WEEK 46

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Financial News, Data & Analysis

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AUSTRALIA

October In Review: Banks & Tech Outperform

During October the ASX200 outperformed most developed markets peers, with the financial and technology sectors leading the way.

-The ASX200 climbed 1.9% during October
-Banks rose and technology outperformed
-JPMorgan sees AUD/USD at 68c by year-end

By Mark Woodruff

The ASX200 was one of the best performing equity markets globally in October, particularly relative to developed market peers.

Global markets retreated through October, driven by fading US stimulus expectations, US technology sector earnings results that were met with sell-the-fact profit-taking, and rising covid cases. Utilities and communication services were the only sectors that did not fall, as energy, information technology, and healthcare underperformed.

The S&P500 fell -2.8%, but still slightly outperformed the developed markets world return. The world developed markets underperformance was led by the MSCI Europe (ex UK) falling -5.5%.

In comparison MSCI emerging markets rose 1.4%, while in China the CSI300 increased 2.4%.

Australian Stockmarket by Sector

The ASX200 rose 1.9% in September, outperforming the -2.8% fall in the S&P500 in the US. The rise was aided by a market-friendly government budget, the prospect of further monetary stimulus, and the reopening of the domestic economy.

There was also a global rotation to banks as US bond yields rose. Australian banks outperformed US banks by 4% with help from said budget.

Within sectors, information technology rose by 8.6% followed by financials which increased 6.3%. Industrials and utilities, down by -3.5% and -1.5%, respectively, were the notable laggards.

In terms of contribution toward the index, the financial sector was the clear outperformer in October and retraced its losses from September. Gains were made across all the banks with Commonwealth Bank ((CBA)) the highest points contributor for the month.

The average total shareholder return of the major banks was 7.2%, while the regional banks returned 11.4% in October.

All the majors outperformed, and in order of percentage gain were ANZ Bank ((ANZ)) 9.2%, Commonwealth Bank 8.5%, Westpac Bank ((WBC)) 6.4% and National Australia Bank ((NAB)) 4.8%.

When the pandemic struck, Australian dividend expectations fell much more sharply than the rest of the world. The negativity surrounding the Australian dividend picture was compounded mid-year as global projections turned positive, while local estimates continued to fall. However, in the past two months, **Australian dividends are mounting something of a comeback**. October's 3.2% lift in one-year forward expectations was the largest monthly increase since July 2007.

Non-bank financial stocks on average outperformed the ASX200 in October. Link Administration Holdings ((LNK)) increased 28% and AMP Ltd ((AMP)) rose 17% on the back of corporate activity, while Janus Henderson Group ((JHG)) also went up 17% after a new activist shareholder emerged.

Technology was the best performing sector, with Afterpay ((APT)) the top contributing stock.

Industrials were the worst sector, falling -3.5% with materials not far behind.

Rising covid-19 cases outside Australia were evident in the poor returns from ASX travel names. These included Flight Centre ((FLT)), Corporate Travel Management ((CTD)), Webjet ((WEB)) and Sydney Airport (SYD)), which all fell between -7% and -18%. Qantas ((QAN)) bucked the trend, due to less international exposure.

Transport infrastructure lagged in part due to the rise in US bond yields. This affected Aurizon ((AZJ)), Atlas Arteria ((ALX)), and Transurban ((TCL)), which all fell between -5% and -11%.

Best and Worst Australian Stocks within Indices

The best performing ASX 100 stocks during the month were Coca-Cola Amatil ((CCL)), Link Administration and Challenger ((CGF)). The ASX100 increased 2.1% during October.

The worst performers were Flight Centre, Vicinity Centres ((VCX)) and Aurizon.

The Small Ordinaries eked out a 0.3% gain, with outperformance by Ioneer ((INR)), Nickel Mines ((NIC)) and Pilbara Minerals ((PLS)).

The worst performers were Mesoblast ((MSB)), Opthea ((OPT)) and Mayne Pharma Group ((MYX)).

Technology Sector

As noted above, technology stocks outperformed in October, led by the WAAAX stocks.

The ASX technology index was up 6.5%. Within the technology index, Link Administration, Dicker Data ((DDR)) and Livetiles ((LVT)) were the best performers, while Catapult ((CAT)), Megaport ((MP1)) and Temple & Webster ((TPW) fell for the month.

Credit Suisse has a preference, within the technology sector, for **Infomedia ((IFM)), Audinate ((AD8)), and Life360 ((360)**), while holding Neutral ratings for WiseTech Global ((WTC)), Iress ((IRE)), Appen ((APX)) and Xero ((XRO)).

Overall the broker has a positive view on the business outlook for much of the travel-related technology stocks, although finding attractive opportunities is increasingly challenging at current valuation levels. Corporate Travel Management is preferred over Webjet, although both are rated Neutral.

REITs

For the month ended October 31, REITs underperformed and provided a total return of -0.37%.

Credit Suisse believes a lack of guidance continues to weigh-down many REITs, with investors rewarding stocks with either earnings predictability or structural tailwinds. Concern also remains over the post-covid-19 rental/valuation outlook for those exposed to CBD office and regional malls.

Rent collection rates improved in the September quarter relative to the June quarter for those stocks covered by the broker. Generally, office and industrial sectors remained resilient. They had greater than 90% collection rates (with metro office higher than CBD office), while retail improved relative to the June quarter. Those with Victorian and/or Sydney CBD retail exposure have not fared as well as grocery anchored neighbourhood centres.

The broker remains attracted to **neighbourhood retail exposures** such as Charter Hall Retail ((CQR)) and Shopping Centres Australasia ((SCP)), with the former screening relatively cheaper.

Additionally, there is considered value in diversified REITs such as Dexus Property ((DXS)) and Mirvac Group ((MGR)). However, investors may be wary of shorter term negative news flow regarding CBD office markets, and as a result these stocks may appeal to longer term investors.

Shorter term investors may prefer the metro-office exposed REITS like Centuria Office REIT ((COF)) and Growthpoint Properties Australia ((GOZ)) that offer attractive forecast yields.

Credit Suisse expects fund managers Charter Hall Group ((CHC)) and Goodman Group ((GMG)) will continue to be well supported. This is despite appearing expensive versus traditional REITs, from an earnings multiple perspective.

Finally, the broker sees Vicinity Centres and Stockland ((SCG)) as undervalued asset plays, despite a lack of near-term catalysts.

Outperformers for the month of October included Home Consortium ((HMC)), Lendlease ((LLC)), Shopping Centres Australasia, Rural Funds Group ((RFF)), Aventus Group ((AVN)) and Charter Hall Social Infrastructure REIT ((CQE)).

Underperformers in the month included Vicinity Centres, Stockland, Charter Hall Long Wale REIT ((CLW)), Dexus Property, Mirvac and Abacus Property Group ((ABP)).

The two largest out performers and under performers for the year ended October 31 are Rural Funds Group up 41% and Goodman Group up 30%, while Vicinity Centres and Stockland fell -52% and -43%, respectively.

Bonds

Global long-end yields rose in October, with the **US 10 year government bond yield rising sharply** by 17 basis points to 0.85%, to reach the highest level since early June. The move higher has mostly been driven by expectations of large-scale post-election stimulus. This would lead to higher inflation in the medium-term. Howevere the likelihhod of a Republican senate post-election has seen yields fall back.

As nominal yields are still at historically low levels the JP Morgan rate strategists do not expect the Federal Reserve to change the pace or composition of asset purchases in response to the recent rise in yields.

The Australian 10 year government bond yield rose slightly by 4 basis points to 0.83%.

Currencies

The US dollar rose 0.2% in October, largely driven by an increase in risk-off sentiment.

The Australian dollar weakened again in October, following the -3.6% decline in September. It was the second worst performing currency globally, dropping -1.9%, following a decline in iron ore. Also, a dovish speech by RBA Governor Lowe increased anticipation for a November RBA cash rate cut. (The RBA has subsequently cut the cash rate to 0.1% from 0.25% and initiated quantitative easing of $100bn).

The Australian dollar is expected to fall further from this point following the announced ramp up in quantitative easing (QE) purchases by the RBA. The JP Morgan economist **forecasts US68 cents for the end of this year**. The Brazilian Real was the weakest currency, down -2.4%, another reflection of the drop in iron ore prices.

Commodities

Global commodity prices fell slightly in October.

Brent Oil prices fell -US$3.49/bbl to US$37.46/bbl, partly driven by an appreciating US dollar.

Iron ore prices fell by a slight US$2.00/t to US$118.00/t.

Gold prices decreased slightly to $US1,881.85/oz from $US1886.90/oz, but were still close to record highs.

The JP Morgan global commodities team remain **bullish on copper**, with prices expected to average $7,500/t in the second quarter of FY21. This view is driven by the expected continuation of strength in Chinese metals demand and a cyclical post-recessionary demand recovery in the rest of the world.

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AUSTRALIA

Confidence Increases Around Amcor

Amcor has upgraded guidance and announced a new buyback, providing a pleasing outlook for the rest of FY21.

-Dividend yield of more than 4% is ahead of peers
-Amcor appears to have gained share in North America
-Buyback infers less M&A potential in the short term

By Eva Brocklehurst

Packaging behemoth Amcor ((AMC)) has under-promised and over-delivered, while announcing a new buyback at its AGM. That's how Credit Suisse assesses the update, as guidance for growth in earnings per share has increased to 7-12% for FY21 from a prior 5-10%.

The new guidance does not factor in the higher level of volume momentum that was achieved in the first quarter and, should such momentum continue, there remains the prospect of a further upgrade, in the broker's view.

Macquarie points out management also began FY20 with 5-10% growth guidance before ultimately delivering 13%.

Morgan Stanley assesses Amcor as a high-quality, defensive stock that has an attractive yield, and the increased guidance represents a level of confidence that is pleasing, given it is early in the financial year.

Moreover, Morgan Stanley would not be surprised if further upgrades were announced, or guidance was tightened towards the top end, as the year progresses. The quarterly dividend increased to US11.8c and this level is expected to be maintained across FY21.

Constant growth in earnings per share of of 20% in the quarter was well ahead of estimates and Ord Minnett forecasts a free cash flow yield of 6% and a dividend yield of more than 4%, well ahead of peers.

Superficially, Morgans assesses the main driver of its forecast upgrades is the reduction in corporate expenses, although notes there has been a restatement of divisional earnings (EBIT) for FY20. FY20 EBIT for the flexible, rigid plastics and corporate divisions have all been reclassified lower.

Amcor continues to target US$50-70m in cost benefits relating to Bemis in FY21 and US$180m by FY22. Morgans suspects this could be exceeded, given the strong track record. Cash outflow of -$190m was higher than the prior quarter but Macquarie notes the first quarter is seasonally the weakest in terms of cash flow and this also reflects the timing of dividends.

Global Round Up

Emerging markets such as Latin America and flexible packaging volumes have turned around and Amcor appears to have gained share in North America. Macquarie notes the US has been a strong region for most companies in the September quarter and Amcor was no exception.

Improved momentum in rigid plastics was driven by improved sequential demand in the US convenience channel and the probable stockpiling of pantry items such as Gatorade. Improvement comes despite PepsiCo reporting declining US volumes. Rigid volumes in North America were up 7%.

Marginally lower volumes were experienced in European flexible packaging because of weaker confectionery/yoghurt demand and there was a negative impact on medical demand because of reduced elective surgery.

Citi notes the guidance upgrade reflects similar reports from peers amid strong volume growth in the Americas and Asia Pacific. Amcor's North American flexible volumes rose 5%, which was well above peers that reported more flat outcomes.

Amcor attributed the outperformance to gains in market share and winning new business. Hence, the broker suspects **the increased scale and product range following the Bemis acquisition are now bearing fruit**.

Buyback

Amcor has announced a US$150m share buyback, and Credit Suisse suspects the company, not overtly, is "blending" dividends and buybacks while targeting a dividend yield of over 4%.

Management has indicated valuations of prospective acquisitions in packaging are rich and this could have influenced the decision to purchase stock, suggesting to the broker there is less potential for M&A at present.

Macquarie, too, in noting there is financial capacity to pursue further disciplined M&A, suggests there may be few opportunities, while specialty containers and global closures are potential target areas for the future.

