WEEK 5

STORIES TO READ FROM FNArena

Friday, 31 January 2020

Climate Is The New Deal For Investors

Golden Year Ahead For Northern Star

2020 Foresight: Australia

CONTENTS

INTERNATIONAL

AUSTRALIA

FEATURE STORIES

WEEKLY REPORTS

DAILY MARKET REPORTS

WEEKLY REPORTS

RUDI'S VIEWS

FNArena
Financial News, Data & Analysis

GPO Box 3145 - Sydney NSW 2001
info@fnarena.com

Your editor:
Rudi Filapek-Vandyck

Your dedicated team of journo's:
Greg Peel & Eva Brocklehurst

INTERNATIONAL

Climate Is The New Deal For Investors

The weather has always been a favourite topic of conversation but it has now assumed an extra, substantial, dimension for investors, Saxo Group asserts.

-Unsustainable economic activity has eroded potential and led to lack of productivity
-Climate disasters tend to act like volatility in the market, which generates even more volatility
-Current yield curve creating an attractive environment for fiscal stimulus to be oriented to green projects

By Eva Brocklehurst

The climate, wherever you are, is getting a lot of coverage lately. The weather has always been a favourite topic of conversation, or to start conversations, but it has now assumed an extra dimension.

Where does this put investors? It appears the cost of the present model used to judge economic prosperity is rising and this scenario requires re-thinking. Saxo Group, in its quarterly outlook, suspects the equilibrium point of economic growth versus the cost has now been passed.

It appears accounting systems and measures of economic growth do not cater properly for the cost of longer-term resource depletion and environmental harm.

Saxo Group's chief economist, Steen Jakobsen, also asserts a lack of price discovery over the past decade has led to unsustainable economic activity, which has not only eroded the long-term potential of economies but also led to a lack of productivity.

Rather than investing in new ways of doing business, existing assets have been sought from "mountains of cheap financing". There will be major political fall-out, Mr Jakobsen believes. This will arise first through the heightened cost of living, as food prices spike, then through increasing inequality.

For investors this comes at a bad time, as in 2019 asset prices rose as major central banks went from quantitative tightening and back to quantitative easing, and governments expanded fiscal deficits. Meanwhile, inflation is expected to continue falling, driven by demographic shifts and a lack of productivity.

Consensus economic forecasts appear to be relying on low inflation and low interest rates, no price discovery and a full acceptance of monopolies in technology with a lack of commitment to reduce inequality.

Mr Jakobsen suspects the lack of focus, lack of accountability and lack of respect for the climate is about to change the dynamics of how politicians are elected, how economic growth is measured and how society prioritises its activities. There are three factors that will change the status quo in 2020, he asserts. These include a change of US President, which would create a new impulse both politically and economically.

Secondly, credit failures, as the excessive value of the market becomes an issue and the loss of control over repo rates by the US Federal Reserve generates event risk for credit. In this the US shale sector is the most exposed. Finally escalating costs of food, water and clean air could signal the enormous under-investment in infrastructure, which increases the risk of a spike in volatility when the next disaster strikes.

Greener Portfolio

So, is it time for a greener portfolio? Saxo Group's head of equity strategy, Peter Gamry, believes so and suspects green stocks could, over time, become some of the world's most valuable companies, even eclipsing the current technology monopolies.

Investors are advised to consider tilting portfolios towards green stocks. The most obvious list of industries which will drive a less carbon-intensive future include solar, wind, fuel cells, electric vehicles, hydro, nuclear, bioplastic, recycling, water, building materials and food.

Some are mature and some are emerging which couples with high risk. Nevertheless, the positive catalysts are clear, such as government support, changing consumer choices, millennials demanding change and technological advancement which lowers costs.

Excepting nuclear and wind turbines, all of these industries trade at valuation premiums to the global equity markets. This reflects investor optimism about future cash flows but also higher risk if expectations are not met.

Mr Gamry considers, relative to the general equity market, hydro, nuclear, recycling and water are less risky industries, as the demand profile is more stable. Those that are more cyclical such as solar, wind, electric vehicles and building materials can be more negatively impacted during a recession.

