Week
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Stories To Read From FNArena

Friday, 22 June 2018

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Urban Consolidation Inspires Goodman Group

Supply constraints in urban locations are triggering demand for multi-storey assets and this is supporting Goodman Group's development portfolio.

-In some instances weightings to industrial assets have tripled -Ability to continue delivering sector-leading earnings growth -Can the stock still outperform peers?

By Eva Brocklehurst

Substantial opportunities for urban renewal are underpinning Goodman Group ((GMG)) and the company has highlighted this scenario at its investor briefing.

The need for proximity to urban areas by e-commerce and logistics providers has underpinned tenant requests for prime assets. As supply constraints in urban locations exist, multi-storey assets are being developed, aided by the improving returns when land costs rise.

Traditionally, the company points out, investors have invested in its funds on the back of real estate allocations of 7-15%. This has increased towards 10-20% and the mix has shifted to industrial and away from retail. In some instances weightings to industrial assets have tripled.

Strength in the industrial property market, particularly the US, was the theme of note for Deutsche Bank. The sector is benefiting from a push towards multi-storey warehouses to which a significant amount of capital is flowing, while automation has also charged demand for industrial assets.

Prime Industrial Assets

Goodman has emphasised prime assets and infill developments and suggested it would not be acquiring commoditised or secondary product. The company remains cautious about acquisitions, given current land prices, and Macquarie expects growth to remain organic through delivery of the current development pipeline.

As multi-storey assets can be around $200-300m in value, and some much larger ones have end values of over $1bn, the number of assets under development may contract, the broker suggests, but this should not materially affect the absolute value of development.

Despite trading above the SOTP (sum of the parts) valuation range and target Macquarie retains an Outperform rating on the stock, expecting sector-leading earnings growth will be delivered, along with balance sheet capacity that will drive a step change in the future.

Hence, the broker believes the stock can trade above valuation while still outperforming its A-REIT peers. Ord Minnett disagrees, downgrading Goodman to Lighten from Hold.

The business is in great shape and the balance sheet strong and the broker agrees the company is benefiting from two robust themes - global e-commerce growth and increasing density in cities, particularly Sydney.

Yet Ord Minnett considers the stock expensive, trading at 2.2x net tangible assets and at 19.3x FY19 estimated PE multiples. The broker also has concerns about the quality of earnings growth, amid elevated development margins and increasing performance fees.

Primed For Disappointment?

Industrial transactions are now the "flavour of the month" Ord Minnett asserts, and B and C-grade properties are trading at A-grade prices. The point is made that not all industrial assets are equal and the market may not be differentiating.

At some stage such assessments are likely to lead to disappointment, in the broker's opinion, provoking a de-rating from the current positive sentiment around the asset class.

Citi believes its bull case scenario for the stock is underscored by this latest briefing from the company and reiterates a Buy rating. With the disposal program now largely complete, the major headwinds for assets under management has passed.

The broker estimates assets under management could hit $60bn by FY23. To achieve this, the implied growth rate would be 12.5% per annum versus 13.6% over the past five years. To obtain this figure, Citi incorporates $7.5bn in net acquisitions, $12.4bn in completions and $6.8bn in revaluations.

FNArena's database shows three Buy ratings, three Hold and one Sell (Ord Minnett), with just four out of the seven covering the stock updating after the briefing. The consensus target is $8.75, suggesting -8.4% downside to the last share price.

The Future Of Retail Is Emerging Quickly

While risks on several fronts confront Australia's retail sector, Deloitte Access Economics looks at where benefits can be obtained from online disruption.

-Highly competitive environment likely to keep retail price growth subdued -Expenditure on catered food growing strongly, led by online platforms -Fashion retailers under pressure to increase volumes or reduce costs -Online centres the geographic focus on consumer, not retailer

By Eva Brocklehurst

Risks continue to mount for Australia's retail sector. High levels of competition, digital disruption and weak household income growth are limiting expenditure. While population gains are one of the positive aspects, this continues to be outweighed by slower wealth accumulation and high household debt.

In the light of such conditions, Deloitte Access Economics looks at the benefits that can be obtained from the online disruption. Online expenditure is rising rapidly and provides an opportunity for retailers to expand market share.

2018 started slowly for consumers and after a stellar performance in 2017, the outlook for the labour market is more subdued. Employment growth over the year has decelerated to 2.7% in April from a peak of 3.6% in January.

Inflation continues to fall below the Reserve Bank's 2-3% target range, and the report notes the story is worse on the retail front, with prices falling over that period.

The housing market has also cooled, with a -3.4% decline in Sydney house prices noted to April. The main positive news is that the federal budget provides some prospective relief via income tax cuts, which means retailers are likely to be a major beneficiary of any improvement in consumer hip pockets.

While retail prices outpaced volumes over the March quarter for the first time since September 2016, Deloitte Access Economics suggests this is unlikely to continue. A highly competitive retail environment is expected to keep price growth subdued going forward.Category Outlook

Spending on catered food continues to grow strongly and this is being led by the increased availability of online platforms such as UberEats and Deliveroo. The sector is also experiencing a move away to healthy food dining and takeaway outlets from shopping-centre food courts.

The report suggests future sales growth is still more likely to be linked to population growth, tourism expenditure and improvements in the consumer budget.

Meanwhile, the entry of international brands to Australia's retail environment is supporting demand for floor space and providing a curb to vacancy rates, underpinning rental returns. Yet the report indicates the growth of online expenditure poses a risk to “bricks & mortar” outlets the future.

Department stores are the main victims of this development. Over the next five years, department store volumes are expected to grow at an average of 0.8%. The advantage as a one-stop shop has now all but been removed, as online stores offer more options and greater variety.

Deloitte Access Economics suggests that the non-food retailing sector will continue to struggle with price deflation, particularly in clothing and footwear.

Rising competition from overseas fashion houses combined with a growing online presence has meant retailers are under pressure to increase volumes or reduce costs to maintain margins. This has resulted in a number of well-known brands exiting the market.

The value of retail building approvals fell in the first quarter of 2018, which the analysis suggests is a pullback after a very strong performance in the December quarter.

Nevertheless, this also indicates some caution should prevail in looking at the trends because the move to online spending will limit the demand for floor space in the future.

Who Benefits From Online?

Deloitte Access Economics suggests consumers are the primary beneficiaries of online retailing, which comes with better service, more accessible products and lower prices. The technology creates opportunities for domestic retailers that can expand service offerings outside traditional channels.

The value of online spending has risen to 8.1% of total retail expenditure in 2018, from 4.9% in 2011. The main drivers of online expenditure growth over recent years has been wealth-driven, large consumer items, an area where retail sales have been relatively stronger.

There is also evidence that the footprint is broadening into staples such as groceries and hospitality. Groceries, the third-largest category by online share, recorded annual growth of 14% to March 2018 as a major supermarkets expanded services.

Homewares as a category, despite a loss of momentum as housing cooled, is expected to continue to account for a large share of online spending.

The analysis also finds branding is starting to play a larger role. New technology such as voice-enabled ordering creates a new path to purchase but also a problem for retailers in ensuring customers ask for their brand(s).

The introduction of GST on low-value goods will have a negative outcome for consumers in the short term, the report points out, as this will raise prices for overseas goods and may cause supply disruptions.

Despite the likely challenges, a GST should gradually erode the existing competitive advantage held by some low-cost overseas online retailers. Here domestic retailers have the opportunity to re-take market share.

The report also finds that, unlike traditional retailing, the geographic spread of online is not based on the location of operators but rather the location of consumers that purchase goods online.

Hence, internet connectivity, availability of traditional alternatives and population density are decisive factors. Statewide, NSW, Victoria and Queensland account for almost 78% of online spending over the past year.

The ACT is the strongest performer relative to population growth. The reason ACT performs the strongest on a per capita basis is likely because of a higher-than-average disposable income enjoyed by residents.

Yet, residents of Northern Territory and Western Australia have recorded above-average per capita online expenditure, which in turn suggests that isolation from traditional alternatives can also play a role.

While older generations have been slower to embrace the digital options, a reversal of this trend may be on the cards, too. An increasing presence of over-65s on the net provide opportunities for major food retailers in particular. Mobility restrictions entice many of these consumers to opt for home delivery.

For real estate the many advantages of certain physical locations should ensure demand for premium retail space remains robust over the short to medium term as distribution centres emerge and provide opportunities for retailers to leverage their online marketplace.

Conversely, the report suggests, demand for sub-prime retail space is likely to come under increasing pressure at the same time.

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Costs Rising For Gold Miners

Gold miners are facing the headwind of sharp increases in costs in the years ahead.