FNArena's database has five Buy ratings and two Hold. The consensus target is $17.42, suggesting 8.0% upside to the last share price. Targets range from $15.90 (UBS, yet to comment on the update) to $19.00 (Morgan Stanley). The dividend yield on present FX values for FY21 and FY22 is 4.1% and 4.3%, respectively.

See also Amcor A Trailblazer In The Future Of Plastic on October 1, 2020.

AUSTRALIA

Software Upgrades Vital For Wealth Sector

Following the exit of the major banks from wealth management, specialist providers have stepped up but are likely to endure several years of increasing competition in price and technology.

-Specialist providers to benefit from software cycle upgrades
-Margin pressures persist for Netwealth and Hub24
-Perpetual Private able to benefit from advice disruption

By Eva Brocklehurst

A new era for Australia's wealth management industry is likely to be characterised by increasing competition, as platforms try to capture share and scale. Since the Royal Commission and the divestment of a large part of wealth operations by the major banks, transformation of the industry has been ongoing.

Following the exit of the banks from wealth management, independent financial advisers and specialist platform providers have benefited from the disruption. Nevertheless, they remain small and, JPMorgan assesses, will have to wear several years of increasing competition in price and technology.

Challenger ((CGF)) suspects that disruptions in the bank-aligned and independent advice market, which have created a difficult environment for domestic annuity sales, could now be easing, noting adviser movements appear to have stabilised.

Citi calculates the number of financial advisers in Australia continues to decline and advisers remain key to choosing a platform, with those leaving the vertically-integrated major institutions providing a tailwind for both **Netwealth** ((NWL)) and **Hub24** ((HUB)). In this vein the outlook appears highly uncertain for **AMP** ((AMP)).

Citi observes the recent bid for AMP from US-based Ares Management highlights the prospect that tie-ups with other parties may be more suitable. While the offer is broadly in line with valuation, UBS, in noting AMP has surplus capital, envisages a wide range of potential suitors.

If the business continues in its present form, Citi finds it unclear as to the precise structure of the wealth management segment. **The issue remains as to how AMP can provide affordable advice to the mass market under a more stringent regulatory and advice standard.** Technology is likely to play an important part, the broker adds.

Technology

There will be increased reliance on software technology and a software upgrade cycle that will benefit specialist providers and this is the backdrop that JPMorgan believes will confront the industry, as the broker initiates broader coverage of the sector.

JPMorgan asserts **the wealth management industry has been typically slow to upgrade software but rising costs and changing demands from end-use clients signal the need is becoming urgent**.

Software providers such as **Bravura Solutions** ((BVS)) and **Iress** ((IRE)) have significant opportunity to participate. For the former, Macquarie agrees there are strong structural drivers but catalysts are required to improve the business clarity for investors.

JPMorgan initiates coverage of Netwealth with an Underweight rating, noting the benefits from industry tailwinds over the past few years but also the significant erosion of pricing power because of competition.

Macquarie, in upgrading Netwealth to Neutral from Underperform, has emphasised recently that **while flows are beating expectations, platform margin pressures persist,** while Credit Suisse assesses the valuation may be expensive but justified in terms of compound annual growth rates.

While Hub24 is also under the same pressure, recent acquisitions and organic growth have presented opportunities for margin expansion and JPMorgan initiates with a Neutral rating.

The company recently purchased Ord Minnett's portfolio administration and reporting services along with Xplore Wealth. The deals are expected to provide the company with better functionality and capabilities, while the main risk to earnings in the short term, Morgans assesses, is the impact from lower cash rates.

Advice

Citi's general analysis points to strong demand for advice because of the market volatility earlier this year, and while social distancing measures have affected the winning of new clients, in some instances this has also resulted in more time to consider financial decisions and investments.

Perpetual's ((PPT)) Private business has been able to benefit from the disruption in the advice industry and Citi believes this solid brand and proven model is likely to be highly attractive for those advisers considering a potential change to Perpetual.

The fund manager's Australian Perpetual Investments business is showing positive signs as well, with solid inflows into cash and fixed income products and some areas of improving investment performance. Citi assesses, with the impending acquisition of Barrow Hanley, the Australian business will soon become less significant for the overall group.

See also, HUB24 Withstanding The Pressures and Is Bravura's Latest Acquisition Well-Timed? both on October 14, 2020.

AUSTRALIA

Fineos Falls Short, Delays Cited

Delays in the timing of new deals and a softer outlook for services revenue has undermined short-term confidence in Fineos Corp.

-New client gains key to increased confidence
-US growth proceeding in line with targets
-Should Fineos Corp trade at a premium?

By Eva Brocklehurst

Insurance platform provider Fineos Corp ((FCL)) dented confidence at its AGM, failing to reiterate a top-line growth target of 20% while maintaining subscription revenue growth guidance for FY21 of 30%.

A softer outlook for services revenue was the prime reason the update fell short of expectations, although this segment is still expected to grow. Delays in the timing of new deals because of the pandemic and uncertainty surrounding the US presidential election were cited as factors.

Services revenue is also under pressure as budgets are tightened in Australasia. Macquarie cuts revenue forecasts by -13% for FY21, which implies no growth from the second half of FY20, after including the Limelight acquisition.

The broker considers services activity a leading indicator of subscription growth although retains revenue forecasts for both subscriptions and software. Around 90% of subscription growth in FY21 is expected from the ramping up of major client gains during FY19 and FY20, and Limelight.

Around 65% of subscription growth is estimated to come in FY22 from major client gains during this period. Hence, Macquarie believes new clients will be key to increased confidence in the stock and retains an Outperform rating with a $5.22 target.

The contribution from Limelight to services revenue was lower than the broker's initial expectations because of delayed decisions regarding new business projects and tighter budgets.

The loss of -$200m in market capitalisation following the AGM does not make sense to Shaw and Partners, as the market appears to have lost any understanding of how enterprise software functions.

Factors underpinning revenue pressures largely relate to services as opposed to software and reflect the timing of, not loss of, opportunities. Given the nature of services, this segment carries a significantly lower multiple.

The broker highlights the value in a stock with **a software enterprise value/revenue multiple of 13.5x for FY21**, attractive for a business that is growing at around 30% and has good visibility.

Shaw believes Fineos Corp should trade at a premium, given the size of the market and its superior client retention, and reiterates a Buy rating with a $5.82 target.

Ord Minnett eases back to Accumulate from Buy with a $4.50 target, prepared to wait until a clearer view of the growth opportunity in the US is obtained. The US growth strategy is in line with the company's targets and the US now represent 67% of total revenue.

The acquisition of Limelight includes additional US-based staff and completes the product suite for insurance carriers in the North American employee benefits market. This is a key catalyst for the stock over the longer term, in Ord Minnett's view, and the opportunity remains undiminished.

See also, All Systems Go For Fineos on August 28, 2020.

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AUSTRALIA

FY22 Should Reinvigorate Macquarie Group

The setting will not get any easier for Macquarie Group in the second half as transaction activity remains low, yet the business is poised for upside in FY22 as a welter of investment opportunities become available.

-Zero interest rates signal the value of hard assets will rise
-Upside to earnings from capital deployment, reduced impairments
-Sell down of Nuix investment could support revenue

By Eva Brocklehurst

It's rare, but Macquarie Group ((MQG)) has experienced depressed revenue so far in FY21 as international borders remain closed, hampering transaction activity. The banking group has indicated the setting will not get any easier in the second half, amid further impact from the pandemic, fewer asset realisations and a lack of volatility in markets-facing businesses.

Nevertheless, UBS suggests Macquarie Group differs from other investment banks in that it is highly leveraged to hard assets. As zero interest rates are likely for the foreseeable future, the value of hard assets should rise. **Once travel resumes deal flows should rebound sharply** and this could mean a jump in performance fees.

Goldman Sachs interprets valuations as signalling a particularly strong and rapid rebound in FY22 revenue could be on the cards, and considers this overstated. As a result, the broker, not one of the seven stockbrokers monitored daily on the FNArena database, sticks with a Neutral rating and $136.81 target.

Morgan Stanley suspects the first half was a low point for earnings and anticipates a 30% recovery in FY22. Impairment losses have likely peaked although the broker assesses further improvement will be gradual.

With more than 85% of equity investments conservatively held at cost or lower, Morgan Stanley expects non-lending losses should also diminish. The main areas of uncertainty are Air Finance and commodities lending.

Macquarie Group provided no guidance for FY21 because of market conditions described as challenging and uncertain. First half net profit was $955m, which was down -32%. This was still a little better than guided, Bell Potter points out, and would have been much lower had it not been for stronger net interest and trading income and good cost management.

Macquarie Group relied more on capital recycling gains and performance fees than Ord Minnett expected in the first half, although the near-term prospect for these revenue items is considered robust.

Macquarie Capital

The broker envisages potential upside to medium-term earnings from capital deployment, reduced impairments and a recovery in Macquarie Capital earnings. Themes underpinning this view include low rates, quantitative easing, liquidity in private equity funds and the push for renewables investment.

Macquarie Capital was the hardest hit segment, affected by lower fees and commissions and significantly lower investment income. Yet, surplus capital remains strong at $9.4bn and, as Morgans observes, is well up on the $7.1bn in April, benefiting from lower business capital requirements and FX movements.

Based on Australian dollar movements, Bell Potter estimates adverse currency could have knocked -10% off the first half profit, or contributed to almost half of the profit decline on a half-on-half basis. The broker, not one of the seven, has a Buy rating and $148 target.

Deal flows were subdued amid further impairments, and solid growth in loans was offset by net interest margin and cost pressures, UBS observes. Commodities were strong during April and May because of transaction activity and opportunities for market dislocation, particularly in oil & gold.

Goldman Sachs expects the commodities and global markets division will be significantly weaker in the second half because of subdued customer activity, and will maintain a close eye on volatility in key commodities to better gauge the revenue potential.

The result did little to change Wilsons' view as the drop in earnings was attributed to the pandemic and circumstances should improve dramatically heading into 2021/22. The broker points out, unlike the last crisis in 2008/09, Macquarie Group has avoided the need for equity raisings at depressed share prices.

Return on equity at 9.5% remains well ahead of the cost of capital and there is almost $10bn of surplus capital to deploy. Wilsons, also not one of the seven, has an Overweight rating with no target provided.

Nuix

In recent months, there has been increased speculation Macquarie Group will sell down its position in data security software company Nuix, in which it has a 70% stake. UBS believes this could lead to substantial investment income and would expect the position to be sold down in tranches, potentially supporting revenue going forward.

At an implied valuation of $2.4bn, Citi believes Nuix will come to the rescue. The transaction should sustain second half earnings, and the broker considers it highly likely that 50% of the investment will be sold via an IPO, delivering a 12% boost to revenue.

Credit Suisse has decided not to adjust estimates, given a "widely reported significant asset realisation" is in the pipeline, preferring to await the structure and outcome of any transaction.

The database has three Buy ratings and three Hold. The consensus target is $136.87, signalling -4.0% downside to the last share price.

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Challenging Year Ahead For Incitec Pivot

As outages for maintenance in the year ahead create challenges for Incitec Pivot this should be countered by improved fertiliser prices and a recovery in demand for explosives.

-Underperformance reflects coal concerns and maintenance at major assets
-Mining activity expected to improve, fertiliser demand to recover
-DAP, ammonia prices find support but have they peaked?

By Eva Brocklehurst

Incitec Pivot ((IPL)) faces another mixed year ahead as mine production is reinstated globally and many of the company's facilities endure outages for maintenance.

Sentiment about coal remains the largest fundamental overhang and in Goldman Sachs' opinion, investors have been sceptical about the company's ability to appropriately size its capital-intensive asset base.

While the maintenance events are not without risk, the broker remains encouraged by the asset performance over the past 18 months. Incitec Pivot has reported 86% reliability at major assets over FY20. Should the company be successful in managing the shutdowns without significant issues, Goldman Sachs believes this will go a long way towards validating the company's FY22 95% reliability target.

Morgans expects solid growth underpinned by improved fertiliser prices and a recovery in demand for explosives, noting **Incitec Pivot remains on track to deliver $60m in sustained annual cost savings by FY22**.

This is in addition to the targeted savings of $40-50m in manufacturing efficiencies through improving plant reliability. Morgans considers the stock undervalued, based on more normalised earnings, and reiterates an Add rating.

