WEEK 9

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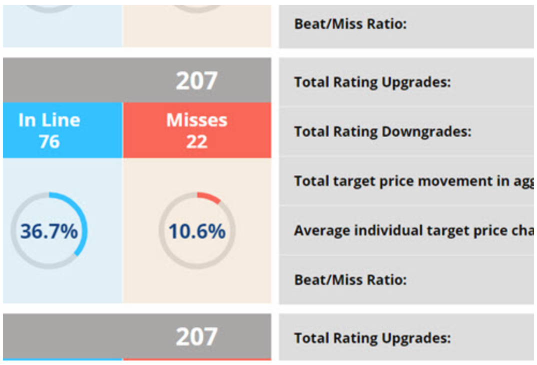

Rudi's View: A Supercycle In Dividends

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INTERNATIONAL

The Case For Emerging Markets Investment Part II

After emerging markets have weathered pandemic storms, equity and currency strategists chart a course for investors in a region considered a core holding by professionals.

-A weaker US dollar and stronger EM currencies
-Taiwan manufacturing and Vietnam supply chains
-The K-New Deal in South Korea

By Mark Woodruff

In Part I of this article, FNArena explored the current investment thesis for emerging markets and what traditionally drives or inhibits their performance. (https://www.fnarena.com/index.php/2021/02/17/the-case-for-emerging-markets-investment-part-i/)

This article looks at currency and equity opportunities, within separate emerging market countries. The aim with equities is to identify those industries, sectors and companies that should benefit from tailwinds.

While China is covered in this article, FNArena considered the country warranted separate and more detailed attention, given the country's size relative to the benchmark index. See link (https://www.fnarena.com/index.php/2021/01/29/are-chinese-shares-a-unique-opportunity-part-i/).

We will begin with expectations for emerging market currencies, after a brief examination of how the pandemic initially roiled markets and the chain of events that allowed the resumption of a semblance of calm.

EM currencies - The turn around

Unless another 'black swan' descends on the market, currency strategists at ANZ Bank predict Asian currencies are set to do well in 2021 as the nightmare of 2020 fades.

For the foreign exchange market, the turning point during the pandemic came when the US Federal Reserve provided dollar liquidity via new swap line arrangements with central banks. They also established a new facility for foreign and international monetary authorities (FIMA repo facility) to access US dollars.

The Fed's actions succeeded in easing strains in the global US dollar funding markets, as central banks were quick to utilise the swap facility. As a result, selling pressure on Asian currencies started to abate.

Although foreign portfolio inflows into the region did not resume until June 2020, the recovery in Asian currencies was afoot as dollar funding concerns eased, helped also by the US dollar coming off its highs.

At the same time as the foreign inflows resumed, China's lockdown measures had achieved success and its economy had started to rebound. In addition, global economic activity, which plunged to a low point in May, also started to improve in June, contributing to Asian currencies recouping earlier losses.

Before we look at anticipated moves in the various EM currencies, it is timely to re-examine some definitions commonly encountered in research by currency strategists.

Currency Definitions

Chinese money comes by two names the yuan (CNY) and the renminbi (RMB). The distinction is subtle. While the RMB is the official currency of China, where it acts as a medium of exchange, the yuan is the unit of account of the country's economic and financial system.

Some investment strategists also refer to the CNY NEER. The NEER is the nominal effective exchange rate between a home country (so not peculiar to China) and trading partners, adjusted for the respective weights of those trading partners.

EM currencies

ANZ Bank is bullish on Asian currencies for 2021 and it is not just because of **a weaker US dollar**, though it helps. There are three key drivers behind the view, in what is seen as a winning trifecta that will see Asian currencies appreciate further this year.

The first is the region's relative **success in virus containment**. This means with the global vaccine roll-out can eradicate the virus more quickly, thus allowing a faster normalisation of activity.

The second is the **improved global growth prospects** this year which bodes well for Asian exports and the broader investor risk sentiment.

Finally, Asia should benefit from **increased foreign investor allocation** into the region, given ample global liquidity and a better growth outlook.

The ANZ forecast envisions global economic prospects to improve in 2021. Although the US economy will also rebound, there is likely to be a period where the US underperforms on a relative basis.

This has typically been the norm for the past two decades, when the US dollar tended to weaken on a trade-weighted basis, except when there is some sort of crisis which stirs strong safe haven demand for the US dollars. Another traditional cause for US strength has been when US monetary policy is on a normalisation path out of sync with the rest of the world.

In the absence of those factors, the natural state tends to favour a weaker US dollar. Based on the current difference between US and global industrial production growth, ANZ forecasts the dollar has scope to weaken a lot further.

Chinese yuan

How the Chinese yuan fares will be important as it serves as an anchor for the other currencies in the region. The many and varied arguments for a stronger CNY include an improving external balance, strong portfolio inflows on the back of bond index inclusion and wide interest rate differentials.

There's also the prospect that China's central bank, the People's Bank of China (PBoC) could be the first central bank to exit unconventional easing.

In a world where global policy rates are at the effective lower bound or record low levels, and set to remain so for some time, being the first central bank to contemplate some form of exit would send a very positive signal for the Chinese currency.

Importantly, ANZ still sees the yuan as undervalued, and the Chinese authorities have been comfortable in allowing the currency to appreciate. It's considered likely the CNY will strengthen towards US$6.30 by the end of 2021.

At the time of writing, the bank's forecast appears prescient, as yuan strength versus the US dollar since January 1 has seen the rate move to 6.46 from 6.58.

Morgan Stanley is in agreement on future Chinese currency strength and feels the CNY nominal effective exchange rate (NEER) could break to two-year highs.

Korean won & New Taiwan dollar

The Korean won (KRW) and the New Taiwan dollar (TWD), being two of the major export-dependent economies in the region, are set to gain from the improved external environment.

The extent of appreciation will be capped by the authorities, but they will not be able to hold any particular level for long, in ANZ's view. There is also a limit to how much intervention can be undertaken before one runs the risk of being labelled a "currency manipulator" by the US Treasury, with economic and political implications.

Morgan Stanley also feels the improving global economic outlook and continued strong demand for technology related products, as seen by the rebound in global semiconductor sales, will benefit the exports of South Korea and Taiwan.

Hence, both the Korean won and New Taiwan dollar will benefit from this cyclical story. However, the bank sees more potential for the KRW to outperform the TWD. For a start, the appreciation in the KRW hitherto has broadly been consistent with the recovery in its exports. In contrast, the TWD's rally looks to have run ahead of Taiwan's export growth.

The bank notes there are no signs that TWD strength has severely eroded export competitiveness, and therefore it's expected the authorities will gradually allow further TWD gains.

EM Equities

Alongside favourable trends in technology and e-commerce, emerging market stocks still offers a good level of exposure to a value recovery in energy, financials, industrials and materials, predicts Wilsons Advisory.

China

As detailed in Part I of this article, China not only dominates the EM market benchmark with a 43% share but also Chinese economic growth spills over into strength for many other EM economies. This, in combination with above-trend growth for the global economy, has can spur EM growth, explains Morgan Stanley.

The US investment bank sees 9% GDP growth in 2021 for China, led by a strong recovery in private consumption and global demand, before moderating towards its potential of 5.4% in 2022. It's also considered policy will tighten counter-cyclically amid reflation.

Morgan Stanley maintains a balanced growth/value position, but **favours selective cyclical exposures**. It also sees a transition to late-cycle plays versus early-cycle plays and continues to prefer A-shares over offshore China.

Sectoral recommendations for investors are to stay overweight **Internet, Discretionary, Materials and Industrials** and stay underweight **Energy and Financials**. The bank has also downgraded **Technology Hardware and Semiconductors** to equal-weight, while upgrading Healthcare to overweight.

Regarding Hong Kong, both the Hong Kong and China equity markets are expected to benefit from President Biden's more moderate stance towards China and successful pandemic management. Given the inexpensive valuation and relative underperformance of the Hong Kong market versus the US market and A-shares, risk appetite should improve next year.

For a more in-depth analysis of Chinese equities and one potential way for investors to access China A shares please refer to (https://www.fnarena.com/index.php/2021/01/29/are-chinese-shares-a-unique-opportunity-part-i/)

Taiwan

Along with China and Vietnam, Taiwan is one of the three Asian economies that maintained positive growth in 2020 despite the covid-19 pandemic. Thanks to the government's early and effective response to the pandemic as well as the strong performance of its technology sector.

GDP growth is expected by DBS Group to pick up to 4.2% in 2021, from around 2% in 2020, and CPI inflation is forecast to rise to 0.5% from around zero.

The technology sector, semiconductors in particular, will likely remain as the key driver. On one hand, global demand for computers and consumer electronics is expected to decline next year, as the one-off purchases related to remote work and distance learning dissipates. On the other hand, demand for cloud, data centres and 5G will likely continue to increase in 2021, as many countries around the world build digital infrastructures and push for the process of digital transformation after the pandemic.

Smartphone demand is poised to recover in 2021 as global income conditions improve and more consumers move to upgrade amid the expansion of 5G networks. Overall, the outlook for **semiconductor** demand remains constructive.

DBS Group believes trade disruption risk, as a result of the China-US trade war, may decrease in 2021. Pressure is considered to remain for Taiwanese technology companies to diversify their supply chains to hedge the risk of China-US technology tensions.

Favourable fund flows for 2021 are likely given an improved global environment, record revenues by TSMC, the largest listed company in Taiwan, and broadly positive risk sentiment.

The Taiwanese government's swift response has succeeded in containing the outbreak without resorting to a nationwide lockdown, thus averting a deep economic contraction, explains ANZ Bank. Taiwan's economic recovery was also driven by a strong rebound in exports, thanks to the upturn in the global semiconductor cycle.

Also boosting growth is the **shift in manufacturing production to Taiwan from China over the past couple of years** since the US-China trade conflict broke out.

However, some strategists are wary regarding geopolitical risks. Martin Currie, the active equity specialist, reminds us how exposed Taiwan is to the deterioration in relations between China and the US. Militarily, an invasion is considered not beyond the capabilities of the People's Liberation Army. Any reaction by the US would almost certainly involve bombing of the mainland. However, the threat of nuclear war is likely holding both sides back.

South Korea

Matthews Asia highlights South Korea by most metrics should be regarded as a developed country. Some leading global index providers like the financial times stock exchange (FTSE) already consider it such.

The country is not seen as a particularly attractive market for domestic consumption growth, though does have some world-class companies.

DBS Group expects the economy to grow by 2.9% in 2021, a moderate rebound compared to the - 1.1% contraction in 2020. Both consumption and exports will likely pick up at a moderate pace.

President Moon's government should be in a good position to implement the **K-New Deal** in July of 2021, states DBS Group. This aims to reinvigorate the economy after the pandemic. The government will spend 8% of GDP in the next five years to create jobs in the digital and green energy sectors and to enhance the social safety net.

As part of the K-New Deal, the **Digital New Deal** involves investment in **big data, 5G and AI** to build digital education infrastructures, smart hospitals and smart cities. It will also enable smart industrial complexes and smart logistics centres.

A **Green New Deal** also requires investment in eco-friendly infrastructures and renewable energy. This is aimed at both achieving the 2030 greenhouse gas emission reduction target and the reaching the 20% renewable energy production by 2030.

Despite this potential boost, Oxford Economics prefers to weigh the recent past and considers that even without the adverse impact of the US-China trade war and the covid-19 pandemic, South Korea's export performance has been sub-par.

The country's international competitiveness has been restricted by a strengthening currency and rising unit labour costs (ULCs). The appreciation in the ULC-based real effective exchange rate (up around 50% since 2009), demonstrates not only a loss of cost competitiveness due to a broadly stronger currency but also the increase in South Korea's ULC relative to that of Japan and Taiwan.

The electronics/information and communications technology (ICT) sector has broadly contained the ULC since 2014, despite headwinds from other key industries. This underscores the need for restructuring in struggling sectors, according to Oxford Economics.

The more upbeat Morgan Stanley notes Korea, along with other North Asia peers, outperformed Asia (ex Japan) on growth in 2020. This recovery is expected to continue into 2021, though as others catch up, the growth divergence which had widened in favour of Korea this year will likely narrow in 2021.

One widely held fear is that normalisation in one-off technology demand could take the wind out of the sails of exports. Morgan Stanley thinks that the recovery in the memory space since the second half 2020 would likely offset any one-off technology demand normalisation elsewhere, and take Korea's exports growth higher.

Meanwhile, ANZ strategists feel South Korea is well positioned to benefit from the cyclical recovery in the global economy. Reflective of this optimism is a strong recent rebound in foreign buying of Korean equities. In fact, November 2020 saw the highest monthly inflow in more than seven years.

Latin America

The Oxford Economics in-house measure of economic recoveries continues to show a slow and steady recovery in the Latin American region. As of early December 2020, **Chile and Colombia** had closed the gap with leader Brazil, while **Mexico**'s recovery had stalled.

The research house is not too worried about a recent surge in inflation. So far it is too localised in food prices, and core inflation remains low throughout the region.

The return of the left to Bolivia, impeachment of Peru's president and a new constitution in Chile are all considered sources of downside risks to the recovery in 2021.

Brazilian companies, according to Matthews Asia, are on the leading edge in several fields such as **fintech and digital payments**. On balance though, Brazil is considered to have a smaller number of innovative companies than China does for example, and it is not an emerging presence in potentially large segments such as biotechnology.

The high cost of capital in Brazil has been detrimental to innovation and local entrepreneurship, although it means those who have achieved scale tend to be of a very high quality.

The global emerging markets manager believes the recovery will continue on the back of strong global growth and domestic demand helped by a low interest rate environment. Some limited fiscal slippage will keep uncertainty high though this will be gradually lessened with progress on the reform agenda.

A still wide negative output gap should keep core inflation in check and help the central bank to keep rates low and only start normalising monetary policy in the fourth quarter 2021.

India

DBS Group forecasts the Indian economy will gain strength in 2021 and Morgan Stanley also maintain a constructive view on the economy. The latter expects the growth recovery to gain strength from the second quarter of 2021. Despite inflation remaining marginally above the 4% target, policy rates will only see a first lift-off at year-end as a result of an extraordinarily accommodative stance.

The government has implemented **structural reforms in the manufacturing and agriculture sectors**, which should help to lift medium-term growth prospects.

Additionally, government efforts to undertake privatisation have the potential to help improve the health of public finances.

Vietnam

DBS Group notes Vietnam has been a shining example in the region in terms of its ability to contain the spread of the pandemic. It has returned the least number of cases across broader Asia, together with preventing fatalities. This can be attributed to early detection and decisive actions taken by the state. These include being the first to close its land borders with China and imposing strict lockdown on towns at the early onset of the pandemic.