-Capex requirements on the increase -Cash costs also rising -Beadell deleted from global index

By Greg Peel

Having updated their global gold cost curve model for the March quarter, Citi analysts note the benefits of weaker operating currencies and four years' worth of austerity measures in the gold mining industry have begun to fade away. All-in costs (AIC) for the industry increased by 5.2% year-on-year in the quarter.

Austerity measures over the period included targeting higher grades, cutting capex and cutting exploration but March brought a 19% increase in capex alongside a 5% increase in cash costs. Citi expects the AIC of most producers to increase sharply in the coming years.

The analysts estimate US$130bn in cumulative capex may be needed to sustain current levels of global gold production out to 2026, which is double the market capitalisation of the top ten global gold miners. Global AIC could rise to US$1979/oz by 2023 compared to US$1190/oz in 2017.

The spot gold price is currently sitting just below US$1300/oz.

The March quarter brought an 8.9% rise in the USD gold price, outweighing the 5.2% increase in costs. However, the industry is not cash flow positive as a whole. As of March, 14% of global miners are still burning cash at current pricing, down from 33% in the December quarter, Citi estimates.

The analysts do not believe the market is fairly valuing future capital, production and costs outlooks, and as a result maintain a "bearish slant" on the sector.

Nonetheless, of the seventeen global gold miners Citi covers, ten are afforded a Buy rating. In Australia, OceanaGold ((OGC)), Resolute Mining ((RSG)) and Newcrest Mining ((NCM)) are in that group.

Four miners are rated Neutral, including Medusa Mining ((MML)), and three are rated Sell, none of which are Australian.

Beadell Ejected

Macquarie notes Australia's Beadell Resources ((BDR)) has been deleted from the Van Eck global small cap gold index, which determines which stocks the large US fund manager will invest in. The index previously held 65m Beadell shares, or around 5% of the company.

Beadell continues to push ahead with its mill upgrade and merger with Canadian-list Golden Harp Resources, and to that end an equity placement and convertible note issue is ongoing. The company was recently forced to extend the closing date of its Share Purchase Plan for retail investors.

Macquarie also notes Doray Minerals ((DRM)) continues to report exploration success at its copper-gold mine in WA. Several high grade lodes have been delineated since mining began.

Macquarie does not cover Doray, nor do any other of the FNArena database brokers. Of gold miners under coverage, Macquarie's top picks are St Barbara ((SBM)), Regis Resources ((RRL)) and Saracen Mineral Holding ((SAR)) among the producers, and Dacian Gold ((DCN)), Gold Road ((GOR)) and West African Resources ((WAF)) among the developer/explorers.

South32 Expands Base Metal Options

South32 has taken control of Arizona Mining, which provides a base metal opportunity and expands its geographic base.

-Deal considered fair to fully priced and providing another growth option -Commitment to capital management reiterated -Potential upside from an increase in reserves at the Taylor deposit

By Eva Brocklehurst

South32 ((S32)) has dug into its substantial war chest and opened up another option, this time taking over a Canadian-listed miner. The company will buy the remaining 83% of Arizona Mining for US$1.3bn.

The deal gives South32 control of the Hermosa project, a zinc/lead/silver resource in Santa Cruz, Arizona. The acquisition comes one month after the acquisition of 50% of the Eagle Downs coking coal project, Queensland. The third recent option is the joint venture with, and stake in, Trilogy Metals, also Canadian listed.

There is no issue with funding the all-in cash consideration as the company had US$2.8bn in cash at the end of March. Brokers suggest it also brings a US asset to the fore to help dilute the South African exposure.

Nonetheless, Credit Suisse believes the remaining shares were obtained at a lofty price, representing a 50% premium to the closing share price on June 15. In addition, South32 will provide a working capital facility of CAD70m upon signing and subsequent tranches up to a total of CAD30m, subject to South32 consent.

Citi was not surprised by the deal because South32 already owned 17% and it answers a question about the company's cash pile, although at the same time raises another question as to how much value South32 can add to justify a 50% premium.

The acquisition is not large enough to change Ord Minnett's investment thesis either, but does provide another growth option and the price paid is considered fair.

Management has reiterated a commitment to its US$1bn capital management program, intending to deliver the remaining US$400m to shareholders by April 2019. A rival bid is considered unlikely, as the company has two years of association with the Hermosa asset.

Hermosa

Hermosa is in a first-class jurisdiction and adjacent to infrastructure. Some permits are still required, although it is seven years before federal approval is needed. The project is made up of the Taylor deposit, the development target, and the adjoining Central deposit, the subject of further feasibility studies.

Based on preliminary assessments, the Taylor deposit has an after-tax return of 48%. Mine life is forecast to 29 years and production is expected to start in late 2020. Arizona Mining has published a preliminary US$2bn net present value in its modelling for Hermosa with a 1.6-year pay-back period.

The deal values the project at US$1.6bn, Citi calculates, pointing out there is little margin for error. The broker awaits the bankable feasibility study to obtain more confidence in project economics. However, South 32's balance sheet and strong management profile de-risks the project significantly, given its experience with Cannington, Queensland.

UBS considers the acquisition sound, with further potential upside from an increase in reserves, as the Taylor deposit is open at depth and laterally. The broker agrees the next step is a bankable feasibility study, development of the exploration decline and further surface exploration.

While recent drilling intercepts have indicated potential upside, and any success would theoretically add to valuation, Credit Suisse assesses further work is required to demonstrate this opportunity.

Macquarie acknowledges this will be a strong replacement for the Cannington silver mine but does not yet include the transaction in forecasts. Forecast production rates and mining methods are similar to Cannington for extracting the Taylor deposit and this should provide some insight into the costs and production assumptions.

The broker observes a lack of growth options was a consistent source of negative sentiment for the stock. Now, along with Eagle Downs and the Trilogy Metals Arctic/Bornite project, South32 has three clear medium-term growth options.

There are six Hold ratings on FNArena's database and one Buy (Macquarie). The consensus target is $3.77, signalling -2.2% downside to the last share price. Targets range from $3.40 (Deutsche Bank, yet to comment on the transaction) to $4.00 (Ord Minnett, Macquarie). The dividend yield on present FX values is 5.1% for FY18 and 4.6% for FY19.

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Amazon, Housing Challenge Oz Retail Outlook

The launch of Amazon Prime, ahead of expectations, suggests to brokers the company is serious and confident regarding delivery of its business model to Australians.

-Amazon's Australian delivery times slower on average but still compare well with sizeable geographies -Amazon most disruptive in first party supply of well-known brands as well as toys, video games and small appliances -Slowing housing market adds to the earnings risk for homewares retailers -Further drop in the savings rate required to maintain current level of retail sales growth

By Eva Brocklehurst

Amazon Australia is improving, fast. The company's Prime launch, ahead of expectations, is expected to change the game for retailing across the country. Morgan Stanley suggests the low $59 annual Prime fee supports a long-term investment horizon and shows the company is confident in its delivery.

Amazon is offering two business days delivery to nearly 90% of the population and is available to consumers outside of major metropolitan areas. Morgan Stanley also considers the price for Prime is cheap versus the US, UK, Germany and Canada.

While Australian delivery times are slower on average, they still compare well with others. The US offer includes two-day delivery to nearly all addresses and Morgan Stanley estimates around 37% of Canadian addresses are eligible for two-day delivery.

The Prime offer at this stage includes video and excludes music and cloud. Penetration will expand as more products are brought online for free delivery and incremental services are added.

As Australian retailers tend to charge between $5-10 for delivery this implies the number of purchases required to pay back the Prime fee is low at 6-12 annually.

Prime subscription fees are below Citi's expectations and appear to be targeting higher subscription uptake, which potentially reflects a limited offering. Amazon is offering subscribers free 2-day delivery in Australia and free delivery on Amazon US orders over $49.

While users will have access to Amazon Original content such as videos and e-books Citi does not envisage this as a catalyst to drive membership, given the competitors in the Australian market such as Netflix and Stan.

Rather, Citi suggests, like any retail business, attractive prices, ranges and good service will determine Prime's success. At this stage Amazon is considered to be most disruptive in the first-party supply of well-known brands and most advanced in toys, video games and small kitchen appliances. First party supplies are limited in shoes and apparel.

In the broker's view the largest risk exists for electronics retailers. Combined with a slowing housing market and elevated price competition Citi flags significant earnings risks for JB Hi-Fi ((JBH)) and Harvey Norman ((HVN)).

In terms of retail exposure, Morgan Stanley believes the category killers such as JB Hi-Fi are relatively well insulated, while department stores are most exposed. The broker suspects the market underestimates the impact most in the case of Wesfarmers ((WES)).

