Week

8

Stories To Read From FNArena

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Contents

Whitehaven Coal In A Purple Patch

Strong economic conditions across Asia have supported coal prices and the main issue for brokers is what Whitehaven Coal will decide regarding its enhanced cash flow.

-If spot prices hold up there may be more upgrades to earnings and cash flow to follow -Concerns regarding future funding commitments, given potential sale process for Queensland coal assets -Plethora of options exist, including selling stake in Vickery and re-gearing

By Eva Brocklehurst

Buoyant coal prices have enhanced profitability for Whitehaven Coal ((WHC)), countering increased operating costs at its flagship Narrabri mine in the first half and ensuring rapid de-gearing.

The company is nearing a net cash position and the critical issue for brokers is what decisions will be made regarding cash flow, if current coal prices hold up. More detail on the dividend strategy is anticipated at the FY18 result.

Life of mine costs for Narrabri have increased by around $2/t but the near term impact has not been specified. Costs for FY18 are expected be slightly higher than guidance of $59-$60/t although no major changes have been flagged.

Earnings in the half were lower than Macquarie expected because of the higher cost of purchased coal, and slightly higher mining costs. Dividends were in line with the top of the pay-out ratio. As the broker observes, even with a miss on operating costs, coal prices above US$100/t can offset a lot of operating challenges.

Coal prices are elevated and Credit Suisse is aware of the apprehension that prevails regarding investing in a pure-play coal company at this point in the cycle. Still, if spot prices hold up and remain above forecasts, there may be more upgrades to earnings and cash flow.

Citi expects coal prices to decline through 2018 while cost pressures are likely to remain elevated, given restricted production at Narrabri and increased costs at Maules Creek. Hence, the broker opts for a Sell rating.

Morgans suggests strength in thermal coal prices upwards of US$100/t and a substantially de-risked valuation for Vickery are implied in the share price. The scarcity of large, liquid ASX-listed pure coal exposures means the broker maintains a Hold rating at elevated prices.

Queensland Coal Assets

Citi observes, with around $1bn in debt facilities, the company has the balance sheet capacity to grow through M&A, suspecting too that the company is "kicking the tyres" on the Rio Tinto's ((RIO)) coking coal assets in Queensland.

The sell-off in the stock in the wake of the results suggests concerns around future funding commitments, highlighted, as Credit Suisse points out, when a company only pays out $0.13 per share and has a zero net debt balance.

On the broker's calculations, and assuming 30% is the maximum for gearing, equity holders may be asked to front up with around $1.2bn for the Queensland coal assets. Hence, missing out on these assets may be the best thing for shareholders, the broker asserts, as management could be left with no alternative but to give some cash back.

Either way, the Queensland coal sale process implies a risk of dilution in the near term that shareholders need to weigh up against potentially missing out on a capital return.

Credit Suisse acknowledges the options on a strong balance sheet but, failing any significant calls for capital in the next six months, favours the company giving a bump to shareholders in August.

Vickery

With Maules Creek expected to reach capacity shortly the main growth project now is Vickery, where an environmental impact statement for a 10mtpa mine is to be lodged in March. The company is looking to sell up to 30% during the approval period to help to fund the project.

M&A remains an option but the current focus is on Vickery and UBS suggests, with government policies centred on improving environmental standards amid few signs of new capacity coming on board, high-quality coal should be in demand and this will be a good time for Vickery.

Over the last two years the company has reduced its net debt, taking gearing to only 4%. Morgans estimates the company can fully fund Vickery from operating cash flow and maintain an assumed 35-40% pay-out ratio, while still accumulating cash.

In the absence of external M&A, there is upside to the notional pay-out target, particularly if a partner is introduced at Vickery and the company re-gears to a notional comfort level of 10-15%.

There are three Buy ratings, four Hold and one Sell (Citi) on FNArena's database. The consensus target is $4.51, signalling 2.2% upside to the last share price. Targets range from $4.00 (Morgans) to $5.35 (UBS). The dividend yield on FY18 and FY19 estimates is 6.4% and 5.0% respectively.

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Altium Performs But Valuation A Sticking Point

Electronics software producer Altium is performing on all fronts and brokers found few faults in the first half results. The outlook centres on the extent of upside to the company's targets.

-Sales momentum solid across all regions -Longer term targets reiterated -Brokers stick to Neutral after strong run up in share price

By Eva Brocklehurst

Altium ((ALU)) did everything right in the first half, expanding its subscription base, garnering strong sales and sustaining price improvements. After a very strong result the question is where to next?

Subscriber volumes increased 11% in the half-year while yield growth benefited from price rises. Revenue was up 30% to US$63m. Adjusted for one-offs, operating earnings (EBITDA) grew 45% and the underlying margin improved to 33%.

Excluding FX and acquisitions Deutsche Bank estimates revenue growth was more like 23%, and, of note, the company was also cycling a relatively easier comparable period.

UBS considers the earnings risk is firmly skewed to the upside, as momentum should accelerate in the second half. Recent positive industry feedback signals the AD18 release is likely to drive renewals and conversions from the lapsed subscription pool.

Nexus, the company's collaborative PCB product for enterprise, is showing early momentum and data management revenue has doubled, while the company has signed a large corporate customer. UBS lifts estimates by 5-6% across its forecasts because of margin expansion and revenue upgrades.

Credit Suisse expects higher earnings and upside from new products such as Nexus and the Dassault partnership and upgrades estimates by 7% and 8% for FY18 and FY19 respectively.

China was the highlight for Credit Suisse, although Designer product sales momentum was solid across all regions. Europe/Middle East/Africa (EMEA) was boosted by the move to direct sales in France and the UK.

China delivered revenue growth of 30%, largely because of continued progress on compliance, and the company has opened a new sales office in Shenzhen. Credit Suisse notes the number of active Altium Designer users in China is around 100,000, implying a material opportunity for improving monetisation.

The Americas benefited from an increase in sales capacity, as constraints in that region in the prior corresponding half hampered growth. Credit Suisse suggests volume growth should moderate in the second half.

FY20 Target

If the company can organically deliver on its FY20 target Credit Suisse would increase its valuation to $17 from the current $14. While there is excellent near-term growth and several areas of incremental upside, the broker considers the shares fully valued and retains a Neutral rating.

Management has reiterated FY20 expectations for revenue of $200m and an EBITDA margin of over 35%.

However, Credit Suisse has scrutinised the commentary and suggests the long term target may have been subtly raised. The company has stated that its FY20 target may include a contribution from future acquisitions, yet management has also said, with the current run rate, it will get there organically.

Cash Flow

The main blemish on the result was cash flow, in Deutsche Bank's view, because of a reduction in deferred revenue. Conversion of earnings to cash flow was lower versus the prior year because of a rolling of deferred revenue that related to the timing of subscription renewals. Despite the strong momentum and attractive characteristics the broker retains a Hold rating on valuation grounds.

UBS agrees the only weak spot the result was operating cash flow but is confident an unwinding of working capital should occur and improve cash conversion into the second half.

FNArena's database shows three Hold ratings for Altium. The consensus target is $14.70, suggesting -16.4% downside to the last share price. This compares with $12.90 ahead of the results.

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Turnaround Pending For Village Roadshow?

Higher ticket prices, new attractions and the cycling of adverse periods have helped turnaround the theme parks division of Village Roadshow. How much of the improvement can be baked into the outlook?

-Ticket yields and admission revenue up strongly in January -Australian box office sales expected to improve in the second half -Risks from disappointing GC pass sales as Commonwealth Games coincides with holidays

By Eva Brocklehurst

January produced a significant recovery for the Village Roadshow ((VRL)) theme parks division after a soft first half. The company has indicated ticket yields are up 30% and admission revenue up 24% in the first weeks of 2018. Higher ticket prices, new attractions and the cycling of adverse periods have helped the turnaround.

Village hopes operating earnings will exceed the prior year, although much will depend on ticket sales in the key months of May and June. Several brokers upgrade the stock amid indications of an improving outlook and envisage upside risk to the Gold Coast's theme park performance.

Ord Minnett, upgrades to Hold from Lighten as the share price has moved into line with its target. Nevertheless, while positive about the developments in theme parks, the broker prefers to await more evidence of an extended recovery, given recent disappointments.

Citi upgrades, to Buy from Neutral. The broker accepts investors are cautious about buying the stock after a string of disappointing results but is more optimistic, based on theme park momentum, which has finally turned positive following the Dreamworld tragedy.

There is a strong movie program for the June quarter and the company's self-help initiative should be evident from FY19. Higher ticket prices, new attractions and the cycling of adverse periods have helped the turnaround, the broker believes.

Deutsche Bank found little to like about the result. Theme parks and cinema earnings fell and film distribution continues its steady decline. Sale and lease-back of the Gold Coast land is viewed as just swapping one form of debt for another, so leverage remains high.

The main positive was the ticket price rises, which were pushed through on the Gold Coast, but the test will be the annual pass renewals that occur over the second half.

Macquarie notes Sydney's Wet 'n' Wild is now loss-making and its performance suggests there are broader issues. While trends in attendances are expected to improve, the quantum of the price increase for Gold Coast theme parks - around 40% for an annual pass - and the strength of the Coaster "afterglow" are risks the broker highlights.

Cinemas

In the cinemas division results were soft, as earnings declined -26% because of a relatively weak film slate. The company is more confident about the outlook for the second half in cinema based on four blockbuster titles that are forthcoming. Ord Minnett is not so sure, and still expects cinema earnings to decline by around -6% in FY18.

Macquarie finds the company's capital structure more sustainable, with an improved balance sheet and corporate governance, upgrading to Neutral from Underperform. However, structural headwinds in the form of streaming services continue for the cinema exhibition segment.

The broker suggests that management's guidance requires a strong recovery in the second half. The penetration of “premiumisation” appears limited going forward and Macquarie estimates a -16% decline in FY18 cinema operating earnings.

