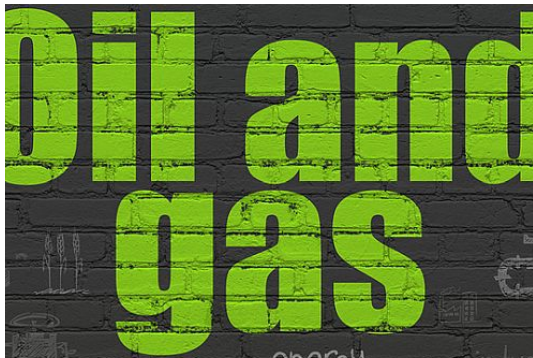


# STORIES TO READ FROM FN Arena

Friday, 23 September 2022



| [Why the RBA Can't Be Too Aggressive](#)



| [Forecasts For Volatile Oil & Gas Markets](#)



| [Rudi's View: Are We There Yet? \(Fat Chance!\)](#)

## CONTENTS

### AUSTRALIA

1. [How Resilient Is Aristocrat Leisure In Downturn?](#)
2. [Why the RBA Can't Be Too Aggressive](#)

### COMMODITIES

3. [Forecasts For Volatile Oil & Gas Markets](#)

### ESG FOCUS

4. [Origin Exits Gas for Clean Energy](#)
5. [ESG Focus: ASX300 Galloping Into Transition](#)

### RUDI'S VIEWS

6. [Rudi's View: Are We There Yet? \(Fat Chance!\)](#)

### SMALL CAPS

7. [Dr Boreham's Crucible: Inoviq Ltd](#)

### WEEKLY REPORTS

8. [Weekly Ratings, Targets, Forecast Changes - 16-09-22](#)
9. [Uranium Week: Dragged Down](#)
10. [The Short Report - 21 Sep 2022](#)
11. [The Wrap: Global Recession; Equity Valuations; Food Inflation; Rain](#)

**AUSTRALIA**

# How Resilient Is Aristocrat Leisure In Downturn?

Aristocrat Leisure's eyes remain on the i-Gaming prize, as the company continues its pursuit of growth in the US market despite an economic downturn.

- Aristocrat Leisure continues to target significant market share in the US i-Gaming industry
- While the market remains positive, analysts point to a weakening consumer outlook as a risk to company growth
- Land based gaming strength provides platform from which to leverage digital market share gains

By Danielle Austin

The market continues to be drawn to Aristocrat Leisure's ((ALL)) US i-Gaming opportunity as the company targets significant market share, but will a weakened consumer environment drag on the company's outlook?

Gaming content company Aristocrat Leisure provides gaming and entertainment options in both the on-site gaming space, including casino systems and pokie machines, and through its digital platforms.

While historical data suggest gambling spend remains largely resilient during economic cycles, analysts have pointed to Aristocrat Leisure's digital platform as not only offering a competitive advantage, but providing a low-cost entertainment substitute that could support peer outperformance in an economic downturn.

While Aristocrat Leisure's recent unsuccessful bid for Playtech has shaken the market and reshaped expectations, the company continues to execute on its five-year "buy and build" strategy to penetrate the US i-Gaming industry. Analysts have estimated the market could be worth US\$7.8bn by FY25, likely with upside risk as i-Gaming is legalised in more jurisdictions.

The company's existing strength in land-based gaming should provide a position of strength for it to build off into i-Gaming content. Aristocrat will likely need to pursue acquisitions to gain market share comparable to competitors of around 25%, but Morgan Stanley sees the company as able to gain a 5-10% share over the coming year.

Having materially de-rated in the last year, analysts have described Aristocrat as being attractively valued for the growth potential on offer. Market leading design and development spend, a shift to recurring earnings from transactional, and expansion into new verticals and diversification of earnings all underpin positive market views on the stock.



### Performance in mobile gaming and casino

Despite concerns of the impacts of an economic downturn, casino industry revenue has largely remained resilient, reportedly 32% above pre-covid levels as of June. Aristocrat's land-based games also outperformed peers, with revenue growing 7% year-on-year in the June quarter to the industry's 6% in the same period.

Within FNArena's database coverage, both Citi and Morgan Stanley have updated their views and projections for the company in the week past. Both equivalent Buy rated, these brokers have an average target price of \$42.60.

Citi expects positive industry trends, and the outperformance of Aristocrat Leisure's land-based business, to underpin the company's outlook. Morgan Stanley highlighted its high design and development spend and capacity to act on potential acquisitions as supporting growth.

Citi (Buy, target price \$40.20) warns of likely impacts of supply chain issues on earnings margins, already these are being felt by the company's competitors.

Morgan Stanley (Overweight, target price \$45.00) meanwhile, took a more positive view, pointing to the US i-Gaming opportunity for potential upside to an already strong growth outlook. Morgan Stanley expects Aristocrat Leisure's shift to a recurring earnings model should assist the company in navigating the weaker consumer environment.

Outside of database coverage, a recent update from Goldman Sachs (Buy, target price \$43.00) drew attention to the industry-wide decline of mobile gaming revenue, which in August fell -14% globally. The steepest decline was reported in racing, shooter and geolocation games, which fell -32.7%, -32.2% and -29.1% respectively.

Despite this, Goldman Sachs lifted earnings forecasts 2.3% and 0.4% for FY22 and FY23 respectively, marking to market for currency exchange rate changes. This broker acknowledged mobile gaming revenue levels reflect a 4.4% compound annual growth rate compared to pre-covid despite the recent decline, and finds the Social Casino segment to demonstrate ongoing strength, accounting for 50% of Aristocrat Leisure's booking.

All in all, the seven stockbrokers monitored daily by FNArena generate a consensus price target for the shares of \$43.28, suggesting upside potential of 25.9% from yesterday's closing share price.

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**AUSTRALIA**

# Why the RBA Can't Be Too Aggressive

With Australians heavily exposed to variable rate mortgages, the RBA has to tread more carefully than the Fed, despite a still-solid consumer outlook.

- Australian fixed mortgages low in number and short in duration compared to the US
- RBA wary of putting more pressure on struggling households
- Australian consumer still positive, if they can afford it

By Greg Peel

With Fed chair Jerome Powell laying down the law at August's Jackson Hole symposium, Wall Street is expecting at least another 75 point rate hike tonight.

By contrast, RBA governor Philip Lowe suggested recently "the case for a slower pace of increase in interest rates becomes stronger as the level of the cash rate rises" - a comment backed up in the minutes of the September policy meeting.

While this is fairly obvious, the fact he said it suggested a slightly more dovish tone to the RBA than the Fed, and on the day sent the local market surging.

Those minutes, released yesterday, noted the RBA did consider only a 25 point rate hike before settling on 50.

Yet the RBA is forecasting the Australian CPI to rise to 7.75% by year-end, from 6.1% in the June quarter, while in the US the signs are inflation has peaked and should start to come down, albeit slowly. Why then is the RBA seemingly more dovish than the Fed?

The difference lies in the impact of monetary policy on households in the two countries, suggests Jarden.

In the US, the pass-through of monetary policy to the real economy is primarily through "financial conditions" (the stock market and corporate credit spreads), Jarden notes, with the direct impact on households relatively limited. In the US, some 95% of mortgages are fixed for 15-30 years.

Thus while borrowers may have looked aghast when the standard 30-year US mortgage rate recently rose above 6%, the impact is only felt by those looking to buy a home or refinance their mortgage, not on existing mortgages.

By contrast, fixed-rate mortgages in Australia are typically only of 1-5 year in duration, and the share of fixed mortgages, as opposed to standard variable rate mortgages, is typically around only 10-12%.

Jarden currently estimates that number to be around a third, given Australian banks panicked during the pandemic and dropped their fixed rates on offer to below their SVRs in order to grow their loan books - to as low as less than 2% -- and drew a substantial refinancing push. But still, this means an estimated 80% are exposed to higher rates within a year.

Hence the RBA is wary of taking its cash rate too high.

Jarden is estimating a "terminal" cash rate (where the RBA will stop) of 3.1% (rate currently 2.35%), well above the RBA's assumed "neutral" rate (balance between stimulatory and restrictive) of 2.5%. Restriction is required to bring inflation down.

However, Jarden estimates the neutral rate is currently 1.5%, not 2.5%, hence it is unlikely an RBA rate above 3% can be maintained for too long. Jarden's economists thus expect 25 point rate hikes at the next three meetings, although would not be surprised by another 50 pointer next month.

Most economists expect 50 points next month, but the September minutes have now led to some doubt.





### Stressful

New research from Roy Morgan shows an estimated 854,000 Australian mortgage holders (19.4%) were “At Risk” of “mortgage stress” in the three months to July 2022. This period encompassed the first three interest rate increases from the RBA in May (25 points) June (50) and July (50) with the cash rate hitting 1.35%.

Mortgage holders are considered “At Risk” if their mortgage repayments are greater than a certain percentage of household income - depending on income and spending.

Mortgage holders are considered “Extremely at Risk” if even the “interest only” is over a certain proportion of household income.

The good news is the proportion of mortgage holders considered “At Risk” of mortgage stress in mid-2022 is well below the high reached during the GFC in early 2009 of 35.6% (1,455,000 mortgage holders) and below the average of the last decade of 20.8% (904,000).

There has been a similar trend for mortgage holders considered “Extremely At Risk”, with only 12.7%, or 542,000, in this group in the three months to July 2022, below the average of the last decade of 13.9% (585,000 mortgage holders).

The bad news is the RBA has since hiked rates by 50 points in each of August and September, taking the cash rate to 2.35%.

If the RBA increases interest rates by 50 points in each of the next two months, Roy Morgan estimates this would mean 24.3% of mortgage holders, 1,100,000, would then be classified as “At Risk” - an increase of 246,000 on July 2022. This would be the most mortgage holders classified as “At Risk” since July 2013.

### That said...

Goldman Sachs notes elevated inflation has eroded real income growth across the globe and led to a drop in consumer confidence.

Real spending growth (meaning: adjusted for inflation) has slowed substantially in North America and Europe, but remains solid in Japan and Australia, given later covid re-openings and less-elevated inflation.

On the positive side, notes Goldman, tight labour markets mean unemployment rates remain very low across all developed economies, and household balance sheets also remain strong given high levels of savings during lockdowns. Debt servicing ratios (to income) also remain low due to years of low interest rates.

Comparing economies, Goldman Sachs rates “consumer health”, on a scale of 0-100, as 35 in the UK and Europe, 40 in the US, 50 in Canada and 60 in Japan and Australia.

But if the RBA hikes a further 75 points (to 3.10%), SVR mortgage rates rise in concert, inflation rises to 7.75% (noting the fuel excise holiday is set to end), can Australian consumer health continue to be above other economies, particularly given the above?

### The Wealth Gap

The most asked question of UBS equity strategists this year has been “for how much longer can the Australian consumer keep spending?”