Export growth will likely be strong in 2021, particularly given the economic turnaround in some of the key regional markets such as China. DBS Group expects the manufacturing sector to be a key driver of growth, bolstered by gradual improvement in domestic services and construction activities.

Private consumption and investment growth could provide added impetus to growth beyond the expected boost from the recovery in external demand and trade flows. This should lift GDP growth to 6.7% in 2021, though with more pronounced improvement from the second quarter onwards.

DBS Group believes the external environment could remain conducive, with the new US administration providing more certainty around trade. The trade surplus with the US is expected continue growing amid the diversification of trade and investment flows from China to ASEAN. Vietnam will remain**a key beneficiary in the reshuffling of regional supply chains in the coming years**.

Russia

Morgan Stanley sees 16% upside in US dollar terms over the next 12 months (NTM) for Russian equities.

Current NTM dividend yields for the overall market are very attractive, especially when compared to other markets and a similar level of European major oil companies.

It’s expected dividends will recover in 2021 and 2022 after a decline of 34% in 2020. The forecast is for an increase of 26% in 2021 and another 26% in 2022 (versus 32% and 25%) respectively from consensus.

Morgan Stanley doesn’t anticipate material Russian sanctions by the US post elections.

While headwinds are likely to keep a cap on oil prices near term, the bank’s global oil strategist has $50/bbl Brent forecasts for the second half and $60/bbl forecast in a bull case scenario. The key longer-term risk to the Russia overweight call remains rising investor ESG focus, the high share of fossil fuels in the MSCI Russia index and the added risk of the country's permafrost thaw.

Russia has 24 regions that are permanently frozen and nine of those contain extensive infrastructure and cities. These regions are key to Russia’s economy producing the bulk of its raw materials that account for almost half of the country’s GDP.

South Africa

The Morgan Stanley South Africa strategist sees 15% upside potential in US dollar terms to MSCI South Africa in the next 12 months.

Diversified miners are still considered relatively cheap, but with risk of significant earnings upgrades if spot commodity prices hold. Top picks in the sector are Anglo American and African Rainbow Minerals.

Regarding technology, the bank is concerned that potential de-rating of the Chinese technology sector (in the face of a successful vaccine and uncertainty around the anti-trust legislation) could weigh on South African big caps.

However, the prospects of a buy-back for **consumer internet company Naspers** should mean a sufficient cushion to offset the de-rating risk. On a longer-term view the growth and valuation combination on offer from Naspers is one of the most attractive across the Johannesburg stock exchange.

Historically a defensive sector, healthcare has performed like a cyclical as covid-19 led to surgery cancellations and weak hospital volumes. Oxford Economics expects **a strong earnings recovery for the hospital stocks** as the pandemic shock normalises over the course of 2021. **Life Healthcare** is considered the top pick in this space.

Banks are arguably the easiest (i.e. most liquid) way to play a domestic re-rating story driven by the strong trade balance and government progress on reforms (such as the corruption crack down). **Firstrand and Standard Bank** are the preferred picks.

Finally, **Bidvest** is the top pick in this the industrials sector. Morgan Stanley sees the stock as well positioned for a cyclical recovery in South Africa through its consumer products and business services offerings.

Conclusion

For many investors, both private and professional, emerging markets are considered a core allocation when seeking long-term growth.

Many investment managers are bullish on growth prospects for emerging market equities and forecast strength for emerging market currencies, while others currently have specific reservations.

For such a diverse geographic region caution should be exercised as the pandemic has fallen unevenly across different countries, industries and sectors.

In many instances investors lack either the time or resources to focus on individual stocks and elect to invest via professionally managed exchange traded funds.

AUSTRALIA

Warehousing Demand Powers Goodman Group

Global demand for industrial property is likely to support Goodman Group for the next few years, leading to robust earnings, but is there an issue with the valuation?

-Development earnings significantly above the previous peak
-Is Goodman Group's self-funding ability underappreciated?
-Minimal loss of rent throughout 2020

By Eva Brocklehurst

Development projects continue apace for Goodman Group ((GMG)), as tenant demand for logistics/warehousing has accelerated, underpinned by the pandemic. As a result, the business appears well-placed for continued growth in earnings over the next 2-3 years amid a strong balance sheet and a self-funding model.

The group is benefiting from exceptionally strong demand in industrial property and the US is likely to be a strong driver of that business in 2021. First half operating earnings of $614.9m reflected 16% growth. All metrics grew from a high base. Operating earnings growth guidance has been been upgraded to 12% in FY21 from 9% previously.

Work in hand has increased to $8.4bn and the company expects this to exceed $9bn in the second half. Citi suspects guidance may even be conservative, noting slower investment income growth may still be offset by strength in the management business and lauding the long-term growth prospects and a clearly-defined strategy.

The main news was development earnings, significantly above the previous peak, and the fact **44% of operating earnings now emanate from Europe**. Yet income from funds was a disappointment for brokers.

Management income was flat while investment income was down -8%. Credit Suisse believes these results must be taken in the context of the asset growth that has occurred over the past year and expects development margins will remain elevated.

While acknowledging Goodman Group is not the cheapest stock around, the broker retains a preference and upgrades to Outperform. On the other hand, UBS believes, while the business can capitalise on structural tailwinds, the price reflects this.

Morgan Stanley acknowledges **bond yields are a challenge, noting the share price has underperformed the sector index by around -2% this year**, which has likely been driven by the sharp uplift in Australian 10-year bond yields. If this continues there could be additional pressure on the stock.

Nevertheless, as the broker points out, there is **a portfolio of "enviable" land which can be re-purposed**. Distributions are not expected to increase in FY22-23, which Morgan Stanley believes is sensible, as there are plenty of deployment opportunities.

The self-funding ability of Goodman Group is underappreciated, in the broker's view. Ord Minnett, too, likes the flexibility, noting development metrics are strong and margins should remain elevated at least until FY23.

Development

Demand for warehouse space is accelerating, as evident in data accrued by UBS. Moreover, as the company focuses on land-constrained markets and high-value warehousing its workload is growing.

Goodman has signalled that the increase in development volumes over the next few years means more capital will be allocated to this segment. Looking ahead, Goodman will target a 40-50% pay-out ratio that should allow the business to self-fund its share of development activity.

Credit Suisse believes it's worth highlighting that **the Australian land bank were acquired relatively cheaply compared to the prices paid more recently by some of the company's peers**. The business also continues to target higher and better-use re-zoning opportunities and multi-level warehousing. In this way, Credit Suisse believes high margins can be retained.

Goldman Sachs puts a dampener on enthusiasm and flags development earnings as the lowest quality item within the earnings mix, now accounting for almost half group earnings (EBIT). Reinvestment and management contributions were well below forecasts and the group also benefited from a lower tax rate.

Performance Fees

Credit Suisse acknowledges the performance fee outlook is more modest in FY21 with total returns for partnerships expected in the mid teens. Goodman has previously guided to a -$20-30m decline in performance fees in FY21 and the broker suspects these may be affected further by timing issues.

Macquarie points out the funds management platform has sustained a similar level of returns for the past five years and expects it to be no different in FY22-23. Goodman achieved minimal loss of rent throughout 2020 and was able to maintain occupancy at 97.9%.

There were 45 developments completed throughout the year. Gearing is expected to increase slightly as development capital is deployed and fewer asset sales occur but will remain under 10% over the short term.

Value?

Despite a predictably strong performance, there were plenty of rating upgrades, from Macquarie, Credit Suisse and Ord Minnett. Macquarie believes Goodman Group is now undervalued.

Goldman Sachs, not one of the seven stockbrokers monitored on the FNArena database, is unmoved and retains a Sell rating with a $12.24 target. The database has five Buy ratings and one Hold (UBS). The consensus target is $20.10 suggesting 16.4% upside to the last share price.

Jarden, also not one of the seven, is in the Goldman Sachs camp, with an Underweight rating and $19 target. The broker likes the globally dominant position in logistics and concedes the opportunity for modern distribution centres is significant, upgrading forecasts to reflect the expected annual growth in earnings over FY21-23.

The broker also does not believe the shift to more development income from management fees is a problem. The main obstacle for Jarden is the rating has been upgraded significantly in the last 12 months and there appears better value elsewhere in the sector.

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

AUSTRALIA

Improved Profitability Perks Up Inghams

Ingham's Group continues to benefit from strategic initiatives put in place in recent years while the easing of the pandemic presents further upside

-Benefit from recovery in food services and wholesale channel
-Higher feed costs likely to persist for some months
-Woolworths supply contract up for renewal in August

By Eva Brocklehurst

Disruptions from the pandemic seem to be more manageable for Ingham's Group ((ING)). First half gross margins improved by 65 basis points, despite the need to clear inventory and unfavourable trends in feed costs.

Morgans suggests the benefits of strategic initiatives taken by the company are starting to emerge and a strong earnings recovery should occur over FY21 and FY22. Underlying operating earnings growth was 9.8% and net profit 10.7% in the first half.

The business benefited from a recovery in food services and wholesale channels as restrictions related to the pandemic were eased. Underscoring this, Morgans points out excess frozen inventory has materially reduced, with just $5m worth to be cleared in the second half.

There are some headwinds in the export channel because of the closure of certain poultry markets. Volumes in the first half were affected by the outbreak of avian flu in Victoria albeit not at the company's farms. Ingham's expects markets will be back and fully open by March.

Earnings Split

Ingham's has reiterated a typical half-year ratio of 52:48 for operating earnings although provided no formal guidance. Citi notes earnings volatility over the last two years has made it difficult to gauge the split on half-year earnings.

The broker calculates 52% of earnings occurring in the first half compares with a five-year average of 51.4%. The pandemic has distorted earnings and previously there was a problem with processed product. Citi forecasts second half earnings growth of 6%.

Macquarie expects normal seasonal influences should prevail and expects a 50:50 split for earnings, given the recovery in higher-margin channels in the second half compared with a pandemic-impacted first half, along with more moderate feed costs.

The broker notes the strength in demand across most channels amid the return of overall trading volumes to pre-pandemic levels. The company's goal is to return to historical operating earnings (EBITDA) margins, although this is not expected to happen in the short term in the current feed price environment.

Bell Potter notes operating cash realisation of 71% revealed the strongest performance in three years, as the first half is typically the peak of working capital. The broker believes the business will be the beneficiary of the unwinding of provisions taken in the second half of FY20.

Although hard to quantify, Credit Suisse asserts **operating efficiencies are at least part of the expanded margin and should be sustainable**. The broker upgrades FY21 estimates by around 7% but reduces FY22-23 by -2-3%, mainly because of lower assumptions regarding the benefits from the costs versus prior estimates.

Goldman Sachs has become more confident regarding the profit cycle into the second half. The main risk for the short term is a supply contract with Woolworths ((WOW)), due to expire in August 2021.

Goldman Sachs estimates this contract accounts for around 50% of the Australian poultry volumes. Retaining this contract, under similar terms and conditions, remains key to the production of profit stability over the medium term for Ingham's. The broker emphasises no view is taken regarding the outcome of any negotiations.

Morgans believes Ingham's, a market leader with an integrated network, will benefit from attractive fundamentals as well as the significant upside stemming from the business transformation. Cash flow is strong and there is an attractive fully franked dividend yield. A key drag is a resumption of normal executive compensation after a drop in the second half of FY20.

The company has outlined a new capital management framework and will invest in specific growth projects that meet its return hurdles. Additional capital will be considered for return when the balance sheet position is supportive.

Feed Prices

Ingham's has also indicated higher soybean meal costs, around 20% of feed requirements, and resilient wheat prices mean the market should not get too carried away by the outlook for FY22.

Macquarie points out feed prices have pulled back from historical highs but have not reached anticipated lows because of strong international demand. US soy meal prices are up 25-30% and demand from China has been high while South American supply is low, which should mean higher prices persist for another six months.

Bell Potter notes domestic wheat prices are down on average -16% and a compression in wheat costs is somewhat offset by the upward movement for other feed grains such as corn and soybean meal. Despite this the broker expects a moderation of the costs and some benefits to flow in the second half, as does Credit Suisse.

Citi points out **conditions are more favourable in terms of supply/demand and the affordability of chicken relative to other animal protein**. The broker believes there is opportunity for margin expansion but positive signs of cost savings, assessing the poultry market has remained rational, likely reflecting this improved affordability.

Bell Potter, not one of the seven stockbrokers monitored daily on the FNArena database, has a Buy rating and $4.30 target, principally driven by the leverage there is to cost deflation in FY22 at a time when the pandemic disruptions are also likely to be easing.

Goldman Sachs, also not one of the seven, has a $4.25 target with a Buy rating while the database has four Buy ratings and two Hold. The consensus target is $3.92, signalling 7.3% upside to the last share price the dividend yield on FY21 and FY22 forecasts is 4.1% and 4.7%, respectively.

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AUSTRALIA

Bank Of Queensland Scaling Up

Bank of Queensland is scaling up, setting its sights on a more diverse base as it merges with ME Bank

-Customer base will increase by 60%
-Strategically significant because of scale benefits
-Less emphasis on Queensland

By Eva Brocklehurst

Bank of Queensland ((BOQ)) will become a much bigger bank, propelled to the sixth-largest in Australia behind the majors and Macquarie Group ((MQG)) as it merges with ME Bank.

Ord Minnett asserts this a major strategic step, as the new shares equate to 40% of the current share base and the customer base will increase by 60%. While not without risk, Credit Suisse finds the financial outcomes will be compelling. Bank of Queensland will acquire ME Bank for $1.33bn and is undertaking a $1.35bn equity raising.

ME Bank, despite being a mono-line mortgage lender and having 1.4% share, has a similar low return on equity at 8%, which reflects high funding costs, although there is potential to improve in Ord Minnett's view. ME Bank's loan growth slowed in FY20 and is not expected to grow meaningfully in FY21.

The broker also assesses **the purchase is going to require careful execution as Bank of Queensland already has a full agenda** for its ongoing transformation, warning that integrating bank acquisitions is always difficult and time will tell whether too much has been taken on.

Morgan Stanley considers a combination of better operating trends and the financial implications of the acquisition are a positive development. The merger makes sound strategic sense because of the scale benefits, diversifying the geography and complementing the Bank of Queensland business model.

Less Queensland

Underpinning Goldman Sachs' view is Bank of Queensland's overweight position in housing and its strong capital position, which will be put to work to improve the growth outlook. Importantly, the portfolio will diversify from Queensland.

UBS notes pro forma Queensland gross loans are expected to reduce to 31% from 42% of the portfolio, with NSW and Victoria increasing to 29% and 21%, respectively. Integration risks are expected to be lower, as both banks currently use a common Temanos core banking platform.

