Week

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Stories To Read From FNArena

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Adairs Confounds Analysts

Analysts are scratching their heads as to why Adairs' sales have suddenly collapsed but see value in the stock after Friday's big share price fall.

-Sales growth mysteriously collapses -Spending increased to support online business -Value on offer following share price crash

By Greg Peel

The election result meant franking cash-backs would continue to flow to low tax payers, negative gearing would not be scrapped in the future, if ever, and tax cuts are in the offing. The RBA rate cut, and promise of more to come, eases mortgage stress and puts more money in pockets. All of the above provide support for a weak Australian housing market, and indeed the early signs are that the pace of house price decline is slowing.

Houses need furniture. Why then has Adairs' ((ADH)) sales growth collapsed to flat in June when it was running at 9% in FY19 to date prior? This news has analysts completely confounded.

Adairs has downgraded its FY19 earnings guidance by -8-12%. Flat sales in June are one reason. Not passing on the full impact of the lower Aussie dollar into prices is another.

But the downgrade also reflects Adairs becoming the victim of its own success. Since deciding to shift focus away from bricks & mortar and towards online, online sales have grown by 40% in FY19 to represent 17% of total sales. This has meant the company's two distribution centres have been swamped, prompting a need to spend money on upgrades.

That capex will impact on FY20 but will be money well invested, analysts believe, and the benefits of improved efficiencies should be seen by FY21. Yet management has been discussing this requirement for some time, such that Canaccord Genuity feels the impact really should have already been captured by guidance provided as recently as May.

Maybe, Canaccord suggests, the strength in sales growth enjoyed up to that point spurred Adairs into spending a chunk of money it may have been more cautious about if it knew what June was going to look like.

But what did go wrong in June?

It seems not even management is sure, given relatively scant information provided in this update when typically they are a lot more comprehensive. The quantum and speed with which sales collapsed leaves Morgans scratching its head, given June is normally a major trading month.

Canaccord's channel checks reveal "nothing untoward" regarding unsuccessful product ranges or abnormal competitive behaviour. UBS notes retail trading was subdued to steady leading up the election and while the election does not seem to have provided any turnaround, things don't appear to be any worse across the industry. Housing categories are soft, foot traffic is down and consumer confidence is weak, but this was the case in May when sales were running at 9% growth for the half.

Morgans suggests it is this ambiguity that led the stock to tank -30% from the open on Friday morning. Lower sales are one thing, particularly after such a strong period, but not knowing why provides a level of that which investors fear most – uncertainty.

To that end Morgans suggests the company will have to reverse its fortunes before the market will feel safe to re-rate the stock. The broker retains an Add rating at the lower level noting that at the close Friday, the stock was offering a 10% yield.

Note that as I write, Adairs' share price has already rebounded 16%.

Canaccord was set to downgrade to Hold on the guidance downgrade until the analysts saw the share price plummet, and hence a Buy rating is retained.

UBS also cites valuation as the reason to maintain a Buy rating.

Forecasts have nevertheless been cut, and thus so too target prices. Between them, FNArena database brokers UBS and Morgans, the only two covering the stock, have cut their average target to $1.99 from $2.43. Canaccord, not in the database, has cut to $1.60 from $2.32.

Canaccord also throws out a possible explanation for weak sales from left field. It’s already proving to be a bad flu season and winter only began on Friday (solar calendar). Typically August is the worst month for flu and also a seasonally weak month for Adairs, while June is a strong month. Did the flu in June keep everyone in bed?

We shall need to wait for the company’s FY19 result release in August and subsequent guidance update.

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

Metcash: Value Or Value Trap?

Yesterday's share price reaction to an earnings miss from Metcash makes the stock look cheap, but is it a "value trap"?

-Food disappoints in improving environment -Hardware facing challenges -Is "cheap" cheap for a reason?

By Greg Peel

Industry conditions for supermarkets have been improving of late. Food price deflation has begun to reverse and competition intensity has waned, with less being thrown at promotions by the Big Two. Coles' ((COL)) "Little Shop" bonanza is now but a memory.

Brokers had thus assumed Metcash would also have seen improvement in its wholesale/retail grocery business in the second half (ex-tobacco), but it did not come to pass. The company reported a -3% fall in profit for FY19, below consensus forecasts.

The share price promptly fell near -10% in response, and an additional -4.9% today, the day after.

Food earnings did not improve for Metcash, as was expected. Indeed, food earnings declined in FY19 and the rate of decline pricked up pace in the second half. IGA's like-for-like sales growth deteriorated in the face of aforementioned improving industry trends.

To make matters worse, FY20 earnings will begin with a handicap given FY19 earnings were boosted by the benefits of a write-back of previously onerous lease provisions. And come September, the significant Drakes supply contract in South Australia expires, leaving an earnings hole.

The problems don't stop at food.

The company's acquisition of the Home & Hardware business was highly successful, but the benefits of that deal, including synergies, have now cycled off analyst valuations.

Meanwhile, demand in hardware in general is declining to reflect decreased construction in a weak housing market, and rival Bunnings ((WES)) is making a bigger push into the trade segment, which is H&H's bread and butter.

Metcash appears to have lost market share in trade hardware.

Management at Metcash is fighting back with cost-cutting measures, but up front, cost cutting costs money. The company spent $10m on food operating expenditure in FY19 and intends to spend the same amount in FY20. This is on top of capital expenditure of $17.5m in FY19 towards restructuring.

The question is as to whether cost cuts will ultimately lead to increased earnings, or whether they will simply serve to offset a rising cost of doing business. Macquarie believes that like consumer staples peer Coca-Cola Amatil ((CCL)), Metcash must spend money to effectively stand still.

Brokers have cut their earnings forecasts, seeing further declines ahead.

The next question then becomes: Is there any value in the stock at current levels, following the share price drubbing post FY19 results release?

Macquarie notes Metcash has recently enjoyed the benefits of what appeared (at least for competitors) to be an improving industry backdrop along with the RBA rate cut and promise of more. Metcash had joined the "bond party", as Macquarie puts it, which has seen defensive sectors (such as staples) paying reasonable cash-backed yields re-rated as alternatives to weak fixed income returns.

The share price started moving up in April from a level lower than a -10% one-day drop took it yesterday. Despite the share price fall, Macquarie has downgraded to Underperform.

While the big supermarkets may have backed off on their promotional spending, attention has now been turned to enhancing their on-line businesses. The race, this time, is in digital. In this space Metcash needs to catch up, notes Credit Suisse. And at this stage a structure within in which to implement digital is unclear.

Credit Suisse retains Underperform.

Citi believes the company's food earnings growth outlook continues to remain soft and the cost-out profile is moderating. There remains the potential for further contract losses and Citi is forecasting a further -10% fall in earnings out to FY22.

Citi retains Sell.

Deutsche Bank's assessment is no less gloomy, but being relatively insulated from economic risk (defensive) and at a valuation that stands out as "cheap in an expensive market", Deutsche retains Hold.

Ord Minnett, similarly, paints a challenging picture ahead, but also can't get past the stock's low valuation at the current share price. Ords can no longer justify its prior Accumulate recommendation, but moves to Hold.

More optimistic is Morgan Stanley, who takes into account a low PE multiple (despite lowering earnings forecasts), a healthy balance sheet and a 4.5% yield in retaining an Overweight rating, despite holding a "Cautious" view on the sector.

On the other hand, UBS believes the outlook for Metcash is improving. UBS retains Buy, as does Morgan Stanley equivalently, but UBS stands out in suggesting that easing food price deflation, lower promotional activity from rivals and a focus on differentiation are positives for the company.

The decision to utilise a strong balance sheet to support store refurbishments in grocery is another positive, as is the cost-out program, which provides time to execute. Aside from also seeing the stock's PE multiple as too low, UBS believes benefits from accelerating the company's Diamond Store Advantage program are a catalyst for outperformance.

Credit Suisse agrees Metcash "occasionally" looks attractive relative to valuation, but the broker cannot see any route to value creation. Given the scalability on offer in food wholesaling, the fact Metcash is suffering from a consistently declining market share is the sign of a business which is becoming less competitive, the broker believes.

To that end Credit Suisse retains its (equivalent) Sell rating, seeing the stock as a "value trap".

So opinions run the gamut of an optimistic UBS and a "stay away" view from Credit Suisse. The FNArena database now shows two Buy (or equivalent), two Hold and three Sell ratings. Despite the earnings miss, and subsequent earnings downgrades, the consensus target price has fallen only to $2.77 from $2.89, which implies a whisker of upside from the share price at the time of writing, which is another -4.7% lower.

Looks like the "Sells" are winning.

Aveo Group Now A Binary Proposition

Struggling retirement village developer Aveo Group may have been thrown a lifeline by a potential suitor, but the picture is not pretty if the deal falls through.

-Guidance materially downgraded -Potential offer in process -Downside risk substantial

By Greg Peel

A strategic review by retirement village developer Aveo Group ((AOG)) has drawn out a potential takeover proposal. We don't know who from yet and nor is there any price indication at this point, but we do know the proposal is non-binding and indicative only.

In other words, there are no guarantees, even after the unknown suitor has undertaken extensive due diligence.

Aveo has given the suitor until July 22 to come up with a definitive agreement, leading to a Scheme of Arrangement, or there will be no deal.

Aveo's trading update provided profit guidance substantially below broker forecasts. The company has written sales on 1,111 units in FY19 but settlements are running well behind, leading to cash management headwinds.

If Aveo can reach 900 settlements in the period as management has indicated, it will still be a lower result than the 974 settled in FY18, Macquarie notes, driving net debt higher and resulting in negative free cash flow.

In an interesting move, the company will alter its accounting model to one of development recognition at time of settlement rather than practical completion. Brokers agree this is a more conservative approach, and given settlements lag completions, more realistic. But the interesting part is that Aveo is not planning much in the way of development in FY20.

Thus as long as outstanding inventory can be sold in the period, the company's profit will look much better.

Nevertheless, Aveo is a company suffering from deteriorating underlying fundamentals in a difficult housing environment. Brokers have materially downgraded earnings forecasts. The stock is now trading at a substantial discount to its net tangible asset valuation (NTA).

And that means it could well be attractive to a private suitor. Macquarie expects any bid price to still represent a discount to NTA, and this may just be a fair outcome for shareholders on the basis that if there is no deal, the stock is likely to continue to materially underperform.