After surveying 1000 Australian consumers between August 15 and 29, UBS found consumers are still positive despite higher rates and cost of living. Through a period where the RBA had enacted multiple interest rate hikes, the survey’s results showed spending is still expected to accelerate over the next 12 months.

But which consumers?

The survey pointed toward record levels of positive sentiment from high-income earners (greater than \$120k), who recorded a significant increase in their spending intentions. They were also the group, UBS notes, that is now on the clearest upward trend in terms of income growth, savings, debt intentions, home purchases, home renovations, travel, and vehicle spending.

The story is not the same for low income earners (less than \$48k).

Cost of living pressures are forcing consumers to spend more on essentials, with food, fuel, utility and healthcare costs impacting most.

Clearly this disproportionately hurts lower- income earners, whose daily needs spending represents a much higher ratio of the household budget. By contrast, the tight economy shines positively, UBS suggests, on higher-income groups due to the wage gains they are experiencing and their ownership of capital (property, stocks etc).

Given a high level of savings, consumers still want to spend on post-covid travel and 56% of those surveyed said they would draw down on savings to do so. While falling house prices have dented the “wealth effect” which supports spending, consumers continue to cite high levels of income stability and job security as the key positive supports behind their financial outlook, UBS notes.

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**COMMODITIES**

# Forecasts For Volatile Oil & Gas Markets

Brokers weigh the opposing impacts of a potential recession and supply disruptions upon the future direction for oil and gas prices.

- The International Energy Agency cuts crude oil demand growth estimates
- Chinese lockdowns outweigh the impact of gas-to-oil switching
- ANZ expects supply issues may help offset demand concerns
- Will shale boost US oil production?
- Preferred ASX-listed shares for rising gas price forecasts

By Mark Woodruff

One thing seems certain for the crude oil market: ongoing volatility.

Downside risks for crude oil prices may arise as supply grows and a recession sets in, or a combination of weather and supply disruptions may result in higher prices for longer.

An overlay of geopolitics is creating further uncertainty. While the OECD is contemplating a price cap on Russian oil exports, the country is deploying its own gas weapon in retaliation.

The International Energy Agency (IEA) recently cut its 2022 crude oil growth estimates via its monthly oil market report, as renewed Chinese lockdowns offset gains from greater gas-to-oil switching, explains UBS.

China's oil imports are now -3-4mb per day below the trend that was in place before covid, according to Morgan Stanley.

Citi also notes gasoline and diesel demand in the US has fallen to 2011-14 levels, when year-to-date West Texas Intermediate (WTI) prices averaged over US\$90/barrel. This falling demand is one factor that leads the broker to raise its probability of lower future oil prices to 25%, compared to 10% previously.

While macro-economic conditions remain so weak, Morgan Stanley is not expecting an imminent oil price rally either and lowers near-term price forecasts. Once demand picks up, however, the oil market's structural outlook remains tight and the analysts' price forecasts rise from the second quarter of 2023 onwards.

Overall, the broker feels the outlook for the Brent oil price has improved, with a softer demand outlook already incorporated into last week's US\$94/barrel price, after a correction from around US\$130/barrel.

**While a deteriorating oil demand outlook is weighing on market sentiment, ANZ believes supply disruptions will offset some of these demand concerns.** Under-investment by many OPEC member countries is also expected to constrain production.

Geopolitical unrest is behind supply outages in Libya, Nigeria and Ecuador, while European sanctions on Russian oil begin on December 5.

To date, the US, South Korea and Japan have reduced imports from Russia to zero, but the slack has been taken up by India, Turkey and to a limited extent China, explains Morgan Stanley. It's forecast Russian oil imports into the EU will fall by around -3mb/d in coming months and alternative markets for the Russian oil is considered limited.

Providing further pricing support for oil prices, nuclear deal negotiations have stalled in Iran, reducing expectations for additional Iranian oil, explains Morgan Stanley, while OPEC also recently announced it would cut its October output quota, after warning that crude oil prices did not reflect fundamentals.

However, Citi believes US shale will remain a thorn in OPEC's side as it looks to review its output policy in the months ahead.



### US oil production

Shale oil from the Permian Basin offers the largest source of non-OPEC growth in supply, accounting for around 65% of crude pumped across the US this year, up from circa 40% five years ago, notes ANZ Bank.

The basin is about 250 miles wide and 300 miles long, and spans parts of west Texas and south-eastern New Mexico.

Led by Permian, Citi estimates the US shale industry can deliver profitable growth that is underpinned by over 50 years of inventory. On current activity levels, more than 2mb per day of US liquids growth is expected between now and the end of 2023.

However, current investment and activity levels indicates to Citi some reluctance by major players in the Permian Basin to accelerate growth.

ANZ places more weight on this reluctance than Citi and believes US oil production is likely to remain weak and will keep the oil market tight. US shale oil output in the fourth quarter is only expected to be marginally higher than current levels.

Capital discipline objectives have resulted in companies reluctant to plough record profits back into operations, and rising costs are compounding the shortfall this is creating, notes ANZ.

Investors have increasingly pushed oil companies to start returning capital to shareholders, rather than spending heavily to increase production. ANZ points out that when WTI broke above US\$100/barrel in 2014, drillers had twice the current level of horizontal drill rigs operating across the US.

The recurring costs of operating wells and equipment in the US, also known as lease operating costs, have doubled due to cost inflation over the past few quarters, according to ANZ. In addition, oil services companies are warning about the lack of equipment for new wells, and the Permian Basin has recorded three consecutive quarterly falls in the number of drill rigs operating.

### **Morgan Stanley concurs with the ANZ concerning the slowdown in store for US production growth.**

While growth is expected to accelerate in the second half of this year, the broker still lowers its forecast for crude condensate growth in 2022 to 0.7mb/day from 0.9mb/day. For 2023, growth of 0.9mb/day is assumed, but risks to both forecasts are considered skewed to the downside.

Support for production will potentially come from Washington, notes Citi, with media reports suggesting officials are considering purchasing oil for the strategic petroleum reserve (SPR), should prices fall below US\$80.



## Non-US oil production

Morgan Stanley also highlights the lack of rig count growth in core oil-producing countries in the Middle East.

The combined rig count from Saudi Arabia, Kuwait and the UAE is still down by about a third compared to pre-covid and has barely increased from its covid low.

Spare capacity is low by historical standards and provides only a small margin of safety, according to the broker. That capacity is also considered highly concentrated in Saudi Arabia and the UAE.

## Global and domestic gas

Citi has raised its price forecasts for Asian, European and US natural gas amid ongoing geopolitical instability, which has seen an extension to the shutdown of Nord Stream 1, Germany's main source of Russian gas.

Short-term futures prices have risen to reflect the ongoing escalation of the natural gas supply crisis in Europe, and a deterioration in hydro and nuclear power generation, mostly due to drought. The decline in generation from these sources has lifted natural gas demand for power generation.

For Australian east coast wholesale prices, the broker lowers short-term forecasts in the expectation industry and government will combine to prioritise gas supplies. The longer-term wholesale gas price is increased to \$10/GJ from \$9/GJ due to rising marginal costs of production, accelerating reserve depletion and deteriorating well productivity.

Should oil supply tightness continue, Citi sees further upside potential for prices and suggests **Woodside Petroleum ((WDS))** is best placed from among its oil research coverage to benefit via LNG sales on the spot market and increased trading activity in its Marketing division.

The company has exposure to international markets via both LNG (more than 50% of energy production) and international piped gas. The broker raises its rating to Buy from Neutral and increases its 12-month target price to \$36.50 from \$33.30.

Next preferred is Buy-rated **Santos Energy ((STO))** with spot LNG exposure (around 10% for FY22) via PNG LNG and the Bayu-Undan facility, which is located within the Timor-Leste offshore waters, and Citi's target is raised to \$9.00 from \$8.30.

The target for Neutral-rated **Beach Energy ((BPT))** is also increased to \$1.88 from \$1.85, on the revisions to east coast.

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**ESG FOCUS**

# Origin Exits Gas for Clean Energy

With divestment of its Beetaloo asset stake, Origin Energy continues its transition away from gas exploration. While largely received positively by analysts, some raise concern as to the pathway towards energy transition exposure.

- Origin Energy has confirmed the sale of its Beetaloo Basin interest
- The sales comes amid the company's strategy shift to improve exposure to the clean energy transition
- Reducing capital expenditure requirements and ESG-risk, the sale was largely regarded as positive by analysts

By Danielle Austin

Continuing its shift towards the clean energy transition, and away from gas exploration, Origin Energy ((ORG)) has announced the impending sale of its 77.5% Beetaloo Basin interest to Tamboran Resources ((TBN)) for \$60m.

The Beetaloo Basin asset is held by a joint venture between both Origin Energy and Falcon Oil and Gas, with the sale following an eight year exploration campaign by Origin Energy in the region.

As per conditions of the sale, Origin has retained a gas sale agreement for offtake of future gas production at Beetaloo. This will see Origin receive a 5.5% royalty on future production from the asset, should Tamboran Resources make a final decision to proceed to development. The agreement covers up to 36.5 petajoules over ten years, with analysts expecting production at Beetaloo won't occur for several years.

Origin Energy will retain its Cooper-Eromanga and Canning exploration assets, although is expected to divest the remainder of its non-APLNG assets over time in continuation of its energy transition.



## Reducing ESG risk and valuing Beetaloo

The ongoing move towards assets providing exposure to the energy transition reduces Origin Energy's gas

development ESG risk, and associated increasing capital costs.

Outside of FNArena's daily coverage, Jarden (Neutral, target price \$5.65) reported on Origin's announcement. The sale of the Beetaloo interest for \$60m represents a -\$195m miss to Jarden's valuation of \$255m for the asset.

Given the early stage of Origin's other exploration assets, they are yet to contribute to the broker's valuation of the company. Divestment of these remaining assets would free up \$60m in capital expenditure annually, potentially being redirected to clean energy investment, suggests the broker.

Within database coverage, Morgans, Macquarie and UBS all updated post the announcement. Two of these are equivalent Buy rated, with only Morgans on Hold. These three brokers have an average target price of \$6.82, with a range of \$5.70-7.42.

Macquarie (Outperform, target price \$7.42) described the timing of the company's strategic shift as disappointing given Origin Energy's investment in Beetaloo, Cooper-Eromanga and Canning over 2019 and 2020, though this broker found the sale and exploration exit positive.

The broker expects Origin remains committed to a further -\$40-60m in investment costs at Cooper-Eromanga and Canning. Macquarie estimates a decline in annual integrated gas internal costs of -\$20-30m without Beetaloo. Improved cash flow should be able to fund investment in later years, or fund increased dividends.

Finding Beetaloo to be Origin's most prospective exploration asset, Morgans (Hold, target price \$5.70) expects any upside from remaining assets to be minimal. This broker does not account for Cooper-Eromanga or Canning in its current valuation.

According to Morgans, the benefit from Beetaloo if developed could be significant to Origin. The broker does warn, at minimum, the project would be several years from delivering royalties, with Tamboran Resources' modest cash balance potentially unable to immediately fund the project. The broker remains unclear as to Origin Energy's path as an energy retailer.