With complementary technology execution risk appears less to Credit Suisse and the acquisition should be a means to increase scale and lower risk. Goldman Sachs also believes the common use of this platform for retail banking should pave the way to a single, multi-brand digital platform.

Bank of Queensland has indicated the first phase of the Virgin Money digital path has been delivered and the second phase is now underway, which will form the basis for the cloud-based platform for both Bank of Queensland and ME Bank.

Synergies

The acquisition appears relatively fully priced to Ord Minnett, before allowing for synergies, but is significantly accretive when including synergies.

Morgan Stanley is not convinced that including ME Bank in a multi-brand strategy will materially improve growth prospects. On the other hand, implications are positive for synergies. Bank of Queensland expects pre-tax synergies of $70-80m by the end of year three while integration costs are expected to be around $130-140m.

Targeted cost synergies represent 26% of ME Bank's cost base, which Goldman Sachs points out is not unusually high for intra-market bank acquisitions, although it may seem high in light of the lack of an ME Bank branch network.

Beyond targeted synergies management has also signalled upside from wholesale funding costs and reduced investment expenditure. Goldman Sachs envisages scope for the liability costs of ME Bank to scale back.

The broker also highlights potential for further deposit repricing and, while it may be challenging to narrow the difference with the major banks in the short term, Bank of Queensland could continue to reduce rates towards where Bendigo & Adelaide Bank ((BEN)) is currently pricing.

Lending growth has improved and margins are resilient. Macquarie expects margins will be reduced as competition persists, while the low interest rate environment will weigh on low-cost deposits. Still deposit pricing provides a key margin offset in the short term as "savers become saviours".

Refreshed Guidance

As part of the capital raising announcement, Bank of Queensland has provided new guidance, amid higher margins, signalling first half cash earnings growth of 8-10%. Management expects the balance sheet will remain strong with a pro forma CET1 ratio of 9.8%.

Guidance has highlighted a turnaround in the retail banking franchise and traction in the transformation strategy. Housing loans grew at 5% annualised and the margin was up three basis points. Capital and provisioning both look strong to Morgan Stanley.

The acquisition is not in Morgan Stanley's modelling, nor the capital raising, because the transaction is yet to receive regulatory approval. Nevertheless, the broker estimates it will result in EPS accretion of 3% in FY22 and 8% in FY23.

Goldman Sachs, too, does not include ME Bank until the deal is complete, which Bank of Queensland anticipates will occur before the end of FY21. The broker revises estimates higher for FY21-23 to reflect the trading update that revealed better net interest margins, fees and bad debts albeit offset by higher expenses.

Goldman Sachs, not one of the seven stockbrokers monitored daily on the FNArena database, reiterates a Buy rating with a $9.63 target. The database has two Buy ratings and four Hold. The consensus target is $8.65, signalling -5.6% downside to the last share price. The dividend yield on FY21 and FY22 forecasts is 3.8% and 4.6%, respectively.

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AUSTRALIA

Could Competition Shake Up Appen?

Could competition be stalking Appen as a result of an increasing number of smaller projects on offer? Several brokers suspect this may be the case

-Sizeable earnings base makes growth rates harder
-Pricing, amid smaller contracts, may prove critical
-Appen still well-placed to capitalise on AI trends

By Eva Brocklehurst

Machine learning software leader Appen ((APX)) has carved out a niche and, while still ahead of the field, competition could catch up if the size of projects is any indication. Credit Suisse suspects historical patterns cannot be relied on any more. Appen's earnings base has become sizeable and this makes beating previous growth rates harder.

Revenue is predominantly not recurring and this raises the alert signal for any impact new entrants are having in the market. So far the industry is "ok” and Credit Suisse asserts it is simply "following the money".

Along with renewed concerns that customers may still prefer to defer or reduce capital expenditure the broker takes a cautious stance and reduces estimates substantially for 2021-23, involving a combination of updated AUD/USD and lower growth forecasts following updated guidance.

Even so, Credit Suisse acknowledges there is a risk to estimates given assumptions that growth will still accelerate. The operating earnings guidance range is $120-130m at constant currency, which was US$0.69 in 2019, Bell Potter points out.

This assumes an average Australian dollar exchange rate of US$0.70. As a result, Bell Potter downgrades 2021 and 2022 forecasts by -23% and -26%, respectively. **The main competitive advantage,the broker observes, is the long-standing relationships with customers.**

Wilsons agrees Appen has faced, and still faces, headwinds such as lower growth in demand for its services and an appreciating Australian dollar, along with the risk of removal from the ASX100. A more stable register could reduce the volatility in 2021 but elevated currency may drive downgrades nonetheless.

Pricing For Competition

Pricing, as Macquarie points out, may prove critical. Appen still generates most of its revenue from purchase orders rather than recurring subscription platform fees and these can be unpredictable and lumpy. Furthermore, The broker notes that, while Appen signed up 136 new customers in 2020, on a constant currency basis guidance is signalling operating earnings growth of 15% in 2021.

This leads Macquarie to suspect new projects are smaller in nature. With this in mind, and the scale of the workforce being the company's main buffer to competition, the smaller projects could present difficulties. The broker flagged this prospect just a week ago and the results have borne out its suspicions.

Pricing is yet to emerge as a competitive lever but this could occur with smaller project sizes in the future. The company expects the first half of 2021 will remain weak and did not provide guidance for the first/second half split. This is another area where Macquarie is cautious, given a lack of detail.

The broker notes the stock has underperformed the ASX 100 by -22% over the past week and -46% in the last three months and, with the limited visibility, envisages scope for further weakness before value support is reached.

UBS remembers that, **at the December downgrade, the company had noted key clients were prioritising resources away from mature projects and towards new products.**

The broker suspects this was a significant development and underscored the decision to downgrade guidance. Concerns have not been alleviated with the actual results and challenges such as a stronger Australian dollar, uncertain pandemic trends and an evolving regulatory environment remains heightened.

UBS resets growth expectations for the medium term, although acknowledges these could prove highly conservative if historical growth trends resume. The broker believes future machine-learning applications will continue to require human datasets for many more years and as AI adoption expands exponentially, so too will the volume of training data required.

Appen Still A Winner

Wilsons believes Appen is well-placed to capitalise on the trends in content relevance which require high-quality analysis of vast quantities of data at a reasonable price. Nevertheless, risks centre on high customer concentration and limited revenue visibility.

The broker points out Appen has experienced some traction from increased sales & marketing expenditure, winning 70 customers in the second half and 46 in the fourth quarter alone. Projects with major customers grew by 34% and were driven by the increased use of the company's annotation platform.

Revenue from China grew 60% in the fourth quarter with customers including major Chinese technology operators, while incremental traction has been achieved in the autonomous vehicle segment. In government applications, the pandemic, and the US presidential election, hindered Appen but there still is a growing pipeline of opportunities.

Demand drivers are likely to prevail in the industry Wilsons concludes and, while retaining an Overweight rating, lowers FY21-23 estimates by -15-23%. The broker, not one of the seven stockbrokers monitored daily on the FNArena database, has a $22.83 target.

Bell Potter, also not one of the seven, has a Hold rating and $19.50 target (reduced from $27.50). The database has two Buy ratings (Citi, Ord Minnett yet to comment on the results release), two Hold and one Sell (Macquarie). The consensus target is $23.28, suggesting 36.5% upside to the last share price. This compares with $26.68 ahead of the results. Targets range from $16.00 (Macquarie) to $30.90 (Citi).

ESG FOCUS

ESG Focus: BetaShares Launches Green ETF

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future:
https://www.fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

BetaShares to launch Climate Change Innovation ETF

By Sarah Mills

This year, 2021, is being touted as the year for renewable energy and the market can expect a lot of activity in electrification and infrastructure.

So it makes sense that BetaShares is about to launch a Climate Change Innovation exchange traded fund (ETF) ((ERTH)), subject to approvals.

Just to put things in perspective, in the last eight months, the European Union has announced the EUR$1trn green deal; Biden has pledged US$5trn; the UK has committed to a net zero emissions target; and China has committed to net zero by 2060.

BetaShares chief executive officer Alex Vynokur stresses the level of impending investment in the press release:

"It is estimated that the additional investment required to achieve a global zero carbon-emissions economy by 2050 will be US$1-2 trillion (per year) … in the decades ahead."

"… these challenges also present opportunities. Our new fund will provide exposure to global companies leading the fight, and likely to benefit from what we believe is a long-term megatrend."

The ETF is taking a broad view of the climate change challenge and includes several sustainability themes.

ERTH will track clean/renewable energy; green transportation; water and waste improvements; decarbonisation solutions and sustainable products.

ERTH hopes to provide investors with exposure to global companies at the forefront of climate and environmental themes, and positions itself as an impact fund.

It will also exclude fossil fuels "and other negative business activities".

Announcing the endeavour, BetaShares' Vynokur said:

“The scale of the challenge the world faces means that innovation is called for in a range of climate- and environmentally-friendly activities.

"A focus on renewable energy is essential, but the deep cuts to carbon emissions that will be required to limit global warming cannot be achieved by clean energy alone.

“That’s why ERTH will provide broader exposure to a comprehensive list of climate change solutions. This will include not only clean energy but electric vehicles, energy efficiency technologies, sustainable food, water efficiency and pollution control – in short, a broad range of solutions that directly enable the reduction or avoidance of carbon emissions. This is the essential objective if the world is to effectively address climate change.”

In terms of risk profile, BetaShares says the portfolio consists of established companies that generate the majority of their revenue from products and services that directly enable CO2 avoidance.

The companies have a wide range of business activities, says BetaShares

Examples include clean energy companies, electric vehicle makers, sustainable food companies and technology-oriented companies involved in batteries, energy storage, fuel cells, electrical components, etc. We would certainly describe all of these as “impact” solutions, but they are existing solutions and do not fall into the early stage/start-up category.

The fund will join BetaShares’ Global Sustainability Leaders ETF ((ETHI)) and Australian Sustainability Leaders ETF ((FAIR)) and the burgeoning number of ETFs hitting the market globally.

Given most of the climate change action is happening offshore, it provides Australian investors with an opportunity to participate in the action in what is shaping up to be a pivotal year.

Given BetaShares reputation, it may also offer investors a clear opportunity to avoid greenwashing, although all will be revealed by the fund’s stock picks.

Russell Investments senior portfolio manager James Harwood offers a timely warning about the growing danger of greenwashing to investors, as the climate change theme intensifies.

“There has been a marked increase in the demand for environmental, social and governance (ESG)/sustainable style products and this trend looks set to continue,” says Harwood in an Independent Financial Adviser article.

“Unsurprisingly many firms are seeking to capture some of this growth through the launch of new products, but also rebranding of existing funds.

“This has led to concerns of “greenwashing”, which is the overstating of a product’s ESG credentials or misleading investors on how environmentally sound or ethical a fund really is.”

He advises that ESG funds should have two key features:

Negative screens or tilts – basically exclusions or underweight holdings; and positive tilts – an overweight market exposure.

As usual, the negatives include fossil fuels, alcohol and gambling; while positive tilts might include renewable energy, education or healthcare.

“Another approach is to score companies across a wide range of ESG metrics – and then overweight stocks that have the highest aggregate ESG scores,” says Harwood.

Meanwhile, he suggests that certification from the Responsible Investment Association of Australasia (RIAA) should provide advisers with a degree of comfort that the product is properly credentialed.

Harwood also emphasises the diversity within the ESG community and the need for advisers to recognise this.

“Some clients are likely to want very hard exclusions and have nil exposure to fossil fuels and mining for example. Such a client might be evaluated as being “dark green”, i.e. their ESG beliefs are very hard and take precedence over missed investment opportunities.”

Of course, funds reflect these variable appetites; and investors need to recognise this commitment level when stepping into the ESG and ETF fund market, given the clear risk-reward tilts.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 19-02-21

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday February 15 to Friday February 19, 2021
Total Upgrades: 22
Total Downgrades: 18
Net Ratings Breakdown: Buy 51.21%; Hold 40.82%; Sell 7.96%

For the week ending Friday 19 February, there were twenty two upgrades and eighteen downgrades to ASX-listed companies by brokers in the FNArena database.

Altium received two upgrades to Buy from Neutral and Tabcorp Holdings also received two upgrades. On the flipside Coles Group and CSL received two downgrades apiece from Buy to Neutral.

After first half results, commentary by brokers on Coles focused on a sales decline, loss of market share and entry into a period of elevated investment. Meanwhile, CSL released "stellar" first half results, while also stoking broker concern over a weaker second half. Plasma collections are down circa -20% versus pre-covid levels and Credit Suisse doesn't feel they are likely to recover until mid-2021.

Regarding ratings upgrades, Morgans believes demand for Altium’s personal protection solutions will remain robust. Indeed, the pandemic has strengthened the company’s position and earnings trajectory. Meanwhile Citi suggests the company is near the end of the pandemic-induced downgrade cycle.

For Tabcorp Holdings, both Ord Minnett and Citi build the potential sale of the wagering and media segments into forecasts. In addition, first half results were above expectations with a great performance and strong outlook for lotteries.

Seven West Media had the largest percentage rise in forecast target price by brokers for the week. First half operating earnings were ahead of expectations and Macquarie highlights leverage to a cyclical recovery, while the debt overhang should be resolved in the next 6-12 months.

Domino’s Pizza was next with a large rise in target price estimates after producing the strongest result and outlook in many years. This stemmed from a strong result in all regions particularly in Japan and Germany.

The retail sector continues to prosper as confirmed by strong first half results and the rise in target prices for ARB Corp and Baby Bunting. The performance of the former may be underappreciated due to the longer-term growth potential as export sales go from strength to strength, assesses Citi.

Also relating to exports, Baby Bunting will be setting up ten stores in New Zealand providing further longevity to an already strong growth profile, notes Morgans. This increasing scale, according to Citi, will increase bargaining power with suppliers and bring on supply chain efficiencies.

United Malt Group had the largest percentage fall in forecast target price by brokers for the week following weaker-than-expected first half guidance (September year-end). However, this didn’t deter brokers. Credit Suisse raised the rating to Outperform from Neutral in expectation of a strong recovery in the second half, while Macquarie sees foundations are being set for a transformation of the business.

A technical glitch has put Woodside Petroleum atop the table for earnings upgrades, so best to ignore. The second placed AGL Energy concerns a leftover from the results release the week prior.

Broker’s estimates for OZ Minerals’ 2020 result were generally exceeded and earnings forecasts revised higher. On the basis of spot prices, Macquarie calculates the company can fund an impressive organic growth profile from its cash flows and deliver a 10%pa production CAGR (compounded annual growth rate) through to 2028.