Citi expects the Australian box office to accelerate in the June quarter, although the rebound could temporarily mask headwinds from discounting and sequel fatigue can, potentially, affect major releases.

The broker concurs that competition from alternative content sources and a decline in cinema visits by millennials creates a structural impediment. The company is embarking on a cost reduction program to remove duplicate back-office and support costs across its five operating divisions.

Commonwealth Games

While the Commonwealth Games on the Gold Coast may provide some optimism regarding second half earnings, Citi considers there is a risk from disappointing VIP pass sales.

The games overlap with school holidays in Queensland and Victoria and this could reduce the upside, as some tourists may be priced out of the Gold Coast if accommodation becomes too expensive.

The increase in ticket prices is a positive but Citi suggest it could drive away locals and negatively affect season pass sales in May and June 2018, which form 50% of theme park revenues.

FNArena's database shows three Hold ratings and one Buy (Citi). The consensus target is $3.54, signalling -0.1% downside to the last share price.

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Opportunity Shines On Northern Star

Gold producer Northern Star has reported very high-grade intersections at Jundee, with potential to extend mine life. Brokers are enthused but await confirmation.

-Continues to source opportunistic acquisitions in well endowed provinces -Significant potential from Zodiac but short term upside limited -Paulsens paused, while Kalgoorlie performance softens

By Eva Brocklehurst

Along with its first half results, Northern Star ((NST)) provided a significant update on its exploration, particularly around Jundee. The company has reported very high-grade intersections in extension and probe drilling over narrow widths. While these cannot be mined, they are considered a useful signal of the potential.

The company continues to maintain a strong cash balance and its first half earnings were generally consistent with expectations. In the light of exploration success at Jundee, Northern Star has opted to increase its exploration budget for FY18 to $45m from $10m.

The update highlights the world class nature of the geological structures that underpin these deposits, Ord Minnett asserts. Importantly, the capital required to bring these deposits to mine plans is low.

Macquarie notes the company is targeting some level of resource estimate in the 2018 update but suggests a more complete estimate will not come until 2019 and reserves and mine development occur some time after that.

The company is well funded for all options and the investment in Echo Resources ((EAR)) is a continuation of the domestic strategy, although the broker suggests it would need to go overseas to find more meaningful growth.

Credit Suisse interprets the company's statement maintaining dividend policy at 6% of revenue and a minimum cash balance of $300m as an intention to sustain a dividend even if a capital deployment opportunity were to take cash below that figure.

The company continues to articulate a strategy of earning returns from opportunistic acquisitions of high-quality infrastructure in well endowed provinces, previously starved of exploration and re-investment. This is not a significant hurdle, the broker acknowledges, as long as exploration delivers on expectations and best-in-class productivity is maintained.

However, growth in mine life is different to underlying material production growth, and Credit Suisse remains troubled by the dilemma of placing capital between sustaining production and growth developments.

Shaw and Partners suggests the dividend policy is unlikely to consume the cash pile and therefore there are plenty of options for organic growth.

Jundee

The company believes it has discovered a new and significant mineralised corridor which could deliver a quantum shift in the mine life and outlook for Jundee.

Citi agrees Jundee is promising, thanks to recent high-grade discoveries such as Zodiac and Armada, which the company expects will extend mine life to over 10 years from the current 8.5 years.

The broker notes the company has a good track record of meeting forecasts, so extends Jundee in its models, at a similar head grade to current production until it is known just how the new high-grade drilling converts to reserves.

Ord Minnett is most interested in the Armada trend, which is now over a 2.5km strike, and contains mineable widths of 14m at 8g/t, 13m at 9g/t and 19m at 6g/t.

The broker observes these are in keeping with the Westside lode, the main ore body from which Newmont was producing previously at Jundee. Moreover, the Ramone open pit target could be brought into production within 18 months. The broker expects another reserve upgrade is in store, assuming 5.2m ozs, with declining grades, versus the current 3.5m ozs reserve.

Deutsche Bank finds the Ramone prospect interesting but at an early stage, noting an open pit resource is expected in July. If developed, at 35km south of Jundee, ore feed could support a plant upgrade at Jundee or be sent to the

Echo Resources Bronzewing site for toll treating. The broker already captures an additional 2.1m ozs of resources beyond current reserves at Jundee in its estimates.

Identifying extensions at the Zodiac or deeper trends could provide a shorter route to production versus an acquisition, and thereby, Macquarie acknowledges, provide significant potential upside. However, the short term impact is likely to be limited. The broker notes the Zodiac zone is deep and some distance from available underground drill platforms.

Credit Suisse agrees it is not easy, highlighting the translation from intersection grades to reserve grades disappointed in FY17. The broker remains cautious about extrapolating to reserves from "high-grade holes".

The region has produced 7m ounces over the past 22 years, Shaw and Partners notes, and while prolific in the short term there likely to be a long tail from now on.

Still, the broker is optimistic, although requires more detail on the proposition to be completely confident. Shaw and Partners, not one of the eight stockbrokers monitored daily on the FNArena database, has a Buy rating and $5.70 target.

Kalgoorlie

While the company looks set to deliver interesting results from Jundee, Macquarie considers the stock fully valued. Meanwhile, earnings margins at Kalgoorlie are reduced to 49% from 56% and, while still impressive, this suggests to the broker the performance from Kalgoorlie has softened over recent quarters.

Paulsens

Paulsens has been paused ahead of a proposed 3D seismic survey and this gives the impression, Credit Suisse believes, that the ore body is not what it was projected to be.

The broker also suggests acquiring another asset, if it is possible in the current market, is unlikely to be priced in line with prior acquisitions and, therefore, unlikely to generate the same spectacular returns.

Deutsche Bank believes the company needs to invest in underground mine development and exploration to extend the mine life at each of its assets and, as the stock is trading above valuation, maintains a Sell rating.

FNArena's database shows four Hold and three Sell ratings. The consensus target is $5.37, signalling -10.7% downside to the last share price. Targets range from $4.45 (Morgan Stanley) to $6.30 (Citi).

See also, Zodiac Discovery The Focus For Northern Star on January 29 2018.

Material Matters: Oil, Nickel, And Thermal Coal

A glance through the latest expert views and predictions about commodities.

-Oil prices tipped to stabilise or fall slightly over 2018 as OPEC ends production constraints -Copper to recover as China scrap imports grow and threat of mine strikes in South America continues -Nickel and stainless steel supply likely to be boosted by Indonesia further relaxing its export ban -Thermal coal price in China rises in response to cold winter, despite policy interventions

By Nicki Bourlioufas

Oil

World oil prices are still being supported by the decision by OPEC and Russia in early 2017 to reduce production, but a return to higher output is likely to restrain prices. CIBC has reiterated its average price forecast of US$57/bbl in 2018 and US$59/bbl in 2019, despite WTI Crude recently edged up over US$60/bbl. CIBC stuck with its call, even though strong underlying global economic activity has raised suggestions WTI could hit US$65/bbl this year. Supply developments in the OPEC world and the US will really tell the story ahead, CIBC analysts predict.

According to the analysts, restricting supply made sense to OPEC when prices were mid-US$40/bbl because bumping the price up from those levels would not stimulate much of a supply response from competitors. But by continuing to restrain production now, when prices are high enough to prompt greater US activity, the cartel and its allies cannot be sure they are not simply giving up market share to the Americas without causing a further lift to the global price.

CBIC says that if output rebounds to the levels seen in November 2016, just before OPEC cut production, this will add nearly 1.5m barrels per day. The increase would almost fully offset the growth in global demand expected in the year ahead, keeping downward pressure on prices.

In the US, Cushing inventories fell in late 2017 due to the aggressive hurricane season and a major winter storm. But even with those disruptions, US inventories are only back to the mid-range of their five-year average for this time of year. Shale oil output in the US has been climbing steadily since early 2018 and CIBC analysts predict more is on its way. The stockpile of drilled but as yet uncompleted wells has shown considerable growth, particularly in Texas's booming Permian region.

CBA concurs with CIBC's view of the market, arguing that downside pressure will build on oil prices as supply outpaces demand. CBA cites the US Energy Information Administration's (EIA) most recent monthly outlook, which predicts global oil output will rise 2.5%, outpacing demand growth of 1.7%. The EIA forecasts that OECD stockpiles will take another leg up in 2019 when the OPEC-led accord expires.

CBA says OPEC and its allies have been aiming to reduce global oil stockpiles to the five-year average since they decided to sideline about 1.8% of global supply from the beginning of 2017. But the rise in prices caused by the decline in OECD stockpiles has mostly benefited US shale oil production. OPEC and allied producers are now in the uncomfortable position of having to decide how much they are willing to keep sacrificing to curb oversupply.

Copper

Copper prices dipped below US$7,000/t last week for the first time in 2018, but ANZ maintained its short-term target of US$7,200/t. ANZ sees the weakness as relatively short-lived, saying the risk of further supply disruptions remain high and the restriction on copper scrap imports into China is likely to support refined metal imports. This all comes amid broad recovery in economic growth across the globe.

ANZ see a risk of higher-than-average levels of disruptions due to strikes, despite some successful labour negotiations in recent months. It calculates that there is still over 6m tonnes of copper mine supply at risk from strike action in South America. As a result, it has raised its disruption allowance to 6% in 2018 from the normal 5%, pushing its market balance forecast into a -250,000t deficit in 2018.

Furthermore, environmental constraints in China are likely to affect material flow and smelter production. China's ban on imports of certain copper scrap products could see the amount of copper imported via scrap drop by as much as -200kt. China imported 3.6mt of copper scrap in 2017, up 6.3% from the previous year. As a result, ANZ expects to see China's copper imports grow higher than the underlying growth in consumption in 2018.