Housing

The outlook for housing is not expected to support retail and UBS has become more cautious. House prices are expected to fall more than -5% over the next year because of credit tightening. Consumption growth estimates are circa 2.2% in FY19, benefiting from accelerating disposable income growth and housing starts.

The main risk to the broker's forecast is contained in the savings rate. If this rises around 100 basis points, i.e. to 2.7%, consumption growth could fall around -1.2% in FY19.

This would create significant risk to listed retail forecasts. Furthermore, a further -50 basis points drop in the savings rate is required to maintain the current level of retail sales growth, which UBS suggests could be optimistic.

As the risk is firmly weighted to the downside and the headwinds are building, the broker trims estimates for Harvey Norman and JB Hi-Fi, as these retailers having high historical correlations to a slowdown in housing.

UBS downgrades Super Retail ((SUL)) to Neutral from Buy. The broker's estimates for Bunnings and Metcash ((MTS)) hardware are unchanged, given the upside via market share gains.

The broker favours companies with lower exposure to the macro environment and the housing slowdown, such as Woolworths ((WOW), and upside from international expansion such as Costa Group ((CGC)) and Domino's Pizza ((DMP)).

A second derived negative impact from the housing slowdown is via the wealth affect and this includes Myer ((MYR)) and Super Retail. Still, despite a muted outlook for consumption, UBS believes discretionary retailer valuations are not demanding and are pricing in the softer outlook.

Bumper Supply Constraining Childcare Profits

Benefits of government subsidy increases are likely to be constrained in the near term for childcare centres, as supply is overwhelming demand.

-Earnings momentum in childcare centres expected to return as more families use additional government funding -Supply to date in 2018 indicates a new peak in the opening of centres is forming -Think Childcare proactively taking steps to ensure new subsidy benefits are reflected in its occupancy rate

By Eva Brocklehurst

An increase in government funding for childcare has generated a mixed view about the benefits to parents and flow on to occupancy, and the industry is not overly optimistic about improving profitability.

Moreover, Canaccord Genuity assesses that any benefit is likely to be constrained in the near term because of a continued increase in the supply of centres, with a 2.5% increase for the five months to May 31, 2018. This is expected to weigh on earnings in 2018.

In the longer term, the broker is more positive and expects earnings momentum to return as demand plays catch up and more families utilise additional government funding.

In the broker's recent survey of child care centres just 24% of respondents believed changes to the government subsidy would positively affect profitability. General awareness of the changes should be high, as a majority of centres have indicated they have been actively discussing this with parents.Of the centres surveyed, 28% indicated they would raise fees as a result of the new subsidy. This does not mean that the other 72% will not increase rates, as Canaccord Genuity suspects some will do so regardless of a change in subsidy.

Reasons for subdued profitability are based on concerns about occupancy rates. In the five months to May 31, 2018 there were 182 new childcare centres opened in Australia versus 152 during the same period in 2017.

A general view is that supply growth peaked in early 2017, although supply to date in 2018 indicates a new peak may be forming which points to 370-380 new centres being opened this year.

New funding from the government from July 2 is expected to drive demand but this should take time to be realised, as parents respond to the new structure and likely benefits in 2019.

Consequently, while maintaining a positive view on the sector, Canaccord Genuity expects conditions will remain challenging in the near term.

G8 Education

The new supply has continued to affect G8 Education ((GEM)), which flagged in April that year-to-date occupancy was down -2.5-3.0%.

As a result, and together with the latest supply data, Canaccord Genuity, not one of the eight brokers monitored daily on the FNArena database, downgrades its rating to Hold on the stock. Target is reduced to $2.60 from $3.60.

Location analysis shows that 42 of the 182 new childcare centres opened are located within an 2km radius of a G8 Education centre. In the past 18 months around 100 centres have opened within such a radius. This could affect the occupancy rates of around 20% of the company's portfolio.

There are a number of other considerations, including speculation regarding a purchase of Affinity Education ((AFJ)). Canaccord Genuity considers this highly unlikely as while the portfolio is similarly well positioned to benefit from funding changes, the multiples being speculated would mean any transaction would not be accretive.

Depending on the level of acquisition expenditure in 2018, the broker estimates G8 Education's net debt will peak at around $350-400m, which places it outside of the desired target.

In addition the company has a current Singapore bond worth SGD270m maturing in May 2019. Refinancing should be simple but is also likely to weigh on investor views in the interim. As a result, the broker forecasts that G8 Education will spend less on acquisitions in 2018.

The company could become a takeover target because of the strong presence of private equity in the sector, Canaccord Genuity suggests. Childcare generates cash flow which can be leveraged and current trading multiples remain attractive.

The FNArena database has three Buy ratings and three Hold for G8 Education. The consensus target is $3.03, suggesting 31.1% upside to the last share price. The dividend yield on FY18 and FY19 forecasts is 8.5% and 8.4% respectively.

Think Childcare

Of the new centres opened only two are within a 2-3km radius of a Think Childcare ((TNK)) centre and, therefore, the broker suggests this company will be less affected. There have been 10 new centres opened over the past 18 months within a 2km radius of a Think Childcare centre, or 21% of the portfolio.

The broker believes the size and mix of the portfolio should enable Think Childcare to better withstand competition. The company has analysed its customer base and noted that 99.4% of families that currently receive the childcare benefit will be better off under the new subsidy.

Think Childcare has been proactively attempting to ensure gains are reflected in its occupancy rates. Canaccord Genuity notes the company has a strengthened balance sheet and a substantial pipeline of acquisitions. The stock remains attractively priced and the broker rates Think Childcare a Buy with a target of $2.58.

Canaccord Genuity's survey covering private owners and operators of child care centres was conducted just prior to the government's accelerated promotion of its new subsidy. Responses were received from 637 out of 5237 surveys that were sent out.

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Material Matters: Steel, Water, Copper & Coal

A glance through the latest expert views and predictions about commodities. China & steel; agriculture & water; copper & and coal.

-China's steel exports likely to struggle in the second half -Ruralco likely to be the largest beneficiary of activity in water services -Stalled copper projects obtain new lease on life -Positive scenario exists for coal producer margins

By Eva Brocklehurst

China & Steel

The rise in China's steel exports through April and May has defied expectations, particularly after the US signalled a 25% duty on March 23. Commonwealth Bank analysts find this interesting, given China's net steel product exports are still down around -20% over the first five months of the year.

The analysts are not convinced about synchronised global growth and foreign demand as factors behind the rise. China's crude steel output increased 5.4% in the first five months and by an impressive 8.9% in May. The stems from the fact domestic steel output is looking attractive as margins remain elevated for the mills.

From the second half, the analysts expect steel exports from China will struggle to climb, as the traditional Southeast Asia market for steel exports is shrinking, driven by protectionist measures and competition from the likes of Russia. Vietnam has already indicated its companies will stop buying steel from China to avoid higher duties.

China's two largest export steel markets, Vietnam and South Korea, have dropped by double-digit rates over the last year. This suggests to the analysts that steel exporters will have to look to Africa and South America for new buyers.Agriculture & Water

Ruralco ((RHL)) is likely to be the largest beneficiary of the activity in water services, Wilsons suggests. In the past decade, water entitlement values in the southern Murray-Darling Basin have increased by a compound 23%. This reflects supply constraints, increase trade and efficiency improvements.

Water as an input for agriculture means that water prices over the long-term will be driven by fundamental commodity prices. In the short term, various factors will cause dislocation including seasonal conditions, financial/speculator interest and commodity price movements.

The national water initiative agreement in 2004, and subsequent separation of water title from land title, was the major catalyst for creating the water market. This has created tradable property rights to water.

Wilsons notes Ruralco's water broking business is at the forefront of the market in terms of activity and product development. While not the largest contributor to earnings, the business is important for market intelligence and customer engagement.

The broker's report suggests trading conditions are favourable because of the evolution of the water market and water efficiency improvements. The water services segment accounts for around 20% of group operating earnings (EBITDA) and is the fastest growing.

Insights from the broker's panel discussions in the report were also favourable for Costa Group ((CGC)). Costa is less exposed to movements in water prices because it has farms sourcing water from regulated systems, employs a strategy of owning more entitlements, while many farms are self-sufficient.

The insights were neutral for Select Harvests ((SHV)) and marginally negative for Rural Funds ((RFF)). Constraints on the commodities which offer sufficiently attractive returns for near-term investment limit the growth opportunities for Rural Funds, Wilsons believes.

Copper

Copper miners are beginning to approach prospects for expansion with action. Credit Suisse observes a number of stalled copper projects have been reinstated over the past three weeks, adding to the growing list of projects coming on board after 2020.

