of the park" while multiple structural tailwinds are strengthening.

The broker asserts the company's functionality and app-based product is misunderstood. Customers are able to conduct a transaction anywhere and margins in the app globally are greater compared with direct integration because of the latter's mix of interchange, affiliate and customer fees.

This lends strength to a segment which is increasingly being utilised. The broker expects more app-based products will be launched with a focus on the millennials market with crypto currency, stocks and other lending products launching off the Zip Co ecosystem.

Shaw and Partners, not one of the seven stockbrokers monitored daily on the FNArena database, retains a Buy rating and raises the target to $16. The database has three Buy ratings and two Sell. The consensus target is $9.18, suggesting -12.4% downside to the last share price.

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AUSTRALIA

Better Lithium Prices Enhance Orocobre

A strengthening lithium price has substantially improved the outlook for Orocobre as it expands its production profile over 2022

-Lithium prices likely to trend higher
-Funding outlook for Olaroz and Naraha improves
-Major expansion happening in 2022

By Eva Brocklehurst

Is Orocobre ((ORE)) on the verge of a substantial company-making expansion? The lithium miner owns a 65% equity interest in the Olaroz project in Argentina and the lithium price is strengthening.

Brokers suspect the current supply deficit for lithium is likely to widen and Olaroz is a key lithium brine resource with a Stage I production capacity of 17,500tpa. Guidance for a lithium price of US$7400/t is 20% ahead of prior guidance for the second half of FY21.

This underscores the recent feedback Ord Minnett has received regarding a very tight market, while production figures for the March quarter and price guidance have reinforced the view that lithium prices have found a bottom and should trend higher.

Orocobre has reported lithium carbonate sales of 3032t in the quarter with an average realised price of US$5853/t. Ore production from Olaroz through to FY22 is locked into sales contracts with variable prices depending on market conditions.

Sales missed estimates in the March quarter but Morgan Stanley believes this requires clarification, which was not provided. The cause may have been delayed shipments, or the company holding back tonnage where possible to realise a better price in the fourth quarter.

While guidance is higher, no grade mix was provided and the broker highlights that a large part of tonnage contracted in the fourth quarter is at lower prices than what Orocobre is now flagging.

Macquarie asserts earnings in the second half of FY21 are largely unaffected by upgrades to lithium price forecasts as prices are locked in at US$5500/t. Yet the outlook beyond FY21 is different.

Orocobre is **set to double its lithium carbonate production in the next three years**, allowing for increased exposure to battery grade lithium. A widening supply deficit should enable further expansions.

Macquarie calculates a larger than expected earnings loss will now be reported for FY21 but the improved earnings outlook eases funding concerns for both Olaroz and the Naraha project (75% interest, Japan) which will be commissioned in late 2022.

Naraha will convert technical grade lithium carbonate from Olaroz to produce 10,000tpa of lithium hydroxide, allowing further exposure to higher-priced lithium products.

The broker has made material upgrades to lithium price estimates beyond the second half of FY21, which transforms the earnings outlook across the sector. In particular, operating cost assumptions are also revised for Olaroz and Naraha.

UBS anticipated lithium prices will recover and noted at the recent results that the cost base for Orocobre had improved while Morgan Stanley agrees **Orocobre benefits from higher brine grades that create cost improvements along with a predictable production profile**.

Macquarie points out Olaroz generated strong earnings over its first four years of production but widening price discounts and falling lithium prices a year ago materially affected profitability. Yet the latest improved pricing from Olaroz is encouraging and the broker observes the recovery in regional lithium prices is occurring at a faster rate than anticipated previously.

Now, reductions in fixed costs and better prices should mean this turns around in FY22. Construction of Stage 2 was delayed because of the pandemic but is now expected to commence in the second half of 2022 and ramp up fully by the second half of 2024.

Macquarie upgrades to Outperform from Underperform on the improving outlook, driving upgrades of 117%, 32% and 14% to earnings estimates for FY23, FY24 and FY25, respectively.

FNArena's database has three Buy ratings, three Hold and one Sell (Credit Suisse). The consensus target is $5.79, signalling -3.1% downside to the last share price. Targets range from $5.00 (Credit Suisse) to $7.10 (Macquarie).

AUSTRALIA

Galaxy Resources Spices Up Sal De Vida

Amid burgeoning lithium prices Galaxy Resources has outlined a development plan for Sal de Vida that exceeds expectations on most metrics. What could possibly go wrong?

-Slower ramp up of Sal de Vida offset by higher production assumptions
-Demand outlook for lithium continues to improve, leading to higher prices
-Further upside potential from higher grades encountered in recent drilling

By Eva Brocklehurst

The development plan for Sal de Vida in Argentina has brought more clarity to the outlook for lithium producer Galaxy Resources ((GXY)). The plan is to produce battery-grade lithium carbonate in three stages at 10,700tpa each, with stage I to be commissioned by the end of 2022.

The product mix consisting of 80% battery grade is higher than Ord Minnett previously expected, while the unit costs are lower. There is also potential upside from higher reserve grades. The larger scope of the project also underpinned Macquarie's basis for upgrading the stock to Outperform recently, with production rates guided at 28% above the long-term base case.

The ultimate production rate will be 32,000tpa of lithium carbonate, compared to the prior assumptions of 25,000tpa, with a total capital cost of US$466m.

In adjusting to three stages from two, the company has slowed the projected ramp up during 2022-26, albeit the plan delivers higher production for the longer term. Design of stage 2 would run parallel to the ramp up of stage 1 with production to start from 2025. Stage 3 would commence by 2027.

Macquarie reduces 2023-25 earnings estimates accordingly, yet notes this is more than offset by the higher longer-term production rates, which provide a 15% lift in project valuation.

Overall, Canaccord Genuity finds the feasibility study and development plan comprise production rate and resource/reserve upgrades that are all better than previously modelled. Hence, the broker, not one of the seven monitored daily on the FNArena database, maintains a Buy rating and $3.60 target.

Risks

Yet while also upgrading its valuation on the back of higher lithium prices, Morgan Stanley believes the expansion opportunities are more than fully accounted for in the current share price, given construction and commissioning risk. The broker prefers Orocobre ((ORE)) over Galaxy Resources in the lithium segment.

Ord Minnett highlights the luxury of a drawn-out study and optimisation phase at Sal de Vida but agrees there are commissioning and execution risks, particularly for the battery grade ramp-up.

There is also the **prospect of further waves of coronavirus delaying construction**. Argentina's borders are currently closed and Citi believes this will contribute to the risk of delays in the commissioning timeline for stage 1.

Still, the demand outlook for lithium continues to improve and lead to higher prices. All stakeholders in the industry, Ord Minnett observes, are placing emphasis on strategic, green supply and less dependence on China.

Moreover, the broker points out Galaxy Resources is in a good position to capitalise on this with its fully-owned projects potentially delivering more than 75,000tpa of lithium carbonate equivalent.

The company's cash reserves allow for stage I funding of US$153m, which will be complemented with cash flow from Mount Cattlin (Western Australia). Funding for stages 2 and 3 should be competitive, in the broker's view, while James Bay has plenty of local funding options in Quebec.

Ord Minnett also suggests both Sal de Vida and James Bay should have a lower carbon footprint, with the opportunity to convert the fuel source from diesel to gas and even to solar at Sal de Vida while James Bay is hydro powered.

The improving outlook has meant Macquarie's assessment of the debt requirements for Sal de Vida has been reduced to US$250m, with peak funding occurring in 2024.

Reserve Increases

Higher grades from recent drilling signal there could be 5-10% upside to Sal de Vida, Macquarie adds. The company's updated reserve and resource estimate has also pleased brokers with total lithium in reserves increasing 13%. Resources were upgraded by 27% amid a large increase in inferred resources.

Meanwhile, earnings from Mount Cattlin are improving amid rising spodumene prices. Spodumene production at Mount Cattlin improved to 46,600t in the first quarter and shipments were 29,900t, lower than expected as a 15,000t shipment slipped into April. After incorporating the Mount Cattlin volumes Macquarie increases its 2021 earnings forecast by 9% and 2022 by 1%.

Citi marks to market spodumene prices which also results in upgrades to its estimates for Mt Cattlin. The broker envisages spodumene prices will recover to US$650/t over the next 12 months, supported by strong Chinese demand.

On the other hand, Citi agrees with Morgan Stanley the risk-adjusted valuation of Sal de Vida is already reflected in the current share price. The database has three Buy ratings, one Hold (Citi) and two Sell (Morgan Stanley, Credit Suisse). The consensus target is $3.35, signalling -6.4% downside to the last share price.

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COMMODITIES

Material Matters: Nickel, Oil, Silver, Iron ore, Copper

A glance through the latest expert views and predictions about commodities: Nickel, Oil, Platinum, Silver, Iron Ore, Copper

-Iron ore has mark of the value trap
-Nickel to fall by up to 15%
-Increased availability put downward pressure on sliver
-Brent oil to break US$75 in Q3

By Mark Story

Nickel

With Tsingshan's move into 'class 2' conversion significantly undermining the medium-term bull thematic, Citi has trimmed nickel prices between -6% and -15% with the biggest impact to 2023. The broker's revised forecast nickel prices are US$7.61/lb (-10%) for 2021; US$6.58/lb (-6%) for 2022; and US$6.35/lb (-15%) for 2023.

As a result, Citi has substantially lowered earnings FY22 estimates (EBITDA) for pure-play nickel stocks Western Areas ((WSA)) and Nickel Mines Ltd ((NIC)) by -20% and-13% respectively. IGO Ltd's ((IGO)) FY22 earnings (EBITDA) reduction of -9% is also impacted by lower gold price expectations.

Citi's long term (real) nickel price is US$17k/t (US$7.71/lb) due to the incentive price for high pressure acid leach (HPAL) processing. While the lift to long term expectations impacts Citi's Nickel Mines and Western Areas net present value (NPV) by around 5% given their long production profile, the broker notes that IGO's sensitivity to long term pricing is limited with Nova production expected into 2027.

While Citi sees the damage done to the medium-term case for nickel from the Tsingshan news as significant, the broker believes there are still **cyclical reasons over the next two quarters to expect nickel to trade higher**, including strong stainless and battery demand. As a result, Citi is targeting US$8.17/lb (+9% versus spot) to be hit over the next three months.

When the brunt of the surplus hits in 2022 and beyond, Citi expects it to be firmly across both class-1 and 2 nickel pig iron (NPI) markets. Within this environment, with a base case for prices to slide to around $6.35/lb by 2H22 (-15% versus spot), Citi favours Nickel Mines, which the broker believes is well positioned through the cycle with both production and earnings growth.

Citi has a Neutral/High Risk rating on Nickel Mines and a target price of $1.50 down from $1.70. The broker also has a Neutral rating on IGO and Western Areas with price targets of $6.90 (down from $7.10) and $2.40 9 (down from A$2.65) respectively.