Morgans agrees it would make sense to privatise a large and mature portfolio of retirement assets at this stage in the cycle. Assuming a 30% control premium on top of the broker's valuation implies a price of around $2.35 per share.

Moelis also sees it as an opportune time to acquire Aveo at the bottom of the residential cycle, and at a deep discount to NTA, assuming the residential market is now set to recover, and assuming the potential to sell down as yet unsold stock. Given the due diligence underway, the downgrade to FY19 guidance should come as no surprise, Moelis suggests.

There is no certainty of an outcome. If there is no deal, the stock would materially de-rate, Morgans believes. A position in Aveo is thus one of binary risk. Any offer will likely provide at least some upside, and an "out" for investors, but no offer would open up yawning downside.

Uncertainty? Moelis rates Aveo a Buy, Morgans a Hold and Macquarie a Sell (Underperform).

Moelis has a target of $2.50, Morgans is at $1.81 and Macquarie at $1.61.

Pass the coin please.

Time To Buy Caltex?

Brokers diverge on whether Caltex' profit warning represents deep-seated problems or an opportunity to buy.

-Caltex dogged by economic slowdown, high oil prices and refinery problems- -Retail petrol and convenience stores underperform -Refining margins expected to bounce back as part of medium-term recovery

By Nicki Bourlioufas

The analyst community split sharply in response to profit guidance by Caltex Australia ((CTX)) for the six months to June, in which the company warned profit would be about half that of the same period in 2018. The stock closed at $26.99 on June 19 before the announcement, plunged to $21.00 at the opening on June 20 and has since climbed back above $24.00.

Analysts revised their valuations radically in the wake of the guidance, coming up with target prices that range from UBS's $23.30 to Goldman Sachs' $29.00.

The analysts diverged on whether the warning represented deep-seated problems or an opportunity to buy. The pessimists tended to focus on the poor performance of the convenience stores, while the optimists looked more at the drop in refining revenues, which they see as a temporary blip.

The more sanguine analysts also point to the likely impact of new regulations set by the International Maritime Organisation, which will come into effect on January 1 next year. The rules, known as IMO2020, require ships to slash sulphur emissions by more than 80% by switching to lower sulphur fuels. While most brokers believe this could favour Caltex, UBS believes it could hurt its bottom line.

Caltex under siege from economic forces, refinery shutdowns, petrol price competition

Caltex's revenue comes from refining, distributing and selling petroleum products, and operating convenience stores throughout Australia and the north island of New Zealand. The company blamed high crude oil prices and low refining margins, combined with the Australian dollar's low exchange rate. It also pointed the finger at the slowing domestic economy and fierce competition in the retail fuel market, as well as unplanned shutdowns at its Lytton refinery in Brisbane.

For the June half, Caltex cut its net profit guidance to $120-$140m, down from $296m in the same period in 2018. A major factor is the outages at Lytton, which have depressed refining revenue to less than $10m, down from $105m. The rest of the Fuels and Infrastructure business remains resilient, but Convenience Retail is tipped to fall by about half.

Pessimists concerned by petrol prices, poor performance of convenience stores

The most pessimistic broker was UBS, which downgraded its rating to Neutral from Buy, with a target price of $23.30, down from $30.20. UBS cited uncertainty around why retail margins deteriorated so materially in May, given that management said at the April AGM it saw improving trends. UBS was also sceptical about the impact of IMO2020, saying there is little clarity as to how it will affect refining margins. "On one hand, it is likely to accelerate demand for middle distillates (diesel, jet). On the other hand, it will result in higher sweet oil prices, raising Lytton's key input cost."

Shaw and Partners took a similar view, raising its risk assessment to medium and lowering its target price to $24.20 with a Hold recommendation. Shaw said the 50% collapse of revenue from convenience retail diminished its conviction that the business was "consumer defensive".

Shaw and Partners said: "This should be a 'recession proof' activity, but instead CTX's strategy to re-acquire franchises and grow has exposed investors to increased earnings risk." Nevertheless, the Shaw team tipped an improvement in refinery margins due to IMO2020, saying Lytton income should start to recover next year.

Ord Minnett maintained its Hold rating, while noting the increased risk, but lowered its target price from $28.00 to $25.00. Ord Minnett noted retail fuel margins have been more volatile than expected, with Coles Express ((COL)) losing its ability to price above the market as Viva Energy Group ((VEA)) gains pricing control and the independent sector becomes more competitive.

Morgan Stanley remains Underweight (Sector: In-Line) on the stock, with a target price of $25.00. But the Morgan Stanley analysts noted the valuation could rise if Caltex undertook a buyback or capital management “to return more than A$800m of franking credits, particularly in relation to an infrastructure divestment or property divestment”.

Optimists see recovery driven by capital management, return to sustainable margins

Most positive on Caltex was Goldman Sachs, which upgraded its recommendation to Buy and pushed its target price to $29.00. Goldman Sachs noted refiner margins have dipped to current levels for only seven separate months in the past decade, and it expects current pricing to stimulate supply. With IMO2020 looming from January 1, it is factoring in a refiner margin of US$10.79 per barrel next year.

Credit Suisse lowered its target price slightly to $28.94 from $30.50, but still rated the stock Outperform. The team said fuel margins are unsustainably low, and thus likely to improve in the second half of the year, and Caltex may have to consider reducing costs and managing capital more tightly.

Citi set a target price of $26.89, down from $29.95, but maintained its Buy. Citi characterised Caltex’s problems as cyclical, not structural, and said earnings were on a “compelling” pathway back to mid-cycle levels.

Citi said it foresees a modest but structural benefit from IMO2020, more rational margins on retail fuel, some very modest long-term growth in Fuel and Infrastructure volumes, and the potential for closures of unprofitable petrol stations.

Macquarie retained its Outperform rating and set a target price of $26.50. The Macquarie analysts said “the stock looks oversold at these levels” and the interim result to be announced on August 27 is expected to include “cost control changes and recognition of value from certain locations”.

FNArena's database shows three Buy ratings for Caltex, three Hold and one Sell. The consensus target is $25.79, suggesting 6.8% upside to the last share price of $24.15. Targets range from $23.30 (UBS) to $28.94 (Credit Suisse).

Collins Foods Licks Its Fingers

Collins Foods has driven a solid earnings result supported by KFC Australia. Brokers are keen on growth opportunities ahead and the defensive attributes of the stock.

-FY19 report shows KFC Australia outperforms -Europe sluggish, but marketing spend kicking in -Taco Bell starts well

By Greg Peel

Australians are a lazy bunch, it seems. Even the effort of getting off the couch for a fast food meal is becoming a bit much. And who ever eats pizza at a pizza restaurant?

While home delivery has been the domain of pizza chains and local Asian restaurants for decades, the likes of Uber Eats and others appear to be managing to succeed in delivering restaurant food to our doors in a still edible state where in the past many have failed, and judging by Collins Foods' ((CKF)) earnings result, chicken to the door is the new rage.

Collins' full-year result exceeded expectations thanks to outperformance from KFC Australia. While new store rollouts and other improvements such as the introduction of dual-lane drive-throughs helped KFC grow revenues, the greatest growth driver was the addition of 20 more stores providing a delivery service via aggregator platforms, bringing the total to 64.

KFC Australia grew sales by 4.3% in the second half, up from 3.1% in the first. By keeping costs under control, the company also managed to improve earnings margins. KFC Australia represents around 90% of total earnings.

While the rollout of new stores will continue into FY20, and the provision of delivery service will continue to be added to further stores, analysts expect growth rates will eventually ease as the business matures. Picking up the growth baton will be other businesses.

Down but not out

Comparable sales growth for KFC Europe in contrast disappointed, with the second half seeing a -4.9% decline. Margins were also low due to spending on new stores, new menu options and promotional activity. But this investment appears to be paying off, given sales growth in FY20 year to date (beginning May) are up 5.0%.

Deutsche Bank views KFC Europe's (Germany/Netherlands) investment as a positive longer term strategy, providing a compelling opportunity from a significant store rollout ahead. Canaccord Genuity notes the disappointing FY19 result should be taken in the context of operations only just beginning to ramp up.

Collins Foods' other growth opportunity is provided by Taco Bell. The company has only opened four stores in Australia to date, but early signs in those establishments are promising.

All up Collins Foods plans to open 9-10 new KFC stores in Australia in FY20, 5-6 in Europe and a further 8-10 in FY21, and 10 Taco Bells in Australia in FY20. Therein lies the growth opportunity, along with improving operations in Europe and more rollouts of delivery service stores in Australia.

Within the FNArena broker database, UBS has retained its Buy rating and lifted its target to $8.75 from $8.00. Deutsche Bank has increased its target to $8.50 while retaining Buy.

Morgans has moved to $8.20 from $7.78 and believes a forecast PE multiple of 18.6x for FY20 seems fair on an offer of 9% compound annual earnings growth for the next three years, but on the recent share price rally (which peaked at 40% mid-June for 2019 year to date) has decided to pull back to Hold.

Outside of the FNArena database, Canaccord Genuity retains Buy with a target increase to $8.10 from $7.70 and Wilsons retains Buy with a target of $8.49.

An average of the five broker targets comes in at $8.41, or around 6.5% upside from the current trading price.

It is interesting to note that while S&P/ASX considers fast food consumption to be a discretionary choice for Australian consumers, in the US fast food is considered by S&P to be a staple. One might argue the toss, but given the consumption of Kentucky fried chicken in this country is considered sufficiently immune to economic downturn, such defensiveness puts Collins Foods in more of a staple camp.

One might then expect something better than a 2.4% forecast dividend yield for FY20, but the company is very much in a growth phase. That said, impressive cash conversion in FY19 allowed the board to increase to a 50% payout ratio, which suggests the promise of ongoing dividend growth ahead.

As long as Collins can successfully execute, brokers warn, which is always the caveat for growth stocks.

Sandfire: Risk vs Reward In Africa

Sandfire Resources' copper project acquisition in Botswana looks very promising to brokers but it is not without inherent risk.

-Purchasing MOD Resources equals copper project acquired in Botswana -Transaction helps solve limited DeGrussa mine life issue -Introduces geopolitical risk

By Greg Peel

The copper price hasn't been doing miner Sandfire Resources ((SFR)) any favours of late but for potential investors the issue has always been the company's flagship project – DeGrussa in Western Australia –only having four years of mine life left. Thus if one were looking to back a longer term recovery in copper prices, Sandfire was not really the stock to go to.