Supportive of Origin Energy's strategic focus on allocating capital on improving its energy transition exposure, UBS (Buy, target price \$7.35) expects divestment of Origin Energy's remaining non-APLNG assets in the Cooper-Eromanga and Canning basins could be valued at \$130-160m.

UBS finds Beetaloo one of Australia's largest and most interesting gas resources, and expects royalties from development could provide a 20 cents per share valuation boost.

FNArena's consensus target of \$6.48, derived from six brokers monitored daily, suggests potential upside of more than 12% from today's share price with prospective dividend yields currently at 5.7% and 5.8% respectively for FY23 and FY24.

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**ESG FOCUS**

# ESG Focus: ASX300 Galloping Into Transition

*FN Arena'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/>

## **ESG Focus: ASX300 Galloping Into Transition**

Companies reporting on transition initiatives surged in the second half of FY22, as management seized on growing green opportunities to showcase in the August reporting season, and many outlined battle plans to deal with volatile energy costs.

- Decarbonisation accelerates as companies deal with rising fuel costs
- Companies pile their plates at the green-revenue banquet
- Net zero and scope-emissions reporting escalates
- Property's time has come
- Biodiversity stages an entrance
- Water and recycling

By Sarah Mills

The FY22 reporting season proved busier than a palm tree in a hurricane on the ESG front, thanks in part to the Ukraine conflict which further incentivized decarbonisation in the June half.

As a result, FN Arena is presenting a 3-part series drawn primarily from research generated by Macquarie, Jarden and JP Morgan.

This story - Part 1, summarises the major trends witnessed during the season with a major focus on the acceleration in commitments and net zero targets - a sign to future capital expenditure and strategic shifts.

Many companies are likely to seek ways to offset rising fuel and capital expenditure costs, be it through carbon offset markets, carbon inset markets (more on this another day), alternative fuels, green revenue streams, and any other bankable opportunities that might cross their paths, illustrating a sharp shift in companies' strategic focus.

Part 2 focuses on emissions and delves into specific company initiatives to build new green revenue streams, the search for alternative fuels, and efficiency and hedging initiatives.

Part 3 examines A-REITs, biodiversity, recycling and social and governance developments.

### **Summary**

What started as an ESG sprinkle in the December-half became a deluge in the June half of FY22 as ASX300 companies rushed to deal with a slew of challenges ranging from rising fuel costs to the green competitive landscape and inflation.

Decarbonisation took centre stage as the Ukraine conflict put a bomb under fuel prices, and Macquarie notes the conflict is now likely to drive a "disorderly global energy transition" (meaning a focus on decarbonisation at the expense of other ESG metrics).

Most commentators agree that the Ukraine conflict (and resulting fossil fuel price volatility) is already accelerating the shift to a renewable energy economy, and that trend was definitely evidenced in the FY23 reporting season.

A key feature of the season was managements' growing emphasis on fuel costs and the efficiency initiatives being undertaken to manage this, such as hedging energy costs, sourcing of alternative fuels, and a shift to gas from coal, all of which we discuss in Part 2.



Meanwhile, green commodities, particularly lithium miners, were often forgiven profit misses in what has otherwise proved an unforgiving market.

Capital expenditure plans for most major decarbonisers are rising, a fact mining and mining services were quick to recognize in their strategic commentaries.

Meanwhile, many miners and mining services companies announced they were delaying fleet upgrades until low-emissions equipment becomes more available, and Macquarie expects this could increase the sector's maintenance capital expenditure for the next few years.



### Evidence mounts in reporting season

This article is heavily weighted to green reporting as it provides an insight into the extent and pace of future capital expenditure.

From a strategic perspective, companies will be seeking new ways to offset this expense, which will likely pave the way for technology partnerships and mergers and acquisitions.

The materiality of net zero strategies is likely to gain extra investor scrutiny in this respect.

Macquarie notes that the number of net zero commitments has risen to 67% of the ASX100, with seven new commitments reported in the June half, and a handful more since.

New net zero targets emerged from Cochlear ((COH)), Insignia Financial ((IFL)), Metcash ((MTS)), Cleanaway Waste Management ((CWY)), Jumbo Interactive ((JIN)), Ramsay Health Care ((RHC)), Ansell (ANN) Brambles ((BXB)), and nib Holdings ((NHF)).

In the ASX300, companies with a collective market capitalization of \$1.86trn are covered by net zero commitments, - roughly 41% of companies, up from 35% in 2021, and which covers 96% of total ASX300 Scope 1 emissions, says the broker.

Strong progress was made on Scope 1 and 2 emission reporting and hence Scope 3 emissions made a belated but strong entrance onto the reporting scene as companies switched their focus to the grittier task of decarbonizing supply chains.

This was combined with a growing number of company commitments to the Science Based Target initiative, and Macquarie reports that as at the end of August, 38 companies have subscribed, 25 have registered commitments and another 13 companies have set targets.

Several small caps announced strategies and transformations that incorporate ESG and sustainability and rolled out 5-10-year plans and many provided targets for material ESG issues, with 57% of ASX101-200 companies now boasting detailed or comprehensive disclosure, according to ACSI.

Among the smallish caps with green revenue or recycling targets, Macquarie singles out Abacus Property ((ABP)), GUD Holdings ((GUD)), and Pact Group ((PGH)).

A few of the bigger corporates, particularly those with US interests, were tidying up their reporting heading

into the expected mandatory SEC reporting rules in the US.

Woodside Energy ((WDS)) for example, announced in May that it had obtained all of the carbon offsets it needs to achieve its 2030 net zero target.

### Evidence of transition mounts

Macquarie tallied up the number of companies' targets and commitments.

It is a rather extensive and potentially boring list but has been included to indicate the scale of progress in the past two years (prior to which such reporting was virtually non-existent), and the extent of the rapidly accelerating scale of the green revenue business opportunity, which provides a natural segue to the next subheading: green revenue.

**New companies to make commitments included:** Australian Ethical Investment ((AEF)), AGL Energy ((AGL)), Aristocrat Leisure ((ALL)), Amcor ((AMC)), ASX ((ASX)), Bendigo Bank ((BEN)), Chorus ((CNU)), Domino Pizza Enterprises ((DMP)), Downer EDI ((DOW)), Flight Centre ((FLT)), Goodman Group ((GMG)), Inghams Group ((ING)), Iress ((IRE)), Lendlease ((LLC)), Lynas Rare Earths ((LYC)), nib Holdings, News Corp ((NWS)), Ramsay Health Care, Stockland ((SGP)), St George Mining ((SGQ)), TPG Telecom ((TPG)), Vicinity Centres ((VCX)), Ventia Services Group ((VNT)), Westpac ((WBC)) and Worley ((WOR)).

**Those setting targets included:** Auckland International Airport ((AIA)), Boral ((BLD)), Brambles, Dexs ((DXS)), Fletcher Building ((FBU)), Fisher & Paykel Healthcare, ((FPH)), Origin Energy ((ORG)), SkyCity Entertainment Group ((SKC)), Spark Infrastructure ((SPK)), Transurban ((TCL)), Telstra ((TLS)), Unibail-Rodamco-Westfield ((URW)) and Woolworths ((WOW)).

**Another 24 companies committed to state science-aligned targets but not the SBTi and these included:** Atlas Arteria ((ALX)), Ansell, Bega Cheese ((BGA)), Commonwealth Bank ((CBA)), Charter Hall Group ((CHC)), Charter Hall Long WALE REIT ((CLW)), Cochlear ((COH)), CSL ((CSL)), Charter Hall Social Infrastructure REIT ((CQE)), Charter Hall Retail REIT ((CQR)), Insurance Australia Group ((IAG)), Janus Henderson Group, ((JHG)), Metcash ((MTS)), National Australia Bank ((NAB)), Platinum Asset Management ((PTM)), QBE Insurance ((QBE)), REA Group ((REA)), Reliance Worldwide ((RWC)), Sims ((SGM)), Service Stream ((SSM)), SSR Mining ((SSR)) and Suncorp ((SUN)).

Origin Energy has since stolen the headlines, recently announcing it will exit fossil fuels for clean energy.

### Green Revenue Opportunities

A slew of companies took the opportunity to showcase their strategies to build green revenue streams, particularly the mining services and building materials companies, many of which included technology partnerships.

Worley stole the show in the February reporting season, announcing a green revenue target of 75% of all businesses. Other mining services jumped on the bandwagon in the June half, with nearly all announcing initiatives or targets and plans.

We discuss the green revenue opportunity in greater detail in Part 2.

### Property sector girds its loins

Property drew more than its usual share of attention heading into FY23.

To date, the market's focus has been on renewables and miners, particularly fossil fuel producers and green commodities, but that is all about to change as big capital turns its focus to the world's biggest emitters.

According to Forbes, property is world's largest emitter constituting 40% of global carbon dioxide emissions. (Transport is second accounting for 27% of emissions but the electric vehicle transition is well underway.)

Of these emissions, about 70% come from building operations and 30% from construction.

A-REITs, in particular, were keen to present their credentials and ambitions, heading into what promises to be a turbulent time for a sector already beset with interest rate challenges.

This sector is expected to become a key market for those offering emissions-saving products and technology; and A-REITs and developers are likely to set the bar for the construction industry.

We examine the transition leaders and laggards in Part 3.

### Financials Jockey For Position

A focus on financed emissions targets on thermal coal mining, upstream oil and upstream gas extraction proved

the flavour of the day in the financial services sector.

ANZ Bank's ESG briefing reports lending to oil and gas extraction rose 8% half on half, while lending to metallurgical coal eased.

Banks hold big emission exposures in property, agriculture, transport and energy - areas which accounted for more than 87% of Commonwealth Bank's 2020 financed emissions reports, observes Macquarie.

Commonwealth Bank hit new targets in this respect, as did Westpac. CBA also committed to end finance to coal by 2030, providing a tighter guide to fuel's future.

ANZ has since announced in its ESG briefing on the sector that it will set oil and gas and building products financed emissions targets by the end of the year, and expects National Australia Bank ((NAB)) will announce targets at its result.

CBA has identified stranded asset risks. These include: home loans (3%, or \$31bn of the banks home loans are vulnerable to natural catastrophes); and \$14bn of assets are exposed to regions where more than 5% of jobs are linked to the coal-value chain. The other banks are yet to do so.

The ANZ brief revealed Westpac sharply lagged the majors in term funded and facilitated sustainable finance initiatives.

On the green revenue front, the banks already have a strong idea of how and from where they will derive their green revenue streams.

Macquarie says the banks are now exploring sector incentives and capital allocations, which FNArena expects should provide some interesting insights for FY23.

The ASX, meanwhile, is exploring carbon futures and highlighted electricity futures, along with sustainability courses as sources of income.

Banks generally have a big exposure to the high emissions property sector and this is also likely to come into focus in FY23. Ditto for insurers.