Nickel and stainless steel

Global markets for nickel ore and stainless steel are likely to be affected in 2018 by a rise in exports from Indonesia, which reflects the contradictory impacts of the Indonesian government's evolving industry and trade policies in recent years, says Macquarie.

Mineral exports by Indonesia have been a major focus for commodities markets recently, due largely to shifts in the government's policy stance towards its raw material industries. In January 2014, the government banned nickel ore exports, causing Indonesia's contained exports to drop from 35% of global supply in 2013 to less than 10% in 2014. Global prices rose by more than 60% from January to July 2014, then collapsed as Chinese buyers drew down substantial stocks of nickel ore and turned to lower-grade ore supplies from the Philippines. This was compounded by a fall in global demand in 2015.

Chinese investors responded to the ban with a flood of investment into Indonesia to build nickel ore processing facilities (nickel pig iron plants) and, from 2017, to develop nickel-using stainless steel production. For domestic political reasons, and to provide accommodation for the state-owned mineral mining entity PT Aneka Tambang, the government then partially relaxed the ore export ban for five years from February 2017 by issuing export permits. In 2017, Indonesia's combined exports of nickel, excluding nickel in stainless steel, rose more than 50%.

Macquarie says that by relaxing the 2014 ban, Indonesia reduced overall export revenue by diverting domestic ore resources away from existing nickel pig iron producers. As well, the relaxation potentially adds to global nickel supply by allowing China's nickel pig iron production to rise by at least 25% (or 100kt) above what it would otherwise have been. This caps the overall nickel price below what it could have been.

Even so, there is little prospect of the relaxation of the ban being reversed before Indonesia's 2019 elections. Macquarie forecasts that Indonesia's nickel exports in 2018 will top 500,000t, assuming that nickel pig iron production rises a further 230kt Ni (a conservative estimate since installed capacity will exceed 300ktpa) and that stainless steel production is just under 2mt (also a conservative estimate, since potential capacity is 3mtpa). Macquarie further assumes that nickel ore exports will rise to around 20mtpa (which also could be an underestimate in light of the export permits issued so far and the potential for more permits to be issued).

Thermal coal

Seaborne thermal coal prices continue to track at the highest level since late 2016, observes CBA, as a cold winter in China pushes Chinese demand higher. A lack of coal railway transport as well as snow in certain regions in China have also constrained thermal coal supply, adding upward pressure to coal prices. In late October, Chinese policymakers sought to implement stricter rules to avoid thermal coal price gouging during winter. Supply was to be added if prices rose above RMB 600/t (US$95.55/t). However, the policy seems to have failed in the face of the cold winter, with domestic thermal coal prices at RMB 745/t (US$117.45/t) and utilities holding stockpiles of only 10 days.

CBA argues China's thermal coal supply will eventually increase on the back of policy support and higher thermal coal prices, but that may come after winter. The more immediate event is the Chinese New Year holiday period from February 15 to 22, which should weigh on Chinese industrial demand as people go on holidays. In any case, the downward correction in thermal coal prices is taking longer than expected, and adds upside risks to the thermal coal price.

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 February 12 to Friday February 16, 2018 Total Upgrades: 25 Total Downgrades: 14 Net Ratings Breakdown: Buy 42.31%; Hold 41.07%; Sell 16.62%

Halfway through the February reporting season, time-wise, but hardly one quarter through the number of Australian companies scheduled to report financial performance this month, local stockbroking analysts are busy as bees upgrading and downgrading individual ASX-listed stocks.

For the week ending Friday, 16th February 2018, FNArena registered no less than 25 upgrades and 14 downgrades, with many related to financial reports released.

On the positive side, Breville Group, Origin Energy, Suncorp and Newcrest Mining all stand out with double upgrades in response to market updates. On the negative side, the limelight was stolen by Myer and South32, both good for two downgrades following disappointing performances.

Plenty of swings in updates for valuations and price targets, yet the table for positive revisions contains one a handful that seem worth mentioning. AWE ltd grabs top spot for the week with a gain of 12.8%, followed by Computershare, Cimic, Cochlear and CSL (otherwise known as the Four Cs).

Negative adjustments are heavy, with Myer taking the hardest hit (-23%), followed by Karoon Gas, AGL Energy, Wagners Holdings, South32 and SG Fleet.

The undeniable good news story is with analysts making amendments to earnings forecasts. Whereas the table for positive revisions shows large numbers, the flipside is hardly worth mentioning. Infigen Energy enjoyed the largest increase for the week, beating Mount Gibson, Woodside Petroleum, Insurance Australia Group, Mineral Resources, 3P Learning, and others.

Reporting season genuinely gathers steam in the week ahead.

Upgrade

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

Morgan Stanley upgrades to Equal-weight from Underweight given the corporate approaches for the company. Target price is upgraded to $0.95 from $0.45. Industry view: In-Line.

BENDIGO AND ADELAIDE BANK LIMITED ((BEN)) Upgrade to Neutral from Sell by UBS .B/H/S: 0/5/1

First half results were just shy of expectations. UBS was impressed by the 10 basis points expansion in net interest margin. The bank is a price taker in most products but UBS believes its strong customer offering places it in a good position to reduce deposit costs relative to peers.

Forecasts are upgraded slightly based on the assumption the bank continues to focus on lowering funding costs. Given the fall in the share price UBS upgrades to Neutral from Sell. Target is $10.50.

BORAL LIMITED ((BLD)) Upgrade to Neutral from Sell by Citi .B/H/S: 4/2/0

Citi has passed no comment on Boral's actual result, rather concentrating on FY guidance. The broker has lifted EPS (and subsequently DPS) forecasts on the back of a reduced US tax rate, and this leads to a target increase to $7.32 from $6.94 and an upgrade to Neutral.

However, Citi has left its before-tax earnings forecasts unchanged post result, and notes the underlying performance in the business featured US margins going backwards despite a highly supportive construction environment. Where is the leverage? the broker asks.

See also BLD downgrade.

BREVILLE GROUP LIMITED ((BRG)) Upgrade to Buy from Hold by Ord Minnett and Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/2/0

Normalised H1 profit fell a little short of market consensus, as well as Ord Minnett's forecast, signal the analysts. But if one excludes a one-off tax charge, it was actually a minor beat.

Ord Minnett is projecting robust growth for H2, and acceleration in FY19 on the entry into new markets and successful launch of new products. Even the prospect of increased spending on marketing and R&D cannot temper their enthusiasm.

The most attractive feature of Breville's growth, states Ord Minnett, is that it is self-funded and global. Despite a premium valuation, Ord Minnett upgrades to Buy from Hold (that's two steps into one move). Target price jumps to $15.60 from $11.

First half results were ahead of Credit Suisse estimates. The broker has reviewed its thesis and notes sales growth is accelerating and the company is successfully cycling periods of strong launches of new product.

The broker suggests management is deploying capital wisely and upgrades to Outperform from Neutral. Guidance signals softer second half growth and the broker acknowledges the company will be impacted by the transition in Germany/Austria.

Target is raised to $13.50 from $12.70.

CIMIC GROUP LIMITED ((CIM)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 1/2/2

Credit Suisse expects 2018 net profit at the top end of guidance. The company is guiding for net profit of $720-780m, up 3-11% on 2017.

The broker upgrades to Neutral from Underperform with a new analyst assuming coverage of the stock. Target is raised to $45 from $28. The broker notes the tender pipeline is up 10% on 2017 and cash conversion remains solid.

COCHLEAR LIMITED ((COH)) Upgrade to Neutral from Sell by Citi and Upgrade to Hold from Reduce by Morgans .B/H/S: 0/4/2

Cochlear posted a slight miss against Citi's forecast but this can be explained by investment in growth and lumpy emerging markets. The N7 processor will drive second half revenue and profit growth, the broker suggests.

On the wider scale, Citi believes there are very good prospects for growth from the company's world's-best portfolio of products. A 30x forward PE looks expensive but long run growth potential is very rare and earnings forecast justify a high multiple.

The recent share price decline prompts an upgrade to Neutral. Target rises to $175 from $160.

First half results were broadly in line with Morgans although the headline numbers were underwhelming. Unit growth was modest, affected by the timing of tenders, the broker believes.

Morgans continues to question the transition to a service-oriented model and remains cautious about the roll out of the N7 sound processor.

The broker was hoping the results would provide more understanding regarding the viability of the new strategy. Guidance appears achievable, and on this basis the broker upgrades to Hold from Reduce. Target is raised to $153.60 from $131.30.

EVENT HOSPITALITY AND ENTERTAINMENT LTD ((EVT)) Upgrade to Neutral from Sell by Citi .B/H/S: 1/1/0

Event Hospitality and Entertainment's first-half outpaced the broker, prompting an upward revision in the rating to Neutral from Sell, and a sharp increase in the target rice to $13.20 from $11.70.

City notes the -14% retreat in the share price since July. The hotels division performed strongly and the broker notes a reduction in costs and says that while the outlook has calmed, risks remain.

The broker applies a 10% premium to its price-earnings valuation to reflect its confidence in the new CEO's direction.

GOODMAN GROUP ((GMG)) Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 4/3/0

First half earnings were ahead of Deutsche Bank, with strong growth from the management division. The broker had assumed an upgrade to guidance but this was higher than expected. FY18 guidance is for operating earnings growth of 8.0%.

Deutsche Bank upgrades to Buy from Hold following the results and raises the target to $8.52 from $8.31.

GALAXY RESOURCES LIMITED ((GXY)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/1/1

Citi believes the recent correction is overdone and upgrades to Buy from Neutral. Target is steady at $4.60.

While supply side responses are expected to bring lithium prices down the broker believes this is already implied in the share price.

HEALTHSCOPE LIMITED ((HSO)) Upgrade to Neutral from Sell by Citi .B/H/S: 2/3/2

Healthscope's first half fell short of the broker on most estimates but Citi upgrades the stock to Neutral from Sell, noting the sharp retreat in the share price and the likelihood of an improved performance in the second half.