The broker was aware of the Spence, Toromocho and Konkola expansions and now knows that Minsur is seeking financing to build Mina Justa by the end of the year. Southern Copper is also negotiating over the Michilliquay project in Peru while Teck is seeking permits for Quebrada Blanca 2.

The broker assesses that the increase in the number of mine projects coming on board rests on the fact the May copper price of around US$3.10/lb is sufficient to deliver mine expansions. To Credit Suisse this is now looking like an old-fashioned mining cycle, where high prices will stimulate a wave of new supply.

Coal

After a review of the long-term market, Ord Minnett suggests coking coal is likely to move to an incentive price, driven by growth in Indian demand as steel production rises.

The broker upgrades its long-term price forecasts to US$140/t from US$110/t. Australia is likely to supply the demand from India, because of its larger, high-quality resources.

A shift in global energy mix away from coal is the second part of the coal equation, which will mean domestic production declines and seaborne demand rises materially, particularly from Southeast Asia.

The broker upgrades its long-term thermal coal price to US$77/t from US$67/t. This price reflects an average of incentive prices, based on peaks and troughs through the cycle.

Growth in coal-fired power generation throughout Asia is likely to support an additional 100mtpa of seaborne demand by 2035, and Ord Minnett believes, therefore, thermal coal prices will need to be strong for a sustained period in order to incentivise development of new coal basins.

If major miners continue to restrict new supply via "value over volume" strategies, the broker suggests additional high-cost production will be needed. Therefore, the balance of risks to its long-run analysis is skewed to the upside and a positive scenario exists for producer margins.

Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday June 11 to Friday June 15, 2018 Total Upgrades: 12 Total Downgrades: 6 Net Ratings Breakdown: Buy 45.11%; Hold 39.42%; Sell 15.48%

The Australian share market has posted only small net gains so far year-to-date (including dividends) but June might well add some more, assuming global sentiment doesn't sour in the remaining twelve days.

Stockbroking analysts for their part are trying their best to keep sentiment positive. For the week ending Friday, 15th june 2018, FNArena counted twelve upgrades for individual ASX-listed stocks against six downgrades. Caltex Australia received two upgrades during the week and both went to Buy.

Other stocks receiving upgrades include Telstra (!), Bank of Queensland, Metcash and Webjet. Only two of the six downgrades moved to Sell with Primary Health Care and Goodman Group the recipients.

Webjet and BHP both enjoyed 3%+ increases to consensus price targets and both find themselves on top of the week's table, followed by Rio Tinto and Goodman Group. The latter indicates not everybody returned with a negative view from the company's investor day.

There were only two stocks whose consensus price targets declined during the week, and only Primary Health Care is worth mentioning.

The aforementioned Caltex Australia tops the week's table for positive revisions to forecasts, beating OceanaGold and Cleanaway Waste Management, but all increases are rather small. Much larger numbers reveal themselves on the negative side with APA Group taking the biggest hit, followed by Graincorp, Mineral Resources and Tabcorp.

Upgrade

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

Morgans reviews forecasts and its investment view and believes FY18 will mark a material bounce in earnings after a difficult FY17.

Morgans also increases its FY19 like-for-like sales growth assumptions to 4%. Rating is upgraded to Add from Hold. Target is raised to $2.50 from $2.30.

APA GROUP ((APA)) Upgrade to Outperform from Underperform by Credit Suisse .B/H/S: 3/3/1

Following the news that CKI consortium is offering $11 per share to shareholders, Credit Suisse has double-whammy upgraded to Outperform from Underperform.

The analysts make it clear they think the offer is regarded as "attractive" given their view that new arbitration rules "dramatically" reduce the economic life of APA's assets.

Within the Australian context, the analysts point out CKI has a track record of paying what others won't. FIRB approval remains key. Target price lifts to $11 (was $7.45 pre-bid). Note current forecasts suggest no dividend payouts post the present financial year.

See also APA downgrade.

AUSNET SERVICES ((AST)) Upgrade to Neutral from Sell by Citi .B/H/S: 2/4/1

Following the recent underperformance of the share price Citi upgrades to Neutral from Sell and considers the stock fairly valued. The broker also updates its model for the FY18 results, which slightly missed expectations.

The broker continues to prefer Spark Infrastructure ((SKI)) in the sector. Target is $1.54.

AURIZON HOLDINGS LIMITED ((AZJ)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/1/3

UBS believes heated and protracted negotiations over the draft decision by the Queensland regulator have skewed sentiment to an extreme negative such that an improvement is now more likely.

The broker suggests the stock is approaching a realistic floor of $3.75 based on the network being worth its regulated asset base, less debt. Therefore, UBS upgrades to Buy from Neutral. Target is reduced to $4.60 from $4.90.

BANK OF QUEENSLAND LIMITED ((BOQ)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/2/2

Credit Suisse believes the stock is now trading below fair value and represents a good entry point.

While acknowledging a challenging macro backdrop for the sector the broker calculates Bank of Queensland is currently sitting near the trough in valuation across most metrics.

The broker upgrades to Outperform from Neutral. Target is steady at $11.40.

CLASS LIMITED ((CL1)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/0/0

The company is reacting to increased competitive intensity by offering fee holidays to January 1 2019 for new accounts, which UBS estimates could add around four months to customer acquisition costs and impact FY19 EBITDA by -$2m.

That said, with improved valuation support and the possibility there may be a faster-than-expected transition to cloud-based SMSF accounting software the rating is upgraded to Buy from Neutral. Target is raised to $2.95 from $2.85.

CALTEX AUSTRALIA LIMITED ((CTX)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Buy from Hold by Ord Minnett .B/H/S: 5/1/1

Caltex has provided first half profit guidance that is in line with Macquarie's expectations. The broker observes the core business is defensive and earnings growth is expected. Future drivers are the asset review and convenience strategy.

The broker suggests meaningful infrastructure divestments following the asset review are unlikely and acknowledges the convenience roll-out has its risks.

Nevertheless, given the share price has de-rated the valuation upside is improved. Rating is upgraded to Outperform from Neutral. The broker increases the target to $37.00 from $36.60.

The company's net profit guidance for the first half of $295-315m is ahead of Ord Minnett's forecasts, as refining has fallen less than expected. Toyota Fleet Management and Ampol Singapore are boosting underlying supply & marketing earnings as well.

The broker upgrades to Buy from Hold and raises the target to $35 from $34 because of earnings revisions, confidence in refiner margins and the positive changes emerging in the asset portfolio.

METCASH LIMITED ((MTS)) Upgrade to Buy from Neutral by UBS .B/H/S: 4/2/1

UBS upgrades to Buy from Neutral believing the company's FY19 earnings multiple for the food & grocery division is pricing in further contract losses. The broker lifts FY19-21 forecasts by 1% to reflect stronger hardware earnings.

The main catalysts in the near term will be capital management at the FY18 result, in the broker's opinion. The main risk is new price investment initiatives, although UBS considers this unlikely. Target is raised to $3.00 from $2.95.

NIB HOLDINGS LIMITED ((NHF)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/6/2

Credit Suisse lowers FY19 net profit estimates by -0.1% on the assumption that premium rate increases will be less than 3%. In FY20 and the outer years the broker allows for a 2% premium rate increase and minor margin contraction.

While the broker struggles to be positive on the stock, the share price has moved back to around fair value and the rating is upgraded to Neutral from Underperform. Target is reduced to $5.35 from $5.65.

TELSTRA CORPORATION LIMITED ((TLS)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 5/1/2

Ord Minnett expects the company to announce an additional $500m-1bn of cost savings and new product bundling initiatives at its strategy briefing on June 20.

There is also the chance of a game-changing announcement such as a structural separation. The broker upgrades to Accumulate from Hold. Target is $3.30.

WEBJET LIMITED ((WEB)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 4/1/0

As global hotel trading has provided strong tailwinds to the company's key B2B exposures, Morgan Stanley expects the market will give a free pass on key qualitative issues such as soft cash conversion and higher capital expenditure.

Nevertheless, the broker remains cautious regarding the structural challenge, although envisages little risk to FY18 results.

As the earnings risk is pushed out the broker upgrades to Equal-weight from Underweight. Target is raised to $12.60 from $10.30. Industry View is In-Line.

Downgrade

APA GROUP ((APA)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 3/3/1

After further review of the bid by CK Infrastructure for APA Group, Ord Minnett has downgraded to Hold from Buy.

The main challenge in getting a deal done, the broker suggests, is approval from the FIRB, even though the stock factors in a 58% likelihood of success. The broker raises the target to $11.00 from $9.55.

See also APA upgrade.