Reasons to back an eventual copper price rebound are myriad; lack of new global supply growth; a potential resolution to The US-China trade war; increased Chinese stimulus, on top of existing projects (eg Belt & Road); and assumed demand growth globally for electric vehicles, particularly in China, for example.

Sandfire had previously acquired the Black Butte project in Montana but was continuing to look for other opportunities, and indeed it was previously known that a particular project in Botswana had caught the company's eye.

Sandfire has now secured the T3 copper project on the edge of the Kalahari in Botswana by fully acquiring owner MOD Resources ((MOD)) in a cash/scrip offer which will see Sandfire's share count increase by 12%.

Sandfire's share price fell -11% on the news.

It has since made around half of that back, following analyst assessments of the deal. Shareholders were clearly jolted at first the dilution of their holding as well as the risks involved with investing in Africa, where many a bad experience has been had in the past.

The T3 copper project is small-scale and to date unpermitted, offering an eleven-year mine life and a projection of 28kt per annum copper production at a cost of US$1.35/lb, based on a feasibility study. Construction could commence in 2020 with first copper due in 2021, or maybe a bit later if, as Macquarie suggests, Sandfire looks to refine the development metrics for the project.

While the project might be small-scale at this point, in acquiring MOD Sandfire has also acquired an 11,700 square kilometre tenement in which discoveries have previously been made, suggesting the potential for an extended mine life for T3 or perhaps another stand-alone project.

In terms of what this acquisition costs Sandfire, Morgan Stanley notes that despite effectively paying a 45% premium to MOD based on its share price at the time, the cost is still below an estimated $309m net present value for T3.

Of the five FNArena database brokers who have reported their assessments of the deal to date, all have given it the thumbs up. T3, along with Black Butte, should now counter the declining DeGrussa operation and keep Sandfire in the game. The price is fair, the prospects are promising, and extensive untapped tenement looks highly prospective.

If only it weren't in Africa.

While all brokers acknowledge this risk, Credit Suisse goes into greater detail.

The project is not yet connected to grid power. The project is not yet permitted. The government of Botswana retains the right to acquire up to a 15% stake for 15% of the sunk capital to date ($33m), although then has the obligation to contribute 15% of development capital. Botswana is in Africa, and there has been many a foreign mining company come to grief in the past with projects in this volatile continent.

To that end, Credit Suisse has retained an Underperform rating on Sandfire. However, Macquarie and Morgan Stanley have retained (equivalent) Buy ratings, while Morgans has upgraded to Hold and Ord Minnett to Accumulate based on the sharp share price plunge on the day, which they believe is unwarranted despite the risks.

The three database brokers yet to pipe up were all on Hold previously, leaving a current spread of three Buy, four Hold and one Sell (Credit Suisse). No one who did report saw a need to alter their target prices, although Morgans took the opportunity to apply a slight currency adjustment.

Targets range from $6.15 (Credit Suisse) to $8.45 (Morgan Stanley) but as is the case with any miner, valuations are beholden to individual copper price assumptions and currency assumptions and even slight variations in longer date forecasts can produce quite a wide spread in today’s valuation.

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Material Matters: Gold, LNG, Oil & Lithium

Gold preferred over base metals; LNG to remain weak; oil risks regional; no recovery in sight for lithium.

-Trade war drags on base metal miners, with gold exposure providing best protection -LNG prices unlikely to recover while new projects pump it out -Oil floats higher on fears of US-Iran tensions, but global shock unlikely -Lithium finds it can't defy gravity, or the laws of supply and demand

By Nicki Bourlioufas

Base metals miners caught in trade war cross fire; gold exposure best protection

Australian base metals miners are under pressure from the US-China trade war and the safest bets for investors could be exposures to gold, says Macquarie. Oz Minerals ((OZL)), Independence Group ((IGO)) and Sandfire Resources ((SFR)) are its key picks. OZ Minerals has some valuation exposure to gold through its 30% interest in the Tropicana mine, and OZ Minerals and Sandfire have exposure through gold by-product credits.

Almost all base metals are trading below Macquarie's short and medium-term forecasts. The exception is zinc, which is trading above medium-term estimates. However, weakness in the Australian dollar has partially offset metal price weakness for miners that account for costs in the local currency.

Macquarie says higher-cost miners Western Areas ((WSA)), Panoramic Resources ((PAN)) and Metals X ((MLX)) have the greatest leverage to an eventual recovery in base metal prices. Western Areas offers the most significant leverage to an increase in Macquarie's nickel price assumptions. "A +10% increase to our nickel price deck results in a +21% increase to our valuation for WSA and +61%-28% increases to our FY19-23 earnings estimates," Macquarie notes.

In the short term, the Metals X is likely to be driven by improvements in operational performance at its Nifty copper sulphide mine, while Panoramic has similar potential at its Savannah nickel sulphide mine.

LNG prices to remain weak as output surges

Macquarie warns that the liquid natural gas (LNG) market is likely to remain oversupplied until the later years of the next decade. The warning, based on feedback from analysts and industry contacts in Singapore and Hong Kong, is a reversal of recent expectations that the market would come into balance by the early-2020s.

The forecasts of oversupply are based on approvals of unexpected projects, such as LNG Canada, and higher than expected production by new LNG projects. Macquarie says the projects are producing "above nameplate capacity" - that is, more than their intended full-load output. If Macquarie's assumption holds, and this output continues at 110% of nameplate capacity, the market could remain fully supplied until the end of the 2020s.

Macquarie also reports that LNG contract slopes, which indicate how tightly LNG prices are indexed to the price of oil, continue to weaken. A slope of 16.67% represents approximately parity with oil. Medium and long-term deals are attracting slopes of about 11%, while even premium markets are securing slopes of only about 7%.

An 11% slope could mean downside to Macquarie's valuations of the Scarborough field being developed by Woodside Petroleum ((WPL)) and Exxon Mobil's PNG LNG project, in which Oil Search ((OSH)) and Santos ((STO)) are invested, because Macquarie analysts model the projects at a 12% and a 12.5% slope, respectively.

JP Morgan suggests Europe is set to become the key driver of global demand for LNG, with imports into the region potentially doubling by 2030. Production of indigenous LNG within Europe has peaked and regasification plants, which used to reconvert liquefied gas back into natural gas, are operating well below capacity.

JP Morgan concedes that LNG costs more than other types of imported gas, but says some European governments are looking for ways to reduce their dependence on Russian pipeline gas. As a result, the emerging geopolitical landscape should help to create "an incrementally positive outlook for LNG".

Oil buoyed by OPEC cuts, US-Iran tensions, but risks to remain regional

Citi's Commodities team note oil prices have been remarkably immune to the risk of disruption, but fundamentals, geopolitics, and financial positioning now all point to a possible price rise, with a potential price of US$75/bbl for

Brent crude during the northern summer. There is a greater likelihood that OPEC and its allies may extend or even deepen production cuts for the rest of the year.

Tensions in several petrostates, including Venezuela, Libya, Algeria and Kazakhstan, complicate the mix, but the greatest risk is pressure on Iran by the US and possible retaliation by Tehran. However, in contrast to previous decades “these risks are likely to remain regional, rather than prompt a systemic shock”.

Macquarie has changed its view of the impact of new regulations by the International Maritime Organization. The rules require ships to use lower sulphur fuel from 2020, and Macquarie had predicted the changes would put pressure on prices of heavy and sour crude oil and send jet and diesel soaring, thus boosting overall refining margins.

However, Macquarie says, the combination of sanctions on Iran and Venezuela, supply cuts by OPEC, contaminated oil from Russia, and Canadian pipeline constraints “have pushed up heavy crude prices just as refiners were gearing up”.

Lithium unlikely to recover from crash anytime soon

Morgan Stanley analysts attended the 11th annual Lithium Supply & Markets Conference in Santiago, Chile, which attracted participants from the Chilean ministry of mining, as well as senior management in all relevant lithium players in Chile, Argentina, Australia and China.

Morgan Stanley reported that the consensus view at the conference put expected demand at 1m metric tons by 2025, but the analysts are more conservative, tipping demand of 0.7 m tonnes around that time. Morgan Stanley is also sceptical about the consensus view that the contractual price will trend towards US$10,000 per tonne and revert to US$13,000-14,000 per tonne by 2022-24.

This view is in conflict with the fact that there are a lot of lithium resources in the world, “most of which are very profitable at current prices” and, as with any other commodity, “supply should adapt to wherever demands decide to go from a volume and mix perspective”.

Which Gold Stocks?

The first part of this story was originally published as part of Weekly Insights on Friday, 28 June 2019, under the title "Gold Stocks: Winners & Losers". See Rudi's Views on the website.

This follow up contains additional information from stockbroking analysts releasing research updates after the first story had been written.

As the price of gold has broken out on further central bank policy easing, stockbroking analysts are assessing what has already been priced in, and which gold stocks still offer great opportunity.

Which Gold Stocks?

By Rudi Filapek-Vandyck

Share prices of AUD gold producers in Australia have been flying high as investors woke up to the fact bond yields are once again retreating into negative territory (inflation-adjusted) and central bankers are getting ready to become more dovish, having already abandoned their hawkish bias earlier this year.

As per always, a rejuvenated gold price -both priced in USD and AUD- has pulled the eternal gold bulls out of the shadows of financial markets. One gold bull last week predicted $20 for Northern Star ((NST)) shares should not be considered impossible, and neither is $100 per share for Newcrest Mining ((NCM)).

Ahem.

What is seldom highlighted is that same gold sector locally is home to some serious capital destruction for investors who picked the wrong stocks in the year past.

Which is why Bell Potter's sector update last week was such a refreshing exercise. The analysts felt compelled to highlight the spectacular wipe-outs (their terminology) that have equally characterised the gold sector domestically, including significant share price falls for:

-Gascoyne Resources ((GCY)) -Dacian Gold ((DCN)) -St Barbara ((SBM)) -Blackham Resource ((BLK)) -Eastern Goldfields ((EGS)) -Artemis Resources ((ARV))

For investors who'd still like exposure, while also avoiding the worst possible outcome from investing in the sector, Bell Potter has nominated Top Picks Pantoro ((PNR)) and Regis Resources ((RRL)).

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Analysts at Credit Suisse express the view that, while gold priced in AUD has surged to record highs this month, the rally in gold producers' equities has nevertheless generated stretched valuations all-around.

