Week
18

Stories To Read From FNArena

Friday, 4 May 2018

FNArena
Financial News, Data & Analysis

GPO Box 3145
Sydney NSW 2001

info@fnarena.com

Your editor
Rudi Filapek-Vandyck

Your dedicated team of journo's
Greg Peel
Eva Brocklehurst

Contents

Without An NZ Sale, What's Next For Vocus?

Vocus Group has temporarily extended its debt covenants after withdrawing its NZ assets for sale. Will an equity raising be forthcoming?

-May be able to extract more value rather than sell assets cheaply -Equity raising may be more likely if unable to refinance debt -Raising debt covenants only helps if the company can naturally grow earnings

By Eva Brocklehurst

Vocus Group ((VOC)) has been unable to find a buyer at an appropriate price for its New Zealand assets and has withdrawn from the sale process. The company's bankers have temporarily extended covenants to 3.5x and debt is now expected to peak in the first half of FY19.

Morgans suggests, as the company is not a forced seller, it should be able to extract more value from those assets rather than selling them off cheaply. The broker had anticipated the divestment would have generated $340-450m in proceeds but had not concluded this in forecasts.

Morgans would prefer the company now use its attractive operating cash flow to de-gear the balance sheet and de-risk the business for equity holders. The broker revises capital expenditure and net debt forecasts to reflect implications of the amendment to the facility's covenant.

While the business can de-leverage via organic means, without the asset sale it does create some operating constraints and limits the flexibility for an incoming CEO, Macquarie contends, suggesting it is possible that a sale of NZ could still eventuate if subsequent higher offers are received.

Raising the covenants and refinancing the debt will buy more time for the company should it choose to re-open negotiations. Still, Macquarie is not confident this will eventuate.

Equity Raising?

The company has stated it has no intention of raising equity, noting a high likelihood of debt refinancing, but in broker opinions neither is guaranteed. The risk for shareholders, Morgans believes, relates to the free cash flow and earnings trajectory of the business, and failure to satisfactorily refinance debt could necessitate additional new equity being raised.

UBS prioritised the de-leveraging options as, firstly, selling NZ assets at an appropriate price. As this has not happened, the second option is debt relief, and the third option is to raise equity. The answer to whether the company needs to raise equity depends on new covenants that are negotiated as part of the refinancing that is due by the end of FY18.

As it stands, net debt to operating earnings (EBITDA) only falls back to 3.0x by June 30, 2019. UBS suggests, if the company cannot negotiate a lift in covenants under new facilities, an equity raising is a risk. The more probable scenario, however, is new and higher covenant limits, in which case an equity raising would be unlikely, at least in the short term.

The inability to sell its NZ assets is an incremental negative, Morgan Stanley believes, as a sale was key to de-leveraging. While the board remains comfortable about the balance sheet and has no intention to pursue equity the broker suggests this prospect cannot entirely be ruled out.

Macquarie agrees the possibility of an equity raising still exists down the track.

Outlook

Morgans suggests the catalysts to restore investor interest include the appointment of a new CEO, hopefully with strong industry experience, finalising the debt refinancing, generating free cash flow to become self funding and integrating acquisitions to stabilise earnings.

From a distressed asset perspective the stock appears interesting given its 16% operating cash flow yield, but the path to generating free cash flow is further out than the broker had anticipated. From a risk perspective, the broker's key concern relates to debt on the balance sheet relative to declining underlying operating earnings and lower return on capital versus cost of capital.

If the return on capital exceeds the cost this would create value, but as it currently stands the broker observes this is not the case. Given the complexity of the business Morgans acknowledges it is hard to extract data but estimates that on a like-for-like basis, earnings declined in FY17 and will do so again in FY18 before improving slightly in FY19.

On a more positive note, the broker notes the business consists of strong cash-generating entities with 1-15-year customer contracts and the core assets remain strong.

UBS observes a surge in debt covenants only helps in so much as the company can naturally grow earnings. Reducing leverage organically is possible if free cash flow conversion does not worsen and capital expenditure is reduced from the $180-190m expected in FY18. This forms the basis of UBS forecasts and a Neutral rating.

Macquarie concludes that with too many uncertainties surrounding the balance sheet and the tough market dynamics, it is better to stick with a Underperform rating.

FNArena's database shows two Buy ratings, four Hold and one Sell (Macquarie). The consensus target is $2.77, suggesting 16.9% upside to the last share price. Targets range from $2.35 (Deutsche Bank) to $3.50 (Citi).

Disclaimer: the writer has shares in the company.

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.

Brokers Diverge On ResMed Outlook

While all acknowledge robust earnings growth in the March quarter, brokers diverge on whether the outlook for ResMed justifies an outperform rating.

-Earnings supported by new products, operating leverage and hike in reimbursements -Yet comparable growth likely to be stymied by competition and weighting towards flow generators -Improving multi-year benefits from cloud-based devices

By Eva Brocklehurst

ResMed ((RMD)) kept up with market growth rates in the March quarter, while gross margins were flat as declines in average selling prices were offset by operating efficiencies.

Revenue and earnings were ahead of many estimates, revealing strong underlying demand and cost containment. Deutsche Bank notes, while Americas revenue growth did slow to 7% in the March quarter from 12% in the prior quarter, the company still achieved industry growth rates and did not lose share.

The broker expects growth in the Americas to be supported by the range of new products that are planned for launch over the next 12 months amid further penetration of cloud-connected devices. Deutsche Bank continues to rate the stock a Buy, given the positive earnings outlook.

Citi is in the fair valuation camp, believing the stock is reflecting top-line growth prospects, and the launch of new masks by competitors increases the risk that ResMed will not outpace market growth throughout FY19 in this high-margin segment. Masks account for around 37% of sales and around 50% of operating earnings (EBIT).

UBS suggests a slight slippage of gross margins in the March quarter was likely due to declines in average selling prices (ASP) and a weighting of sales growth to flow generators versus masks. Macquarie also envisages risks in relation to an acceleration of ASP declines because of reimbursement pressure and competition in FY19.

These factors are likely, along with a higher effective tax rate and the strength of growth recorded in FY18, to limit earnings growth. On the back of assessments of relative valuation the broker retains an Underperform rating.

Wilsons suggests the AirSense 10 product cycle is maturing and growth may now revert to an industry pace. The broker continues to revise down expense estimates as the "connected care" strategy lifts recurring revenue and takes out costs.

Ord Minnett was also impressed by cost controls that boost earnings forecasts and support guidance regarding further operating leverage.

Nevertheless, despite a more optimistic outlook, the broker is cautious that much of the potential is already reflected in the current price and retains a Hold rating. Wilsons, not one of the eight stockbrokers monitored daily on the FNArena database, also maintains a Hold rating with a $11.55 target.

Morgan Stanley expects a continuation of robust top-line growth that will be supported by a large installed base and driven by AirSense 10/F20 & N20 masks. The US reimbursement environment is also more stable and Brightree is insulating market share and improving resupply. The broker expects one more quarter of robust growth in masks of at least 10%.

Meanwhile, slightly above-market growth rates are expected in FY19 for US devices supported by the launch of QuietAir technology-enabled products. The broker tapers gross margin estimates to 58.9% in FY19 from 59.5%.

Credit Suisse does not envisaged ResMed growing at above-market rates in the short term as competitors launch masks in the US. The broker, on the other hand, believes ResMed has the opportunity to increase market share in the rest of the world, as several countries alter reimbursement schedules to favour telemetry-monitored devices.

The company recorded 18% sales growth in generators and 13% growth in masks outside of the US. The broker notes South Korea will soon begin reimbursing diagnosis and treatment for sleep apnoea which provides a high growth opportunity for ResMed albeit in a very small market.

France & Japan

Revenue was driven by an unexpected boost from Japan amid a favourable reimbursement change, several brokers point out.

Ord Minnett believes the company is well-positioned to build a dominant position in France and Japan, similar to what has occurred in the US since launching the AirSense range. The broker suggests other jurisdictions are likely to follow suit making it more confident in the outlook for the company's core sleep apnoea devices.

Morgans also has a strongly positive outlook, supported by strong international product sales and the strength in the connected care offerings. The broker also notes the "extraordinary" change in telemetry monitoring reimbursement in both Japan and France amid a move to more cloud-connected devices.

The broker remains comfortable with the improving outlook across both France and Japan as well as the multi-year benefit from cloud-based services. Moreover stable pricing and a full pipeline of mask products support increased estimates for FY18-20.

Citi suspects the strong devices growth in Japan and France is unlikely to be sustained for more than a year as, outside of the US, devices growth tends to be volatile. The broker also expects the new products being lined up for launch are likely to have a limited impact on earnings.

FNArena's database shows three Buy ratings, four Hold and one Sell (Macquarie). The consensus target is $13.30, suggesting 5.2% upside to the last share price. Targets range from $12.10 (Macquarie) to $14.36 (Morgans).

Sandfire Needs Options Beyond DeGrussa

A short life at the DeGrussa mine constrains the upside for Sandfire Resources, unless there is material success on the exploration front and the company progresses with Black Butte in a timely manner.

-Additional ore at DeGrussa adds to mine life but lowers overall grade -Medium term risks remain attached to depletion of DeGrussa -Public consultation phase remains a heightened risk at Black Butte

By Eva Brocklehurst

Sandfire Resources ((SFR)) has confirmed extended mine life for DeGrussa while recording strong gold production in the March quarter amid well-controlled costs. Still, in the absence of M&A or material exploration success brokers suggest the short mine life at DeGrussa constrains the upside for the stock.

Copper recovery of 91% disappointed brokers, as it reflected lower grades as well as plant maintenance. Nevertheless, FY18 marks a turning point for the company as the construction of Monty advances and progress is made on Black Butte.

Gold production was very strong in the March quarter as grade recovered. FY18 guidance has been lifted by around 7% for gold and cost guidance has been lowered. Deutsche Bank acknowledges Sandfire Resources is generating significant cash, noting a 16% FY19 free cash flow yield, but downgrades to Hold from Buy on valuation.

The company has added 1.3mt at 3.5% copper for 46,000t of contained copper to the DeGrussa reserves. This is lower than the overall grade of the reserve but the increased tonnage adds around nine months of mining and takes the mine life to 2022.

Canaccord Genuity considers this a positive development, as the additional ore should enhance the options in relation to exploration and development and provide a buffer for likely slippages in the timetable at Black Butte.

Still, the broker flags the fact the quality of the ore reserve, overall, may have deteriorated. To gain traction, in the broker's opinion, Sandfire requires a discovery and permits at Black Butte.

Canaccord Genuity, not one of the eight monitored daily on the FNArena database, maintains a Hold rating and $7.50 target. Valuation is supported by production assets, and nominal exploration and development value.

UBS suggests the stock is yet to reflect the shorter mine life, and increasing risk that the company will embark on M&A to fill the void once DeGrussa fades. Instead, the broker believes the market is looking at the strong free cash flow, strengthened balance sheet and near-term production growth.

The latter is benefiting from a reduction in mine development and the start up at Monty. While the broker does not believe the premium will unwind in the short term those that are looking for long-term copper exposure are expected to look elsewhere.

UBS maintains a Sell rating, noting the company has not missed on production forecasts and starting in 2012 but exploration has not met expectations as Monty only adds incremental mine life.

DeGrussa

Exploration success which extends the life of DeGrussa, Western Australia, remains the near-term catalyst, in Macquarie's opinion,. An acquisition would also be a positive catalyst. The broker considers Sandfire well funded to pursue a material acquisition, noting cash of $188m and cash flow from DeGrussa will exceed $1.0bn over the remaining four years.

Macquarie increases earnings estimates to account for the extension of the mine life to 2022, having previously assumed no production in FY22. As a result the broker's target rises to $8.30. Morgans, which had incorporated FY22 production into forecasts, downgrades to Reduce from Hold because the recent strength in the share price discounts the emerging risks.

