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Sandfire Pressured To Find New Resources

Exploration success has become increasingly important to Sandfire Resources and several brokers downgrade the stock in the face of investor caution.

-Even with Monty, mine life at DeGrussa is only around five years -Approvals process at Black Butte appears bogged down -Scope for capital return?

By Eva Brocklehurst

Exploration success is becoming increasingly important to Sandfire Resources ((SFR)) and several brokers downgrade the stock to neutral territory on the back of the June quarter results, being Morgans, Macquarie and Ord Minnett. Macquarie materially lowers earnings estimates in the wake of the June quarter outcome and believes guidance for FY18 is weak.

The broker is also disappointed with the exploration around Doolgunna and, given limited life at DeGrussa, believes the pressure is on to make a meaningful discovery. In the absence of an acquisition or exploration success the broker believes the stock lacks a positive catalyst.

Ord Minnett suggests Sandfire is a good operator and DeGrussa has proved to be a stable and reliable producer. The Monty development is underway and remains low risk and implementation of the flotation upgrade is expected to improve DeGrussa copper recovery by 1-1.5%.

Nevertheless, even with the Monty deposit, mine life at DeGrussa is about five years. On this basis the broker believes the stock is unlikely to trade at a premium to net present value. Ord Minnett would look to become more positive if there were signs of further growth plans, such as Black Butte, Montana.

Credit Suisse has no qualms about the company's execution at DeGrussa nor the company's strong commitment to exploration and identifying additional reserves. Moreover commitment to the endeavour is well funded and methodical.

Yet, the broker remains sceptical about permits at the Tintina joint venture (Black Butte). The company reports some progress at Black Butte, having submitted a third and final modified application for a mine operating permit. Once the project has achieved a compliant status a draft mine permit will be transmitted and the process moves a further step towards a full environmental impact study.

Morgans suggests investor attention will increasingly rely on exploration success and the progress of approvals at Black Butte. The broker notes the risk around approvals and development is readily observable in Tintina's market capitalisation.

Meanwhile,the company is spending $28m on near-mine and other regional Australian exploration in FY18 in an effort to supplement cash flow beyond the exhaustion of DeGrussa reserves. If this is unsuccessful the broker believes the market will become increasingly nervous about how the company chooses to deploy surplus cash. Morgans maintains a preference for OZ Minerals ((OZL)) as a pure copper exposure.

SFR vs OZL

Deutsche Bank remains more upbeat, believing that at the current share price investors are not paying for any further mine life extensions. The broker considers the stock a simple pure copper exposure that is trading on three times FY18 enterprise value/operating earnings (EBITDA) using spot copper prices, compared to six times for OZ Minerals.

Moreover, while OZ Minerals has a greater pricing leverage because of the long life nature of Carrapateena, this investment comes with technical risk and over $1bn in capital expenditure.

Running spot prices, Deutsche Bank suggests Sandfire can lift earnings by 35% over the next three years while OZ Minerals' earnings are likely to fall from this year. Sandfire's spot free cash flow yields can increase to over 20% in FY20 from 12% currently, while the broker believes OZ Minerals' cash position has now peaked.

Capital Return?

The broker also believes there is scope for Sandfire's dividend to be lifted from FY18 onwards, as the current 30% pay-out ratio implies a dividend yield of 5% over the next three years, being the base case. The broker believes the company could fund Monty out of internal cash flow and continue to progress the Black Butte project towards an investment decision, which may come in FY19/20 if there are no delays to permits.

UBS is confident in the delivery of current mine plans but acknowledges the question of what comes next is starting to dominate investor thinking. The broker believes the company will continue to prefer exploration over capital returns, evidenced by the push into exploration joint ventures.

Credit Suisse's earnings forecasts and valuation remain affected by depressed medium-term copper price assumptions. The broker also notes that depreciation increased materially, to $136m guidance on amortisation of FY17 and FY18 planned strategic capital, which must be recovered over the very limited remaining mine life to the end of 2021.

The company produced 17,100 tonnes of copper and 10,000 ounces of gold in the June quarter and delivered full year production at the top end of guidance. C1 costs were US$0.95/lb. The company entered FY17 with $127m cash in hand and no debt. FY18 guidance suggests 63-66,000 tonnes of copper, 35-38,000 ounces of gold and C1 costs of US$1-1.05/lb.

The consensus target on FNArena's database is $6.28, suggesting 9.8% upside to the last share price. This compares with $6.62 ahead of the June quarter report. Targets range from $4.65 (Credit Suisse) to $8.20 (Deutsche Bank). There is one Buy rating (Deutsche Bank) five Hold and two Sell.

Challenges Ahead For Brickworks

Strength in its land & development portfolio has caused Brickworks to substantially upgrade net profit guidance in FY17 but the company also expects operating earnings in building products to be lower.

-East coast building products still robust amid strong deferred order book -Rising energy costs present a headwind -Downturn in WA bricks has likely implications for other building product companies

By Eva Brocklehurst

Brickworks ((BKW)) has substantially upgraded its guidance for net profit in FY17, as a result of continued strength in its land & development portfolio. Building products on the east coast are also robust and holding strongly for now, although brokers suggest the headwinds may be mounting.

The company has upgraded underlying net profit guidance, signalling growth of 25% in FY17. Statutory net profit is expected to be around double FY16. While brokers note the timing of property and land developments can usually push profits around, this upgrade is accompanied by a much weaker outlook for building products.

The company now expects FY17 building products operating earnings (EBIT) to be lower than FY16, primarily because of difficult market conditions related to weather as well as restructuring in Western Australia. All Queensland operations were closed for a period after Cyclone Debbie, and brick plants in NSW were affected when they were taken off line for long overdue maintenance.

Deutsche Bank reduces its FY17 building products operating earnings estimates for Brickworks by -8% but increases overall FY17 net profit estimates by 6% and retains a Buy rating on valuation.

Macquarie observes the company's investment portfolio is enjoying coal-related tailwinds although growth should moderate in FY18. Meanwhile land & development has ongoing options for capital and profit releases.

Building Outlook

Building products operating earnings on the east coast are still expected to be higher than FY16, with a strong performance from Austral Bricks. The order book is observed to be very strong across the east coast businesses and delays caused by wet weather have simply resulted in extensions to the pipeline of work.

Citi believes the specific slowdown in Western Australia, a brick-intensive market, has implications for other building product companies, including Boral ((BLD)), as some 11% of that company's Australian revenue is derived from bricks, construction materials and masonry.

Macquarie suspects the building cycle is running out of momentum and rising energy costs will also present a significant headwind. The broker increases FY18 earnings expectations for building products by 29%, as conditions appear to be relatively solid and there is some pent-up demand following weather-affected deferrals to FY18.

Morgans agrees that while the company has considerable exposure to residential construction, given building activity slowing and higher energy costs, growth over the next few years may be more challenging.

This may be mitigated by the company's investment in WH Soul Pattinson ((SOL)) and increased activity in land & development but, irrespective, the stock is considered fully valued at current levels. Morgans reduces its FY17 operating earnings (EBITDA) forecast by -10% and underlying net profit by -11%.

Meanwhile, the company has sold its former brick-making site at Malaga in Western Australia for $19.2m, consistent with the intended restructure of its WA brick, roof tile and timber operations. The high-cost Malaga plant was closed earlier this year and production has now been transferred to the upgraded Cardup plant.

The consensus target is $14.63, suggesting 9.2% upside to the last share price. There is one Buy rating (Deutsche Bank) and three Hold. Targets range from $13.60 (Morgans) to $15.86 (Deutsche Bank).

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Gas Delivers Upbeat Outlook For Origin Energy

Robust production outcomes for Origin Energy in the June quarter were driven by a record performance at APLNG. Gas production at Otway Basin also exceeded expectations.

-APLNG hurdles significant milestone, concluding operating phase of 90-day production test -APLNG debt should soon become non-recourse to Origin Energy -Higher wholesale prices should mean increase in generation output while higher retail prices should mean margin expansion

By Eva Brocklehurst

Robust production outcomes for Origin Energy ((ORG)) in the June quarter were driven by a record performance at APLNG. Gas production at Otway Basin also exceeded expectations.

APLNG achieved record production, having successfully concluded the operations phase of the 90-day production test. LNG production at the plant throughout May and June was more than 10% above nameplate. This is a significant milestone, in Morgan Stanley's opinion, adding a much needed margin for comfort in a higher Australian dollar environment.

The highlight for Ord Minnett was better-than-expected production from the Otway gas project, with output up 90% on the prior quarter because of higher well deliveries and plant availability.

APLNG

Citi suspects APLNG is currently purchasing QCLNG gas during a partial shutdown at QCLNG, which is scheduled to last until August 10. Thereafter, the broker expects APLNG will preferentially re-direct volumes into the domestic market to capture higher winter gas prices.

Origin is confident the remaining phases of the test will be completed in the current quarter, which suggests APLNG debt will become non-recourse to Origin Energy. Once this occurs the joint venture could restructure the debt in order to increase distributions to equity holders, Ord Minnett suggests.

Morgan Stanley believes APLNG should consider reducing or slowing upstream production and/or marketing gas to other LNG producers, or domestically. The broker also suspects APLNG may consider refinancing or restructuring of the project's facilities, which are understood to be amortising relatively quickly.