Macquarie downgrades to Neutral, assessing the earnings recovery has been pushed out another year and FY21 will be a transition period, reflecting the impact of maintenance at plants and the rolling of legacy contracts.

The company needs to get on top of maintenance issues over the next six months while the coal backdrop remains challenging, in the broker's view. Macquarie expected a final dividend of 3.5c and none was forthcoming because of the uncertainties surrounding the pandemic and the equity raising in May.

Credit Suisse was also surprised by the lack of a final dividend and acknowledges FY21 is no longer shaping up as the "recovery" year it previously expected. Nevertheless, a credible path to improving profit from the second half is envisaged.

Credit Suisse expects mining activity in pandemic-affected regions to improve and support an earnings recovery, while the unfavourable Western Australian supply contract is to be re-set with effect from FY22, offering potential upside.

While US coal remains a structural risk, Credit Suisse senses an improvement in 2021 production should result in the coal issue being "kicked down the road" for several years. Moreover, for Incitec Pivot it is considered a problem with a known solution.

Valuation?

CLSA, on the other hand, anticipates material downgrades to consensus estimates following the result and, while understanding the argument about valuation, remains concerned about the issues in the industry and the fact that most of the profit drivers are out of the company's control.

Goldman Sachs differs, believing current valuations are over-capitalising short-term market conditions. The stock may have materially underperformed the market on the back of the results, yet the broker believes the current price is an attractive point from which to build a position in the stock.

UBS expects earnings growth will be supported by a recovery in global fertiliser prices, ongoing strength in domestic fertiliser demand, improved ammonium nitrate volumes and cost reductions. These factors will be offset by the shutdown of plants for periods of maintenance at Moranbah, Waggaman, Mount Isa and St Helens as well as an appreciating Australian dollar and gas pricing.

Diammonium phosphate (DAP) and ammonia prices have found some support after a lengthy period of underperformance and UBS expects the improved outlook can underpin growth of 13% in earnings (EBIT) in FY21 and free cash flow generation of around $300m. Yet Macquarie suspects DAP prices have peaked at US$360/t for the short term and recovery in ammonia may only be modest because of ample supply.

Morgan Stanley agrees that while DAP prices may have increased meaningfully over the past six months, this has been more than offset by the impact on demand.

Furthermore, Henry Hub gas prices have increased to more than 40% above FY20 averages and with modest ammonia price increases this means a squeeze will be exacerbated by Incitec Pivot's plant shutdowns in the first half.

Explosives

Dyno Nobel Asia-Pacific benefited from improved agricultural conditions on Australia's east coast as well as robust Australian mining volumes. The company expects US Dyno Nobel earnings will return to normal as coal production stabilises and mines re-start.

Macquarie welcomed the "better quantified" technology benefits for Dyno Nobel, although for Asia-Pacific this benefit is essential to offset the negative -$12m impact from legacy ammonium nitrate re-contracting.

Moreover, in Morgan Stanley's view, while US explosives earnings are likely to recover back to pre-pandemic levels in FY21 an Asia-Pacific earnings recovery, given the lost WA contracts and challenging conditions in Indonesia, is likely to be delayed to FY22.

The broker is prepared to look through near-term weakness in ammonium nitrate volumes while asserting commodity prices are the main driver of earnings… and these will be challenging.

CLSA, not one of the seven stockbrokers monitored daily on the FNArena database, retains an Underperform rating with a $2.12 target, while Goldman Sachs, also not one of the seven, retains a Buy rating with a target of $2.56. FNArena's database has five Buy ratings and two Hold. The consensus target is $2.51, signalling 19.9% upside to the last share price.

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AUSTRALIA

Deterra Royalties To The Fore In Iron Ore

What are Deterra Royalties? Well, the recently-listed stock offers a unique ASX exposure to iron ore, taking a royalty stream from BHP Group's Mining Area C.

-Deterra Royalties intends to grow through acquisitions
-Low volatility exposure to iron ore, with strong production outlook
-May be an easy bolt-on for larger market participants

By Eva Brocklehurst

Deterra Royalties ((DRR)) is a pure iron ore stock that offers a unique ASX exposure to the bulk commodity with minimal operating and capital costs. It has several royalty streams, only one being currently active.

There is minimal net debt and a dividend pay-out policy of 100% of net profit is on offer, fully franked. While the primary source of revenue is the Mining Area C (MAC) royalties, Deterra Royalties has indicated that it will also look to grow through acquisitions.

The company was de-merged in October from Iluka Resources ((ILU)), which retains a 20% stake, and owns a 1.232% royalty over BHP Group's ((BHP)) MAC, a long-life iron ore hub in the Pilbara, Western Australia. Deterra Royalties aims to build a portfolio with multiple sources of earnings growth, providing greater resilience for cash flow and less risk.

Macquarie assesses the stock offers a low volatility exposure to iron ore amid a strong production growth outlook. The broker's positive view is supported by the dividend policy, with returns expected to translate to yields of 5-6% once BHP Group's South Flank enters full production.

Valuations

Goldman Sachs believes it is best to focus on the potential production of bulk and base metal royalties, given an inability to leverage scrip to pay for precious metal royalties compared with North American peers that are trading much higher multiples.

In 2019 Deterra received $600,000 in revenue from the Yoongarillup mineral sands operation. Citi does not forecast any revenue from other royalties in the existing portfolio that includes Eneabba, Wonnerup and the St Ives gold project.

UBS uses a discounted cash flow approach to value Deterra and, based on a US$60/dmt long-term iron ore price with weighted average cost of capital of 5%, estimates a net present value of $4.81 a share.

Several brokers have initiated coverage of the newly-listed stock, resulting in two Buy, one Hold (Credit Suisse) and one Sell (Citi) on FNArena's database, with a consensus target of $4.40 that signals 4.5% upside to the last share price.

Goldman Sachs, not one of the seven stockbrokers monitored daily on the database, in its initiation has a Neutral rating and $4.10 target. The broker finds the earnings growth attractive but the stock fully valued versus a broader peer group. Moreover, the dividend yield for iron ore miners on an average 2021-22 forecasts is 6%, which compares with Deterra on a 4% yield.

There are no direct peers listed in Australia, with Goldman Sachs noting the closest is the Labrador Iron Ore Royalty company in Canada which has a stake in Rio Tinto's ((RIO)) mine as well as revenue royalty.

The broker believes the superior quality of MAC and with BHP Group as operator warrants a premium for Deterra, assessing BHP will have the highest rates and margins in the Pilbara by 2022.

Iron ore production from the MAC hub is set to increase to 145mtpa by FY23, from the current 60mtpa. Goldman Sachs suspects the stock will trade like in iron ore ETF (exchange traded fund), tracking net asset value, until it expands and diversifies.

Credit Suisse expects the stock will garner interest from the market across both resources and yield-focused investors. The main risks stem from the concentration on a single commodity revenue stream from a single region of just one country.

Any adverse moves in the Australian dollar iron ore prices or changes to operating activity within the MAC area present the highest risk for shareholders, in the broker's view.

Credit Suisse also questions whether the company's strategy to de-merge is actually about building a business that will attract corporate interest, as it is an easy bolt-on for larger existing market participants, many of which may trade on higher multiples.

Earnings/Prices

Citi anticipates peak earnings for Deterra of $164m in FY23 and, despite expecting continued production growth at MAC out to FY25, believes this does not offset forecasts for declines in the iron ore price.

The broker expects dividends will peak in FY23 at $0.22, representing a dividend yield of 5.2% at the current share price. That said, the broker accepts **operations at MAC would still be profitable even in a very much lower iron ore price environment**.

Citi now forecasts benchmark iron ore prices in a range of US$100-120/t for the balance of 2020 as ongoing strength in China now drives a more broadly balanced seaborne market. The broker expects iron prices to average US$90/t in 2021, easing to US$75/t in 2023 as rising output couples with declining Chinese steel demand.

UBS assesses the iron ore market will remain tight in 2021 and accrue a slight surplus by the end of the year. Chinese imports are expected to remain strong but this will be offset by higher production from the three main producers.

Goldman Sachs expects iron ore will drop to US$105/t by the end of the year as shipments from Australia and Brazil rise and Chinese steel production moderates.

Mining Area C

BHP is currently expanding the hub through the development of South Flank that will start producing in mid 2021 and ramp up over 18 months. South Flank has a life of around 25 years from 2021.

UBS believes BHP has managed the issues well and its operations have largely been without disruption. South Flank is expected to be in the first quartile of the global iron ore cash cost curve.

MAC produces iron ore fines of around 61% iron as well as lump iron ore. The royalty is paid to Deterra as

Australian denominated revenue and one-off capacity payments of $1m are made per one tonne increase in annual capacity.

Capacity payments will be received in July alongside the June quarter royalty. Goldman Sachs notes, since inception to June 2020, $52m in capacity payments have been made. BHP has identified two future operations, Tandanya and Mudlark, which are likely to be at least partially within the royalty area.

Goldman Sachs also points out the Western Australian reforms to the Heritage Act and potential renegotiation or amendment of land-use agreements with the Banjima, the traditional owners of the land on which the royalty is located. This could result in some delays to permits, revaluation of heritage sites and exclusive zones.

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AUSTRALIA

Rocky Road To Guidance For Computershare

Computershare's first quarter update received mixed responses, with several issues required to pan out positively to achieve FY21 guidance.

-US shareholder paid fees expected to pick up in the second half
-Concerns regarding another series of lockdowns
-Delinquent loans servicing more of a medium-term opportunity

By Eva Brocklehurst

Volatile items such as strong growth in corporate actions have helped Computershare ((CPU)) perform in the first quarter but it appears a lot needs to fall into place to achieve FY21 guidance.

The company's AGM provided no upgrade to guidance, although the traditional ratio skew to the second half was pegged back a little to 42:58 from 40:60, reaffirming embedded views regarding the outlook.

On balance, Morgan Stanley found the update positive, supporting its view that earnings per share (EPS) can beat guidance. New client wins in issuer services are ahead of expectations, which the broker asserts is a recurring benefit.

Yet Citi assesses the year ahead will be challenging, with a number of unavoidable headwinds likely to crystallise. **While guidance remains plausible it requires a very strong second half and perfect delivery on cost reductions** .

Computershare has signalled management EPS is likely to be down around -11% and ex-margin income up around 10%. Margin income is on track for US$100m in FY21. It appears to Morgans the year has started in a positive way, and while the lack of any upgrade could be construed as negative this could just be Computershare taking a conservative stance.

Goldman Sachs agrees many aspects of guidance are tracking to plan, particularly margin income. Those segments that are in line with expectations include corporate actions, share plans and issuer services.

While shareholder paid fees in the US were weak to start the year, the company envisages an opportunity for this to pick up into the second half. This weakness, Goldman Sachs notes, comes despite a market rally that has been skewed towards the tech sector.

US Mortgages

Computershare has raised some concerns regarding another series of lockdowns in many of its key regions, which is largely related to the extension of the US mortgage foreclosure moratorium. The extension of the restriction on foreclosures to December 31, 2020 has postponed some mortgage servicing ancillary revenue into the second half.

This is the most obvious risk to the short-term, in Goldman Sachs' view, although the extent to which delivery of a coronavirus vaccine builds corporate confidence should help even out the risks.

Ord Minnett agrees Computershare may benefit from market confidence in a vaccine, given the business suffered sharply at the onset of the pandemic. Yet much of that **early pressure came from lower interest rates and problems with mortgage servicing, neither of which appears to be improving in the short term**.

Citi suspects the second half is still including stretched targets and the extension of the US foreclosure restrictions makes targets even harder to achieve. The broker also envisages a risk that the boost from delinquent mortgage servicing in FY22 may not be as strong as previously expected.

Delinquent servicing is hard to predict but it appears the level of delinquent loans will rise in the US in the third quarter. This should provide relatively lucrative sub-servicing opportunities but Citi asserts this is likely to be more of a medium-term opportunity. Hence, the broker cuts EPS estimates by -3% for FY22 and FY23.

In addition, excluding the impact of margin income, underlying earnings in the second half need to rise 45% to meet guidance. While understandably this will be cycling the comparison with the outbreak of the pandemic, and may be helped by a recovery in US shareholder paid fees, Citi still envisages the targets difficult to achieve.