While acknowledging the upgrade to reserves buys some time, the broker suggests the short-term appeal of free cash flow overshadows the risks surrounding both the possible cessation of DeGrussa cash flow and the likely step up in the risk profile as Black Butte enters development from early 2019, if approved on schedule.

Black Butte

Credit Suisse also highlights that Black Butte, Montana, remains a risk, given the public consultation phase is yet to be circumnavigated. There is no certainty that Black Butte will pass the public consultation phase of the environmental impact statement, or be in production before the depletion of current copper reserves at DeGrussa.

If the process completes within the statutory 12-month timeframe the company may be in a position to commit to a new mine by the end of 2018. Credit Suisse notes Black Butte is not blessed with either the grade or scale of the combined DeGrussa and Monty mines but has significant operating cost advantages.

While there is reason to be optimistic that the development could be permitted, the broker is cautious, noting OceanaGold's ((OGC)) experience at Haile in South Carolina. That company, subsequent to taking control at Haile, found shortcomings in the project design with a need for capital upgrade.

UBS also has reduced confidence in the Black Butte project given the sensitivity regarding permits. An updated feasibility study is expected later this year.

The database shows three Hold ratings and four Sell. The consensus target is $7.38, signalling -7.1% downside to the last share price. Targets range from $6.10 (Credit Suisse) to $8.40 (Deutsche Bank, Ord Minnett).

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.

Strong Yield Underpins Stockland

Stockland has reaffirmed FY18 guidance after a firm March quarter in which retail sales growth picked up and residential sales eased.

-Sales growth improved in all categories of retail in the March quarter -Company removes target for 7% returns in retirement division -New residential releases skewed to June quarter, recovery expected

By Eva Brocklehurst

Residential conditions have moderated for Stockland ((SGP)) while the retail segment surprised on the positive side in the March quarter. The company has re-affirmed its FY18 guidance for distributions of 26.5c per security, growth in free funds from operations (FFO) at 5-6.5% and around 6,500 residential settlements.

Ord Minnett observes a solid quarter and finds a pick-up in retail sales encouraging, while the residential sales slowdown was expected. Retail sales growth was the best in two years while quarterly residential sales rates were the lowest since 2012, affected by low numbers of lot releases which the company had previously signalled.

Slow sales conversions continued, as expected, in the retirement business. Macquarie expects a step-up in residential earnings to be supplemented by lower debt costs which should offset a reduction in retirement earnings.

The broker was not surprised that management has advised that its target of 7% returns in retirement by FY19 will not be achieved. Retirement conditions remain subdued but brokers note this is a relatively small contribution to overall earnings.

Deutsche Bank retains a Buy rating based on an assumed 18% in upside to the current share price and the strong distribution yield relative to peers. Shaw and Partners, not one of the eight stockbrokers monitored daily on the FNArena database, also rates the stock Buy, with a target of $4.74, and remains attracted to the strong balance sheet and diversified business model.

Acknowledging the FY19 FFO multiple of 11x is not demanding, UBS envisages earnings risks remain to the downside. The broker suggests recent announcements by APRA indicate a more rapid tightening of lending standards.

In a credit tightening scenario, where borrowing capacity is reduced and house price growth deteriorates below its base case, the broker envisages downside for Stockland of -5% in FY20 and -8% in FY21.

Retail

Looking towards FY19, Shaw and Partners believes a key driver of the growth outlook is incremental income from completed retail developments. Sales growth improved in all categories of retail including specialties in the March quarter. The company highlighted specialty sales growth of 3.0% since December, at the same time that occupancy costs have declined.

Despite investors being somewhat negative towards the retail portfolio, Shaw and Partners finds the improvement in sales metrics encouraging. The broker highlights the fact that Stockland has minimal exposure to department stores.

The company has sold the Highlands neighbourhood centre for $43m on an exit yield of 5.4% and at a 20% premium to book value. Ord Minnett believes the retail portfolio would be better placed if it could sell seven assets, totalling $820m or 11% of the retail portfolio.

The company has indicated it may look at joint venture capital for some of its larger assets, as is the case with Townsville and Shellharbour. Ord Minnett asserts Stockland could potentially package some of the lower quality assets with stakes in larger and better-performing assets.

Macquarie also suggests asset sale proceeds could fund capital management initiatives such as a share buyback.

Residential

Residential sales were down -14% quarter on quarter and down -29% year on year, affected by releases. New releases are skewed to the fourth quarter and should mean a recovery in volumes. The company remains positive about the outlook for residential, despite net deposits being down -24%.

UBS notes the latter was explained by the moderating of project releases in Sydney and the timing of new launches in Melbourne and Brisbane. Cancelled contracts remain below the long-term average rate at 11%.

Ord Minnett observes price growth has flattened in NSW and demand has eased slightly. The broker believes the residential margin has potential to surprise on the upside over the next 18 months, from growth in land prices in Melbourne along with the release of high margin projects in Sydney.

FNArena's database shows three Buy and three Hold ratings. The consensus target is $4.47, suggesting 7.3% upside to the last share price. The dividend yield on FY18 and FY19 forecasts is 6.4% and 6.7% respectively.

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.

Is OceanaGold Primed For Re-Rating?

Brokers suggest OceanaGold is undervalued and several catalysts exist in the near future which may trigger a re-rating.

-Guidance considered achievable, with production weighted to the December half -Catalysts to close the valuation gap include life extension at Waihi, Haile expansion and de-leveraging -Any delay to Haile could risk expectations for long-term upside

By Eva Brocklehurst

OceanaGold ((OGC)) endured softer production in the March quarter but brokers remain upbeat about the outlook. 2018 guidance for 480-530,000 ozs of gold, 15-16,000t copper and all-in cash costs of US$725-775/oz are maintained.

March quarter gold production of 126,000 ozs was down -24% quarter on quarter. Costs rose 42% quarter on quarter, because of lower output amid temporary reliance on low-grade stockpiles at Didipio.

Production it is expected to be weighted to the December half and capital expenditure guidance is unchanged. The company has commenced the permit process for a 10-year mine life extension at Waihi, which should take 18-24 months.

Credit Suisse notes Waihi was constrained by equipment availability, Macraes benefited from a full year of the elevated Coronation North ore while Haile lost nine days because of severe winter freezing at the plant.

At Didipio production eased with the milling of lower grade stockpiles while development of the high-grade underground continues. The company is on target for 500-600,000t of underground material in 2018 and 1.6mt in 2020.

UBS is now more confident that the worst is behind the company and guidance is achievable. The broker believes the stock is offering good value compared with peers and the asset diversification, mine life, low costs and improving balance sheet warrant attention.

Citi agrees that the shares are trading at an unjustified discount to peers and fair value. The broker notes the stock generates a competitive free cash flow yield of 9% in 2018 rising to 15% in 2019.

Catalysts that could close the valuation gap include a mine life extension at Waihi, expansion of Haile towards 4mtpa in the second half of this year and de-leveraging of the balance sheet along with a potential increase in the dividend.

Canaccord Genuity acknowledges the stock appears undervalued versus ASX-listed peers but believes OceanaGold may continue to lag until stronger cash flow can be demonstrated.

2018 remains a comparatively heavy year in terms of capital expenditure and the broker suggests investors may have to wait for 2019 for a re-rating of the shares.

Canaccord Genuity, not one of the eight stockbrokers monitored daily on FNArena database, maintains a Buy rating on valuation and a target of $4.55, based on revised forward curve gold price assumptions.

Haile

Haile produced 37,000 ozs on higher grades which were partly offset by lower mill throughput. The focus is on debottlenecking the plant ahead of capacity increases.

High-grade underground ore will be accessed in the current quarter and UBS is watching closely, believing any delay could risk expectations for long-term upside.

Haile was affected by adverse weather and unplanned equipment failures in the March quarter but ore extraction is expected to lift over the remainder of the year. Nameplate capacity is expected to be exceeded in 2018.

Waihi

Credit Suisse observes Waihi can be volatile quarter by quarter depending on the underground stoping sequence and available grade. With limited production sources any short-term challenges cannot be hidden so the broker looks at the full year guidance rather than the quarterly performance.

The commencement of a permit process for a 10-year life indicates management is confident in the outlook for the operation and Credit Suisse acknowledges exploration results have continued to support future resource and reserve growth.

FNArena's database shows five Buy ratings. The consensus target is $4.30, suggesting 21.8% upside to the last share price.

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

Capital Position Sets ANZ Ahead Of Its Peers

Despite the anxiety prevailing around the Royal Commission, ANZ Bank has received plaudits from brokers as it lowers its cost base to reflect a reduced revenue profile.

-Capital surplus signals scope for additional buybacks to underpin EPS growth -Revenue expected to lag peers in the second half but countered by a strong capital position -Is further contraction likely in the institutional bank?

By Eva Brocklehurst

ANZ Bank ((ANZ)) has entrenched its preferred status among the four major banks after its first half results signalled ANZ's simplification program was progressing, albeit from a financial perspective, crunching the numbers is a complex task.

Brokers liked the discipline on costs, a decline in the impaireds ratio and the potential for further capital management. What was less appealing was the soft revenue. Risks include an adverse turn of the credit cycle and changes in regulation.

Credit Suisse observes the bank has some specific levers to address costs and capital management, which mean it is relatively well-placed in the sector, but suspects implications from the Royal Commission will overshadow these features in the short term. The broker retains a Neutral rating on the stock.

Citi is more positive, with a Buy rating, and expects the prospect of higher dividends and/or buybacks will provide valuation support for ANZ despite the industry challenges.

Morgan Stanley suspects ANZ has more scope than peers to navigate the current environment but revenue headwinds mean its recommendation stays at Equal-Weight. That said, the stock is the broker's preferred major bank.

Management is more realistic than many peers regarding the banking outlook, UBS contends, having noted credit growth is slowing and standards are tightening. The broker expects revenue growth to be very subdued going forward and the net interest margin to continue to fall while retail fee income comes under pressure.

Ord Minnett estimates ANZ will deliver strong earnings growth of around 5% over the next three years, supported by ongoing buybacks and its attractive valuation. The broker likes the progress on risk-adjusted returns, cost controls and the strong capital position.

The FY19 cash earnings outlook appears weak to Macquarie, but there is a capital surplus and scope for around $6bn in buybacks that should underpin growth in earnings per share. The stock is trading on a PE multiple of around 11.6x one-year forward estimates, which the broker notes is marginally below peers.

Macquarie continues to envisage longer-term value, as the bank simplifies its business and manages expenses better than peers. The bank's capitalised balance is declining as more investment is expensed.

The CET1 ratio improved to 11.0%. Citi suggest the build up in ANZ's capital position is likely to garner more attention from investors versus major bank peers. Further growth is expected, as more divestments are completed, which should result in more returns to shareholders.

The market may have expected a higher interim dividend but Bell Potter believes this is not a major concern, as the current CET1 ratio already exceeds APRA's 10.5% minimum requirement by 2020 and further capital initiatives are likely. A share buyback is still considered the favoured option.

One aspect Macquarie does call out is the fact that the headline result relied on lower bad debts. Revenue is expected to lag peers in the second half although the strong capital position should provide some counterbalance, in the broker's view. Moreover markets income failed to deliver the recovery that was expected.

Credit Suisse also points out an underlying profit downgrade was only saved by benign bad debts and suggests revenue growth is becoming incrementally more difficult to obtain. The bank did not announce a new buyback plan but the dividend reinvestment program is to be neutralised again.

The main positive for Shaw and Partners was the reduction in bad debts because of a large fall in new impaired assets attributed to the institutional division. The broker forecasts no revenue growth from FY18 to FY19 and no expenses growth either. Shaw and Partners, not one of the eight brokers monitored daily on the FNArena database, maintains a Buy rating and $30 target.