In a climate risk assessment, Challenger ((CGF)) identified property as its highest-risk asset class.

QBE reports that it is engaging at least annually with the top-10 highest emitters in its investment grade corporate credit portfolio.

### Biodiversity And Water And Recycling

Biodiversity also made a noticeable entrance this season, with water being included under the biodiversity banner, giving it at least one bankable asset class (previously this was a major brake on rolling out the biodiversity concept).

Macquarie says 25% of the ASX100 referred to biodiversity nature impacts, up from 14% in August 21, including The a2 Milk Company ((A2M)), GPT Group ((GPT)), Aurizon Holdings ((AZJ)), and a slew of resources companies.

Macquarie notes disclosure is high and expects Australia's major corporations will start announcing targets in 2023 after the Taskforce on Nature-Related Financial Disclosures (TNFD) report is published.

All of this aligns with the recent push for a standardised global biodiversity certification scheme, with Australia's new Labor government already taking up the gauntlet.

FNArena feels that biodiversity's time is approaching and plans a 101 on the subject by year-end.

Water reporting was a focus for agriculture, resources and A-REITs, as usage was reported and harm minimisation efforts showcased.

While recycling continues to take a back seat, partly due to the "disorderly" transition triggered by the Ukraine conflict, which is accelerating the decarbonisation process, many companies announced progress, particularly in areas such as building materials for which recycling is also coupled with decarbonisation benefits.

On the recycling front, Pact Group announced it expected to derive an extra \$25m a year in earnings (EBIT) by the end of 2025 observes Macquarie, and set a recycled content target of 30% of plastics by the end of 2025.

Pact Group also showcased its progress in this respect, which included some small M&A and closures, and the start of its Albury-Wodonga PET plastic recycling operations.

Orora ((ORA)) also announced initiatives.

Recycling was also a popular reporting theme for retailers.

JB-Hi-Fi ((JBH)) announced it had increased soft plastics recycling by 18% on 2021.

Super Retail ((SUL)) also set several recycling targets.

Mirvac ((MGR)) announced it has achieved a construction waste recycling rate of 94% and that recycling across its operations, office and retail portfolio jumped to 68% from 34%.

The company says that in regard to developments, the company is on schedule to secure 25% recycled concrete and steel (killing two birds with one stone given this should affect decarbonisation metrics), and to halve development waste.

BlueScope Steel ((BSL)) says it is targeting 40% scrap self sufficiency (which will require investment), and Macquarie report movements in obsolete and prime quality scrap should improve the company's margins (pending already evidenced increased competition in this respect).

Boral says its Circular Materials Management concept is proven.

### Social And Governance Initiatives

The S and the G took a big back seat to the E this year as a sense of emissions urgency beset the market, in part due to the Ukraine conflict.

On the "S" front, labour shortages and rising inflation proved a general malaise and largely outside company control, so it received a pass for the year.

The main feature was a deterioration in safety statistics from companies as high absenteeism and tight labour markets hit home, including deaths in mining operations, including Fortescue Metals ((FMG)), but again, this is unlikely to bring the wrath of big capital which is squarely focused on other priorities.

### Governance

On the governance front, only two big strikes were recorded.

Shareholders took umbrage with Magellan Financial's ((MFG)) \$2.499m severance payment to ex-CEO Hamish Douglass, which was just \$1,000 below the statutory threshold for a shareholder vote, observes Jarden.

And Terracom ((TER)) paid a \$2.4m bonus to ex-CEO Craig Ransley, and only sought shareholder approval after the fact.

At a broader level, discontent was recorded as companies paid bonuses to executives despite missed targets, after the market took a tumble in the June half.

Many more companies introduced ESG metrics into management score cards, and sharply improved disclosure among small caps also featured.

***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/>

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**RUDI'S VIEWS**

# Rudi's View: Are We There Yet? (Fat Chance!)

In this week's Weekly Insights:

- Are We There Yet? (Fat Chance!)
- Conviction Calls
- Research To Download

By Rudi Filapek-Vandyck, Editor

## Are We There Yet? (Fat Chance!)

As is often the case, the most important developments across financial markets this month are what is not shown through share price movements.

On Monday morning **ANZ Bank** mailed out its latest economic forecasts, and the changes are quite noticeable:

*"Based on current and expected price trends we now forecast a terminal Fed funds range of 4.75-5.00% to be reached by Q2 2023, which is 100bps higher and almost six months later than we previously projected."*

In layman's language: the Federal Reserve will be tightening for longer and pushing up interest rates a lot higher than previously assumed, which is not yet priced in by financial assets.

Equally important: the team of economists at ANZ Bank is now reviewing its forecasts for the RBA in Australia for a potential higher-and-longer scenario locally too.

It goes without saying, ANZ Bank is but one forecaster in a global world of many, but Monday's update is indicative of the trend that started early in 2022 - and the same undercurrent has remained in place since: inflation is much stickier than assumed, central bankers will need to work harder to pull it back towards 2% again.

Just about every economic outlook has the US, and the world in general, either close to or in recession next year. Imagine what higher interest rates for longer will do for the risks of recession.

\*\*\*\*

Financial markets are transitioning away from exceptionally low interest rates and bond yields with low inflation to (when viewed from 2020's starting point) much higher rates and bond yields and much higher and more persistent levels of inflation.

It's not just central bankers and economists who have been underestimating how far and how long this process of taming inflation is likely to stretch out; the same observation can be made about investors and financial markets generally.

Nine months in and it is possible we're only half-way through what needs to happen. Plus the bulk of consequences (slower growth, higher unemployment, less liquidity) is still ahead of us.

This, however, does not automatically mean the only way forward is a steady regression into full-blown disaster. There are still plenty of what-if scenarios that can push equity markets in either direction between tomorrow and 2024.

**Citi strategists** summed it up as follows recently:

-Positive scenario: inflation comes down quickly, allowing central banks to stop tightening sooner - equity markets rally circa 20%

-Negative scenario: inflation remains sticky and central bankers need to continue tightening, causing a global recession - equity markets sink by -20%

To prove my point: Citi's base case scenario is for two negative quarters in the second half of next year for the US economy. Yet, its strategists also believe corporate margins and profits will prove more resilient and thus equities should be able to continue clawing back more of the losses suffered earlier this year.

Which is why, short-term, the nascent US quarterly reporting season might prove of more importance than this week's FOMC meeting.



\*\*\*\*

On Friday, FedEx, well-known by investors around the globe and traditionally seen as a bellwether for the US economy (if not for the world economy) issued a severe profit warning, with management at the global transport and e-commerce services firm withdrawing guidance for the full year.

The shares were punished by -21% on the day -the worst fall in the company's history- and subsequently pulled down all peers around the globe.

FedEx management spoke of a sudden and severe deterioration in business momentum but thus far, also judging from general commentary and views, investors seem to be treating FedEx's problems as a pure e-commerce related matter. But what if it isn't?

Upcoming quarterly updates from corporate America might provide us with more insights.

\*\*\*\*

I am certain if we had the choice, most of us would say just get it over and done with, so we can finally move on and look towards a brighter outlook. Alas, there is no such choice and this global transition remains an elongated, drawn-out process.

Only half-way? It is but a genuine assessment. This is not the time to lose patience.

How exactly an investor should treat or respond to the ongoing uncertainties is very much a personal journey,

defined by key characteristics such as appetite for risk, specific strategy and years of experience.

Some people can go on a holiday with nothing but a swag on a motorbike while others can never get used to even the more glamorous form of 'glamping'. Investing is not that dissimilar.

Last week, I accidentally bumped into **Munro Partners fund manager Nick Griffin** being interviewed on the ABC. While the journalist was trying her best to extract some regret on a day US equities had sold off heavily, Griffin stoically implied he never judges his investment decisions for one particular day only.

Munro's international fund went 40% into cash early in the year, and has since reduced that to 30%. Those are big numbers for a fund that directs some \$4.7bn in clients' money.

It's a process, or something to that effect Griffin suggested, also adding financial markets are forward looking, so while central bankers and economies might need more time to adjust, it is likely the time to start buying more shares might "only" be three to six months out.

**Marcus Padley of Marcus Today**, on the other hand, has once again moved to 100% in cash.

For those who do not read the local gossip press, **Charlie Aitken** is fund manager no more and has returned as a private client advisor at **Bell Potter**. Aitken's forecast is for more (and extreme) volatility in the months ahead.

Get rid of the stinkers in your portfolio, is Aitken's advice, and draw up a list of all the great, quality companies you like to own. Keep enough cash at hand for when such stocks get clobbered.

The benefits should last for many years.

Aitken also advises if investors cannot stand extreme volatility in share prices, they might want to consider moving to the sidelines for a while.

The **FNArena/Vested Equities All-Weather Model Portfolio**, as I communicated earlier throughout the year, has equally kept its cash allocation at super-sized levels in 2022. Cash is currently above 30%.

\*\*\*\*

More insights can be derived from two large, **global fund managers surveys**. The monthly survey conducted by **Bank of America** revealed bearish sentiment is currently rife with average cash allocation at 6.1%, the highest level post 9/11.

The survey by **S&P** revealed expectations of negative returns from US equities near-term are now pretty much embedded in investment managers' minds. Some 79% sees a recession on the horizon, but only one in ten is predicting it will be a deep one.

The good news from the S&P survey is that bearish sentiment has been worse earlier in the year.

The BofA survey showed global investors are extremely cautious on Europe ("most Underweight European equities ever") and have positioned themselves *en masse* in consumer staples ("most Overweight since December 2008").

Global growth expectations are now at or near their lowest levels ever recorded while persistent, too-high inflation is seen as the number one risk. A net 92% of investors sees corporate profits declining over the twelve months ahead.

On BofA statistics, global investors have never been as Underweight in equities as this month (more underweight than in October 2008). Healthcare, Staples and Energy are everybody's favourite exposures, though the S&P survey also identified IT/tech among favourite sectors.

Similar to Australia, consumer discretionary and real estate have little to no friends, but overall sentiment has also noticeably deteriorated towards basic materials.

The above easily explains why daily trading volumes for the ASX200 were down -19.6% in July relative to the twelve month average, and -13.7% throughout August.

The irony is, of course, such extreme downbeat readings increase the chances of a counter-sentiment move, which in the current context would be yet another rally nobody believes will prove sustainable.

This is a point highlighted also by the aforementioned strategists at Citi whose proprietary indicator is suggesting overall risk appetite is close to sinking into "panic" territory yet again, which usually implies the next rally upwards is but an unexpected trigger away.

It will not, however, mark the end of this year's ongoing process which has a lot longer to run. Don't run out of patience in the meantime.

But also keep in mind: -20% is still just as likely as +20%.

Final observation for this week: if Quantitative Easing (QE) by the Federal Reserve contributed to the relative outperformance of US equities over Australian equities pre-2022, then it is most likely the reverse of Quantitative Tightening (QT) will contribute to Australian equities performing relatively better (as has already been the case year-to-date).