Hong Kong/UK

Improved corporate actions in Hong Kong and capital raisings in the UK were the main source of the better-than-expected performance in the first quarter. Citi acknowledges this is helpful but believes corporate actions are less of a swing factor than the market would like to believe.

Ord Minnett agrees that despite a reduced seasonal skew to the second half and the company's assertion that trends over the first four months are running slightly ahead of budget, guidance remains difficult to achieve.

Historically, the company has struggled to grow EPS excluding margin income and guidance implies growth in this aspect in the second half of 33%. The broker accepts there are higher corporate actions in the UK and Hong Kong and higher trading volumes in share plans, along with the client wins and issuer services, yet the revenue from US foreclosures is expected to remain weak.

Overall, CLSA acknowledges Computershare could be under-promising and there are growth opportunities in corporate actions, share plans revenue and US issuer services. Still, the broker considers the valuation stretched and, not one of the seven stockbrokers monitored daily on the FNArena database, reiterates an Underperform rating with a target of $13.30.

At the other end of the spectrum, Goldman Sachs, also not one of the seven, retains a Buy rating with a $14.42 target. The database has three Buy ratings, two Hold and two Sell. The consensus target is $13.43, signalling -5.3% downside to the last share price. Targets range from $10.75 (Ord Minnett) to $15.75 (Morgan Stanley).

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 06-11-20

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 November 2 to Friday November 6, 2020
Total Upgrades: 10
Total Downgrades: 8
Net Ratings Breakdown: Buy 51.75%; Hold 38.45%; Sell 9.80%

For the week ended Friday November 6, there were ten upgrades and eight downgrades to broker ratings for ASX-listed stocks on the FNArena database. All eight downgrades went to a Hold rating from a Buy. Nine of the ten upgrades went to a Buy rating, while ResMed received ratings upgrades from three different stockbrokers.

The company was boosted by quarterly results that showed a rebound in sleep-related sales and management's confidence in future quarterly improvements for device sales. Consequently, the company was the table-header for the percentage increase in target prices for the week.

Next on the table was Abacus Property Group after acquiring the remaining 75% interest in Storage King for $50m. This was considered by brokers to provide the group with avenues for further growth. As mentioned last week, Hub24's target price is being ratcheted up by brokers due to making several acquisitions, divesting another asset and raising $60m in equity. It's generally agreed by brokers the company will benefit from scale and capability as a result of the acquisitions. Ansell was fourth in terms of a percentage increase in target price for the week after management upgraded FY21 forecast earnings growth. There has been better than expected volume and sales across all five of the business units during the first four months of the financial year.

OceanaGold was the sole company in the FNArena database experiencing a material decline in target price for the week. September quarter production figures were well below broker estimates, while costs were greater than expected. This was attributed to exceptional rainfall events and pandemic effects on personnel levels at the Haile project in South Carolina. As a result, Macquarie downgraded the company's rating to Neutral from Outperform.

Consequently, OceanaGold was also second on the list of percentage forecast earnings downgrades by brokers for the week. At the top of the list was Western Areas after an update by five brokers in the wake of lower production guidance and increased cost estimates by management. After a significant share price fall, Citi saw opportunity to buy the pure-play nickel stock and upgraded the rating. Macquarie took the opposite strategy and downgraded the rating to Neutral from Outperform over some longer-term debt concerns. Those concerns would amount to nought should current spot nickel prices be maintained.

The management of Senex Energy updated earnings guidance in the wake of the company's divestment of its Cooper Basin assets. The loss in earnings appeared to outweigh the cash injection in the opinion of brokers, but on the whole they were comfortable with the company's increased coal-seam-gas focus.

Atlas Arteria broker earnings forecasts continue to suffer from concerning trends regarding the Atlantia's Abertis (French) toll road network and the impact on both earnings and dividends in 2021. Fortunately, the company has plenty of surplus cash and Macquarie sees no financial threat.

The Westpac full year result was a mixed bag. On one hand higher costs resulted in a "miss" on core profits, while on the other a much higher dividend plus asset quality surprised on the upside. The positives triumphed as the bank had the largest percentage increase in earnings forecasts by brokers in the FNArena database for the week.

In a good week for banks, both the ANZ Bank and the National Australia Bank also had a material lift in broker earnings forecasts. As mentioned last week the ANZ Bank benefited from positive signs on both costs and asset quality, with impairment charges lower than generally expected. The majority of the seven brokers on the FNArena database agreed the bank's FY20 result either exceeded or met expectations.

Multiple positives propelled earnings forecasts higher for National Australia bank. Brokers generally agreed with management's margin management and provision build-up, while in the case of some brokers, the dividend exceeded expectations.

In amongst the three banks mentioned above, Cooper Energy was rewarded with earnings forecast upgrades after news that production at the Sole gas project would soon transition to term contracts. This will allow the company to start selling gas into the GSAs (gas sales agreements) it has with its Sole customers.

Upgrade

BRAMBLES LIMITED ((BXB)) Upgrade to Add from Hold by Morgans .B/H/S: 5/1/0

The first quarter trading update for Brambles was better than Morgans expected.

CHEP Americas and CHEP Europe, Middle East & Africa (EMEA) performed above expectations, while CHEP Asia-Pacific was in line with the broker's forecast.

Sales growth was driven by strong demand for pallets in grocery supply chains (as inventory levels are increased in preparation for the holiday season, and ahead of any further lockdown measures).

Following recent share price weakness, the rating is upgraded to Add from Hold and the target is increased to $12.16 from $12.05.

INGHAMS GROUP LIMITED ((ING)) Upgrade to Add from Hold by Morgans .B/H/S: 3/3/0

A recovery in Inghams Group's first quarter core poultry sales volumes was stronger than Morgans expected and has supported a reduction in the group's inventory build.

While commentary on profitability was limited, the broker expects the first quarter earnings (EBITDA) figure has improved sequentially on the prior quarter. Feed costs are still expected to reduce from the fourth quarter 2021.

Despite a slight accounting induced dividend policy change, the analyst doesn't expect the quantum of the FY21 dividend will change.

Morgans lifts earnings forecasts in FY22 and FY23 by 4.2% and 3.6%, respectively. The broker expects earnings to normalise and for it to benefit from a full year of lower grain prices.

The target price is increased to $3.76 from $3.57 and the rating is increased to Add from Hold.

POINTSBET HOLDINGS LTD ((PBH)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 1/1/0

PointsBet Holdings' first-quarter update shows the business to be in a ramp-up phase. Customer acquisition was above Ord minnett's expectations while the turnover numbers for both the US and Australia were ahead of forecasts.

The broker notes PointsBet has been live in Illinois for 3 weeks in the September quarter but could be a source of material near term turnover. A number of states have seen some progress regarding potential legalisation.

Ord Minnett upgrades to Buy from Hold. Target declines to $12.80 from $13.60.

RESMED INC ((RMD)) Upgrade to Buy from Neutral by UBS and Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Neutral from Underperform by Macquarie .B/H/S: 3/3/0

ResMed's first-quarter result was ahead of UBS's forecast with group revenue beating the broker's estimate by

6%. The broker is happy with the faster than expected recovery in sleep-related sales.

Ventilation sales related to covid-19 were less than June quarter levels but still managed to be ahead of the broker by about US$13m.

UBS expects strong revenue performance over the longer term and also believes ResMed will reach a net cash position in FY22.

Rating is upgraded to Buy from Neutral with the target price rising to US$210 from US$200.

Credit Suisse believes ResMed is uniquely placed to benefit from a shift to home health care post the pandemic. Double-digit earnings growth is forecast over the medium term and the rating is upgraded to Outperform from Neutral.

Despite rising coronavirus cases in the northern hemisphere and the re-implementation of lockdowns, management remains confident of a sequential quarterly improvement in device sales.

The risk from competitive bidding in the US is removed and the current reimbursement rates are expected to remain for at least three years. Target is raised to $31 from $28.

ResMed's quarterly earnings result indicated a rebound in the company's base business and OSA activity greater than Macquarie had expected. Ongoing improvement is expected ahead in both device volumes and opportunities regarding re-supply.

ResMed does not see any change in US reimbursement rates in the foreseeable future, removing what the broker had highlighted as a risk. Earnings forecasts thus upgraded and target rises to $27.25 form $20.00. Upgrade to Neutral from Underperform.

SG FLEET GROUP LIMITED ((SGF)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 2/0/0

Morgan Stanley suspects guidance is conservative, at net profit of $22-24m. This signals earnings are almost back to pre-pandemic levels and does not include the prospect of Victoria coming out of lockdown, which should provide upside potential.

The broker suggests earnings should also be leveraged to a turnaround within leasing.

As a result, uncertainty is considered more than priced into the stock and Morgan Stanley upgrades to Overweight from Equal-weight. Target is raised to $2.30 from $2.00. Industry view: In Line.

SMARTGROUP CORPORATION LTD ((SIQ)) Upgrade to Add from Hold by Morgans .B/H/S: 3/2/0

The third quarter update indicates to Morgans broader car purchasing demand is picking up, while cash generation and the balance sheet remain solid.

The broker points out trading showed improvement in the recovery run rate, in particular novated lease volume.

On a short-term view Morgans increases the rating to Add from Hold and expects recovery trends to continue to show improvement.

The target price is decreased to $6.55 from $6.75.

TREASURY WINE ESTATES LIMITED ((TWE)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/5/0

UBS believes the key driver for Treasury Wine Estates is China, with risks including tariffs from an anti-dumping investigation and potential retrospective tariff on imports. Additionally, there is speculation on a wine import suspension by 5 November.

Separately, the broker considers the first quarter update was incrementally positive, driving 2-3% EPS upgrades.

As the share price is factoring in an around -$4.40 valuation impact from tariffs, the analyst thinks the risk/reward is now favourable and upgrades to Buy from Neutral.

The target price is decreased to $8.80 from $12.50.

See also TWE downgrade.

WESTERN AREAS NL ((WSA)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/2/0

Western Areas' September quarter fell short of expectations led by seismic activity at the Flying Fox mine. In a first for Western Areas, the company has reduced its nickel guidance by -10% and expects costs to be higher.

Citi views the recent sell-off as overdone and sees this as an opportunity to buy a pure-play nickel stock. The broker thinks the higher nickel ore prices and producer cost inflation tilt short-term price risks to the upside.

Citi upgrades its rating to Buy from Neutral with the target price reduced to $2.35 from $2.65.

See also WSA downgrade.

Downgrade

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

Credit Suisse observes, since the last update in August, housing turnover and price indicators for GWA Group's core alterations & additions market have improved. Hence, the latest commentary on FY21 is disappointing.

Year-to-date sales are down -5% and it appears, while consumer discretionary peers have posted strong growth, GWA Group has not participated in the recovery so far.

Underperformance is attributed to stretched-out cycles in the commercial end market as the company's products are the last to be installed. Rating is downgraded to Neutral from Outperform and the target is steady at $2.85.

HUB24 LIMITED ((HUB)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 2/3/0

The company has purchased Ord Minnett's portfolio administration and reporting services along with Xplore Wealth ((XPL)) and simultaneously divested Paragem to Easton Investments for scrip.

Beyond the accretive set of transactions, the broker assesses the deals provide HUB24 with advanced functionality and capability.

Nevertheless, despite the strategic and financial merit, the stock has rallied 260% from the March lows and this provides limited valuation support. Hence, Ord Minnett downgrades to Hold from Buy. Target is raised to $23.29 from $19.49.

ICAR ASIA LIMITED ((ICQ)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

iCar Asia has received an indicative 50 cent bid from US listed, Chinese based Autohome Inc.

Morgans assesses the offer looks attractive to shareholders, given the headline metrics, premium to current trading and the broker’s valuation.

The bid comes amidst a raft of deals in the classifieds space as larger players look to either rationalise or beef up their portfolios, informs the analyst.

Separately, the quarterly result shows traction out of second quarter lows, and was in-line with the broker’s expectations.

Morgans sets the target price at an equal weighting between the indicative bid price ($0.50) and the broker’s valuation of $0.39. With the share price closing very close to the target price, the analyst sees the risk/reward trade-off, should a binding offer not eventuate, as evenly balanced.

The rating is downgraded to Hold from Add and the target price is increased to $0.445 from $0.39.