CENTURIA INDUSTRIAL REIT ((CIP)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

The REIT has announced new leasing deals, revaluations and an asset sale. Centuria Industrial will sell its Preston asset for $30.1m with proceeds used to reduce debt.

Morgans adjusts forecasts to allow for the news and assumes no further asset sales. Despite some near-term leasing challenges the broker backs management's ability to deliver improved occupancy over the medium term.

Target rises to $2.63 from $2.59. Following appreciation in the security the broker downgrades to Hold from Add.

GOODMAN GROUP ((GMG)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 3/3/0

Ord Minnett believes the business is in great shape but the stock is expensive versus history and its peers. The broker is also somewhat concerned about the quality of earnings growth.

While the company, at its investor briefing, highlighted the exuberance of the industrial market, Ord Minnett suggests that not all industrial assets are equal and some in the marketplace appear not to be allowing for this fact.

The broker downgrades to Lighten from Hold. Target is raised to $8.40 from $8.10.

PRIMARY HEALTH CARE LIMITED ((PRY)) Downgrade to Sell from Buy by UBS .B/H/S: 1/1/5

UBS changes lead analyst coverage for the stock and remodels earnings drivers. FY19-20 forecasts decline by -8-9% versus previous estimates. The broker also shifts to a DCF-based valuation methodology.

Target reduces to $3.50 from $4.00. Rating is downgraded to Sell from Buy. The broker does not believe the current share price is factoring in the earnings risk as several factors could have a negative impact on FY19.

RIO TINTO LIMITED ((RIO)) Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 7/1/0

While believing some of the bear scenarios regarding rapidly rising scrap consumption are premature, Deutsche Bank expects Chinese demand for iron ore to peak around 2020 and limit the growth potential for the major producers. The broker reduces assumptions for Rio Tinto's iron ore production from 2021.

The stock has re-rated versus its peers following a successful strategy of asset sales, de-leveraging and high cash returns. Following this significant rebound the broker downgrades to Hold from Buy. Target is steady at $89.

SINO GAS & ENERGY HOLDINGS LIMITED ((SEH)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

The company has negotiated an eight-year extension to the Linxing PSC until 2036 but in return has reduced its interest and relinquished some acreage.

Macquarie forecasts a -20% fall in Linxing 2P reserves because of the changes. While the outlook for domestic gas is particularly positive there is also much risk, Macquarie observes.

The broker reduces the target to $0.25 from $0.33 and downgrades to Neutral from Outperform.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ADAIRS LIMITED Buy Neutral Morgans 2 APA GROUP Buy Sell Credit Suisse 3 AURIZON HOLDINGS LIMITED Buy Neutral UBS 4 AUSNET SERVICES Neutral Sell Citi 5 BANK OF QUEENSLAND LIMITED Buy Neutral Credit Suisse 6 CALTEX AUSTRALIA LIMITED Buy Neutral Macquarie 7 CALTEX AUSTRALIA LIMITED Buy Neutral Ord Minnett 8 CLASS LIMITED Buy Neutral UBS 9 METCASH LIMITED Buy Neutral UBS 10 NIB HOLDINGS LIMITED Neutral Sell Credit Suisse 11 TELSTRA CORPORATION LIMITED Buy Neutral Ord Minnett 12 WEBJET LIMITED Neutral Sell Morgan Stanley Downgrade 13 APA GROUP Neutral Buy Ord Minnett 14 CENTURIA INDUSTRIAL REIT Neutral Buy Morgans 15 GOODMAN GROUP Sell Neutral Ord Minnett 16 PRIMARY HEALTH CARE LIMITED Sell Buy UBS 17 RIO TINTO LIMITED Neutral Buy Deutsche Bank 18 SINO GAS & ENERGY HOLDINGS LIMITED Neutral Buy Macquarie Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 CL1 CLASS LIMITED 100.0% 67.0% 33.0% 3 2 CTX CALTEX AUSTRALIA LIMITED 57.0% 29.0% 28.0% 7 3 WEB WEBJET LIMITED 80.0% 60.0% 20.0% 5 4 MTS METCASH LIMITED 36.0% 21.0% 15.0% 7 5 BOQ BANK OF QUEENSLAND LIMITED -7.0% -21.0% 14.0% 7 6 NHF NIB HOLDINGS LIMITED -25.0% -38.0% 13.0% 8 7 TLS TELSTRA CORPORATION LIMITED 31.0% 25.0% 6.0% 8 8 BHP BHP BILLITON LIMITED 81.0% 75.0% 6.0% 8 9 APA APA GROUP 29.0% 25.0% 4.0% 7 10 OGC OCEANAGOLD CORPORATION 92.0% 90.0% 2.0% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 PRY PRIMARY HEALTH CARE LIMITED -64.0% -36.0% -28.0% 7 2 WES WESFARMERS LIMITED -36.0% -14.0% -22.0% 7 3 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 50.0% 67.0% -17.0% 6 4 ING INGHAMS GROUP LIMITED 33.0% 50.0% -17.0% 6 5 GMG GOODMAN GROUP 36.0% 43.0% -7.0% 7 6 RIO RIO TINTO LIMITED 81.0% 88.0% -7.0% 8 7 CWN CROWN RESORTS LIMITED 14.0% 17.0% -3.0% 7 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 WEB WEBJET LIMITED 13.550 13.110 3.36% 5 2 BHP BHP BILLITON LIMITED 34.128 33.128 3.02% 8 3 RIO RIO TINTO LIMITED 88.064 85.814 2.62% 8 4 GMG GOODMAN GROUP 8.750 8.634 1.34% 7 5 CL1 CLASS LIMITED 3.233 3.200 1.03% 3 6 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 1.730 1.713 0.99% 6 7 WES WESFARMERS LIMITED 43.321 42.929 0.91% 7 8 CTX CALTEX AUSTRALIA LIMITED 36.489 36.217 0.75% 7 9 MTS METCASH LIMITED 3.136 3.129 0.22% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 PRY PRIMARY HEALTH CARE LIMITED 3.606 3.677 -1.93% 7 2 NHF NIB HOLDINGS LIMITED 6.054 6.091 -0.61% 8 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 CTX CALTEX AUSTRALIA LIMITED 238.043 233.586 1.91% 7 2 OGC OCEANAGOLD CORPORATION 25.023 24.669 1.43% 6 3 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 4.867 4.817 1.04% 6 4 IPL INCITEC PIVOT LIMITED 19.458 19.310 0.77% 7 5 AIZ AIR NEW ZEALAND LIMITED 32.006 31.850 0.49% 4 6 WEB WEBJET LIMITED 41.392 41.192 0.49% 5 7 CL1 CLASS LIMITED 7.133 7.100 0.46% 3 8 MPL MEDIBANK PRIVATE LIMITED 16.343 16.314 0.18% 7 9 SHL SONIC HEALTHCARE LIMITED 112.429 112.286 0.13% 8 10 SUN SUNCORP GROUP LIMITED 79.425 79.338 0.11% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 APA APA GROUP 22.225 25.681 -13.46% 7 2 GNC GRAINCORP LIMITED 23.118 25.600 -9.70% 5 3 MIN MINERAL RESOURCES LIMITED 163.333 173.500 -5.86% 4 4 TAH TABCORP HOLDINGS LIMITED 15.628 16.110 -2.99% 7 5 RCR RCR TOMLINSON LIMITED 24.000 24.333 -1.37% 3 6 ALQ ALS LIMITED 34.512 34.890 -1.08% 6 7 PTM PLATINUM ASSET MANAGEMENT LIMITED 33.225 33.475 -0.75% 4 8 GUD G.U.D. HOLDINGS LIMITED 76.424 76.624 -0.26% 5 9 WES WESFARMERS LIMITED 227.813 228.088 -0.12% 7 10 NHF NIB HOLDINGS LIMITED 28.988 29.013 -0.09% 8 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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Uranium Week: No Immediate Need

The US regulator has criticised the president's directive that would see electricity providers forced to buy nuclear power.

-Regulator criticises Trump -Korean reactor to shut down early -Spot price wanes as demand subsides

By Greg Peel

The story in the US so far...

US legacy nuclear plants are closing down or threatening to close down as they cannot compete with gas-fired power, even with uranium prices at historical lows. Plans for new reactors are being put on hold or shelved.

US uranium producers have petitioned the government to force US nuclear plants, as a matter of national security, to buy at least 25% of their uranium demand domestically, which would push up the cost of nuclear power that already cannot compete.

Advisors have warned the president that nuclear power needs to remain as part of America's energy mix, for reasons of national security.

President Trump intends to order US electricity grid operators, as a matter of national security, to buy a percentage of power from nuclear and coal-fired power plants to ensure they remain in operation.