The broker doubts the company's capacity to hit second-half guidance given pressure on revenue and recent underperformance.

Target price rises to $1.80 from $1.70.

INSURANCE AUSTRALIA GROUP LIMITED ((IAG)) Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 2/6/0

First half results were ahead of Deutsche Bank forecasts. Lower claims costs and long-tail reserve releases were the primary drivers of the beat to estimates.

The company is putting its Asian franchise up for review and the broker suggests a return to focus on the Australasian markets would be considered a positive.

Rating is upgraded to Buy from Hold and the target to $7.80 from $7.00.

See also IAG downgrade.

NEWCREST MINING LIMITED ((NCM)) Upgrade to Equal-weight from Underweight by Morgan Stanley and Upgrade to Buy from Neutral by Citi .B/H/S: 1/4/3

Morgan Stanley upgrades to Equal weight from Underweight following the quarterly production report. The upgrade is driven by the view that there is minimal downside and this provides valuation support for the equity.

Company specific catalysts include results from the study that is underway at Wafi-Golpu and Cadia East, expected in the June quarter and September quarter respectively.

Target is reduced to $20.75 from $22.00. Attractive industry view.

Citi analysts cannot decide whether Newcrest's interim performance was in-line or slightly below expectations, but then they highlight underlying profit came out -7% below what had been expected, and no less than -18% below market consensus.

The dividend surprised as it was fully franked. The analysts believe better operating times lie ahead, supported by a more constructive outlook for gold. Cadia and Lihir should support increased gold production to 2020.

In light of the more supportive outlook, Citi has upgraded to Buy from Neutral, target price jumps to $27.10.

OROCOBRE LIMITED ((ORE)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/2/1

Citi believes the recent correction is overdone and upgrades to Buy from Neutral. Target is raised to $8.00 from $7.70.

While supply side responses are expected to bring lithium prices down the broker believes this is already implied in the share price.

ORIGIN ENERGY LIMITED ((ORG)) Upgrade to Accumulate from Hold by Ord Minnett and Upgrade to Buy from Neutral by UBS .B/H/S: 4/4/0

Underlying, reported net profit fell some -13% short of what Ord Minnett analysts had penciled in. But then, the interim report also revealed better-than-expected margins in the electricity portfolio on top of higher than expected sales volumes in the company's gas portfolio.

Another negative highlight were higher-than-expected operational costs. Ord Minnett takes the positive from the fact all parts of the business are showing improvement. The analysts also note Asia-Pacific LNG, commonly referred to as APLNG, continues to ramp up to capacity and has now started distributing cash back to the JV partners.

Reducing debt in combination with a weaker share price has enticed Ord Minnett to upgrade to Accumulate from Hold. Price target remains untouched at $9.65. No dividends are expected before FY20.

First half results were in line with the broker's estimates. The company increased FY18 energy market EBITDA guidance to $1.78-1.85bn, driven by better performance at Eraring and increased domestic gas trading activity.

Following the recent decline in the share price UBS upgrades to Buy from Neutral as it expects lower forecast debt levels will lead to dividend reinstatement in FY19. UBS retains the $10.40 target.

REA GROUP LIMITED ((REA)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 1/6/1

First half earnings were up 21.4%. Macquarie expects top line momentum will be strong in the second half, tempered modestly relative to the first half by the concentration of depth revenues and reduced listing volumes in Sydney and Melbourne.

The broker recently downgraded to Underperform on valuation grounds but notes valuations have come back to some extent and this becomes a more reasonable entry point.

To turn positive Macquarie would need to witness upside that can be generated from the upcoming price review as well as growth in adjacencies and new products. Upgrade to Neutral. Target is steady at $74.

SARACEN MINERAL HOLDINGS LIMITED ((SAR)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/0/1

Saracen has reported high grade extensional drilling results from its Carosue Dam Operations, with notable success at Karari and Whirling Dervish. Karari is becoming a standout, Macquarie suggests, while Whiling Dervish continues to yield good results.

The broker expects the two to provide the cornerstone of a 10+ year mine life at Carosue. Upgrade to Outperform from Neutral. Target unchanged at $1.90.

SANTOS LIMITED ((STO)) Upgrade to Neutral from Sell by Citi .B/H/S: 3/3/2

The outlook is strong and management has demonstrated capital discipline. The stock appears to be fair value on Citi's oil price deck but there is value upside if oil prices can shift sustainably higher.

The broker upgrades to Neutral from Sell. Target is steady at $5.13.

SUNCORP GROUP LIMITED ((SUN)) Upgrade to Add from Hold by Morgans and Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 6/1/1

First half cash net profit was below expectations. The main disappointment for Morgans was a -2% decline in underlying insurance margin. The broker downgrades FY18 estimates for earnings per share by -12%.

While acknowledging the flaws in the result, Morgans believes this is the low point. Significant reinsurance protections also support the second half. The broker envisages some value returning to the stock and upgrades to Add from Hold. Target is reduced to $14.31 from $14.46.

First half earnings were below Credit Suisse forecasts. The broker has been cautious about the stock over the recent months, fearing a major re-set of the general insurance margin. The re-set was larger than expected but this is now considered likely to be the bottom of the adjustment.

Credit Suisse has avoided buying the value appeal ahead of the re-set and earnings disappointment. Now this is over, the valuation is too hard to ignore and the rating is upgraded to Outperform from Neutral. $14.50 target maintained.

TRANSURBAN GROUP ((TCL)) Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 6/2/0

Deutsche Bank has "nudged up" its price target to $13.25 (from $13.10) alongside an upgrade in rating to Buy from Hold post what the analysts describe as the release of interim financials "largely as expected".

The upgrade is explained by Deutsche Bank via the observation that the share price gap to Australian 10-year yields has now closed while the potential total shareholder return has jumped to 22%.

Coming back to the actual result, Deutsche Bank found it was "strong" and many a metric came out better than expected. Forecasts has been slightly lifted. As to why all this leads to the label "largely as expected" rather than " (slightly) better than expected" shall remain a mystery.

WESTERN AREAS NL ((WSA)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/0/5

Credit Suisse has revised nickel-based earnings estimates higher and upgrades the stock to Outperform from Neutral. Target is raised to $3.40 from $3.15.

The company reports is first half result on February 20.

Downgrade

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

First half earnings were below Credit Suisse forecasts. Raw material costs grew and price increases were not enough to stem the margin decline. The broker downgrades FY18 estimates by -3%.

Credit Suisse believes the stock is more than fully valued and downgrades to Underperform from Neutral. Target is reduced to $21.75 from $24.00.

BORAL LIMITED ((BLD)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 4/2/0

First half results were below Credit Suisse forecasts, as the maiden North American result disappointed. The company has pointed to softer market growth and operating issues related to manufacturing integration and fly ash supply.

The broker does not believe either of these is a long-term concern, but the earnings outcome requires a re-basing of near-term forecasts. Rating is downgraded to Neutral from Outperform. Target is raised to $7.70 from $7.30.

See also BLD upgrade.

CHALLENGER LIMITED ((CGF)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/6/1

First half results were broadly in line with Macquarie. The broker continues to like the earnings growth profile and longer-term structural tailwinds on offer. Macquarie transfers coverage to another analyst and considers the stock fully valued at current multiples.

While credit conditions remain benign, and there are no quality issues, the broker does observe the risk-adjusted return has narrowed. Rating is downgraded to Neutral from Outperform. Target is lowered to $12.95 from $13.44.

COMPUTERSHARE LIMITED ((CPU)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/6/2

First half results beat Credit Suisse estimates. The result was supported by strong transaction activity and organic growth. The company has upgraded FY18 guidance to growth of 12.5%.

Considering the strong result, this is a little lower than the broker expected and the company has likely taken a cautious stance on some items.

Tax guidance suggests there will be minimal benefits to a lower US tax rate and, with the share price up 35% over the last year Credit Suisse considers the stock fair value. Rating is downgraded to Neutral from Outperform.

Target is raised to $17.60 from $15.00.

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

First half results were ahead of expectations, supported by a strong turnaround in Seqirus as well as strength in the Behring business. Immunoglobulin growth also impressed Morgans, against very tough comparables.

The broker increases net profit estimates for FY18-20 by up to 4%, mainly on the back of higher sales. While considering the stock a core holding, the broker downgrades to Hold from Add, suggesting the upside is limited at current levels. Target is raised to $156.00 from $138.40.

CAPILANO HONEY LIMITED ((CZZ)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

First half results were slightly short of Morgans expectations because of modest export growth and a poor manuka season. No FY18 guidance was provided but the company expects its honey crop will be the largest in over a decade.

Expansion in China and success with new products should underpin double-digit earnings growth in FY19 and FY20, the broker suggests. With less than 10% upside to the new target Morgans downgrades to Hold from Add. Target is raised to $18.28 from $18.05.

INSURANCE AUSTRALIA GROUP LIMITED ((IAG)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/6/0

First half net profit was ahead of Credit Suisse forecasts. The company has increased its insurance margin guidance to 15.5-17.5% of net earned premium.

Credit Suisse notes the company has maintained its FY18 natural perils guidance despite a $78m beat in the first half.

The broker envisages upside to earnings but suggests that consensus expectations are catching up to its forecasts. Rating is downgraded to Neutral from Outperform. Target is $7.50.

See also IAG upgrade.

MYER HOLDINGS LIMITED ((MYR)) Downgrade to Sell from Hold by Deutsche Bank and Downgrade to Sell from Neutral by Citi .B/H/S: 0/2/4

It may be tough for retailers at present but Deutsche Bank's channel checks suggest Myer is underperforming peers. There is no obvious solution to halt the decline, the balance sheet is under pressure, and too many stores means a big leasing cost.

Possible corporate action is providing support but Deutsche suggests any potential suitor would only offer to acquire the equity at a price well below where its trading, given the substantial changes that would have to be made to return to any level of viability.