The analysts have tried to assess what is being implied by the various share prices and come up with the following conclusions:

-Shares in medium-large companies including Newcrest Mining, Evolution Mining ((EVN)) and Northern Star are implicitly pricing gold at US$1750/oz

-Shares in mid-cap producers OceanaGold ((OGC)), Regis Resources and St Barbara are still equivalent to gold priced at US$1277-US$1339/oz

-Shares in smaller cap stocks including Alacer Gold ((AQG)) and Perseus Mining ((PRU)) are seen pricing in US$1296-US$1322/oz

With the price of bullion surging above US$1400/oz, the immediate conclusion to draw is that larger cap quality names are trading at a premium, both to gold and to the rest of the sector, while many other, smaller-cap producers are still incorporating a discount towards gold.

No surprise thus, Credit Suisse finds Newcrest Mining is the most expensively priced stock in the sector, especially since a large chunk of its annual production is actually copper. The analysts still like Evolution Mining as an overall quality portfolio diversifier.

Most liked is Alacer Gold, because it's cheap and represents "best value".

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Over at Morgan Stanley, gold stocks have completely fallen out of favour. Morgan Stanley's commodities analysts used a general sector update to downgrade Newcrest Mining to Underweight, and to announce that none of Australian gold producers under coverage are left carrying a rating other than Underweight.

The reason is, on Morgan Stanley's calculations, share prices for Newcrest, Regis Resources, Evolution Mining and Northern Star are all reflecting a gold price above US$2000/oz, and this makes them overly expensive.

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And then there is Canaccord Genuity where mining and metals analysts are ostentatiously more enthusiastic, both in North America as Downunder. Canaccord's view is that gold priced in USD and in AUD can surge higher, supported by the house view the Australian dollar has de-coupled from bullion and is destined for more weakness.

Similar to peers elsewhere, Canaccord Genuity has upgraded gold bullion forecasts. In USD, the average price out to 2025 has been lifted by 5% to US$1508/oz. In AUD, the average forecast has lifted by 6% to $2154/oz.

The revisions had a positive impact on valuations for mid-cap producers under coverage of some 17%, while small-cap brothers enjoyed a boost of 20%.

Two rating changes have followed: OceanaGold has been upgraded to Buy from Hold with a revised price target of $5, but Saracen Mineral Holdings ((SAR)) received a downgrade to Sell from Hold with a revised price target of $2.65.

Other Buy-rated Australian domiciled gold producers include Northern Star (target $12), Resolute Mining (target $1.90), Perseus Mining (target $1), Westgold Resources ((WGX)) (target $2.80) and Dacian Gold, on Speculative Buy, with a target of $1.20 (down from $2.25).

Top Picks as nominated by the commodities desk at Canaccord Genuity are:

Northern Star among mid-cap producers; Perseus Mining and Westgold Resources among the smaller caps; and Bellevue Gold ((BGL)) among developers.

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However, if one does not share the view of a weaker Australian dollar for the years ahead, the outlook for local gold producers starts looking a whole lot different.

This, essentially, is the proposition put forward by analysts at Citi.

Citi has equally upped bullion price forecasts to an average of US$1466/oz for 2020, with gold anticipated to reach US$1700/oz in 2023, but alongside this new forecast sits the expectation of a gradually strengthening Australian dollar against the greenback.

Citi analysts are not trying to be contrarian just for the sake of it. On FNArena's observation the world is trying to assess what lower bond yields and a Federal Reserve returning to stimulus actually means for the USD medium and longer term.

At this point, we can but report that opinions across various experts are sharply divided. Except that in the short term, the USD should weaken, which is what we are experiencing right now.

If Citi's view of AUD/USD appreciating to 77c by 2023 proves correct (implying the USD is embarking on a drawn out cycle of weakness) then gold priced in AUD looks unlikely to continue to reach for new record highs in the years ahead, as suggested by, for example, Canaccord Genuity.

Citi too has downgraded Newcrest Mining, to Neutral, with the biggest impact in terms of earnings boost felt by Dacian Gold, as that's how this whole thing works out for high-cost producers.

Interestingly, there is also a positive impact for base metals producers who just happen to also mine gold, including OZ Minerals ((OZL)) and Independence Group ((IGO)).

The only pure gold producers that are left with a Buy rating at Citi are now Perseus Mining (revised target ($0.75) and Resolute Mining (target $2.05) but both carry the additional "High Risk" tag.

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ESG Focus: Responsible Investing Gaining Momentum

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Responsible Investing Gaining Momentum

By Sarah Mills

-Impact investment on the rise, reports GIIN -Corbin investor survey shows ESG growing in importance -Investors' greatest frustration lack of quality data on small cap companies

Impact investing is continuing to rise according to the 2019 Annual Impact Survey from the Global Impact Investing Network (GIIN), both from new entrants and reinvestment of returns.

The survey also shows that impact investing is meeting or exceeding investor expectations.

Impact investing is the practice of directing funds towards projects, including greenfield projects, that have a positive impact on the environment and society.

This year, the survey posted its largest number of respondents, at 266, and its biggest dollar-value of assets under management, at $239bn.

GIINs more comprehensive Sizing the Impact Investing Market report published earlier this year and collated from publicly available data, estimates the total market to be $502bn.

The survey shows the majority of respondents’ investments met or exceeded their expectations for both impact (98%) and financial (91%) performance.

The eighty investors that responded to the survey every year between 2015 to 2019 recorded a compound annual growth rate of almost 17%.

“This year’s survey shows our industry is increasingly sophisticated,” says GIIN CEO and founder Amit Bouri, noting that after nine surveys, the hard evidence on impact investing is starting to emerge.

“We are starting to overcome challenges that used to stop conversations before they started, such as the misperception that financial trade-offs are necessary across all impact investment strategies. Fully one-third of survey respondents are motivated to make impact investments because of, not in spite of, their financial return potential."

Survey respondents included fund managers, foundations, banks, development finance institutions, family offices, pension funds and others.

Assets are allocated globally with roughly half invested in emerging markets.

Energy snared the largest share of the funding pie (15%), followed by microfinance (13%) and other financial services (11%).

Corbin investor surveys show “G” still king of ESG

Meanwhile, Corbin Research has surveyed 500 institutional investors and 100 investor-relations officers at top US companies to gauge investor approaches to Environmental Social and Governance (ESG) investing.

About 76% reported that ESG had become more prominent in their investment process over the past 10 years.

The majority of focus remains on the “G” for governance, with 73% reporting governance was important-to-critical in their decision-making process. This compared to only 30% for both environment and social investment factors.

Investors’ greatest frustration was the lack of quality data and access to data on ESG factors in the small-cap sector, with 48% identifying this as a problem.

Investors reported that ESG was just one input into their analysis; and said a low ESG score would not necessarily result in a sell decision.

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ESG Focus: Morphic Explains Shorts in CCL, WOW

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This story was initially published on Friday, 21st June 2019. It has been republished to include it in the ESG Focus news section.

Morphic Explains Shorts For CCL, Woolies

By Rudi Filapek-Vandyck

It's a burgeoning industry, still, albeit incredibly fast growing and with increasing impact. Already there is a plethora in approaches, strategies and styles available for investors who like to see their money invested in non-traditional manner.

One of the better known domestic managers using responsible investment filters before selecting and researching stocks is Morphic Asset Management, soon to be acquired by Ellerston Capital. Morphic also provided the rough overview in styles below.

What makes Morphic unique in its style of responsible investing is that it can not own any companies that fail at the first hurdle of stringent ESG filters applied, but it can go short such companies. The fund managers explained during the recent investor tour their reasons for being short Woolworths ((WOW)) and Coca-Cola Amatil ((CCL)).

When funds managers like Morphic go short on a stock they are trying to benefit from a weaker share price at some point into the future.

While taking a short position on an ASX-listed stocks is not at every investor's disposal (I have never gone short on any stock myself), I suspect either or both stocks might be included in many portfolios, which is why investors may want to take notice.

Supermarket owner and liquor distributor Woolworths fails the ESG filter dismally at Morphic. Not only is Woolworths one of the largest owners of pokies in Australia, through its partial ownership of pubs and clubs, but the group is also one of the largest sellers of alcohol in the country given it owns and operates BWS and Dan Murphy's.

Morphic's negative view is above all inspired by a business model that is increasingly under pressure, while the stock's valuation is approaching the heady highs from pre-GFC days.

More German supermarkets entering the Australian landscape in 2020 cannot be a good thing for sales and margins, so goes the thinking, while changing shopping patterns are keeping the pressure on Big W and, increasingly, the liquor chains.

Woolworths' growth next year is predominantly based upon an improving picture at Big W, but Morphic clearly doesn't think of it as longer term sustainable.

Bottom line: Woolworths' EPS is today roughly equal to where it was ten years ago, but its valuation is again riding a peak in investor sentiment. Morphic thinks the future most likely involves a weaker share price, and is therefore positioned short.

Shares in Woolworths entered calendar 2019 around $29 and surged to near $35 in May, after which they settled around $32.

The negative view on Coca-Cola Amatil is even more intriguing, with Morphic identifying ESG negatives in fizzy drinks, alcohol, plastic waste and sugar.

Valuation is again considered too rich in light of the ongoing operational challenges and the long term decline for key products in key markets for the company.

Most importantly, the managers at Morphic are suspicious of the company's real growth rates in key countries New Zealand and Indonesia. They believe the company has failed to address their concerns when questions had been asked about a change in geographic reporting.

Coca-Cola Amatil now reports on the basis that New Zealand and Fiji combined are one region, while Indonesia and Papua New Guinea are also grouped together into one reporting region. It is Morphic's suspicion this is because Fiji and PNG are fast growing still, while New Zealand and Indonesia are likely not, or possibly not much growing at all.

Here the suspicion is that the chosen regional groups are designed to mask the lack of underlying growth in two key regions for the company.

As far as Morphic is concerned, this should ring alarm bells across the wider investment community (which it clearly is not to date judging from the share price), hence why the managers are positioned short Coca-Cola Amatil.

Investors should note Morphic has been short Coca-Cola Amatil shares in the past, and with rather mixed results.

Coca-Cola Amatil shares have rallied strongly in 2019 after bottoming around $8 in the first quarter, surpassing $10 in June.

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Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday June 17 to Friday June 21, 2019 Total Upgrades: 7 Total Downgrades: 7 Net Ratings Breakdown: Buy 39.95%; Hold 43.75%; Sell 16.30%

With the local share market continuing its uptrend throughout June, one would feel inclined to think stockbroking analysts are issuing more downgrades than upgrades for individual ASX-listed stocks, but not so.