Institutional

Despite the fact the bank is shrinking its business, Shaw and Partners finds ANZ's strategy appealing. The previous alternative involved vast amounts of capital in countries which did not offer a acceptable return. Still, the broker believes the current strategy is far from finished because one of the major outcomes of the failed geographic expansion remains evident.

Institutional business in Asia, the Pacific, Europe and America, known as APEA, still attracts 18% of the bank's capital and offers a return of 6%. The broker suspects ANZ has given up on trying to reduce the capital allocated to this business.

In its entirety Shaw and Partners notes the institutional business uses 40% of capital and produces a return of 9%, and, while the bank believes there are many opportunities and it is heading in the right direction, the broker disagrees, suggesting the wrong option must be very unappealing.

Although the run-off of the institutional book appears largely complete, UBS expects ANZ will still announce the sale of investments in Bank of Tianjin, Panin and AMMB over time.

Citi concurs that the institutional bank division is a point of weakness because of lower margins, while low market volatility is affecting total revenue in markets. The broker suggests pressure is building on management to re-shape the cost base, particularly in APEA.

Retail

In Australian retail Citi points out the benefits of last year's back book mortgage re-pricing were largely offset by the bank levy and the continued shift to lower-margin principal and interest lending.

Without further re-pricing the retail bank faces revenue challenges similar to peers. Moreover, a recent decision to close a secured personal lending business to new lending is likely to weigh on margins. Hence, Citi believes the need to deliver cost savings following the restructuring provisions raised in the first half will be paramount.

FNArena's database shows four Buy ratings and four Hold. The consensus target is $29.59, suggesting 7.9% upside to the last share price. The dividend yield on FY18 and FY19 forecasts is 5.9% and 6.0% respectively.

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.

Can IOOF Achieve Wealth Advice Synergies?

Can IOOF achieve expected synergies when it completes the acquisition of the ANZ Wealth business, given the changing environment in the wealth advice business?

-Of the five products IOOF will acquire only one has positive flows at present -Aligned adviser numbers continue to dwindle -Royal Commission outcomes may be more of a medium-term risk

By Eva Brocklehurst

The ANZ Wealth business IOOF Holdings ((IFL)) is acquiring has reported first half earnings of $39m. This was up $6m versus the prior corresponding half, driven by cost reductions as the restructuring business costs were excluded.

Bell Potter doubts whether all cost synergies and reductions can be achieved, given wealth advice is embroiled in the Royal Commission into banking misconduct. The broker believes it counter-intuitive to factor in cost savings that appear on the balance sheet today in addition to the $65m that IOOF is guiding upon completing the deal.

Not only is there a limited cost base to reduce, there are issues being raised in the Royal Commission regarding lack of compliance support and oversight in these sorts of businesses. Hence, Bell Potter downgrades its assumptions for cost synergies over the forward estimates to $50m from $65m.

Macquarie gives IOOF the benefit of the doubt, as outflows from closed products, gross margins and expenses were all better than it expected. While recognising emerging risks for the sector the broker finds it difficult to quantify the fundamental impact.

Moreover, Macquarie points out IOOF is currently trading at a -23% PE discount to industrials ex banks, versus a five-year average discount of around -7%, as the share price reflects the risks associated with the Royal Commission.

Yet, Bell Potter believes many of the key indicators apart from cost reductions are worsening. Out of the five products IOOF will acquire only one has positive flows and these have deteriorated over the recent periods.

Adviser numbers continue to dwindle and this, in turn, may worsen net flows before recommendations are put in place by the Royal Commission, which reports on February 1, 2019. Since the company announced the acquisition of ANZ's advice business the number of advisers it is set to acquire has fallen, and 49 ANZ-aligned advisers have departed since October.

ANZ signalled net outflows of $600m from the pensions & investments business and Macquarie points out, while aligned adviser numbers have declined by 40-50 in each of the last two half year periods, funds under administration were broadly stable.

Citi expects the market will become increasingly comfortable with the accretion associated with the acquisition and agrees the value of the stock is appealing. The broker observes both pro forma net profit and gross margin for the half year appear significantly higher than forecast, and it could be possible to add more upside to its estimates.

However, having already factored in over 20% accretion from the acquisition, and to reflect some ongoing uncertainty, Citi makes more modest upgrades for the present. The broker notes, despite market fears to the contrary, pensions & investments rose to $48bn as of March 31, 2018 despite a largely flat market.

In the company's defence, aligned dealer group funds under management on OnePath, the area where IOOF can extract revenue, also remained largely flat at $8.2bn in the quarter despite the fall in aligned advisers, and Citi flags no real acceleration in the outflows during the half year.

The broker also suspects that possible Royal Commission outcomes relating to back book pricing and product/advice separation are more likely to be medium-term risks.

There are five Buy ratings on FNArena's database. The consensus target is $11.92, suggesting 24.4% upside to the last share price. Targets range from $10.90 (Citi) to $13.00 (Morgan Stanley) The dividend yield on FY18 and FY19 forecasts is 5.6% and 6.5% respectively.

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 Good Guys Weigh On JB Hi-Fi

A competitive environment has weighed on home appliances, affecting The Good Guys, and JB Hi-Fi reduces its profit outlook for this division.

-Brokers disappointed with the downgrade given prior confidence -Maintaining market share likely to come at a cost with respect to margin -Slowing housing market may have further downside implications for The Good Guys

By Eva Brocklehurst

JB Hi-Fi ((JBH)) has downgraded FY18 net profit guidance by -2-4%, driven by the competitive environment in home appliances that has weighed on The Good Guys, seemingly setting aside expectations that acquisition synergies would address industry challenges.

Citi finds the timing surprising, given the seasonally quiet period of March and April. The broker's earnings estimates for The Good Guys are reduced by -50% for the second half, as the business invests in price and sacrifices gross margins amid a sales decline. Meanwhile, the JB Hi-Fi business is performing well and Citi forecasts 11% earnings growth.

While underlying net profit guidance has been lowered to $230m from the $235-240m guided to previously, the company has reaffirmed sales guidance of $6.85bn, comprised of $4.75bn from JB Hi-Fi and $2.1bn from The Good Guys.

Ord Minnett is disappointed by the downgrade, given previous confidence that the risk to earnings was skewed to the upside and there was potential for a larger pool of synergies from The Good Guys.

While the home appliances industry is challenged, the broker still finds reasons to be positive at the current share price, including a robust consumer outlook, and amid suspicions that the launch of Amazon was underwhelming versus an impressive response from JB Hi-Fi.

UBS continues to believe JB Hi-Fi is one of the best electronics retailers globally, characterised by its sales productivity, low costs and ability to adapt to change. Nevertheless, the broker acknowledges headwinds are increasing and maintaining market share will likely come at a cost with respect to margin, as was evident in this update.

Morgan Stanley, on the other hand, asserts that guidance implies compression in gross margin of around 390 basis points for The Good Guys in the second half that should reverse as competition eases.

Competitive Pressures

The rate of reinvestment in The Good Guys has stepped up and Citi considers the irrational pricing behaviour to be driven by a desire by both JB Hi-Fi and Harvey Norman ((HVN)) to gain market share ahead of Amazon developing a significant presence in Australia, in order to drive sales momentum despite the slowing demand.

Such behaviour tends to be cyclical and currently the broker envisages risks weighted to the downside because of a housing slowdown, the Amazon disruption and a falling Australian dollar, which will force manufacturers to increase prices. Citi considers the outlook for the electronics industry profitability is weak and maintains a Sell rating.

Ord Minnett suggests Harvey Norman is likely to be the aggressor in the market, benefiting from operating diversity and range. The broker acknowledges the synergies from The Good Guys may be less able to assist JB Hi-Fi in a challenging environment and may not be as large as formerly expected, asserting that business improvement measures are now more urgent.

Margin weakness at The Good Guys was deeper than anticipated but Macquarie believes the multi-year merger synergy tailwind and sales drivers should support sustainable earnings growth.

Harvey Norman

Deutsche Bank agrees Harvey Norman is giving The Good Guys a hard time, capitalising on the disruption that is stemming from the changing ownership to JB Hi-Fi, in order to gain market share.

The broker does not believe this behaviour will cease any time soon but retains a Buy rating for JB Hi-Fi because of the depressed valuation and strength in the JB Hi-Fi brand.

As Harvey Norman has control of the situation Deutsche Bank prefers this exposure to the sector, underpinned by that company's lower multiple, strong property backing and a product and customer mix that is less susceptible to the online disruptions.

Assuming almost the entire downgrade is being driven by The Good Guys, the broker acknowledges the pressure on gross margins means the business will fall well short of expectations and its FY16 result, the last result prior to the acquisition.

Morgans contends that in what can only be described as an uncertain competitive environment, a slowing housing market may have further downside implications for The Good Guys in the months ahead.

FNArena's database shows four Buy ratings, two Hold and two Sell. The consensus target is $25.82, signalling 9.5% upside to the last share price. The dividend yield on FY18 and FY19 forecasts is 5.6% and 5.7% respectively. Targets range from $20.50 (Citi) to $32.00 (Morgan Stanley).

Why The Lithium Bears Are Wrong

Richard (Rick) Mills Ahead of the Herd

As a general rule, the most successful man in life is the man who has the best information.

Economics has been called "the dismal science" for its conclusions which often suggest miserable outcomes for humanity. The saying was born in the 19th century by Scottish writer and philosopher Thomas Carlyle, who was referring to economist Thomas Malthus. Malthus famously calculated that humanity was trapped in a world where population growth would outstrip resources and lead to widespread misery including starvation – a condition known as "The Malthusian dilemma."

Economics is dismal for another reason: it often fails to make accurate predictions.

We see this in the monthly US employment figures which are usually wrong, and in the copper supply projections trotted out by commodities analysts. Every year these analysts dutifully tally up the predicted market supply tonnage based on output targets from the major producers, and almost every year they turn out to be wrong. Why? Because these so-called experts failed to account for the gaps in output that occur due to strikes, extreme weather, bans on concentrate shipments, or any other reason why a mine closes temporarily due to "force majeure".

Now the same thing is happening with lithium, with two recent reports coming up with predictions of a slide in lithium prices due to a glut of new supply overwhelmingly the tiny (by mining's standards) lithium market. What is puzzling is that both of these reports either gloss over or fail to adequately break down the demand side of the lithium market – something we at Ahead of the Herd did some time ago in a separate article. The conclusion we came to was that lithium demand is skyrocketing, and will continue to do so in coming years, due to the irreversible trend of moving from internal combustion engine-powered vehicles to electric vehicles. The trend is particularly evident in Asia. China is the largest EV market by volume, while Japan is number three behind the US. India is also aggressively ramping up EV targets. Of course we've seen the demand scenario play out through lithium prices, which have doubled in the last two years and are current trading at around $23,000 a tonne for battery-grade lithium carbonate. Still, the lithium bears are coming out from hibernation, and lithium stocks have been taking it on the chin. This article will show why they're wrong.

The lithium bears

In February investment bank Morgan Stanley was first out of the gate with a damning report on lithium; its research team concluded that an avalanche of lithium was in the works and would put the roughly 200,000 tonnes per year lithium market into surplus. The glut would mean a fall to around US$13,000 a ton in 2018, before halving to $7,000 by 2021.

"A host of lithium projects and expansion plans - including increased production by low-cost Chile brine operator SQM - threatens to add 500 kilo-tonnes per annum to global lithium raw material supply by 2025, swamping forecast demand growth," Morgan Stanley said.