Origin Energy's quarterly was underpinned by an 8% quarter-on-quarter increase in APLNG's upstream gas production. There were 33 LNG cargoes shipped from APLNG including those contracted to Sinopec and Kansai Electric.

Brokers observe the pace of CSG well drilling was modest, with 28 operated wells drilled during the quarter. This is down from an average quarterly run rate of around 80 wells in the December half, which means, in Deutsche Bank's view, APLNG is reaching ample gas production capacity, able to fulfill its LNG and domestic gas supply.

Macquarie also observes this will flow through to better capital expenditure, but the pace of development may need to rebound in the coming year to ensure growth and FY19 production.

Origin Energy contributed net cash to APLNG for FY17 of $170m, lower than previous guidance, and received $5m from APLNG during the June quarter. UBS flags a need to view FY17 results to confirm if the lower cash contribution is a permanent or temporary cash saving.

Lattice Energy

There was no update on the company's planned IPO/trade sale of its assets into Lattice Energy but Ord Minnett believes the strong performance of the APLNG assets bodes well for the expected sale. However, Citi cites uncertainty around the ability to sell Lattice Energy for a reasonable price and suggests investors need a more compelling entry point to the stock to compensate for this risk.

Catalysts

The next catalyst for brokers to consider is FY18 guidance on operating earnings (EBITDA), which should confirm continued growth in energy markets, primarily driven by the company's strong position in a rising gas price environment. Improving market sentiment for the stock throughout FY18 remains the thesis behind a Buy rating, UBS says.

Deutsche Bank increases APLNG production forecasts, believing the joint venture will seek to maximise the value of its upstream footprint. The broker now incorporates quarterly APLNG production of 61PJ over FY18-19, broadly in line with the June quarter and believes incremental volumes will be sold into the domestic gas market.

With spot LNG markets to come under continued pressure the broker believes the tight east coast domestic gas market provides a high-value monetisation route for incremental APLNG volumes.

Citi suggests higher wholesale prices should mean an increase in generation output from the company's assets and higher retail prices should mean margin expansion. In gas, the broker believes the company has the best upstream and procurement portfolio of the large retailers, with a flexible sales strategy to target the highest priced market, domestic or export.

Origin Energy should deliver growth in free cash flow to help de-gear the balance sheet while the worst of oil prices is likely now past for the current cycle, in the broker's opinion.

Citi revises up 2017 earnings by 4% and 2018 by 1% but believes the stock is fairly priced at current levels, assuming a US$55/bbl long-term oil price. The main risk is that, without an oil price recovery, any de-gearing may take longer and reduce valuation at the forward curve.

FNArena's database has three Buy ratings and four Hold. The consensus target is $7.52, suggesting 7.5% upside to the last share price. Targets range from $6.40 (Deutsche Bank) to $8.82 (Morgan Stanley).

Headwinds Continue For Navitas

Australia remains the key source of business for education provider Navitas but brokers expect weakness in the US and UK will stymie growth.

-Brokers divided over FY18 growth potential -Deakin College contract renewed -Stock considered a difficult investment in the near term

By Eva Brocklehurst

In FY17 education provider Navitas ((NVT)) again missed earnings forecasts on a number of fronts and provided no specific FY18 guidance. Operating earnings (EBITDA) will fall -$14m from the reduction in Adult Migrant Education Programs (AMEP) while there will be no income from those colleges which have been closed, Macquarie and Curtin Sydney.

On the positive side, enrolments in Australia and Canada were strong and offset declines in the US and UK. Australia remains the key source of business and an attractive destination for international students, although brokers expect weakness in the US in the UK will stymie growth.

The confirmation that the Deakin College contract has been renewed is considered a positive, as this is the largest contract in the university programs. Three more contracts are due for renewal this year and two more next year. University partnership enrolments rose by 8% in semester two, underpinned by 16% growth in Australasian colleges. Ex Australia, North American enrolments were flat and UK enrolments fell by -3%.

Outlook

The headwinds for FY18 from the lost university and AMEP contracts are larger than UBS was anticipating, although this is partially offset by higher implied underlying growth. UBS estimates underlying operating earnings growth of 12.5% in FY17. On this basis the broker suspects forecasts for earnings growth of 8% in FY19-21 could prove conservative.

Deutsche Bank makes changes to estimates to reflect the quantification of the impact from closing of colleges and the AMEP contract reductions and also continues to envisage underlying growth in the business, although does not believe it will be enough to offset the headwinds and forecasts a further decline in operating earnings in FY18.

Morgan Stanley observes the absence of guidance for FY18 is a departure from previous practice, although the company has reiterated FY20 financial targets. Consensus is looking for operating earnings growth in FY18 of 4.5% and growth in earnings per share of 5.4% but Morgan Stanley suspects this may prove optimistic.

Credit Suisse is also suggesting the earnings base is lower going forward than previously thought. The broker estimates the earnings base for FY18 sits around $130m, factoring in the impact of the loss of the AMEP contracts.

FY17 earnings per share were below FY11 and may take another step down in FY18. Credit Suisse questions whether a stock with a long track record of disappointing on earnings deserves a premium to the market, maintaining an Underperform rating.

Macquarie downgrades to Neutral from Outperform as, although industry conditions remain favourable and student enrolments are growing, the above-mentioned headwinds are specific to the company and affect FY18.

The broker also notes foreign exchange had a material adverse impact in FY17. Of the adverse revenue impact, $20m relates to the UK with the balance to the North American division. Separately, Macquarie increases depreciation forecasts for FY18 to reflect the elevated capital expenditure witnessed in prior years.

Of interest, the broker notes another contract with a UK partner will convert to a joint venture structure, although the timing is unclear. This would give rise to a non-cash gain or loss on conversion. There was a $17.3m non-cash gain on conversion of the Edith Cowan College to a joint venture.

Citi believes the normalisation of capital expenditure will drive cash flow generation from FY18 but a return to earnings growth is only likely from FY19. As well, the broker highlights the negative enrolment trends in the US.

Moelis, not one of the eight stockbrokers monitored daily on the FNArena database, expects another year of negative operating earnings growth in FY18, as the company will need to work hard to recoup the losses from the reduced AMEP contract. The stock is considered a difficult investment in the near term and the broker maintains a Hold rating and a $4.58 share price target.

There are five Hold ratings and one Sell (Credit Suisse) on the database. The consensus target is $4.48, suggesting 3.5% upside to the last share price. This compares with $4.83 ahead of the results. Targets range from $3.80 (Credit Suisse) to $4.95 (Morgan Stanley).

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Carsales Shows Who's Boss

Carsales has raised ad prices for higher-value cars; seen as moving to monetise market dominance.

-Carsales introduces tiered pricing on ads for cars by private sale -Impact on overall revenues seen as slight, but positive as shares trade higher -Shows potential for Carsales to flex market muscles

By Nicki Bourlioufas

Market welcomes more aggressive pricing

Online vehicle market place Carsales ((CAR)) on 17 July 2017 raised its rates on standard ads for cars advertised by private sellers in a move expected to help lift its bottom line.

Reflecting this optimism, Carsales' shares have traded higher in July to a high of $12.72 post the announcement from a recent low of $10.84 in May.

Under the new pricing model, ads for cars below $5000 remain free. Premium ads for cars of all values are also unchanged at $135, and Concierge ads are $300. But the previous $68 flat rate for standard ads has been split into four tiers, under which the ad price differs according to the value of the car.

For cars in the range $5000-$15,000, ads now cost $68 (unchanged). For the range $15,000-$20,000, ads are $75 (up +10%). For the range $20,000-$30,000, ads are $85 (up +25%). For cars priced above $30,000, ads are $95 (up +40%).

UBS reacted most cautiously to the announcement, estimating that private revenues will increase by about +9.5% in 2017-18. The stockbroker set its target price at $10.50 and its recommendation at Neutral.

Private sales (excluding Tyresales) comprise only about 10-15% of 2017-18 group revenues, according to UBS's update, and standard ads for cars represent a sub-set of private sales, comprising about 8-10% of group revenues.

UBS calculated the resulting increase in Net Profit After Tax would be about +1%. Carsales "is still inexpensive vs. online peers, but with a lower growth profile," the report states.

Credit Suisse calculated the weighted average ad price would increase by about +15%, which it forecast would add around $6m to revenue in a full year. CS also raised its target price to $12.60 from $12.00 to reflect higher forecast earnings. But it lowered its rating to Neutral from Outperform, saying the stock had already been substantially re-rated and is now trading broadly in line with the revised target price.

Stockbroker Morgans estimates the price increases would raise the average yield for private-sale ads from $68.00 to $77.75, an increase of +14.3%. It raised its price target to $12.88 from $11.14, but retained its Hold recommendation on the basis that the revised target implies a total shareholder return of less than 10%.

Most optimistic was Citi, which suggests: "The changes are likely to boost take-up of Premium ads in higher segments as the cost differential shrinks."

Even so, Citi estimates an increase in the weighted average for standard ads of just under 12%, and: "With no change to Premium ad pricing, this is likely to be closer to 10% across all ad types."

Citi set its target price at $13.75 and maintains a Buy recommendation.

Analysts look for more bold moves

Citi points out Carsales leads the Australian online car market. Its nearest competitor, Gumtree, dominates the market for very low-priced cars, but Carsales is the dominant site for vehicles with an asking price over $20,000.