And in this week's episode...

Members of the US Federal Energy Regulatory Commission have criticised Trump's directive, warning subsidising nuclear and coal power will unravel wholesale power markets. They do not believe there is a national security emergency in power markets that justifies immediate intervention, and warn a "hard and fast mandate" could force other resources off line.

In other news, Korea Hydro & Nuclear Power will close its Wolsong unit 1 plant – the second oldest reactor in South Korea – earlier than previously planned due to the economics of keeping the reactor going.

The change in government in South Korea brought with it a Fukushima-driven anti-nuclear policy and an intention to phase out nuclear power over time. Wolsong would have closed anyway under this policy, but will close early given that, again, even at today's low uranium prices, the plant is uneconomic.

Negative Feedback Loop

It is the reality of commodities markets that stronger demand leads to higher prices and higher prices lead to weaker demand. The spot uranium price has enjoyed a resurgence in recent weeks, driven mostly by speculation but also an element of utility buying.

The week before last the price hit US$24.00/lb mid-week before falling back to US$23.25/lb by week's end. Last week demand dried up further, and industry consultant TradeTech's weekly spot price indicator fell -US25c to US$23.00/lb to mark only the second weekly price decrease in the past two months.

TradeTech reports 650,000lbs U3O8 equivalent changed hands in six transactions.

There were no transactions in uranium term markets. TradeTech's term price indicators remain at US$26.50/lb (mid) and US$28.00/lb (long).

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The Short Report

Guide:

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

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

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

Summary:

Week ending June 14, 2018

Last week saw the ASX200 back in risk-off mode before bottoming out ahead of this week's remarkable currency-driven rally to a new post-GFC high.

Movements in short positions were a lot more plentiful last week, as the table below indicates, but most moves represent small shufflings up and down amidst the brackets.

One exception is Myer ((MYR)), for which shorters appear to have taken some profits as the stock price relentlessly slides. Myer shorts fell to 12.2% from 13.5%.

The other standout is Inghams Group ((ING)), shorts in which increased to 8.7% from 7.1% last week. See below.

Special mention also goes to Gateway Lifestyle Group ((GTY)), which received a takeover offer last week that caused the shorters to bail. Gateway has disappeared off the table.

We also welcome back a couple of old friends into the bottom of the table.

Biotech Mesoblast ((MSB)) was once a 10% plus club incumbent, before shorters became tired of the trade. Meso is back in again at 5.2% shorted.

A more recent stock to fall off the table is Nine Entertainment ((NEC)), but Nine is back again on 5.7% shorted as its stock price continues to rise. Is it because having already lost the cricket this summer, Nine has also opted out of this year's tennis?

Weekly short positions as a percentage of market cap:

10%+

SYR 20.2 DMP 15.8 JBH 15.4 GXY 14.7 ORE 12.5 VOC 12.5 NAN 12.3 MYR 12.2 AAC 11.8 GXL 11.3 IVC 11.2 NWS 10.5 IGO 10.2

No changes

9.0-9.9

HT1, MTS, GEM, HVN

In: MTS, HVN 8.0-8.9%

ING, BIN, MYX, MLX, AAD, PLS, RFG, IPH

In: ING, MLX, RFG Out: HVN, MTS, GMA

7.0-7.9%

IFL, FLT, GMA, BGA, SFR, CSR, WEB, MYO

In: GMA, CSR Out: RFG, MLX, ING, TPM, BKL, QUB, BWX

6.0-6.9%

BKL, TPM, MOC, KAR, RSG, QUB, SEK, TGR, NUF, NSR, BEN, ALX, BWX, BAP

In: BLK, TPM, QUB, BWX, NUF, NSR Out: CSR, PRY

5.0-5.9%

APT, SUL, NEC, CCP, JHC, PRY, AHG, IMF, BOQ, NXT, MSB

In: PRY, NEC, MSB Out: NSR, NUF, GTY

Movers & Shakers

How much is a well-respected CEO worth to a company's share price? Well, in the case of poultry producer Inghams Group, 10% it would seem. Inghams shares fell by that amount last week on the day Mick McMahon announced he would be stepping down earlier than the market had assumed.

Aside from that announcement, there was no change to the company's FY18 outlook. But interestingly, rather than take profits on a prior 7.1% short position, the shorters decided to go the other way and increase positions to 8.7%.

Does this imply they believe no one else could possibly rule the roost as well as McMahon?

ASX20 Short Positions (%)

* Replaces AMP

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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The Wrap: Credit, Retail, Health & Automotive

Weekly Broker Wrap: credit crunch; retail margins; health insurers; NZ broadband; and automotive.

-Mortgage growth resilient despite credit tightening -Disruption by subscription services likely to impact retail margins -Health insurers generally running strong levels of capital -Stabilising margins observed in NZ broadband -New vehicle sales remain soft, luxury outperforms in May

By Eva Brocklehurst

Credit Crunch

What credit crunch? That is Citi's question. Despite investor fears, the broker points out mortgage credit is growing at around 6% annually after slowing modestly since August 2017. Growth is tracking at around twice the rate compared to the last time residential property prices were in decline, in 2012.

The source of resilience has been owner-occupier growth, which has stayed at around 8% for the past 18 months. As property prices soften two cohorts of borrowers emerge - first home buyers and upgraders. Citi expects upgrading to larger homes will feature over the next 2-3 years, particularly if house prices remain weak.

First home buyer applications as a proportion of borrowers have increased to 13% from 8% over the last three years, as their main competitors in the market, investors, feel the effects of regulatory intervention.

Going forward Citi believes mortgage credit will be more robust than many expect. Nevertheless, the broker expects the listed banks to continue to suffer market share declines, as well as net interest margin contraction from price discounting. The failure of a credit crunch to materialise will also support bank capital and dividends.

Retail Margins

Margins remain the issue for retailers, Credit Suisse contends. Launch of subscription services by eBay and Amazon Prime can be expected to accelerate the development of free and subsidised shipping. Kogan has launched free delivery as well. There has been no obvious response from the major retailers as yet.

While it may be tempting to expect the market share to shift following these announcements, Credit Suisse believes the near-term impact is likely to be on margins. Incumbent retailers appear to have little alternative but to respond.

On typical 7% online sales penetration from either JB Hi-Fi, ((JBH)) Harvey Norman ((HVN)), Myer ((MYR)) or Super Retail ((SUL)), the broker calculates delivery revenue would be around 20 basis points with respect to sales, an equivalent negative impact of fully subsidised delivery. This equation excludes the potential for free returns, for which these retailers currently utilise stores.

The broker also suggests the extension of the GST to all imports of goods and services irrespective of value is unlikely to be a material factor weighing on local retailers.

The main impact from this is likely to be the unwillingness of sellers to undertake the collection task and their consequent exit from the market. EBay has introduced systems to collect GST from offshore sellers while Kogan is able to mitigate GST with logistics efficiencies.

Therefore large-scale changes to the market structure are considered unlikely. At most, Credit Suisse expects a marginal narrowing of price differentials.

Health Insurers

Final guidance on new capital standards for the private health industry is likely to be released in the second half of 2018. APRA has assumed the role of a regulator from the Private Health Insurance Administrative Council.

Credit Suisse applies APRA general insurance standards to health insurers to estimate a prescribed capital amount of around 10% of annual premium. The broker considers both the issue of caps to premiums and the new capital standards are manageable.

Those with very strong capital positions are running at lower net margins while those with below-industry capital multiples are delivering the highest net margins. At an even lower level, of the insurers that made an operating loss in 2017, almost all of them are sitting on strong levels of excess capital.

NZ Broadband Pricing

UBS observes some stabilisation of margins in NZ broadband pricing. Gross margin differentials between tier 2-3 and tier 1 operators have fallen to 13% after peaking a 15%, although the broker suggests tier 2-3 are unlikely to take significant broadband share from Spark New Zealand ((SPK)).

The broker notes the new Fan Pass from Spark NZ is the first sign of a bundled add-on for broadband that could be accretive to earnings. The company has announced it will offer Sky Fan Pass (streaming sports) for NZ$30 a month.

This represents an NZ$25 discount to retail. Vodafone and Vocus Group ((VOC)) have jointly announced plans to unbundle fibre post 2020. Physical unbundling appears challenging to UBS and virtual unbundling more feasible.

Automotive

National new vehicle sales were down -2.1% in May, a continuation of the softness in headline sales from April. Wilsons observes this time it was driven by private buyers across most parts of the country.

The broker is yet to see an established trend for positive momentum in consumer sentiment, and Western Australia remains soft, consistent with Automotive Holdings ((AHG)) commentary when it recently downgraded its outlook.