\*\*\*\*

#### Weekly Insights earlier in 2022:

-Don't Fight The Fed: <https://www.fnarena.com/index.php/2022/05/26/rudis-view-dont-fight-the-fed/>

-Peter's Portfolio Reviewed:

<https://www.fnarena.com/index.php/2022/04/13/rudis-view-peters-portfolio-reviewed/>

-Double Your Protection:

<https://www.fnarena.com/index.php/2022/03/17/rudis-view-double-your-protection/>

For those investors still wondering why gold is simply refusing to "perform" in 2022, here's my presentation earlier this year at the **Australian Gold Conference** (video):

<https://www.youtube.com/watch?v=J7IzgE5eQ0k&t=5s>

#### Conviction Calls

Analysts at **Morgan Stanley** have reiterated their positive thesis for half a dozen smaller cap companies post the August reporting season:

- McMillan Shakespeare ((MMS))
- Jumbo Interactive ((JIN))
- Lovisa Holdings ((LOV))
- Life360 ((360))
- Temple & Webster ((TPW))
- Dicker Data ((DDR))

\*\*\*\*

**Wilsons' Focus List** has traded in News Corp ((NWS)) for Nine Entertainment ((NEC)).

Among the reasons mentioned:

- better fundamental value
- higher quality earnings base (ex real estate)
- less cyclical business and more resilient than market is implying

\*\*\*\*

Stockbroker **Morgans' Growth Model Portfolio** has sold Westpac ((WBC)) shares to fund the addition of Domino's Pizza ((DMP)) in the portfolio, with the intention of adding more stock over time.

The Portfolio retains a relatively larger exposure to CommBank ((CBA)).



\*\*\*\*

Analysts at **Macquarie** have been asked to nominate their **Best Ideas** for the six months ahead, which are, on Macquarie's assessment, expected to be "volatile".

The result came in the form of 14 positive ideas and one sole negative: Wesfarmers ((WES)).

Large Cap (ASX100) nominations are:

- CSL ((CSL))
- GPT Group ((GPT))
- IDP Education ((IEL))
- James Hardie ((JHX))
- Lottery Corp ((TLC))
- Origin Energy ((ORG))
- Santos ((STO))
- Worley ((WOR))

Best Ideas outside of the ASX100:

- Auckland International Airport ((AIA))
- Centaurus Metals ((CTM))
- Coronado Global Resources ((CRN))
- Gold Road Resources ((GOR))
- Kelsian Group ((KLS))
- Megaport ((MP1))

### Research To Download

Research as a Service (Raas) updates on:

-BetTube Corp: <https://www.fnarena.com/downloadfile.php?p=w&n=3EDC2C7D-A70A-D6F8-DD0322D9A1E5F1D7>

-Harvest Technology ((HTG)):

<https://www.fnarena.com/downloadfile.php?p=w&n=3EEB63B4-9E2A-738B-2EBD751C1F642866>

-Metarock ((MYE)):

<https://www.fnarena.com/downloadfile.php?p=w&n=3EF0A0A4-C0C7-B0B9-F6657DD38B2AE18B>

-Spenda ((SPX)): <https://www.fnarena.com/downloadfile.php?p=w&n=3EF576CD-D150-174A-A18B860CB78989FB>

(This story was written on Monday, 19 September, 2022. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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

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

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- Make Risk Your Friend. Finding All-Weather Performers, January 2013 (The rationale behind investing in

stocks that perform irrespective of the overall investment climate)

- Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection)
- Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow.
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**SMALL CAPS**

# Dr Boreham's Crucible: Inoviq Ltd

## Dr Boreham's Crucible

By Tim Boreham

ASX code: ((IIQ))

Share price: 67 cents

Market cap: \$59.8 million

Shares on issue: 92,018,702

Chief executive officer: Dr Leearne Hinch

Board: Dr Geoffrey Cumming (chair), Robert (Max) Johnston, Philip Powell, Prof Allan Cripps

Financials (year to June 30, 2022): product revenue \$276,745 (down 41%), loss of \$6.26 million (previously an \$11.1 million deficit), cash of \$15.4 million (up 206%).

June quarter 2022: receipts of \$163,000, cash burn \$1.68 million, cash balance \$15.4 million, quarters of available funding nine.

Identifiable major shareholders: Merchant Funds Management 12.63%, Moggs Creek Super (David Williams) 5.3%, Dr Irmgard Irminger-Finger 4.4%.

## Inoviq? Ino-who?

Most investors would struggle to recognize one of the newest names in the ASX biotech family which, we're reliably informed, means "intelligent innovation".

Given the company's three-pronged program covering cancer diagnostics and involving lots of dense acronyms, investors could also be forgiven for understanding where these innovative smarts are being directed.

For those who haven't been paying attention, Inoviq is the new moniker for Bard1, which subsumed fellow ASX-listed Sienna Diagnostics at the onset of the pandemic in mid-2020.

While the two companies are pretty much an omelet these days, the active programs are weighted to the old Sienna.

Inoviq chief Dr Leearne Hinch admits the company can seem complicated, given its various technology strands and multi-product pipeline.

"People have a better understanding of therapeutics; there's less understanding of what diagnostics, do although Covid has significantly changed that," she says.

Inoviq's ultimate aim is simple enough: to commercialize better diagnostics for some of the most common cancers.

"The current cancer diagnostics are far from reliable," Dr Hinch says.

"The key unmet need is to detect cancer earlier and more accurately. We have a host of opportunities, from screening to diagnosis to treatment selection and patient monitoring."



### How the omelet was cooked

Sienna listed in mid-2017, backed by deep-pocketed names including former Macquarie Bank chief Allan Moss and rag trader tycoon David Neate.

Sienna developed an approved adjunct diagnostic product for bladder cancer called hTERT (anti-hTERT, strictly speaking).

Launched in 2016 initially as a laboratory reagent, it remains Inoviq's legacy, revenue-generating product.

In 2019, Sienna acquired an exosome technology asset called Exo-net.

In April 2020, the company licensed a cancer-busting protein - clumsily monikered Sub-B2M - from the University of Adelaide and Griffith University.

Bard1 emerged from the shell of Eurogold in 2016, with its work focused on lung cancer and an auto-antibody platform based on the Bard1 protein.

In mid-2020, Bard1 acquired the larger Sienna in a scrip deal valuing Sienna at \$23 million and the whole shebang at around \$33 million. Apart from cancer diagnostics, the other common feature was that Merchant Opportunities Fund owned a large slab of both of them.

In December last year, Bard1 renamed itself Inoviq.

Dr Hinch joined Bard1 as CEO in November 2016.

A trained veterinarian, Dr Hinch previously headed the ASX-listed Immuron and held executive roles at the listed OBJ Ltd, Hollista Colltech and the now-defunct Healthlinx (also cancer diagnostics) and Chemeq.

Dr Hinch, by the way, joins vets-turned human biotech execs Dr Jackey Fairley and Dr Paul MacLeman.

"I have seen this company through a lot of change from one that had a single technology - Bard1's auto-antibody platform - to acquiring Sienna for its Exo-net asset," Dr Hinch says.

### Exosome or go home

Exosomes are a hot area of research, with the ASX-listed Exopharm specializing in the field.

While Exopharm is all about therapeutics, Inoviq focuses on diagnostics and claims to be a leader in the race to commercialize a product.



Exosomes are small extra cellular vesicles, or as Dr Hinch puts it: “Little balls released from all cells in the body, including healthy and diseased ones.”

Inside the exosomes are different sorts of molecules, such as DNA fragments, ribonucleic acid (RNA), proteins and lipids.

Inoviq’s product in development, Exo-net is a matrix of antibodies that ‘capture’ the exosomes for analysis.

In the case of an ovarian cancer, the company compares exosomes from cancer cells with normal ones.

“Inside the cancer exosomes, we found a number of informative biomarkers such as micro-RNAs and proteins,” Dr Hinch says.

“That combination of biomarkers goes into an algorithm, which enables the earlier and more accurate detection of ovarian cancer.”

#### Tapping the burgeoning research market

Inoviq has targeted Exo-net as a research tool for interested parties such as academia and drug companies developing exosome-based therapies.

“Because it doesn’t have to be approved for use in research, this provides a faster market opportunity to get it in the hands of key scientists,” Dr Hinch says.

Dr Hinch cites a potential \$US661 million (\$A944 million) market for global exosome research, up from \$US440 million in 2021.

In July 2022, the company appointed US mob Precurso Life Sciences, which already offers exosome research products, as a contract sales agent.

“This is a nascent industry that is growing rapidly because of the amount of research being done in this sector in both diagnostics and therapeutics,” Dr Hinch says.

Currently there is only one approved exosome-based diagnostic, for prostate cancer.

Inoviq aims build a pipeline of exosome-based diagnostics, firstly for cancer but also for neurogenerative diseases (such as Alzheimer’s and Parkinson’s) or metabolic ailments such cardiovascular disease, obesity and diabetes.

The company has an exosome-based ovarian cancer diagnosis in development with the University of Queensland, in view of a mass screening test.

Dr Hinch adds that Exo-net can be customized by using different antibodies to capture exosomes from the brain, lung or ovaries.

#### Sub optimal time for a Neu name, Eliza?

Dr Hinch concurs that Sub-B2M is an “awful name” that’s ripe for changing - and no doubt will be.

Totally unconnected to submarines - nuclear powered, French-built or otherwise -Sub-B2M is an engineered protein that detects a pan-cancer biomarker called Neu5Gc.

Neu5Gc is a sugar found on any cancer cell, but not any healthy human cell (or any mammalian one for that matter).

“Somehow cancer has found a way to produce this Neu5Gc; hence it is a pan-cancer biomarker,” Dr Hinch says.

Earlier studies showed that Sub-B2M could detect more than 95 percent of breast cancers across all stages (stages one to four), with no false positives.

This work was done in 2018 and 2019. Since then, the company has focused on transferring the tech to a simple format called Eliza, as in enzyme linked immunosorbent assay.

Sorry - these names are not getting any better.

“It’s a simple assay that is cost effective and used in pathology labs around the world,” Dr Hinch says.

“We are seeking to improve on existing cancer monitoring tests.”

One such test has already been approved by the US Food and Drug Administration for monitoring ovarian cancer, focused on detecting the protein on cancer cells called CA125.

Ditto a second test for the breast cancer protein biomarker CA15.3.

#### Anyone for a sandwich?

The aforementioned tests aren't especially effective, because these biomarkers can be elevated for reasons other than cancer.

So Inoviq proposes a "sandwich assay" approach by which its test detects both the proteins and Neu5Gc, which narrows their occurrence to cancer cells.

"The sugar was very much known as a cancer biomarker, but no one knew how to bind the sugar with high sensitivity and specificity," Dr Hinch says.

At least that's until the University of Adelaide and Griffith University nipped out how to bind the antibodies and the sugar "with great affinity".