For the week ending Friday, 21st June 2019, FNArena counted seven upgrades and seven downgrades.

AGL Energy was the only stock mentioned twice (two upgrades). Moreover, only two downgrades moved to Sell (with Coca-Cola Amatil and WiseTech Global the unlucky receivers). On the other hand, only three upgrades lifted to Buy.

There was virtually no action in target price changes, except for a few negative adjustments with BlueScope Steel, Caltex Australia and Viva Energy facing reductions during the week.

A number of companies is enjoying increases to profit forecasts, including Nearmap, Pushpay Holdings and Alacer Gold, but the pendulum remains firmly biased towards more negative adjustments. Pilbara Minerals, Wesfarmers, Caltex Australia, Fonterra, Senex Energy, and others continue to see forecasts under noticeable pressure.

With the August reporting season only six weeks away, this is going to be an interesting dynamic underneath the Australian share market. Lower bond yields and RBA rate cuts versus operational challenges and downward pressure on profit estimates.

When is the undercurrent ready to turn, or will it?

Upgrade

AGL ENERGY LIMITED ((AGL)) Upgrade to Neutral from Underperform by Macquarie and Upgrade to Hold from Reduce by Morgans .B/H/S: 0/4/4

AGL Energy has withdrawn from due diligence on Vocus Group ((VOC)). This suggests to Macquarie there are significant challenges to justify the bid price. However, AGL Energy has pointed to its commitment to diversify energy-only earnings into the emerging telco sectors.

Therefore, there is an inherent diversification risk likely to be embedded in the share price. Macquarie upgrades to Neutral from Underperform. The main positive for investors is that cash flow is strong and the balance sheet is rapidly re-gearing. Target is raised to $20.58 from $19.06.

Morgans suggests the realisation of synergies in the acquisition of Vocus Group ((VOC)) will be challenging for a management team that lacks experience in telecommunications and for a target that is at the beginning of a transformation process.

The broker suspects there is still significant potential downside in the share price, offset by likely dividends in the next 12 months. Rating is upgraded to Hold from Reduce and the target is steady at $17.85.

ACCENT GROUP LIMITED ((AX1)) Upgrade to Add from Hold by Morgans .B/H/S: 1/1/0

Morgans upgrades to Add from Hold following recent share price weakness. The broker is mindful of several issues such as the rise of JD Sports and a likely slowdown in the growth of the company's footprint.

Nevertheless, the opportunity in increased vertical brand/product penetration and The Athlete's Foot franchise buyback should underpin a solid growth profile, in the broker's view. Target is steady at $1.51.

SENEX ENERGY LIMITED ((SXY)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/3/0

The company has announced a $50m sale and toll agreement for Roma North's gas processing facility. Credit Suisse believes the sale will strengthen the balance sheet and make the company more resilient to lower oil prices.

Credit Suisse reduces FY20 earnings estimates by -7.5% to account for the toll agreement. The broker's calculations suggest a capital raising is unlikely to be an issue.

Rating is upgraded to Outperform from Neutral on the back of the Jemena infrastructure sale, partly offset by the risk of higher royalties. Target is raised to $0.37 from $0.36.

SYDNEY AIRPORT HOLDINGS LIMITED ((SYD)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 2/3/3

International traffic at Sydney Airport bounced back a solid 6.3% in May following weak months prior. Macquarie remains concerned over the upcoming access agreement renegotiations but notes the opportunity to spend more on capex as an alternative to price declines, mitigating some of the pressure.

More influentially, falling bond rates continue to support the stock and the broker has cut its discount rate assumption to 2.43% from 3.20%. This leads to a target price increase to $8.39 from $7.15 and an upgrade to Neutral.

VOLPARA HEALTH TECHNOLOGIES LIMITED ((VHT)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 1/1/0

The company has acquired MRS Systems, a developer of mamography information systems. The transaction will be funded via a placement and entitlement offer.

Ord Minnett notes the transaction has boosted total US market penetration, with Volpara Health expected to reach 27% by the end of FY20.

Rating is upgraded to Hold from Lighten, with Ord Minnett noting further product development potential exists, particularly in risk assessment, although the integration may take some time. Target is raised to $1.65 from $1.54.

WOODSIDE PETROLEUM LIMITED ((WPL)) Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 3/4/1

Deutsche Bank assesses the outlook for Woodside Petroleum is improving as the oil price stabilises. The broker upgrades to Buy from Hold and raises the target to $40 from $37.

Downgrade

BRAMBLES LIMITED ((BXB)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 3/5/0

The on-market share buyback has been completed and will be paused from June 21 as the company enters a black-out period ahead of the results on August 21. Credit Suisse expects the shares to drift over the next two months from the lack of buyback support.

The broker is upbeat on the prospects for the pallet business in the Americas but notes there is now less than 4% upside to the target, unchanged at $13.50. Rating is reduced to Neutral from Outperform on valuation grounds.

COCA-COLA AMATIL LIMITED ((CCL)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 0/4/4

Even assuming the price/earnings ratio is sustainable, Credit Suisse calculates, on estimates for 2021, there would only be 3% potential upside to the share price.

As the stock has run ahead of expectations, the broker downgrades to Underperform from Neutral. Target is $8.90.

CALTEX AUSTRALIA LIMITED ((CTX)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/3/1

The company's first half earnings (EBIT) guidance of $240-270m represents a downgrade of -27% versus UBS estimates at the mid point. The broker is concerned as to why retail margins deteriorated so materially in May, as Caltex witnessed improving trends in April.

The stock screens as value but UBS observes an absence of positive catalysts and risks to convenience targets.

The broker reduces estimates by -13-19% for FY19-21. Rating is downgraded to Neutral from Buy as coverage is also transferred to another analyst. Target is reduced to $23.30 from $30.20.

MCMILLAN SHAKESPEARE LIMITED ((MMS)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/2/0

The FY19 trading update implies -4.3% downgrades to consensus underlying net profit estimates, Macquarie notes. Trading conditions are weaker than expected.

McMillan Shakespeare has flagged surplus capital and an excess franking credit position. While capital could be allocated to acquisitions the company has also commenced a process to undertake an off-market share buyback in the first half of FY20 of up to $100m.

Macquarie reduces its growth and margin outlook and lowers the target to $12.62 from $14.21. Rating is downgraded to Neutral from Outperform.

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

The share price has rallied over 30% in the last month and Morgans downgrades to Hold from Add. Second half operating earnings (EBITDA) are forecast to be less than the first half so, potentially, some weakness is likely to follow when the company reports in late August.

The broker suggests this will become a buying opportunity. Morgans rolls forward the model and raises the target to $4.99 from $4.55.

VIVA ENERGY GROUP LIMITED ((VEA)) Downgrade to Hold from Add by Morgans .B/H/S: 4/2/0

Morgans has pulled back on assumptions for the refining and retail businesses after a material downgrade from Caltex Australia ((CTX)). Caltex Australia has posted weak earnings guidance, emanating from refining & convenience retail, two areas to which Viva Energy is equally exposed.

The broker awaits any trading update, but in the meantime recognises the prevailing headwinds and reduces forecasts. Assumed energy costs for 2019 have been increased by 10% for the Geelong refinery to reflect volatility in crude oil prices.

Rating is downgraded to Hold from Add. Target is reduced to $2.07 from $2.57.

WISETECH GLOBAL LIMITED ((WTC)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 2/1/0

The share price has increased 25% since the first half result, now trading 60% above Ord Minnett's target. Revenue expectations have increased for FY19, largely explained by the acquisitions of Containerchain and Xware.

However, the broker suspects there is greater potential for organic revenue to disappoint in FY20. The valuation is considered stretched and the rating is downgraded to Lighten from Hold. Target is raised to $18.37 from $18.12.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ACCENT GROUP LIMITED Buy Neutral Morgans 2 AGL ENERGY LIMITED Neutral Sell Morgans 3 AGL ENERGY LIMITED Neutral Sell Macquarie 4 SENEX ENERGY LIMITED Buy Neutral Credit Suisse 5 SYDNEY AIRPORT HOLDINGS LIMITED Neutral Sell Macquarie 6 VOLPARA HEALTH TECHNOLOGIES LIMITED Neutral Sell Ord Minnett 7 WOODSIDE PETROLEUM LIMITED Buy Neutral Deutsche Bank Downgrade 8 BRAMBLES LIMITED Neutral Buy Credit Suisse 9 CALTEX AUSTRALIA LIMITED Neutral Buy UBS 10 COCA-COLA AMATIL LIMITED Sell Neutral Credit Suisse 11 MCMILLAN SHAKESPEARE LIMITED Neutral Buy Macquarie 12 NANOSONICS LIMITED Neutral Buy Morgans 13 VIVA ENERGY GROUP LIMITED Neutral Buy Morgans 14 WISETECH GLOBAL LIMITED Sell Neutral Ord Minnett Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 AGL AGL ENERGY LIMITED -50.0% -75.0% 25.0% 8 2 SXY SENEX ENERGY LIMITED 50.0% 33.0% 17.0% 6 3 FSF FONTERRA SHAREHOLDERS' FUND -33.0% -50.0% 17.0% 3 4 SGM SIMS METAL MANAGEMENT LIMITED 43.0% 29.0% 14.0% 7 5 BSL BLUESCOPE STEEL LIMITED 21.0% 7.0% 14.0% 7 6 WPL WOODSIDE PETROLEUM LIMITED 25.0% 13.0% 12.0% 8 7 SYD SYDNEY AIRPORT HOLDINGS LIMITED -13.0% -25.0% 12.0% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 MMS MCMILLAN SHAKESPEARE LIMITED 60.0% 80.0% -20.0% 5 2 VEA VIVA ENERGY GROUP LIMITED 58.0% 75.0% -17.0% 6 3 HLS HEALIUS LIMITED 25.0% 42.0% -17.0% 6 4 AMP AMP LIMITED -29.0% -14.0% -15.0% 7 5 CTX CALTEX AUSTRALIA LIMITED 29.0% 43.0% -14.0% 7 6 WES WESFARMERS LIMITED -50.0% -36.0% -14.0% 7 7 CCL COCA-COLA AMATIL LIMITED -50.0% -38.0% -12.0% 8 8 BXB BRAMBLES LIMITED 38.0% 50.0% -12.0% 8 9 WTC WISETECH GLOBAL LIMITED 38.0% 50.0% -12.0% 4 10 GPT GPT -20.0% -17.0% -3.0% 5 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 SYD SYDNEY AIRPORT HOLDINGS LIMITED 7.296 7.141 2.17% 8 2 SXY SENEX ENERGY LIMITED 0.440 0.435 1.15% 6 3 WPL WOODSIDE PETROLEUM LIMITED 35.978 35.615 1.02% 8 4 WTC