Seven West Media was next on the table for reasons explained.

Sims followed with a first half result that outdid the expectations of six brokers on the FNArena database who proffered updates last week. According to Macquarie, better-than-expected sales volumes combined with cost-out benefits combined to drive stronger operating leverage. The dividend of 12c also far exceeded many of the broker’s forecasts.

Morgan Stanley notes the first year in some time that GLNG reserves were upgraded for Santos and this contributed to forecast earnings upgrades by brokers last week. Citi also likes that the company has the greatest return on investment potential and earnings upside in the sector.

Rio Tinto also deserves an honourable mention for forecast earnings upgrades last week. The company surprised the market with its second biggest dividend in Credit Suisse's coverage of the company.

Cooper Energy led the table for percentage forecast earnings downgrades by brokers. While Macquarie acknowledges the company is within the covenants set by the reserve-base lending facility, the broker suspects there may be a need to refinance. Other brokers like Ord Minnett are more hopeful and feel the first half represents the start of a step-change in output and prices.

In the case of Corporate Travel Management, first half results left brokers generally torn between potential upside and lingering pandemic concerns. This is perhaps best illustrated by Morgan Stanley admiring moderating losses while acknowledging the pandemic will bring liquidity concerns and cash burn quickly back into focus.

Crown Resorts also featured in forecast earnings downgrades as Citi felt little could be deduced from the first half result to determine Crown's underlying operating performance, given restrictions and closures. The opaque vibe was heightened when Macquarie noted the outlook post the NSW inquiry remains filled with risks.

Finally, all seven brokers in the FNArena database reflected upon Transurban Group’s first half results that missed market consensus by some -5% at the operational (EBITDA) level. The business continues to be impacted by Melbourne’s Citylink, the US Express Lanes and the airport-related roads. However, some brokers, including Ord Minnett prefer to focus on the medium-term outlook which is looking sound.

Total Buy recommendations take up 51.21% of the total, versus 40.82% on Neutral/Hold, while Sell ratings account for the remaining 7.96%.

Upgrade

ALTIUM LIMITED ((ALU)) Upgrade to Buy from Neutral by Citi and Upgrade to Buy from Neutral by UBS .B/H/S: 4/2/0

While envisaging downside risk to second half earnings, Citi now suspects Altium is nearing the end of the pandemic-induced downgrade cycle.

The demand environment and earnings growth are likely to accelerate over 2021 as the vaccine is rolled out.

Valuation is now relatively more attractive. Hence, the broker upgrades to Buy from Neutral and raises the target to $33.50 from $32.80.

The results in the first half were slightly below expectations. Revenue guidance is been revised to US$190-195m with operating earnings of US$70-76m.

UBS retains forecasts at the lower end of these ranges but believes the market reaction to the results suggests many envisage considerable risk in achieving the skew to the second half.

On the positive side, UBS believes pent-up demand is likely to return as business confidence improves and this should mean a return to normalise pricing levels after significant discounting was experienced.

The broker also believes a strong balance sheet could allow the company to capitalise on M&A opportunities. UBS takes a medium-term view and upgrades to Buy from Neutral. Target is reduced to $34 from $36.

ANSELL LIMITED ((ANN)) Upgrade to Add from Hold by Morgans .B/H/S: 5/2/0

After first half results, Morgans lifts the rating for Ansell to Add from Hold and the target to $44.45 from $36.06 as all key divisions saw performance improve.

Despite higher covid-19 related costs, gross margins increased 180 basis points to 35.9% on higher production volumes, manufacturing efficiencies and sales growth.

The broker believes demand for personal protection solutions will remain robust and the pandemic has strengthened the company's position and earnings trajectory.

The analyst increases FY21-22 underlying earnings forecasts by up to 26%.

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

ARB Corp's result came in 3.7% above Ord Minnett, albeit inclusive of JobKeeper. While the dividend increased, the payout ratio was lower than expected as the company looks to increase investment in the business.

Recent improvement in new vehicle sales after a long period of decline may represent a turning point for the industry, the broker suggests. ARB's key vehicles, large SUVs and 4WDs, have achieved particularly strong growth in recent months.

This combined with strong demand in export markets should lead to a period of above average sales and profit growth. The broker thus upgrades its rating to Hold from Lighten, but no more given valuation is fair. Target rises to $35 from $26.

ASX LIMITED ((ASX)) Upgrade to Neutral from Sell by UBS .B/H/S: 0/7/0

First half net profit was ahead of estimates. UBS believes this demonstrates the diversity in the ASX model. The difficult operating environment was offset by growth elsewhere such as in listings and the cash market.

Net profit fell -3.4%, the first decline in eight years. UBS attributes the fall to the drop of -40% in net interest and dividend income.

The broker expects earnings will rebase at this level over FY21 and then gradually recover. Given the underperformance in the share price, the broker upgrades to Neutral from Sell. Target is raised to $68 from $66.

BABY BUNTING GROUP LIMITED ((BBN)) Upgrade to Add from Hold by Morgans .B/H/S: 5/0/0

Morgans upgrades the rating for Baby Bunting to Add from Hold and raises the target price to $6.39 from $4.83.

There was 40% profit (NPAT) growth in the first half, which was -6% short of Morgans forecasts due to less gross margin expansion in the second quarter and continued investment in people/infrastructure.

Online sales, including click and collect grew by 100% and comprised 19.7% of total sales, while private label/exclusive sales made up 39% of the total.

The broker highlights the move into New Zealand provides further longevity to an already strong growth profile. While valuation is at a premium to retail peers the analyst considers the growth profile is far superior.

Morgans FY21 and FY22 earnings (EBIT) forecasts are unchanged while the FY23 forecast lifts by 8% and more meaningfully beyond due to the NZ rollout inclusion.

CARSALES.COM LIMITED ((CAR)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/4/0

UBS believes Carsales.com is on track for EBITDA of $240m in FY21. Encar is expected to contribute around $50m to this number

In terms of long-term upside UBS considers the main drivers of the domestic business are digital car buying, instant offer, depth and dealer finance. The broker upgrades to Buy from Neutral and raises the target to $24.50 from $19.50.

CROWN RESORTS LIMITED ((CWN)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/3/0

Credit Suisse upgrades to Outperform from Neutral with the target rising to $12 from 10.35.

Management indicated Sydney apartment sales could realise $1.1bn rather than $800m as estimated by Credit Suisse. New capex guidance from the company showed the broker had been overestimating the remaining capex by $100m.

The broker expects Crown Resorts to be in a net cash position at the end of FY22.

Lastly, Credit Suisse has delayed the opening of Crown Sydney gaming to December 2021 in its model.

GPT GROUP ((GPT)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/2/1

Credit Suisse considers GPT Group's result to be better-than-expected with funds from operations well above the broker's forecast of 25.6c although less than last year.

No FY21 guidance was provided but the broker expects it to be a better earnings year.

The broker is of the view the group suffers from negative sentiment towards both the office and retail sectors with not enough attention given to its industrial exposure or management platform.

The broker upgrades to Outperform from Neutral with the target falling to $4.78 from $4.83.

INGHAMS GROUP LIMITED ((ING)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/2/0

Inghams Group's first-half result preview suggests strong volumes with first-quarter core poultry volume lifting 6.2% versus last year. Also, the result should not be impacted much by lower pricing, if Macquarie's updated forecasts prove correct.

Macquarie expects strong poultry volumes to continue into 2Q with better than expected pricing. Further margin recovery will require covid normalisation, inventory work-through and lower input costs, adds the broker.

Macquarie upgrades to Outperform from Neutral with a target of $3.78.

NETWEALTH GROUP LIMITED ((NWL)) Upgrade to Hold from Sell by Ord Minnett .B/H/S: 0/5/0

First half results were ahead of expectations, supported by operating margin expansion. Nevertheless, the company has guided to ongoing margin pressure. Netwealth is guiding to $8.5-9bn in net flows, implying $4-4.5bn in the second half.

Ord Minnett balances its view on the revenue margin headwinds with the substantial market opportunity. Following a change in analyst, the broker upgrades to Hold from Sell. Target is raised to $15.00 from $9.99.

NEWS CORPORATION ((NWS)) Upgrade to Overweight from Underweight by Morgan Stanley .B/H/S: 4/0/0

Morgan Stanley lifts the rating for News Corp to Overweight from Underweight and raises the target price to US$30 from US$15.

Morgan Stanley raises the enterprise value estimate for News Corp's 80%-owned US real estate portal Move Inc to US$5-7bn versus consensus by other brokers of around US$2bn. This makes the company's share of Move Inc worth between US$7-10 per share.

The analyst explains, at the time of acquisition in 2014 Move was the number three player in the US and not profitable. The turning point was in 2018 when Move Inc acquired Opcity, a software platform business model which matches home buyers and sellers with brokers.

Industry view: Attractive.

ORORA LIMITED ((ORA)) Upgrade to Buy from Neutral by Citi .B/H/S: 1/6/0

Orora reported 20% earnings growth in the first half and Citi expects 44% in the second half. The company has seen improving revenue trends across both divisions and cost savings have helped profit margins in North America.

Management is conservatively asuming the loss of all wine bottle sales to customers exporting to China which the broker sees as sensible, but the broker expects at least half that volume to be redirected to other markets.

With good margin recovery prospects over the medium term, and capital management potential, Citi is more positive on the stock. Upgrade to Buy from Neutral, target rises to $3.20 from $2.50.

OROCOBRE LIMITED ((ORE)) Upgrade to Buy from Neutral by Citi .B/H/S: 2/3/2

Electric vehicle sales have proved extremely resilient in 2020, Citi observes, growing by around 35%, while overall passenger vehicles fell -20%. This signals sizeable demand growth in stocking activity from the EV battery supply chain.

While lithium carbonate and hydroxide prices are up over the year to date the major feedstock, spodumene, is still rather flat. Citi expects spodumene will recover to US$600/t over the next 18 months, amid demand strength and better supply discipline from miners.

Orocobre is upgraded to Buy/High Risk from Neutral/High Risk and the target is unchanged at $6.75.

PACT GROUP HOLDINGS LTD ((PGH)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 2/2/1

First half results beat Ord Minnett's forecasts. The main concern over the years has been poor organic earnings, the broker points out, as these appear to have eroded when excluding M&A.

The trend appears to have come to an end and the broker estimates EBIT from the core business rose 14.5%. Forecasts are upgraded and modest earnings growth is assumed.

Ord Minnett upgrades to Buy from Hold and raises the target to $3.20 from $2.70. The broker also believes the strategy to lead plastics recycling in Australasia is an exciting opportunity.

PILBARA MINERALS LIMITED ((PLS)) Upgrade to Neutral from Sell by Citi .B/H/S: 0/2/2

Electric vehicle sales have proved extremely resilient in 2020, Citi observes, growing by around 35%, while overall passenger vehicles fell -20%. This signals sizeable demand growth in stocking activity from the EV battery supply chain.

While lithium carbonate and hydroxide prices are up over the year to date the major feedstock, spodumene, is still rather flat. Citi expects spodumene will recover to US$600/t over the next 18 months, amid demand strength and better supply discipline from miners.

The acquisition of Pilgangoora remains the key catalyst and Citi upgrades Pilbara Minerals to Neutral/High Risk from Sell/High Risk and raises the target to $1.10 from $1.00.

SEVEN GROUP HOLDINGS LIMITED ((SVW)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 4/0/0

First half results were strong and ahead of Ord Minnett's forecast. The broker believes the focus on cost efficiencies in the core operated businesses has created a solid platform for a multi-year growth story.

The rating is upgraded to Accumulate from Hold. Although presently delayed, east coast projects are expected to come on line and could lead to a period of "near-perfect" operating conditions, in the broker's view. Target is raised to $26 from $23.

TABCORP HOLDINGS LIMITED ((TAH)) Upgrade to Buy from Neutral by Citi and Upgrade to Hold from Lighten by Ord Minnett.B/H/S: 1/4/0

Tabcorp delivered solid first half number, observes Citi, with operating income of $560m led by a great performance from lotteries. Citi has upgraded its group operating income forecasts by 4-5% for FY21-22.

While no update was provided on the sale process for wagering and media segment, the broker notes interest from multiple bidders for the business and expects bids of at least around $3bn.

Led by the strong lotteries earnings outlook and increased likelihood of a wagering and media and gaming services sale, Citi upgrades Tabcorp to Buy from Neutral with the target rising to $5.30 from $4.40.

First half underlying net profit was well ahead of Ord Minnett's forecast. Operating earnings were also better because of improved margins with a strong mix towards digital.

Ord Minnett considers turnover will remain buoyant throughout the closure of borders but forecasts a decline of -6.9% in the second half compared with the first because of seasonality and skew.

Given expectations of a sale of the wagering business the broker assesses the prior Lighten rating has no merit at current levels. Hence, an upgrade to Hold. The target is raised to $4.20 from $4.00.

TREASURY WINE ESTATES LIMITED ((TWE)) Upgrade to Accumulate from Lighten by Ord Minnett .B/H/S: 2/4/1

First half net profit was down -23.5% but ahead of Ord Minnett's forecasts. The broker upgrades to Accumulate from Lighten because of greater confidence in the reallocation of the Penfolds bin and Icon range from China amid leverage to a recovery.

The $300m in proceeds from brand and asset sales in the US is greater and the timing sooner than the broker expected. Treasury Wine is now considered a more balanced business. Target is raised to $11 from $8.

UNITED MALT GROUP LIMITED ((UMG)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/1/0

United Malt Group's first-half AGM guidance fell sharply short of consensus and Credit Suisse.

But the broker notes the hit reflects temporary factors such as a restructuring cost, the transformation program, costs arising from the closure of the Grantham Plant, seasonal factors, and a delay in the recovery in shipping containers.

Credit Suisse tips a strong recovery in the second half, albeit tempered by a currency headwind. The broker reckons the market can scratch the first-half dividend.

The company is upgraded to Outperform from Neutral. Target price rises to $4.21 from $4.18.

WHISPIR LIMITED ((WSP)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 1/0/0

First half results were in line with expectations. The company is at the forefront of the digital transformation that has only accelerated with the advent of the pandemic.

There is a track record of new customers growing usage over time and, hence, Ord Minnett is confident this will result in revenue growth that can be sustained at more than 20% over the medium term.

The broker is satisfied with management's explanation regarding the contraction in margin. Rating is upgraded to Buy from Hold and the target is raised to $4.53 from $4.40.

Downgrade

ASALEO CARE LIMITED ((AHY)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/3/0

Credit Suisse lowers its rating to Neutral from Outperform with a target price of $1.50.