The main reason for Morgan Stanley's argument for oversupply was the recent government approval in Chile for mine expansions which would "open up the floodgates" to new lithium product. That is referring to a deal struck in January between Chilean development agency Corfu and SQM, Chile's largest lithium producer, over lithium royalties in the Salar to Atacama, one of the largest and highest-grade lithium deposits in the world. The deal frees SQM to boost its production quota in exchange for higher royalty rates equivalent to those paid by competitor Albemarle. It also permits SQM to work with state copper miner Codelco to start developing the Maricunga lithium deposit – the second largest lithium-bearing salt brine deposit in Chile. In all the agreement allows SQM to produce up to 216,000 tonnes of lithium carbonate a year from the Salar de Atacama. Lithium supply could also increase due to the election of a new president in Chile, Sebastian Pinera, whose National Renewal Party is open to revisiting a law prohibiting lithium production above 80,000 tonnes.

The bank put out a base-case supply-demand and price forecast leading up to 2025, indicating that lithium prices in China and Chile would trend below the market-equilibrium price for the next seven years. Curiously though, the report skewed heavily towards supply with little to no mention of demand.

Morgan Stanley also noted that brine production in Chile has been constrained due to high amounts of magnesium, an impurity in the metallurgical process, but "this is evolving" said the bank, without an explanation how.

Other criticisms levelled at the report:

It makes no mention of the fact that the new royalty rates on SQM are prohibitive and may impede production. The report says new production from brines in Chile and Argentina will be low-cost (under $5,000 a ton), suggesting a pulling away of demand from supply. In fact the lithium market is tight, even with new supplies coming online. According to the USGS lithium supply in 2017 was 236,000 tonnes while demand was 228,000 tonnes. Demand forecasts are expected to increase by 2025 according to the three major producers, Albemarle, SQM and FMC, who will be pressured to produce enough to meet demand. The report states that “A bottleneck in conversion capability will keep a lid on realised carbonate production from hard rock mines in the near term - but this is expanding too.” Presumably referring to the ability of a miner to convert raw lithium into battery-grade lithium carbonate - this statement is never explained, leaving the reader to wonder how hard rock lithium miners are bettering their metallurgy. Lithium is extremely difficult to process from pegamites and there is currently only one mine doing it - Greenbushes in Australia. Read the next section for more on this. The next lithium bear to wake up was commodities researcher Wood Mackenzie, which forecast a rout in lithium and cobalt - both key ingredients in EV batteries. While Woodmac at least didn't lowball demand growth - expecting it to grow from 233 kilo-tonnes lithium carbonate equivalent (LCE) in 2017 to 330kt in 2020 and 405kt in 2022 - it too forecast an imminent tsunami of lithium supply. Quoting from the report:

... the supply response is under way. Yet it will take some time for this new capacity to materialise as battery-grade chemicals. As such, we expect relatively high price levels to be maintained over 2018. However, for 2019 and beyond, supply will start to outpace demand more aggressively and price levels will decline in turn. - Wood Mackenzie

The London-based firm thus predicts prices will average $13,000 per tonne this year, slip to $9,000 by 2019, and keep dropping to $6,500 in 2022.

Not so easy to make lithium

What the bears seem to have in common is the belief that a rush of new lithium supply will soon hit the market, but what the analysts don't realize, or maybe for their own reasons neglect to mention, is that a lot of these mines will fail to deliver.

There are two primary means of extracting lithium: from brines in evaporated salt lakes known as salars, and hard rock mining, where the lithium is mined from granite pegamite orebodies containing spodumene, apatite, lepidolite, tourmaline and amblygonite.

Many junior exploration companies chasing lithium projects are not cognizant of the economic and technical challenges - no brine mining projects and even fewer hard rock projects have been put into production for the last two decades and when done so it’s been by the major lithium producers in just four countries - Chile, Argentina, China and Australia. This exposes something in the industry no one talks about - a lack of skilled personnel to get involved with mineralogy/metallurgy and the engineering side of production.

A major factor affecting capital costs for lithium brines is the net evaporation rate - this determines the area of the evaporation ponds necessary to increase the grade of the plant feed. These evaporation ponds can be a major capital cost. Potassium, boron, potash and other minerals are often harvested from early ponds, while later ponds have higher concentrations of lithium. The lithium-pregnant solution is then pumped to an extraction plant where impurities like boron and magnesium are removed.

Hard rock lithium miners have large problems facing them when competing with brine economics - firstly most have large capital costs for start up and secondly their production cost is roughly twice what it is for the brine exploitation process.

Lithium products derived from brine operations can be used directly in end-markets, but hard-rock lithium concentrates need to be further refined before they can be used in value-added applications like lithium-ion batteries.

Extracting lithium from spodumene requires a whole range of hydrometallurgical processes. The ore is first crushed and heated in a kiln to create a spodumene concentrate, which is then cooled and milled into a fine powder. It is then mixed with sulfuric acid and roasted again, before waste is separated from the concentrated liquor, and magnesium and calcium are precipitated out. Finally soda ash and lithium carbonate is crystallized, heated, filtered, and dried, creating 99% lithium carbonate.

Lithium carbonate is turned into metal in an electrolytic cell using lithium chloride.

Demand “going through the roof”

We've been been crunching the supply and demand numbers for almost a decade - at least since President Obama put aside nearly $2 billion in 2009 to support research on hybrid and electric vehicles and their battery components. What we know is this:

Asia and particularly China are looking to lock up lithium supply, and are years ahead of North America in terms of EV penetration and battery supply chains. Last year China sold about 700,000 electric cars, 200,000 more than 2016. Government subsidies to EVs have been reduced by 20%. The Middle Kingdom sees EVs as the key to unlocking the pollution dilemma that has plagued its car-choked cities. China represents over a quarter of the global EV market, and will own 40% by 2040 according to the International Energy Agency (IEA).

The country has signed lithium offtake agreements with mines in Australia, Canada and Africa, and despite Tianqui Lithium – which owns 51% of Talison's Greenbushes mine in Australia, the largest hard rock lithium mine in the world – being recently denied a 32% ownership stake in SQM, China isn't giving up. Other Asian companies, such as Japan's Panasonic and Korean conglomerate Samsung, are also looking to ink deals in the lithium triangle of Chile, Argentina and Bolivia.

China and India are both going to 100% electric vehicles. Every major car manufacturer has electric models. Volvo has even promised to phase out internal combustion engines (ICE) from 2019.

France has promised to end the sale of gasoline and diesel vehicles by 2040; the UK quickly followed suit. Almost a third of cars sold in Norway in 2016 were electric and Germany could outpace its neighbors as Volkswagen aims to become a leader in both EVs and automated vehicles.

EVs surpassed 2 million units in 2016 and Bloomberg New Energy Finance predicts they will make up an astounding 54% of new car sales by 2040.

In 2016, Chinese carmakers sold 28.03 million cars. If China follows through on its promise to go 100% electric that's a minimum 28.03 million lithium-ion battery packs for EV's per year.

Add in the UK's 2.7 million car sales in 2016 and France's 2 million car sales in 2016.

That's 32.73 million electric vehicles all requiring lithium-ion battery packs, without counting electric buses (a big deal in China, and going to be in India as well) or annual growth rates in auto sales.

One Tesla car battery uses 45 kg or 100 pounds of lithium carbonate.

Despite recent issues with its Model 3, Tesla aims to produce 6,000 cars a week, or 312,000 a year. It plan to ramp that up to 1,000,000 cars by 2020. New models would include the Model Y SUV, a pick-up truck, and a semi-truck, all electric. A recent news report states the problem with the Model 3, and the obstacle to putting more cars on the road, is a bottleneck in battery production.

A million electric cars produced in North America means 45,454,000 kg/ 100,000,000 pounds or 45,454 tonnes /50,000 tons of lithium carbonate equivalent (LCE) has to be mined just for Tesla's North American electric vehicle production – and Tesla has promised to source North American lithium. Elon Musk, Tesla's CEO, also has plans to build four more Gigafactories other than the one currently being built in Nevada. And it's not just about the US. China is also building lithium-ion megafactories, and by 2020 these are expected to grow global production capacity by six times.

Think about those global 32,730,000 lithium battery packs.

If each used the same amount of lithium carbonate as Tesla's electric vehicles, that's 1.487 billion kilograms/ 3.273 billion pounds or 1,487,727 tonnes /1,636,500 tons of new lithium carbonate demand.

Current annual production of lithium carbonate equivalent (LCE), for all purposes, stands at about 230,000 metric tonnes.

SQM recently predicted that demand will increase from between 600,000 and 800,000 tonnes of LCE over the next 10 years. To meet the need, SQM plans to double capacity from current annual production of 48,000 tonnes to 100,000 by 2019.

The industry agrees that Morgan Stanley is out to lunch on its forecasts.

"I am firmly of the view that everyone, including Morgan Stanley, is grossly underestimating how quickly the market is moving on the demand side," Ken Brinsden, chief executive of Australian lithium miner Pilbara Minerals, said at a mining conference in Florida in February.

"Lithium is coming of age in a big way. It's the core ingredient to 99 percent of electric vehicles and as a result, demand is going through the roof," Simon Moores, managing director at Benchmark Mineral Intelligence, a UK-based battery metals consultancy, told CNBC.

Another key point is that analysts tend to lump all potential lithium production together, including producers, near-term producers, brines, hard rock mines, and lithium sucked from oilfield brines. The forecasts vastly underestimate the difficulty in extracting lithium from spent oilfields, for example. Some of these wells are up to four kilometers deep, the brine needs to be pumped and trucked to a storage site, then the lithium has to be separated from all the other impurities which could include uranium, thorium, magnesium and potash. It's neither an easy nor a cheap process and no company has yet been able to do it on a commercial scale.

Canaccord bullish

One consultancy must have had a re-think about the near future of the lithium market. Addressing questions from investors, who likely read the negative reports from Morgan Stanley and Woodmac, Canaccord said in its "Morning Coffee" bulletin that mine production does not necessarily equal LCE supply. In fact mined conversion capacity for 2017 (the amount of lithium actually converted to lithium carbonate or lithium equivalent), 111 kilo-tonnes, was about half their mined LCE estimate of 215kt. Over the next seven years, Canaccord states that more lithium is likely to be mined than can be converted into lithium, thus creating a supply chain bottleneck. This scenario would keep upward pressure on prices. It also expects new lithium to come from higher-cost hard rock mines - likely due to the recently announced expansion at Greenbushes. The mine is set to double in size by next year.

As for demand, Canaccord is bullish, ball-parking 920,000 tonnes of LCE demand by 2025. If that came true, it would be almost five times the current global production. It even admits that figure could be conservative, "with upside risks driven by the increasing potential for demand from LiB-based Energy Storage Systems and larger Electric Vehicle battery sizes (see charts)."

What is expected is not always delivered

MINING.com riffed on the Canaccord story by noting that both the Morgan Stanley and Canaccord reports referenced a year-old graph from an investor slide presentation from Orocobre, which mines lithium in Argentina. Take a look at the left part of the slide showing that in 2012, major lithium mines planned to produce an extra 200,000 tonnes of new supply by 2016. But when 2016 rolled around, under 50,000 new tonnes came online, despite "expansions from existing operations" (see right part of the slide).

This slide is fascinating for a couple of reasons. One, it proves, like the title, that "What is Expected is Not Always Delivered." In other words, the major lithium miners despite their best efforts to double production in four years, were unable to do so. Why not? It can't have been due to prices, which, as seen in the chart below, started heading higher in 2015. As far as we know there weren't any government policies restricting demand in the producer countries during this period so the only explanation must have been technical challenges in getting the lithium to market.

The second reason we love this chart is because it shows definitively how vulnerable the United States is to foreign imports of lithium carbonate especially considering Tesla's often-stated goal that it plans to source the lithium for its EV batteries from North American mines. The country currently imports most of the lithium that it consumes - with import reliance today pegged at greater than 70%.