WISETECH GLOBAL LIMITED 19.920 19.858 0.31% 4 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 BSL BLUESCOPE STEEL LIMITED 12.629 14.307 -11.73% 7 2 CTX CALTEX AUSTRALIA LIMITED 26.876 28.879 -6.94% 7 3 VEA VIVA ENERGY GROUP LIMITED 2.537 2.637 -3.79% 6 4 MMS MCMILLAN SHAKESPEARE LIMITED 14.648 15.116 -3.10% 5 5 AMP AMP LIMITED 2.124 2.174 -2.30% 7 6 AGL AGL ENERGY LIMITED 19.168 19.353 -0.96% 8 7 WES WESFARMERS LIMITED 32.091 32.249 -0.49% 7 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 NEA NEARMAP LTD -0.967 -1.100 12.09% 3 2 PPH PUSHPAY HOLDINGS LIMITED 6.458 5.804 11.27% 3 3 AQG ALACER GOLD CORP 34.372 32.600 5.44% 3 4 AMC AMCOR LIMITED 85.029 82.522 3.04% 7 5 NWS NEWS CORPORATION 58.118 57.316 1.40% 5 6 AZJ AURIZON HOLDINGS LIMITED 22.214 22.100 0.52% 8 7 BXB BRAMBLES LIMITED 56.908 56.702 0.36% 8 8 AWC ALUMINA LIMITED 25.573 25.526 0.18% 5 9 SDA SPEEDCAST INTERNATIONAL LIMITED 32.838 32.778 0.18% 4 10 QBE QBE INSURANCE GROUP LIMITED 88.059 87.900 0.18% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 PLS PILBARA MINERALS LIMITED -0.870 -0.140 -521.43% 3 2 WES WESFARMERS LIMITED 175.029 217.300 -19.45% 7 3 CTX CALTEX AUSTRALIA LIMITED 169.217 190.167 -11.02% 7 4 FSF FONTERRA SHAREHOLDERS' FUND 14.683 16.185 -9.28% 3 5 SXY SENEX ENERGY LIMITED 0.652 0.702 -7.12% 6 6 VEA VIVA ENERGY GROUP LIMITED 13.400 14.150 -5.30% 6 7 WTC WISETECH GLOBAL LIMITED 18.067 18.700 -3.39% 4 8 AMP AMP LIMITED 17.957 18.386 -2.33% 7 9 BSL BLUESCOPE STEEL LIMITED 177.567 181.550 -2.19% 7 10 MMS MCMILLAN SHAKESPEARE LIMITED 106.900 109.040 -1.96% 5 Technical limitations

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Uranium Week: Postponed

Uranium markets were dead quiet last week in anticipation of a possible decision from President Trump regarding 232, but they will have to wait another week.

-Trump briefing postponed -Spot price unchanged -The UK goes green

By Greg Peel

President Trump was due to meet with top advisors on Thursday to be briefed on the Department of Commerce recommendation regarding the petition filed by two uranium producers to force US utilities to purchase a minimum 25% of their requirements domestically, citing “national security” (section 232). But alas, that meeting was postponed to this week.

One might hazard a guess the Iranian attack on a US drone on Thursday may have distracted.

The deadline for a decision to be made is July 14, but the president can make a decision earlier or extend the deadline. The 232 issue has held back uranium markets now for around a year and a half, and in recent months reluctance from utilities to make major supply decisions until the outcome is known has led to weaker uranium prices.

With no one prepared to second guess the president last week, only one transaction was reported in the spot market, industry consultant TradeTech notes. TradeTech’s weekly spot price indicator remains unchanged at US$23.40/lb.

TradeTech’s term price indicators remain unchanged at US$27.35/lb (mid) and US$30.00/lb (long).

The Green Machine

Back in May, the UK recorded its first ever two-week period in which no coal-fired power was generated, and record levels of solar power were generated on two consecutive days.

Yes, in England.

The UK National Grid last week reported that clean energy has now moved ahead of gas-fired and coal-fired energy, at 48% compared to 47% of total generation. Renewables made up 24%, nuclear power 18% and imports, including French nuclear power, 6%.

A decade ago coal-fired power represented 30% of total power generation. That figure has now fallen to 3%. In the same period, wind power has increased to 19% of the total from 19%.

If the wind doesn’t blow, the UK can always increase its level of clean energy imports.

Sweet Virginia

As US uranium producers remain on tenterhooks just as much as nuclear utilities, waiting for the 232 outcome, the US Supreme Court has upheld the State of Virginia’s right to place a moratorium on uranium mining.

The result has upset the owners of the Coles Hill uranium deposit in Virginia, estimated to be worth US$6bn, boasting an indicated resource of 133lbs U3O8.

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

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

The Short Report

Guide:

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

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

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

Summary:

Week ending June 20, 2019

I'm pleased to announce ASIC data appears to have returned to normal after the nonsense of the prior two weeks. We can go back to analysing short position changes on their merit.

Last week saw the ASX200 kick on to new post-GFC highs, helped along by strength on Wall Street and as good as a promise from the RBA another rate cut is in the offing.

It's a more familiar looking table this week, showing a more typical smattering of reds and greens. There were nevertheless four stocks experiencing short positions changes in excess of one percentage point.

Agri-stocks Nufarm ((NUF)) and Elders ((ELD)) saw short positon increases to 17.5% from 16.2% and 6.7% from 5.3% respectively. I suggest the simple explanation for this is if you're anywhere west of the Divide, look out the window. What don't you see?

Super Retail ((SUL)) shorts fell to 8.2% from 9.6%. There was no new news from the company but the stock has had a revival of late on improving sentiment in the housing market (the wealth effect of which flows through to vehicle purchases) thanks to the election/APRA/RBA, so perhaps some covering was evident.

The big mover in the week was Centuria Industrial REIT ((CIP)), which leapt up to 15.6% from oblivion below 5% the week before. See below.

Weekly short positions as a percentage of market cap:

10%+ SYR 19.7 NUF 17.5 ING 16.9 CIP 15.6 JBH 15.4 NXT 14.3 BAL 14.0 ORE 13.9 GXY 13.8 BWX 12.8 BIN 11.8 PLS 10.7 DMP 10.6

In: CIP, PLS Out: IFL

9.0-9.9

SDA, IFL, MTS, BGA, HVN, PPT, RWC

In: IFL Out: PLS, SUL 8.0-8.9%

SGM, BKL, CSR, IVC, SUL, HUB

In: SUL Out: KGN, MYR

7.0-7.9%

WSA, MYR, CGC, AMP, CGF, BOQ, KGN

In: MYR, KGN

6.0-6.9%

ELD, GMA, NEC, GWA

In: ELD

5.0-5.9%

A2M, COE, MSB, SEK, DCN, LNG, OML, RSG, SXY, CTD, MIN, CLQ

In: DCN Out: ELD, CLH, AMC, MLX

Movers & Shakers

Centuria Industrial REIT plunged -5% last week when JP Morgan entered the market with a $135m block of stock for sale at a -5.6% discount, representing, it is believed, the stake inherited by Asian property group ESR when it acquired fund manager Propertylink.

Given the stock has this week come all the way back again, and yesterday announced its final dividend, one presumes the stake is now cleared.

I'm guessing the position will disappear in next week's data.

ASX20 Short Positions (%)

Code Last Week Week Before Code Last Week Week Before AMC 4.3 5.2 RIO 4.6 4.7 ANZ 0.8 0.7 S32 0.8 0.8 BHP 3.0 3.0 SCP 1.3 0.9 BXB 0.3 0.1 SUN 0.5 0.5 CBA 1.4 1.3 TCL 1.0 0.9 COL 1.4 1.5 TLS 0.6 0.6 CSL 0.4 0.3 WBC 1.6 1.5 IAG 0.7 0.5 WES 1.6 1.7 MQG 0.8 0.7 WOW 1.8 1.7 NAB 1.2 1.3 WPL 0.8 0.7 To see the full Short Report, please go to this link

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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

The Wrap: Global And Local Economic Outlooks; Supermarkets

Analysts put forward their views on both the global and Australian economies going forward, while Citi is downbeat on the big supermarkets.

-Trade war, Brexit remain swing factors -Central bank policy critical -Australia to outperform? -Beware of foreigners selling groceries

By Greg Peel

The Global View

At the beginning of 2019, Legg Mason was expecting trend growth for the US economy supported by a more dovish Fed policy stance, stabilisation and then improvement in the Chinese economy aided by a lessening of trade tensions, and stabilisation in European growth, while avoiding a "hard" Brexit.

Up until a few weeks ago, things looked like they were going to plan.

But so far, Fed rhetoric may have become more dovish but no actual policy action has been taken, G20 meeting this weekend not withstanding there has been no resolution on US-China trade, and with May out and Johnson assumed to be coming in, a "hard" Brexit remains a possibility.

The good news, suggests Legg Mason, is that global growth has actually improved from the worst case fears of December 2018, and a number of central banks have been straightforward in articulating a need to extend the expansion (through easier policy if needed). The bad news is abovementioned risks remain.

The Fed is "monitoring closely", but data suggest such monitoring should now be with a view as to whether to ease policy, the analysts believe. They still believe a US-China deal will ultimately be forthcoming, but if not, they believe Chinese growth will be lower but remain "sturdy", supported by government stimulus.

European growth has been very poor but the backdrop is quietly improving. Legg Mason had expected a return to modest levels of growth but Brexit remains the swing factor. Despite the risk of a "hard" Brexit having increased, the analysts still assume a "mutually palatable" deal can be reached, but will take time and weigh on investor sentiment in the interim.

Citi's analysts note that Fed rate cuts typically drive the US stock and bond markets higher (lower yields). While trade negotiations continue, Citi prefers defensive equities that will benefit from improved productivity from a rate cut and ongoing earnings growth supported by a weaker US dollar.

Citi states the obvious that a combination of a Fed rate cut and trade resolution would be positive and a combination of no cut and no resolution would be negative. The analysts have not here explored the middle ground:

A trade resolution is reached, so the Fed doesn't cut. A trade resolution is not reached, so the Fed cuts. These scenarios are more likely outcomes than double-whammies in either direction.