However, there is a more sustained recovery in new vehicle sales growth in Queensland and South Australia, which is positive for AP Eagers ((APE)). After a surprising decline in April 4x4 sales recovered modestly, up 3.0%, in May.

The prestige & luxury segment rose 0.5% in May and, in a relative sense, Wilsons points out this end of the market outperformed. This is a positive read through for Autosports ((ASG)). Wilsons has Buy ratings for ASG and MotorCycle Holdings ((MTO)) and Hold ratings for the remainder of the sector.

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Treasure Chest: Market Undervaluing Ramsay

Perceived headwinds have led the market to downgrade Ramsay Health Care to five-year low multiples. Wilsons believes this is too low.

-Market sentiment weighing -Challenges in domestic healthcare -New project openings under-appreciated

By Greg Peel

Private hospital operator Ramsay Health Care ((RHC)) was once a can-do-no-wrong company in the eyes of investors, yet since peaking in August 2016, Ramsay's share price has fallen -25%.

Aside from a flat outlook for the company's European operations, perceived structural headwinds for the Australian healthcare industry has been weighing on investor sentiment. The environment is more challenging than it was two years ago, stockbroker Wilsons concedes, given greater restrictions on health insurance premium increases and efforts to push more care into community settings.

This has led the market to downgrade Ramsay to an FY19 forecast price/earnings multiple of 18.9x and an enterprise value multiple of 10.0x, representing five-year lows.

Which, Wilsons believes, is too low. What the market is ignoring, the broker suggests, is the boost to core earnings growth of 8% over the years ahead as brownfield assets (development projects) opened over FY16-18 reach peak utilisation and profitability, contributing some $57m in incremental earnings in FY19.

FY20 will see a smaller contribution given a slowdown in investment in FY17, but further brownfield project at the approved and planned stage, including flagship sites such as Greenslopes, Hollywood, Peninsula, Sunshine Coast, St George and Joondalup, should sustain earnings growth well into the FY20s.

Despite weak market sentiment, Ramsay continues to extract real price growth in excess of real operating expense growth, underpinning margin expansion, Wilsons notes. New global procurement arrangements with Ascension can cut another -$30m in costs and extend margin benefits to the European business.

Longer term, the company is set to respond to the changing domestic structure by investing in non-hospital adjacencies such as community pharmacy, outpatient rehabilitation, allied health and chronic disease coordination.

The de-rating of Ramsay's valuation means it is now trading in line with listed international private hospital peers, having lost the traditional valuation premium the stock long enjoyed. Wilsons believes the stock can trade at an FY19 enterprise multiple of 10.9x, which implies, on a discounted cash flow basis, a target price of $65.00. At the time of writing this story the shares are trading near $61.87.

To that end, Wilsons has upgraded Ramsay to Buy.

Macquarie has also reviewed the investment case for Ramsay and last week maintained an Outperform rating and $74.50 target on the stock, drawing on a similar argument to that of Wilsons. Macquarie suggests brownfield developments should support earnings growth over FY19-20, and procurement savings should also support margin expansion, making the stock appealing at current valuation.

Within the FNArena broker database, in which Wilson is not included, Citi also rates Ramsay a Buy. Five brokers retain Hold or equivalent ratings.

The contrarian is Credit Suisse, who earlier this month downgraded the stock to Underperform. The broker concedes Ramsay's is a different proposition to other private hospital operators but does not believe the company will be immune to a structural slowdown.

On that basis, Credit Suisse considers the stock overvalued and has set a $56.50 target, to be the low marker on the FNArena database. Macquarie is the high marker, and the consensus of the eight brokers is $68.24.

Finding Opportunities In A Heavily Polarised Market

In this week's Weekly Insights (published in two parts):

-Finding Opportunities In A Heavily Polarised Market -Growth Or Weakness? -Conviction Calls -Morgan Stanley's US Cycle Indicator -Rudi On TV -Rudi On Tour

[Note the non-highlighted items will appeared in part two on the website on Thursday]

Finding Opportunities In A Heavily Polarised Market

By Rudi Filapek-Vandyck, Editor FNArena

Strategists at UBS have been struggling for a while with the share market's extreme focus on growth stories, combined with a near equally as extreme aversion for uncertainty and damaged business models.

But can one continue to pour additional funds in stocks like Cochlear, WiseTech Global and Altium while continuing to avoid AMP, CommBank, and Aveo Group?

Strategist David Cassidy and associate analyst Jim Xu have tried to find a third alternative: "Growth At A Reasonable Price", otherwise known as GARP. The two have limited their scope to the ASX100 ex-mining & metals and ex-REITs.

After applying multiple filters, including relative Price-Earnings (PE) ratios versus a company's ten year history, they've come to the conclusion that today's best GARP stocks are Atlas Arteria (formerly known as Macquarie Atlas) ((ALX)), Janus Henderson ((JHG)), and Origin Energy ((ORG)).

Equally important is that their data analysis suggests certain stocks may not necessarily be as "cheap" as forward indicators suggest, such as QBE Insurance ((QBE)) and Star Entertainment ((SGR)), while a number of stocks have been identified that are still trading below historic PE multiples, including Magellan Financial Group ((MFG)), Boral ((BLD)), AGL Energy ((AGL)), Brambles ((BXB)), IOOF Holdings ((IFL)), and James Hardie ((JHX)).

Note the strategists: QBE Insurance looks very attractive on the basis of EPS growth projections, however the company has a consistent track record in recent years of disappointing the market, including the last twelve months. They also believe Macquarie Group ((MQG)) still looks attractive relative to growth potential, but there are equally risks for the outlook such as share market turmoil, sharply higher bond yields and a drop off in M&A.

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Stockbroker Morgans is a lot more explicit in its struggles to find opportunities in today's share market. Morgans sees a local share market that is trading on elevated valuations while lacking earnings momentum. The stockbroker only sees 3% more upside potential for the remainder of calendar 2018 (target 6200).

With a market that is lacking conviction, also because sentiment has been curbed due to rising bond prices and geopolitical risks, Morgans has gone searching for mispriced opportunities because there are always stocks whose share prices have rallied too far, and others that have been ignored for too long.

Morgans sees "tactical opportunities" in QBE Insurance, CML Group ((CGR)) and Catapult Group ((CAT)). Stocks that have been oversold include Ramsay Health Care ((RHC)), Link Administration ((LNK)), Star Entertainment, and LiveHire ((LVH)).

The stockbroker also suggests investors should consider accumulating shares on more weakness in AMP ((AMP)), Pendal Group ((PDL)) -that's the former BT Investment- Magellan Financial, and in IPH ltd ((IPH)).

Also, June usually throws up some opportunities among oversold names as EOFY approaches and portfolios are rebalanced, reports the broker.

The three "tactical buys" are explained as follows:

-QBE represents a trading opportunity leading into the upcoming financial results, scheduled for 16th August. Assuming management finally manages to deliver a positive surprise, Morgans sees potential for a more sustainable re-rating that can last a number of months.

-CML Group remains one of Morgans' High Conviction Stocks and there remains potential for positive outperformance in the years ahead. Morgans sees a conservative, well-managed industrial stock that is likely cum upgrades.

-The market has already priced in heavy losses incurred by Catapult Group, but Morgans thinks positive newsflow and new contract wins leading into the upcoming financial result (scheduled for 23rd August) warrant a tactical buy proposition.

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Wilsons Advisory and Stockbroking recently hosted its bi-annual Rapid Insights Conference in Melbourne, now in its seventh year. The event provides direct access to ASX-listed small cap companies and Wilsons reports this year the event saw a record 135+ institutional investors interacting with executives from 35+ companies.

Key themes that reportedly emerged during the event include a softening environment for residential property markets, alongside a general upbeat mood, though companies seem to have become more cautious around capital deployment.

Wilsons quotes Arq Group ((ARQ)) CEO Martin Mercer during Q&A that "culture eats strategy for breakfast" in a signal that modern times are putting the squeeze on traditional business models, and their culture. While companies are increasingly aware of this, it ain't easy to address the issue of corporate culture, and it certainly cannot be measured, but we do know it is all-important to both client, staff and investor success, states Wilsons.

Post the Conference, Wilsons analysts have highlighted ten investment ideas: Afterpay Touch ((APT)), ARQ Group, Bravura Solutions ((BVS)), Collins Foods ((CKF)), Nanosonics ((NAN)), National Veterinary Care ((NVL)), Telix Pharmaceuticals ((TLX)), Adairs ((ADH)), OneVue Holdings ((OVH)), and Pinnacle Investment ((PNI)).