Oil

Crude oil prices continued on their rollercoaster ride following last week's announcement that OPEC will be gradually increasing output in coming months. OPEC agreed to increase quotas by more than 1.1mb/d from May-July in three equal monthly instalments. Over the same period, Saudi Arabia will wind back its additional 1m barrel per day cut below its official quota.

Overall, that has seen ANZ Bank analysts raise their estimate of supply by only 400kb/d in Q2 2021. Even with the additional supply, the bank's analysts still expect further drawdowns in global inventories. ANZ expects this to induce more OPEC supply back into the market in H2 2021.

Brent crude initially rallied on the news, with the market viewing the move as a vote of confidence on the state of the market. Saudi Arabia even raised prices for customers in Asia for shipments in May.

However, futures have subsequently fallen amid the spectre of another 2mb/d hitting the market between now and July. ANZ notes that rising virus cases in countries such as India and the European Union are keeping traders cautious, with any renewed restrictions likely to weigh on demand.

Also raising some concerns are reports of an increasing amount of Iranian oil hitting the market, with one consultant stating that exports of crude and oil products could reach as much as 1.5-2mb/d over coming months.

ANZ expects bullish balances, and sequential draws in the second and third quarters to firm up prices, with a more positive macro backdrop likely to attract further investor interest in the sector. The bank's analysts maintain their positive view on prices in the short term, with **Brent crude breaking through US$70/bbl to hit fresh highs of US$75/bbl in Q3.**

Gold

Despite ongoing selling from gold exchange traded funds (ETFs) in March, UBS reiterates that individual strategic weights should be maintained given gold's importance as a portfolio diversifier. However, the broker also continues to advise protecting against further downside in prices into 2H21.

UBS modeling indicates gold is currently trading at a premium to its fair value of US$1,700/oz. If UBS incorporates the house view on US government yields and the US dollar, the broker's model predicts a base case of around US$1,600/oz by year end, with a risk case of circa US$1,500/oz.

UBS has lowered its gold forecast to US$1,650/oz by the end of June and to US$1,600/oz by the end of March 2022.

While ANZ agree that **gold's upside looks limited by rising yields** and buoyant risk assets, the bank's analysts expect a weaker US dollar, stimulus expectations and rising inflation to be supportive for prices in H2 2020.

ANZ notes that gold prices hit their highest level in more than a week as a weaker US dollar lured more investors back into the market.

Platinum

In light of the recent supply disruptions at Nornickel's Oktyabrsky and Taimyrsky mines in Russia, UBS has reduced its mine supply estimate for 2021 by about -140,000 ounces. This translates to a small platinum market deficit of about 185,000 ounces (2.3% of 2021 demand), which the broker notes would mark the third consecutive year the platinum market is under-supplied.

UBS thinks supply risks could result in an even larger deficit, especially if South African production rebounds are slower than expected from last year's disruptions and/or those mines in Russia take longer to reopen.

Based on improving demand amid supply disruptions, UBS reiterates a constructive outlook and e**xpects the metal to rise to US$1,300/oz over the next 12 months**. The broker recommends risk-seeking investors sell platinum's downside price risks or add exposure upon price setbacks.

Silver

Higher real rate expectations in the US, with Treasury Inflation Protected Securities (TIPS) yields narrowing another 30–40bps, don't bode well for precious metal prices overall. While silver prices have stayed around the 200-day moving average lately, like gold, they are still strongly influenced by US real rates and US dollar moves.

Despite improving industrial application demand, especially in renewable energy, UBS believes investment outflows remain a near-term burden for the silver price overall.

The broker notes the bulk of the almost 190m ounces of outflows over the last two months came from non-commercial accounts in the futures market. With adverse investment flows likely to remain a headwind for silver prices into the second half of the year, UBS have lowered their silver forecasts over the next 12 months to US$24/oz (from US$ 25/oz).

UBS have lowered silver forecasts only slightly in the expectation that weak US dollar expectations will act as a price-supportive factor.

While silver can count on stronger industrial application demand this year, UBS believe it is unlikely to be enough to offset the increased availability of silver, which is putting downward pressure on prices.

On the Investment side, UBS suggests avoiding selling the price downside risks in silver for yield until there are signs of less negative real yield dynamics. Alternatively, the brokers suggests investors with existing silver positions could sell price upside risks for yield (7% p.a.) at US$28/oz over the next three months.

Iron ore

A pause in the rally of steel prices failed to scupper iron ore's recent rebound. The steel making raw material suffered a sharp correction in early May amid concerns of Chinese stimulus measures being removed; however, it has rebounded strongly amid a tight spot market.

With China setting tough carbon-neutral targets and environmental policies, the steel industry is likely to demand more high-grade iron ore, which can allow steel mills to produce more steel despite lower overall capacity.

ANZ Bank analysts believe strong China steel export orders and decent profit margins will keep steel production strong in H1. However, the analysts note that Vale continues to struggle to raise iron ore production, while risks of weather disruptions in Australia remain high in Q1.

Overall, the bank's outlook is for a weaker for H2, as China's steel production growth slows and supply issues ease.

Morgan Stanley notes that the elevated spot price of US$169/t has not shaken the market's expectation of a declining iron ore price, in line with the broker's view of 4Q21 US$100/t, and 2022 US$89/t.

Morgan Stanley finds strong upside to implied prices among iron ore miners and favours higher grade producers like BHP Group ((BHP)), rated Overweight and Rio Tinto ((RIO)), rated Equal-weight. The broker is Underweight low grade producers like Fortescue Metals Group ((FMG)) and Mineral Resources ((MIN)).

Echoing similar concerns about iron ore, Morgan Stanley believes what's shaping up to be **a value trap is largely already understood by the market**. While an average -30% below current spot prices would typically indicate value for iron ore miners, Morgan Stanley is finding the space (especially pure-plays) overvalued.

Copper

Copper has rallied amid growing optimism around a post-pandemic recovery in the US, The industrial metal rose nearly 3% on the London Metal Exchange (LME), after a jobs report showed US employers added the most jobs in seven months as rising vaccinations and fewer restrictions boosted confidence across most industries.

This follows on from US President Biden's proposed US$2.25bn infrastructure plan. This has seen prospects of stronger growth rise, with the International Monetary Fund (IMF) raising its forecast for US growth to 6.4% in 2021 (previously 5.1%).

The IMF's expectation of **global growth now hitting 6%** helped shrug off the concerns of weaker growth in Europe amid rising coronavirus cases and renewed lockdowns. While traders are closely watching the impact of Chile closing its borders (as it tries to contain the coronavirus) the country's Energy and Mining Ministry doesn't expect it to affect the normal operations of the mining industry.

After starting the years strongly, copper prices have failed to hold above US$9,000/t over the past few weeks. ANZ analyst's suspects much of this has been driven by rising concerns of weaker economic growth amid renewed lockdowns in Europe and Asia.

However, the high prices have also induced additional material onto the spot market, with stockpiles in LME warehouses up 100% in March. ANZ remain bullish on copper, but suggests further inflows could temper gains in the short.

Morgan Stanley notes that copper pure-play OZ Minerals ((OZL)) implies prices around 9% higher than spot. The brokers also notes that Sandfire Resources ((SFR)) continues to trade on a discount given its short mine life, with the stock implying a copper price -26% below current spot at US$3.02/lb (Spot: US$4.10/lb).

COMMODITIES

Material Matters: Lithium, Oil, Base Metals, Gold

A glance through the latest expert views and predictions about commodities: Lithium, oil, base metals, and gold

By Mark Story

-Material shortages predicted for lithium from 2025
-Galaxy Resources earnings estimated to more than double over next 5 years
-Fears of steel output cuts from Tangshan over-blow
-Major iron ore producers well positioned to re-rate

Lithium: Bullish price outlook

Based on its revised bullish electric vehicle (EV) demand outlook, Macquarie sees the lithium market moving to deficit in 2022 with material shortages emerging from 2025. Macquarie expects lithium prices to trade at incentive levels and the broker has upgraded its lithium price forecasts by 30-100% for 2021-2025.

Chinese spot lithium prices started to recover in late 2020, with the recovery accelerating over the first three months of 2021. Lithium carbonate prices have been stronger, up around 70% year to date, while Chinese lithium hydroxide prices are up 55-60%. Macquarie notes lithium carbonate prices in China are currently trading at 10-20% premiums to lithium hydroxide prices.

The rise in China spot prices has started to translate through to a recovery in regional lithium prices. Given that Chinese carbonate prices are up 110% and 80% from the beginning of 2020 - while Chinese hydroxide prices are up around 40% - Macquarie believe there could be further upside to regional prices in coming months.

Upgrades and re-ratings

Macquarie's lithium price upgrade has led to earnings upgrades and re-ratings for Australian lithium miners. Both Orocobre ((ORE)) and Galaxy Resources ((GXY)) have been upgraded to Outperform. Macquarie has also resumed coverage of Pilbara Minerals ((PLS)) with Outperform, and after remodeling the miner's growth outlook with a staged approach, expects to see a nine-fold increase in spodumene production by 2028.

While Orocobre's near-term earnings are largely unaffected as lithium carbonate prices have been locked in at US$5,500/t in the seocnd half FY21, Macquarie believes the improved earnings outlook eases funding concerns for the miner's Olaroz and Naraha expansions.

Galaxy Resources' earnings outlook has been transformed by the material upgrades to Macquarie's lithium and spodumene rising near-term pricing outlook, with the broker's earnings estimates having more than doubled over the next five years.

Lithium price upgrades have also enhanced Macquarie's view on Mineral Resources ((MIN)), which remains one of the broker's key picks across the broader resources sector. Macquarie expects Mineral Resources share of lithium hydroxide production to grow to 60ktpa by FY28, with first production expected in FY22.

The broker expects Mineral Resources earnings upgrade momentum to remain strong with a spot price scenario generating 160% higher earnings in FY22. Macquarie believes the stock trades on much lower multiples than its peers due to its diversified earnings, which are currently dominated by iron ore.

Macquarie has also upgraded its earnings forecasts for IGO Ltd ((IGO)) with its share of production from Greenbushes expected to rise to 300ktpa from FY25 and Kwinana Hydroxide online in FY22. The broker expects production from Greenbushes and the ramp up of the Kwinana Hydroxide plant should generate $300mpa in earnings for IGO from FY25. Macquarie notes that IGO is also trading at lower multiples due to its earnings currently being more weighted to gold and nickel.

For pure lithium exposure the broker has set its order of preference as Galaxy Resources, Pilbara Minerals and Orocobre, with price targets of $4.20, $1.30 and $7.10 respectively.

Oil: Higher production levels

With Iranian exports and US drilling activity taking some steam out of the bullish view oil prices in recent months, Morgan Stanley has moderated its third quarter price forecast.