The Local Outlook

Morgan Stanley had held an Underweight rating on Australian equities in its model portfolios for some time, and indeed this has proven the right call until recently. The Australian market is up 20% for 2019 and the global market is a few percentage points behind.

Morgan Stanley has since moved to "mildly" Overweight.

Risks are building around a global economic slowdown, the analysts note, compounded by trade tensions, leading to reduced corporate confidence. Australia, too, is slowing, but this is mitigated by several factors.

"Fiscal spending on infrastructure and tax cuts, our proximity to China and its demand for commodities, quality high yielding shares, and the potential for more tax cuts puts Australia in a relatively better position compared with the rest of the world at this time."

In the context, the analysts recommend a defensive posture. They suggest investors focus on stocks with low or negative correlation with equity benchmarks (low or negative beta), companies with good visibility on profits, and by extension, dividends, companies operating in industries in which trading conditions remain strong, and traditional safe haven assets.

Wilsons is also tipping Australian outperformance to continue.

Wilsons specifically singles out RBA rate cuts. While the rest of the world (with exceptions, eg US) has been dominated by unconventional interest rate policy, the RBA kept its rate on hold all the way from mid-2016 to last month. Further cuts are likely, and these will support equity market valuations.

Wilsons echoes Morgan Stanley in pointing to fiscal stimulus, and further notes house prices are likely to stabilise on a combination of the election victory, lower RBA rates and more relaxed lending standards following regulatory changes (APRA).

The analysts also note that while Australian industrials have suffered earnings downgrades, in line with the rest of the world, the resources sectors have enjoyed upgrades on stronger commodity prices, providing the offset.

Australia is thus comparatively well positioned, Wilsons believes. Few other countries are combining monetary and fiscal stimulus. A lower Aussie will provide further stimulus. The analysts also suggest Australia is “relatively immune” to a direct economic impact of the US-China trade war, were things to escalate.

Not So Super

Citi analysts locally have drilled down into expectations for the Australian listed supermarkets.

Both Coles ((COL)) and Woolworths ((WOW)) have indicated they expect at least 3% growth for the sector ahead. Citi is more optimistic at 4%, assuming a step-up in packaged grocery inflation. Currently growth is running at around 4.5%, supported by a fresh burst of inflation.

However, it comes down to how that growth is distributed.

Assuming Aldi, Costco and Kaufland absorb a net 1.1% of growth, and new store space another 0.6%, Woolworths and Coles will be fighting for 1.8% sales growth, Citi suggests, including online. A slowing down of store space growth, to a forecast 1.5% from 2.7% over the past decade, should at least help alleviate pressure on returns.

Both supermarkets are now making a concerted effort to increase online penetration, and Citi forecasts online sales to grow from 2.1% of total sales in FY18 to 5% by 2025. However not only are online sales dilutive to margins, but store profits may fall because store-based sales growth is running below underlying store-based cost growth.

Citi does not believe downside risk to margins is reflected in current PE multiples. Going out three years, Kaufland offers further margin pressure through online margin dilution and higher wage costs. The locals must deliver on intended cost savings to offset this pressure.

Citi has Sell ratings on Woolworths and Metcash ((MTS)) and a Neutral rating on Coles.

Crucial Question: Is It 1995 or 2007?

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

-Crucial Question: Is It 1995 or 2007? -Conviction Calls -Gold Stocks: Winners & Losers -Rudi On Tour -Rudi Talks

Crucial Question: Is It 1995 or 2007?

By Rudi Filapek-Vandyck, Editor FNArena

Before reading this week's update on the global macro and equities picture, investors are advised to add three new words to their financial dictionary:

-Endcyclitis - the fear that the global economic cycle is about to turn for the worse -ABC - Anything But Cash; primal, though logical response to exceptionally low interest rates; can be a specific strategy, a portfolio positioning, a necessity for survival, or simply an attitude -Market melt up - when equities embark on a relentless rally to the upside; opposite of a melt-down

With equity markets in the USA, and now also in Australia, near all-time highs and with bond markets signalling central banks will be cutting interest rates (further) in the year ahead, it has become fashionable again to be bearish on the world, the global outlook and medium term prospects for risk assets; or make that for all assets, since central bank policies post-GFC are often casually summarised as "bubbles everywhere".

The general view is that while lower interest rates and low bond yields temporarily push up the valuation of assets such as listed equities, the day of reckoning will soon emerge on the horizon because this economic cycle is getting older and weaker by the day, and soon investor optimism shall be replaced by the general realisation that economies are about to fall into recession, and corporate earnings will collapse.

There are enough surveys and anecdotal observations out there to suggest this is now the mainstream fear across financial markets, with the general advice to investors being: make sure you keep on dancing close to the emergency exit door, or else.

Even RBA Governor Philip Lowe weighed in on the subject last week describing the combination of weakening economies, central banks cutting cash rates and rising equities as a "strange world" he fails to understand.

History shows, however, equity investors' attitude thus far in 2019 is far from irrational and despite general scepticism whether equity markets can continue to post further, sustainable gains, there are precedents to show the current set-up need not end in tears.

Economic recessions are not an unavoidable certainty. It is equally plausible that Fed intervention, assisted by other central banks around the world, can keep this economic cycle going for longer.

If this proves to be the case, equity markets can potentially rise a lot higher, even after the stellar returns already booked since the beginning of the calendar year.

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Investors' anxiety can be traced back to two main factors: the US bond market is inverted, with yields on longer dated Treasuries below those on short maturities, plus the apparent high-level stand-off between Washington and Beijing.

The first is seen as an early signal that the US economy might be awaiting its first recession since 2008/09. The second is another negative impacting upon economies worldwide; if no solution can be found it significantly increases the chances for a global economic recession.

No wonder, investors worldwide have become increasingly wary and anxious, positioning their portfolios cautiously and defensively. This has led to the rather unusual situation that Citi's proprietary Euphoria-Panic Indicator (see Weekly Insights last week) is signalling financial markets were in Panic mode at a time when equity indices had been posting new record highs.

Usually when record highs are being posted, investor sentiment surges into Euphoria, while Citi's Indicator into Panic mode traditionally happens near market bottoms. So who's correct? Whom should investors trust as the best guide for the year ahead?

Interestingly, Citi economists themselves weighed in on the rather awkward Indicator contradiction this week. And their advice?

Trust the Indicator.

A Panic reading means equity indices are most likely set up for further rallies over the coming twelve months. Upon reviewing the 44 instances in the past when a similar Panic reading combined with a fresh 52-weeks high, equities rose in nearly 98% of those periods looking out twelve months, Citi reported this week.

Of course, there are no guarantees and research conducted by economists elsewhere has shown a direct and close relationship between the economic path forward and what investors can expect from their investments in equity markets in the year(s) ahead.

It turns out the proposition is rather binary: if we do end up with an economic recession, share markets will sell off, at some point, and potentially end up a whole lot lower. Think 2007 and 2001.

If we do escape the recession scenario, there will be more gains, and potentially quite large sized gains in the year ahead.

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Macquarie analysts recently conducted their own historic analysis and their observations confirm all of the above. In eight of eleven Fed easing cycles since 1971, US equities ended up more than 10% higher one year after the first cut.

The three exceptions are 1981, 2001 and 2007. The joint commonality in all three cases is the ultimate arrival of the feared economic recession.

The prospects for Australian equities could be even better. On Macquarie's research, the All Ordinaries tends to rise by 12% in the year after the first Fed rate cut. And this time around the RBA is cutting too.

If, however, the recession does arrive, both the S&P500 and the All Ordinaries tend to fall by -19% on average; and we all know the damage was a lot more in 2001 and in 2007.

History suggests the best sectors to hide in when a recession arrives are Food & Beverages, Paper & Packaging and Retail. Worst performers historically in Australia have been Steel, Diversified Financials and Technology Hardware.

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Another interesting observation was put forward recently by the London-based European equities strategy team at Citi, not to be confused with their US peers mentioned earlier.

The team in London believes financial markets in 2019 are trying to mimic the set-up of 1995. That just happens to be the only year since 1989 when US equities, US government bonds, investment grade corporate bonds, high yielding corporate bonds and crude oil all returned at least 10% in the same year.

Back in 1995, the Fed cut rates in July. Back in 1995, US equities had already rallied circa 20% ahead of the first Fed cut. So far this year, gains for US equities are near 20% and markets have begun pricing in Fed rate cuts from July onwards.

Coincidence?

For those who need reminding, with a few pull backs along the way, US equities rallied hard for several years until the Nasdaq bubble burst in March 2000.

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The global context for income seeking investors was recently summarised as follows by asset strategists at JP Morgan Securities:

"10Y government bond yields continue to make new all-time lows in most G10 countries outside the US; Gold has made a six-year high and the S&P500 has made a new all-time high led by bond proxies like Utilities, Real Estate and Staples. The rally has been so broad across income assets that anyone targeting a 5% yield now has no alternative but to own cyclical assets like EM fixed income or US HY Credit and Leveraged Loans."

The quote above sums up perfectly why, all of a sudden, Australia's large cap bellwether stocks have landed back on investor radars. Even after the strong rally from the December low, National Australia Bank shares still offer 6%-plus yield.

I think it's probably fair to say this explains to a large extent as to why the ASX200 sits near the top of equity market performers in 2019, with only Russia, Nasdaq and S&P500 doing (slightly) better.

Total return for the ASX200, would you believe it, sits near 18% for the first six months of 2019 (capital return plus dividends).

Underneath the face value share market performance, however, still hides an extremely polarised field of winners and losers, and not just because Australian companies under pressure continue issuing profit warnings (or earnings disappointment in the case of Metcash on Monday).

With numerous sectors of the economy under severe pressure, and with technological and other disruptions continuing to expose weaknesses here and there, the challenge for investors remains not to fall for value traps; not in the least because many of the laggards are now seemingly offering above-average dividend yields. FNArena's Sentiment Indicator (see website) shows IOOF Holdings offering 9.67% and Michael Hill 9.62%, to name but two examples.

The all-important question to ask is: if a given stock has not participated in the strong market rally to date. What is the real reason?

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Tony Brennan and James Wang, Australian market strategists at Citi, fully acknowledge it requires a leap of faith at this point in time, but they too believe the prospect of lower bond yields on the back of central banks cutting interest rates will provide support for the Australian share market.