Most, but not all of these companies, are also included in Wilsons Conviction Calls, which presently consist of ten inclusions: Arq Group, Afterpay Touch, Bravura Solutions, Ruralco ((RHL)), Collins Foods, Ridley Corp ((RIC)), ImpediMed ((IPD)), Nanosonics, Citadel Group, and Pinnacle Investment.

Growth Or Weakness?

Increased infrastructure spending on top of a buoyant global trading environment, in particular for LNG in Asia, has resulted in an unexpectedly strong GDP growth performance for the March quarter in Australia. Coming in at 3.1% annualised the growth on display had just about everybody questioning their models and forecasts.

Time to maintain a bullish view for the Australian share market for the remainder of calendar 2018?

That remains yet to be seen. Investor sentiment globally is very much intertwined with prospects for international trade in goods and the Trump administration's belligerence in this regard is going to keep more than a few wealth managers on the edge of their seat as the year rolls forward.

In Australia, even the team of equity strategists at JP Morgan are now conceding things may have decelerated a little since that stellar performance in Q1. The team had kept a positive outlook for Aussie equities on the assumption that positive momentum through economic data and forward indicators would equally translate into a better performance for the share market.

As I have been pointing out in recent times, the ASX200 Accumulation Index, which includes dividends paid out, only managed a net gain of 0.99% year-to-date as at the start of June. There are now less than two weeks left to finish off on the financial year ending June 30th. Luckily for all those funds managers keen to advertise their performance, there is still a chance for double digit gains for the financial year thanks to a big rally in late 2017.

Business conditions in general look okay, and governments' spending remains supportive while Asian demand for key exports including LNG, coal and iron ore remains robust, but share market investors better keep a close watch on the weakness that remains among Australian households. If this doesn't impact on the RBA policy intentions, or on the banks' sector outlook, it almost certainly is going to make an impact in the share market, as it already has.

The cautious arrival of Amazon on Australian shores might have led investors to think that share price weakness for the likes of JB Hi-Fi ((JBH)), Harvey Norman ((HVN)), The Reject Shop ((TRS)) and others looked premature and overdone, it's the downward pressure on discretionary household budgets that is preventing share prices to rally decisively from beaten down levels.

And if you believe analysis and forecasts from the likes of the team of economists at Westpac, then there should be no relief on the horizon for Australian consumers. Savings are being run down to underpin low growth in consumer spending, suggesting the onus remains to the downside. The team of strategists at JP Morgan concedes as much, pointing towards the deteriorating outlook for house prices as potentially the next area for (even more) downward pressure.

Some equity market bulls take the view that a generally positive environment for Australian businesses (outside of telcos, discretionary retail and banks) should gradually lift sentiment among Australian consumers. My view is these commentators are living on Cloud 9. My gut feel tells me many households are doing it tougher than might be apparent from generalising surveys and statistics.

In addition, my recent visit to Queensland where I presented to and spoke with local investors, has again confirmed many self-managing retirees have found their equity portfolio sits on the wrong side of market momentum. Instead of potentially double-digit returns for the year past, they are looking at sizable (paper) losses and a whole lot of uncertainty that surrounds large cap household names such as AMP, Telstra, and the banks.

There is no reliable survey out there that can capture the impact from depressing equity portfolio performance on sentiment and spending, but I am willing to bet it is yet another negative factor likely to stick around for longer.

Rudi On TV

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-ATAA members presentation Newcastle, 14 July -AIA National Conference, Gold Coast QLD, June 29-August 1 -ASA Presentation Canberra, 3 August -Presentation to ASA members and guests Wollongong, on September 11 - Presentation to AIA members and guests Chatswood, on October 10

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Rudi's View: Scentre Group, Origin Energy & Cleanaway

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Conviction Calls

By Rudi Filapek-Vandyck, Editor FNArena

The guardians of Model Portfolios at stockbroker Morgans have been nibbling away at beaten down yield stocks including CommBank ((CBA)) and Telstra ((TLS)) recently. In both cases, Morgans is by no means convinced the bad news is over, but what we are experiencing is most likely "peak negativity" towards banks and telcos, and the stockbroker remains confident no dividend cuts are on the horizon.

[Late addition: Morgans has now changed its tune regarding Telstra dividends post what has been a much worse than anticipated update provided by the company at yesterday's investor day. But the stockbroker has not abandoned its positive view. See today's Australian Broker Call Report for more insights into the latest updates on Telstra.]

The Growth Model Portfolio has increased its exposure to Wagners Holding ((WGN)), while placing Rio Tinto ((RIO)), ALS ltd ((ALQ)) and Beacon Lighting ((BLX)) on the watchlist with the aim of accumulating shares on weakness. Already on that watchlist: Link Administration ((LNK)), Australian Finance Group ((AFG)), and Motorcycle Holdings ((MTO)).

Investors still looking for opportunities in the yield space might be interested to know Morgans favourite remains Aventus Retail Property Fund ((AVN)), with Viva Energy REIT ((VVR)) and Centuria Industrial REIT ((CIP)) also seen as attractive.

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Bell Potter analyst Chris Savage has updated his key picks in the local tech sector with Citadel Group ((CGL)), Integrated Research ((IRI)), and TechnologyOne ((TNE)) the three sector favourites. This means Infomedia ((IFM)) is no longer a favourite, thanks to a rally in the share price.

Bell Potter's sole Sell rating for the sector remains with WiseTech Global ((WTC)) with analyst Savage making the extra effort in pointing out he holds the company in high regard; it's just he cannot reconcile the stock's excessive valuation.

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David Cassidy and Jim Xu are also responsible for the Model Portfolio at UBS. They recently removed Mirvac ((MGR)), Westfield (absorbed by Unibail-Rodamco) and ResMed ((RMD)). Instead the Portfolio has now exposure to Treasury Wine Estates ((TWE)) and Scentre Group ((SCG)).

Treasury Wine is seen as attractive following share price weakness while in Scentre Group's case, the valuation is seen as "undemanding" as investors retain low appetite for retail exposed bond proxies in the share market.

The UBS' Model Portfolio's key overweight positions include AGL Energy ((AGL)), Aristocrat Leisure ((ALL)), BHP ((BHP)), Iluka Resources ((ILU)), Janus Henderson ((JHG)), Macquarie Group ((MQG)), Origin Energy ((ORG)), Seven Group Holdings ((SVW)), Star Entertainment ((SGR)), and Woodside Petroleum ((WPL)).

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Over at Credit Suisse, market strategists have gone long ANZ Bank ((ANZ)) and short Ramsay Health Care ((RHC)). The latter occurred in conjunction with a negative sector report which pushed Ramsay's share price below $60, but the share price has since recovered back above that level.

Are no longer included in Credit Suisse's Top Investment Ideas for Australian Investors, otherwise known as Australia Top Picks; AGL Energy, Caltex Australia ((CTX)), National Australia Bank ((NAB)), and Suncorp ((SUN)).

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Stockbroker Morgans' Conviction List has now shrunk to five names only: Cleanaway Waste Management ((CWY)), Suncorp, Westpac ((WBC)), CML Group ((CGR)), and PWR Holdings ((PWH)).

Morgans removed BHP ((BHP)), given the share price has now rallied beyond the broker's target, as well as Link Administration. The latter because of regulatory risk on the financial sector that has the potential to "escalate" on the company's fund administration business.

Morgans finds earnings momentum in Australia is pretty much restricted to resources and certain pockets, including ResMed, Aristocrat Leisure ((ALL)), CSL ((CSL)), and Computershare ((CPU)). The stockbroker declares last year's Goldilocks period is over and 2018 is not a year for "complacent investing".

Overall, the stockbroker remains of the view the general environment continues to favour genuine growth companies (such as CSL, ResMed, etc) but "it is time to be more selective now".

Small caps specialists at Ord Minnett have retained Webjet ((WEB)) as their top pick and Tassal Group ((TGR)) as their bottom pick.

Morgan Stanley's US Cycle Indicator

In Australia, Morgan Stanley sides with the bears in general terms, which corresponds with rather benign expectations for share market performance in general, but in particular for the banks. Morgan Stanley has been advocating investor portfolios should be overweigtht Resources, Energy in particular.

In the US, Morgan Stanley strategists seem a lot more sanguine, even though they concede a robust US economy while the rest of the world seems to be decelerating can, at some point, turn into a nasty negative with inflation rising faster and the Federal Reserve turning more hawkish than investors would expect.

The team of economists at the firm is keeping a close watch on economic momentum for the world's leading, and still largest, economy. As shown on the chart below, there is currently not much to worry about, but the economists are of the view this cycle is feeling old and more mature by the day, so they wouldn't necessarily bet on 'Goldilocks' remaining with us indefinitely.

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