On the left of the chart notice the red square denoting Albemarle's Silver Peak mine - the only producing lithium mine in the United States. We know that Silver Peak has the capacity to produce 6,000 tonnes of LCE per year. They delivered it in 2012 but what happened in 2016? The mine is missing from the right side of the chart, meaning that Silver Peak, located about 200 miles from Tesla's Gigafactory, failed to produce any new supply to the market. Why not?

If Silver Peak can't deliver any additional lithium in four years, how can it possibly be expected to supply Tesla's lithium needs, which as we calculated above, would be 50,000 tonnes of LCE by 2020 if a million Teslas come out of its factory? Let alone four more gigafactories and lithium needed for electric batteries in the Chevy Bolt - the second-best selling EV in the US last year behind Tesla. EV sales in the US, by the way, were up 25% last year compared to 2016, making it the best year ever - giving more ammo to the demand argument.

According to Benchmark Intelligence, Tesla's Gigafactory also needs about 24,000 tonnes of lithium hydroxide annually, out of a global market of around 50,000 tonnes. Like lithium carbonate, lithium hydroxide is a key raw material for EV battery cathodes.

Given the dearth of current US production, Tesla is looking to Chile to source its lithium, and is reportedly in talks with SQM about possibly building a processing plant. The reason is simple. North American lithium mines are currently too small, not far enough developed, and do not produce a unified product that can easily feed into a supply stream. Tesla would have to go to dozens of different mines for its lithium carbonate and lithium hydroxide. Such a fragmented supply line just isn't practical.

Lithium in the US

If we want a lithium-ion battery industry and electric vehicles built in North America we need lithium security of supply. No longer can we rely on the good graces of other countries, namely Australia, China, Chile and Argentina, where 90% of the lithium is produced.

We need to develop an energy metals industry in North America – from mine to battery.

Lithium stocks - the producers and the near-term producers - are expensive. There are few bargains to be found among the more developed plays. Fortunately, for investors and our planet's health, the move towards electrifying the global transportation system is fully underway and appears unstoppable.

And that means earlier-stage, lithium-focused resource plays are going to receive major investor attention.

The old adage, to find a mine, look around a mine, applies here. As mentioned Albemarle's Silver Peak mine is the only producing lithium mine in the US, but there are other properties around Silver Peak that could become the next big producer and be the solution Tesla has been looking for.

Currently Tesla has an agreement with Pure Energy Minerals to supply lithium hydroxide. Pure Energy's lithium brine project is located in Clayton Valley adjacent to the Silver Peak mine. It has an inferred resource of 218,000 tonnes of LCE according to an NI 43-101 report filed in August, 2017.

Pure Energy has calculated in a preliminary economic assessment annual production of 10,300 tonnes lithium hydroxide or 9,100 tonnes lithium carbonate equivalent (LCE). Let's revisit those Tesla LCE requirements. At a million vehicles a year Tesla needs 45,000 tonnes of LCE, meaning Pure Energy can supply just 20% of that.

Where else could Tesla, and Chevy, and any other North American EV maker, source its lithium from in the US? Tesla reportedly wants to reduce its battery costs by 30% in order to make its vehicles more affordable to the average car consumer, and the same is true for other car companies. Getting lithium from the US or Canada, rather than importing it from Australia, South America or China, would reduce shipping costs and provide a ready supply of battery-quality lithium to Tesla and other EV manufacturers. Tesla and Panasonic are making batteries and battery packs at the Tesla Gigafactory, but the lithium produced at Silver Peak is sold to Asian companies, which make cathodes used in lithium-ion batteries. Why not cut out the Asian middlemen and produce everything required for the batteries, right here in North America?

According to the USGS, the United States can only claim about 203,000 tonnes of LCE reserves compared to 75 million tonnes of reserves found throughout the world. That's about the same amount of lithium currently being produced. But the States has much more lithium than that in the ground. US lithium resources (which include reserves plus lithium that can't yet be economically mined) currently stand at about 36 million tonnes of LCE, versus 217 million tonnes globally. That leaves a lot of lithium in the US, still to be converted from resources to reserves through exploration drilling.

Cypress Development Corp

Fortunately there is a solution to the problem faced by Tesla regarding its current inability to source US lithium for its Gigafactory, which could also go a long way towards developing an electric vehicle battery industry in the US, while also significantly diminishing the currently 70+% dependence on foreign lithium imports.

Three years ago Cypress Development Corp (TSX.V:CYP) began prospecting in the Clayton Valley, home to Albemarle's Silver Peak mine.

Cypress wasted no time in acquiring two land packages: the 1,520-acre Glory Project totaling 76 placer/lode claims located in Esmeralda County, and the 2,700-acre (35 association placer claims) Dean Project.

Drilling was conducted in 2017-18 and the company is currently waiting on its maiden 43-101 compliant resource report expected near the end of April. All eyes are on that maiden resource because it is expected to be BIG. Retail and institutional investors are starting to pay attention. The stock has risen nearly 60% over the last month.

Recently Lithium X Energy (TSX.V:LIX) put out a news release updating investors on the takeover announced by the lithium explorer in December, by Chinese company Nextview New Energy Lion Hong Kong Ltd.

Lithium X's Sal de Los Angeles project in Argentina has an NI 43-101 resource of 1.04 million tonnes lithium carbonate equivalent (LCE) in the indicated category and 1.01MT inferred, for a total LCE resource of 2.05 million I&I tonnes.

This news from Lithium X is extremely interesting, because we now know how much a larger company will pay for a lithium brine exploration property in Argentina with a battery-grade lithium resource. That number is fairly easy to calculate: take the buyout value of $265 million and divide it by the NI 43-101 Indicated and Inferred resource of 2 million tonnes lithium carbonate equivalent or LCE, and you get Cdn$132.50 a tonne. In other words, a tonne of LCE, in the 'ground' in today's hot lithium market is worth 132.5 loonies.

Cypress is coming out with a 43-101 compliant resource report which will also have metallurgical tests and lithium recovery results. Let's look at some of my numbers.

CYP's Clayton Valley Lithium Project in Nevada is, well there's no other way to describe it other than eye-poppingly massive. My personal (and please remember these are my personal calculations, they are not from Cypress, are not 43-101 compliant and are not to be relied on for an investment decision), back-of-the-napkin resource calculation is 3,500 meters length X 2,000 meters width X 70 meters thick X 1.75 specific gravity (density) = 857,500,000 tonnes of lithium enriched claystone (approx. 4,500,000 tonnes of LCE).

I get into more conservative, and ultra conservative numbers here, but the results are still pretty impressive.

FMC, Albemarle, SQM and China's Tianqi Lithium Corporation together, according to Wood Mackenzie consultant James Whiteside, accounted for 78% of the world's lithium carbonate equivalent last year.

SQM, the largest global LCE producer, plans to expand its lithium carbonate capacity in Chile to 63,000 tonnes in 2018.

Australia's Orocobre ((ORE)) plans to produce 17,500 tonnes a year of lithium carbonate at its Olaroz facility in Argentina.

If there are 4,500,000 tons of LCE on CYP's Dean and Glory claims it would take SQM 71 years to mine it at 63,000 tons per annum, 2mt of LCE would take 31.7 years. Massive potential indeed.

Let's return to that $132 a tonne buyout value ascribed to Lithium X. Nextview paid that for a brine-based lithium deposit in Argentina. Cypress has a non-hectorite claystone starting at surface deposit in Nevada, USA. No tariffs, no trade war worries, next to the only producing lithium mine in the US and in the home state of Tesla's Gigafactory.

Conclusion

Those with a surface knowledge of the lithium industry are being scared off by analysts who are writing reports showing that the lithium market is on the peak of a downturn due to an overabundance of the white metal. But more in-depth analysis shows that the supply-demand balance skews heavily towards the demand side which is still extremely bullish. Lithium supply forecasts must be weighed carefully, because most lithium mines will never make it into production due to the difficult technical challenges involved.

The electric vehicle is upon us and it's not going away. While gas-powered cars will be around for some time, along with our oil-driven economy, the future is definitely going electric, and in some cases, autonomous – not only passenger vehicles but buses, municipal vehicles and semi-trucks. They will all require lithium-ion batteries in various combinations. Where will they get the lithium from? The "Big Four" - Chile, Argentina, Australia and China, is the easiest answer – but North America can also be in the mix if it chooses to.

Where should we look to find more US lithium? How about right next to the only producing lithium mine in the United States – Albemarle's Silver Peak.

Cypress Development Corp is developing a huge lithium deposit. We'll find out just how big within a very short time. Or the project could be bought out by Albemarle, which as we have shown, in four years was not able to add any new US based supply to the market. It seems to me that Albemarle could use a monster deposit such as Cypress has – making it an ideal takeout target.

Consider this: Pure Energy, which like Cypress is in the Clayton Valley next to Silver Peak, has 218,000 tonnes inferred LCE. According to my numbers, and again these are from my calculations not Cypress, at an ultra-conservative estimate of 2 million tonnes LCE, that's close to 10 times as much lithium in the ground. Remember that Lithium X buyout figure of $134 per tonne? Multiplying that by 2 million tonnes gives a value of $268 million. The stock is currently trading at 38.5 cents, at a market cap of $21 million, meaning that, imo, CYP is obscenely undervalued. But let's wait and see till the maiden resource comes out.

When was the last time you saw a junior resource company that might. make such a huge impact on the world's largest lithium (or any metal), miner's bottom line? These kind of opportunities just don't come along very often. I have Cypress Development Corp, and what could be the biggest junior mining story of the year on my radar screen. Do you?

If not, perhaps you should.

Richard (Rick) Mills

rick@aheadoftheherd.com

Richard is the owner of Aheadoftheherd.com and invests in the junior resource/bio-tech sectors. His articles have been published on over 400 websites, including:

WallStreetJournal, USAToday, NationalPost, Lewrockwell, MontrealGazette, VancouverSun, CBSnews, HuffingtonPost, Londonthenews, Wealthwire, CalgaryHerald, Forbes, Dallasnews, SGTReport, Vantagewire, Indiatimes, ninemsn, ibtimes and the Association of Mining Analysts.

If you're interested in learning more about the junior resource and bio-med sectors, and quality individual company's within these sectors, please come and visit us at www.aheadoftheherd.com

Content included in this article is not by association necessarily the view of FNArena (see our disclaimer).

Legal Notice / Disclaimer

This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment.

Richard Mills has based this document on information obtained from sources he believes to be reliable but which has not been independently verified.

Richard Mills makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of Richard Mills only and are subject to change without notice. Richard Mills assumes no warranty, liability or guarantee for the current relevance, correctness or completeness of any information provided within this Report and will not be held liable for the consequence of reliance upon any opinion or statement contained herein or any omission.

Furthermore, I, Richard Mills, assume no liability for any direct or indirect loss or damage or, in particular, for lost profit, which you may incur as a result of the use and existence of the information provided within this Report.

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 April 23 to Friday April 27, 2018 Total Upgrades: 6 Total Downgrades: 4 Net Ratings Breakdown: Buy 45.58%; Hold 39.72%; Sell 14.70%

If we were to leave Healthscope ((HSO)) out of the equation, total upgrades and downgrades for the week ending Friday, 27th April 2018, would be almost in balance. Plus with the exception of one sole downgrade to Sell -Westpac being the recipient- all recommendation changes for the week ended in Neutral territory.

Clearly, with the share market recovering from early calendar year weakness, stockbroking analysts are seeing fewer reasons to upgrade to (an equivalent of) Buy ratings. In total numbers, FNArena registered six upgrades and four downgrades for individual ASX-listed stocks.

Other than these two observations, the third factor to take into account is that most of the action is now firmly centred around commodities and banks. UK bank CYBG was the sole recipient of an upgrade, other than Healtscope (2x), outside mining and energy stocks for the week.

The negative side looks a bit more varied with downgrades for ResMed (valuation), Fletcher Building (valuation), Westpac, and Healthscope.