ISENTIA GROUP LIMITED ((ISD)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

Isentia Group announced a -$7.0m to -$8.5m profit (PBT) impact from a recent cybersecurity incident. The estimated impact relates to remediation costs and foregone revenue for services effected by the outage.

The incident is now largely under control with the company progressively restoring services.

Morgans believes how professionally the company handles the incident and interacts with its client base will determine whether significant reputational damage is caused. If handled well the company could emerge stronger, as a result of reinforced systems and processes.

The broker expects management to handle the situation well. Investors are considered likely to wait and see how the business and the competitive environment evolve before buying stock.

The rating is downgraded to Hold from Add and the target price decreased to $0.15 from $0.36.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Downgrade to Hold from Add by Morgans .B/H/S: 4/2/1

The FY20 cash earnings (from continuing operations) for National Australia Bank were two percent less than

Morgans expected, largely due to a higher-than-expected credit impairment charge.

The charge was higher because the bank significantly bolstered its collective provision (CP) to credit risk weighted assets (CRWA) coverage.

The broker highlights second half revenue was supported by a strong performance in the markets and treasury divisions.

A final dividend of 30cps fully franked was declared, which is better than the broker's expectation of 28cps.

Morgans downgrades to Hold from Add partly due to a slight reduction in target price to $20 from $20.50, but largely due to share price strength over the last month.

OCEANAGOLD CORPORATION ((OGC)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/2/0

OceanaGold 's September quarter featured production -33% below the broker's forecast and costs 32% above, attributed to exceptional rainfall events and virus impact on personnel levels at Haile.

With the virus situation in the US not improving, particularly in South Carolina (Haile), Macquarie downgrades to Neutral from Outperform.

Production is expected to rebound in this quarter but performance will likely remain subdued, the broker suggests, until Waihi recommences mid next year. Target falls to $2.00 from $2.80.

TREASURY WINE ESTATES LIMITED ((TWE)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/5/0

Credit Suisse has decided to downgrade to Neutral from Outperform, reflecting the political risk and uncertainty associated with the China export market.

The broker's channel checks indicate distributors may have become hesitant to order. Target is reduced to $8.50 from $12.30 to account for the temporary and short-term risk.

See also TWE upgrade.

WESTERN AREAS NL ((WSA)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 4/2/0

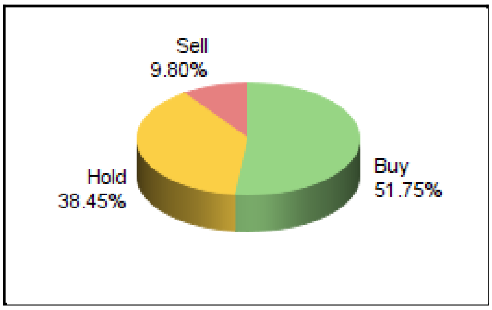
Western Areas' September quarter production was materially weaker than expected and has led to a -10% reduction in FY21 guidance, with Flying Fox and Spotted Quoll swinging to lower grades. Macquarie has cut earnings forecasts as a result.

The broker notes this would lead to a -$100m funding gap by mid-2022, which could be covered by existing debt facilities, but could also be a non-issue if nickel prices continue to trade at current spot compared to Macquarie's forecast.

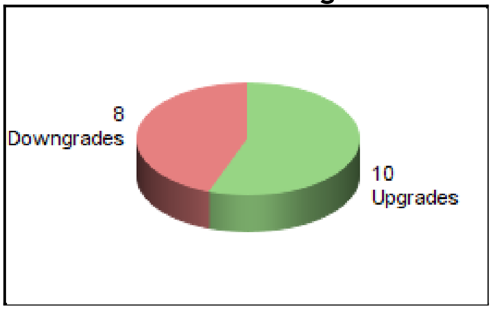
For now, downgrade to Neutral from Outperform. Target falls to $2.00 from $2.80.

See also WSA upgrade.

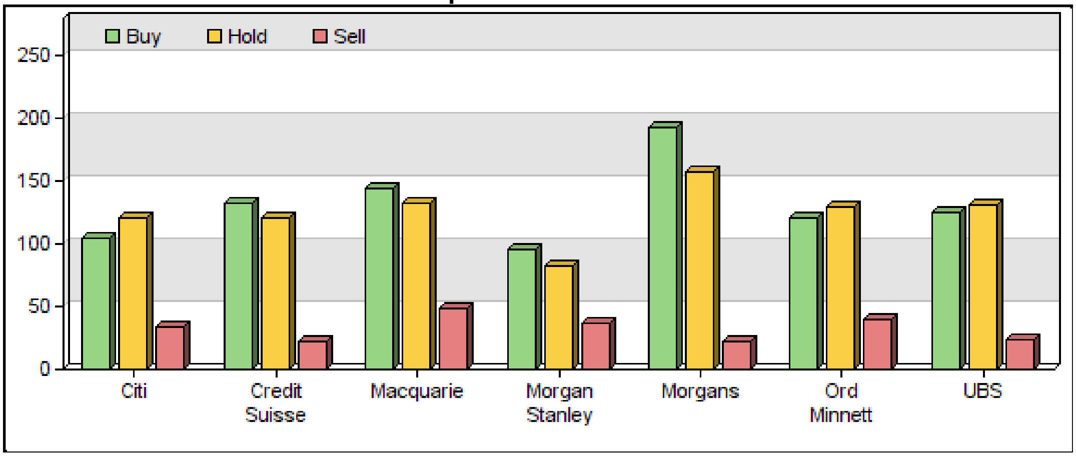
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	BRAMBLES LIMITED	Buy	Neutral	Morgans
2	INGHAMS GROUP LIMITED	Buy	Neutral	Morgans
3	POINTSBET HOLDINGS LTD	Buy	Neutral	Ord Minnett
4	RESMED INC	Buy	Neutral	Credit Suisse
5	RESMED INC	Neutral	Sell	Macquarie
6	RESMED INC	Buy	Neutral	UBS
7	SG FLEET GROUP LIMITED	Buy	Neutral	Morgan Stanley
8	SMARTGROUP CORPORATION LTD	Buy	Neutral	Morgans
9	TREASURY WINE ESTATES LIMITED	Buy	Neutral	UBS
10	WESTERN AREAS NL	Buy	Neutral	Citi
Downgrade				
11	GWA GROUP LIMITED	Neutral	Buy	Credit Suisse
12	HUB24 LIMITED	Neutral	Buy	Ord Minnett
13	ICAR ASIA LIMITED	Neutral	Buy	Morgans
14	ISENTIA GROUP LIMITED	Neutral	Buy	Morgans
15	NATIONAL AUSTRALIA BANK LIMITED	Neutral	Buy	Morgans
16	OCEANAGOLD CORPORATION	Neutral	Buy	Macquarie
17	TREASURY WINE ESTATES LIMITED	Neutral	Buy	Credit Suisse
18	WESTERN AREAS NL	Neutral	Buy	Macquarie

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	RMD	RESMED INC	36.0%	-7.0%	43.0%	7
2	WEB	WEBJET LIMITED	40.0%	20.0%	20.0%	5
3	SIQ	SMARTGROUP CORPORATION LTD	60.0%	40.0%	20.0%	5
4	ING	INGHAMS GROUP LIMITED	50.0%	33.0%	17.0%	6
5	BXB	BRAMBLES LIMITED	83.0%	67.0%	16.0%	6
6	ANN	ANSELL LIMITED	36.0%	21.0%	15.0%	7
7	SCP	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP	25.0%	17.0%	8.0%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	OGC	OCEANAGOLD CORPORATION	38.0%	63.0%	-25.0%	4
2	HUB	HUB24 LIMITED	40.0%	60.0%	-20.0%	5
3	NAB	NATIONAL AUSTRALIA BANK LIMITED	36.0%	50.0%	-14.0%	7
4	ABP	ABACUS PROPERTY GROUP	50.0%	63.0%	-13.0%	4

5	DXS	DEXUS PROPERTY GROUP	17.0%	25.0%	-8.0%	6

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	RMD	RESMED INC	27.757	25.205	10.12%	7
2	ABP	ABACUS PROPERTY GROUP	2.990	2.878	3.89%	4
3	HUB	HUB24 LIMITED	21.648	20.888	3.64%	5
4	ANN	ANSELL LIMITED	41.094	39.766	3.34%	7
5	WEB	WEBJET LIMITED	3.978	3.898	2.05%	5
6	SCP	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP	2.375	2.333	1.80%	6
7	ING	INGHAMS GROUP LIMITED	3.602	3.570	0.90%	6
8	DXS	DEXUS PROPERTY GROUP	9.445	9.412	0.35%	6
9	BXB	BRAMBLES LIMITED	12.243	12.225	0.15%	6
10	NAB	NATIONAL AUSTRALIA BANK LIMITED	20.257	20.243	0.07%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	OGC	OCEANAGOLD CORPORATION	3.025	3.438	-12.01%	4
2	SIQ	SMARTGROUP CORPORATION LTD	6.856	6.896	-0.58%	5

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	WBC	WESTPAC BANKING CORPORATION	147.129	76.271	92.90%	7
2	COE	COOPER ENERGY LIMITED	0.178	0.093	91.40%	4
3	ANZ	AUSTRALIA & NEW ZEALAND BANKING GROUP	160.157	127.329	25.78%	7
4	NAB	NATIONAL AUSTRALIA BANK LIMITED	143.771	117.757	22.09%	7
5	PLS	PILBARA MINERALS LIMITED	-0.873	-1.005	13.13%	4
6	IGO	IGO LIMITED	21.800	19.733	10.47%	6
7	ORG	ORIGIN ENERGY LIMITED	21.660	19.717	9.85%	7
8	RMD	RESMED INC	75.360	70.242	7.29%	7
9	APT	AFTERPAY LIMITED	8.467	7.967	6.28%	6
10	JHG	JANUS HENDERSON GROUP PLC.	387.266	367.366	5.42%	4

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	WSA	WESTERN AREAS NL	3.572	8.923	-59.97%	6
2	OGC	OCEANAGOLD CORPORATION	-12.807	-8.020	-59.69%	4
3	SXY	SENEX ENERGY LIMITED	0.748	1.223	-38.84%	6
4	ALX	ATLAS ARTERIA	12.475	15.975	-21.91%	5
5	NAN	NANOSONICS LIMITED	3.333	3.775	-11.71%	4
6	URW	UNIBAIL-RODAMCO-WESTFIELD	60.661	67.075	-9.56%	3
7	PDL	PENDAL GROUP LIMITED	42.329	45.771	-7.52%	7
8	PPH	PUSHPAY HOLDINGS LIMITED	20.219	20.651	-2.09%	4
9	HUB	HUB24 LIMITED	28.380	28.980	-2.07%	5
10	REA	REA GROUP LIMITED	230.700	235.150	-1.89%	6

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Kazak And Canadian Production Returns

The big players in global uranium production are back in business.

-Kazatomprom restarts production
-Cameco production already underway
-The weekly spot price increases by 1% in two weeks

By Mark Woodruff

The world's largest uranium producer, Kazatomprom, reported this week that activities at all of its mining operations in Kazakhstan have resumed and progressed according to the company's plans, following a four-month covid-related shutdown.

Well field development drilling and the associated work to bring on new well fields began to ramp up in August, notes industry consultant TradeTech. This follows the recent reduction of non-essential staff at the outset of the pandemic.

The company's production guidance for FY21 remains unchanged.

Meanwhile, the world's second largest uranium producer, Canada's Cameco, released third-quarter results that were impacted by operational decisions taken earlier this year in response to the pandemic.

The quarter was also impacted by ongoing purchase activity and additional care and maintenance costs of US$13.7 million, resulting from the proactive decision to suspend production at the company's flagship Cigar Lake Mine, reports TradeTech.

Cameco noted that it safely restarted Cigar Lake in September, and as planned, it took about two weeks to achieve initial production.

The company posted a net loss of -US$46.3m and expects cash balances and operating cash flows to meet capital requirements during 2020, and does not anticipate drawing on its credit facility.

Uranium Pricing

TradeTech's Weekly Uranium Spot Price Indicator is at US$30.00/lb, up US$0.10/lb from last week.