As with Exo-net, Inoviq plans to sell the diagnostic as a laboratory-based test. This would be followed by a clinical trial to support an FDA application under the 510(k) predicate device pathway.

The test could be used either to improve the existing tests, or as a routine blood-based assay along with the standard tests for glucose, liver enzyme and cholesterol levels.

In late July, Inoviq also outlined the results of University of Queensland work showing that Exo-net was effective in detecting melanomas and distinguishing the malignant growth from benign ones.

This was based on 144 malignant samples.

#### Fewer biopsies? Bladder believe it

Inoviq's anti hTERT is an immune-cyto-chemistry test used as an adjunct to urine cytology. The test detects the hTERT human telomerase, which is elevated in cancer cells.

The problem with current methods is that 25 percent of the cells are indeterminate, which means it's not clear whether it's cancer or not.

To reduce the number of patients referred for an unnecessary cystoscopy and biopsy, the samples are stained with hTERT.

As with a Band-Aid, hTERT has no particular disease claim and has also been approved in Europe, South Korea and Australia.

In an ideal world of daisies and fluffy kittens, every relevant sample would be double tested with the hTERT kit.

But as Americans would attest, healthcare boils down to money and preferably someone else's.

#### Finances and performance

Inoviq recorded \$160,000 sales in the June quarter of 2022, all from the hTERT product. Sales for the 2021-'22 year came in at a Covid-affected \$276,745 million, which compares with peak annual revenues of \$500,000 per annum.

At the end of June, the company had a tad over \$15 million of cash, with the coffers bolstered by an \$18.4 million placement and share purchase plan in mid-2021.

"Based on our current cash burn, we have enough cash to cover the next two years," Dr Hinch says.

"But that will depend on our development programs. We expect our spending to increase over the next couple of years as we move our programs forward and into clinical validation."

Inoviq shares are down 50 percent compared with a year ago, but up a hefty 45 percent since June 30, 2022.

Since the 2020 merger, Inoviq has traded as low as 41 cents (June 24 this year) and as high as \$3.99 (March 2021) following the February announcements of "100 percent" success for sensitivity and specificity for ovarian cancer and 95 percent and 100 percent, respectively, for breast cancer.

#### Dr Boreham's diagnosis:

Ideally, Inoviq will emerge with commercialized breast and ovarian cancer monitoring tests (Sub-B2M) and ovarian cancer screening for asymptomatic folk (Exo-net).

We've barely mentioned the old Bard1's legacy, early-stage lung cancer program, but neither has the company.

A screening product is harder to get to market, partly because a higher patient sample is required to prove efficacy. So, if anything, investor hopes centre on the more advanced Sub-B2M program, with numerous studies across both cancers underway.

Sometimes the seemingly small things count in biotech research and fortunately the company has access to a bio-bank of ovarian cancer samples and matched controls, held by University College London.

“This is really important because accessing ovarian cancer samples is very difficult,” Dr Hinch says.

There’s certainly much going on by way of intelligent innovation at Inoviq, but we suspect the dense nature of the company’s material has contributed to the company’s share price decline.

“We are in a tough market now,” Dr Hinch says. “We have been hit hard but we are focused on moving our key programs forward and expect value to return to the share price.”

*Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Rather than the company’s material being dense, it could well be just him.*

**This article first appeared in Biotech Daily**

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## WEEKLY REPORTS

# Weekly Ratings, Targets, Forecast Changes - 16-09-22

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

By Mark Woodruff

### Guide:

*The FN Arena 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 September 12 to Friday September 16, 2022*

*Total Upgrades: 5*

*Total Downgrades: 5*

*Net Ratings Breakdown: Buy 55.70%; Hold 36.66%; Sell 7.64%*

For the week ending Friday September 16 there were five upgrades and five downgrades to ASX-listed companies covered by brokers in the FN Arena database.

After a general review of Australian banks, Citi upgraded its ratings for both National Australia Bank and Bendigo & Adelaide Bank to Buy from Neutral after recent share price falls.

The broker noted banks are now sitting on an excess liquidity build the size of which has not been seen in history, with central banks set to embark on their quickest and largest tightening seen in over 30 years.

The build in liquidity is expected to generate a material initial return on that abundant liquidity, sending FY23 net interest margins (NIMs) sharply higher by around 30bps. These margins will retract in FY25 as the excess liquidity evaporates.

The excess liquidity stems from deposit growth and the direct Term Funding Facility (TFF). The facility was provided by the Reserve Bank in covid times to support the economy via low cost three-year funding against high quality collateral.

There were no material changes to target prices set by brokers last week. While target prices appear to have stabilised after reporting season revisions, changes to earnings forecasts continued.

As can be seen within the two tables below, forecast earnings changes by brokers are more material for downgrades compared to upgrades, and mining companies are largely bearing the brunt of the downgrades.

It interesting to note some bifurcation of forecasts occurring within the Mining sector, depending on respective commodity exposures.

The earnings forecast tables show positive broker earnings upgrades for Allkem (lithium), Whitehaven Coal (largely thermal coal), IGO (lithium, nickel, copper) and mineral sands company Iluka Resources.

On the flipside, five of the top six broker earnings downgrades related to 29Metals (copper and precious metals), Nickel Industries, Sandfire Resources (copper/gold), Alumina Ltd and Coronado Global Resources, which mines metallurgical coal.

Increased mining costs are generally weighing across the sector, and in some cases are not being countered by increased commodity price forecasts. Using 29Metals as an example, Morgan Stanley not only decreased its price forecasts for gold and copper, but also raised cost forecasts.

As a result of these twin impacts, 29Metals headed up the table for the largest percentage fall in forecast earnings.

Despite cost headwinds, Morgan Stanley last week generally raised target prices across its Australian Mining coverage, with the sector generally undervalued and set to benefit from inflation.

Appen came third on the table for the largest percentage fall in forecast earnings in ongoing reaction to a weak August trading update. Macquarie recently rated the company as its least-preferred pick in its coverage of the Technology sector.

More positively, Citi last week drew some comfort from signs of optimism contained within August website traffic. As part of this, Appen China continues to see strong web traffic, climbing by 76% year-on-year in August to reach an all-time monthly high.

Total Buy recommendations comprise 55.70% of the total, versus 36.66% on Neutral/Hold, while Sell ratings account for the remaining 7.64%.

### **Upgrade**

#### **ARISTOCRAT LEISURE LIMITED ((ALL)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 7/0/0**

New analysts at Morgan Stanley "assume coverage" of Aristocrat Leisure and begin with an Overweight rating and set a \$45 target. While prior coverage is not referenced, this is effectively an upgrade from an Equal-weight rating. The target has risen from \$43.

The broker expects a re-rating of Aristocrat Leisure shares based on potential to become a meaningful player in i-Gaming in the US and to navigate a weaker consumer backdrop in that country. Past digital growth is also considered to be sustainable.

Apart from an attractive valuation, the analysts also see potential upside from the pursuit of M&A opportunities or capital management initiatives.

Industry View: In-Line.

#### **BENDIGO & ADELAIDE BANK LIMITED ((BEN)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/2/0**

Citi is anticipating a shift in the tide for the banking sector in the coming year, with banks holding historic levels of excess liquidity ahead of the quickest and largest tightening in more than thirty years.

The broker notes this should generate strong return on liquidity over the next year, and drive a 30 basis point net interest margin increase, before liquidity diminishes in 2024-25.

Given its recent sell off, Citi upgrades Bendigo & Adelaide Bank to Buy from Neutral and the target price decreases to \$9.75 from \$10.40.

#### **CLOVER CORPORATION LIMITED ((CLV)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/0/0**

Clover's second half sales surprisingly beat the top end of guidance, driven by improved China infant formula market conditions and new customers, UBS notes.

At its first half result, Clover indicated solid early second half trading may have benefited from order pull-forward, though this does not appear to have been the case

The broker sees two medium term opportunities -- new customers in China and new products and omega-3 expansion beyond infant formula. An increased cost of capital takes the broker's target down to \$1.35 from \$1.40 but rating upgraded to Buy from Neutral.

#### **NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Upgrade to Buy from Neutral by Citi .B/H/S: 2/5/0**

Citi is anticipating a shift in the tide for the banking sector in the coming year, with banks holding historic levels of excess liquidity ahead of the quickest and largest tightening in more than thirty years.

The broker notes this should generate strong return on liquidity over the next year, and drive a 30 basis point net interest margin increase, before liquidity diminishes in 2024-25.

Given its recent pull back, Citi upgrades National Australia Bank to Buy from Neutral and the target price



increases to \$32.75 from \$32.25.

**WOODSIDE ENERGY GROUP LIMITED ((WDS)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/3/0**

The Citi global commodity team significantly upgrades its global gas price forecasts, while short-term Australian east coast wholesale prices have been trimmed. It's felt east coast gas supplies will be a priority as industry and government work together.

After mark-to-market gas prices, the broker estimates Woodside Energy is best-placed to benefit via LNG sales on the spot market. The rating is raised to Buy from Neutral and the target is increased to \$36.50 from \$33.30.

**Downgrade**

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

ALS has laid out a pathway to its five year aspirations of 50% revenue growth to \$3.3bn and 55% earnings growth to \$600m by FY27. Credit Suisse notes the company intends to deliver margins above 19% and cash conversion above 90%.

The broker noted the company highlighted its major divisions remain favourably exposed to operating trends. Credit Suisse is cautious on potential moderating activity from junior miners in the near-term, but on a five year view sees strong investment opportunity in ALS.

The rating is downgraded to Neutral from Outperform and the target price of \$12.60 is retained.

**MINERAL RESOURCES LIMITED ((MIN)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 4/1/0**

Morgan Stanley generally raises target prices across its Australian Mining coverage, with the sector generally undervalued and set to benefit from inflation.

The broker lowers its rating for Mineral Resources to Equal-weight from Overweight after a 47% share price rally since March, though raises its target to \$78.90 from \$64.80.

The valuation benefits from higher forecasts for long-term iron ore and lithium prices. Industry view: Attractive.

**PENDAL GROUP LIMITED ((PDL)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 2/3/0**

Ord Minnett reviews Pental Group's valuation following the Perpetual (PPT) takeover offer.

The broker says the offer implies proceeds of \$5.44, although that is something of a moot point for many shareholders given there is no shareholder vote.

Rating downgrade to Accumulate from Buy on valuation. Target price rises to \$5.35 from \$4.20 to reflect the likely completion offer - about 5.2% below the Perpetual offer.

**SOUTH32 LIMITED ((S32)) Downgrade to Neutral from Buy by Citi .B/H/S: 6/1/0**

Following an around 10% outperformance versus the ASX300 Mining Index in the last month (despite lower copper and aluminium prices), Citi downgrades its rating for South32 to Neutral from Buy.

While robust valuation support exists, there's thought to be significant downside risk to near-term earnings, based upon spot commodity prices compared to the broker's base case.

The target price falls to \$4.50 from \$4.65 after downward revisions to the analyst's FY23 and FY24 earnings forecasts.