Downgrade to Sell. Target falls to 45c from 65c.

First half guidance suggests to Citi that earnings have declined further, driven by a loss of sales and contraction in gross margin from elevated discounting.

The broker observes Myer is facing tough decisions regarding the appropriate strategic direction. With high operating leverage, any further deterioration could result in a breach of debt covenants.

Rating is downgraded to Sell from Neutral. Target is reduced to 50c from 68c.

PRAEMIUM LIMITED ((PPS)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

Praemium delivered strong margin growth in the first half as revenues outpaced expenses and UK losses shrunk considerably, Morgans notes, as economies of scale kicked in. Higher marketing and technology spend lead to reduced earnings forecasts.

Praemium's separately managed account (SMA) technology is regarded as one of the best platforms available, but a solid valuation requires a high level of revenue growth, Morgans notes. On recent share price strength the broker pulls back to Hold from Add. Target rises to 69c from 55c.

SOUTH32 LIMITED ((S32)) Downgrade to Underperform from Neutral by Macquarie and Downgrade to Reduce from Hold by Morgans .B/H/S: 1/2/5

South32 reported in line with forecasts and announced a special dividend, but FY guidance proved a major negative, Macquarie suggests, due to increased costs. Unit costs across various operations were 10-16% higher than expected.

Currencies are rising in South32's countries of operation, adding to the pressure, and Macquarie is forecasting commodity price declines. The stock continues to look attractive at spot prices, the broker notes, but this is more than outweighed by cost and production risks.

Downgrade to Underperform. Target falls to $3.10 from $3.70.

First half results were softer than expected. The deteriorating economics of the company's main assets troubles Morgans. The broker is also concerned that the company is now re-thinking its entire regional operating strategy.

The company has downgraded FY18/19 production guidance for Cannington while outlining major changes to its mine plan.

The broker was surprised by the special dividend. Rating is downgraded to Reduce from Hold. Target is reduced to $2.97 from $3.53.

SG FLEET GROUP LIMITED ((SGF)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/2/0

A downgrade to Neutral by Citi, despite yesterday's share price fall, indicates SG Fleet's result was indeed a miss of forecasts. Incremental growth is now harder to come by, the broker suggests, ambiguity remains regarding insurance, the heavy commercial fleet is experiencing weakness, and private sector novation is beholden to consumer sentiment.

No guidance was provided other than expectation of a strengthening competitive position and incrementally more sustainable returns. Valuation is not demanding, Citi notes, but caution is required. Target falls to $4.32 from $4.85.

VICINITY CENTRES ((VCX)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/3/0

First half results were in line with Macquarie's forecasts. Macquarie has lowered FY18 to FY20 FFO forecasts by -1.5% to -3.8%, primarily reflecting lower NPI growth due to churn.

Despite the stock offering compelling value, with a 6.1% FCF yield and trading -11% below NTA, the broker downgrades to Neutral from Outperform and lowers the target price to $2.92 from $3.02.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 AWE LIMITED Neutral Sell Morgan Stanley 2 BENDIGO AND ADELAIDE BANK LIMITED Neutral Sell UBS 3 BORAL LIMITED Neutral Sell Citi 4 BREVILLE GROUP LIMITED Buy Neutral Credit Suisse 5 BREVILLE GROUP LIMITED Buy Neutral Ord Minnett 6 CIMIC GROUP LIMITED Neutral Sell Credit Suisse 7 COCHLEAR LIMITED Neutral Sell Morgans 8 COCHLEAR LIMITED Neutral Sell Citi 9 EVENT HOSPITALITY AND ENTERTAINMENT LTD Neutral Sell Citi 10 GALAXY RESOURCES LIMITED Buy Neutral Citi 11 GOODMAN GROUP Buy Neutral Deutsche Bank 12 HEALTHSCOPE LIMITED Neutral Neutral Citi 13 INSURANCE AUSTRALIA GROUP LIMITED Buy Neutral Deutsche Bank 14 NEWCREST MINING LIMITED Buy Neutral Citi 15 NEWCREST MINING LIMITED Neutral Sell Morgan Stanley 16 ORIGIN ENERGY LIMITED Buy Neutral UBS 17 ORIGIN ENERGY LIMITED Buy Neutral Ord Minnett 18 OROCOBRE LIMITED Buy Neutral Citi 19 REA GROUP LIMITED Neutral Sell Macquarie 20 SANTOS LIMITED Neutral Sell Citi 21 SARACEN MINERAL HOLDINGS LIMITED Buy Neutral Macquarie 22 SUNCORP GROUP LIMITED Buy Neutral Morgans 23 SUNCORP GROUP LIMITED Buy Neutral Credit Suisse 24 TRANSURBAN GROUP Buy Neutral Deutsche Bank 25 WESTERN AREAS NL Buy Neutral Credit Suisse Downgrade 26 ANSELL LIMITED Sell Neutral Credit Suisse 27 BORAL LIMITED Neutral Buy Credit Suisse 28 CAPILANO HONEY LIMITED Neutral Buy Morgans 29 CHALLENGER LIMITED Neutral Buy Macquarie 30 COMPUTERSHARE LIMITED Neutral Buy Credit Suisse 31 CSL LIMITED Neutral Buy Morgans 32 INSURANCE AUSTRALIA GROUP LIMITED Neutral Buy Credit Suisse 33 MYER HOLDINGS LIMITED Sell Neutral Citi 34 MYER HOLDINGS LIMITED Sell Neutral Deutsche Bank 35 PRAEMIUM LIMITED Neutral Buy Morgans 36 SG FLEET GROUP LIMITED Neutral Buy Citi 37 SOUTH32 LIMITED Sell Neutral Morgans 38 SOUTH32 LIMITED Sell Neutral Macquarie 39 VICINITY CENTRES Neutral Buy Macquarie Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 COH COCHLEAR LIMITED -36.0% -64.0% 28.0% 7 2 NCM NEWCREST MINING LIMITED -25.0% -50.0% 25.0% 8 3 SUN SUNCORP GROUP LIMITED 56.0% 31.0% 25.0% 8 4 VRL VILLAGE ROADSHOW LIMITED -38.0% -63.0% 25.0% 4 5 GXY GALAXY RESOURCES LIMITED 40.0% 20.0% 20.0% 5 6 AWE AWE LIMITED -20.0% -40.0% 20.0% 5 7 NAB NATIONAL AUSTRALIA BANK LIMITED 44.0% 25.0% 19.0% 8 8 TCL TRANSURBAN GROUP 75.0% 57.0% 18.0% 8 9 VCX VICINITY CENTRES 42.0% 25.0% 17.0% 6 10 IFN INFIGEN ENERGY -33.0% -50.0% 17.0% 3 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 WGN WAGNERS HOLDING COMPANY LIMITED 33.0% 100.0% -67.0% 3 2 SGF SG FLEET GROUP LIMITED 33.0% 67.0% -34.0% 3 3 KAR KAROON GAS AUSTRALIA LIMITED 67.0% 100.0% -33.0% 3 4 MYR MYER HOLDINGS LIMITED -64.0% -36.0% -28.0% 7 5 S32 SOUTH32 LIMITED -50.0% -25.0% -25.0% 8 6 MGR MIRVAC GROUP 14.0% 29.0% -15.0% 7 7 AGL AGL ENERGY LIMITED 36.0% 50.0% -14.0% 7 8 CSL CSL LIMITED 50.0% 64.0% -14.0% 7 9 CGF CHALLENGER LIMITED -19.0% -6.0% -13.0% 8 10 ORA ORORA LIMITED 56.0% 69.0% -13.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 AWE AWE LIMITED 0.880 0.780 12.82% 5 2 CPU COMPUTERSHARE LIMITED 16.150 14.466 11.64% 8 3 CIM CIMIC GROUP LIMITED 44.678 41.463 7.75% 5 4 COH COCHLEAR LIMITED 159.657 149.686 6.66% 7 5 CSL CSL LIMITED 159.857 150.343 6.33% 7 6 ORA ORORA LIMITED 3.435 3.341 2.81% 8 7 IFN INFIGEN ENERGY 0.667 0.655 1.83% 3 8 NCM NEWCREST MINING LIMITED 21.088 20.719 1.78% 8 9 WSA WESTERN AREAS NL 2.860 2.810 1.78% 7 10 PRY PRIMARY HEALTH CARE LIMITED 3.487 3.443 1.28% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 MYR MYER HOLDINGS LIMITED 0.471 0.614 -23.29% 7 2 KAR KAROON GAS AUSTRALIA LIMITED 1.703 1.900 -10.37% 3 3 AGL AGL

ENERGY LIMITED 24.826 26.969 -7.95% 7 4 WGN WAGNERS HOLDING COMPANY LIMITED 3.887 4.205 -7.56% 3 5 S32 SOUTH32 LIMITED 3.290 3.491 -5.76% 8 6 SGF SG FLEET GROUP LIMITED 4.277 4.450 -3.89% 3 7 TAH TABCORP HOLDINGS LIMITED 5.333 5.547 -3.86% 6 8 WPL WOODSIDE PETROLEUM LIMITED 30.450 31.346 -2.86% 8 9 BEN BENDIGO AND ADELAIDE BANK LIMITED 10.957 11.250 -2.60% 7 10 AMC AMCOR LIMITED 15.675 16.088 -2.57% 8 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 IFN INFIGEN ENERGY 1.100 -1.600 168.75% 3 2 MGX MOUNT GIBSON IRON LIMITED 2.533 1.433 76.76% 3 3 WPL WOODSIDE PETROLEUM LIMITED 188.307 155.780 20.88% 8 4 IAG INSURANCE AUSTRALIA GROUP LIMITED 44.400 38.325 15.85% 8 5 MIN MINERAL RESOURCES LIMITED 160.250 139.200 15.12% 3 6 3PL 3P LEARNING LIMITED 5.433 4.767 13.97% 3 7 WSA WESTERN AREAS NL 8.264 7.612 8.57% 7 8 AZJ AURIZON HOLDINGS LIMITED 27.209 25.169 8.11% 8 9 VCX VICINITY CENTRES 19.617 18.233 7.59% 6 10 BLD BORAL LIMITED 38.875 36.173 7.47% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 COH COCHLEAR LIMITED 432.114 435.557 -0.79% 7 2 AGL AGL ENERGY LIMITED 153.557 154.686 -0.73% 7 3 JBH JB HI-FI LIMITED 208.113 208.900 -0.38% 8 4 RHC RAMSAY HEALTH CARE LIMITED 286.986 287.271 -0.10% 7 5 WFD WESTFIELD CORPORATION 42.311 42.352 -0.10% 6 6 AQG ALACER GOLD CORP 5.010 5.013 -0.06% 5 7 OGC OCEANAGOLD CORPORATION 32.211 32.227 -0.05% 6 8 OSH OIL SEARCH LIMITED 24.758 24.770 -0.05% 8 9 AWC ALUMINA LIMITED 16.801 16.809 -0.05% 7 10 BHP BHP BILLITON LIMITED 221.805 221.906 -0.05% 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: Steeling The Thunder

Donald Trump's planned tariffs on steel and aluminium may have repercussions for the US uranium industry.