"Across the two sites, CAR's market share of total cars advertised is 40% for cars under $15,000, 67% for cars between $15,000 and $30,000, and 82% for cars over $30,000," according to the report.

Citi sees the new pricing model “as a signal that carsales.com.au could be starting to leverage its strong market position to accelerate yield growth”.

The group is the most dominant of the three major Australian online classifieds sites, with a stronger market position than either seek.com in recruitment or realestate.com.au in property, it said.

“Despite this dominance, it has had the softest price growth historically. In our view, carsales.com.au should be able to leverage this position to boost yield growth further, particularly via add-on products, such as inspections, finance, Pay Protect.”

Credit Suisse suggests Carsales has historically been very cautious on raising private listing prices. Although it did raise private-sale ads to $68 from $65 in January 2017, this was the first rise since December 2013.

“We believe that CAR's strong market position and product offering means that it is well positioned to continue to improve monetisation and for higher yield to be a key driver of revenue growth going forward.”

Morgans believes the move reflects a new mood of confidence in the wake of the failure of its major competitor, Carsguide.com, to mount a serious challenge to the leader.

As a result, “the competitive landscape faced by Carsales.com appears far less threatening than we had anticipated” and “Carsales will not need to step up marketing spend as much as we had previously feared.”

You can’t see round corners

The brokers agree near-term prospects for Carsales.com depend largely on demand for used cars and the overall economic environment in Australia.

Morgans also identified unfavourable competitive behaviour or regulatory developments in key foreign markets such as Korea and Brazil, while Citi points to the general cyber threat to companies in online markets.

FNArena's database is currently evenly split between four buys and equivalent ratings and four neutral ratings. The consensus target is $12.71, suggesting 2.0% upside to the last share price. Targets range from $10.50 (UBS) to $13.75 (Citi), but not all brokers have updated post the price increases as yet.

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BWP Trust Battles Market Sentiment

BWP Trust, the vehicle which owns the Bunnings Warehouse sites, is facing a battle with market sentiment as it deals with upcoming vacancies at some sites. Are the risks factored in?

-Combination of re-leasing, re-development and disposals expected -Sustainability of pay-out ratio under scrutiny -Does the distribution yield compensate for the re-leasing, development risk?

By Eva Brocklehurst

BWP Trust ((BWP)), the vehicle which owns the Bunnings Warehouse ((WES)) sites, is facing a battle with market sentiment as it deals with upcoming vacancies at some sites. Are the risks factored in?

BWP Trust reported FY17 earnings per security (EPS) of 17.51c, up 4.3%. Distribution forecasts are unchanged for FY18. The result reinforces Citi's view that the company is facing operating as well as sentiment headwinds. The stock is priced at a premium to reflect income security but the broker believes investors will increasingly question this status.

The reasons are several and include the potential for vacancies to rise, tenant quality to weaken, shorter leasing terms and higher gearing. Management needs to reposition a number of properties, up to 5% of the portfolio in FY18, which Bunnings is likely to vacate. Citi expects a combination of re-leasing, redevelopment and disposals.

The impact of lost rent will probably build into the second half and rise again in FY19, based on the timing of lease expiries. The broker contends the ultimate impact on earnings per security and distributions probably depends on the mix of redevelopments, which are generally accretive, and disposals, which are typically dilutive.

Ord Minnett believes this is the start of a challenging period for the company. Management would not quantify the extent of the expected decline in underlying earnings over the next 12 months but the broker estimates it to be around -2%.

On the other hand, management calculates that re-positioning and/or development capital expenditure, along with incentives, could be in the order of $200m for the next two years. This is a lot of money to spend in a relatively short period of time, Ord Minnett suggests.

The broker reduces forecasts for EPS by around -1% to reflect lower rental growth and estimates $175m for expansion & re-leasing capital expenditure and incentives over the next four years.

UBS does not believe the 6% distribution yield compensates for the execution risk that now lies with the re-leasing and redeveloping of a material proportion of the portfolio. The lack of clarity surrounding capital expenditure over the next two years and the returns does not instill confidence either.

Hence, while the transaction market for Bunnings warehouses remain strong, so do other real estate asset classes, and UBS maintains a Sell rating on the stock. Given the leasing profile, the broker anticipates FY19 and FY20 will also be under pressure.

Core Portfolio

Management has introduced the concept of a core portfolio, which includes 68 properties, or around 85% of the portfolio. The remaining assets are designated as non-core based on current status, i.e. looming vacancy, rather than underlying attributes of location and size.

This suggests to Citi that the non-core assets need to be sold, or could resume a place in the core once leases are settled. Meanwhile, the current core outlook appears reasonable to the broker, with the company reporting organic growth of 2.1%. Regardless, the stock trades at a generous price/earnings ratio and given the elevated uncertainty a Sell rating is maintained.

Valuation Question

Morgan Stanley explains it thus: BWP has been traditionally held for its simplicity, being close to 100% leased with a long weighted average lease expiry (WALE) and in the past there has been limited capital expenditure, supported by a growing Wesfarmers-backed tenant. Now, changes to the business may cause investors to reassess the value proposition.

The WALE has declined to five years and downtime is due to materially increase from FY18. In tandem, capital expenditure is due to materially step up. As a result, this could raise questions on the sustainability of the pay-out ratio.

Yet, Moelis believes that despite some re-leasing and repositioning that needs to be completed in FY18 and FY19, the implied yields on "at-risk" assets arguably reflect this risk. Therefore, the broker is comfortable that there is minimal downside risk to the company's net tangible assets.

Moelis believes the outlook for FY18 may be flat and affected by sites going off-line, being vacant or disposed of, but in the context of the broader portfolio the impact is largely factored into valuations.

Despite a shift in home hardware in recent years, direct market transactions are frequently traded on yields in the 5% range, the broker observes, which is not necessarily reflected in the company's better quality assets. Moelis, not one of the eight stockbrokers monitored daily on the FNArena database, retains a Hold rating and $2.95 target.

There are three Sell ratings and one Hold (Ord Minnett) on the database. The consensus target is $2.77, signalling -3.8% downside to the last share price. Targets range from $2.60 (Morgan Stanley) to $3.10 (Ord Minnett).

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Material Matters: Coal, Oil And Copper Scrap

A glance through the latest expert views and predictions about commodities. Thermal coal; oil; copper scrap.

-Disruptions ahead for China's thermal coal markets? -Oil price not factoring in increased potential for sanctions -China to limit category 7 copper scrap imports from late 2018

By Eva Brocklehurst

Coal

Shifting government policy in China may herald further disruption to international thermal coal markets, ANZ researchers suggest. As a result, they believe the downside risks to prices is increasingly significant over the next few months. Constraints on key producing provinces signal production may struggle to pick up as the country enters its normal peak heating season.

Moreover, recent floods in southern China have forced the closure of a significant amount of hydro power capacity, placing more reliance on coal-fired power. These short-term supply issues continue to support strong import demand for thermal coal, but this could be unwound by the announcement that coal imports will be banned from small tier-2 ports in China.

The analysts suggests there are signs the recent tightness in the seaborne market, which pushed thermal coal prices up 20% over the past two months, may be coming to an end. Major ports can still import coal in China but have been warned they could face delays in getting cargoes cleared by authorities because of increased coal quality inspection times.

This suggests that importers will face higher costs to purchase coal from the international market and the arbitrage will need to widen to allow imports to grow in the second half of the year. The analysts suggest the latest policy changes significantly increase the risk of Asian prices weakening over the next 2-3 months.

On the other hand, Macquarie observes the port restrictions appear to be having little impact on the appetite for coal imports among Chinese buyers and, given China's domestic prices are above the government's targeted range, imports are expected to be allowed to continue unchecked until coal prices ease again when power demand passes its seasonally strong period.

Macquarie points out the slowing of thermal power generation growth in China since the New Year has been quite mild while coal production has continued to lift in response to higher prices and government encouragement.

Recent strength in the coal price has been led by demand rather than influenced by any major supply issues and the broker expects prices to fade naturally as peak demand fades into September. Thermal coal prices are expected to fall back into the government's targeted range by late in the September quarter and, as this occurs, the broker expects a renewed clamping down on coal imports.

Oil

July has turned out to be a month of sanctions, including pending and recent sanctions against Iran, North Korea, Russia and Venezuela, yet Citi finds no sign of a risk premium for disruption in oil prices. In the case of Venezuela, US sanctions under consideration could eventually prohibit Venezuelan exports to the US and payments for Venezuelan crude in US dollars.

Given the position President Trump has taken, Citi believes it worth considering the potential extent and consequences of deep sanctions against Venezuelan oil production.

Added to this, the broker continues to be wary about the durability of the former administration's deal with Iran. While this has survived two reviews so far, President Trump continues to be highly critical of the legislation. The potential introduction of additional sanctions on Iran also raises the risk that under increased pressure, Tehran walks from the deal.

At a minimum, new sanctions are expected to be imposed on individuals, following a traditional path, whether in respect of Venezuela, Iran or Russia. Moreover, the severing of diplomatic ties between Qatar and Saudi Arabia, UAE, Bahrain and Egypt clearly stepped up the disruptions risk, given the five countries produced around 18% of the world's crude during June.

On the other side of the coin, the main surprise to the 2017 crude oil market has been the return of Libya and Nigeria and none of the signatories to the OPEC/non-OPEC agreement to production reductions believed this return of output was on the cards.