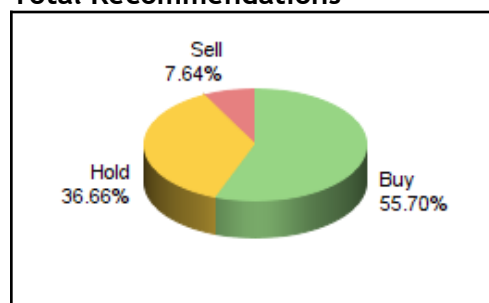
**TYRO PAYMENTS LIMITED ((TYR)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 3/2/0**

The bid by the Potentia Capital Management-led consortium has been rejected by the board of Tyro Payments. Ord Minnett feels further bids may eventuate, given shares are trading -77% below highs attained prior to the bid.

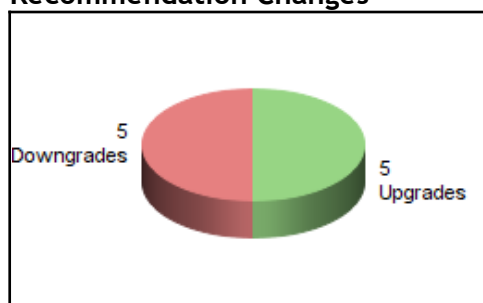
The rating is lowered to Accumulate from Buy and the \$1.40 target is unchanged.

Separately, Jon Davey, who has been with the business since May 2021, has been appointed as the new CEO.

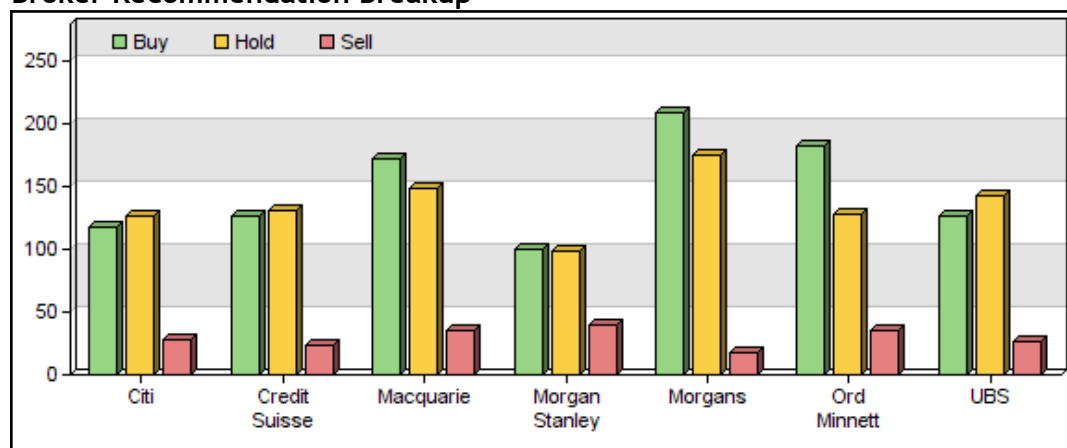
## Total Recommendations



## Recommendation Changes



## Broker Recommendation Breakup



## Broker Rating

| Order     | Company   | New Rating | Old Rating | Broker         |
|-----------|---|------------|------------|----------------|
| Upgrade   |   |            |            |                |
| 1         | <a href="#">ARISTOCRAT LEISURE LIMITED</a>          | Buy        | Neutral    | Morgan Stanley |
| 2         | <a href="#">BENDIGO &amp; ADELAIDE BANK LIMITED</a> | Buy        | Neutral    | Citi           |
| 3         | <a href="#">CLOVER CORPORATION LIMITED</a>          | Buy        | Neutral    | UBS            |
| 4         | <a href="#">NATIONAL AUSTRALIA BANK LIMITED</a>     | Buy        | Neutral    | Citi           |
| 5         | <a href="#">WOODSIDE ENERGY GROUP LIMITED</a>       | Buy        | Neutral    | Citi           |
| Downgrade |   |            |            |                |
| 6         | <a href="#">ALS LIMITED</a>                         | Neutral    | Buy        | Credit Suisse  |
| 7         | <a href="#">MINERAL RESOURCES LIMITED</a>           | Neutral    | Buy        | Morgan Stanley |
| 8         | <a href="#">PENDAL GROUP LIMITED</a>                | Buy        | Buy        | Ord Minnett    |
| 9         | <a href="#">SOUTH32 LIMITED</a>                     | Neutral    | Buy        | Citi           |
| 10        | <a href="#">TYRO PAYMENTS LIMITED</a>               | Buy        | Buy        | Ord Minnett    |

## Target Price

### Positive Change Covered by > 2 Brokers

| Order | Symbol              | Company                         | New Target | Previous Target | Change | Recs |
|-------|---------------------|---------------------------------|------------|-----------------|--------|------|
| 1     | <a href="#">PDL</a> | PENDAL GROUP LIMITED            | 4.860      | 4.630           | 4.97%  | 5    |
| 2     | <a href="#">MIN</a> | MINERAL RESOURCES LIMITED       | 82.580     | 79.760          | 3.54%  | 5    |
| 3     | <a href="#">S32</a> | SOUTH32 LIMITED                 | 5.014      | 4.929           | 1.72%  | 7    |
| 4     | <a href="#">TLC</a> | LOTTERY CORPORATION LIMITED     | 5.033      | 4.960           | 1.47%  | 6    |
| 5     | <a href="#">WDS</a> | WOODSIDE ENERGY GROUP LIMITED   | 35.784     | 35.327          | 1.29%  | 7    |
| 6     | <a href="#">ALL</a> | ARISTOCRAT LEISURE LIMITED      | 43.400     | 43.114          | 0.66%  | 7    |
| 7     | <a href="#">ALQ</a> | ALS LIMITED                     | 13.442     | 13.367          | 0.56%  | 6    |
| 8     | <a href="#">NAB</a> | NATIONAL AUSTRALIA BANK LIMITED | 31.757     | 31.686          | 0.22%  | 7    |

### Negative Change Covered by > 2 Brokers

| Order | Symbol              | Company                         | New Target | Previous Target | Change | Recs |
|-------|---------------------|---------------------------------|------------|-----------------|--------|------|
| 1     | <a href="#">NIC</a> | NICKEL INDUSTRIES LIMITED       | 1.333      | 1.400           | -4.79% | 3    |
| 2     | <a href="#">BEN</a> | BENDIGO & ADELAIDE BANK LIMITED | 9.825      | 9.933           | -1.09% | 6    |

# Earning Forecast

Positive Change Covered by > 2 Brokers

| Order | Symbol              | Company   | New EF  | Previous EF | Change | Recs |
|-------|---------------------|---|---------|-------------|--------|------|
| 1     | <a href="#">AKE</a> | ALLKEM LIMITED                                  | 123.220 | 114.937     | 7.21%  | 7    |
| 2     | <a href="#">WHC</a> | WHITEHAVEN COAL LIMITED                         | 341.683 | 320.683     | 6.55%  | 6    |
| 3     | <a href="#">IGO</a> | IGO LIMITED                                     | 187.417 | 179.500     | 4.41%  | 6    |
| 4     | <a href="#">ILU</a> | ILUKA RESOURCES LIMITED                         | 137.640 | 132.840     | 3.61%  | 5    |
| 5     | <a href="#">ALD</a> | AMPOL LIMITED                                   | 361.200 | 353.600     | 2.15%  | 5    |
| 6     | <a href="#">LOV</a> | LOVISA HOLDINGS LIMITED                         | 68.160  | 66.900      | 1.88%  | 5    |
| 7     | <a href="#">VCX</a> | VICINITY CENTRES                                | 13.500  | 13.333      | 1.25%  | 6    |
| 8     | <a href="#">VEA</a> | VIVA ENERGY GROUP LIMITED                       | 52.313  | 51.713      | 1.16%  | 6    |
| 9     | <a href="#">STO</a> | SANTOS LIMITED                                  | 120.145 | 119.034     | 0.93%  | 7    |
| 10    | <a href="#">ANZ</a> | AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED | 211.317 | 210.150     | 0.56%  | 7    |

Negative Change Covered by > 2 Brokers

| Order | Symbol              | Company                       | New EF  | Previous EF | Change  | Recs |
|-------|---------------------|-------------------------------|---------|-------------|---------|------|
| 1     | <a href="#">29M</a> | 29METALS LIMITED              | -1.253  | -0.753      | -66.40% | 4    |
| 2     | <a href="#">NIC</a> | NICKEL INDUSTRIES LIMITED     | 8.885   | 10.671      | -16.74% | 3    |
| 3     | <a href="#">APX</a> | APPEN LIMITED                 | 5.200   | 6.100       | -14.75% | 3    |
| 4     | <a href="#">SFR</a> | SANDFIRE RESOURCES LIMITED    | 19.831  | 23.006      | -13.80% | 7    |
| 5     | <a href="#">AWC</a> | ALUMINA LIMITED               | 7.782   | 8.443       | -7.83%  | 5    |
| 6     | <a href="#">CRN</a> | CORONADO GLOBAL RESOURCES INC | 67.137  | 71.807      | -6.50%  | 3    |
| 7     | <a href="#">NCM</a> | NEWCREST MINING LIMITED       | 111.198 | 118.849     | -6.44%  | 7    |
| 8     | <a href="#">S32</a> | SOUTH32 LIMITED               | 56.331  | 59.996      | -6.11%  | 7    |
| 9     | <a href="#">RHC</a> | RAMSAY HEALTH CARE LIMITED    | 193.683 | 201.560     | -3.91%  | 5    |
| 10    | <a href="#">OZL</a> | OZ MINERALS LIMITED           | 80.350  | 83.064      | -3.27%  | 6    |

## Technical limitations

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

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## WEEKLY REPORTS

# Uranium Week: Dragged Down

As uranium has now become a financial instrument for investors, the spot price was hit last week in line with financial market volatility following the US CPI release.

- Spot uranium dives on US inflation report
- Term market demand increasing
- Coal-fired plants converting to nuclear?

By Greg Peel

Industry consultant TradeTech's weekly spot price indicator closed two Fridays ago at US\$52.00/lb and the market was buoyed by news of increasing demand for nuclear energy across the globe. On Monday last week, 100,000lbs U3O8 traded at US\$52.60/lb, TradeTech reports.

On Tuesday financial markets were sent into turmoil by hotter than expected US inflation data. Spot uranium was not spared.

By week's end 900,000lbs U3O8 equivalent had changed hands at successively lower prices over the period. TradeTech's weekly spot price indicator closed at US\$47.50/lb, down -US\$4.50.

The fall came even as China announced additional reactor approvals.

It's understandable why utilities now eschew the volatility of the spot market and concentrate solely on term market transactions.

### Real Demand Increasing

New demand hit the uranium term markets last week. One non-US utility issued a request for proposal for an equivalent 860,000lbs U3O8 for delivery between February and August next year, TradeTech reports.