-US uranium sector awaits whether Trump protectionism measures might include uranium -US Department of the Interior considering which minerals are critical to national and economic security -World is watching baseload renewables project in South Australia

By Greg Peel

We recall that two US uranium producers have petitioned the US government to initiate a section 232 review of the Trade Expansion Act of 1962 to protect domestic producers from imports of state-sponsored production (eg Russia, Kazakhstan). US producers would like to see US utilities forced to purchase a minimum 25% of their uranium requirements from local producers.

The petition has ensured the spot uranium market remains in a state of flux, with prices drifting mostly lower, as participants wait to find out just how the US government might respond. And a response could be some time away.

But last week may have provided a clue.

The last time section 232 was applied was in 2001. That is up until last week, when President Trump announced significant tariffs to be placed on imported steel and aluminium. The US steel industry in particular, and the president, have railed against the "dumping" of cheap Chinese steel produced by state-subsidised mills.

The uranium-related petition has been put to the US Department of Commerce but, at the same time, the Department of the Interior is looking to increase domestic mineral production and is currently accepting public comment on a list of 35 minerals considered critical to national and economic security, of which uranium is one.

All points to the uranium petition being positively received on a policy basis but there is a Catch-22. In the current US electricity market it would be uneconomical for utilities to be forced to purchase 25% domestic uranium and many a reactor would be forced to shut down as a result, reducing demand for domestic production and risking the security of the US power supply.

The conundrum is a major reason why the global uranium market remains in a state of uncertainty.

French Connection

French president Emanuel Macron's election policies included a wind-down of France's reliance on nuclear power. But not a complete shutdown. Last week Macron said he would not rule out building new reactors to replace ageing plants and he has also slowed his push for nuclear power reduction as he awaits completion of the new Flamanville reactor.

The president is keen to review the studies of the new plant by France's nuclear regulator.

Might Macron change his tune? This report last week highlighted research from Morgan Stanley that suggested a combination of the shutdown of ageing reactors in key nuclear-powered countries, along with policies of reduced reliance on nuclear power, threatened to leave those countries unable to meet their emission reduction targets as agreed to in the Paris Accord.

To that end, Morgan Stanley also reports European utilities are closely watching developments in South Australia.

Renewable Watch

South Australia made headlines around the globe in 2016 when the entire state was blacked out in a violent storm. The blackout highlighted the inefficiencies of the state's electricity system and reliance on neighbouring states for baseload power at critical times.

The state government has responded by taking up Tesla's offer of assistance. A network of 50,000 solar powered, battery-stored systems is to be constructed across the state. It is arguably the world's first big test for renewable energy as a source of secure baseload power. And the world is watching.

Outside of gas-fired power, the greatest threat to the US nuclear power industry is subsidised renewable energy. Renewable energy is only now beginning to make its mark in terms of scale and economic viability.

And the irony is that South Australia's uranium deposits are among the most extensive in the world. Yet there has never been, and nor are there any plans for, a nuclear power plant in Australia.

Tepid Bounce

After ten weeks without an uptick, industry consultant TradeTech's weekly uranium spot price indicator rose US40c last week to US$21.90/lb as new demand emerged from utilities and intermediaries. Volume was light at 500,000lbs U3O8 equivalent in four transactions, however one utility entered the market seeking in excess of one million pounds for delivery over the course of 2018.

Activity also picked up in term markets, with several transactions recorded for deliveries in the 2019-22 window.

TradeTech's term price indicators remain at US$26.00/lb (mid) and US$30.00/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 February 15, 2018

Last week saw the ASX200 take another tumble but hold the 5800 mark until Wall Street rebounded, thus prompting a push back toward 5900. The local results season stepped up a gear last week, just to add to the volatility at the micro level.

A glance at the table below would suggest the shorters were very active last week amidst the macro volatility and a slew of earnings reports but most changes in short position were relatively small.

The most notable change was for JB Hi-Fi ((JBH)), which saw its shorts rise to 15.4% from 13.6% following a rare results miss.

Otherwise the larger moves were confined to the lithium miners, which offer their own brand of volatility. Galaxy Resources ((GXY)) shorts rose to 12.2% from 10.1%, Pilbara Minerals ((PLS)) rose to 8.6% from 7.8%, and Orocobre ((ORE)) saw a fall to 6.9% from 8.1%.

Just a lot of shuffle.

Shorts in News Corp ((NWS)) ordinary share shorts fell to 7.5% from 9.9%, but we see a corresponding appearance of News Corp non-voting shares (NWSLV, not tabled below) at 5.1% shorted, which suggests some sort of arbitrage play.

We also welcomed a new debutant onto the table last week, at 5.0% shorted, being the high-flying Afterpay Touch Group ((APT)).

Beyond that, I noted in last week's Report that 13 of the ASX Top 20 stocks had experienced short position increases as the market plunged, suggesting to me a pick-up in investor demand for put option protection which market makers have to cover by shorting stock.

We ultimately saw a market rebound last week but we can see in the Top 20 table below that 14 of the 20 still saw short position increases, if only minor in the scheme of things.

No Movers & Shakers to highlight this week.

Weekly short positions as a percentage of market cap:

10%+

SYR 21.0 IGO 17.2 DMP 16.2 JBH 15.4 HSO 14.3 RFG 13.6 GXY 12.2 HT1 11.5 FLT 10.9 VOC 10.9 MYX 10.6

In: VOC

9.0-9.9

MYR, HVN, AAD, AAC, APO Out: VOC, NWS

8.0-8.9%

PLS, MTS, TGR, GXL, ORE, NXT

In: PLS Out: ORE, NXT

7.0-7.9%

BAP, NXT, NWS, NAN, BEN, GMA, TPM

In: NWS, NXT, NAN, BEN, GMA Out: PLS, SHV

6.0-6.9%

ORE, WEB, SHV, GTY, WSA, AHG, RIO, KAR

In: ORE, SHV, RIO Out: GMA, BEN, NAN, CCP, ISD

5.0-5.9%

SEK, ISD, IMF, QUB, CCP, WOW, NSR, JHC, BGA, CSR, APT

In: ISD, CCP, WOW, BGA, APT Out: RIO, LNG

Movers & Shakers

See above.

ASX20 Short Positions (%)

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.

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

The Wrap: Banks, Wage Inflation And Copper

Weekly Broker Wrap: Australian banks; wage inflation; and copper.

-Subdued earnings outlook for banks now well incorporated into share prices -If Royal Commission leads to class actions then risks are skewed to the downside for banks -Credit Suisse: underlying trends in wage inflation likely to remain soft for some time -China's changes to scrap imports could potentially tighten trade and drive prices higher

By Eva Brocklehurst

Banks

First half results from both Commonwealth Bank ((CBA)) and Bendigo and Adelaide ((BEN)) as well as National Australia Bank's ((NAB)) first quarter update signal robust underlying trends, and UBS also notes asset quality is sound. Yet the share prices have struggled, materially underperforming both global banks and the domestic market.

The broker believes the earnings outlook, subdued it may be, is now well understood and largely incorporated into prices. The focus is on the Royal Commission, and if this finds the banks have not been responsible lenders it could potentially open up class actions, which may have material consequences.

Nevertheless, following 73 investigations into the banks since the global financial crisis UBS understands investors are complacent about these risks. Hence, if investors believe the Royal Commission will have more bark than bite the banks appear fairly priced.

However, if the housing market slows faster than anticipated or the Royal Commission leads to class actions for mis-selling then risks are skewed to the downside.

The updates were largely consistent with Macquarie's expectations. Favourable margin trends was supported by re-pricing benefits and improved funding conditions. This was partly offset by the bank levy. Credit conditions remain benign, the broker observes.

Macquarie suggests, at current multiples, the sector is not priced for an upgrade cycle. The broker agrees asset quality is sound and notes the share of interest-only lending has declined materially since the introduction of a 30% cap. All the banks are considered, currently, safely under this cap.

APRA released its discussion paper during the reporting season and while at this point Macquarie is not able to make conclusive estimates, material capital implications are not envisaged for the major banks. From a valuation standpoint Macquarie suggests the sector is attractive.

Wage Inflation

Credit Suisse has developed a model to track wage inflation based on enterprise bargaining agreements, the National Australia Bank business survey and a proprietary measure of labour market slack.

The model points to an underlying trend in wage inflation of around 1.6-1.8% annualised to the June quarter of 2018. Such indicators are telling the broker that the underlying trend in wage inflation remains quite soft.