Their return, along with growth in US shale and other light sweet crude, have affected not just supply but the quality balances as well, Citi observes. While the prospects exist for Libyan and Nigerian production to hold steady there is also a chance that total production will slip rather than rise.

Citi notes, after surprising calm earlier in the year, crude oil price volatility has increased significantly, and suggests investors should not interpret this as a sign of quiet trading over the northern summer and muted price moves ahead.

Instead, the broker believes this is an opportunity to add to long exposures with cheap options, especially as global oil inventories continue to tighten and geopolitics comes to the fore again. The implied volatility can re-price sharply higher as supply disruptions rise meaningfully or if the bearish market sentiment reverses quickly.

Copper

The copper price jumped 4% in response to the Chinese government's notice that category 7 copper scrap imports will be limited from late 2018. These materials include motors, machine parts and sheathed wiring that need disassembling. Companies that want to import category 7 must in future own environmentally-compliant disassembling yards. Imports of ready-for-use scrap and brass can continue.

Credit Suisse calculates that copper supply and demand should be largely unaffected by this development, so the price hike appears overdone. If 50% of category 7 imports were affected by the restriction this would represent 4% of China's copper supply.

However, the broker observes the change is likely to mean faster migration of Chinese disassembling yards to other Southeast Asian countries over the next 18 months. Chinese consultancy BGRIMM has pointed out that Chinese scrap merchants have been leaving China because of wage inflation and environmental pressure.

Migration of scrap disassembling yards offshore and increased domestic scrap generation are likely to see the percentage of imports affected shrink by 2019, when the policy is to be implemented.

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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 July 24 to Friday July 28, 2017 Total Upgrades: 11 Total Downgrades: 14 Net Ratings Breakdown: Buy 42.43%; Hold 41.36%; Sell 16.21%

More downgrades than upgrades and, underlying, the negative trend persists for corporate Australia. This sums up the situation in Australia where major share market indices cannot find strength in July.

For the week ending Friday, 28th July 2017, FNArena registered 14 downgrades in ratings for ASX-listed stocks against 11 upgrades. Total Buy ratings (and their equivalents) for the eight stockbrokers monitored daily remains well above total Neutral/Hold ratings; 42.43% versus 41.36%.

The latter indicates a tougher time for the Australian share market, which implies a continuation of market dynamics in place since May.

Both Fairfax Media and Newcrest Mining were receivers of two upgrades during the week. There doesn't appear a clear trend underscoring recorded changes in ratings, other than that bond proxies are back in focus with a positive undercurrent.

WiseTech Global stole the show in terms of increases to analysts' price targets with a gain of 15% in the week, followed by iSentia (+7.38%) and Carsales (+5.55%). On the flipside, Baby Bunting's consensus target sunk by -7.22%, while Independence Group's target suffered -5.5% and Speedcast International's -4.6%.

WiseTech Global also commands pole position in the table for positive revisions to earnings estimates (+57%), beating three small cap resources companies and GUD Holdings (+10%). Receiving negative revisions during the week included Western Areas (-107%), Myer (-24%), Independence Group (-21%), and Fletcher Building and Aurizon (-15%, both).

August reporting season is gradually opening up this week.

Upgrade

BENDIGO AND ADELAIDE BANK LIMITED ((BEN)) Upgrade to Neutral from Sell by Citi .B/H/S: 0/3/3

Citi analysts observe the share price has deflated some -16% since peaking in early 2017. This pulls the valuation back in-line with long term averages.

Citi has upgraded to Neutral from Sell. Target price remains unchanged at $11.75. The analysts note they lifted estimates by 1-2% last week. They're not adding to that this week.

Overall, Citi analysts see a positive outlook on revenue growth combining with ongoing cost discipline and stable asset quality trends. Combined these factors point to more stable near-term earnings, in their opinion.

See also BEN downgrade.

DEXUS PROPERTY GROUP ((DXS)) Upgrade to Neutral from Sell by Citi .B/H/S: 2/2/2

A thorough analysis of listed property owners in Australia has led to several non-consensus views at Citi. The analysts are of the opinion the Sydney cycle for offices has a longer life ahead than most are willing to consider.

A second stand-out conclusion is that funds management appears undervalued when it happens under the wings of a property owner compared with stand-alone listed peers.

Investors should note today's sector update does not incorporate a "back to normal" scenario for interest rates and bond yields. As a result of the sector analysis, Dexus has been elevated to Neutral from Sell. Price target jumps to $9.59 from $8.73.

FAIRFAX MEDIA LIMITED ((FXJ)) Upgrade to Buy from Hold by Deutsche Bank and Upgrade to Buy from Neutral by Citi .B/H/S: 4/1/0

On continuing growth in Australian online classifieds, and a corresponding reduction in the volatility of earnings, Deutsche Bank has reduced the discount it applies to its discounted cash flow valuations for relevant stocks.

The revaluation for REA Group flows to a revaluation for competitor Domain. While concerns remain as to why two private equity firms walked away from their Fairfax bids, Deutsche suspects the returns available were just not juicy enough for private equity. And a pick-up in Syd-Melb real estate listing should provide a tailwind into FY18.

Fairfax upgraded to Buy. Target rises to $1.15 from $1.05.

Citi analysts are taking the view that a hot property market has been a significant headwind for the past three years. Now the cycle is reversing, they expect this to become a tailwind from FY18 onwards.

On the back of anticipated improved operational momentum, with listings growth likely to pick up, Citi has upgraded News and Fairfax to Buy. Price target for Fairfax jumps to $1.10 from $1.06.

GOODMAN GROUP ((GMG)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/3/0

A thorough analysis of listed property owners in Australia has led to several non-consensus views at Citi. The analysts are of the opinion the Sydney cycle for offices has a longer life ahead than most are willing to consider.

A second stand-out conclusion is that funds management appears undervalued when it happens under the wings of a property owner compared with stand-alone listed peers.

Investors should note today's sector update does not incorporate a "back to normal" scenario for interest rates and bond yields. As a result of the sector analysis, Goodman Group has been elevated to Buy (from Neutral) and has also been added to Citi's Focus List Australia/NZ, joining Stockland ((SGP)) which already was on the broker's list of "conviction" Buys.

Price target for Goodman Group has jumped to $8.95 from $7.74.

G.U.D. HOLDINGS LIMITED ((GUD)) Upgrade to Neutral from Sell by Citi .B/H/S: 0/4/1

Citi analysts observe the share price has deflated by some -13% since peaking. The FY17 result has triggered mild reductions to forecasts. The analysts point out no less than 81% of FY17 EBIT comes from the Automotive division.

Rolling forward the modeling leads to a new price target of $11.47, up from $11.29. Citi analysts suggest the share price is likely to consolidate for a while. They have upgraded to Neutral from Sell.

INVESTA OFFICE FUND ((IOF)) Upgrade to Buy from Neutral by Citi .B/H/S: 2/0/2

A thorough analysis of listed property owners in Australia has led to several non-consensus views at Citi. The analysts are of the opinion the Sydney cycle for offices has a longer life ahead than most are willing to consider.

A second stand-out conclusion is that funds management appears undervalued when it happens under the wings of a property owner compared with stand-alone listed peers.

Investors should note today's sector update does not incorporate a "back to normal" scenario for interest rates and bond yields. As a result of the sector analysis, Investa Office Fund has been elevated to Buy (from Neutral). Price target jumps to $5 from $4.51.

ISENTIA GROUP LIMITED ((ISD)) Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 2/1/0

Deutsche Bank finds the investment qualities that were in evidence when the company listed in 2014 remain evident, although the last 18 months have witnessed the emergence of competitive and execution issues.

This has led to a material de-rating of the stock but it remains the leading media monitoring business in Australia and dominates market share.

The broker envisages near-term earnings momentum and news flow is supportive and upgrades to Buy from Hold. Target is raised to $2.55 from $2.10.

NEWCREST MINING LIMITED ((NCM)) Upgrade to Hold from Lighten by Ord Minnett and Upgrade to Hold from Sell by Deutsche Bank .B/H/S: 0/5/3

June quarter production was a solid result and Ord Minnett observes the share price has fallen -10% over the past month, leading to its recommendation being raised to Hold from Lighten. Target is raised to $20.50 from $19.00.

Regardless, the broker maintains a preference for bulk and base metal stocks versus precious metals exposure, as there are more attractive cash flow yields and valuations in the former.

June quarter production was ahead of Deutsche Bank's estimates because of a strong performance at Lihir. Cadia output was as expected.

Deutsche Bank notes the stock has de-rated because of recent operating issues and gold price sentiment but still generates solid free cash flow.

The broker considers the valuation undemanding relative to global peers and upgrades to Hold from Sell. Target is raised to $19 from $18.

NEWS CORPORATION ((NWS)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/1/0

Citi analysts are taking the view that a hot property market has been a significant headwind for the past three years. Now the cycle is reversing, they expect this to become a tailwind from FY18 onwards.

On the back of anticipated improved operational momentum, with listings growth likely to pick up, Citi has upgraded News and Fairfax to Buy. REA Group already is Buy rated. Price target for News jumps to $20.75 from $19.25.

Downgrade

ADMEDUS LTD ((AHZ)) Downgrade to Reduce from Hold by Morgans .B/H/S: 0/0/1

Ademus' June Q sales result was in line with Morgans but costs remain elevated. Key achievements in the quarter include FDA approval for CardioCel 3D and additional staff appointments, while the pending opening of the Royal Adelaide Hospital is important to maintain momentum, the broker suggests.