Unlike the technologies, where returns on capital are "insanely high" and easily scalable, greener industry require vast amounts of capital to operate and, if interest rates rise again, this may have a negative effect on operating conditions and particular on equity valuations. Mr Gamry also suggests being overweight European and emerging market equities, assessing now is not the time to be underweight equities.

Saxo Group's global macro strategist, Kay Van-Petersen, believes climate disasters tend to act like volatility in the market which generates even more volatility. This is driving structural change.

The first, demand, means more and more consumers will want to use their capital to invest in companies which practice sustainability. Companies and entrepreneurs that are proactive in this regard are likely to move ahead.

The second is supply. Governments are coming to the understanding that the tipping point has passed, with the cost of doing nothing about sustainable growth being much greater than the cost of addressing it now.

In 2020, the foundations for a large European monetary and fiscal stimulus package is likely to be implemented. However, head of macro economic analysis, Christopher Dembik does not believe "green" quantitative easing from the European Central Bank, by itself, will de-carbonise the global economy.

Contrary to what happened over the past ten years, central banks cannot be the only operators in this fight and governments will need to step in. Thus, he points out, the current evolution of the yield curve is creating a very attractive fiscal environment to fund green projects.

Australia

Before the severe and tragic bushfires posed headwinds to consumer confidence and economic activity in Australia, Saxo Group expected the Reserve Bank would cut the cash rate in February and once again later in 2020.

The disaster has reinforced expectations for a 25 basis points cut to the cash rate in February, particularly whilst the government leaves the heavy lifting to the central bank. This will mean both the Australian dollar and Australian bond yields are shackled by the domestic outlook.

Australian policy is actually delivering a worsening outcome as coal-fired power generation gets the green light with little regard for the phase-out obligations of the Paris Agreement. However, climate indifference appears to have peaked. Hence, market strategist Eleanor Creagh points out, if the 2020s are to be cleaner and greener, then investors and policymakers must allocate to sustainable business models or face large losses.

Commodities

Global supply chains are being left vulnerable to sudden climate-related drops in yields after several years of ample supply and stable or lower prices. Entering 2020, this has resulted in negative returns from most exchange-traded funds that have broad-based exposure to key agricultural commodities.

Hence, head of commodity strategy, Ole Hansen, envisages the gold price building on 2019 gains, as the technical and fundamental outlook improves. The metal is expected to consolidate above US$1500/oz in the first quarter of 2020 before moving higher to peak at around US$1625/oz.

Brent crude is expected to remain stuck in the US$60/bbl range through the first half of 2020 before moving higher. The price is envisaged at US$75/bbl by the end of the year as inflation picks up in the US dollar weakens. Any short-term weakness, perhaps inspired by speculators, is expected to be limited.

US Dollar

The prospect of the slowing US economy, budget deficits and a US election could weigh on the prospects of the US dollar. The US dollar appears to have defied expectations over 2019, considering the US Fed has outpaced the easing being undertaken by central banks elsewhere.

Saxo Group's head of FX strategy, John Hardy, believes this speaks to the residual strength in the US economy relative to global peers. While many of the US dollar drivers appear well entrenched in 2020, Mr Hardy still envisages a low ceiling to what has effectively been a flat US dollar over the last 18 months.

Another potential headwind emanates from the Fed actions to shore up liquidity in late 2019. "The provision of Fed liquidity and the risk that this eventually results in inflation and more highly negative US real rates look enough to finally turned the US dollar lower," Mr Hardy adds.

Since November 2018, FNArena's website has been running a dedicated ESG Focus news section, zooming in on matters Environmental, Social & Governance (ESG). For more news updates, past and future:
https://www.fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

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

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

AUSTRALIA

Difficult Coal Markets Prevail For Coronado

Some constraints on coal sales to China which weighed on Coronado Global in the December quarter appear to have been alleviated with the initial US/China trade deal.

-Expanding export supply of metallurgical coal dampens prices
-End markets, besides China, remain weak
-Can the company sustain its dividend in the current environment?