Reserve Bank officials have repeatedly expressed a view that accelerating wage inflation is a trigger for rate hikes as the labour market tightens. The RBA's stated view is that wage inflation will pick up gradually over the next few years.

However, the broker notes, in the February's RBA Statement officials included some rather dovish commentary and downplayed the risk of the near-term upward inflection point for wage inflation.

Credit Suisse interprets this as, while retaining a high conviction that wage inflation will gradually pick up, officials are creating room in the narrative for a more disappointing data in the short term.

On the broker's modelling, wage inflation could actually slow further. Not only would this have implications for the timing of official rate adjustments but also negative implications for consumption.

Citi observes the latest speech from RBA Assistant Governor (Financial System), Michele Bullock, on household and mortgage stress, concluded that the overall level of stress among mortgaged households remains relatively low.

Therefore the risks to financial stability from this source are also low, although developments should be watched carefully.

The most interesting comment for investors, the broker suggests, is that the more debt households maintain, the more sensitive cash flow and consumption will be to a rise in interest rates.

As a result, Citi believes the RBA will raise rates very cautiously and slowly and only when wages and inflation are rising substantially. The broker envisages the start of the rate hike cycle is an end-of-year proposition at best and more likely in the first half of 2019.

Copper

China is implementing changes to copper scrap import rules. This has potential, UBS suggests, to materially tighten the copper trade and drive prices higher. Changes are due to be implemented on March 1, 2018. The broker estimates the impact could be around 2% of global refined copper demand.

This could be higher if customs officials interpret the policy strictly. This "National Sword" policy restricts imports of scrap to end users and introduces quality limits of 1% impurities as well as reduces trade quotas. The policy is designed to reduce pollution from the scrap industry, particularly from processing lower-grade scrap.

UBS suggests there may be a shift in lower-grade scrap processing to other emerging Asian economies but this would take time. Mine supply may also be more reliable this year, after a very disrupted 2017.

Were disruptions to be normalised this would add around 300,000 tpa of mine supply that was lost in 2017. UBS suggests a deficit is likely to be maintained in 2018, as while China's demand is set to moderate the rest of the world is accelerating.

UBS points out scrap use in 2017 was around 8mt of global copper consumption, which was around 29mt. Scrap is one of the least transparent portions of the copper supply chain as there are a number of suppliers and lack of good cost information. Scrap supply is also pro-cyclical so that when global industrial production is elevated so to is the generation of scrap.

The broker asserts that the marginal cost of scrap is more relevant to copper prices than mine supply. UBS forecasts copper prices of US$3.00/lb for 2018 and 2019, roughly in line with spot prices and notes the spot market is not pricing in significant scrap supply disruption.

3P Learning Ripe For Re-Rating?

3P Learning surpassed expectations in the first half, amid revenue growth from all operating regions, and brokers suggest the stock is ripe for a re-rating.

-Material improvement in ARPU in the Americas and EMEA -Latent value in the stock amid options for rolling out new products -Divestment of Learnosity could be a catalyst

By Eva Brocklehurst

3P Learning ((3PL)) made strong progress in the first half and now has an optimised sales force as well as improved products. New product releases are on track for the rest of the year.

The company surpassed market expectations with underlying operating earnings (EBITDA) up 21%. Revenue growth came from all regions, supported by material improvements in average revenue per unit (ARPU) in both the Americas and Europe/Middle East/Africa (EMEA). This follows the unbundling of low value licences in the Middle East and the Americas.

The company achieved 19% revenue growth in US dollar terms in the first half, following its 31% growth in the prior corresponding half. Active users were around 52% higher. These are considered by brokers to be strong signs of product validation and momentum.

Guidance for FY18 margins have been reaffirmed. Deutsche Bank forecasts 50 basis points of margin expansion in FY18, to 30%.

The company has reiterated a focus on its Australasian market share and the expansion of revenue per customer through growing product lines. In EMEA, new re-sellers have been appointed and more partnerships in Africa are being targeted.

Meanwhile, increased competition has thrown up challenging conditions in the Middle East and UK. Head count was reduced in the Americas and this helped contain costs. Partners have also been appointed in Latin America to penetrate new geographies and Spanish Mathletics is to be launched in FY19.

Morgan Stanley likes the stronger growth trajectory and suggests, if the company can deliver an acceleration in subscribers it will re-rate. Double-digit sales growth would inspire confidence that the the company can return to a strong sales profile.

The broker lifts forecast for earnings per share by 10-13% for FY18-20. While forecasting subscriber growth in Asia-Pacific and the Americas, declines over the past year mean the broker's averages calculation does not climb materially in the second half.

ARPU, on the other hand, has accelerated materially in EMEA and the Americas and this underpins upgrades to Morgan Stanley's forecasts. The company has reiterated the target for a net cash position by the end of the second half.

EMEA is clearly the softest area for the business, the broker points out, because of budgetary pressures in the UK, as well as competition.

Macquarie observes, following the recent share price rise, the valuation gap has narrowed. Still, latent value resides in the stock, in the broker's view, amid options from the rolling out of products such as ReadWriter and Spanish Mathletics. Investor intention is expected to increasingly shift to the delivery of licence and product growth in FY19.

Learnosity

Management has indicated that its 40% stake in Learnosity is up for sale, given a re-directing of its strategic priorities. Learnosity is an integral part of the company's product range and has long-term contracts but the company does not consider itself a natural owner. Value is $46.3m, largely in line with Macquarie's sum-of-parts valuation.

Deutsche Bank suggests a divestment of the Learnosity stake would be a key catalyst, given the limited value currently ascribed by the market. At $46m, the valuation appears light in the broker's calculations, relative to current software-as-a-service market pricing.

Morgan Stanley also believes Learnosity is underappreciated. This is a fast-growing business that is acquiring customers, up selling and generating free cash flow.

The broker suggests such a scenario justifies a valuation of over $80m for the company's stake. Management has signalled its stake is sub-optimal and the company is not a buyer of the asset, which implies a plan to divest and realise value.

Risk

Risks include potentially losing the Reading Eggs distribution rights, which would present downside to earnings, Deutsche Bank asserts, given the re-seller agreement contributes over 10% of revenue.

Other risks include currency, as the company derives more than 20% of its earnings offshore and these earnings are unhedged. Competitive tensions are also expected to increase.

FNArena's database shows three Buy ratings for 3P Learning. The consensus target is $1.96, signalling 20.4% upside to the last share price. This compares with $1.78 ahead of the results.

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

Goodman Group Uptrend Intact

By Michael Gable

By Michael Gable

More than half of companies have reported and so far, with only about 30% missing expectations. With the US markets giving us a poor lead into results season, it is encouraging to see many companies providing us with a bit of optimism. One company that reported well is Goodman Group ((GMG)), which we have covered this week with a charting view.

The uptrend line on this chart dates back to the lows in 2009, and GMG has generally respected that. Most recently, we can see that it got close to that last week before bouncing off it well and forming a bullish weekly candle (circled). The one negative is that the pullback since the 2017 peak was a bit sharper than we would like. However, as long as the stock holds above $7.50, then the chart overall remains positive. This implies that GMG should resume the uptrend and go on to make a new high. There is some closer support near $7.80, so short-term weakness to retest that level would represent a more attractive risk/reward buying level.

Content included in this article is not by association the view of FNArena (see our disclaimer). Michael Gable is managing Director of Fairmont Equities (www.fairmontequities.com)

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Michael is RG146 Accredited and holds the following formal qualifications:

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Reporting Season, And A Warning

In this week's Weekly Insights (published in one part this week):

-Reporting Season, And A Warning -No Weekly Insights Next Week -Index Changes (Vol 2) -When Two Tribes Go To War -Rudi Talks

By Rudi Filapek-Vandyck, Editor FNArena

Reporting Season, And A Warning

We are past the mid point of the month, but we've only seen the tip of the iceberg that is local reporting season in February.

As I write today's update, less than 100 companies covered by the eight stockbrokers in the FNArena universe have updated and triggered an analyst response so far. By early March that total will have surged past 300.

With the bulk of companies still in the queue, among them many market darlings and large cap, blue chip names, it's dangerous to try to identify solid trends. History shows the dominant narrative for this reporting season can still make a decisive turn from here, and it probably will.

Finding this year's narrative is not made any easier for investors with strong macro stories impacting on a daily basis, ranging from Chinese holidays, to American protectionism, to US bond yields and fear of inflation, not to mention derivatives uncertainty.

At micro level, there is one observation that stands out: the general optimism that had characterised local previews in January has noticeably disappeared with the opening weeks of February delivering a rather mixed bag, not the bias towards strong performances that was expected.

The status operandi so far is probably best illustrated through the percentages in beats and misses recorded to date. While 35% of companies beating expectations is near the highest level recorded by FNArena, so is the near 30% in misses. It's a polarised market with companies operating in multi-speed segments of both the local and offshore economies, to say the least, on top of ongoing disruption and technology evolutions taking place.

Before I move on to one particular potential reason behind the share market's bifurcation, let's have a quick look at what some of the other experts have to say.

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Market strategists at Citi believe underlying the trend remains positive, albeit skewed towards specific sectors that are enjoying better operational dynamics. Outside of resources, such sectors would seem to include diversified financials, energy utilities, medical products and infrastructure exposures.

Think companies including Macquarie Group ((MQG)), Computershare ((CPU)), ResMed ((RMD)) and CSL ((CSL)).

Sectors gripped by headwinds include banking, telecommunication, and retailing.

All in all, Citi observes average growth projections are rising; mostly with resources companies in the drivers seat. Irrespective, on Citi's observation, upgrades and downgrades to FY18 profit estimates have to date remained relatively equal.

What most pleases Citi strategists is the absence of major calamities and full-on disaster announcements; this is in-line with an overall quiet confession season beforehand.