Changes to consensus price targets all-in-all remain benign, with the largest increases recorded for three resources stocks; Beach Energy, Evolution Mining and Newcrest Mining. The week's table for negative amendments is short, including only four names, with Challenger taking the largest hit, followed by Janus Henderson.

The week saw some hefty increases to earnings expectations, with Senex Energy claiming top spot, followed by Alumina ltd, Beach Energy, AWE ltd, Newcrest Mining, and Boral.

Reductions to earnings estimates are equally eye-catching, with Galaxy Resources suffering most, followed by Village Roadshow, Western Areas, G8 Education, Fortescue Metals, and Orocobre.

The week ahead sees local reporting season heat up with more banks releasing financial results while resources stocks are releasing quarterly production updates.

Upgrade

BEACH ENERGY LIMITED ((BPT)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 1/3/1

Beach's March Q numbers were in line with expectation. FY production guidance has been narrowed to the middle of the range and capex guidance has been lowered.

Capex deferrals and the divestment of 30% of Otway Basin could help fund the next phase of development, Macquarie suggests, unlocking undeveloped reserves and exploration upside on the back of recent drilling success. Valuation is closely leveraged to the oil price and higher prices lead to an upgrade to Neutral from Underperform.

Target rises to $1.20 from $1.05.

CYBG PLC ((CYB)) Upgrade to Neutral from Sell by Citi .B/H/S: 2/2/1

Following a noticeable weakening in the share price, down -13% year-to-date, Citi analysts believe risk is now more evenly balanced, hence why they have upgraded their view to Neutral from Sell.

Citi retains a close watch on the outlook for Net Interest Margin (NIM), expecting downward pressure, but also suggests cost savings might provide compensation. There's ongoing potential for capital return, on Citi's projections.Target price lifts to GBP3.

HEALTHSCOPE LIMITED ((HSO)) Upgrade to Neutral from Underperform by Credit Suisse and Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 1/6/0

In the wake of a conditional private equity takeover bid for Healthscope at a 16% premium, Credit Suisse increases its target to $2.36 from $1.78 to match the bid and upgrades to Neutral from Underperform. The small control premium reflects challenging market conditions, the broker suggests.

Credit Suisse now awaits an assessment from the board, completion of due diligence and regulatory approval, notwithstanding the potential of a counter bid.

The company has received an unsolicited offer at $2.36 a share from a consortium. Morgan Stanley notes the near-term fundamentals will now take a back seat and the takeover premium will remain in the shares.

The broker considers the near-term outlook remains challenged but there are options in the business to unlock value. Rating is upgraded to Equal-weight from Underweight. Target is raised to $2.36 from $1.67. Industry view is In-Line.

See also HSO downgrade.

NEWCREST MINING LIMITED ((NCM)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 2/4/2

Cadia had been recovering strongly, Credit Suisse notes, but slumped in the March Q. Lihir delivered to expectation and a stronger copper price helped to reduce costs.

The broker has made negligible changes to forecasts but has increased its target to $19.95 from $18.50 as a result of de-risking its Wafi-Golpu valuation to 75% from 50%. This triggers an upgrade to Neutral from Outperform.

WOODSIDE PETROLEUM LIMITED ((WPL)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 2/5/1

Given bullish sentiment for the remainder of 2018 and increased forecasts for oil prices Macquarie upgrades to Neutral from Underperform. Brent oil forecasts are raised by 20% to US$70/bbl for 2018 and by 5% to US$57/bbl for 2019.

The broker's target is raised to $31.90 from $28.10. Macquarie continues to expect 2019 will be in oversupply resulting in a build up of global oil stocks because of the return of OPEC volumes and sustained US production growth.

Downgrade

FLETCHER BUILDING LIMITED ((FBU)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/3/0

After the de-leveraging of the balance sheet through the $750m capital raising, UBS envisages less upside for equity holders and downgrades to Neutral from Buy. The price target is reduced to NZ$6.30 from NZ$7.60.

This primarily reflects the increase in share count but operating earnings estimates are also lowered by -2-4%. The broker considers the capital increase an expensive, but probably necessary, move to improve the company's ability to negotiate with the USPP debt holders.

HEALTHSCOPE LIMITED ((HSO)) Downgrade to Hold from Add by Morgans .B/H/S: 1/6/0

The company has received a cash takeover bid of $2.36 a share from a consortium which includes majority shareholder AustralianSuper.

Morgans would be surprised if another bidder jumped in to sweeten the deal given there are a number of issues such as slowing utilisation, health fund price indexation and government policies.

If anything, the broker does not rule out the possibility the bid is reduced. Rating is downgraded to Hold from Add as a result. Target is $2.42.

See also HSO upgrade.

RESMED INC ((RMD)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/4/1

UBS transfers coverage to another analyst and re-models earnings drivers. While the target increases to US$104 from US$96 the rating, based on recent share price performance, is downgraded to Neutral from Buy.

Non-GAAP growth in earnings per share of 12% is forecast over the next three years. Yet, UBS believes the robust earnings growth outlook is largely captured in the share price.

WESTPAC BANKING CORPORATION ((WBC)) Downgrade to Sell from Neutral by UBS .B/H/S: 4/3/1

UBS analysts have drawn the conclusion that APRA's targeted review of mortgage loans is a "game changer" for lenders in Australia. As a direct result, the broker has downgraded Westpac to Sell from Neutral.

Data available to APRA, and released by the Royal Commission, raises questions about the quality of the bank's $400bn mortgage book, finds UBS. Addressing concerns by Westpac management can potentially lead to a sharp reduction in credit availability, says UBS.

Target price cut to $26.50 from $31 with earnings estimates left unchanged given the proximity of interim results release.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 BEACH ENERGY LIMITED Neutral Sell Macquarie 2 CYBG PLC Neutral Sell Citi 3 HEALTHSCOPE LIMITED Neutral Sell Credit Suisse 4 HEALTHSCOPE LIMITED Neutral Sell Morgan Stanley 5 NEWCREST MINING LIMITED Neutral Sell Credit Suisse 6 WOODSIDE PETROLEUM LIMITED Neutral Sell Macquarie Downgrade 7 FLETCHER BUILDING LIMITED Neutral Buy UBS 8 HEALTHSCOPE LIMITED Neutral Buy Morgans 9 RESMED INC Neutral Buy UBS 10 WESTPAC BANKING CORPORATION Sell Neutral UBS Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 BPT BEACH ENERGY LIMITED -8.0% -25.0% 17.0% 6 2 CGF CHALLENGER LIMITED -6.0% -21.0% 15.0% 8 3 FMG FORTESCUE METALS GROUP LTD 64.0% 50.0% 14.0% 7 4 NCM NEWCREST MINING LIMITED -6.0% -19.0% 13.0% 8 5 BHP BHP BILLITON LIMITED 75.0% 63.0% 12.0% 8 6 SHL SONIC HEALTHCARE LIMITED 25.0% 14.0% 11.0% 8 7 JHG JANUS HENDERSON GROUP PLC. 67.0% 60.0% 7.0% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 EVN EVOLUTION MINING LIMITED -13.0% 13.0% -26.0% 8 2 FBU FLETCHER BUILDING LIMITED 40.0% 60.0% -20.0% 5 3 RMD RESMED INC 14.0% 29.0% -15.0% 7 4 WBC WESTPAC BANKING CORPORATION 31.0% 44.0% -13.0% 8 5 CPU COMPUTERSHARE LIMITED -31.0% -25.0% -6.0% 8 6 CYB CYBG PLC 20.0% 25.0% -5.0% 5 7 BOQ BANK OF QUEENSLAND LIMITED -21.0% -19.0% -2.0% 7 8 VOC VOCUS GROUP LIMITED 7.0% 8.0% -1.0% 7 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 BPT BEACH ENERGY LIMITED 1.315 1.263 4.12% 6 2 EVN EVOLUTION MINING LIMITED 2.931 2.835 3.39% 8 3 NCM NEWCREST MINING LIMITED 21.068 20.411 3.22% 8 4 SHL SONIC HEALTHCARE LIMITED 24.968 24.691 1.12% 8 5 CYB CYBG PLC 5.927 5.863 1.09% 5 6 FMG FORTESCUE METALS GROUP LTD 5.350 5.293 1.08% 7 7 CPU COMPUTERSHARE LIMITED 16.291 16.188 0.64% 8 8 RMD RESMED INC 12.352 12.332 0.16% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 CGF CHALLENGER LIMITED 11.738 12.211 -3.87% 8 2 JHG JANUS HENDERSON GROUP PLC. 51.410 52.713 -2.47% 6 3 WBC WESTPAC BANKING CORPORATION 32.450 33.013 -1.71% 8 4 BHP BHP BILLITON LIMITED 32.753 32.796 -0.13% 8 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 SXY SENEX ENERGY LIMITED -0.786 -2.086 62.32% 7 2 AWC ALUMINA LIMITED 24.415 18.094 34.93% 5 3 BPT BEACH ENERGY LIMITED 13.950 13.150 6.08% 6 4 AWE AWE LIMITED -1.575 -1.675 5.97% 3 5 NCM NEWCREST MINING LIMITED 66.933 63.503 5.40% 8 6 BLD BORAL LIMITED 40.353 38.875 3.80% 6 7 FBU FLETCHER BUILDING LIMITED -6.624 -6.885 3.79% 5 8 BHP BHP BILLITON LIMITED 220.738 214.402 2.96% 8 9 VOC VOCUS GROUP LIMITED 19.646 19.167 2.50% 7 10 ILU ILUKA RESOURCES LIMITED 66.325 64.818 2.32% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 GXY GALAXY RESOURCES LIMITED 15.900 19.280 -17.53% 5 2 VRL VILLAGE ROADSHOW LIMITED 18.875 21.850 -13.62% 4 3 WSA WESTERN AREAS NL 7.548 8.678 -13.02% 6 4 GEM G8 EDUCATION LIMITED 21.783 23.583 -7.63% 6 5 FMG FORTESCUE METALS GROUP LTD 46.654 50.489 -7.60% 7 6 ORE OROCOBRE LIMITED 12.248 13.250 -7.56% 7 7 BKL BLACKMORES LIMITED 410.667 419.667 -2.14% 3 8 MQA MACQUARIE ATLAS ROADS GROUP 33.733 34.433 -2.03% 6 9 BOQ BANK OF QUEENSLAND LIMITED 91.114 92.088 -1.06% 7 10 CTX CALTEX AUSTRALIA LIMITED 234.786 237.214 -1.02% 7 Technical limitations

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

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.

Uranium Week: Supply Contracting, Price Unmoved

Ongoing supply cut announcements from uranium producers continue to have no impact on the spot price.

-Minor rise in spot price -More production cuts -Reactor number 8 to restart in Japan

By Greg Peel

Activity was relatively brisk in the spot uranium market last week, industry consultant TradeTech reports, with utilities, producers, traders and speculators all represented on the buy-side. Seven transactions were concluded totalling 850,000lbs U3O8 equivalent.

Yet TradeTech's weekly spot price indicator managed only to rise US25c to US$21.00/lb. Weekly price moves of such magnitude have become standard fare in 2018, leaving the spot price unable to ever move meaningfully away from the US$21/lb level.

Demand is nonetheless building for material to be delivered later in 2018 and into early 2019, feeding the assumption that prices should pick up later this year. Right now, buyers feel no urgency to pay up for spot delivery and a lack of "have to" sellers is keeping volumes and prices at bay.

It has to be said the uranium industry has been expecting demand to pick up "next year" for the past several years.

And it's not that producers aren't playing their part.

Supply Side Dwindling

Australia's Paladin Energy ((PDN)) said last week it would begin taking steps to place its Langer Heinrich mine in Namibia into care & maintenance. The mine is not currently producing new ore, rather production is limited to processing stockpiles, but with uranium prices "stubbornly low", management has decided even this is not a commercial option at present.