Essity has been given access to Asaleo Care's financial accounts to try and work out a takeover transaction. The broker believes a takeover is likely and there is an opportunity for Essity to amalgamate its Australian medical business with Asaleo.

Even so, Credit Suisse concedes the risk of no-deal is a possibility in which case the share price may retrace its recent gains.

APPEN LIMITED ((APX)) Downgrade to Underperform from Outperform by Macquarie .B/H/S: 2/2/1

After discussion with industry contacts and a review of Appen’s FY21 outlook, the broker has decided to double-downgrade to Underperform from Outperform. The market has a consensus Buy rating but the broker is expecting a wake-up call.

The company's second half 2020 underperformance, previously revealed, was driven by increased competition leading to a structural loss of market share, and the broker expects headwinds to persist in 2021.

The result release should be a "non-event", the broker suggests, but once the outlook is reviewed the broker expects consensus downgrades. Target falls to $19 from $27.

AURIZON HOLDINGS LIMITED ((AZJ)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/2/0

An initial assessment of Aurizon Holdings' first half result prompts Citi to downgrade to Neutral from Buy with the target falling to $4.28 from $5.15.

Aurizon Holdings reported a first half operating income of $454m, a 9% beat to consensus. For the full year, the company has upgraded its operating income guidance to $870-$910m driven by a circa $40m retrospective recognition of Wiggins Island Rail Project (WIRP) fees.

Where bulk performed better than expected, coal faltered with coal revenue decreasing by -8%. While believing coal markets will re-adjust in the short term and earnings will be relatively resilient, Citi expects fossil fuel exposed stocks to trade at a discount to historic multiples.

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

Bapcor’s first half result was slightly above December guidance and Morgans estimates as strong sales trends continued into January, though recent Melbourne lockdowns have seen momentum slow.

The company is comfortable with FY21 consensus pro-forma profit (NPAT) of $122m.

The dynamics buoying aftermarket demand look set to continue, according to the broker, albeit perhaps at a lower rate of growth versus the first half.

The analyst warns the electric vehicle conversation will continue to get louder which has implications for the aftermarket channel in time.

As the share price is trading within 10% of a new target price, the rating is lowered to Hold from Add, while the target price falls to $8.42 from $8.57 on higher capex assumptions.

COLES GROUP LIMITED ((COL)) Downgrade to Neutral from Outperform by Credit Suisse and Downgrade to Neutral from Buy by Citi.B/H/S: 2/5/0

Coles Group's strong result was overshadowed by debates on its loss of market share, observes Credit Suisse. The broker highlights the need for a higher level of opex so as to support the development of e-commerce.

The broker expects the factors that contributed to the market share loss will continue into the second half and has reduced its forecasts for supermarkets for the second half.

Credit Suisse downgrades its rating to Neutral from Outperform. Target price falls to $19.04 from $21.04.

Driven by Convenience, and with Supermarkets and Liquor broadly in line, Coles delivered 1H21 earnings (EBIT) of $1,020m and EPS of 42cps, around 2% ahead of Citi. A dividend of 33cps was declared, in line with Citi (32cps).

However, Citi is expecting consensus 2H21 downgrades, following elevated operating costs, the slowing top-line growth and guidance for negative earnings growth.

In light of sales declines, and with Coles having entered a period of elevated investment, which is expected to continue post-covid, plus ongoing competition online, the broker has downgraded earnings by -3% in FY21 and -5% in FY22.

Buy recommendation has been downgraded to Neutral, and price target has reduced to $19.00 from $21.20.

CSL LIMITED ((CSL)) Downgrade to Neutral from Outperform by Credit Suisse and Downgrade to Neutral from Buy by Citi.B/H/S: 1/6/0

Credit Suisse downgrades to Neutral from Outperform with the target falling to $320 from $325.

CSL's first half net profit of US$1,810m was up 44% versus last year and 24% above Credit Suisse's estimate led by a strong performance by Seqirus and cost management. Immunoglobulin (IG) growth was up 7% but slightly weaker-than-expected.

Despite a "stellar" first half, Credit Suisse notes CSL has kept its guidance intact hinting towards a weaker second half. With plasma collections down circa -20% versus pre-covid levels, the broker doesn't think collections are likely to recover to pre-covid levels until mid-2021.

Citi downgrades to Neutral from Buy with a target of $310.

The broker reduces its earnings forecasts for FY21-23 by -4-12% citing the subdued pace of the recovery in plasma collections.

CSL reported first-half net profit of US$1,810m, 30% above Citi's estimated $1,396m. The result was better than anticipated due to lower operating and R&D expenses but is expected to reverse in the second half.

Demand is expected to remain strong for Behring products while Seqirus is expected to incur losses in the second half. Behring margins are expected to be negatively impacted by the cost of plasma collected in the March to December period.

CORPORATE TRAVEL MANAGEMENT LIMITED ((CTD)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 5/1/0

Macquarie thinks Corporate Travel delivered a "solid" performance in an otherwise tough market. Moreover, it sees the company as well-positioned for the pending recovery.

Thus far, the broker observes overall travel volumes are low in the company's key regions. Given the outlook is not without risks, the broker adopts the view the stock is fairly valued at present level.

Rating is downgraded to Neutral from Outperform, reversing the upgrade from September. Target price lifts to $18.65 from 16.40.

DOMAIN HOLDINGS AUSTRALIA LIMITED ((DHG)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/4/0

Credit Suisse downgrades to Neutral from Outperform with the target dropping to $5 from $5.10.

Domain Holdings Australia's first-half earnings were slightly ahead of Credit Suisse's estimates with revenue of $137m and operating income of $54.5m.

On the flip side, company guidance for FY21 total costs was significantly higher than expected. Costs are expected to step up in FY22 on account of the reversal of the JobKeeper/Zipline benefit.

Given Credit Suisse analysts had previously forecast for costs to progressively ramp up over time, changes made to outer year estimates are more limited.

DOMINO'S PIZZA ENTERPRISES LIMITED ((DMP)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 3/2/2

Domino's Pizza Enterprises' will report its first-half result on 17 February.

Ord Minnett expects operating earnings to lift by 18.8% versus last year along with an underlying net profit of $95.5m, up 31.9%. An interim dividend of 88c is forecast.

Led by the recent share price performance driven by same-store sales, operating income margin expansion and cash realisation, Ord Minnett downgrades its recommendation to Accumulate from Buy with the target price rising to $100 from $85.

MORTGAGE CHOICE LIMITED ((MOC)) Downgrade to Neutral from Buy by Citi .B/H/S: 0/1/0

Citi notes Mortgage Choice's first-half cash net profit at $5.6m was just 1% higher than the first half despite 20% growth in settlements.

The loan book was flat with accelerating loan repayments impacting trail commissions although Citi believes this will normalise over the next 12-18 months.

Earnings forecasts have been lowered over FY21-23 by -5-7% primarily driven by lower net commissions as well as higher commission pay-away.

Citi downgrades to Neutral from Buy with the target reduced to $1.40 from $1.45.

PRO MEDICUS LIMITED ((PME)) Downgrade to Hold from Add by Morgans .B/H/S: 0/2/0

In the wake of first half results, Morgans increases the price target for Pro Medicus to $41.30 from $35.02 and due to the recent strength in the share price moves to a Hold recommendation from Add.

The broker rates the result as strong given volumes are starting to recover from covid issues and new client contracts come online. The five year contracted revenue base has risen to $305m from $195m in the pcp.

No guidance was provided though expectations for a strong second half and beyond have been set, believes the analyst.

Morgans hesitates to roll the recent run-rate of winning contracts through long-term forecasts and instead opts to model these as one-off extraordinary contracts in FY21.

SMARTGROUP CORPORATION LTD ((SIQ)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/2/0

Macquarie downgrades to Neutral from Outperform with a target of $7.29.

Among the fleet and novated companies, Macquarie finds Smartgroup Corp has the least used car price exposure and this helps driving its fleet income.

The broker expects new car supply to remain a constraint throughout 2021, especially since the retail channel is preferred over novated and fleet. Also, going forward regulatory uncertainty may impact the timing of both capital management and corporate activity.

SANTOS LIMITED ((STO)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 4/3/0

2020 underlying net profit was down -60% but broadly in line with Ord Minnett's estimates. Positives included cost control along with growth projects remaining on track.

Ord Minnett notes Santos offers a far more diverse product suite and asset base compared with peers. Given recent share price strength, the broker downgrades to Accumulate from Buy and lowers the target to $7.50 from $7.65.

SEVEN WEST MEDIA LIMITED ((SWM)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 4/0/0

Ord Minnett reduces the rating for Seven West Media to Accumulate from Buy after the recent share price rise. The broker increases the target to $0.55 from $0.28 after factoring-in FY21 estimates for revenue growth of 6.1% and cost reduction of -8.1%.

Post the first half results, the analyst highlights underlying net profit after tax (excluding significant items) was $86.6m, up 25%
on the same period last year.

The company announced it was in discussions with Google for its news content. This is after agreeing to a long-term partnership with Google for the search engine giant's News Showcase Product, from which the broker estimates revenue of $39.5m to $69.2m yearly.

VICINITY CENTRES ((VCX)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 1/3/2

Vicinity Centres posted a stronger-than-expected first half result, observes Credit Suisse, largely due to one-offs.

Funds from operations were down -34.4% versus last year at 5.87c versus Credit Suisse's expected 4.6c. The decline was due to -$147m of covid-related rent relief.

Full-year guidance remains withdrawn with Vicinity indicating a target 95-100% adjusted funds from operations payout.

Rating is downgraded to Neutral from Outperform. Target rises to $1.69 from $1.61.

WESFARMERS LIMITED ((WES)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 1/4/1

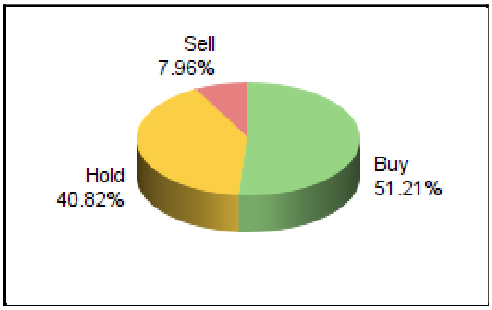
Credit Suisse does not see many downside risks for Wesfarmers in the first half result and expects a strong result from its retail businesses.

Accelerating housing activity and the work from home thematic also set the scene for a solid second half, suggests the broker. The broker does not expect a large scale acquisition looking at the inflated asset prices and thus a capital return is likely in 2021.

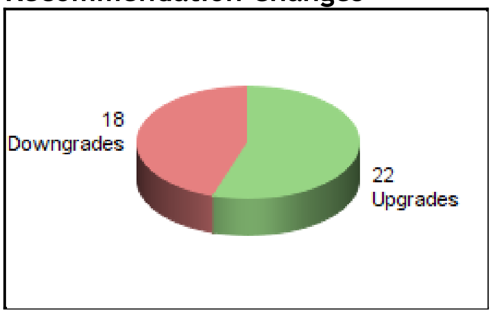
Wesfarmers will report its result on February 18.

Led by the recent share price strength, the rating is downgraded to Neutral from Outperform. Target is raised to $56.79 from $55.83.

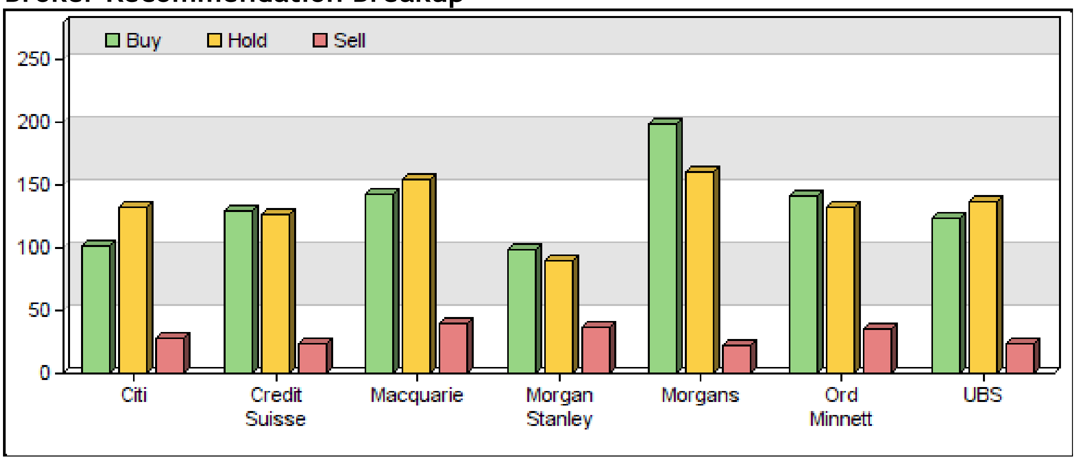
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ALTIUM LIMITED	Buy	Neutral	Citi
2	ALTIUM LIMITED	Buy	Neutral	UBS
3	ANSELL LIMITED	Buy	Neutral	Morgans
4	ARB CORPORATION LIMITED	Neutral	Sell	Ord Minnett
5	ASX LIMITED	Neutral	Sell	UBS
6	BABY BUNTING GROUP LIMITED	Buy	Neutral	Morgans
7	CARSALES.COM LIMITED	Buy	Neutral	UBS
8	CROWN RESORTS LIMITED	Buy	Neutral	Credit Suisse
9	GPT GROUP	Buy	Neutral	Credit Suisse
10	INGHAMS GROUP LIMITED	Buy	Neutral	Macquarie
11	NETWEALTH GROUP LIMITED	Neutral	Sell	Ord Minnett
12	NEWS CORPORATION	Buy	Sell	Morgan Stanley
13	OROCOBRE LIMITED	Buy	Neutral	Citi
14	ORORA LIMITED	Buy	Neutral	Citi
15	PACT GROUP HOLDINGS LTD	Buy	Neutral	Ord Minnett
16	PILBARA MINERALS LIMITED	Neutral	Sell	Citi
17	SEVEN GROUP HOLDINGS LIMITED	Buy	Neutral	Ord Minnett
18	TABCORP HOLDINGS LIMITED	Buy	Neutral	Citi
19	TABCORP HOLDINGS LIMITED	Neutral	Sell	Ord Minnett
20	TREASURY WINE ESTATES LIMITED	Buy	Sell	Ord Minnett
21	UNITED MALT GROUP LIMITED	Buy	Neutral	Credit Suisse
22	WHISPIR LIMITED	Buy	Neutral	Ord Minnett
Downgrade				
23	APPEN LIMITED	Sell	Buy	Macquarie
24	ASALEO CARE LIMITED	Neutral	Buy	Credit Suisse
25	AURIZON HOLDINGS LIMITED	Neutral	Buy	Citi
26	BAPCOR LIMITED	Neutral	Buy	Morgans
27	COLES GROUP LIMITED	Neutral	Buy	Citi
28	COLES GROUP LIMITED	Neutral	Buy	Credit Suisse
29	CORPORATE TRAVEL MANAGEMENT LIMITED	Neutral	Buy	Macquarie
30	CSL LIMITED	Neutral	Buy	Citi
31	CSL LIMITED	Neutral	Buy	Credit Suisse
32	DOMAIN HOLDINGS AUSTRALIA LIMITED	Neutral	Buy	Credit Suisse
33	DOMINO'S PIZZA ENTERPRISES LIMITED	Buy	Buy	Ord Minnett
34	MORTGAGE CHOICE LIMITED	Neutral	Buy	Citi
35	PRO MEDICUS LIMITED	Neutral	Buy	Morgans
36	SANTOS LIMITED	Buy	Buy	Ord Minnett
37	SEVEN WEST MEDIA LIMITED	Buy	Buy	Ord Minnett
38	SMARTGROUP CORPORATION LTD	Neutral	Buy	Macquarie
39	VICINITY CENTRES	Neutral	Buy	Credit Suisse
40	WESFARMERS LIMITED	Neutral	Buy	Credit Suisse