A US utility is expecting proposals this week for up to 2.7mlbs U3O8 for delivery between 2024 and 2032.

It had previously been assumed European energy companies were sufficiently covered by contracts for Russian uranium supply, but now those companies are looking to diversify away from Russia and are negotiating with suppliers for supply of enriched uranium from anywhere secure.

At least five utilities (US and non-US) are presently pursuing discussions with potential suppliers or expected to enter the market formally in coming weeks, TradeTech reports. The quantities being discussed involve approximately 11mlbs U3O8 equivalent to be delivered in the mid- and longer-term delivery windows.

The market is also awaiting a decision by the US Department of Energy on its request for up to 1mlbs U3O8 to build a strategic uranium reserve.

TradeTech's term price indicators remain at US\$52.50/lb (mid) and US\$53.00/lb (long).

### Coal-to-Nuclear

Last week the US DoE released a report, which states that hundreds of US coal-fired power plant sites could convert to nuclear power plant sites, adding new jobs, increasing economic benefit, and significantly improving environmental conditions.

This coal-to-nuclear transition could add a substantial amount of clean electricity to the grid, helping the USA reach its net-zero emissions goals by 2050, according to the DoE.

### Uranium companies listed on the ASX:

| ASX CODE | DATE       | LAST PRICE | WEEKLY % MOVE | 52WK HIGH | 52WK LOW | P/E | CONSENSUS TARGET | UPSIDE/DOWNSIDE |
|----------|------------|------------|---------------|-----------|----------|-----|------------------|-----------------|
| BKY      | 19/09/2022 | 0.3100     | ▼ -6.06%      | \$0.64    | \$0.14   |     |                  |                 |

|     |            |        |           |        |        |                |        |
|-----|------------|--------|-----------|--------|--------|----------------|--------|
| BMN | 19/09/2022 | 2.0300 | ▼ - 8.14% | \$2.49 | \$0.15 |                |        |
| BOE | 19/09/2022 | 2.5800 | ▼ -13.13% | \$3.10 | \$0.23 | \$3.300        | ▲27.9% |
| ERA | 19/09/2022 | 0.2300 | ▼ - 4.17% | \$0.45 | \$0.16 |                |        |
| LOT | 19/09/2022 | 0.2400 | ▼ - 7.69% | \$0.46 | \$0.19 |                |        |
| PDN | 19/09/2022 | 0.8300 | ▼ -12.63% | \$1.03 | \$0.53 | -152.1 \$1.100 | ▲32.5% |
| PEN | 19/09/2022 | 0.1700 | ▼ -15.00% | \$0.31 | \$0.14 |                |        |
| SLX | 19/09/2022 | 3.3500 | ▼ - 5.37% | \$4.14 | \$0.99 |                |        |



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## WEEKLY REPORTS

# The Short Report - 21 Sep 2022

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

### Summary:

By Greg Peel

Week Ending September 21, 2022.

Note that this week's report is being published today and not the usual Thursday due to the public holiday.

There was a bit of shuffling about on the table last week but only one change in short position of one percentage point or more.

Highly volatile EML Payments ((EML)) had enjoyed a 17% rally in the first couple of weeks of September, following more heat from the Irish central bank and a weak earnings report in late August, but has since fallen back again.

EML shorts fell to 6.0% last week from 7.1%.

I highlighted last week that network interconnection platform Megaport had disappointed with its FY22 result but Macquarie lifted the stock to its preferred pick in the sector. Megaport had been creeping up the table and shorts had increased to 8.7% from 7.4%.

Last week they increased to 9.4%.

Otherwise we note that while sales are growing in Japan for Domino's Pizza, recent data show Europe and Australia remain weak. Domino's has reappeared on the table at 5.8% from below 5%.

### Weekly short positions as a percentage of market cap:

#### 10%+

|     |      |
|-----|------|
| FLT | 14.8 |
| BET | 13.7 |
| SQ2 | 10.3 |
| LKE | 10.3 |

In: **LKE**

#### 9.0-9.9

ZIP, MP1

In: **MP1**      Out: **LKE**

#### 8.0-8.9%

CCX, NAN

Out: **MP1**, **DEG**

#### 7.0-7.9%

ING, DEG, PBH, RRL, BRG, PNV, CUV

In: **DEG**, **PNV**, **CUV**      Out: **EML**, **TPW**

#### 6.0-6.9%

JHG, TPW, 92E, IEL, MFG, BGL, ASM, KGN, VUL, PNI, BOQ, AMA, WEB, EML

In: TPW, EML, ASM, WEB

Out: PNV, CUV, APX

### 5.0-5.9%

DMP, APX, RBL, PPT, BRN, JBH, UMG, NHC, IMU, FFX

In: APX, DMP

Out: WEB, ASM, AWC, NVX

### Movers & Shakers

Nothing this week.

### ASX20 Short Positions (%)

| Code | Last Week | Week Before | Code | Last Week | Week Before |
|------|-----------|-------------|------|-----------|-------------|
| ALL  | 0.2       | 0.3         | NAB  | 1.1       | 1.0         |
| ANZ  | 0.4       | 0.3         | NCM  | 0.2       | 0.2         |
| BHP  | 0.4       | 0.6         | RIO  | 0.7       | 0.8         |
| CBA  | 1.4       | 1.3         | STO  | 0.2       | 0.2         |
| COL  | 0.6       | 0.6         | TCL  | 0.3       | 0.3         |
| CSL  | 0.5       | 0.4         | TLS  | 0.4       | 0.3         |
| FMG  | 2.3       | 2.0         | WBC  | 1.3       | 1.2         |
| GMG  | 0.7       | 0.8         | WDS  | 1.1       | 1.0         |
| JHX  | 0.8       | 0.6         | WES  | 1.2       | 1.1         |
| MQG  | 0.5       | 0.5         | WOW  | 0.7       | 0.7         |

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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**WEEKLY REPORTS**

# The Wrap: Global Recession; Equity Valuations; Food Inflation; Rain

Chance of a global recession, Australian equity valuations, winners from food & beverage inflation, and more rain expected.

- Oxford Economics does not see a global recession
- Australian equity valuations fair, says Wilsons
- Jarden pricks its winners from ongoing increases in food & beverage inflation
- BOM warns of a wet spring and summer, impacting general insurers

By Greg Peel

## Global Recession?

Oxford Economics continues to believe the global economy will narrowly avoid a recession, despite expecting the US, Canada, and most of Europe to fall into recession at some point over the next year or so.

Avoidance of a global contraction while several large economies fall into recession wouldn't necessarily be an unusual outcome, Oxford notes. Since the 1980s, there have been nine advanced economy recession clusters, but only five of these have coincided with two or more consecutive quarterly falls in global per capita GDP - the benchmark for a global recession.

Oxford points out that all five US technical recessions since 1980 have coincided with a global recession. But the economists expect the upcoming peak to trough GDP fall in the US to be far smaller than in any of the previous five slumps. Therefore, it is reasonable to believe a global contraction could be avoided.

However, it wouldn't take much additional advanced economy weakness to mechanically push the world into recession, Oxford warns. But risks aren't solely tilted to the downside. In particular, a sharp drop in European energy prices and/or decisive action by governments to protect the economy from the energy shock could lead to milder recessions in Europe.

The only region Oxford sees as escaping two quarters or more of falling activity is Asia-Pacific. For most economies that do fall into recession, the duration is expected to be only two or three quarters, and all the quarterly contractions in activity within the advanced economies take place between now and the June quarter next year.

## Australian Equity Valuations

Australian equity valuations have experienced one of the largest reversals of any major market, Wilsons notes, down -30% from the peak in December 2020 on a forecast price/earnings basis (and down -15% this year).

The market currently looks undervalued, Wilsons suggests, relative to its own long-term average, and appears attractive compared to global peers. Buoyant earnings in the resource sector likely overstate Australia's valuation appeal to a degree, but Wilsons thinks domestic valuations are at least fair.

Although valuations are a key signal over the long-term, they are just one piece of the puzzle, along with factors like monetary and fiscal policy, the near-term economic outlook, sentiment and positioning.

Understanding how these factors evolve through the cycle and what investment horizon they provide signals for is helpful in determining the weight to give them, the analysts note. Lower valuations partially reflect the rising interest rate environment and concerns that earnings will be subject to significant downward revisions reflecting slowing growth.

Wilsons remains Neutral on equities, waiting for a confirmation of a sustained cooling in inflation and policy hawkishness before considering an upgrade.



### Inflation Rising

On the subject of inflation, Jarden surveyed 56 Fast Moving Consumer Goods retailers earlier this month and to Jarden, the results were clear.

Inflation will accelerate. Prices increases of 8.6% have been put through with 72% planning further increases in 2022.

Aldi will re-accelerate. The value shopper is returning and Aldi is forecast by Jarden to be the second fastest growing retailer over the next 12 months, with Woolworths ((WOW)) number one. Expectations have moderated for IGA (Metcash) and online in general. Supplier margins are under pressure, while retailers are faring better.

Price increases trail cost inflation for suppliers, Jarden notes, while retailers are creeping up prices and pushing for terms, suggesting further gross margin expansion to come.

But the market outlook is challenged. Caution exists around the ability to generate volume growth over the next 12 months, with 2.9% annual market growth the consensus forecast.

Jarden views this as too low, and continues to see upside risk in 2023. Overall, Jarden views the survey results as positive for listed retailers, with Woolworths to outperform, as will all retailers with scope to improve margins via cost leverage and terms.

Woolworths and Treasury Wine Estates ((TWE)) remain the key picks across the FMCG space, but Jarden sees all of Woolworths, Treasury Wines, Coles ((COL)), Metcash ((MTS)) and Costa Group ((CGC)) as price-setters that can benefit from inflation.

### Rain Rain Go Away

The Bureau of Meteorology notes all three main climate metrics point to a very wet spring and wet summer in parts of Australia. La Nina is back, the Indian Ocean Dipole (IOD) is negative, and the Southern Annular Mode (SAM) is positive.

The BOM's models suggests La Nina may peak during spring and return to neutral in early 2023, the negative IOD should continue into late spring, and the positive SAM is expected to continue for three months.



La Nina is associated with elevated rainfall in northern and eastern Australia in spring/summer, a negative IOD usually brings elevated rainfall across all of Australia, and a positive SAM mostly impacts NSW and Victoria. Put it all together and eastern Australia in particular is in for a wet time.

JPMorgan notes, unsurprisingly, that such a set-up historically leads to increased catastrophe costs for general insurers. La Nina years have seen average catastrophe cost of -\$3.9bn and negative IOD years of -\$2.2bn, separately, compared to an overall average of -\$1.8bn for all years.

La Nina and a negative IOD do not often converge, JPMorgan notes, but costs when they did in 1974 and 201 averaged -\$6.76bn.

After two years of climate disasters, from fires to floods, reinsurance cover against catastrophe costs has weakened materially for both Insurance Australia Group ((IAG)) and Suncorp ((SUN)), JPMorgan warns.

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