While the broker had only expected a modest increase in Iranian exports by fourth quarter 2021, tanker tracking data suggests exports have already picked up more than Morgan Stanley assumed. With renewed negotiations between the partners to the JCPOA (Iran nuclear agreement) current going on in Vienna, the broker believes there's the possibility that this gains momentum.

While much remains uncertain, Morgan Stanley is raising its estimates for Iranian production, which moderates inventory draws over the balance of the year. Morgan Stanley now assume Iran's oil production will average 2.7 mb/d in the third quarter, growing further to 3mb/d by year-end (up from 2.2and 2.5 mb/d before respectively).

Meanwhile, US drilling activity has continued to increase. While the pick-up in activity in the Bakken and Eagle Ford shale deposits remains modest, the broker notes the rig count recovery in the Permian Basin is following a trajectory nearly identical to 2016. New well start-ups in the Permian were already back to 2018/19 levels in February/March.

Given the time lags involved, Morgan Stanley still does not expect much US shale growth 2021, and without the contribution from basins outside the Permian, production growth will remain only a fraction of the 2017-19 levels. However, Morgan Stanley notes US shale can start to grow several hundred thousand barrels per day again in 2022, which the broker believes is enough to start gaining market share.

The broker believes these factors set up an outlook in which OPEC may need to accommodate higher Iranian production in coming quarters, and rising US shale output in 2022. Morgan Stanley still sees inventory draws during the rest of 2021 supporting prices, but less than before. This moderates Morgan Stanley's expectations for how backward-dated the forward curve can become and lowers the broker's spot price forecast.

Whilst Morgan Stanley previously thought Brent could average $70/bbl in the third quarter and overshoot temporarily, it now expects a range of $65-70/bbl. If the 12-month forward WTI price at $55-60/bbl is already elevated, and the 1-12 month time spread can go to $6-7/bbl but not much higher, Morgan Stanley thinks it's unlikely that front-month WTI moves much beyond $61-67/bbl.

Base metals: Returns underappreciated

Having concluded that fears of steel output cuts from Tangshan appear overblown, JPMorgan believes there is plenty of production capacity elsewhere to make up the difference. The broker believes losses to electric arc furnaces (EAFs) are likely have a minimal impact on iron ore demand.

Based on JPMorgan’s review of the latest consensus data, the broker concludes the recent earnings upgrade cycle (ex. gold) is set to continue.

The broker notes that while iron ore has now recovered to above $172/t (within 3% of cycle high), BHP Group ((BHP)) Rio Tinto ((RIO)) and Fortescue Metals Group ((FMG)) are still well down from their March peaks.

Based on compelling valuation metrics, exposure to high-quality expandable assets (that are well positioned on the cost curve), and a strong balance sheet, JPMorgan rates BHP Overweight (price target $56). Based on its strong prevent net asset value (P/NPV) support, attractive free cash flow and dividend yield, and a low enterprise value (EV/EBITDA) multiple, the broker also has an Overweight on Rio Tinto (price target $163).

Based on its exposure to long life operations, with attractive margins and expansion optionality over the long term, JPMorgan is also Overweight Fortescue Metals (price target $29).

Stronger steel margins have led the broker to increase 58% Fe discount forecasts, although spreads remain near 15%. Based on free cash flow yields of 10-16%, strong dividend forecasts, and significant price to net asset value discounts, JPMorgan believes the major iron ore producers are well positioned to re-rate.

The broker revised its nickel forecasts last week on lower demand and potential for higher supply. OZ Minerals ((OZL)) is the broker’s key pick for base metal exposure. JPMorgan likes South32 Ltd ((S32)) from a value perspective (0.82x P/NPV) with the South Africa Energy Coal (SAEC) divestment progressing, and is Overweight on the stock (target price $3.50).

While lithium chemical prices are unchanged, the broker has increased spodumene prices a further 5-10% with reports of recent trades above US$600/t. IGO remains JPMorgan’s key pick in the space with the imminent sale of Tropicana potentially leaving it net cash post the Tianqi Greenbushes/Kwinana deal. The broker has downgraded Orocobre to Neutral following a strong run up to its $5.50 price target.

Gold

JPMorgan’s US$1,700 near-term and US$1,600/oz long-term price forecasts are not overly optimistic versus spot US$1,740/oz. However, the broker notes a recent WA trip reinforced concerns of potential risks on cost inflation (both operational and capital expenditure); and volume growth in a lower-margin environment.

JPMorgan’s (Overweight) sector picks remain Northern Star Resources ((NST)) – price target $13.50 - Gold Road Resources ((GOR)) – price target $2.05 - and Newcrest Mining ((NCM)) - price target $36.50.

COMMODITIES

Material Matters: Gold, Thermal Coal & Alumina

A glance through the latest expert views and predictions about commodities: gold; thermal coal; copper; aluminium/alumina; and iron ore

-Mixed signals for gold
-Heavy hand of China's government on coal
-Deficits looming long-term for copper, aluminium
-Iron ore could be in surplus within a year

By Eva Brocklehurst

Gold

Macquarie observes **gold** has found support from headlines regarding the side effects of the Johnson & Johnson coronavirus vaccine and the US roll-out pause. Also, the US headline CPI rose to 2.6% (annual) in March but the core rate increase was sufficiently modest for bond yields to fall on the news and gold to head towards US$1750/oz.

Nevertheless, almost half of the US population has now received one vaccine dose and, with measures of mobility (people getting out and about) at around 90% of pre-pandemic levels, the broker expects strong growth momentum will be sustained and ultimately push up bond yields.

While this should place commensurate pressure on gold, Macquarie asserts that until a tapering of rates by the US Federal Reserve begins to be priced in with greater conviction, gold should be able to hold its current range.

Canaccord Genuity updates pricing assumptions for gold and **silver**, along with the Australian dollar, to reflect the current spot forward curve. Since January, the broker notes the long-term US dollar gold curve has reduced by -10.5% to US$1796/oz.

Shorter-term assumptions have decreased on average by around -12% for 2021-23. The broker reduces its Australian dollar forecast to US$0.75 resulting in a -8.8% decrease in the long-term Australian dollar gold price forecast to $2391/oz.

As a result of the updated assumptions, the broker's price targets for the gold producers are reduced by an average of -15% along with -14% for developers/explorers.

Evolution Mining ((EVN)) is downgraded to Hold from Buy. The broker's top pick among the senior producers is **Northern Star Resources** ((NST)) amid the unlocking of synergies now the merger with Saracen is complete.

Among intermediate and junior producers, Canaccord Genuity prefers **Perseus Mining** ((PRU)) as the successful delivery of the Yaoure project is expected to increase production by around 90%. The broker also likes **Gold Road Resources** ((GOR)) because of its proven ability to deliver constant cash flow.

In developers/explorers **Bellevue Gold** ((BGL)) is the preferred stock with a stage 2 feasibility study expected later in the current quarter.

<u>Thermal Coal</u>

It is becoming more and more apparent to Macquarie that China's domestic **coal** supply is now linked to central and local government policy rather than market forces. After a recent spike in the price, the central government is now asking the large miners to increase output again.

The other possibility is an increase in import quotas (of non-Australian material), the broker suggests. The domestic thermal coal price has been very volatile since late last year and, as Macquarie points out, a large rebound in the price recently attracted government intervention.

After production was pushed up during winter months the broker notes output has now become relatively constrained, consistent with the increase in environmental and safety inspections observed on the ground.

Official data for March has not been released but railway transport data to northern ports signals domestic coal supply may be at a similar level to January/February instead of showing a normal seasonal improvement.

Should local governments relax their restrictions under pressure from the central government, Macquarie estimates April's coal supply could grow by over 7-8% year-on-year, although with three accidents over the past week - in Shanxi, Guizhou and Xinjiang - this could limit the extent to which they comply.

<u>Copper</u>

Goldman Sachs upgrades estimates for **copper**, expecting US$5.39/lb in 2022 and a long-run price of US$4/lb. The outlook for copper producers under the broker's coverage improves, resulting in an upgrade for **Sandfire Resources** ((SFR)) to Buy from Neutral.

Most of the value is ascribed to the growth project in Botswana. On the other hand **OZ Minerals** ((OZL)) is continuing to run well ahead of spot copper and the broker maintains a Neutral rating.

<u>Aluminium/Alumina</u>

Goldman Sachs is also bullish on **aluminium** expecting a price of US$1.13/lb in 2022, 10% ahead of spot prices. The broker foresees long-term deficits for both copper and aluminium on rising demand from the renewables and a lack of new greenfield projects.

A Buy rating is maintained for **Alumina Ltd** ((AWC)). The broker also highlights **Rio Tinto**'s ((RIO)) first-class aluminium division but retains a Neutral rating on the stock, envisaging higher operating and physical risks across the broad portfolio.

Credit Suisse notes higher freight rates are undermining the **alumina** price in a traditionally quiet period. Current price weakness involves more than destocking, the broker suggests, and reflects the surge in freight rates to the mid US$40/t range for 'Handysize' vessels from Australia to China.

Being a marginal buyer, China sets the seaborne price. Deducting freight and allowing for Australian quality premiums explains the Australian price of US$269/t, the broker points out.

Alumina prices are expected to rise as demand from China is rising rapidly along with its output of aluminium. This could impact on **bauxite** trade as Australian exporters may now have negative margins if freight on cargoes continues to be around US$41/t.

<u>Iron Ore</u>

Goldman Sachs reiterates a negative view on **iron ore** for the next 6-12 months, expecting the market will be in surplus in the second half of FY21 because of higher Brazilian exports.

The price is expected to fall back to US$110/t by the fourth quarter, even with a 4-5% increase in global **steel** production, and the broker anticipates this falling below US$100/t in 2022.

Still, strong demand should limit any sell-off. **Fortescue Metals** ((FMG)) is downgraded to Sell from Neutral on relative valuation and the widening of low-grade 58% Fe product discounts by the year's end. There is also expenditure risks associated with the Iron Bridge project and uncertainty surrounding the Fortescue Future Industries diversification.

Credit Suisse also expects, as China's steel prices are in the super profits region, there is a possibility of steep discounts opening up for low-grade iron ore. This is even more significant taking on board the potential for capacity restrictions across China in order to curb emissions.

Fortescue Metals, which controls its own port sales now, may also become more resistant to steep discounts. In 2018, the broker points out, Fortescue was pre-selling large volumes to a Chinese trading company for sales to smaller mills.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 09-04-21

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday April 5 to Friday April 9, 2021
Total Upgrades: 2
Total Downgrades: 1
Net Ratings Breakdown: Buy 54.43%; Hold 38.37%; Sell 7.21%

For the week ending Friday 9 April there were two upgrades and one downgrade to ASX-listed companies by brokers in the FNArena database.

There were no material changes to forecast target prices for the week.