No second guessing as to why both are positive on Australian banking shares in particular, as are many others - all for the same reason (see NAB above).

This is why Citi recently lifted its price targets for the ASX200 to 6800 by year-end (from 6700 prior) and to 7000 by mid-year 2020 (was 6850).

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In summary: share markets have enjoyed the support of falling bond yields and a weakening US dollar, but they are likely to become more data-dependent in due course, which is likely to inject more volatility as corporate earnings and economic data, not to mention regional politics and geopolitical tensions will provide inconsistent messaging.

Despite general scepticism, investors should remind themselves no future outcome is as yet set in stone. Success from present policies is far from guaranteed, but the same applies for failure to keep an economic recession at bay.

The fact that financial markets are being dominated by "endcyclitis", and have been for a while, is no proof of anything. Last year the global majority sat positioned for rising interest rates and higher bond yields and look how that turned out.

Some experts have been toying with the idea of a market melt up into 2020. This must sound like heresy to those anticipating an economic recession later this year or next, but history is not without precedents. Imagine if investors decided to go all-in, ABC.

At this point it remains too early to decide which scenario looks most feasible. Probably best to keep an open mind, and eyes wide open.

Rudi Talks

Audio interview on Wednesday about what is happening in the share market:

https://www.youtube.com/watch?v=B56bmn1mhU0

Rudi On Tour In 2019

-AIA National Conference, Gold Coast, Qld, 28-31 July -AIA and ASA, Perth, WA, October 1

(This story was written on Monday and Tuesday 24-25th June 2019. 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. Part two follows on Friday).

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

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

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Rudi's View: Amcor, Banks, Winners & Losers In Gold

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

-Crucial Question: Is It 1995 or 2007? -Conviction Calls -Gold Stocks: Winners & Losers -Rudi On Tour -Rudi Talks

Conviction Calls

By Rudi Filapek-Vandyck, Editor FNArena

Stockbroker Morgans summarised the situation neatly in its Australia Strategy report this week: earnings forecasts are falling, still, for corporate Australia and companies have continued to issue profit warnings, but a surprise outcome in the federal election in May and a sharp fall in government bond yields have injected strong positive momentum into Aussie equities.

Morgans' strategists continue to see "compelling opportunities" in Big Four banks, China exporters and oversold energy stocks.

In addition, the stockbroker summed up its sector favourites, which generated the following list of go-to stocks for investors in Australian equities:

-Among banks: Westpac ((WBC)) -Diversified Financials: Macquarie Group ((MQG)), Afterpay Touch ((APT)), Kina Securities ((KSL)) and Australian Finance Group ((AFG)) -Industrials: Orora ((ORA)), PWR Holdings ((PWH)) and Acrow Formwork and Construction Services ((ACF)) -Healthcare: ResMed ((RMD)) and Sonic Healthcare ((SHL)) -Telcos and IT & Software: Telstra ((TLS)) -Consumer Staples: Woolworths ((WOW)) -Consumer Discretionary: Aristocrat Leisure ((ALL)), Lovisa Holdings ((LOV)), Baby Bunting ((BBN)), AP Eagers ((APE)) and Noni B ((NBL)) -Resources: OZ Minerals ((OZL)), Evolution Mining ((EVN)) -Energy: Oil Search ((OSH)), Origin Energy ((ORG)), Senex Energy ((SXY)) and Cooper Energy ((COE)) -Food, Agriculture and Chemicals: Treasury Wine Estates ((TWE)) and Costa Group ((CGC)) -Infrastructure and Utilities: Sydney Airport ((SYD)), APA Group ((APA)) -Online media: oOh!media ((OML)) -Property: Aventus Group ((AVN)), APN Convenience Retail REIT ((AQR)), Viva Energy REIT ((VVR)) and Centuria Metropolitan REIT ((CMA))

**** Analysts at Bell Potter have equally lined up their sector favourites for the financial year ahead.

-Among banks and general insurers the top three consists of Macquarie Group, Westpac, and National Australia Bank ((NAB)) -Listed Investment Companies (otherwise known as LICs): WAM Capital ((WAM)), Plato Income Maximiser ((PL8)), and Australian United Investment Company ((AUI)) -Agriculture and Fast Moving Consumer Goods (FMCG): Synlait Milk ((SM1)), Select Harvests ((SHV)), and Elders ((ELD)) -Technology: Integrated Research ((IRI)), TechnologyOne ((TNE)), and Catapult Group ((CAT)) -Discretionary retail and professional services: Lovisa Holdings ((LOV)), Temple & Webster ((TPW)), and Propel Funeral Partners ((PFP)) -Travel and tourism: Flight Centre ((FLT)) and Helloworld Travel ((HLO)) -Resources: Nickel Mines ((NIC)), Pantoro ((PNR)) and Regis Resources ((RRL)) among base and precious metals; FAR ltd ((FAR)), Metals X (MLX)) and Orocobre ((ORE)) in oil, gas & lithium -Healthcare and biotech: Starpharma ((SPL)), Mesoblast ((MSB)), Pharmaxis ((PXS)), Avita Medical ((AVH)), Paradigm Biopharmaceuticals ((PAR)), and Volpara Health Technologies ((VHT))

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Elsewhere, portfolio managers at Wilsons have been buying shares in Amcor ((AMC)) for multiple funds, while reducing exposure to Wesfarmers ((WES)).

Some stockbroking analysts in favour of owning Amcor shares have been flagging the potential for a large share buyback program to be announced on the back of asset sales and Wilsons too thinks the potential for such a buyback is on the rise.

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Last but not least, I couldn't help but noticing Bell Potter's tech guru Chris Savage has kept TechnologyOne as one of his key picks in the sector, only preceded by Integrated Research in the ranking of most preferred stocks, and followed by Catapult Group in third position.

This new ranking order also means Citadel Group ((CGL)) ws removed post disappointing market update in May, while PWR Group ((PWH)) was downgraded to Hold post strong share price rally, and subsequently also lost its inclusion among the three most preferred for the sector.

As has been the case for a long while, Bell Potter has only one key sell recommendation, and that is for WiseTech Global ((WTC)). Unfortunately for analyst Savage, investors have happily ignored Bell Potter's recommendation, and have stoically continued pushing up the share price.

Shares in WiseTech Global were priced around $12 at the beginning of calendar 2018. They entered 2019 close to $17. They seemed to be heading for $30 last time I checked. Cannot get them all right, right?

Gold Stocks: Winners & Losers

Share prices of AUD gold producers in Australia have been flying high as investors woke up to the fact bond yields are once again retreating into negative territory (inflation-adjusted) and central bankers are getting ready to become more dovish, having already abandoned their hawkish bias earlier this year.

As per always, a rejuvenated gold price -both priced in USD and AUD- has pulled the eternal gold bulls out of the shadows of financial markets. One gold bull last week predicted $20 for Northern Star ((NST)) shares should not be considered impossible, and neither is $100 per share for Newcrest Mining ((NCM)).

Ahem.

What is seldom highlighted is that same gold sector locally is home to some serious capital destruction for investors who picked the wrong stocks in the year past.

Which is why Bell Potter's sector update last week was such a refreshing exercise. The analysts felt compelled to highlight the spectacular wipe-outs (their terminology) that have equally characterised the gold sector domestically, including significant share price falls for:

-Gascoyne Resources ((GCY)) -Dacian Gold ((DCN)) -St Barbara ((SBM)) -Blackham Resource ((BLK)) -Eastern Goldfields ((EGS)) -Artemis Resources ((ARV))

For investors who'd still like exposure, while also avoiding the worst possible outcome from investing in the sector, Bell Potter has nominated Top Picks Pantoro and Regis Resources (both are also included in the top picks for the financial year ahead, see above).

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Analysts at Credit Suisse express the view that, while gold priced in AUD has surged to record highs this month, the rally in gold producers' equities has nevertheless generated stretched valuations all-around.

The analysts have tried to assess what is being implied by the various share prices and come up with the following conclusions:

-Shares in medium-large companies including Newcrest Mining, Evolution Mining and Northern Star are implicitly pricing gold at US$1750/oz

-Shares in mid-cap producers OceanaGold ((OGC)), Regis Resources ((RRL)) and St Barbara are still equivalent to gold priced at US$1277-US$1339/oz

-Shares in smaller cap stocks including Alacer Gold ((AQG)) and Perseus Mining ((PRU)) are seen pricing in US$1296-US$1322/oz

With the price of bullion surging above US$1400/oz, the immediate conclusion to draw is that larger cap quality names are trading at a premium, both to gold and to the rest of the sector, while many other, smaller-cap producers are still incorporating a discount to gold.

No surprise thus, Credit Suisse finds Newcrest Mining shares is the most expensively priced stock in the sector, especially since a large chunk of its annual production is actually copper. The analysts still like Evolution Mining as an overall quality portfolio diversifier.

Most liked is Alacer Gold, because it's cheap and represents "best value".

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Over at Morgan Stanley, gold stocks have completely fallen out of favour. Morgan Stanley's commodities analysts used a general sector update to downgrade Newcrest Mining to Underweight, and to announce that none of Australian gold producers under coverage are left carrying another rating than Underweight.

The reason is, on Morgan Stanley's calculations, share prices for Newcrest, Regis Resources, Evolution Mining and Northern Star are all reflecting a gold price above US$2000/oz, and this makes them overly expensive.

The analysts used the opportunity to lift price forecasts for iron ore and hard coking coal (as well as for gold) which means Whitehaven Coal ((WHC)), Mineral Resources ((MIN)) and South32 ((S32)) are now the top three sector favourites in Australia.

Iluka Resources ((ILU)) is still liked too. Mineral Resources ((MIN)) remains a key pick despite the analysts further reducing price forecasts for lithium near term. Morgan Stanley has been negative on prospects for lithium prices for quite a while now.

Addendum: as sector analysts have continued updating their forecasts, views and preferences for domestic gold stocks, FNArena will follow up later today with an update, see "Which Gold Stocks?" on the website later.

Rudi Talks

Audio interview on Wednesday about what is happening in the share market:

https://www.youtube.com/watch?v=B56bmn1mhU0&t=656s

Rudi On Tour In 2019

-AIA National Conference, Gold Coast, Qld, 28-31 July -AIA and ASA, Perth, WA, October 1

(This story was written on Monday and Tuesday 24-25th June 2019. 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. Part two follows on Friday).

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