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	NWS	NEWS CORPORATION	100.0%	50.0%	50.0%	4
2	ALU	ALTIUM LIMITED	67.0%	33.0%	34.0%	6
3	TCL	TRANSURBAN GROUP	43.0%	14.0%	29.0%	7
4	PLS	PILBARA MINERALS LIMITED	-50.0%	-75.0%	25.0%	4
5	BBN	BABY BUNTING GROUP LIMITED	100.0%	75.0%	25.0%	5
6	UMG	UNITED MALT GROUP LIMITED	75.0%	50.0%	25.0%	4
7	ING	INGHAMS GROUP LIMITED	67.0%	50.0%	17.0%	6
8	CWN	CROWN RESORTS LIMITED	50.0%	33.0%	17.0%	6
9	GPT	GPT GROUP	25.0%	8.0%	17.0%	6
10	CAR	CARSALES.COM LIMITED	33.0%	17.0%	16.0%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	APX	APPEN LIMITED	10.0%	50.0%	-40.0%	5
2	CSL	CSL LIMITED	14.0%	43.0%	-29.0%	7
3	COL	COLES GROUP LIMITED	29.0%	57.0%	-28.0%	7
4	GNC	GRAINCORP LIMITED	75.0%	100.0%	-25.0%	4
5	SIQ	SMARTGROUP CORPORATION LTD	60.0%	80.0%	-20.0%	5
6	EBO	EBOS GROUP LIMITED	60.0%	80.0%	-20.0%	5
7	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	33.0%	50.0%	-17.0%	6
8	MGR	MIRVAC GROUP	50.0%	67.0%	-17.0%	6
9	URW	UNIBAIL-RODAMCO-WESTFIELD	-50.0%	-33.0%	-17.0%	4
10	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	83.0%	100.0%	-17.0%	6

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	SWM	SEVEN WEST MEDIA LIMITED	0.618	0.375	64.80%	4
2	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	92.959	75.891	22.49%	7
3	ARB	ARB CORPORATION LIMITED	37.900	31.763	19.32%	4
4	BBN	BABY BUNTING GROUP LIMITED	6.242	5.280	18.22%	5
5	EBO	EBOS GROUP LIMITED	28.200	24.970	12.94%	5
6	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	5.075	4.553	11.46%	6
7	CWN	CROWN RESORTS LIMITED	10.683	9.642	10.80%	6
8	CAR	CARSALES.COM LIMITED	21.788	19.672	10.76%	6
9	TWE	TREASURY WINE ESTATES LIMITED	10.400	9.429	10.30%	7
10	ANN	ANSELL LIMITED	44.179	40.959	7.86%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	UMG	UNITED MALT GROUP LIMITED	4.410	4.743	-7.02%	4
2	AZJ	AURIZON HOLDINGS LIMITED	4.762	5.058	-5.85%	6
3	APX	APPEN LIMITED	27.020	28.620	-5.59%	5
4	COL	COLES GROUP LIMITED	18.777	19.613	-4.26%	7
5	MGR	MIRVAC GROUP	2.623	2.718	-3.50%	6
6	URW	UNIBAIL-RODAMCO-WESTFIELD	4.660	4.775	-2.41%	4
7	ALU	ALTIUM LIMITED	33.442	34.225	-2.29%	6
8	CSL	CSL LIMITED	302.014	306.814	-1.56%	7
9	TLS	TELSTRA CORPORATION LIMITED	3.526	3.568	-1.18%	5
10	TCL	TRANSURBAN GROUP	14.314	14.470	-1.08%	7

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	WPL	WOODSIDE PETROLEUM LIMITED	354.968	81.217	337.06%	7
2	AGL	AGL ENERGY LIMITED	86.413	26.479	226.35%	7
3	OZL	OZ MINERALS LIMITED	98.233	60.203	63.17%	7
4	SWM	SEVEN WEST MEDIA LIMITED	7.593	4.683	62.14%	4
5	SGM	SIMS LIMITED	50.132	33.732	48.62%	6
6	STO	SANTOS LIMITED	43.022	29.987	43.47%	7
7	RIO	RIO TINTO LIMITED	1494.356	1068.056	39.91%	7
8	GNC	GRAINCORP LIMITED	34.273	26.203	30.80%	4
9	BEN	BENDIGO AND ADELAIDE BANK LIMITED	69.333	54.750	26.64%	7
10	CCL	COCA-COLA AMATIL LIMITED	55.090	45.834	20.19%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	COE	COOPER ENERGY LIMITED	-3.600	-0.394	-813.71%	5

2	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	-23.248	-5.982	-288.63%	6
3	CWN	CROWN RESORTS LIMITED	-1.062	0.993	-206.95%	6
4	TCL	TRANSURBAN GROUP	-1.723	6.972	-124.71%	7
5	WHC	WHITEHAVEN COAL LIMITED	-4.769	-3.243	-47.06%	7
6	WEB	WEBJET LIMITED	-25.874	-18.084	-43.08%	5
7	S32	SOUTH32 LIMITED	13.625	23.342	-41.63%	7
8	UMG	UNITED MALT GROUP LIMITED	13.493	19.363	-30.32%	4
9	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	5.275	5.997	-12.04%	6
10	DOW	DOWNER EDI LIMITED	31.617	34.002	-7.01%	6

Technical limitations

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WEEKLY REPORTS

Uranium Week: Uranium Equities Spike

As the spot uranium price has declined nearly -11% in the last month, prices for uranium shares have risen dramatically.

-Key drivers of uranium equities rally
-Three megatrends supporting uranium
-Spot uranium slides over -7% during 2021

By Mark Woodruff

A sweeping rise in the share prices of current and prospective uranium producers has drawn widespread attention in 2021.

Share prices for a selection of uranium companies tabled weekly by industry consultant TradeTech have all increased over the last four months, some doubling or tripling in that time.

Given the wide variation of assets, production histories and marketing strategies relating to those companies, TradeTech identifies a few **key drivers for the share rally**.

Firstly, there are supply/demand fundamentals as primary production has been significantly curtailed over the last few years. In addition, some investors believe select companies were undervalued, even in an environment where prevailing prices were below the cost of production for most.

Institutional and retail investors have also directed capital toward clean energy projects, including many related to nuclear power. This has been guided by Environmental, Social, and Corporate Governance (ESG) principles, combined with a policy outlook that foresees greater progress in mitigating climate change.

The above share price drivers tally with additional details published this week by investment management firm Shaw and Partners from a recent uranium conference.

Keynote speaker Brandon Munro listed various thematics for the uranium sector including commitments to carbon neutral by leading economies and the electrification of everything, which requires a greater input from nuclear.

Mr Munro, the Chair of the World Nuclear Association nuclear fuel demand working group, also noted the Chinese shift towards technology and a greener economy.

There is also strong interest in small and simpler SMR reactors for generating electricity from nuclear power and for other applications including processing heat and hot electrolysis to produce green hydrogen.

Mr Munro explained that all the supportive thematics were driven by the **three megatrends of our time**: climate mitigation, expansionary monetary policy and geopolitical tension.

Company news

A long-running saga is finally over for **Cameco** with the rejection of the Canada Revenue Agency (CRA) tax appeal.

The Supreme Court of Canada has turned down a request by CRA, which asked the court to hear an appeal regarding Cameco and its use of a foreign subsidiary to sell and trade its uranium.

The dismissal means that the dispute for the 2003, 2005, and 2006 tax years is fully and finally resolved in Cameco's favor, the company announced on February 18.

ASX-listed **Deep Yellow ((DYL))** last week conducted a successful placement to raise $40.8m at $0.65 per share. An additional $2m will be raised via a share purchase plan at the same price.

The funds will be applied to the completion of the Tumas pre-feasibility study, ongoing exploration and advancing targeted M&A opportunities.

The funds raised considerably strengthen the balance sheet with a pro-forma cash balance of $50m.

Uranium Pricing

TradeTech's Weekly **Spot Price** Indicator is US$28.25/lb, down -US$1.10 from last week's Indicator.

The weekly spot uranium price has declined nearly -11% in the last month, decreasing over -7% in 2021 and down -14% from a year ago.

The average weekly uranium spot price in 2021 is US$29.71/lb, matching the 2020 average.

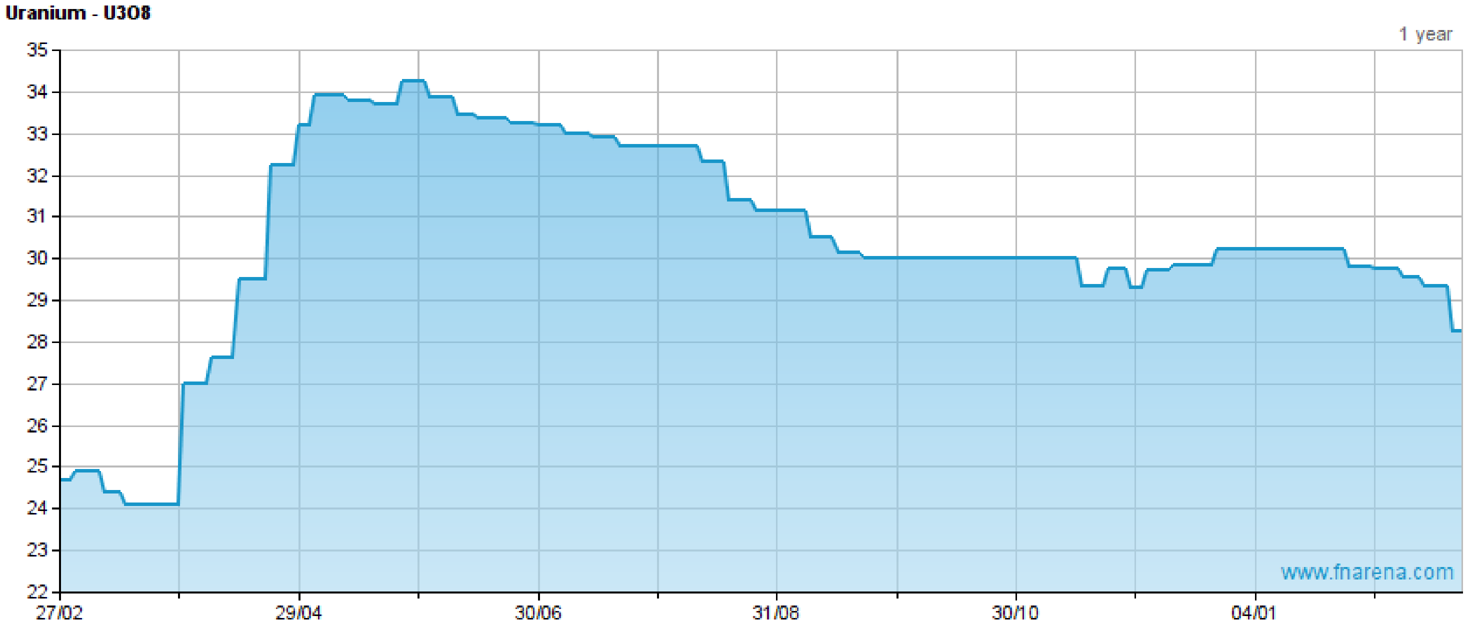
The spot uranium market recorded 1.2m lbs U3O8 in nine transactions for the week, with just over 1.1m lbs involving delivery at ConverDyn. Buyers included a number of utilities, traders, and intermediaries.

Last week, ConverDyn parent company Honeywell announced it was moving toward restart of the Metropolis Works Facility (MTW) with a target date of early 2023. The shutdown of the facility, along with Cameco's need to actively buy in the spot market due to the shutdown of its McArthur River and Cigar Lake Mines, had a distorting effect.

The market over the past year utilised Cameco's Port Hope plant in Ontario, Canada as the preferred delivery location, while minimal market activity was recorded at the MTW or Orano's facility in France.

Over the past year, sellers have struggled to move material not located at Cameco's site. As a result, a situation evolved where sellers holding inventory at Cameco could command substantially higher prices than sellers holding material at the MTW (ConverDyn) or Orano, which led to stalled trading activity at the ConverDyn and Orano locations.

TradeTech's **term price** indicators are US$33.75/lb (mid) and US$36.00/lb (long).



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WEEKLY REPORTS

The Short Report - 25 Feb 2021

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

Summary:

Week ending February 18, 2021.

Last week the ASX200 entered a period of madness that has pervaded through this week and continues today. Sharp daily ups and downs, often contradictory, with a net result of little overall index movement.

Also experiencing sharp ups and downs in recent weeks have been the travel agent stocks. A snap lockdown one minute - sell - a vaccine rollout the next - buy. The most volatile of the three has been Webjet ((WEB)), up until last week the most shorted stock on the market.

Tassal Group ((TGR)) has now hit the top of the table, but only by a third decimal place. Tassal shorts are up slightly from the week before but so are Webjet shorts. This week has nevertheless seen another burst of vaccine optimism.

We note Flight Centre ((FLT)) shorts also ticked up last week.

Being the most shorted stock, Webjet was also briefly the subject of some blind fools trying to do a GameStop. It should be noted, as has been raised as an issue at the Congressional inquiry into GameStop/Reddit/Robinhood, that for some reason the US allows stocks to be shorted by greater than 100% of shares on issue.

Given the stock has to be borrowed I'm at a loss as to how this works, other than via some sort of synthetic. GameStop was shorted 140% before the squeeze began. Webjet shorts have never exceeded 20%.

You do the math.