Pushpay Holdings received the largest percentage increase in forecast earnings by brokers last week. Ord Minnett upgraded the rating to Hold from Lighten and lowered the target price to $1.95 from $4.45. While highlighting that a stock sell-down may be over, after several key holders completed transactions, the broker suspects competitor offerings are closing the gap, particularly in the small and medium church segments. However, Ord Minnett notes the company's CCB acquisition adds an important opportunity to capture a larger share of existing and new customer digital spend beyond the giving platform.

A technical glitch has put Crown Resorts atop the table for earnings downgrades, so best to ignore.

The second placed Western Areas released third-quarter preliminary production numbers that either met or exceeded broker forecasts. Reasons for the outperformance included a drawdown in stocks, better grades and an improved performance from the Forrestania project. Of course the prevailing nickel price helps and prompted the analyst to raise earnings forecasts for FY22 and FY23 by 80% and 55%, respectively.

Total Buy recommendations take up 54.43% of the total, versus 38.37% on Neutral/Hold, while Sell ratings account for the remaining 7.21%.

Upgrade

PUSHPAY HOLDINGS LIMITED ((PPH)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 1/3/0

Ord Minnett upgrades the rating to Hold from Lighten. The target price is lowered to $1.95 from $4.45 due to caution over one-off benefits of covid-19 and front book growth in FY22 and beyond. New customer acquisition is expected to become more difficult.

The analyst highlights total customers remained flat between FY20 and 1H FY21 and suspects that competitor offerings are closing the
gap, particularly in the small and medium church segments.

One positive is that sell-downs from several key holders have now largely completed removing an overhang of stock, explains the broker.

RESOLUTE MINING LIMITED ((RSG)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 0/2/0

Macquarie upgrades its rating on Resolute Mining to Neutral from Underperform with the target rising to $0.50 from $0.45.

Resolute Mining's updated life of mine (LOM) plan for the Syama operation shows expected production to be 176kozpa over the next 11 years.

The miner expects production from the Tabakoroni underground mine from 2024-30. Production from the mine is expected to replace oxide production from 2024 onwards and is better than Macquarie expected.

Downgrade

BLUESCOPE STEEL LIMITED ((BSL)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/3/0

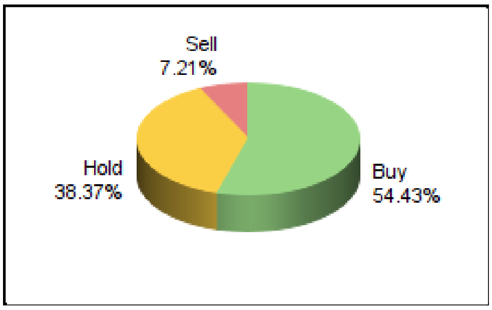
Steel prices across the US and Asia have pushed higher and Citi suspects BlueScope Steel will perform better than guidance in the second half. The broker believes FY22 will shape up as a stellar year for the company.

North Star spreads are now at US$860/t compared with a long-term average of US$317/t.

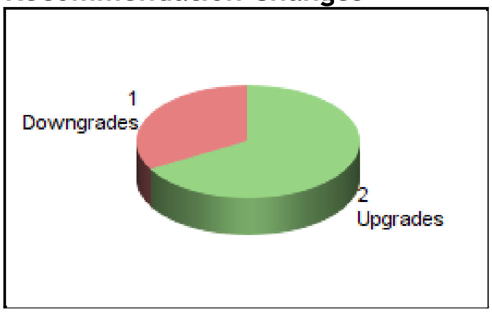
The short-term outlook for China's steel demand and pricing is also robust and for BlueScope Steel's export pricing the broker estimates a current spot spread on hot rolled coil of $580/t.

Citi increases earnings (EBIT) estimates by 38% for FY22. Rating is downgraded to Neutral from Buy and the target is raised to $21.00 from $19.50.

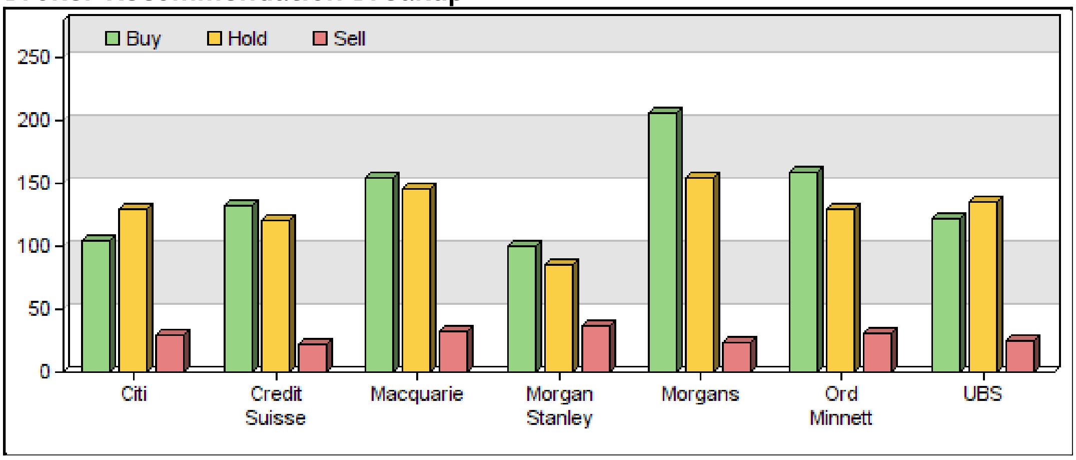
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	PUSHPAY HOLDINGS LIMITED	Neutral	Sell	Ord Minnett
2	RESOLUTE MINING LIMITED	Neutral	Sell	Macquarie
Downgrade				
3	BLUESCOPE STEEL LIMITED	Neutral	Buy	Citi

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	TYR	TYRO PAYMENTS LIMITED	50.0%	33.0%	17.0%	4
2	SGR	THE STAR ENTERTAINMENT GROUP LIMITED	58.0%	50.0%	8.0%	6
3	IAG	INSURANCE AUSTRALIA GROUP LIMITED	64.0%	57.0%	7.0%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	BSL	BLUESCOPE STEEL LIMITED	42.0%	58.0%	-16.0%	6
2	CWN	CROWN RESORTS LIMITED	40.0%	50.0%	-10.0%	5
3	PPH	PUSHPAY HOLDINGS LIMITED	25.0%	33.0%	-8.0%	4
4	WOW	WOOLWORTHS LIMITED	58.0%	60.0%	-2.0%	6

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	SGR	THE STAR ENTERTAINMENT GROUP LIMITED	4.165	4.027	3.43%	6
2	TYR	TYRO PAYMENTS LIMITED	3.875	3.750	3.33%	4
3	BSL	BLUESCOPE STEEL LIMITED	20.532	20.282	1.23%	6
4	CWN	CROWN RESORTS LIMITED	11.320	11.183	1.23%	5
5	PPH	PUSHPAY HOLDINGS LIMITED	1.950	0.000	0.00%	4

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	IAG	INSURANCE AUSTRALIA GROUP LIMITED	5.393	5.424	-0.57%	7

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	PPH	PUSHPAY HOLDINGS LIMITED	3.904	3.561	9.63%	4
2	TYR	TYRO PAYMENTS LIMITED	-3.450	-3.633	5.04%	4
3	SKI	SPARK INFRASTRUCTURE GROUP	4.548	4.348	4.60%	7
4	IPL	INCITEC PIVOT LIMITED	14.773	14.161	4.32%	7
5	RIO	RIO TINTO LIMITED	1585.676	1538.907	3.04%	7
6	IGO	IGO LIMITED	21.906	21.526	1.77%	5
7	AMP	AMP LIMITED	8.586	8.500	1.01%	6
8	NHF	NIB HOLDINGS LIMITED	30.086	29.843	0.81%	7
9	S32	SOUTH32 LIMITED	14.266	14.156	0.78%	7
10	ALL	ARISTOCRAT LEISURE LIMITED	104.643	103.929	0.69%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CWN	CROWN RESORTS LIMITED	-3.274	1.438	-327.68%	5
2	WSA	WESTERN AREAS NL	-1.096	-0.667	-64.32%	7
3	NIC	NICKEL MINES LIMITED	10.042	10.740	-6.50%	3
4	RRL	REGIS RESOURCES LIMITED	34.296	35.296	-2.83%	7
5	APT	AFTERPAY LIMITED	-16.800	-16.514	-1.73%	7
6	BOQ	BANK OF QUEENSLAND LIMITED	59.571	60.414	-1.40%	6
7	IAG	INSURANCE AUSTRALIA GROUP LIMITED	21.100	21.343	-1.14%	7
8	QBE	QBE INSURANCE GROUP LIMITED	61.807	62.445	-1.02%	7
9	WBC	WESTPAC BANKING CORPORATION	173.571	174.971	-0.80%	7
10	RMD	RESMED INC	74.047	74.606	-0.75%	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: Cameco Plans Mine Restart

As the uranium price rise of recent weeks takes a breather, Cameco plans to restart production at the Cigar Lake mine

-Cameco's Cigar Lake mine to restart
-Recent research on ASX-listed uranium companies
-The weekly Spot uranium price falls -2.7%

By Mark Woodruff

In a move that surprised some commentators given the pandemic caseload in northern Canada, **Cameco** has announced it plans to restart production at the Cigar Lake uranium mine in April. In some quarters it's felt recent tightening in the spot market and the potential for further covid supply disruption may have played a part in the decision.

The Cigar Lake mine is the world's largest operating uranium mine, producing around 18mlbs per year representing circa 13% of global supply. Production was previously suspended in December 2020, for the second time that year, due to increased risks related to covid. Earlier, Cameco had constrained production simply due to too-low uranium prices, choosing to buy on the spot market to satisfy supply contracts instead.

The announcement noted there is uncertainty regarding an achievable production rate, stating that 2021 guidance will only be updated once production resumes and the company understands the sustainable level.

CEO Tim Gitzel stated the company would continue to purchase material on the market, as needed, to meet its committed deliveries.

Meanwhile **Kazatomprom**, the world's largest producer and seller of natural uranium, has also indicated it may purchase material in the spot market this year. The company's uranium inventory fell -21% to approximately 17.6mlbs last year as production declined.

Global investment bank Canaccord Genuity believes it's likely spot uranium prices could dip lower as a reaction to the Cigar Lake restart. Spot prices decreased by -4% in the month following the first mine restart in July and increased by around US$1/lb when suspended again in December. With uranium equities pricing in uranium prices well above the prevailing spot price, it's considered a near-term pullback is likely.

Research on five ASX-listed uranium companies

FNArena has noticed an increased focus on the uranium sector by stockbrokers both in terms of general commentary and the number of company research updates. What follows is a brief summary of five recent updates by brokers for ASX-listed uranium companies.

Vimy Resources ((VMY)) is a Perth-based resource development company whose flagship project is the wholly-owned Mulga Rock project. This is one of Australia's largest undeveloped uranium resources, notes Morgans.