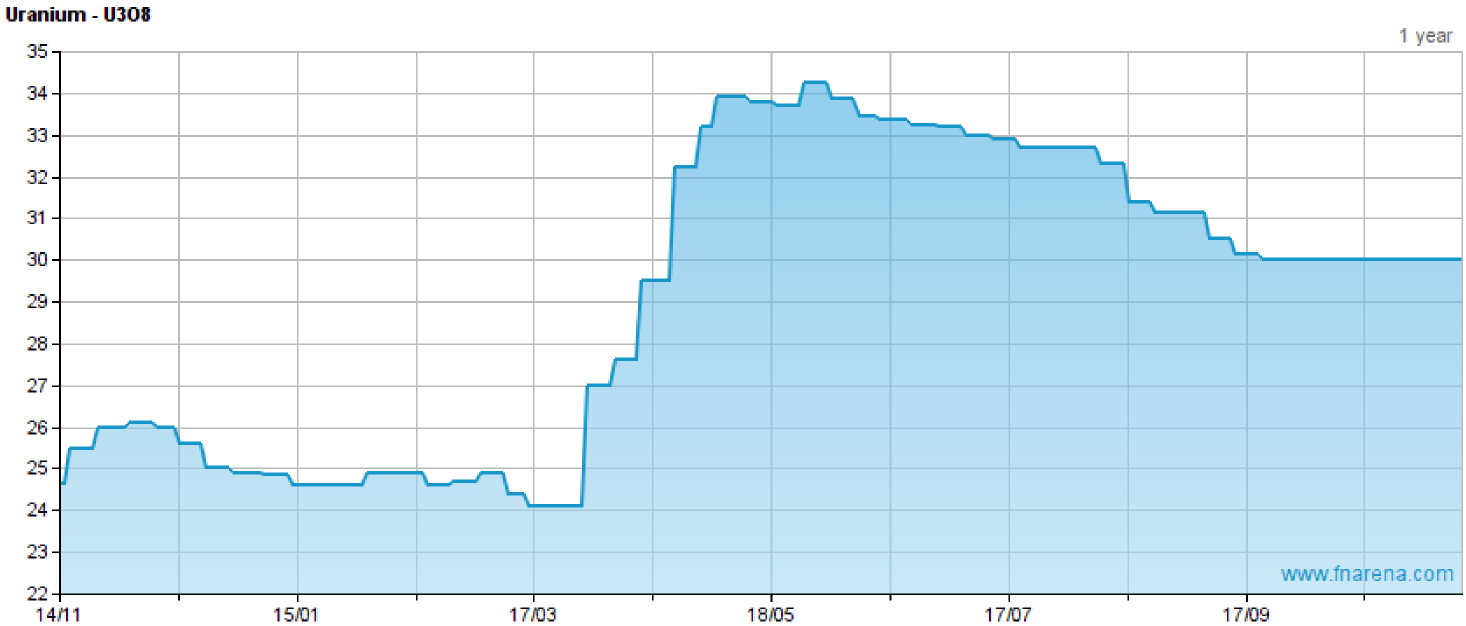
Total spot uranium transactional volume for the first week of November totalled around 800,000lbs U3O8 equivalent.

Although the Weekly Spot Price Indicator has moved up by 1% in the last two weeks, volatility in the indicator remains on a downward trajectory. Movement in the weekly spot price has tended to be relatively minor since May and has generally trended downward averaging a $US0.14/lb (-0.4%) week-on-week decline over the last six months.

Nonetheless, the Weekly Spot Price Indicator has increased nearly 22% in the last year and has averaged a 0.5% weekly increase in 2020 (largely attributable to increases in the price related to several covid-driven supply reductions).

The average weekly uranium spot price for 2020 is $US29.70/lb, $US3.86/lb above the 2019 average.

TradeTech's term price indicators are unchanged at US$34.00/lb (mid) and US$37.00/lb (long).



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

WEEKLY REPORTS

The Short Report - 12 Nov 2020

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

Summary:

Week ending November 5, 2020

Last week saw the ASX200 continue to fall on rolling global re-lockdown concerns before bottoming out and surging along with Wall Street on Biden victory speculation. Subsequent to last week has been the vaccine news.

Not a lot of movement in short positions last week, with a couple of exceptions. It is also notable that a net three stocks entered the 5%-plus table last week, halting a long run of slow declines in the number of 5%-plus shorted stocks.

Two are familiar faces, but one is not.

Fibre-to-the premises provider Uniti Group ((UWL)) debuted last week on 5.5% shorted, having shot up on news of the acquisition of peer OptiComm to become the second biggest player in the FTTP market.

The standout move nevertheless was that of Western Areas, which saw its shorts leap to 9.6% from 6.6%. See below.

Weekly short positions as a percentage of market cap:

10%+
WEB 15.2

No changes

9.0-9.9

IVC, WSA, MYR, MSB

In: WSA,MSB

8.0-8.9%

ING, GXY

Out: MSB, FLT

7.0-7.9%

FLT, WHC, TGR, MTS, A2M, CUV

In: FLT, TGR

6.0-6.9%

FNP, AVH, BOQ

Out: WSA, TGR, EOS, PNV

5.0-5.9%

COE, PNV, Z1P, EOS, ORE, UWL, NEA, EML, LOV, PLS, SEK, SGM, PME, BIN, PPT, GWA

In: PNV, EOS, UWL, SGM, PPT

Movers & Shakers

A seismic event at nickel miner Western Areas Flying Fox mine in the September quarter had investors quaking in their boots last week. The stock plunged -18% in a day. Both Flying Fox and Spotted Quoll also suffered from lower grades as they enter decline.

This led to a big miss on both production and costs, and a downgrade to guidance – a first for the miner. Management assured this quarter will see improvement, but there is concern over whether the issues are structural rather than one-off.

With the mines now running down, Western Areas' big hope is the Odysseus project. Reduced guidance may imply a funding shortfall, unless nickel prices remain buoyant. The uncertainty has led Macquarie to pull back to Neutral from Outperform.

Yet three brokers retain Buy or equivalent ratings, with Credit Suisse citing an overdone sell-off. Citi has upgraded to Buy for that reason.

The shorters are taking no chance, lifting positions to 9.6% from 6.6%.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	2.7	2.8	MQG	0.4	0.4
ANZ	1.1	1.1	NAB	1.2	1.4
BHP	4.2	4.3	NCM	0.1	0.1
BXB	0.3	0.3	RIO	1.1	1.0
CBA	0.5	0.5	TCL	0.5	0.5
COL	0.6	0.5	TLS	0.3	0.3
CSL	0.3	0.3	WBC	0.9	0.9
FMG	1.0	0.9	WES	0.4	0.4
GMG	0.2	0.2	WOW	0.1	0.1
IAG	1.3	1.4	WPL	1.7	1.6

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

WEEKLY REPORTS

The Wrap: Vaccine & Consumption, Commodities

Impact of a vaccine on consumption patterns; strata premiums expected to keep growing; with Europe and the US distracted, it is up to China to drive the demand for commodities.

-How will a vaccine impact consumption?
-A look at the skewed strata insurance industry
-Demand (ex-China) for metals expected to rise in 2021

By Angelique Thakur

Post-vaccine consumption trends

The latest positive development related to Pfizer's vaccine's trial makes one wonder what implications such a vaccine may have on Australian retail and discretionary consumption. The onset of the virus saw Australian spending patterns changing significantly with food delivery, home improvement and office furniture seeing a huge uplift in sales.

Will a vaccine disrupt consumption patterns again?

Yes, according to Morgans, who goes so far as to say a vaccine, if developed, presents "the largest threat to the consumer discretionary sector". While Macquarie isn't quite so fearful, the broker does expect to see a moderation in spending on consumer durables.

The good news is both Macquarie and Morgans think any step-change would take place in 2021 with the Christmas season expected to be a "boomer".

One might think supermarkets, one of the biggest beneficiaries of the fallout from the pandemic, may be in for a tepid growth outlook. Citi begs to differ. Vaccine or no vaccine, states a firm Citi, supermarkets remain well placed and quite immune to any developments on the vaccine front.

One of the reasons for Citi's optimistic stance is the expected decline in covid-related costs with the development of a vaccine. With the situation improving and companies becoming more adept at managing things, covid-related costs have fallen by circa -40% in the FY21 September quarter versus the FY20 June quarter.

According to Citi, covid-related fixed costs form about 0.4% of sales, expected to reduce to zero should a vaccine become available.

Online sales growth witnessed by the supermarkets is another reason for Citi's optimism. Online sales are expected to increase to 7.3% for **Coles** ((COL)). This increase is even more pronounced for **Woolworths** ((WOW)) at 8.6%. Macquarie considers Woolworths best placed to take advantage of this new behavioral shift towards online shopping.

Going ahead, online sales, while somewhat margin dilutive, will be an important driver of market share, asserts Citi.

Lastly, Citi does not expect working from home to end anytime soon, in turn pushing supermarket spending. In Western Australia, the work from home trend has led to the supermarkets witnessing a double-digit growth of 13% with café and takeaway food growing at 10% during the September quarter.

Citi retains its Buy ratings on Woolworths and Coles while Macquarie prefers Woolworths over Coles. Macquarie is not so positive about **Domino's Pizza Enterprises** ((DMP)). While a clear winner of the pandemic, Macquarie thinks going ahead, the covid-led pizza orders will begin to normalise.

Expecting a more conservative same-store sales growth profile, Macquarie downgrades its rating on Domino's to Underperform.

What about consumer durables?

Consumer durables have also benefited from social restrictions with consumers spending more on home appliances in lieu of holidays etc. Macquarie feels this trend will see a reversal as people start socialising again.

That and the reversal in the "shop local" trend sees Macquarie downgrading **Metcash** ((MTS)) to Neutral. Citi continues to maintain its Buy rating on Metcash.

Macquarie prefers **Harvey Norman Holdings** ((HVN)) in the discretionary retail category because of the retailer's exposure to regional Australia which is expected to benefit from improved rainfall and lead to higher spending on home appliances. **Wesfarmers** ((WES)) and **JB Hi-Fi** ((JBH)) have been downgraded to Neutral from Outperform.

Believing the market won't be so willing to capitalize their earnings anymore, Morgans has lowered its ratings to Hold from Add on **Beacon Lighting Group** ((BLX)), **Accent Group** ((AX1)), **Baby Bunting Group** ((BBN)), **MotorCycle Holdings** ((MTO)) and **Super Retail Group** ((SUL)).

Some stocks Morgans thinks are most leveraged to a return to normality include **Lovisa Holdings** ((LOV)), **Apollo Tourism & Leisure** ((ATL)) and **IDP Education** ((IEL)).

Eagers Automotive ((APE)) is less vulnerable to macro-economic factors due to its cost out strategy and is preferred by Morgans. Other preferred picks include **Breville Group** ((BRG)) and **Collins Foods** ((CKF)).

Are we stratisfied?

Gross written premiums (or the total premium given to the insurer less any deductions) for strata insurance have been rising by 8-10% on average over the last three years. But that's not all. Strata premiums are also expected to keep growing for the next 12-24 months.

A quick look at what **strata insurance** is. It is mandatory to have insurance covering the common/shared property for building complexes like flats and apartments against loss or damage. This type of cover is strata insurance. Common areas like pools, lifts, parking lots etc are also included. A strata policy of insurance normally covers properties within one building or land block or complex and is available for both residential strata and commercial strata properties.

According to a study by Macquarie, the construction boom in recent years has fueled a growth in strata schemes at the rate of circa 3.8% per annum over the last two years. The market size is now circa $1.1bn, making strata insurance one of the largest products in the country

As mentioned at the beginning, the strata insurance market has also seen gross written premiums rise – quite strongly at that - over the last few years.

A combination of construction growth and premium rate tailwinds have contributed to a circa 8.2% compounded annual growth rate in premiums (GWP) for strata insurance products over the past four years.

But here is the anomaly.

Despite the fast-growing market and the growing premiums, there is a paradoxical lack of competition in strata insurance. In fact, Macquarie highlights the total number of strata policies in Australia peaked in FY14.

Even the strong growth in GWPs has not been enough to lure companies. On the contrary, both **Insurance Australia Group** ((IAG)) and **Suncorp** ((SUN)) have reduced their exposure to the strata insurance market. Only **QBE Insurance** ((QBE)) has increased its market share to circa 48% from about 40% and is the only money-making insurer in strata, according to Macquarie.