Morgans has nevertheless taken a more cautious stance on the return to profitability, thus lowering its valuation and target price to 23c from 36c. This results in a downgrade to Reduce from Hold and the broker believes there are better opportunities elsewhere.

BENDIGO AND ADELAIDE BANK LIMITED ((BEN)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 0/3/3

Although both regional banks have re-priced more than the majors and obtain a larger benefit, Bendigo & Adelaide has a modest capital shortfall with no material relief from advanced accreditation.

Post the APRA announcement the broker estimates the bank is around 50 basis points short of capital as a standardised bank and advanced accreditation is unlikely to provide a material relief.

As a result, Morgan Stanley downgrades to Underweight from Equal-weight. Target is reduced to $10 from $11. Industry view is In-Line.

See also BEN upgrade.

CARSALES.COM LIMITED ((CAR)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 4/4/0

The company has changed its private listing price structure and moved to tiered pricing based on the value of the car. Credit Suisse calculates a weighted average price increase of around 15%, which is estimated to add around $6m to revenue and operating earnings and a full year.

The broker notes the company has been very cautious, historically, in raising private listing prices and appears to be focused on driving yield across its various market segments.

Credit Suisse believes a strong market position means the company is well-positioned to continue to improve monetisation and for higher yield to be a driver of revenue growth going forward.

As the stock has sizeably re-rated over the last couple of months, the broker downgrades to Neutral from Outperform. Target is raised to $12.60 from $12.00.

CHALLENGER LIMITED ((CGF)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 2/3/1

Morgan Stanley cannot reconcile the bullish growth outlook and the valuation and downgrades to Underweight from Equal-weight.

The broker is cautious for a number of reasons including the fact the overweight portfolio in short-term annuities has left the company vulnerable on margins and growth.

The market also appears too bullish on the lifetime annuity opportunity. Moreover, risks to funding costs, asset yields, credit and capital intensity have been under priced.

Target is reduced to $11.50 from $12.00. Industry view: In-line.

Data#3 Limited ((DTL)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

The company expects net operating profit to be up 10% in FY17. While this is another strong result it is slightly below Morgans forecasts.

The broker has noted a solid performance with growth in services and cloud-based business. The strong share price performance means Morgans downgrades to Hold from Add. Target is reduced to $1.87 from $1.89.

INDEPENDENCE GROUP NL ((IGO)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 4/1/1

The company has reduced its resource estimate at Nova and, subsequently, downgrades to the reserve are now expected.

The completion of the Long Island study has also been delayed until the December quarter. Meanwhile production guidance for FY18 is also well below Macquarie's expectations.

Macquarie downgrades to Underperform from Neutral as the slower ramp up at Nova is likely to keep the finances tight over the next six months without drawing down on unused debt facilities.

The broker struggles to see a positive catalyst in the short term. Target is reduced -15% to $2.80.

METCASH LIMITED ((MTS)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 2/3/1

Ord Minnett finds a lack of valuation support as the company's cost-saving programs are already well incorporated into the share price and the food & grocery division is challenged.

The broker downgrades to Lighten from Hold but raises its target to $2.30 from $2.15 following a more upbeat view of the cost savings program and an increase to normalised forecasts for earnings per share of 4.1% in FY18.

PERPETUAL LIMITED ((PPT)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 0/4/2

June quarter funds under management revealed negative net flows. Ord Minnett lowers its rating to Lighten from Hold given the net outflows of around -$1bn and reduced leverage to markets because of the lower-growth corporate trust division and minimal performance fee opportunities in funds management.

The broker acknowledges its forecast for a fully franked dividend yield of around 5% provides some support to the share price, but with no sign of meaningful flows in the business for the near term earnings are largely in the hands of the market's direction. Target is reduced to $46.50 from $49.50.

RANGE INTERNATIONAL LIMITED ((RAN)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

June quarter updates were disappointing for Morgans. Cash receipts were up 35% on the prior quarter but the broker had hoped for a stronger uplift, given the introduction of the new product range at the end of April.

While current management is working to preserve cash, the broker believes the key is improving sales and this continues to be a work in progress.

With uncertainty around sales and the prospect of a capital raising increasing, the broker becomes more cautious and downgrades to Hold from Add. Target is reduced to $0.32 from $0.75.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/3/4

Citi analysts conclude FY17 has been a year of strong performance for Regis Resources. They expect the same from FY18.

However, it's the share price valuation they have an issue with, hence the downgrade to Neutral from Buy. Operationally, they continue to see the risk as being skewed towards positive surprises.

The stockbroker's Bull case valuation is $4.70, while the Bear case valuation is $3.10. Current target price sits at $3.90, up from $3.75 prior.

SPEEDCAST INTERNATIONAL LIMITED ((SDA)) Downgrade to Hold from Add by Morgans .B/H/S: 3/1/0

The company will acquire UltiSat, a provider of satellite services to the military, government and NGOs. Consideration payable over three years and assuming earn-outs is up to US$100m.

Morgans believes the acquisition makes sense as it is accretive to both earnings and valuation. Nevertheless, the broker applies a discount to valuation to reflect a view that management needs to deliver on prior acquisitions to de-gear and prove these have created equity value.

Rating is downgraded to Hold from Add. Target is reduced to $3.87 from $4.72.

SANTOS LIMITED ((STO)) Downgrade to Reduce from Hold by Morgans .B/H/S: 6/1/1

Management may be working hard to turn the business around but Morgans still believes the company is stuck in a difficult strategic, economic and political position.

Outside of rising oil price or asset sales, the broker expects the stock to continue to underperform higher-margin peers.

Given the amount of uncertainty surrounding GLNG's long-term operating outlook and the size of the earning/valuation sensitivity to the oil price, Morgans downgrades to Reduce from Hold. Target is lowered to $2.28 from $3.17.

SUPER RETAIL GROUP LIMITED ((SUL)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 6/0/1

The company will close its Amart brand and convert existing stores to Rebel. Credit Suisse observes the strategy pre-empts consolidation of a market that is moving to significant over-capacity and resulting in declining industry economics.

Hence, the broker forecasts sports division operating earnings margin of 8.4% in FY20, lower than the company's guidance of 11%.

Credit Suisse downgrades to Underperform from Neutral because of an increase in the share price and ongoing downside risk to industry profits. Target is reduced to $7.50 from $7.56.

WISETECH GLOBAL LIMITED ((WTC)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/3/0

Citi has downgraded to Neutral from Buy with the analysts explaining the move is purely inspired by recent share price appreciation. "We are still big supporters", maintain the analysts.