At 10c per share, Mulga Rock represents the larger part of the broker's 17c company valuation and target price. The high grade of Angularli should make it a profitable development even at weak prices. Exploration success in the immediate area, (in the world-class Alligator River uranium district of the Northern Territory), would increase this value.

In a recent report, Morgans noted the wholly-owned Mulga Rock project is robust though it requires long-term sales contracts. However, increased requests for expressions of interest from utilities is considered to imply that contract activity should stir in 2021.

Management anticipates that all approvals to commence site works will be in place by June 2021. The US$393m development is scheduled to produce 3.5mlbs per year U308 at an all-in sustaining cost of US$31.22/lb over the 15-year life from existing reserves. Morgans has an Add rating for the company.

Stockbroker Shaw and Partners believes **Boss Resources ((BOE))** has the potential to be one of the lowest cost uranium producers in the Western world. The analyst increased the target price on 15 March to 17c from 14c and retained a Buy rating.

The company expects completion of the Honeymoon project's Enhanced Feasibility Study (EFS) in the June quarter. Management also anticipates improvements in the project's economics, building on the January 2020 Feasibility Study (FS).

While the uranium market has been depressed for the past decade, stockpiles are depleting, supply has been curtailed and the market is showing signs of life, explains the broker.

Lotus Resources ((LOT)) is an Australian-based minerals exploration and development company. The company's key asset is majority ownership of the Kayelekera Uranium project located in northern Malawi, Africa, preeviously owned by Paladin Energy ((PDN)).

In a March 30 update, Shaw considered a recent simplification of the the project's ownership structure is positive. The company has agreed with Kayelekera Resources to exercise its right to acquire an additional 20% in the the project for around 226m Lotus Resources shares.

This will see the company's interest in Kayelekera increase to 85%, with the balance held by the Government of Malawi. The company is looking to re-start operations of the fully permitted project.

The broker highlights an appealing low upfront capital requirement of circa US$50m for around 2mlb/pa production. The analyst retains a Neutral rating for the company and sets a 16c price target.

Peninsula Energy (PEN) owns the Lance Uranium Projects in Wyoming, USA, which are in transition from an alkaline to a low pH in-situ recovery operation.

The Lance Projects require low upfront capital and can rapidly restart post a Final Investment Decision, according to Shaw. The broker likes the leverage to a uranium sector up-cycle and the company's direct exposure to US Government initiatives, which are pro-domestic mine development.

On March 30 the broker reduced its target price to 17c from 21c after incorporating slightly reduced plateau production and minor increased costs, following the company's field demonstration trial update. The broker's Buy rating was unchanged.

The aim of switching operations from high to low pH is to increase product yields. The key areas of focus for the trial are pattern design and well spacing, rates of acidification and acid consumption, and the strength of oxidants required.

The broker believes the Lance Projects in Wyoming is Net Present Value (NPV) positive at an average forecast weighted uranium price of US$46/lb.

Bannerman Resources ((BMN)) is an exploration and development company. The company's primary asset is the 95%-owned Etango uranium project in Namibia.

According to stockbroker Euroz Hartleys, the project offers unparalleled leverage to recovering uranium prices and positions the company as a unique takeover candidate.

In a February 16 report, the broker raised its price target to 18c from 12c after an oversubscribed placement has the company fully funded to optimise the development of Etango at an 8mtpa throughput rate.

In early January, the company satisfied selection criteria to be included in the largest uranium sector ETF -- the Global X Uranium ETF.

<u>US political news</u>

The Biden-Harris Administration last week submitted to Congress its priorities for fiscal year 2022 discretionary spending. This included a funding request of US$46.1 billion for major investments in key US Department of Energy (DOE) efforts to research, develop and deploy clean energy technologies.

Within the DOE, the discretionary request invests more than $8 billion in technology including advanced nuclear energy technologies, electric vehicles and green hydrogen. This is an increase of at least 27% over 2021 funding.

<u>Uranium pricing</u>

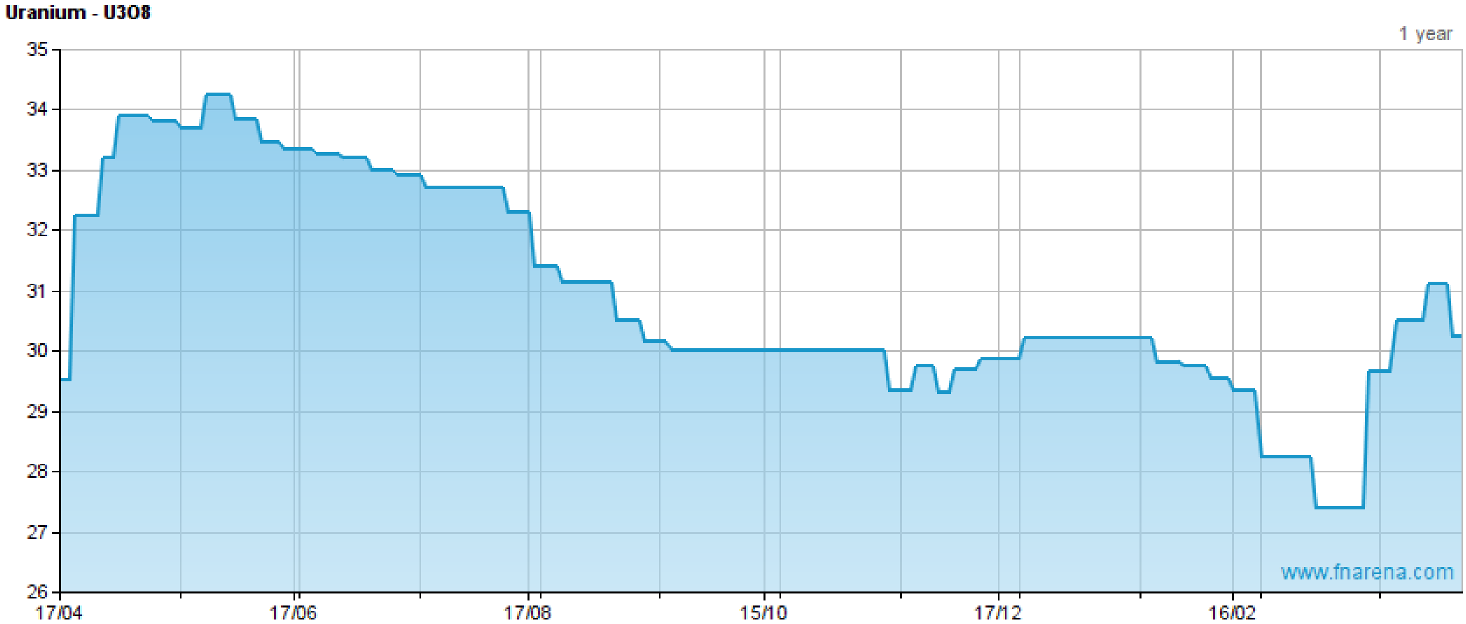
TradeTech's Weekly **Spot Price** Indicator is US$30.25/lb, down -US$0.85 or -2.7% from last week. The spot price again showed a tendency to decline in concert with slowing transaction activity. Only a handful of transactions totaling approximately 800,000lbs U_3O_8 were reported for the week.

However, the trend of producer buying continues with announcements of notable transactions and significant uranium inventory holdings by a number of current and prospective suppliers, explains TradeTech.

The Weekly Indicator is down -0.5% in 2021, having risen 13% over the last three weeks, led primarily by increased buying among producers.

The average weekly uranium spot price in 2021 is US$29.45/lb, down -US$0.26 from the 2020 average.

TradeTech's **term price** indicators are US$33/lb (mid) and US$35/lb (long).



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WEEKLY REPORTS

The Short Report - 15 Apr 2021

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

Summary:

Week ending April 8, 2021.

By Greg Peel

After some typical book-squaring argie-bargie at the end of the last quarter, the new quarter saw an opening week rally for the ASX200 straight through 6800 resistance and on to 7000, where it has since hit a brick wall.

Short activity continues to remain muted, but for a couple of moves.

With the vaccine rollout in Australia being (a) a complete balls-up and (b) hampered by contract reneging in Europe, the possibility of reopening the international border this year has further diminished and new waves of covid variants in parts of the world (India most relevant to Australia) are not helping either.

So once again travel-related stocks are under pressure, and the shorters' favourite whipping boy – Webjet ((WEB)) – saw its shorts jump back up to 14.0% last week from 12.2% the week before.

The only other move of note was that of Resolute Mining ((RSG)), which saw its shorts rise to 8.7% from 7.8%. Given this is not quite a one percentage point move, it doesn't qualify as a "Mover & Shaker", but as there is a story behind the move, see below.

Weekly short positions as a percentage of market cap:

10%+
WEB 14.0

Out: TGR

9.0-9.9

TGR

In: TGR

8.0-8.9%

FLT, RSG, ING

In: RSG

7.0-7.9%

RSG, MTS

Out: RSG

6.0-6.9%

MP1, IVC, TPW

In: MP1 Out: JBH

5.0-5.9%

ALK, A2M, MSB, EOS, BGL, PNV, BVS

In: JBH Out: MP1

Movers & Shakers

While the continent of Africa offers an abundance of underground riches, investors have always been wary of the value of mining assets majority owned by Australia companies (typically with a minority government stake) in some of the poorest nations on earth with the most volatile governments, democratic or otherwise.

Australia's Resolute Mining owns majority stakes in gold assets in Senegal, Mali and Ghana. The company had already been struggling with industrial action and a tax dispute with the Mali government at its Syama mine, and late last month the government in Ghana cancelled the lease on its Bibiani mine, out of the blue, which the company was all set to sell to the Chinese.

Sovereign risk writ large.

The share price subsequently fell -33%. The two FNArena brokers covering the stock downgraded their ratings – Citi to Neutral and Macquarie to Underperform – and last week Resolute shorts rose to 8.7% from 7.8%.

Yesterday it was announced the Ghanaian government had changed its mind. The lease had been reinstated. The share price jumped 17.5%.

No reason was given for the about-face, but it is suggested the government did not want to lose global respect and scare any further investment away. At the same time it is suggested the government perhaps has changed its mind about selling to the Chinese, which was initially approved, hence analysts suspect the sale will not go ahead under an amended lease arrangement.