Australian-listed Peninsula Energy ((PEN)) announced it would suspend development of its Karoo project in South Africa due to weak market conditions, focusing efforts solely on its project in Wyoming.

Canada's Cameco last year announced significant asset shutdowns in an attempt to optimise its portfolio and reduce costs. The company's earnings result release last week noted a -64% drop in production compared to the same quarter a year ago.

The only encouraging news last week came from Japan's Kyushu Electric Co, which announced it would restart its Genkai unit 4 plant in May, bringing to eight the number of Japanese reactors restarted since Fukushima.

The pace of restarts nevertheless continues to slip against prior estimations.

There were no transactions in the uranium term market last week. TradeTechs' term price indicators remain at US$25.50/lb (mid) and US$28.00/lb (long).

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 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 April 26, 2018

Last week saw the ASX200 continue its recovery before accelerating this week, including a strong performance so far today. Indeed, the index is closing in on the previous high.

As the amount of red on the table below suggests, short traders having been using the rally to increase positions more so than reduce them. However for the most part, short increases last week were less than one percentage point.

The exception was BWX ltd ((BWX)), which has leapt into the 10% plus club with a move to 10.3% shorted from 8.8%.

On the flipside, Healthscope ((HSO)) dropped out of the 10% plus shorted table, falling to 9.9% from 13.3%.

See below.

Other movements worthy of mention are those of News Corp ((NWS)), which also moved up into the 10% plus table on a slight short increase, and Rio Tinto ((RIO)), which after a very long time hanging around the low end of the 5% plus table finally dropped out last week, albeit only to 4.7%.

News Corp is currently embroiled in media industry consolidation in both the US and UK as regulators seek to decide who may takeover/merge with whom or acquire divisions of whom. The upshot is one of the rise of social media and streaming platforms forcing a complete rethink of the media landscape.

There will be winners and there will be losers.

Weekly short positions as a percentage of market cap:

10%+

SYR 21.9 DMP 17.4 JBH 16.5 GXY 15.3 NAN 14.1 VOC 12.4 MYR 11.4 RFG 11.2 ORE 11.1 HT1 11.0 AAC 10.8 APO 10.7 MYX 10.5 BWX 10.3 NWS 10.1 IGO 10.0

In: BWX, NWS Out: HSO

9.0-9.9

HSO, APT

In: HSO, APT Out: NWS, PLS

8.0-8.9%

AAD, PLS, FLT, HVN, IVC, MTS

In: PLS, IVC Out: BWX, APT

7.0-7.9%

WEB, BGA, IPH, GEM, GMA, TGR, BAP, MLX, TPM

In: GEM, MLX, TPM Out: IVC

6.0-6.9%

QUB, GXL, IFL, CSR, ING, BKL, SEK, BIN, SUL, KAR, PRY, NSR

In: BKL, PRY, NSR Out: TPM, MLX, GEM, BEN

5.0-5.9%

BOQ, MQA, BEN, MOC, AHG, JHC, CCP, IMF, NUF, MYO

In: BEN, BOQ , NUF, MYO Out: NSR, BKL, PRY, WSA, RIO

Movers & Shakers

The steady rise of BWX up the 5% plus shorted table has been noted in this Report before, but last week the producer/distributor of natural beauty products saw a 1.5 percentage point increase to take it into the elite 10% plus shorted club.

BWX went on an acquisition spree in the US last year and thus drew the attention of investors, who clearly decided the company was one of the new high-flyers. A disappointing profit result in February brought everyone back to earth, along with the share price.

That share price has since undergone a slow consolidation before turning to the upside once more. As late as yesterday, BWX's presentation at the annual Macquarie investor conference sparked a 5% pop. But as of last week, clearly the shorters are not convinced.

The Healthscope story is emblematic of every short-side player's worst nightmare. The private hospital operator received an unsolicited bid last week from a consortium of investors, sparking a 15% share price pop. Clearly a short-covering scramble exacerbated the upside, as Healthscope shorts dropped -3.4ppt.

As to the level of "naked" shorts in Healthscope, we can't say. The company's lone big cap rival in the hospital space, Ramsay Health Care ((RHC)), is a long time market favourite and a likely offset to Healthscope in a traditional long/short pairs trade. Ramsay's share price also jumped on the Healthscope takeover announcement on valuation implications.

Hence losses on a pairs trade would have been limited.

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: Housing, Leasing & Health Care

Weekly Broker Wrap: housing; vehicle leasing; telcos; and health care.

-Credit tightening and regulatory scrutiny remain elevated and could weigh on house prices -Leasing companies not facing major impact from regulatory pressure on commissions -Telstra proactively pricing to limit impact on gross margin from unlimited data plans -Limits to be placed on knee MRIs, little improvement in hospital operating conditions

By Eva Brocklehurst

Housing

House prices have hit a soft patch, ANZ bank analysts observe. Recent data showed a renewed decline in prices amid easing auction clearance rates. Renewed weakness in house prices is not factored into forecasts and the analysts suggest this matters because of the impact on household wealth and, thus, the household savings rate.

The analysts suspect numerous reports about tighter criteria for owner-occupied mortgages may explain the renewed weakness. While cautious about changing view on just one month's data, they are mindful that the housing market and consumer spending are key downside risks for the domestic economy, and a further easing of auction clearance rates would be of concern.

Morgan Stanley suggests credit tightening and regulatory scrutiny may remain elevated for 2018. This could weigh on prices and, given consumer leverage to the housing market, broader spending conditions will remain under pressure.

The broker observes the weakness in house prices looks to be extending in Melbourne while Sydney continues to show the largest declines from the 2017 peak. Quarterly building activity data shows that housing completions also continue to slow and Victoria and NSW appear to have peaked.

Building approvals are still relatively steady, which is keeping the pipeline of dwellings under construction elevated at around 210,000 of which nearly 90,000 is in NSW. Morgan Stanley expects approvals will decline over the rest of 2018, especially apartments.

The data confirms the broker's expectations for a modest slowdown in the housing market over 2018. At this stage there appears to be little flow through to broader conditions as household sentiment remains robust and there is little evidence of forced selling.

Vehicle Leasing

Regulatory pressure on finance and insurance commissions in the automotive industry remains centre stage but Morgan Stanley notes leasing companies have not faced a major impact because of the nature of their transactions being B2B.

While there is a risk that regulatory changes affect finance commissions in the medium term, the broker is not aware of any potential changes and notes insurance commissions have come down.

The broker finds some risk still exists regarding the tax treatment of novated leasing but there is little risk to healthcare, not-for-profit and government workers, a reason for liking Smartgroup ((SIQ)). The stock trades at a premium to peers and Morgan Stanley retains an Overweight rating, as high growth should mean the multiple sticks.

The broker retains EclipX ((ECX)) as its top pick, as ancillary businesses drive growth above that of the corporate fleet management division. SG Fleet ((SDF)) is considered a higher-risk proposition given the corporate customer focus, and Morgan Stanley retains an Equal-weight rating.

The broker likes the core novated leasing business of McMillan Shakespeare ((MMS)), maintaining an Equal weight rating, but suggests it is too early to bank on the company's "Beyond 2020" strategy.

Telcos

UBS, like many industry observers, envisages potential downside for Telstra ((TLS)) once TPG Telecom ((TPM)) enters the mobile market. The broker factors this in as negative near-term catalyst for the company, although once the impact crystallises, suspects Telstra will be attractive on a long-term risk/reward basis.

The broker suspects the market could be factoring in all the NBN headwinds but none of the associated 5G option. UBS suggests Telstra is likely learning from Verizon and AT&T mistakes. US peers were comparatively late to react to unlimited data plans and ceded share to new entrants.

While unlimited plans are likely to put pressure on Telstra's already shrinking data, the company is proactively pricing to limit the impact on gross margin in the short term. The broker suggests ARPU dilution from the migration could be offset by cost savings on content.

Moreover, Telstra's pre-emptive launch of unlimited data plans is potentially negative for the aspirations of TPG Telecom although, in the short term, TPG is still likely to gain traction by targeting the lower end and value-led user base.

Health Care

The Medical Benefit Scheme review task force has provided the latest recommendations to the Commonwealth government, which has accepted 40 of the new recommendations across knee imaging, dermatology, spinal surgery and other clinical areas. The most significant for listed domestic healthcare providers, UBS believes, other new restrictions to be placed on the MRI services.

Under the new guidelines from November 1, 2018 GPs will no longer be able to request knee MRIs for patients over 50 years of age. They will also be limited to a maximum of three for patients aged 16-50 years. UBS envisages around -1% revenue risk for Primary Health Care ((PRY)) and Sonic Healthcare ((SHL)).

Ord Minnett notes, after discussions with four of the leading private hospital groups, there has been little improvement in operating conditions over the first few months of 2018. Most providers have found sufficient efficiency and cost savings to ensure some margin improvement but believe it will be difficult to replicate this next year.

Ord Minnett suggests Ramsay Health Care ((RHC)) is in a better position than its peers as its joint venture with Ascension in the supply chain is expected to work to expand its procurement savings. The cautious feedback appears consistent with the soft utilisation data from Medibank Private ((MPL)), the broker points out.

Ord Minnett finds a private equity offer for Healthscope ((HSO)) attractive, and an attractive option for shareholders given the industry challenges. The board is expected to seek a higher bid than the current $2.36 although the broker notes potential for a competing offer is complicated by the bidding consortium's 14.5% interest.

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.

Gage Roads' Crafty Deal

WA craft brewer Gage Roads has won exclusive beer rights to the new Perth stadium. DJ Carmichael initiates coverage.

-Craft beer popularity on the rise -Gage Roads wins major contract -Brand exposure significant

By Greg Peel

Craft beer continues to grow in popularity in Australia. Over the past five years, revenue in the sector has grown at an average annual rate of 9.7%, stockbroker DJ Carmichael notes, and is expected to continue to grow at 6% per annum over the next five years as consumers become more health conscious, and show a preference for quality over quantity.

By contrast, the mainstream beer industry is expected to grow by only 2.1% over the same period.

Gage Roads Brewing Co ((GRB)) is the only craft brewer listed on the ASX with operations based in Western Australia, notes DJ Carmichael. To address the ambiguity of this statement, note Gage Roads was the only craft brewer listed on the ASX, period, after Little World Beverages, maker of popular Little Creatures beer, was acquired by Lion/Kirin, but since then Broo ((BEE)) has listed, and is based in Victoria.

So yes, Gage Roads Brewing Co is the only craft brewer listed on the ASX with operations based in Western Australia.

Exclusive Deal

Gage Roads has won a tender to supply beer with exclusive pouring rights to the new sports stadium in Perth, which has replaced the WACA for cricket and will become home to Perth's major football teams. DJ Carmichael believes the deal will be key in driving brand recognition and will essentially provide free marketing for Gage Roads products to millions of people each year.

Let's hope for Gage Roads' sake they don't whack the extra craft beer premium on top of the already inflated prices one is forced to pay for the one-beer choice at a stadium lest punters are more aggravated than impressed by Gage Roads' offerings.

The contract win will also provide leverage to "tap" into new retail distribution channels and will assist in securing more tap points at bars and clubs across the country, the broker suggests. Moreover, it provides the potential for further partnership deals and events, further assisting brand enhancement.

This is important if the company is to successfully execute its 'Return to Craft" five-year strategy of increasing volumes of its higher-margin craft beer while reducing production of its lower-margin, contract-brewed beer.

DJ Carmichael believes Gage Roads is well placed to take advantage of the growing craft beer market. Since 2010 the company has spent $25m on state of the art brewing equipment with a capacity of 17.4m litres per annum. Gage Roads is currently only producing 11m litres per annum.

Despite the capital expenditure, the brewer's balance sheet has no debt and $5.6m in cash, in the wake of a 2016 capital raising.