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Market strategists at Credit Suisse are among the most bullish in the market, and they make sure their analyses find their way to Fairfax journalists, hence why the initial assessment in the Australian Financial Review tends to have an equally bullish undertone.

Regardless, Credit Suisse finds overall statistics to date have been skewed unfairly by just a few bad apples, identified as CommBank ((CBA)), Fletcher Building ((FBU)), and Wesfarmers ((WES)). This explains the title above their preliminary update: Not as shabby as it first seems.

Dividends and new buybacks are surprising to the upside, considered evidence of a "solid underlying tone" for Australian companies. Upgrades to growth expectations continue to underperform those in the past, but for CS strategists this implies FY19 forecasts are probably due a catch-up.

And whereas rising business investment proved the outstanding feature of last year's August reporting season, this year's upgrades are less eye-catching, acknowledge the strategists, plus they are more concentrated inside commodities.

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What needs to be taken into account is that most strategists assess results and outcomes in line with stocks covered by that particular stockbroker. The combination JPMorgan/Ord Minnett covers more smaller caps, which might explain why their intermediate assessment is putting the emphasis on the large number of "misses"; on Ord Minnett's counting no less than 43% of companies having reported by last week had failed to meet expectations.

IT and industrials take the honours on the positive side, according to the broker, while consumer discretionary shines on the dark side.

Ord Minnett also observes many weaker-than-expected growth achievements stem from offshore growth companies, with CSL highlighted as one major exception.

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In case anyone still has to catch up on the newest addition to the FNArena website; we now operate a permanent, whole-year-around Results Reporting Monitor for Australian companies featuring in excess of 400 companies covered by eight major stockbrokerages.

In February, this Monitor is updated daily with delayed access for non-paying members: https://www.fnarena.com/index.php/reporting_season/

Given we monitor eight stock universes against consensus projections with an intelligent human approach, we might just be providing the most accurate market wide assessment that is available.

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No euphoria, thus, and a rather polarised corporate sector where not everyone seems to be enjoying joyous conditions from global synchronised growth and still loose monetary conditions. Impacting factors remain tech disruption and increased competition from online, while accumulating stress on Australian households should not be ignored either.

One factor that is not getting any attention is a possible slow down in the Australian economy. Probably because everybody is so focused on US inflation and rising global bond yields, and what this means for the RBA.

To get a more timely insight into how the Australian economy is performing, Credit Suisse quant analysts have constructed what they call a "real-time activity tracker". The name says it all. It combines trend retail sales growth derived from stats published by the Australian Bureau of Statistics with sentiment and confidence signals from the Westpac consumer survey, combined with building and infrastructure spending data, as well as commodity price inflation from the RBA.

The idea is to have a good indication before everybody else catches up with delayed releases of various surveys and updates by the ABS and others. On the team's assessment, the CS real-time tracker leads real Gross Domestic Activity - a blend of production (GDP) and income (GDI) concepts - by roughly three months.

The reason as to why this instrument deserves investor attention is because it is currently falling off a cliff (see below).

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The quant team at Credit Suisse finds vindication in recent labour market updates, as they showed hours worked fell noticeably ("sharply" in their wording) in both December and January. A slowing in NSW, the most infrastructure- and housing-intensive state, has been quite noticeable, the analysts point out.

What this means is that any suggestion about the RBA hiking the cash rate is premature at best. At worst, it could wreak havoc in an economy as polarised as is Australia's. At the very least, suggest the analysts, one would have to conclude there is a mismatch between the bond market anticipating rate hikes from later in the year onwards, and what seems to be growth momentum slowing.

Bottom line: the quant analysts think investors should not let themselves be blindsided by what is apparently being suggested by a large number of economists and the local bond market. Might be a good plan to go contrarian, and prepare for a more bearish scenario, suggests the team.

Quality exposures in the share market should outperform in case the activity tracker at Credit Suisse proves spot on. Those familiar with my concept of All-Weather Performers will find there is a lot of overlap as most of the names selected would qualify under the quality label.

While overall consumption indicators remain soft in Australia, there is also a slowing in business capex intentions. But what seems to have alerted CS's quant team most is the sharp deterioration in forward indicators of residential building activity. As they observe: "Building approvals collapsed in December, with apartment approvals falling particularly sharply. Approvals are now running below completion levels, consistent with weakness in demand and prices."

Perhaps, the team offers, perhaps the Australian economy is merely navigating a temporary soft patch. But what if it's not?

To be continued, albeit not next week.

P.S. Citi has added Newcrest Mining ((NCM)) to its list of Conviction Buys in Australia.

No Weekly Insights Next Week

Due to reporting season and other commitments, there will be no Weekly Insights next week. The next edition will be written and published on March 5.

Index Changes (Vol 2)

Last week I included predictions by Morgan Stanley about the March reweighting of local share market indices by Standard & Poor's.

Since then, Macquarie has released its own predictions, and they are slightly different.

Macquarie thinks there is a good chance that Amcor ((AMC)) -finally- replaces QBE Insurance ((QBE)) in the ASX20 while also adhering a small chance that Cochlear ((COH)) could be replacing Incitec Pivot ((IPL)) in the ASX50.

There might be some reshuffling for the ASX100 as well, with Cleanaway Waste Management ((CWY)) considered the standout candidate for new inclusion. Mineral Resources ((MIN)) has a chance to be included as well, as does Xero ((XRO)). Potential candidates for demotion are Fairfax Media ((FXJ)) and Vocus Communications ((VOC)).

Any changes to the ASX200 are likely to have a much larger impact on short term price movements, and here Macquarie nominates Xero, Bellamy's ((BAL)) and Smartgroup Corp (SIQ)), with a good chance for IDP Education ((IEL)) to also be included. Those under threat of losing their membership to, arguably, the most important index in the country, are HT&E ((HT1)), Myer ((MYR)), Australian Agricultural Co ((AAC)), Asaleo Care ((AHY)) and Retail Food Group ((RFG)).

Potential changes are also considered for the AX300 with Netwealth Group ((NWL)) and Emeco Holdings ((EHL)) seen as prime candidates to lift total count back to 300. Other candidates for possible inclusion are NRW Holdings ((NWH)), Kidman Resources ((KDR)), Mount Gibson Iron ((MGX)), Big Un ((BIG)), Altura Mining ((AJM)), New Century Resources ((NCZ)) and Melbourne IT ((MLB)).

In addition, AVZ Minerals ((AVZ)), Integrated Research ((IRI)) and Pacific Current Group ((PAC)) might well become ASX300 members as well.

Those likely to lose their seat, according to Macquarie, include GBST Holdings ((GBT)), Thorn Group ((TGA)), Netcomm Wireless ((NTC)), Alacer Gold ((AQG)), Baby Bunting ((BBN)), Vita Group ((VTG)), Silver Lake Resources ((SLR)), Highfield Resources ((HFR)), Cabcharge ((CAB)) and Silver Chef ((SIV)).

Inclusions and exclusions regarding ASX200 and ASX300 can make a noticeable difference as funds managers' mandate might limit them from investing in stocks that are not part of these indices.

[See also last week's Weekly Insights]

When Two Tribes Go To War

The Trump administration seems to be readying itself (and the President's support base) for a major arm wrestle with China. The Donald is now regularly singling out Beijing for not playing fair and taking advantage of past administration's ignorance. You would have heard the rhetoric about "they are taking our jobs", et cetera.

No doubt, were public hostilities to translate into actions that actually hurt the Chinese, they'd be ready to show their own muscle in retaliation. Commodity analysts at RBC Capital, for one, have become uncomfortable enough to update their clientele about what all this might mean for commodities.

As you might have guessed, at this stage the best the team at RBC can formulate is a list of potential ifs and buts, ranging from potential more inflation in the USA to Iceland being hit hard through fish fillets which make up 20% of its export oriented economy.

But it's worthwhile highlighting RBC's conclusion in the face of, arguably, a rising risk profile:

"To summarise, at the risk of straying (well...) outside our levels of expertise, any erosion of the concept of globalisation as a driver of efficiency is bound to create additional uncertainty, which never warrants a premium in the market.

Coupled with commodity prices in general trading above our current forecasts, rising trade tensions do not appear to be factored into current trading levels. In a boxing tournament where there are two obvious heavyweight contenders, arguably the biggest losers are the smaller players less able to land the blows.

Given the dead weight loss of tariffs (so far the primary weapon in this altercation), those miners positioned, as always, at the lowest end of the cost curve can rest assured there will remain an economic margin for their business so long as their products are still used somewhere, by someone.

Sure, profits margins may decline, but fortunately the commodities scare of 2015 has resulted in an overall improvement in balance sheets and operating costs whereby many of the large-cap producers should be insulated. The proposition for investors is thus: if you must own the sector, pick the healthiest vehicles and hang on for what could be a volatile time.

For the rest, how will a trade war impact the other sectors you own? Maybe resources (especially low-cost, low-geared, primary producers...) aren't the worst idea..."

Rudi Talks

We have resumed my weekly audio interviews, thanks to Christopher Hall, Market Strategist at Arrow Securities Group and BRR Media (the old BoardRoomRadio). We also have taken your feedback on board and made these interviews snappier and shorter.

Last week's centred around early signals and expectations regarding the February reporting season:

https://www.buzzsprout.com/109718/642261-rudi-tuesday-13-february-2018-feb-18-reporting-season

Rudi On TV

This week my appearances on the Sky Business channel are scheduled as follows:

-Tuesday, 11.15am Skype-link to discuss broker calls -Friday, 11am Skype-link to discuss broker calls

Rudi On Tour

-Presentations to ASA members and guests Gold Coast and Brisbane (2x), in June -Presentation to ASA members and guests Wollongong, in September

(This story was written on Monday 19th February. This first part was published on the Monday in the form of an email to paying subscribers at FNArena, and will be published again on Wednesday as a story on the website. Part two shall be published on Thursday).

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

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

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