We will see next week how many shorters had to cover.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.1	0.1	MQG	0.5	0.5
ANZ	1.0	1.0	NAB	1.1	1.1
APT	2.1	2.0	NCM	0.5	0.6
BHP	3.9	3.8	RIO	0.4	0.3
BXB	0.4	0.4	TCL	0.6	0.6
CBA	0.6	0.6	TLS	0.2	0.2
COL	0.3	0.2	WBC	1.0	0.9
CSL	0.2	0.2	WES	0.4	0.4
FMG	0.5	0.5	WOW	0.3	0.3
GMG	0.2	0.3	WPL	0.7	0.7

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

WEEKLY REPORTS

The Wrap: Telcos, Insurance, REITs, Wealth Platforms

Weekly Broker Wrap: Telcos upside; supermarkets margin gap; insurance catastrophe blowout; US tax, wealth platforms; BNPL; beef

-Telstra/TPG forecast to enter period of strong cash flow
- Online grocery retailing could reach 15% of market by 2026
- Reinsurance pricing forecast to rise again on July 1
- Passive yield stocks offer attractive valuation

By Mark Story

Telcos: Earnings inflection for Telstra/TPG

UBS' Buy ratings on Telstra ((TLS)), with a $3.70 price target, and TPG telecom ((TPG)), with a $7.60 price target, are premised on the broker's expectation that both stocks could be entering a period of strong sustained free cash flow (FCF) generation. Underscoring UBS' outlook is the expectation of an underlying earnings inflecting though to FY23.

Given the recent underperformance of TPG Telecom following ex-chairman David Teoh's resignation, the stock is the top pick within UBS' telecommunications coverage. However, the broker sees a higher degree of risk to its forecasts.

UBS also remains positive on Telstra and has increased its medium term (FY25+) dividend per share (DPS) forecast to 17cps.

The broker's view for both Telstra and TPG is premised on industry returns inflecting and sustaining over the medium term. But with the strong free cash flow outlook, UBS notes there may be an incentive to compete on price to take market share at some stage in the medium term.

Key drivers

Numerous factors contributing to this outlook are a relatively rational mobile competitive environment, the removal of NBN headwinds (including costs associated with NBN migrations & running parallel ADSL networks), and a rebound in covid-induced headwinds. Then there are additional drivers, including optionality from NBN bypass/other 5G business cases, and cost reduction programs (including TPG-Vodafone merger synergies).

UBS expects capital intensity to fall following the completion of 5G network rollouts. Having investigated the cash flow profiles for Telstra and TPG over the medium term, UBS sees potentially six years of sustained FCFs significantly above earnings from FY23 in the absence of growth investment opportunities.

Telstra

While UBS understands the importance of Telstra's dividend, particularly for retail investors, the broker thinks the telco should resist the temptation to permanently move to a FCF-based dividend framework. This is because spectrum auctions beyond explicit forecast years (FY28-FY30) may require significant cash outlays (dependent on the structure of these licences, including the duration/terms of payments).

The broker also thinks its unlikely sufficient franking credits can be generated to sustain a fully franked dividend above earnings per share (EPS) over the medium to long term. Then there's the issue of financial flexibility which UBS suggests should be maintained to allow Telstra to invest in new growth opportunities should they arise.

The broker notes that with the proceeds from any potential sell-down in TowerCo to be utilised for a combination of debt reductions and share buybacks, a transaction could simplistically be seen as swapping financial leverage for operating leverage. By proportionately capitalising TowerCo's leases, the broker believes the value accretion from any partial TowerCo sell-down should be measured against a share buyback financed by debt involving an equivalent increase in leverage.

Even relative to UBS's bull case TowerCo sale scenario ($5.4bn enterprise value), the broker estimates it may be slightly (less than 1%) more EPS accretive for Telstra to undertake a share buyback. However, UBS acknowledges this does not factor any potential value uplift to Telstra's share price due to the equity market valuing these assets on a higher multiple.

5G-led earnings upside

UBS expects Telstra to be the first to benefit via direct 5G monetisation in the consumer segement. Given its excess network capacity, the broker expects the benefits to TPG Telecom from 5G are potentially more long-dated and fixed wireless access (FWA) led. UBS also notes that TPG should eventually benefit from a much stronger post-covid rebound relative to peers.

The broker believes investors are still largely valuing Telstra on a dividend yield (~16c DPS on a 5% net dividend yield), which the broker suspects undervalues the telco infrastructure assets, and does not fully capture incremental improvements in the earnings outlook.

When it comes to TPG, UBS thinks investors should focus less on the short-term covid-induced earnings dip, and evaluate the telco on a normalised earnings profile. The broker thinks TPG can lift 2020 earnings (EBITDA) of $1.8bn back to over $2bn by 2022.

<u>Supermarkets: Online and offline margin gap to close</u>

Macquarie believe online grocery retailing can reach 15% of the market by 2026 if current growth trajectories are maintained. This channel is significantly margin dilutive, with delivery and pick-up costs dragging down profitability.

However, the broker believes online margins can be improved by automation, monetising a fat tail of stock keeping units (SKUs), lowering wastage, monetising virtual shelf space, and driving click & collect.

Macquarie expects Woolworths' ((WOW)) faster rollout of its network and its proximity to customer to provide the group a formidable platform to defend its market position.

However, the broker believes Coles ((COL)) extensive product offering (60,000 SKUs), freshness of product, and near perfect levels of order fulfillment should lead to significant customer satisfaction. But this assumes the group can convince customers to come across once the system becomes operational in 2023.

Online profitability

Macquarie now believes online groceries have the potential to be as profitable as the offline channel if well managed and alternative ways of monetising the network are utilised. The broker notes that recent performance of Coles' ((COL)) Ocado-based customer fulfillment centre suggests volume and monetising virtual shelf space are the key ingredients to a profitable online channel.

The current margin differential between online and bricks & mortar supermarket margins is around 500bps. Macquarie notes that online offerings at present don't have the scale to fractionalise pick-up costs. Customers are also reluctant to pay either for delivery, or pay higher prices online than in-store.

However, Macquarie believes Ocado demonstrated with its FY20 results that a number of key drivers could close the gap versus traditional bricks & mortar supermarket retailing margins. Key drivers the broker is referring to include: A mix of higher gross margin through wider pricing on a fat tail of products, higher turnover fractionalising pick-up costs, lower spoilage rates delivered by efficient inventory management, and charging manufacturers for virtual shelf space.

While Macquarie expects it to take years to be able to pick a winning online strategy, the broker believe that the partnership with Takeoff affords Woolworths a significant head start with embedding customer behaviour and lowering the cost of serving online customers. Once the full offering from Ocado is operational, Macquarie also expects Coles to be better equipped to retain online customers.

<u>Insurance: Catastrophe budget blowout</u>

While new home pricing retained around 7% year-on-year growth in the March-21 quarter, Morgan Stanley thinks insurers need to sustain this pricing given rising catastrophe costs and reinsurance.

Both Insurance Group Australia ((IAG)) and Suncorp Group ((SUN)) are now likely to exceed their FY21 catastrophe budgets, with Morgan Stanley estimating FY22 catastrophe budgets of $700m for IAG (up $40m year on year) and $980m for Suncorp (up $30m year on year).

However, the broker sees risk that IAG's catastrophe budget rises by even more, given it has exceeded its budget by more than Suncorp in recent years, which had a large rise in FY21.

Morgan Stanley notes that IAG and Suncorp have both been using aggregate covers in recent years to stabilise their catastrophe costs. The broker thinks reinsurance pricing will rise again on July 1, particularly on loss-making Australian aggregate covers which are an issue at a global level.

Based on the broker's index, domestic motor pricing on new policies increased just over 5% year on year in the March-21 quarter, up from around 4.5% in the December-20 quarter. While this is driven mainly by the recent normalisation in motor loss outlook with a rebound in driving activity. Morgan Stanley thinks insurers may also be pulling the pricing lever in motor to make up for rising input costs in home.

The broker has Equal-weight ratings on both IAG and Suncorp , and price targets of $5.00, and $11.10 respectively.

REITs: Passive yield stocks, attractive valuations

Based on its evaluation of strategic opportunity versus relative valuation, Jarden initiates coverage on seven passive/rent-collecting REITs, and assumse coverage of Homeco Daily Needs REIT ((HDN)) with the 12-month target price rising to $1.55 from $1.50.

The broker has a Buy rating on Centuria Industrial REIT ((CIP)) and Homeco Daily Needs, Overweight on Shopping Centres Australasia ((SCP)), Charter Hall Social Infrastructure REIT ((CQE)) and Arena REIT ((ARF)), Neutral on Centuria Office REIT ((COF)), Underweight on Aventus Group ((AVN)), and a Sell rating on BWP Trust ((BWP)).

Jarden prefers exposure to non-discretionary retail through Homeco, Shopping Centres and Charter Hall Retail ((CQR)), based on these stocks' ability to boost growth with developments and acquisitions.

The broker likes the Childcare/Social Infrastructure thematic and favours Arena for its development-based approach and Charter Hall Social Infrastructure for broadening into the wider social infrastructure space.

Jarden also prefers exposure to commercial through Centuria Industrial, which the broker expects to benefit from the strong growth in logistics/e-commerce/supply chain efficiency theme.

After -5% year to date underperformance for the sector, Jarden believe passive yield stocks offer attractive valuation, with 14% weighted average total shareholder return (TSR), 5.8% dividend yield and 4.2% 3-year compound annual growth rate (CAGR) in funds from operations.

Also adding to attractive valuations is strong support from demand for real assets, ample balance sheet capacity to invest in value-add acquisitions or developments, and downside risk protection from the potential for restructuring and/or potential M&A activity.

Despite concerns around rising bond yields, Jarden acknowledges that the recent rise in bond yields has not helped sector performance. But the broker highlights that bond yields are still well below five- and ten-year average levels.

Jarden also believes the exceptional low levels of recent bond yields was never reflected in valuations.

The broker also notes that spreads of sector cap rates and dividend yields over bond yields remain high, and that demand for real assets seems unaffected by the recent moves in yields. Jarden expects the sector to benefit from rising inflation if this is the driver behind rising bond yields, and ultimately remains cautious on the outlook for growth and inflation, supporting its lower-for-longer thesis.

While the A-REIT sector has underperformed the S&P/ASX200 by -4.25% over the last three months and 7.5% over the last six months (despite strong earnings and upgrades to forecasts), Jarden believes this is mainly driven by the significant increase in US and Australian ten-year bond yields since their trough in August 2020.

The broker also notes that demand for real assets seems unaffected by the recent rise in bond yields, and based on recent transactions, the demand and pricing for Australian real assets remains at record high levels. If inflation is the driver behind higher bond yields, Jarden expects the sector to benefit.

While Jarden doesn't expect a significant increase in structural inflation beyond the current covid recovery, the broker notes that the sector/asset class has historically been a good inflation hedge in a rising growth environment.

REIT Fund managers

Due to them being well capitalised, with significant operating leverage, and growing appetite for alternative assets, Jarden believe it's a good time to be investing in fund manager REITs.

Also underscoring Jarden's preference for active REITs over passive REITs in the current environment is the strong demand for real assets returning in Australia as we cycle covid lows -- $12bn was transacted in the fourth quarter 2020 versus $14.4bn combined for the first quarter, second quarter and third quarter 2020.

As a result, the broker is initiating coverage on Centuria Capital Group ((CNI)) at Overweight and resuming coverage of Home Consortium ((HMC)) at Overweight (was Neutral).