While the shares are now considered "fairly valued", Citi also points out on a relative basis we're talking a premium of 12% only vis-a-vis nearest peer Descartes. Price target lifts to $7.30 from $6.25.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 BENDIGO AND ADELAIDE BANK LIMITED Neutral Sell Citi 2 DEXUS PROPERTY GROUP Neutral Sell Citi 3 FAIRFAX MEDIA LIMITED Buy Neutral Citi 4 FAIRFAX MEDIA LIMITED Buy Neutral Deutsche Bank 5 G.U.D. HOLDINGS LIMITED Neutral Sell Citi 6 GOODMAN GROUP Buy Neutral Citi 7 INVESTA OFFICE FUND Buy Neutral Citi 8 ISENTIA GROUP LIMITED Buy Neutral Deutsche Bank 9 NEWCREST MINING LIMITED Neutral Sell Deutsche Bank 10 NEWCREST MINING LIMITED Neutral Sell Ord Minnett 11 NEWS CORPORATION Buy Neutral Citi Downgrade 12 ADMEDUS LTD Sell Neutral Morgans 13 BENDIGO AND ADELAIDE BANK LIMITED Sell Neutral Morgan Stanley 14 CARSALES.COM LIMITED Neutral Buy Credit Suisse 15 CHALLENGER LIMITED Sell Neutral Morgan Stanley 16 Data#3 Limited Neutral Buy Morgans 17 INDEPENDENCE GROUP NL Sell Neutral Macquarie 18 METCASH LIMITED Sell Neutral Ord Minnett 19 PERPETUAL LIMITED Sell Neutral Ord Minnett 20 RANGE INTERNATIONAL LIMITED Neutral Buy Morgans 21 REGIS RESOURCES LIMITED Neutral Buy Citi 22 SANTOS LIMITED Sell Neutral Morgans 23 SPEEDCAST INTERNATIONAL LIMITED Neutral Buy Morgans 24 SUPER RETAIL GROUP LIMITED Sell Neutral Credit Suisse 25 WISETECH GLOBAL LIMITED Neutral Buy Citi Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 FXJ FAIRFAX MEDIA LIMITED 80.0% 40.0% 40.0% 5 2 ISD ISENTIA GROUP LIMITED 67.0% 33.0% 34.0% 3 3 IOF INVESTA OFFICE FUND -13.0% -38.0% 25.0% 4 4 NWS NEWS CORPORATION 75.0% 50.0% 25.0% 4 5 GUD G.U.D. HOLDINGS LIMITED -20.0% -40.0% 20.0% 5 6 NCM NEWCREST MINING LIMITED -38.0% -56.0% 18.0% 8 7 SCP SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP -33.0% -50.0% 17.0% 6 8 GMG GOODMAN GROUP 36.0% 21.0% 15.0% 7 9 MTR MANTRA GROUP LIMITED 63.0% 50.0% 13.0% 8 10 APO APN OUTDOOR GROUP LIMITED 80.0% 75.0% 5.0% 5 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SDA SPEEDCAST INTERNATIONAL LIMITED 75.0% 100.0% -25.0% 4 2 PPT PERPETUAL LIMITED -36.0% -14.0% -22.0% 7 3 IGO INDEPENDENCE GROUP NL 50.0% 67.0% -17.0% 6 4 MQA MACQUARIE ATLAS ROADS GROUP 17.0% 33.0% -16.0% 6 5 CGF CHALLENGER LIMITED 7.0% 21.0% -14.0% 7 6 AZJ AURIZON HOLDINGS LIMITED -63.0% -50.0% -13.0% 8 7 RRL REGIS RESOURCES LIMITED -44.0% -31.0% -13.0% 8 8 SUL SUPER RETAIL GROUP LIMITED 56.0% 69.0% -13.0% 8 9 CAR CARSALES.COM LIMITED 50.0% 63.0% -13.0% 8 10 STO SANTOS LIMITED 63.0% 75.0% -12.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 WTC WISETECH GLOBAL LIMITED 6.475 5.617 15.28% 4 2 ISD ISENTIA GROUP LIMITED 2.183 2.033 7.38% 3 3 CAR CARSALES.COM LIMITED 12.713 12.045 5.55% 8 4 GUD G.U.D. HOLDINGS LIMITED 11.398 10.918 4.40% 5 5 IOF INVESTA OFFICE FUND 4.733 4.610 2.67% 4 6 FXJ FAIRFAX MEDIA LIMITED 1.170 1.142 2.45% 5 7 GMG GOODMAN GROUP 8.229 8.056 2.15% 7 8 CGF CHALLENGER LIMITED 12.276 12.026 2.08% 7 9 APO APN OUTDOOR GROUP LIMITED 6.024 5.905 2.02% 5 10 NWS NEWS CORPORATION 20.788 20.413 1.84% 4 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 BBN BABY BUNTING GROUP LIMITED 2.610 2.813 -7.22% 4 2 IGO INDEPENDENCE GROUP NL 3.545 3.752 -5.52% 6 3 SDA SPEEDCAST INTERNATIONAL LIMITED 4.375 4.588 -4.64% 4 4 STO SANTOS LIMITED 3.701 3.824 -3.22% 8 5 S32 SOUTH32 LIMITED 2.976 3.020 -1.46% 8 6 PPT PERPETUAL LIMITED 48.886 49.350 -0.94% 7 7 AZJ AURIZON HOLDINGS LIMITED 4.841 4.881 -0.82% 8 8 SUL SUPER RETAIL GROUP LIMITED 10.126 10.203 -0.75% 8 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 WTC WISETECH GLOBAL LIMITED 16.010 10.185 57.19% 4 2 ILU ILUKA RESOURCES LIMITED 19.306 15.440 25.04% 7 3 RSG RESOLUTE MINING LIMITED 27.200 23.000 18.26% 3 4 SXY SENEX ENERGY LIMITED -0.843 -1.005 16.12% 6 5 GUD G.U.D. HOLDINGS LIMITED 68.502 62.126 10.26% 5 6 SBM ST BARBARA LIMITED 35.360 33.313 6.14% 4 7 SDA SPEEDCAST INTERNATIONAL LIMITED 25.784 24.525 5.13% 4 8 RRL REGIS RESOURCES LIMITED 26.175 25.084 4.35% 8 9 STO SANTOS LIMITED 16.876 16.374 3.07% 8 10 OZL OZ MINERALS LIMITED 51.966 50.496 2.91% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 WSA WESTERN AREAS NL -0.031 0.424 -107.31% 7 2 MYR MYER HOLDINGS LIMITED 6.429 8.483 -24.21% 7 3 IGO INDEPENDENCE GROUP NL 6.182 7.868 -21.43% 6 4 FBU FLETCHER BUILDING LIMITED 42.841 50.605 -15.34% 6 5 AZJ AURIZON HOLDINGS LIMITED 18.598 21.961 -15.31% 8 6 MGX MOUNT GIBSON IRON LIMITED 1.500 1.700 -11.76% 3 7 EVN EVOLUTION MINING LIMITED 14.699 16.124 -8.84% 7 8 FMG FORTESCUE METALS GROUP LTD 90.190 98.604 -8.53% 8 9 OSH OIL SEARCH LIMITED 18.783 19.670 -4.51% 8 10 NCM NEWCREST MINING LIMITED 63.792 66.721 -4.39% 8 Technical limitations

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

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Uranium Week: Broken Clear?

Suddenly the spot uranium price has jumped 3%.

By Greg Peel

After two months of negligible weekly price movements and an inability to escape the gravitational pull of the US$20/lb level, spot uranium suddenly jumped 3% last week. It's not exactly time to break out the champagne nonetheless. The price rose US60c to US$20.60/lb.

And this was achieved with a mere four transactions totalling 600,000/lbs U3O8 equivalent, industry consultant TradeTech reports. Utilities are traders appeared on the buy-side and traders and producers on the sell-side.

Once again the market is anticipating a pick-up in end-user demand. As to when this pick-up might actually materialise is unclear. There were no trades reported in term markets last week and TradeTech's term price indicators are unchanged at US$24.45/lb (mid) and US$34.00/lb (long).

The small lift in spot price is not sufficient to save Australia's Paladin Energy ((PDN)), but the company did manage to secure a new credit facility from Deutsche Bank which allows Paladin to refinance its Nedbank revolving facility and provides operating funds for its cash-burning Langer Heinrich mine in Namibia.

Paladin is still waiting to learn if China National Nuclear Corp intends to exercise its option to acquire the remaining 75% of Langer Heinrich.

Nuclear In The USA

Over in the US, the Uranium Producers of America met with members of the Trump administration to discuss the importance of the uranium industry and to point out years of neglect and misuse. But while producers can canvass the US federal government, the nuclear power industry remains at the mercy of individual state governments.

Last week in the state of New York, a judge dismissed a lawsuit brought by rival energy groups to stop the governor providing billions of dollars in subsidies to support nuclear power in the state.

In Connecticut, the governor ordered state regulators to assess the economic viability of the Millstone nuclear plant to determine whether the state should provide financial support. In June the state's parliament failed to pass a bill that would have allowed the plant to bid into the states' procurement process.

Across the US, the fate of the country's nuclear power industry remains in the balance.

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 July 27, 2017

Last week the ASX200 ran back from the bottom of the range to the top of the range, again.

In last week's Report I highlighted a lot of red in the table, meaning short position increases, when typically an approaching reporting season sees short positions trimmed. Well, this Report shows that's exactly what did happen last week. There's a lot of green below.

Among the most shorted stocks in the market, we have a new leader. Nickel has knocked off batteries.

Western Areas' ((WSA)) June quarter production report met guidance and broker forecasts. Recent strength in the nickel price has seen the stock enjoy a rising share price. This has proven fodder for the shorters, who are likely backing a nickel price retreat. Western Areas shorts are now at a market-leading 19.9%, up from 17.5%.

There may be a few cold feet among shorters of JB Hi-Fi ((JBH)), given that company has a track record of beating expectations. JB shorts fell to 13.5% from 15.0%.

If there were cold feet evident among shorters of iSentia ((ISD)), that's unfortunate. Shorts fell to 10.4% last week from 11.8% and this week the company issued a profit warning and copped a -20% share price hiding.

There's been no new news from Greencross ((GXL)) of late, but its shorts fell to 5.1% from 7.1%.

Weekly short positions as a percentage of market cap:

10%+

WSA 19.9 ORE 18.7 SYR 17.0 MYR 16.4 IGO 14.2 JBH 13.5 RFG 12.1 MTS 12.1 AAD 12.0 DMP 11.5 MYX 11.3 ACX 11.2 HVN 11.1 ISD 10.4 SHV 10.3

Out: FLT

9.0-9.9%

FLT In: FLT Out: JHC, GTY, A2M

8.0-8.9%

GXY, A2M, JHC, AHG, CTD, GTY, BKL, HSO, QIN, NEC

In: A2M, JHC, GTY, QIN

7.0-7.9%

TPM, BEN, NXT, APO, RIO, RWC, AYS, NWS BAP, SAR, PRU, GXL, NWS

In: AYS Out: QIN, BAP, SAR, PRU, GXL

6.0-6.9%

BAP, SEK, MND, IPD, OSH, EHE, PRU, SAR, VOC, OFX

In: BAP, PRU, SAR Out: AYS, BAL, VRT, NSR

5.0-5.9%

VRT, NSR, AWC, PPT, AAC, CCP, CSR, BAL, GEM, IFL, BGA, GMA, GXL, TAH, KAR

In: GXL, VRT, NSR, BAL, CSR, GMA Out: CSV, DCN, AWE, RCG

Movers and Shakers

Nickel producer Western Areas carries no debt and produces at a low cost, providing some buffer against nickel price downside. Otherwise the stock runs up on nickel price upside, as has been the case recently. The miner's June quarter report showed production coming in at the high end of guidance and costs at the low end, as brokers had expected.