What could be the reasons?

For starters, there have been more and more quality issues with the construction of towers – both residential and commercial over the last twenty years or so, Macquarie notes. Major cracks found at Mascot Towers and more recently, cracks at the Opal Towers are classic examples.

A study by UNSW found about 48% of the 340k registered strata schemes in Australia in 2020 were registered in the last 20 years. Simply put, the recent builds have been found to contain more defects than older ones. This, in a nutshell, is what the potential problem is for insurers.

The other part of the problem is some parts of Australia are in more of a mess than the others - Northern Australia for instance. This has led to a concentration of insurance capacity in certain regions.

In fact, the Australian Competition and Consumer Commission (ACCC) found each market leader holds more than 40% market share in North Western Australia, Northern Territory and Queensland as well as nationally.

Such concentration adversely impacts insurance pricing. As an example, the ACCC found strata premiums in Northern Australia to be considerably higher than in the rest of the country. Likewise, average premiums in north West Australia were more than four times the entire country's average of $3.3k.

Despite all this, insurers are still not making money. Macquarie finds over the last 12 years, the profit margin for strata insurance has been -13% on average for Northern Australia and only 2% for the rest of Australia.

The ACCC's conducting a review of the national strata insurance market as part of their Northern Australia Insurance Inquiry final report. Macquarie believes it unlikely any findings by the ACCC would lead to sweeping reforms given the state-based oversight of the strata sector. The broker remains positive on the general insurance sector.

<u>Copper could touch new highs in 2021</u>

With resurging infections in Europe and an uncertain political environment in the US, China is likely to remain the major metals demand driver in the near term, asserts Morgan Stanley.

This (over) dependence on China is fraught with risks, suggests the broker, especially for metals like copper and aluminium given China already has high inventory levels.

Similarly, Morgan Stanley is bearish on iron ore since inventory levels of the metal typically rise during China's seasonally weak winter season.

Demand for zinc and nickel is expected to ramp up, driven by the strong restocking ahead of the weak domestic zinc mine output and the disruption in ore supply from the Philippines and Indonesia. Even so, Morgan Stanley believes the upside potential is already incorporated in the current high spot prices for both the metals.

It is in **2021** Morgan Stanley foresees a **demand pick-up in the world ex-China**, expected to boost metal prices.

Among all metals, **copper** is considered having the strongest fundamentals and will be further spurred by a restrained supply outlook. In fact, Morgan Stanley analysts feel copper could touch new highs in 2021.

While the US may still take time to catch up on the demand front, both China and Europe are expected to see a substantial rise in demand, led by their respective green infrastructure and electrification programs.

So, who's benefiting from all the chaos and uncertainty currently? You guessed it. Gold.

A combination of rising volatility and weakening USD are the short-term drivers for the yellow metal. Even then, this cloud's silver lining doesn't look all that shiny considering the limited scope for further stimulus, central banks turning net sellers and a subdued jewellery appetite.

All this points to the possibility the gains accumulated by gold may be limited. Also, 2021's expected recovery poses a downside risk to the gold price, cautions Morgan Stanley.

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SMALL CAPS

EclipX Driving Growth More Efficiently

Notwithstanding the challenges posed by the pandemic, EclipX produced strong earnings growth in FY20 and enters FY21 as a more efficient business unit.

-A number of new fleet accounts won in the final quarter of FY20
-Corporate leasing activity continues to improve
-Strong cash generation expected to support debt reduction

By Eva Brocklehurst

EclipX Group ((ECX)) has embarked on FY21 as a leaner, more efficient unit having finally offloaded all non-core segments to focus on its fleet exposure and growing novated leasing business.

Notwithstanding the challenges posed by the pandemic, earnings growth was strong in FY20 amid a combination of cost reductions, a lower interest burden and increased end-of-lease (EOL) income.

No firm income guidance was provided but UBS calculates a $9.5m cost benefit that should drive 19% growth in earnings per share in FY21. UBS believes the business is well-positioned for growth across novated leasing, being materially under-penetrated across eligible customers.

Credit Suisse assesses it will take time for new business to reach pre-pandemic levels but improved momentum in both fleet and novated leasing as well as efficiency benefits should procure growth in FY21.

Assuming conditions become more normal in FY22, additional growth should be forthcoming. During the final quarter of FY20 increased tender activity meant the company won a number of new fleets.

Core net profit was $47.5m and the $33.3m in EOL income was better than Morgan Stanley expected. The broker assesses the drivers of growth should come from areas such as corporate fleet customer wins and further penetration of the novated leasing and small-medium enterprise (SME) fleet markets.

Macquarie also expects growth in these areas will underpin margins, assessing **the fleet market's competitive environment is rational despite a challenging operating environment,** and noting EclipX has also pulled back from the lower-margin panel business.

While net operating income was reduced because of lower new business and higher credit impairments, which Macquarie notes is largely attributed to disruptions caused by the pandemic, this was offset by the higher EOL income and lower costs.

Used vehicle prices also supported the business, although brokers suspect used vehicle market conditions will moderate. Novated and corporate leasing activity averaged around 80% of pre-pandemic levels and continued to improve over the second half.

Debt Reductions

UBS upgrades FY21 estimates by 12% and believes the result has marked the completion of the company's simplification strategy. Strong cash generation is expected to support net debt reduction to $46m. Credit Suisse agrees liquidity has been well managed and the balance sheet, having been compromised previously, has strengthened over the past two years.

Macquarie welcomes the credit risk mitigation, noting **81% of the exposure of the top 20 customers is investment grade**. Around 95.5% of the portfolio now represents low-risk customers, many being in essential services.

FNArena's database has four Buy ratings for EclipX Group with a consensus target of $1.95, suggesting 11.6% upside to the last share price.

Disclosure: The writer has shares in the company.

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RUDI'S VIEWS

Rudi's View: Portfolio Rotation!

The answer to investor questions this week is: portfolio rotation triggered by positive vaccine news. The FNArena Editor provides some additional colour and insights

By Rudi Filapek-Vandyck, Editor FNArena

Violent share price movements on the local bourse this week, mimicking a similar jump in share price volatility in the US and elsewhere, has led to questions from subscribers and investors.

An example: **"Just want to get your thoughts on the tech sell off yesterday. Everyone is talking about sector rotation because of COVID vaccine. I am a long term investor and hold Rudi's "quality stocks" such as CSL, MQG, RMD, ALU, APX, PME and NXT. I have done really well on all stocks. Can you please let me know whether this is but short-term volatility?'**

I intend to provide more background and colour on this week's vaccine-news and related market movements in next week's Weekly Insights, so keep an eye out for the email on Monday (if you are a paid subscriber).

In the meantime, a brief update on matters:

Most investors have been trained to look at the share market from a fundamental perspective, normally explained through the forecast profits 1-3 years ahead and the question what exactly has already been priced in of that into today's share price?

However, nothing is ever as straightforward as that, certainly not in a public forum where fear and greed combine with short-termism, leverage, differences in aspirations and expectations, and a fluid situation in politics, geopolitics and economic conditions and outlooks.

Sometimes, the immediate happenings in the share market are simply the result of large institutional asset managers recalibrating their portfolios.

This week such re-weighting of portfolios was triggered by news that a vaccine to successfully fend off the covid-19 virus might soon come in production.

Such portfolio reassessments do not always have an enormous impact, but during times when markets are extremely polarised, and most investors are on board the uptrend of the winners, it is but logical to expect dramatic consequences.

For investors it is important to understand in most cases the departure of funds from prior winners in the share market is not necessarily a negative view on the quality or the outlook of these companies.

It's just that if economies can recover faster next year on the back of a successful vaccine, and the world no longer has to face more lockdowns as is currently still the case in Europe, for example, than those stocks trading on extremely low valuations offer a reasonable prospect for outsized gains.

The last time share markets were hit by an extremely volatile portfolio rotation was in late 2016 when investors decided inflation is coming back, a view temporarily carried by bond markets at that time, and portfolios started selling defensives and yield stocks, as well as small cap growth, in favour of piling in on resources and banks.

Many an investor got caught out at that time, including the FNArena-Vested Equities All-Weather Model Portfolio which experienced multiple days when not one single stock in the portfolio would rise while indices kept surging higher.

Long story short: it lasted less than five months, and twelve months out every single stock in the portfolio had recovered and was trading at a higher price level, oft significantly higher.

I don’t think the current portfolio rotation has the same built-in potency, also because the road to recovery, with or without one or multiple vaccines, is less straightforward as the narrative that gripped the collective mindset in 2016.

That 2016 narrative, by the way, proved incorrect later on, as I was always convinced it would be, but such is the force in a public forum: the majority can be wrong, but they do decide where share prices are heading in the short term.

This is not to dismiss the fact that positive news about vaccines will change the dynamics for equities in that it will make share price momentum trends a whole lot less polarised as we have seen thus far in 2020.

In simple terms: the huge gap between the winners and losers will narrow, broadening the base that has been carrying this year’s bull market.

It does not, I don’t think, break the uptrend that has characterised share prices for the likes of NetxDC ((NXT)), Xero ((XRO)), Woolworths ((WOW)), ResMed ((RMD)), et cetera.

Companies that enjoying the benefits from tectonic changes taking place, will still be enjoying these benefits in years to come.

Admittedly, maybe some of the exuberance should come out that had been priced in, but the share market can be quite efficient when it has to, and maybe that has already occurred by now?

Those who have access to FNArena’s Australian Broker Call Report will have noticed some brokers have already started updating on sectors for the post-covid environment.

First observation: most re-adjusted price targets and valuations are still above today’s share prices. See the Report for more details.

What is not in today’s Report, is an impromptu update on local supermarkets by Citi, which in essence mirrors the comment I made above in a more generalised sense: all three of Woolworths ((WOW)), Coles ((COL)) and Metcash ((MTS)) are now enjoying firm, multi-year trends of increasing volumes and rising grocery inflation.

Irrespective of vaccine-news and portfolio rotation, Citi has kept a Buy recommendation for all three.

And that, I think, is the real message for investors whose portfolio might have taken a hit this week. Know thy stocks, and know why you held them in the first place.

More to follow in next week’s Weekly Insights.

(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.)

P.S. I - All paying members at FNArena are being reminded they can set an email alert for my Rudi's View stories. Go to My Alerts (top bar of the website) and tick the box in front of 'Rudi's View'. You will receive an email alert every time a new Rudi's View story has been published on the website.

P.S. II - *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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RUDI'S VIEWS

Rudi's View: Why Are Equities Rallying?

In this week's Weekly Insights:

-Why Are Equities Rallying?
-Question Of The Week
-Rudi Talks
-Conviction Calls

Why Are Equities Rallying?

By Rudi Filapek-Vandyck, Editor FNArena

Despite the 45th president of the United States' claim that if he were voted out of office, the share market would tank savagely, equities the world around are having a jolly good time in November.

Of course, it's far too easy to draw solely a direct connection with the outcome of the US elections; that isn't the full story by a long shot.

As predictions prior to November 3 had tightened around a likely win for challengers Biden & Harris, some institutional funds had positioned for a renewed boost for the so-called reflation trade, whereby trillions of stimulus enacted by Democrats in power would improve operational conditions and the outlook for share market laggards including oil & gas stocks, financials and other cyclicals.

That scenario hasn't gone 100% missing, but it is now linked to a successful vaccine-development, which remains a genuine possibility, but it remains uncertain.

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Other investors had elected to take some cash out of the market, and that cash is now rapidly re-entering, which easily explains the strong gains witnessed for US equities last week, as well as in Australia.

That sudden switch in momentum has been backed up by the **US bond market** which saw yields initially creeping higher on anticipation of trillions of dollars in Democrat stimulus-spending, but the yield on US treasuries has once again retreated since, which has been taken as a signal that it's safe again to buy into US technology stocks.

In simple terms: rising bond yields weigh on valuations for longer dated assets and capital-light business models, meaning for today's technology stocks, falling yields provide for an extra boost to those valuations.

Such moves are usually replicated on the Australian bourse, but because large techs like Apple, Alphabet, Microsoft, Amazon and the like nowadays represent some 40% of the S&P500, the gains for the Australian share market have once again been but a shadow of those seen in the USA.