This accompanies Jarden's recent initiations on Charter Hall Group ((CHC)) and Goodman Group ((GMG)) with Buy and Underweight ratings respectively remaining unchanged. While pricing looks elevated on face value, the broker believes the significant tailwinds and scalable and repeatable business model will drive outperformance.

Jarden prefers exposure to the REIT fund managers through Charter Hall Group based on superior funds under management growth.

Aussie equities: Little to fear from US tax hike

Macquarie suspects the positive impact of higher US infrastructure spend on industrial metals could outweigh the negative from a US tax hike for listed Australian stocks.

Assuming US president Joe Biden increases the US corporate tax rate to 25% from 21%, Macquarie assesses the ASX Industrials earnings per share impact at 0.6% compared to a near -3% headwind for the S&P500.

Everything else being equal, as the tax hike becomes more likely, Macquarie expects to see some US earnings per share (EPS) downgrades. However, the broker expects some of these downgrades to be offset from higher infrastructure spend.

Based on their high US exposure, Macquarie estimates a tax hike to 25% could cut EPS by -3% or more for the following ASX stocks: Austal Ltd ((ASB)), Appen ((APX)), James Hardie ((JHX)), Aristocrat Leisure ((ALL)), Incitec Pivot ((IPL)), Janus Henderson ((JHG)), Cochlear ((COH)), Breville Group ((BRG)) and Resmed ((RMD)).

Macquarie notes Biden's infrastructure plan supports industrial metals – notably steel (construction and transport infrastructure) and copper (power infrastructure and electric vehicles). For this sort of exposure, the broker's strategy portfolio has positions in BHP Group ((BHP)), Mineral Resources ((MIN)), OZ Minerals ((OZL)), Bluescope Steel ((BSL)) and Seven Group Holdings ((SVW)).

Macquarie also notes that the positive EPS impact for resources from higher US infrastructure spending might more than offset the EPS headwinds from a US tax hike. As higher US infrastructure spending supports industrial metals prices, the broker also expects it to be a support for the Australian economy and the Aussie dollar.

This provides another reason, concludes Macquarie, to favour domestic industrials over offshore earners.

Wealth platforms: Re-ratings for Hub24 and Netwealth

Following the removal of pricing overhang from the sector, plus an encouraging near-term outlook for flows, Macquarie has upgraded wealth management platforms Hub24 ((HUB)) and Netwealth Group ((NWL)) to Outperform from Neutral. The re-rating follows ANZ Bank's recent decision providing twelve months' notice to Netwealth ahead of terminating their current agreement for interest paid on pooled cash accounts.

Macquarie expects a more rational pricing environment going forward, with cash spreads to be clawed back as rates increase over the medium-term.

While it's still unclear what rate the platforms will receive at the end of their current agreements, Macquarie notes current market rates would imply a -50bps reduction (RBA cash rate +45bps), which has driven the broker's mid-teens earnings downgrades in FY23.

Should deposit competition intensify over the next twelve months, Macquarie believes it is possible platforms will be able to negotiate rates above the current RBA +45bp currently being factored in.

While there may be some further downward pressure on deposit rates in the near-term, Macquarie sees scope for deposit competition to re-emerge later this calendar year. This is expected to be driven by the RBA ceasing its term funding facility and with credit growth likely to increase from current levels.

Macquarie notes that for every 10bp increase in cash spreads, Netwealth's earnings would increase by 4-5%, with Hub24 seeing a 6% uplift (due to a lower earnings base and lower earnings margin).

The broker expects the platforms to see margin expansion as cash rates begin to increase again, with the 40bps absorbed from the last two cuts recovered in the next two increases. Macquarie Economics' forecasts are for rates to start to increase from the first quarter of 2023.

While the timing of this is important for when cash spreads will increase, Macquarie notes that delays have a muted impact on its terminal valuation.

BNPL: Call for level playing field

In its review of the 46 submission responses to the regulatory architecture review of Australian payments study (commissioned by the Australian government in October 2020), Macquarie noted that those respondents who mentioned buy now pay later (BNPL) as part of their submissions were looking for more government regulation within the sector.

In part of their submissions in response to a Payments System Review Issues paper issued by the Australian Government Treasury, 63% of stakeholders referenced BNPL, highlighting the topical nature of the payments system.

Over a third (34%) of stakeholders recommended less self-regulation versus current levels, while only 28% were pro self-regulation.

While a third of the submissions made critical commentary on BNPL - the largest critique being lack of regulation creating an uneven playing field - 7% of the respondents had views which were pro-BNPL. Other critical comments also related to merchant fee pressure, BNPL debt and not empowering true greater economic choice.

Commenting on the lack of a level playing field within its submission, National Australia Bank noted that new entrants to Australian payments such as BNPL are not typically subject to the same self-regulation and independent regulatory standards.

Within other submissions, the Financial Rights Legal Centre noted that BNPL providers are thriving in a regulatory black hole, and the inability for merchants to allow surcharging for this payment option is distorting the market.

As highlighted in its report “Afterpay: Buy Now Pay 2030”, 24 March 2021, Macquarie expects to more pain before gain for the BNPL industry as a whole. Beyond industry consolidation, the broker sees increasing regulatory pressure as one of the pain points which need tackled before industry recovery longer-term.

Beef: Supplies at critically low levels

As historically low breeding cattle numbers slowly recover on the back of much-improved seasonal conditions, Rabobank believes Australia has a once-in-generation opportunity to shape the future of its beef industry. Within a recently released report, titled Green Grass and Empty Pens, the agribusiness banking specialist expects the outlook for the year ahead to be characterised by very limited cattle supplies.

While this will provide strong support for cattle prices, it also means ongoing scarcity for restocking and fattening, plus challenging capital efficiency, with many plants and feedlots running below capacity.

Bank analysis of regional conditions around Australia – undertaken for the report – showed rebuilding of herds and restocking of properties underway. However, restocking is not consistent across the country, with parts of Queensland and northern Australia having been unable to increase breeder numbers through the course of 2020.

The report notes that extremely low breeding stocks will severely limit Australian cattle slaughter, (forecast to be down -6% on last year) with the nation’s beef exports expected to drop -5%. Live export numbers are also forecast to decline by the same percentage due to low availability of cattle.

Domestic market

While limited cattle supplies and favourable seasons are expected to provide a strong foundation for cattle prices, Rabobank expects them to ease through 2021 as some of the urgency of producer restocking demand recedes.

Rabobank also expects domestic consumption – expected to account for 29% of Australian beef production in 2021 - to remain relatively steady in 2021, after a decline in per capita beef consumption of -12% over the past two years.

Exports

With low supplies, higher prices, an appreciating currency and reduced access to China, Rabobank claims Australian beef faces significant headwinds globally.

For example, export volumes to China – impacted by high Australian beef prices, low supplies and trade tensions – are likely to see a larger decline than the more stable and established markets of Japan, South Korea and the US.

While long-standing markets like Japan and South Korea are expected to maintain import volumes of Australian beef in 2021, Rabobank expects to see stronger competition from the US, which is likely to increase exports throughout 2021.

Live exports

Based on Rabobank's seasonal outlook, live cattle exports will also be constrained by reduced cattle availability and higher prices in 2021. While export numbers to Indonesia, which fell -31% in 2020 are expected to recover, Rabobank expects volumes to Vietnam to decline from the large numbers seen in 2021.

However, the bank expects Vietnam to continue to play a significant role as a live export destination for Australia.

RUDI'S VIEWS

Rudi's View: Inflation?

In this week's Weekly Insights:

-Inflation?
-A Golden 'Value' Opportunity
-One Giant Data Leap Forward For FNArena
-Research To Download

Inflation?

By Rudi Filapek-Vandyck, Editor FNArena

A lot of what happens in the share market, in particular this year, relates to relativity and simple mathematics; both I feel are not necessarily well understood, let alone fully appreciated by many an investor.

To illustrate my point, let's imagine a company called XYZ; bear with me, it'll be worth it.

XYZ previously reported profits after tax of circa $100m but due to a series of misfortunes that has now shrunk to $25m and the share price reflects this. The usual scenario unfolds. The board appoints a new CEO, who brings in a new broom, takes write-offs, announces a restructuring and new plans are being communicated and executed.

The following year net profits rise to $50m, a doubling from the disaster year everybody likes to forget. A turnaround is in motion!

Soon investors are back on board and the share price reflects this new enthusiasm.

As it happens, the new management increases profits by $25m in each of the two following years, which results in big share price gains and a valuation that is fully reflective of this newfound growth momentum.

Happy days are here again!

Of course, any cynic can see what is happening here, the company is simply back to where it was four years ago. Hopefully it now operates from a better condition and market position, but certainly the share price multiple is now significantly higher. The following year, however, net profits come out as $102m.

Does this now mean the narrative that built on the back of three consecutive years of strong growth achieved was wrong? Or was it correct for as long as it lasted?

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Arguably the same dynamics are very much in play today for economic growth, corporate profits, (most) share price performances, yields on government bonds and readings of consumer price inflation (as well as twelve month investment returns for asset managers).

The past months have seen yields doubling on 10-year government bonds in Australia and the US, which is one helluva move, albeit from extremely low yields in 2020, which has had a significant impact elsewhere, leading to significant money flows into cheaply priced cyclicals and covid-victims in equity markets.

Compare Virgin Money UK ((VUK)) with Kogan.com ((KGN)) or Lynas Rare Earths ((LYC)) with Altium ((ALU)), banks versus healthcare; you get the idea.

This reversal in trends that existed pre and during the pandemic has also triggered a fresh narrative that is now front and centre of every investor's mind: inflation is coming, how do I protect my portfolio?

But is inflation really on the horizon? Central bankers don't believe this is the case, but their view can be wrong, of course. There are current problems with supply chains because the world is no longer dominated by open borders, which is bad timing given so many locked-in consumers remain ready to spend. But isn't this but a temporary phenomenon?

Apparently, financial markets don't seem to think so. Or are they?

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A recent analysis by **EFG chief economist Stefan Gerlach** suggests financial markets are expressing a lot less anticipation of inflation than the current ruling narrative would like us to believe. This further reinforces my personal view that global bond markets are merely pricing out the emergency from last year's pandemic, rather than pricing in the advent of a new era of higher inflation.

Let's start with some facts: the yield on a 10-year US government bond in February last year was circa 1.60%. Let's call it around today's level, shall we?

Admittedly, it had been trending up towards the 2% in late 2019, but to see that yield above 2% we need to go back to July of 2019. Equally correct: that yield has been flirting with 3% on a few occasions, albeit in a persistent long-term downtrend.

In case anyone's interested: the absolute low point last year was 0.34%.

Gerlach's argument is that while common opinion refers to indexed bonds (otherwise labelled as 'inflation protected' bonds) to calculate breakeven inflation, and thus to the market's inflation expectations, in the real world those bonds are heavily influenced by risk-on and risk-off situations in financial markets. His research, for example, suggests a strong link between the VIX ('fear index') and moves in implied breakeven inflation.