After an unusually quiet week in Short Land the week before, last week saw a little more shuffling about of positions but only two moves worthy of note.

I have been saying all along that the big short position in Northern Star Resources ((NST)) was a play on the merger with Saracen Minerals. That merger completed last week and whaddya know? Northern Star has disappeared completely off the table from 10.3% shorted the week before.

The only other movement of note is that of Resolute Mining ((RSG)). See below.

Weekly short positions as a percentage of market cap:

10%+
TGR 12.7
WEB 12.7

Out: NST

9.0-9.9

No stocks, no changes

8.0-8.9%

MSB, ING, RSG, AVH

In: RSG, AVH Out: WSA

7.0-7.9%

SSM, MTS, WSA, FLT

In: WSA, FLT Out: AVH, MYR

6.0-6.9%

FNP, MYR, A2M, EOS

In: MYR, EOS Out: RSG, FLT, IVC

5.0-5.9%

IVC, ALK, BVS, TYR, BGL, CUV, BOQ, EML

In: IVC, BGL Out: EOS, NEA

Movers & Shakers

Irrespective of gold price movements, Resolute Mining's share price has been in a long slow slide since August last year.

Industrial disruption and equipment unavailability at its flagship Syama mine led Resolute to production guidance downgrades and the miner still missed its downgraded production guidance in the December quarter. It did nevertheless manage to control costs.

As the company is trying to pay down debt in 2021, an improved performance at Syama is critical. Resolute has another promising-looking resource but that's a way off.

The shorters are circling, lifting Resolute shorts to 8.3% last week from 6.8%.

We might also note Bellevue Gold ((BGL)) made its debut at the bottom of the table last week.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.2	0.2	MQG	0.5	0.5
ANZ	1.1	1.1	NAB	1.2	1.3
APT	1.2	1.2	NCM	0.1	0.1
BHP	3.6	3.5	RIO	0.3	0.2
BXB	0.3	0.3	TCL	0.8	0.7
CBA	0.6	0.7	TLS	0.4	0.3
COL	0.4	0.5	WBC	1.0	1.0
CSL	0.1	0.1	WES	0.5	0.5
FMG	0.3	0.3	WOW	0.2	0.2
GMG	0.2	0.2	WPL	1.0	1.0

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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

SMALL CAPS

Resounding Comeback For Audinate

After the shutdown of live entertainment bedevilled Audinate through the height of the pandemic the business has made a resounding comeback

-Support from a broader commercial recovery in AV
-Can design wins translate into subscription gains?
-Gross margins in software can ramp up further

By Eva Brocklehurst

A recovery is well underway for Audinate ((AD8)), as clients for its audiovisual offering re-open their businesses and the backlog of orders becomes evident. The company has pointed to strong trading conditions in the first half, setting aside the disruptions to its supply chain in the height of the pandemic.

UBS found the first half result and the V-shaped recovery a surprise and is now more aware of the importance of a strong digital audiovisual offering for the likes of corporate clients and educators.

Morgan Stanley stresses the importance of the company's leadership and underlying earnings power as it makes inroads in video. The business is supported by a broader commercial recovery in audiovisual and a backlog of orders.

UBS assumes a continued recovery in FY22-23 as confidence returns to the clientele. Credit Suisse notes revenue of US$11.1m is now back to pre-pandemic levels and, although no formal guidance was provided, trading conditions appear solid.

The company achieved strong traction in software revenue in the first half with a **record number of design "wins" - 51 versus 20 over FY20**. This is a material step higher and an even higher number is targeted in the second half.

Morgan Stanley asks whether the design wins can be translated to subscription gains and concludes this could occur, albeit further down the track. The broker reiterates a view that video enhances the software opportunity, and there is a clear path to monetising this via software-as-a-service.

Audinate continues to extend its lead over competing offers and Canaccord Genuity notes the number of Dante units shipped into original equipment manufacturer (OEM) products increased by 41% in the first half, making this the largest uplift in the company's history.

This was driven by software unit growth of 61% and reinforces the strategy of complementing physical hardware sales with software that increases the potential application of Dante.

Audinate intends to launch three OEM products in the second half and Canaccord believes a step-up in video R&D personnel illustrates the products are well received.

Morgan Stanley's estimates imply 10% growth in the second half and no live sound upside has been factored in, signalling estimates may be conservative. Strengthening fundamentals are key to the broker's view with trading recovering from cyclical troughs.

Shaw and Partners notes the number of Dante-enabled products in the market is now over 3000 compared with 553 in FY15 and believes over the longer term Audinate is a "ripper of a story", with its technology now the default global standard.

UBS incorporates 40% long-term penetration (FY30) for Audinate of the addressable digital audio market, and calculates every incremental 10% penetration adds around $3.25 to its discounted cash flow estimates and 3% to Audinate's 10-year sales growth rate.

Brooklyn Chip

While software revenue was higher than Credit Suisse expected, compositionally chips, cards and modules were weaker. The latter, the broker suggests, stemmed from weakness in the high-priced Brooklyn module, which has elevated exposure to the live events industry that was severely curtailed by the pandemic.

Canaccord believes **the company will eventually overcome the material decline in sales derived from the Dante Brooklyn chip**, probably by 2023, but in the interim the design wins, Dante video and impending product launches will mean positive revenue momentum.

The Brooklyn chip was sold into larger products, such as mixers and digital signal processors, and this was materially affected by the pandemic as live sound and concerts ceased.

There may be some short-term price pressure but Shaw believes the majority of the pandemic-related contraction is behind the business. Moreover, Audinate is well capitalised and has large gross margins of 77% that should ramp up even further in terms of its software.

Shaw and Partners, not one of the seven stockbrokers monitored daily on the FNArena database, has a Buy rating and $10 target. Canaccord Genuity, also not one of the seven, has a Buy rating and $9.00 target. The database has three Buy ratings with a consensus target of $9.93 that signals 11.4% upside to the last share price.

SMALL CAPS

Global Growth Ahead For MNF Group

MNF Group delivered significant growth in its global wholesale business over the first half with expansion in Singapore an upcoming catalyst

-Impressive growth in core telco business
-Singapore expansion a key catalyst
-Domestic wholesale the soft area

By Eva Brocklehurst

MNF Group ((MNF)) has entrenched its lead as a provider of critical voice services for the telecommunications industry, delivering significant growth in global wholesale business over the first half.

Canaccord Genuity asserts the strength of the wholesale business was clearly evident in the first half and growth in revenue from this source helped propel operating earnings (EBITDA) growth of 17% despite flat revenue.

The broker has long believed in the MNF Group business as a structural growth story. An improving mix within recurring segments means recurring margins have improved by 260 basis points, year-on-year. Global recurring gross profit grew 86%.

Canaccord suspects some of the headwinds facing the business, such as international roaming and challenges to audio conferencing, only serve to highlight the impressive growth at the core.

Recurring revenue reached 50% of group revenue for the first time and the long-term objective is to attain recurring profit of 80%. **Cash conversion, which has been an issue, surpassed 100% for the second**

consecutive quarter.

The latter and a growing cash balance are clear improvements, in Morgan Stanley's view. Operating earnings guidance is $40-43m for FY21 and, with a strong result in the first half, there is likely to be a smaller second half skew required to reach even the top edge of that range.

Structural tailwinds have featured heavily, although Morgan Stanley notes MNF Group revenue has been variable and there have been difficulties with the Direct business. Still, this is starting to fade.

A strategic review is likely to provide upside for the Direct business and Morgan Stanley suspects the market will welcome the Pennytel divestment, which has been sold to MacArthur Telecom a wholesale customer of MNF Group.

Canaccord has long believed in the MNF business as a structural growth story. An improving mix within recurring segments means recurring margins have improved by 260 basis points, year-on-year. A key leading indicator of revenue growth is a number of phone numbers in circulation and the broker estimates the figure reached 5m for the first time.

Singapore

An expansion into Singapore is nearing its formal launch, expected in the June quarter, with technical testing in progress. Management remains confident regarding this region, given 4500 US companies operate in the jurisdiction and the information and communications technology market is growing at 10.8%.

Morgan Stanley has an Overweight rating and $6.30 target and envisages incremental demand from domestic Singapore customers outside of the returns that are already embedded in investor expectations. this should be a significant catalyst going forward, along with further Asian expansion.

The broker does have some queries about the latter, requiring further details regarding market entry, customer support and the capabilities that might allow the business to expand.

Canaccord Genuity, with a Buy rating and $7.15 target, values the business on a sum-of-the-parts basis as it distinguishes between the fast-growing wholesale revenue and earnings from other areas which offer a different dynamic.

Combined domestic and global wholesale recurring gross profits growth of around 26% compares favourably with international peers that are rated on much higher multiples, the broker points out.

Moelis maintains a Buy rating and $5.93 target and highlights the profit growth and gross margin expansion in the global wholesale division. A challenging environment for re-seller customers domestically exists but the broker believes this division will improve as the outlook for re-sellers improves post the pandemic.

Declining revenue and 5% growth in gross profit for domestic wholesale were the softest areas of the results and Morgan Stanley is maintaining a watch on the trajectory of this part of the business to better understand the potential.

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SMALL CAPS

Uniti Group Poised For Fibre Take-Off

Uniti Group is poised for rapid growth, having successfully expanded its markets via several acquisitions

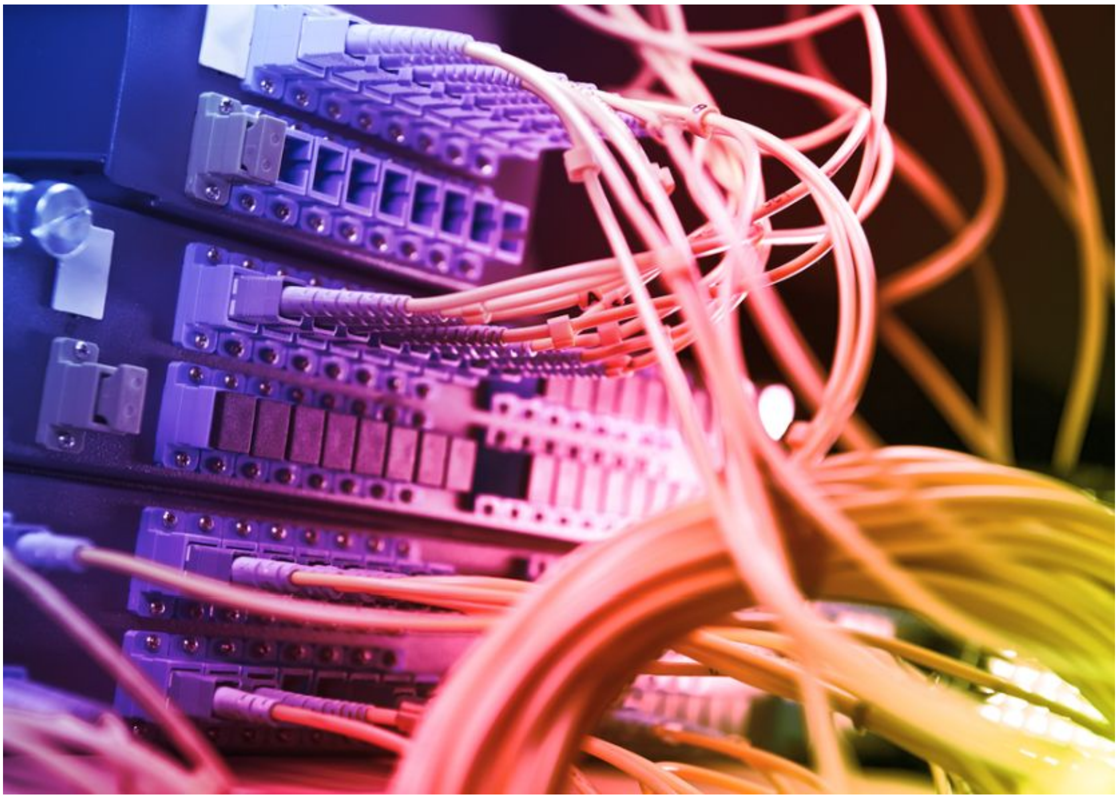
-Contracted pipeline now around 202,000 premises
-Stable developer margins should help offset cost inflation
-Strong cash flow but no dividend likely until FY23

By Eva Brocklehurst

Consolidation of several businesses in the fixed wireless, fibre and telco industries has now started to bear fruit for Uniti Group ((UWL)), and all divisions generated improved earnings in the first half.

The wholesale & infrastructure division appears poised for rapid growth, given a contracted pipeline of around 202,000 premises which, if converted to active premises, Canaccord Genuity calculates will add around $79m to operating earnings (EBITDA).

Earnings were ahead of Ord Minnett's forecasts as the OptiComm acquisition was integrated ahead of expectations and assumptions now allow for an increase in private fibre activation rates and growth across all segments, including recently-acquired brands.



The broker, with an Accumulate rating and $2.23 target, raises its valuation on the basis of improved visibility into the delivery schedule of the contract pipeline. Approximately 152,000 premises are expected to go live within the next five years.

Ord Minnett envisages 30,000-35,000 constructed ports and 20,000-24,000 activated ports as a target that can be achieved during FY22-23. There are indications developer margins have remained stable and the broker expects this will assist in offsetting cost inflation.

Cash conversion was a key feature of the first half results and operating cash flow of $26.6m represented a 91% conversion of underlying operating earnings. Ord Minnett notes Uniti Group may be eligible for accelerated depreciation on assets purchased in FY20 which has a potential positive impact on cash flows.

Canaccord retains a Buy rating with a $2.60 target, highlighting further **catalysts include more detail on private fibre activation levels in the second half as well as the opportunities for expansion in adjacent markets.**

FY21 guidance for operating earnings of $116m has not been upgraded, although the company has indicated organic growth is likely to accelerate. Active services on owned fibre infrastructure are expected to double in less than five years.

Bell Potter increases the multiple in its valuation and reduces the applied cost of capital. The net result is a 14% increase in the target to $2.50 with a Buy rating maintained.

The broker likes the stock for management's extensive experience in the telecommunications industry and strong cash flows and does not expect any dividends until FY23, assuming the short-term focus will be on reducing debt. Furthermore, whether or not the company pays a dividend will be heavily dependent on M&A activity over the next couple of years.

Divisions

Wholesale & infrastructure operating earnings of $20.2m reflected a six-week contribution of $6.2m from OptiComm. The consumer & business segment was affected by a greater number of customers on owned infrastructure as well as cost increases. Margins declined to 1.5% in this segment and operating earnings totalled $2m.

Canaccord Genuity notes a two-month contribution from the Harbour ISP acquisition and the focus is now on net customer additions in order to lift infrastructure revenue per unit in time. In the third segment, CPaaS - formerly specialty services - operating earnings totalled $10m which included an additional five-month contribution from 1300 Australia.