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Another supportive factor has come from the RBA with governor Phillip Lowe & Co joining all major central banks overseas with enlarging the balance sheet in order to provide excess liquidity to the Australian economy and pin local bond yields down close to zero yield territory.

In light of the multi-trillion bond buying programs enacted by central banks in Japan, Europe, Canada, the UK and the USA, it seems a bit far-fetched to adhere a lot of influence to the additional $100bn program the RBA announced this month.

But a recent analysis by Macquarie suggests when looked into what the RBA is planning to do on a relative basis, **the RBA is catching up quickly on the Federal Reserve in the USA**.

On a relative basis, argues Macquarie, the RBA buying in $5bn in Australian bonds each week is far more powerful for the much smaller economy that is Australia's than the Federal Reserve spending US21bn per week in support of US credit and bond markets.

Assuming all of the RBA's programs and intentions are fully exercised, its balance sheet is projected to rise to circa 25% of local GDP compared with the Fed at circa 34% of America's GDP.

On Macquarie's analysis, the sectors with the strongest positive links to central bank Quantitative Easing (QE) programs are real estate, technology and communications, with the added observation most industrial sectors are beneficiaries.

In 2020 the correlation with consumer staples hasn't been great, but Macquarie suggests this is due to investors treating the likes of Woolworths and Coles as covid-safe havens this year, which means those stocks did not de-rate during the sell-off in February-March.

The twist in this story is that Macquarie suspects the key beneficiaries from the next $100bn in RBA QE might be financials, i.e. banks and insurers.

That latter view will be negated if the RBA starts targeting longer-term bond yields, or decides to move into negative yield-territory.

In the absence of these two scenarios, Macquarie sees yields on longer-dated bonds move higher over the next six months, which also provides support for those still hopeful the reflation trade, otherwise known as 'value' investing, can still make a come-back in 2021, and/or beyond.

(Even without a vaccine).

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It goes without saying, every time global equities embark on the next upswing there is always an element of short-covering involved. Plus, it is but logical that rising share prices carried by numerous fundamental underpinnings equally translate into supportive reading on technical analysis price charts and momentum indicators.

There is one other factor that hasn't attracted much coverage just yet: expectations for **more mergers and acquisitions** announcements are rising.

Debt remains cheap and the worst of the pandemic impact is probably behind us. Analysts suspect more and more businesses will be looking for growth.

In many cases, the easiest way to achieve it, might just be through buying a cheaper priced target.

Note market speculation surrounding Tabcorp Holdings ((TAH)), while companies including Link Administration ((LNK)) and AMP ((AMP)) have received unsolicited approaches.

See also last week's Weekly Insights – Snippet 5: M&A is back!

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On top of all of the above, the most important development in recent weeks has come from **companies updating shareholders and other investors** on how their operations are performing.

The bottom line: in most cases it's better than anticipated, meaning analysts have to lift their forecasts, injecting renewed buying interest into stocks including Brambles ((BXB)), Iress ((IRE)), CSR ((CSR)), News Corp ((NWS)), ResMed ((RMD)), and REA Group ((REA)).

The latter two have since surged to a fresh all-time record high.

The renewed bottom-up momentum that is emanating from corporate Australia (mimicking the US) is also reflected in **FNArena's Corporate Results Monitor** which, as of Monday, 9th November 2020, post-August has lined up 32 company reports of which 25% met expectations (8 companies) and with beats and misses on 37.5% (12 companies) each.

Admittedly, at face value this remains far from fantastic, but as per new practice post-2013, if we leave out the ASX50, the numbers look a lot better with 9 companies (47.4%) out of 19 from the ASX200 beating market forecasts.

Either way, earnings misses to date can be mostly blamed on perennial underperformers in deep existential struggles, such as Myer and Unibail-Rodamco-Westfield, and on sectors facing structural headwinds, such as coal companies, banks, bricks and mortar retailers, and producers of dairy.

The most important change this month should therefore not come as a surprise: earnings forecasts are rising as the likes of Brambles, CSR, Amcor and others are releasing better-than-expected financial numbers and in some cases upgrading their guidance for the full financial year.

History shows share market uptrends are usually more solid when supported by positive company performances and rising forecasts.

Certainly, this month's renewed momentum in profit forecasts has reinvigorated expectations that continued economic recovery, even if the path remains wobbly and filled with uncertainties, can continue carrying share markets to higher levels in the year ahead.

Over in the US, **bond yields are now lower than prospective dividend yields** on listed equities, once again fueling speculation your typical bond investor might be enticed, or even forced to switch, which would undoubtedly add yet more momentum to the current upswing.

It is very much doubtful though this year's good news story will continue to unwrap in a straight line, as it pretty much has done since the low in March.

Within this context it is interesting to note one of Morgan Stanley's market strategists, Mike Wilson, is predicting the S&P500 will remain inside a trading range between 3100 and 3550 for a while yet.

This month's rally has pulled that index from near the bottom of that range to now near the top of it, so it will be interesting to watch further developments from here.

The reason as to why Wilson thinks that range will hold for the time being is because the US economy is about to start generating more subdued economic data, which should keep a lid on further share market enthusiasm.

Wilson has called the market correctly on numerous occasions in the past, including in 2015-2016 and in 2018 when he correctly put forward a trading range for US indices which ultimately held until deep into 2019.

As such, the 2020 US presidential election might have provided the initial boost for equity markets, it also places a reasonable question mark over the medium-term outlook.

No doubt, republicans and democrats will see the need for further stimulus and support for businesses and an economy that has been hit hard by the virus, but politicians being politicians they might need to see some blood in the streets first, and that would support Mike Wilson's forecast.

Final thought: the recent federal budget from Canberra was equally a positive for corporate Australia, and thus for the Australian economy and share market, but it will have to be followed up with more, more, more.

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To keep track with FNArena's Corporate Results Monitor:

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

I have also been receiving numerous questions about portfolio approach, strategy and composition. Some of my recent writings could provide both insights and inspiration:

Rudi Interviewed: Four Baskets For Equities Portfolio:

https://www.fnarena.com/index.php/2020/11/06/rudi-interviewed-four-baskets-for-equities-portfolio/

Rudi's View: Equities Portfolio For 2021:

https://www.fnarena.com/index.php/2020/10/29/equities-portfolio-for-2021/

Rudi's View: Quality & Growth, Confidence & Execution:

https://www.fnarena.com/index.php/2020/10/22/rudis-view-quality-growth-confidence-execution/

Rudi's View: Investment Themes In Australia:

https://www.fnarena.com/index.php/2020/10/15/rudis-view-investment-themes-in-australia/

For more info about the FNArena-Vested Equities All-Weather Model Portfolio: see further below or send us an email at info@fnarena.com

Question Of The Week

FNArena receives a wide variety of questions on a regular basis. In order to broaden the purpose of me responding to most of them (as quickly as I am able to), I am sharing some of my responses through this weekly email.

This week's question: Can you explain to me the significance of the 200 day moving average line in charting and the other lines involved. Which is considered the most important?

Response:

Investors and traders treat the 200 days moving average as a longer-term trend line, to give them that extra handle on what the possible outlook is for a given stock.

And continuing on that path, the 60 days or 50 days moving averages are used to gauge short term direction/sentiment/funds flows.

Here at FNArena, we long ago decided to opt for the 60 days instead of the more broadly used 50 days. Often, the difference between the two is pretty small, but at that time we took guidance from a number of experienced traders who preferred the 60 days proclaiming it was the superior trendline of the two.

Whatever your focus or preference, we only display these trend lines on price charts as a broad and general indicator for price action.

As an investor myself, I do not much pay attention to such technical tools. I find they are often as misleading as they are useful, also because I am not necessarily interested in what is happening with the share price in the immediate future.

You might want to take into account my long-term observation that technical analysis works best for low quality, small cap minnows that often lack any fundamental underpinnings. It most often fails when you're dealing with high quality, large cap stocks.

I am sure you can draw your own conclusions from this.

As per always: none of this is financial advice. I am merely sharing my personal insights and experiences.

Rudi Talks

About 2.5 weeks ago I interviewed Harry Dent, infamous because of his prolonged bearish predictions for Wall Street and global equities.

It's not everyone's cup of tea, and the interview becomes more balanced after the one-sided monologue covering the opening 20 minutes or so, but plenty of investors have sat down and viewed the video, and plenty have sent in thank you notes, often with additional commentary.

FNArena received a few questions from rather concerned investors too.

Do I believe Harry Dent's forecast for an emerging Armageddon is about to reveal its accuracy? No, I don't. I think I made that clear with my questions during the 60 minutes of interviewing him.

But I do think investors should not be too casual about the problems that underpin Dent's forecasts. I agree with him (and others) in that financial markets have a habit of paying no attention to what could possibly disturb the current uptrend, until they are forced to.

The spreading of the global pandemic earlier in 2020 provides yet another prime example of this. It's easy to forget today, but the savage sell-down in February-March was preceded by yet another no-worries-at-all strong rally in US Equities in January.

I am by no means forecasting this month's strong upswing is the precursor to the next fall-off-the-cliff experience. But I do think we should all be mindful of what is happening beneath the surface of it all.

Remain informed, remains my motto. Yesterday's price action is not necessarily the best guide for what can possibly lay ahead.

After we added the 60 minutes interview with Dent on the website (see: FNArena Talks) we also added the recorded webinar I did with members of the Australian Shareholders Association (ASA) in late September.

For those who have not seen it, I highly recommend you take one hour out of your busy schedule and view it. You'll find it is a different kind of explanation of what has been, and still is happening in economies and financial markets the world around.

To watch both videos:

Harry Dent:

https://www.fnarena.com/index.php/fnarena-talks/2020/10/23/one-hour-with-harry-dent/

Investing In Times Of Corona:

https://www.fnarena.com/index.php/fnarena-talks/2020/11/03/investing-in-times-of-corona-webinar-asa-22-sep-2020/

Conviction Calls

Australia-based investment manager **DNR Capital** reminded investors this week dividends received make up around half of total returns achieved from owning shares in Australia, over time.

Assuming total dividends paid out in 2020 by constituents of the ASX200 might drop to $58bn from the circa $73bn forecast at the beginning of the year, DNR points out this still equals total dividends paid out in calendar 2013.

The average yield for 2021 and 2022, on updated forecasts, remains 4% to 5% so the advice is investors should adopt a more flexible approach, and not remain stuck with the dividend payers from yesteryear such as the major banks.

DNR Capital's four dividend favourites are IPH Ltd ((IPH)), Atlas Arteria ((ALX)), BHP Group ((BHP)) and Telstra ((TLS)).

Comparing DNR's forecasts with FNArena's market consensus (see Stock Analysis) the fund manager is definitely among the more bullish forecasters for each of the four mentioned stocks, including the conviction that Telstra will continue paying out 16c in the years ahead.

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Guardians of the **Best Stock Ideas at Morningstar** have added Brambles ((BXB)) and Spark Infrastructure ((SKI)) and removed Bingo Industries ((BIN)).

Morningstar's list of Best Ideas, all selected because trading at a sizeable discount to intrinsic valuation, now contains a total of 14 inclusions.

Apart from the two newcomers, the list also includes Avita Therapeutics ((AVH)), Challenger ((CGF)), Cimic Group ((CIM)), Computershare ((CPU)), Flight Centre ((FLT)), G8 Education ((GEM)), Link Administration, Southern Cross Media ((SXL)), Viva Energy Group ((VEA)), Westpac ((WBC)), Whitehaven Coal ((WHC)), and Woodside Petroleum ((WPL)).

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The selection of **conviction calls at Wilsons** has been expanded with United Malt ((UMG)). Wilsons is attracted to the Graincorp spin-off's quality asset base and reasonably defensive revenue profile, plus the company seems to be enjoying improved sales momentum.

Industry feedback supports Wilsons' view that orders have been picking up in recent weeks, while the share price valuation is still seen as attractive.

Other stocks on Wilsons's list remain ARB Corp ((ARB)), Collins Foods ((CKF)), Integral Diagnostics ((IDX)), Telix Pharmaceuticals ((TLX)), ResMed, Whispir ((WSP)), Appen ((APX)), and ReadyTech ((RDY)).

(This story was written on Monday 9th November, 2020. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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

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