DJ Carmichael has initiated coverage of the stock with a Speculative Buy rating and 12c price target (last trade 8.1c).

Consolidation

The fact that the highly successful Little Creatures brewer was acquired by the Japanese beer behemoth and other successful brewers of the past, such as Hahn, have also been snapped up by the majors, raises the possibility of whether Gage Roads, too, might be a takeover target.

Critical to the possibility is that in 2016 the company was able to buy back 23.5% of its own equity owned by Woolworths ((WOW)), thus removing a potential blocking stake were an offer to be made. M&A activity in the craft segment has been increasing of late, DJ Carmichael notes, as large brewers opt for an easy way to jump on the craft bandwagon.

However, the broker believes Gage Roads would need to increase the proportion of its craft brewed products before a major would likely look to acquire a stake with Woolworths still being a major customer.

Treasure Chest: Sell Miners In May?

Citi analysts recommend buying mining stocks in any weakness.

-May typically weak for mining stocks -Valuations compelling -China data supportive

By Greg Peel

In seven of the past eight years, note Citi's metals & mining stock analysts, miners (globally) have posted a negative May. By contrast, 14 of the last 21 Aprils have been positive. This April was a strong month for miners, suggesting to the analysts there might indeed be some give-back this May.

Citi has been recommending buying into mining stock weakness as the analysts believe valuations are compelling, while conceding risks are building for demand in the latter part of 2019. This suggests miners could fade in early 2019.

As always, much depends on China.

Last month the Chinese central bank decided to cut its reserve requirement ratio for some, but not all, banks. These are mostly large commercial banks, foreign banks and urban and rural banks which were subject to RRRs up to 17% and are the major entities holding medium term loans from the PBoC. The cut will equate to a liquidity injection of some RMB1,300bn.

Citi had expected one cut to RRRs this year but not so soon, given the last cut was only in January.

The announcement came on the heels of the release of China's March quarter GDP growth number, which at 6.8% was in line with expectation. Citi's economists believe China's economy may have peaked in the quarter amid policy tightening and trade headwinds and will not rule out the possibility of another RRR cut later in the year.

Industrial activity slowed in the month of March but was impacted by both the timing of Chinese New Year and regulated industry shutdowns during the prolonged National People's Congress, Citi notes. Fixed asset investment grew 7.5% in the March quarter, down from the 7.9% rate of January-February but ahead of 2017's rate of 7.2%.

Real estate activities have remained healthy so far this year as Citi had expected. Outperformance in the month of March lifted the quarter's real estate investment growth to 10.4% from 9.9% over January-February. Citi is to date forecasting 6% growth for the year.

Commercial land sales also rose 0.5% year on year in the March quarter, from a high base, suggesting developers' steady appetite for acquiring land.

All of which is supportive of commodity prices.

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

These Terms and Conditions of Use, and Disclaimers constitutes your agreement with News Network with respect to your use of its FN Arena website, its weekday news periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, as well as any other publications (including articles) News Network may publish on its website, or anywhere else, from time to time. Please read the contents of this page carefully as it contains important legal information and disclaimers. By entering and perusing the website, reading the Australian Broker Call or the Australian Super Stock Report, or, if you are subscriber, by entering the password protected part of the website, you acknowledge that you have read, understood and accept this agreement.

By accepting this agreement you acknowledge, understand and accept the following:

1. Reference to "FN Arena" and "News Network" means reference to News Network Ltd, its journalists, directors, other employees, affiliates, agents, associates and subsidiaries.

2. News Network Ltd is the owner of the FN Arena website and brand name.

3. Reference to "we" or "us" is reference to News Network.

4. Reference to "this website" or the "FN Arena website" means reference to www.fnarena.com, and includes reference to News Network's weekday news periodical, Australian Broker Call, as well as its monthly periodical Australian Super Stock Report, as well as any other publications (including articles) News Network may publish on this website, or anywhere else, from time to time.

5. Reference to "news periodicals" means reference to News Network's weekday periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, as well as any other periodicals News Network may publish from time to time on this website, or anywhere else, from time to time.

6. Reference to "publications" in this agreement means any material, including articles, published or put in print on the FNArena website, or anywhere else, whatsoever, and includes News Network's weekday periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, and any other periodicals News Network may publish from time to time.

7. Reference to a "visitor" means, you, a visitor to this website, and includes a subscriber to Australian Broker Call and the Australian Super Stock Report, as well as any other publications or periodicals News Network may, from time to time, publish on this website.

8. News Network is a media company which employs financial journalists to report financial news. News Network's journalists perform the required research and collect the information that is, ultimately, each day, published on this website and in News Network's news periodicals. As is obvious, the process by which the information is collected and delivered to you is a purely journalistic one and, therefore, the comments, opinions and recommendations News Network reports on this website are not the opinions of News Network or any of its journalist or other employees. News Network is ONLY and specifically a matter-of-fact reporter of industry signals suggesting price direction probability of some shares. News Network simply delivers the information – it does not create it.

9. Although News Network obtains the information published herein from sources deemed to be reliable, and given and received in good faith, it cannot and does not guarantee its accuracy. News Network does not take any responsibility either for the financial soundness or for the correctness of statement made or opinion expressed in the data or content reported by News Network, and cannot and does not guarantee the reliability and accuracy of the opinions of the brokers whose opinions, recommendations and forecasts it reports.

10. News Network publishes this website, all publications and its periodicals strictly for convenient personal, non-commercial, educational and informational purposes of its subscribers only. Our goal is to provide the subscribers with a convenient starting point of potentially useful, but not comprehensive, content that can educate or otherwise enhance a visitor's knowledge base and frame of reference.

11. News Network is NOT a stock broker or financial or trading advisor, nor is it an advisory service of any kind, and no advice or recommendations on investments or trading are made nor implied on this website. Nothing contained in this website is intended to be, nor shall it be construed as, advice or recommendation. Any investment or other decisions made by you must be based solely on your own evaluation of the targeted subject for investment, and your financial circumstances and investment objectives, and News Network will not be held liable for any such investments and decisions.

12. It is distinctly understood and accepted that the shares referred to in the FN Arena website, News Network's publications and/or periodicals have not been recommended by News Network. The content and or any comments found of this website, including the content and/or comments published in any publication and/or periodicals published by News Network, do not constitute a recommendation or endorsement by News Network with respect to any company, security, share or investment or any financial or investment product.

13. This website makes no representations, and, to the extent allowed by the law, specifically disclaims all warranties, express, implied or statutory, regarding the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any material contained in the website.

14. Before making an investment decision, you must do your own research and rely on your own examination of the share, and the risk involved, and not on what you read on the FN Arena website, or in any publication or periodical. The content of this website is provided strictly for convenient personal, non-commercial educational and informational purposes only and News Network shall not be held liable for any investment decisions, sales or purchase decisions, which you may have made based on what you have read on this website or in the periodicals published by News Network from time to time, or in any other publications News Network may publish on its website, or anywhere else, from time to time. Anyone who makes investment decisions based on what they read on this website does so at their own risk, and agrees that they cannot hold News Network responsible and/or liable for any loss whatsoever.

15. It is your responsibility to evaluate the completeness, accuracy and usefulness of any content made available on this website. If you are unsure, or in doubt about the meaning of any information, you should consult your financial advisor.

16. News Network does not guarantee any returns on investments made in any share mentioned on this website by the visitors. As any investor well knows, any investment opportunity, strategy or concept involves a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. News Network strongly suggests that you consult your own financial advisors regarding the soundness of any intended investments, strategies or concepts, and discuss with such advisor your individual investment needs and goals. You may also wish to consult the broker who expressed the opinion we have reported on in the news periodicals we publish.

17. News Network shall not be held liable to any visitor of the FN Arena website, or any reader of its periodicals and/or publications, or anyone else who may have relied on this website, directly or indirectly, for any inaccuracies in the printed material found on the FN Arena website, in the periodicals and/or other publications, any typing errors, omissions, interruptions, timeliness, completeness, deletions, defects, failure of performance, computer virus, communication line failures, alterations of, or use of any content herein, regardless of cause, for any loss or damage resulting therefrom.

18. Under no circumstances, including, but not limited to negligence, shall News Network be liable for any direct, indirect, incidental, special or consequential damages that result from the use of, or the inability to use, the FN Arena website, and any or the News Network's publications and/or periodicals.

19. As a condition of use of the FN Arena Website, News Network's publications and periodicals, you agree to indemnify News Network and all those affiliated with it from and against any and all liabilities, expenses (including legal costs) and damages arising out of claims resulting from your use of the FN Arena website, News Network's publications and periodicals. If you are uncertain about this agreement or the contents of the FN Arena's website, or are dissatisfied in any shape or from, with the content of the FN Arena website, or any of the publications or periodicals, or you do not agree with these terms and conditions, your sole and exclusive remedy is to discontinue using the FN Arena website, News Network's publications and periodicals.

20. News Network may, from time to time, publish advice, opinions and statements of various third parties, other then the ten stock brokers, and various other information and content providers. News Network does not represent or endorse the accuracy or reliability of any advice, opinion, statement or other information provided by these third parties. Reliance upon any such opinion, advice, statement, or other information is at your own risk.

21. The FN Arena website may contain links and pointers to websites maintained by third parties. News Network does not operate or control in any respect any information, products or services on such third-party websites. Third party links are included solely for the convenience of visitors, and do not constitute any endorsement by News Network of any products or services provided by the third party link owners or operators. News Network has no control over any websites that we might link to and does not take responsibility for their quality, content or suitability.

22. News Network is not responsible for claims made by advertisers on the FN Arena website or in any of its periodicals. Such advertisements are included solely for the convenience of visitors, and do not constitute any endorsement by News Network of any products or services advertised. News Network does not check the accuracy of the statements made by the advertisers. You assume sole responsibility for the access and use of third party links and pointers from the FN Arena website, as well as any purchases you may make from those third parties (including advertisers).

23. All the content, information and material made available on this website are provided to you "as is" and without warranty of any kind from News Network whether express or implied, including, but not limited to, implied warranties of merchantability and fitness for a particular purpose, title, non-infringement, security or accuracy, nor does News Network endorse or take any responsibility for the accuracy or reliability of any opinion, advise or statement made through the FN Arena website, its periodicals, or for making good all or part of any loss and/or damage that may have been caused by the visitor's reliance on any information, advise, product or service obtained from a linked website.

24. News Network is not liable for any copyright infringements incurred by any outside content or information contributors, or by third parties who have links to this website, or advertise on this website.

25. News Network reserves the right to make any and all changes to the FN Arena website, including the publications and periodicals, at its sole discretion without notice to you. News Network reserves the right to deny access to this website or its information to anyone at any time.

26. This agreement shall be deemed to include all other notices, policies, disclaimers, and other terms contained in the FN Arena website, provided, however, that in the event of a conflict between such other terms and the terms of this agreement, the terms of this agreement shall prevail.

27. News Network shall have the right, at its discretion, to change, modify, add or remove terms of this agreement at any time. Changes shall be effective immediately. Notification of any such changes shall be made herein, therefore, you are strongly advised to read these terms each time you wish to access the FN Arena website or any periodical.

28. No permission is granted to copy, distribute, modify, post or frame any text, graphics, video, audio, software code, or viewer interface design or logos. The entire FN Arena website, including the publications and periodicals, is subject to copyright with all rights reserved. The information contained in the website, including the publications and periodicals, shall not be published, rewritten for broadcast or publication or redistributed in any medium, or for any other reason whatsoever, without prior written permission from News Network.

29. All original content is the copyrighted property of News Network.


FN arena
PASSIONATE ABOUT FINANCIAL NEWS
Financial News for the Bright and the Uneducated. And for everybody else in between.
FN Arena News
Building the Future of Financial Journalism
www.fnarena.com
Trials are free and without any obligation