RUDI'S VIEWS

Rudi's View: A Supercycle In Dividends

In this week's Weekly Insights:

-February 2021: Banks Are Back!
-A Supercycle In Dividends
-Best Set Of Numbers In A Decade
-The Market Is A Duck Pond
-When Gold Meets Its Master
-Bond Yields Won't Rise Forever

By Rudi Filapek-Vandyck, Editor FNArena

February 2021: Banks Are Back!

In a reporting season that is about to beat all reporting seasons from the past ten years on important key metrics (see further below), the **stand-out winners are Australian banks**, showing investors the true meaning of "better-than-expected" with a glimpse of what old glory days used to be like.

The most remarkable achievement, probably, is that banks have become the main contributor to rising EPS growth forecasts in Australia, which is no mean feat considering the ongoing stronger-for-longer environment for the three large cap iron ore producers on the Australian stock exchange.

Banks and iron ore producers are at the forefront of what is characterising February 2021 for Australian investors: financial results that beat market estimates, forcing forecasts to rise further, and with a strong come-back for large cash dividends.

All of BHP Group ((BHP)), Rio Tinto ((RIO)) and Fortescue Metals ((FMG)) have surprised with much larger dividend payouts than had been expected. If the iron ore price retains its stronger-for-longer momentum, there should be more of the same in August and again next year, though most analysts would assume dividends will still fall from this year's peak-payouts. These are commodity producers, after all.

No such holding back is prevalent when it comes to analysts' views on Australian banks this season. If anything, many see plenty of opportunity and ongoing upside risks. The faster economic recovery on top of government support programs, combined with rising bond yields and a widening beneficial spread between short-term and longer-dated government bonds is turning banks into the undisputed winners of February 2021. If analysts' forecasts are anything to go by, this sector revival has a lot further to go.

Not only are implied (forward looking) yields on bank shares already approaching levels similar to the good old days, with all three of the Majors outside of CommBank ((CBA)) now promising 5% or more (plus franking) on current share prices, analysts see excess cash and potential for special dividends on the horizon.

This truly is one remarkable come-back, if ever investors have witnessed one in Australia.

A Supercycle In Dividends

The best way to illustrate just how strong this February reporting season has been up to this point (Monday, 22nd) is through **equity strategists at JPMorgan**. Before February, Jason Steed and Emily Macpherson had been expecting a strong turnaround in earnings and dividend expectations.

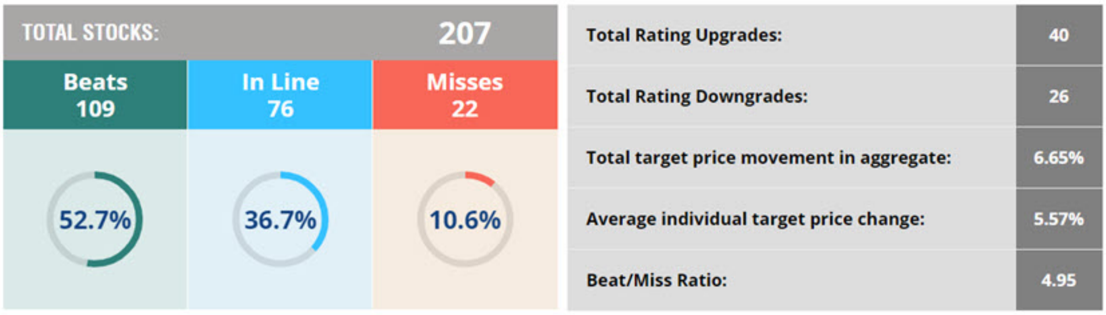
On Monday, the duo exclaimed: "*The reality, thus far, has exceeded our elevated expectations.*"

The team at JPMorgan is now predicting a **Supercycle in Dividends** is building on the ASX. Their favourite seven names to invest in this new supercycle are: Fortescue Metals, Charter Hall ((CHC)), Rio Tinto, Super Retail ((SUL)), BHP Group, ANZ Bank ((ANZ)), and National Australia Bank ((NAB)).

Note: all seven stocks have been selected with a three-year horizon in mind (also showing how bullish above-consensus forecasts are at JPMorgan).

Last year, Australian yield-seekers were extra hard hit as companies cut dividends more dramatically than the average fall in profits, but this year that trend is reversing and, thus far, the comeback in dividends on average is far greater than the big recovery in profits. Citi points out miners including OZ Minerals ((OZL)) and Newcrest Mining ((NCM)) and scrap collector Sims ((SGM)) equally delivered positive dividend surprises this month.

Best Set Of Numbers In A Decade



Two sentences stand out in analyst research reports this month: "better-than-expected" and "best results season of the past ten years". Macquarie has said it. JP Morgan has said it. And the numbers here at FNArena certainly back up that claim.

As of Monday, February 22, the **FNArena Corporate Results Monitor** covers 155 earnings results reported and, on our assessment, 57.4% (89 results) proved better-than-expected, which is well above average of around 33%. Equally important, only 17 companies (11%) disappointed through missing market forecasts which is well below the percentages of past seasons (varying between 19%-37%).

Target prices have thus far risen by an average of 6.15%. In aggregate, targets are up 7.01% since the start of the month. Both numbers are near the highest increases recorded since 2013 (when FNArena started recording these stats).

One clear divergence from past seasons is that the numbers for the ASX50 are no longer lagging the numbers for the ASX200, which also shows the strong come-back from the banks. Of the 31 companies in the Top50 who have reported so far, 64.5% (20 reports) delivered a "beat" against 12.9% (4 companies only) missing expectations. For the ASX200 the corresponding numbers are 60.4% (58) and 11.5% (11) respectively.

Or to put this in the simplest lingo possible: beating expectations and forcing analysts to lift forecasts and valuations is no longer the sole domain of small and midcap technology companies alongside healthcare and REITs. As a matter of fact: the opposite is happening in this February results season when the likes of Altium ((ALU)) and Appen ((APX)) have been showing vulnerability and weakness, while trustworthy quality stalwarts including ResMed ((RMD)), CSL ((CSL)), and the ASX ((ASX)) have been noticeably out of favour, regardless of their financial performance.

The latter is not completely true. It has been more a case of: if ResMed comes out with another strong result, investors merely shrug their shoulders, and move on. But in case of the ASX, it appears nothing was going to be good enough to stop the slide in the share price. The ASX share price has now lost in excess of -20% since September last year, and it is far from the only victim from the market's all-dominating switch in focus; **away from covid-winners, towards covid-victims** that stand to gain from this year's global recovery.

Viewed from this angle, corporate results from the first three weeks of the February reporting season can be used as justification for the switch in market momentum in favour of miners, energy producers, banks and other laggards and cyclicals. Though that would be too simplistic a statement to make. The prospect of re-opening economies, and reviving social habits, on the back of vaccine roll-outs this year means investors are happy to buy and wait for the eventual recovery to play out, not disheartened at all by any delays that occur in the meantime.

Price action in the likes of Webjet ((WEB)) and Corporate Travel Management ((CTD)) is the tell-all within today's context. It also once again shows that corporate performances are important, but expectations trump everything. February provides plenty of examples to back up that statement.

The main counter-argument to all of the above is that as of today, with only one more week left in this season, we are still only half-way through the total number of corporate reports for the month. I do think the current trends are too broad-based to reverse throughout the final week. In terms of combined market capitalisation for the companies that have already reported, we are well past the 50% and closer to the two-thirds mark (as also illustrated by 31 out of the Top50 companies having reported).

The Market Is A Duck Pond

The sharp rotation in a heavily polarised share market has turned the ASX into a duck pond. Viewed from the top, not much seems to be going on with the ASX200 meandering in between 6600 and 6900 with occasional a bit of heightened volatility because some hedge funds end up in trouble, but nothing much to upset the writers of tomorrow's headlines.

Underneath the surface, however, quite a different spectacle has opened up. I already mentioned the ASX. Shares in Magellan Financial ((MFG)) have lost around one third since peaking upon the release of FY20 financial performance numbers in August last year. CSL shares are no longer that far off from the depth of the temporary panic selling carnage that occurred in March last year. It seems but a distant memory, but Appen shares rallied to near $44 in August last year (they are more than -50% lower today).

These are but a very select few of examples. Those investors keeping cash on the sidelines in anticipation of that big share market correction that needs to happen eventually might be missing the point. On my observation, that share market correction is happening in the here and now, but we need to look below the surface to see the damage and where it is taking place.

As per always, this extremely bifurcated market behaviour can inflict a lot of pain and gut wrenching despair for holders of impacted shares, in particular since the share market overall seems to be trending upwards, creating quite a pronounced gap between this year's winners and laggards. The alternative view is, of course, that the market always does what the market does best, and that is exaggerating to the downside as much as it is likely exaggerating to the upside elsewhere.

In other words: opportunities are likely opening up for investors not necessarily looking to join today's obvious momentum trade. Many of last year's popular favourites are today trading at -12%, -16%, -20%, -25% below consensus price target. Sure, there might be a longer-lasting impact from the strong Aussie dollar and bond yields, they are on the rise, much quicker and steeper than most among us were anticipating only weeks ago, but many of today's victims are high quality, solid business models with ongoing profitable prospects.

Within this context, I note **Longview Economics** recently highlighted the fact US bond yields are approaching key technical resistance levels, probably indicating it is time for a pause and possibly a counter-trend move lower. Such a pause would provide a breather, if not more, for those prime victims that have seen quite the selling pressure descending upon them during the first two months of the new calendar year.

When Gold Meets Its Master

Talking about victims, has anyone else noticed those in favour of owning gold have gone really, really quiet of late. In fact, I hear more and more stories about your typical gold bug re-allocating money out of bullion and into crypto currencies.

Owning gold, and crypto currencies, is all about believing in the key narrative and in gold's case one of the narratives that gets repeated over and over again is that it protects against inflation, which, of course, is something it doesn't do, unless under the right circumstances.

Ultimately, gold's direction is dependent on what happens in the US bond market. Yes, I am as surprised as most of you that this is almost never mentioned by most experts when talking about gold as an investment, or portfolio security for that matter.

In the current context, when inflation adjusted bond yields are negative but they might rise into positive territory as global inflation expectations are picking up, gold is not your watertight protector against price erosion through inflation. In fact, as clearly shown on backward looking price charts, gold in USD has done exactly what happened to share prices of the ASX, Magellan Financial, CSL, etc and that's because they are all victims of the same source; rising bond yields.

Gold in USD peaked mid-last year above US$2000/oz and is now below US$1800, and in a visible down-trend. The reason as to why gold hasn't fallen more thus far is because it is also a direct beneficiary of a weakening US dollar, which offers some form of compensation.

The team of technical analysts at Citi last week informed their clientele that were gold to close below US$1765/oz it would create a set-up similar to that of April 2013 when the precious metal lost -US$200 of its value in the course of three trading days.

Historical parallels don't make for a guaranteed exact repeat, as we all should keep in mind. Regardless, I think the underlying sentiment remains correct: gold's movement in 2021 is much beholden to whatever happens with US Treasuries. For some reason, crypto currencies have managed to steal some of gold's narratives (alternative against floundering fiat currencies, protection against excessive money printing, etc) without the historical connection with real US bond yields.

No, I don't know what that means either. And I certainly cannot explain it (other than, maybe, old world relic versus new world promise, maybe).

For those wanting to know more: I wrote a whole chapter on gold in **Who's Afraid Of The Big Bad Bear**, available for all paid subscribers through **Special Reports** on the website.

Bond Yields Won't Rise Forever

As I have been writing since my very first 2021 market commentary in January, bond yields are the giant shadow lurking over asset markets this year. If they go up too high too rapidly equity markets will stumble, and possibly sell-off, but under a more mild scenario, which is what we've seen thus far, it'll trigger a de-rating for most of the winners from the past years.

As bond markets are as much dominated by algo-trading, technicals and momentum followers as any public market these days, it is unfortunately not possible to make watertight predictions about how exactly this year's scenario will unfold. But we've come a long way already with 10-year bond yields rising above 1.4% in Australia and the comparative yield in the US now above 1.3%.

Put a gun against any bond experts' head and he/she will probably say: *"I think around 1.50% this year*". (Assuming that's the question you wanted to ask?)

The underlying message here is: bond yields won't rise forever, and their projected move upwards won't even happen via an uninterrupted, straight line. Thus there will be bargains and opportunities along the way.

One such example, I believe, this month is presented through **Charter Hall**, whose share price has continued weakening ever since the start of the new calendar year. For good measure, Charter Hall is a diversified, extremely entrepreneurial and experienced property investor and developer, and there are weaker parts inside the group, but these should be more than compensated for through the booming parts, which includes the funds management and asset allocation.

These past two weeks or so the Charter Hall share price has literally weakened every single day. The price is now sitting on top of the simple 200 days moving average (for those who pay attention to these things). Of more importance, for how I look at the share market, the consensus price target is now more than 25% above the share price.

And that consensus price target is derived from freshly updated forecasts and valuations by analysts post a financial results release that not only beat market expectations, but also included an upgrade to full year guidance by company management that is by and large considered conservative by most analysts covering the company.

But the share price keeps falling every day.

It is this disconnect in a share market that is extremely focused on up-trending stocks, with no interest or attention to others, that has my personal attention this reporting season. Charter Hall is far from the only one whose performance and outlook are being ignored these days, but I am mentioning it because it has been included into the FNArena/Vested Equities All-Weather Model Portfolio, for the reasons mentioned.

A second reason is that I suspect the above mentioned strategists at JPMorgan made a mistake when they included Charter Hall in their list of most preferred dividend exposures for the upcoming three-year long supercycle. Looking into the finer details, I suspect they mixed up Charter Hall with Charter Hall Retail REIT ((CQR)), which is related though not quite the same.

Charter Hall Retail REIT offers a much higher yield of 6.6% for the running financial year, projected to rise to 7.1% in FY22. Sounds more like supercycle dividend material to me, but hey, I am now back on board with Charter Hall and I think that's a keeper for the next three years too.

Previous updates on the February reporting season in Australia:

-Yet Another Short Selling Failure
https://www.fnarena.com/index.php/2021/02/18/rudis-view-yet-another-short-selling-failure/
-A February Full Of Promise
https://www.fnarena.com/index.php/2021/02/12/rudis-view-a-february-full-of-promise/
-February Feeding Market Optimism
https://www.fnarena.com/index.php/2021/02/11/rudis-view-february-feeding-market-optimism/
-February - Reason For Optimism
https://www.fnarena.com/index.php/2021/02/04/rudis-view-february-reason-for-optimism/

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