Yet no FNArena broker rates the stock a Buy, rather there are five Holds and two Sells on the database. The reason for this was best summed up by Deutsche Bank, who calculated that at current valuation, the market is pricing in a flat US$6.50/lb nickel price. Current spot is US$4.67/lb.

Western Areas is now the most shorted stock on the ASX, at 19.9%. Of the top five most shorted, four are nickel, lithium or graphite miners.

The last broker report seen on vet & pet care chain Greencross came in at the end of June. UBS cut its sales growth and margin forecasts for the company. The share price has declined ever since.

Shorters have decided to cash in, it would seem, not prepared to risk an upside earnings surprise. Hence a 2ppt drop in shorts to 5.1%.

ASX20 Short Positions (%)

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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The Wrap: Power, AUD, Cattle & Aged Care

Weekly Broker Wrap: Electricity; supermarkets; AUD exposed stocks; agriculture; aged care; and Audinate.

-Citi calculates cost increases of around 5% for some Oz companies from higher power prices -UBS considers irrational behaviour and price reductions unlikely for supermarkets -Professional services and education sector vulnerable to further AUD appreciation -Correction in cattle prices underway, positive for AAC, less so for RHL -UBS moves REG to top pick among aged care sector

By Eva Brocklehurst

Electricity

Citi reviews the impact on Australian companies from higher electricity prices. The broker expects commentary about strategies will be forthcoming over the next two years. AGL ((AGL)) is one beneficiary of higher electricity prices but the share price has already reflected the recent increase and Citi retains a Sell rating based on an $65/megawatt-hour long-term price.

Origin Energy ((ORG)) has a relatively smaller earnings benefit, given its more balanced portfolio. Packaging company Orora ((ORA)) is expected to sustain higher costs to the tune of around 5% of group operating earnings (EBIT) in FY18, although some of its cost savings in other areas should offset the pressure.

Chemical producer Orica ((ORI)) is similar, having recently settled east coast power contracts which Citi suspects may impact operating earnings by -5%, while business improvement savings will provide an offset. Meanwhile, in transport, Aurizon ((AZJ)) has pass-through clauses on electricity.

For consumer companies such as Inghams ((ING)) pre-tax profit could be reduced by -12% and Asaleo Care ((AHY)) by -7%. The broker suspects these two may hold contracts which will spread the impact over the next 2-3 years. The large store networks of Woolworths ((WOW)) and Wesfarmers ((WES)) will also suffer pressure on costs. The broker estimates the potential gross impact for each is -5% of pre-tax profits.

In mining the most significant impact is on aluminium smelting. Yet Citi notes Australian smelting operations are a small share of the relevant company earnings. Underground mines are more exposed to rising electricity costs and this could particularly affect those in NSW, while the least exposed area is Western Australia which relies more on gas and/or diesel.

Citi observes hard rock mines with large milling and/or refining operations such as Newcrest Mining's ((NCM)) Cadia, BHP Billiton's ((BHP)) Olympic Dam and OZ Minerals' ((OZL)) Prominent Hill are likely to be more exposed to higher power prices than bulk commodities where there is little upgrading done in Australia.

Supermarkets

UBS reiterates its view that irrational behaviour and consequent price reductions are unlikely in the Australian supermarket segment. The broker's latest survey highlights that cross-shopping rates are steadying and promotional fatigue is setting in, while loyalty programs are becoming more important.

The broker believes Woolworths is best positioned to benefit, as it offers the most medium-term upside among the listed grocers. Its food segment continues to grow share, while Aldi has re-accelerated and Coles ((WES)) has softened. Coles' fresh food still scored strongly and ahead of Woolworths.

Independents continue to lose share, driven by South Australia and Western Australia, while east coast trends are steadying. The broker believes this is a positive for Metcash ((MTS)). Aldi was the most positive in this survey, suggesting it has begun to regain traction on the east coast.

Strategy

Macquarie observes the recent strength of the Australian dollar is based mainly on US dollar weakness. The rally has been less impressive against the euro and other commodity currencies. At this stage, while the domestic economic outlook is not at risk, the broker believes the recent run of solid employment growth may not be sustainable if the currency remains around US$0.80 or pushes higher.

A recovery in employment is dependent upon traded sectors, such as professional services and education, which are vulnerable to further currency appreciation. Macquarie does not believe the Reserve Bank will intervene for now and easing policy is not an option unless domestic conditions deteriorate.

Meanwhile, the weaker Australian dollar has provided a tailwind for offshore industrial stocks but this is not the main game, rather exposure to faster growing markets, share gains and M&A opportunities are considered key factors.

Macquarie believes the sell-off in offshore-exposed stocks is overdone and Aristocrat Leisure ((ALL)), Brambles ((BXB)), Incitec Pivot ((IPL)), James Hardie ((JHX)) and QBE Insurance ((QBE)) are oversold on Australian dollar concerns. The broker notes Qantas ((QAN)) is a net beneficiary of the stronger currency and continues to look mispriced relative to the fundamentals

Agriculture

Bell Potter observes the first stage of a correction in cattle prices is under way. Margins appear to be returning to processors for the first time in around two years and this should benefit Australian Agricultural Co ((AAC)) via its Livingston processing facility. The second stage, the inverse correlation to grain prices, appears increasingly likely, as dry conditions mean volume returns to the domestic market as US production accelerates.

Bell Potter remains cautious on cattle prices. A decline in cattle prices without an offsetting gain in volume creates a headwind for livestock agents such as Elders ((ELD)) and Ruralco ((RHL)). A normalisation of the relationship between Australian and global cattle prices should be beneficial to the return of live export operators and be a partial offset to the headwinds in the agency business for Ruralco.

Aged Care

UBS reviews its outlook for the residential aged care sector after the latest Aged Care Funding Instrument data. A clearer regulatory framework is emerging and the broker envisages value in the sector, particularly for Regis Healthcare ((REG)), which is now the broker's top pick. The broker's analysis shows that the company is the clear leader in operating efficiency and portfolio quality, with higher occupancy versus its peers.

While remaining positive on long-run growth, the broker downgrades Japara Healthcare ((JHC)) ,as FY17 guidance looks challenging. The company's forward development pipeline is the largest relative to its current size and it maintains the more conservative balance sheet. Meanwhile, UBS believes Estia Health ((EHE)) has significant opportunity for organic growth if it can improve profitability and build out its forward pipeline.

Audinate Group

Audinate ((AD8)), an Australian based leader in professional digital audio networking, has grown its global original equipment manufacturer (OEM) base to over 360. This includes many of the world's leading AV equipment brands such as Bosch, Bose, Sony, Roland and Yamaha. The company stands to benefit significantly from the early-stage adoption of audio networking to replace legacy analogue conductivity in professional AV installations.

Shaw and Partners observes the company's growth strategy is multi-faceted, involving growing the adoption of its Dante product and increasing use of Dante within its existing customer base. The company also intends to drive other market participant's adoption of Dante and deliver new products and services to both OEMs and end users. Shaw and Partners initiates coverage with a Buy rating and $2.20 target. The company reports its maiden FY17 result in August 21.

iSentia Disappoints, But Value Remains

Media intelligence business iSentia has disappointed the market, downgrading FY17 guidance for the third time and writing down the value of its King Content division to zero.

-Likely to take time to rebuild investor confidence but the stock retains value appeal -Market should be looking at Australasian business to ascertain current revenue base -Potential for King Content to be divested if it continues to underperform?

By Eva Brocklehurst

Media intelligence business iSentia ((ISD)) has downgraded FY17 guidance for the third time. The additional revisions to guidance include a -$500,000 impact from bad debts in Asia, currency translation, and increased losses from King Content. Asian revenue grew 16% while Australasian business grew 1% over the year.

The company now expects revenue of $155m and operating earnings (EBITDA) of $41.5m. The loss for King Content has blown out to -$4.4m.

Macquarie believes it will take time for management to rebuild investor confidence but continues to find value looking ahead 12 months, and Deutsche Bank agrees attractive investment qualities that underpin the stock remain in evidence, notwithstanding the emergence of competitive and execution issues. The company is the leading media intelligence business in Australia and has a dominant market share with strong customer relationships and a high proportion of recurring revenue.

UBS was disappointed with the guidance but believes the company may be in a better position now than in the past 12 months because it has a stronger competitive offering and an ability to increase prices that is based on product improvement and not just to offset copyright cost increases.

The stock appears inexpensive on an FY18 price/earnings ratio of 12.3x and the broker recognises the appeal to value investors but, ahead of the actual result, maintains a Neutral rating.

With 70% of the shortfall to prior guidance related to King Content and currency Deutsche Bank believes the reaction in the share price is overdone. Net client additions in the fourth quarter are also a positive sign, considering a number of these are returning to the company from competitors.

The broker believes the update provides evidence of a further stabilising of the competitive landscape and, along with the cessation of losses in King Content, provides a tailwind into FY18.

FY18

Australasia does not appear to be a driver of the FY17 downgrade relevant to expectations, but the second half revenue decline was worse than Macquarie forecast. The broker expects FY18 to be divided into two halves, with the first half cycling a stronger top line and not realising the full benefit of price increases, while banking annualised cost savings. The second half should cycle a weaker top line and have a full six months of higher costs.

UBS notes, in the absence of the drivers which historically cause a seasonally stronger second half, it is reasonable to annualise the adjusted second half operating earnings for FY18. Revenue should normally be higher in the second half because of price increases and higher volumes coming through, but these were partly behind the downgrade and, hypothetically, this should reduce the seasonality between the first and second halves.