Common sense tells us this is but logical. During times of panic or greater uncertainty, large investors redirect money towards safer places, and indexed bonds are a relatively small market, but a safe haven nevertheless. The conclusion from Gerlach's analysis is that any real adjustment in the market's anticipation of inflation has been a lot less dramatic, but also that the current estimate of breakeven inflation is about 0.2% higher.

0.2% more sounds a lot less scary/powerful than inflation expectations have risen by 1.65%. Equally so, at 2.5% implied breakeven inflation is now approaching levels of 2011-2013, with markets clearly pricing for lower inflation since 2014.

This matters for a few reasons. The most important one is that the bulk of the adjustment in bond markets is now likely behind us. Instinctively, this makes a lot of sense also further supported by many a Wall Street forecaster placing the 10-year at or near 2% by year-end and the fact yields were still below this level by late 2019.

In the share market, this means some adjustment might be overdue in that share prices that have been treated as major victims for rising inflation expectations might have been oversold while some of the beneficiaries might have risen too far. I note, for example, shares for the likes of Afterpay ((APT)), NextDC ((NXT)), ResMed ((RMD)) and Xero ((XRO)) have already bounced off their lows, and quite strongly too.

On the other side of the coin, shares in the above mentioned Virgin Money UK and Lynas Rare Earths are trading well above broker targets. And they are far from the only ones.

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But wait, this ain't the end of this story just yet. A lot of the inflation-is-coming-back narrative draws inspiration from past experiences, or from the misguided interpretation that central banks injecting unprecedented amounts of liquidity in the global financial system ("printing money") must eventually lead to an outbreak in inflation.

Both forecasts, while repeated many times post-GFC, have been painfully proven incorrect. What if history does not repeat and, dare I say it, today's overall context remains very different from pre-GFC dynamics, the current cyclical, post-recession upswing notwithstanding?

Such is the view of **investment managers at Hoisington**, specialised in analysing and investing in US Treasuries and whose views and forecasts over the past years have certainly been more accurate than not. Hoisington stoically continues to reject the market's current adoption of the inflation-is-coming-back narrative and instead predicts it won't be long before bond yields will start trending lower again.

What we have been witnessing in recent months is thus simply a cyclical aberration as the world recovers from recession, plus, of course, investors' wildly inaccurate presumption that everything old shall soon become new again. Disinflation not inflation lays ahead, is the forecast made from undeterred conviction, with the CPI expected to continue undershooting the Federal Reserve's 2% target.

Hoisington's view of the world centres around the enormous accumulation in global debt, which, simply put, supports growth in the short term but erodes an economy's growth potential further out. All major economies today, China included, are deeply embedded in debt, and there is no straightforward strategy to reverse course.

Meanwhile, every dollar added in debt generates less and less in actual growth. Add deteriorating demographics and it appears the world is doomed for structurally slower growth, still. The occasional cyclical upswing when coming out of a deep recession is not going to make a fundamental difference.

Add technological advancements and it appears the fight against structural disinflation will have to continue for a lot longer. Meanwhile, in the background of all of this, the damage inflicted by the pandemic and the rise of new technologies is simply not captured by how we measure GDP growth, argues Hoisington.

The latter means economies will continue operating well below potential for years into the future. Not exactly a scenario for consistently much higher wages, or for much higher consumer price inflation in a broader sense.

Bottom line: high debt undermines economic growth. Global debt is nowhere near to shrinking. Hoisington's conclusion: "While no two cycles are ever alike, the trend in long bond yields remains downward."

Those who'd like to read Hoisington's research, can do so via https://hoisington.com/economic_overview.html

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Put all of the above together and there's probably a valid argument to make that financial markets have once again done what they do best: exaggerating to the upside as well as to the downside for different parts of the bond-reset story. In practical terms, this means that any further increases in bond yields, misguided or not, will gradually lose their potency in terms of impact elsewhere.

For those investors left bruised and disappointed by how markets have treated last year's covid-winners: this is not the time to abandon ship. In fact, on my observation, some experts are once again warming towards technology and structural growth companies with Shaw and Partners' June Quarter Research Monitor advocating investors start accumulating beaten down stocks in those sectors with a longer-term horizon in mind.

After all, cyclicals and your typical value stock might still enjoy support from the cyclical upswing and maybe even from further rising bond yields in the short term, growth stocks come with potential for many more years of ongoing strong growth. Shaw and Partners very much likes the Buy Now, Pay Later sector, with Zip Co ((Z1P)) its sector favourite.

Among your typical software and services companies, the broker has pointed its clientele towards Fineos Corp ((FCL)), Nitro Software ((NTO)) and Whispir ((WSP)).

Shaw's Large Cap Model Portfolio has equally made some interesting adjustments, selling out of CommBank ((CBA)), South32 ((S32)) and BHP Group ((BHP)) while switching out of CSL ((CSL)) in favour of ResMed ((RMD)) instead.

Other additions are ANZ Bank ((ANZ)), Northern Star ((NST)), Goodman Group ((GMG)), Suncorp ((SUN)), and Wesfarmers ((WES)).

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The **FNArena/Vested Equities All-Weather Model Portfolio** outperformed in March with a total return of 3.13%, lifting the three months performance to 2.15% and the six months performance to 2.75%. The latter two numbers might serve as an indication of how one-sided market momentum has been since November last year.

Anyone interested in receiving the All-Weather Portfolio update for March, send an email request to **info@fnarena.com**

A Golden 'Value' Opportunity

The price of gold bullion has found itself on the wrong side of market momentum. One look at the USD price chart for the past twelve months is sufficient to back up that statement, and then some.

That is one ugly looking chart.

Investors should not be surprised though. I have repeatedly and consistently pointed out, over the years and in more recent times, that gold's ultimate master is the US bond market, more precisely the direction of US government bond yields corrected for inflation.

Those yields are still negative, but a whole lot less so than in 2020 when gold briefly rallied to a new all-time high, for which, by the way, analysts today blame defensive ETF inflows at that time.

But what is catching analysts' attention this month is how much worse the performance has been for share prices of gold mining companies. If you think gold's price action is looking ugly, try Newcrest Mining ((NCM)), or St Barbara ((SBM)), or Gold Road Resources ((GOR)), to name but a few.

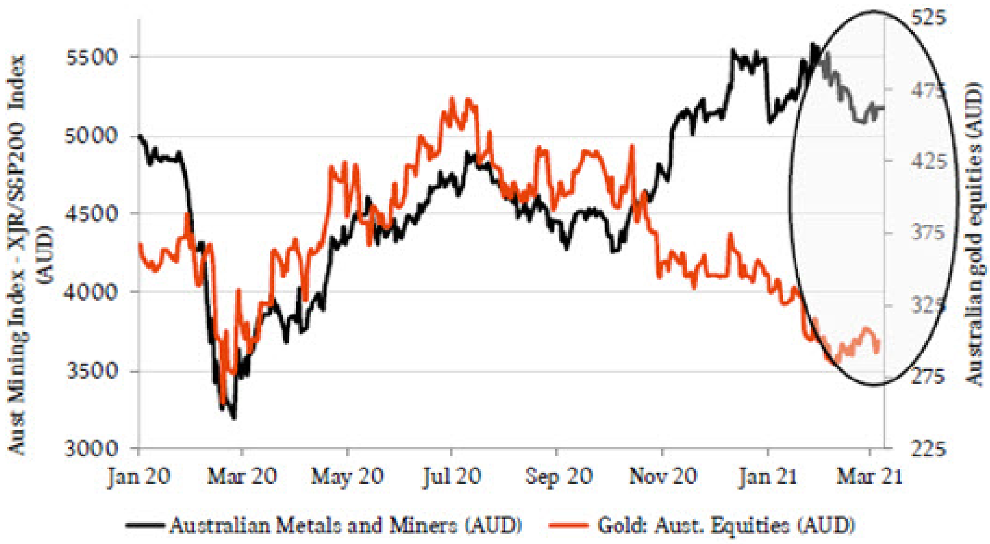
The gap between today's share prices and consensus price targets, often freshly updated only a couple of weeks ago, can be up to -80% in the case of Alkane Resources ((ALK)), which is usually not a sign of a healthy operation, but others in the sector easily trade -40% or more below target.

Even Newcrest Mining, not exactly a small fish even on a global scale, is trading more than -20% below target. No guessing thus as to why sector analysts at JPMorgan (white-labelled by Ord Minnett) expressed support for the sector this week, while observing various share prices are back at levels last seen in 2016, when gold was priced -US$600/oz lower.

Analysts at Shaw and Partners released the graphic below, showing how huge the gap has grown between gold miners (in red) and the rest of the mining sector (in black). Shaw is convinced gold miners are poised to narrow that gap in the current quarter. Not only is many a local producer ideally positioned to grow production and profits, gold bullion itself is ready for a come-back as inflation is picking up and bond yields will not rise forever.

Shaw's two sector favourites are Northern Star ((NST)) and Newcrest Mining, with the added observation that all gold equities researched by Shaw are currently trading in 'value' territory.

GOLD EQUITIES DIVERGENCE SINCE NOVEMBER POISED TO REVERT



Source: Shaw and Partners & FactSet

One Giant Data Leap Forward For FNArena

At the risk of not sounding nearly enthusiastic enough, but the FNArena website has made one giant leap forward this week by adding historical financial data for nearly 1700 ASX-listed companies.

Thanks to FactSet, FNArena subscribers now have access to key past performance data for all their beloved companies, plus a lot more.

The roll-out occurs in stages throughout the remainder of calendar 2021 and the present stage 1 shows EPS, DPS and sales/revenues for the past six years in addition to our regular two-year forward looking estimates.

All one has to do is search via Stock Analysis. Be it CBA, or BHP, or the more obscure VMY, OLI and 4DS; it's all in the system from today onwards. Below is a snapshot of what the latest addition looks like for Macquarie Group.

For those interested in which stocks are represented in key indices, we also added the S&P/ASX All Technology Index, with all 69 constituents on display.

We can but hope that all of this makes all of you as excited as we are. And there's more in the pipeline. Lots more.

HISTORICAL DATA ARE ALL IN AUD

TITLE	2015	2016	2017	2018	2019	2020
EPS Basic	502.3	619.2	657.6	758.2	920.4	791.0
DPS All	330.0	400.0	470.0	525.0	575.0	430.0
Sales/Revenue	12,498 M	13,105 M	12,331 M	14,420 M	16,610 M	15,946 M

Research To Download

RaaS on the former PS&C Limited, nowadays trading as Future First Technologies Limited ((FFT)):

https://www.fnarena.com/downloadfile.php?p=w&n=A890202B-95DD-ECE7-122BD67C040A8897

(This story was written on Monday 12th April, 2021. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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

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

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