There were a number of cost reduction which could be permanent, although UBS suspects at least some were temporary, which helps explain the uplift to margins. The broker's current forecasts allow for growth of 5% for the core business, considered conservative, with the risk to the upside. The net impact of revisions reduces UBS forecasts for earnings per share by -8% in FY17, -9% in FY18 and -7% in FY19.

Shaw and Partners, while finding little comfort in the trading update, also requires more transparency and will look to the result to quantify the weaknesses. The broker, not one of the eight monitored daily on the FNArena database, has a Sell rating and $1.51 target.

Shaw and Partners believes the negative result from King Content is noise and the market should be looking at the Australasian business to ascertain the current annualised revenue base, and whether this has further downside. On current evidence, the broker finds little to suggest the company has turned a corner.

King Content

The losses in King Content, a content marketing agency, are a poor reflection on the company, Deutsche Bank acknowledges, but do not change the view regarding the value of the core group. The company has written down the value of King Content to zero, which will result in a -$37.8m impairment.

The King Content brand is being discontinued and will be integrated with the iSentia brand. The New York and Hong Kong offices have been closed. Macquarie envisages potential for the company to close or sell King Content if it continues to underperform and this would be a positive, as it would allow management to return its focus to the core business.

There are two Buy ratings and one Hold (UBS) on the database. The consensus target is $2.07, suggesting 17.4% upside to the last share price. Targets range from $1.80 (UBS) to $2.40 (Deutsche Bank).

Brokers Confident In Alacer Gold

Brokers believe investor patience will eventually be rewarded by Alacer Gold, which is intent on bringing its Copler sulphide project to first gold in the September quarter of 2018.

-Uncertainty in Turkey manifests in material discount to peers -Sulphide project could be the re-rating trigger which means much of the discount is closed -Production potential at Cakmaktepe not to be overlooked

By Eva Brocklehurst

Brokers believe investor patience will eventually be rewarded by Alacer Gold ((AQG)), which is intent on bringing its Copler sulphide project to first gold in the September quarter of 2018. Production risks at Copler oxide weighed heavily on the stock in the first half of 2017, although this has been mitigated by the start of scheduled production from the higher grade and critical West Pit. Currency is moving favourably for the company and US$18m has been locked into savings as a result.

Credit Suisse believes Alacer's long-life, low-cost Copler asset in Turkey should complement any gold portfolio. Yet, with a significant capital development underway, overlaid by political uncertainty in Turkey, this manifests in a material discount to peers.

A realisation of the Copler sulphide production and cash flow, could be the re-rating trigger that means much of the discount is closed. The broker calculates that currently, Alacer's advanced exploration comes for free, while global peers are struggling for projects to replace depleting reserves and declining production.

Moreover, the discount is seen exacerbated by perceptions about the country risk in Turkey. This is not being experienced on site, other than through extended permit time frames, and is more than compensated, in the broker's opinion, by the tax incentive scheme, which delivers a 5% cash tax rate. If the company can execute on the sulphide project, Credit Suisse believes the equity value will ultimately reflect this, or a corporate suitor will emerge.

UBS suspects investors are in no hurry to reprice the stock. There is around 12 months to first gold at the sulphide project and nameplate production is not expected until later in 2019. Concerns over the speed of the ramp-up and the final capital cost are likely to persist, the broker believes, as some of the company's peers have suffered from delays and over-runs and this has led to a cautious investment community in terms of the mid-cap mining sector.

In addition, investors have multiple choices domestically and other gold exposures currently offer greater leverage to gold price movements. Nevertheless, the broker asserts that the sulphide project's long life, around 20 years, and low-cost position should not be overlooked.

Cakmaktepe

Credit Suisse flags the production potential at Cakmaktepe Central, suggesting the possibility of an upgrade to 2018 production estimates and cash. This satellite prospect is 7km from the Copler plant but the company's equity in most of this area is 50%, lower than its 80% stake in Copler. The broker believes this could provide higher grade ore sources with a low strip ratio and short time to production, extending oxide mine life and providing cover during the commissioning and ramp up of the sulphide.

Gediktepe

Gediktepe is another diversified gold and base metal deposit. A pre-feasibility study has been completed and a 12-month engineering and permit process is underway, expected to be completed in June 2018. Credit Suisse pushes this project out to 2020 in its model, which remains contingent on a satisfactory definitive feasibility study in mid 2018.

Copler Still, the main value driver for brokers is the Copler sulphide project, where the capital budget has been reduced by -US$18m because of currency movements. The company is flagging a further US$50m in potential savings, if the Turkish lira remains at current levels.

The company is fully funded to deliver first gold from the sulphide plant in the second half of 2018 and construction is expected to ramp up in the September and December quarters. Milestones for the September quarter include completion of civil works and autoclave certification. Dry commissioning is expected to begin early next year.

The company has ended the quarter with US$202m in hand and US$130m drawn on its debt facility. Deutsche Bank assumes the company's debt peaks at US$310m but does not factor in the likely savings related to the hedging of the Turkish lira. UBS also notes the potential for further reduction in capital expenditure and continues to incorporate a peak in net debt of just under US$290m in 2018.

Copler produced 31,000 ounces in the June quarter, a flat outcome on the prior quarter. Weaker output led to a miss on revenue in the quarter and net profit was below some estimates. However, the company is guiding to a step-up in output in the second half and maintains 2017 guidance of 160-180,000 ounces.

All-in Sustaining Costs (AISC) of US$909/oz in the first half are substantially higher than the second half forecasts, as increased production reduces haulage distance and lower material movements have an impact. Credit Suisse estimates full year cost guidance of US$700-750/oz is possible, but needs a second half AISC of US$650/oz or below.

There are five Buy ratings on FNArena's database, including Ord Minnett, yet to update on the June quarter report. The consensus target is $3.88, signalling 80.0% upside to the last share price. Targets range from $2.80 (Macquarie) to $5.30 (Credit Suisse).

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Upside For Fortescue

By Michael Gable

We are now starting to see companies report, but it really starts to kick off next week. The Australian market continues to respect this triangular range but the range of movements is becoming more and more extreme. When we break out, expect a big move. Either reporting season goes much better than expected and we move higher, or, as is most likely, we break under support and the Australian market falls away.

The S&P 500 in the US is almost at a key level, and with momentum waning, technical traders are closely watching it for a turning point.

This week's report looks at some potential upside in Fortescue Metals ((FMG)).

FMG has formed an inverse head and shoulders on the daily chart. Yesterday it broke above the neckline. If we extrapolate out to an initial target, we get upside to about $6.40. In the next day or two we will get some resistance at $5.82, so for a better risk/reward payoff, some traders may wish to wait for a down day or two, placing a stop just under $5.50 while eyeing upside towards $6.40.

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Treasure Chest: Overvaluing Chinese Wine Demand

Goldman Sachs has downgraded Treasury Wine Estates to Sell, suggesting Chinese demand growth is abating.

-Asian wine demand booming -Market pricing in overly strong growth -Goldman sees price and margin pressure ahead

By Greg Peel

Back at the end of June, Citi, using data up to the end of April, suggested Treasury Wine Estates' ((TWE)) Asian earnings could surprise to the upside. Australian wine sales were sluggish, US consistent, UK surprisingly strong and China "incredibly" strong.

However, Citi noted that the lofty valuation the market was affording the stock actually required an upside surprise to be justifiable. To that end, Citi retained a Sell rating.

In mid-July, both Citi and Morgan Stanley noted the weakness of the 2014-15 vintages meant FY18 would see weaker earnings for the company. Citi also noted increased costs from launching a French brand and upgrading IT. Both brokers nevertheless agreed that much stronger 2016-17 vintages would mean a return to form in FY19.

Citi retained Sell, still unable to reconcile an FY18 forecast earnings multiple of 28x. Morgan Stanley, on the other hand, retained Overweight, noting Asian demand is booming, Treasury Wine is only in the first stages of building its Asian business, and the first Diageo vintages will be sold in FY18.

Goldman Sachs has just completed a "deep dive" into the Chinese wine market.

Treasury Wine's share price has tripled over three years, Goldman notes, coinciding with the company's rise from number nine exporter of wine to China to number one. The broker calculates that on current valuation, the market is pricing in 30% year on year growth in Asian wine demand for FY19-27.

But Goldman believes the confluence of factors that has driven growth to date is abating. China is experiencing changing market dynamics and changing patterns of consumption. The one-time benefit of the China-Australia free trade agreement will pass, vintage variations will limit luxury wine production in Australia, and as the company expands its reach into western China it will meet a less affluent demographic.

Goldman thus sees pressure on both prices and margins in the Chinese market, and has lowered FY18-19 Asian earnings forecasts.

The broker has also changed its valuation model. Previously, 85% of valuation was based on discounted cash flow and FY19 enterprise value to earnings ratio, with 15% attributed to a potential takeover. Now the broker has removed its takeover consideration and splits valuation 50/50 between DCF and EV/EBITDA.

The result is a drop in target price to $10.50 from $12.00. As Treasury Wine was trading over $13 last week, Goldman has downgraded to Sell.

Goldman Sachs is not an FNArena database broker. The seven database brokers covering Treasury Wine have a consensus target of $11.93 and a split of two Buys, three Holds and two Sells.

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