By Eva Brocklehurst

As metallurgical (coking) coal prices start to improve so will the appeal of Coronado Global Resources ((CRN)), brokers believe. Several issues resulted in a disappointing production outcome in the December quarter, while the outlook for 2020 remains clouded by difficult export markets.

Uncertainty surrounding restrictions on Australian exports to China have weighed on demand, UBS points out, and expanding export supply in the metallurgical coal market has dampened prices.

Moreover, outside of China, many steel producers have been affected by a slowdown in demand for steel. UBS still envisages upside in 2020 amid the signing of the initial US/China trade deal, which should alleviate selling constraints on the company's US operations.

Chinese restrictions on Australian exports are also expected to be relaxed. Chinese steel demand is robust, with the government announcing a stimulus package focused on infrastructure. India has also initiated strategies to increase construction activity.

Production was lower in the quarter because of a maintenance over-run at Curragh (Queensland) and extended shutdowns in the US. This required the company to manage inventory and resulted from weak demand. Metallurgical coal made up 76% of the sales mix.

Unaudited 2019 revenue was US$2.22m and mining costs in 2019 were in line with guidance. Saleable production was 4.6mt, down -6%. Higher than anticipated capital expenditure was mostly the result of development costs associated with the Stanwell reserve area. Operations at Curragh resumed on January 17 following a fatality.

High inventory and lower exports to China from the US resulted in a decline in sales from Buchanan, while lower demand in the Atlantic sphere affected the Logan mine. While exports from Buchanan will be able to resume following the initial US/China trade negotiations other end markets appear flat or soft to Morgans, and this points to a higher proportion of lower-margin US domestic sales in 2020.

Credit Suisse suspects the commentary around export tonnage from Buchanan may be optimistic. The broker also notes the outlook for China is reasonable while other end markets are almost universally weak, so the risk to volumes and prices continues.

Moreover, Wilsons suspects more coal shipments will be directed to domestic consumption (US) from Buchanan. Production was affected as the mine was suspended in November and inventory was run down. This was a result of China stopping its purchases of the specific Buchanan product in response to the trade war. Since then, two shipments have been delivered to China.

Growth Prospects

While a weak coal price theme is no surprise, Bell Potter believes the company's assets can withstand this situation as it is favourably positioned on the global metallurgical cost curve.

There are also **organic growth prospects and capacity on the balance sheet for opportunistic acquisitions**. Morgans agrees a strong balance sheet means the company can consolidate should opportunities arrive, albeit sector stress elsewhere may weigh on the equity.

The company has been open about its strategy to acquire operating assets in preference to exploration & development. Morgans suggests this particularly applies to over-geared US assets where curtailments have already begun.

While acknowledging the approach and noting the acquisition of Curragh advanced the business considerably, the inference around anticipated cyclical weakness is considered a deterrent for marginal equity investors. Thus Morgans considers value is leveraged to catalysts such as improving coal prices and an increased free float.

Dividend

Bell Potter's forecasts assume coal prices prices rise above current levels but remain lower than recent multi-year highs. The broker notes any final dividend at the upcoming results will rely on drawing down debt and should provide an indication of the company's preference with regards to leverage levels on its balance sheet for the medium term.

Wilsons suggests the suspension of mining at Buchanan and the longer-that-expected maintenance period at Curragh will weigh on the pay-out ratio, and is starting to query the company's ability to sustain its dividend in the current environment. The broker, which has placed the stock on review, also believes a free float below 15% is an issue for institutional investors.

Credit Suisse expects the results, on February 25, will provide a number of markers for the 2020 outlook including guidance and, notably, the dividend. The catalysts, the broker agrees, are whether softer markets provide a greater opportunity for Coronado Global be an active consolidator and whether the liquidity issue will be addressed.

Credit Suisse assesses the multiples are undemanding and remains relatively confident a valuation gap can be bridged in time. Nevertheless, a lack of near-term catalysts is likely to keep investors on the sidelines for now.

Morgans believes the stock is cheap but emphasises the 2020 earnings risk linked to export splits and achieving pricing levels for US production. The broker considers the stock a leveraged play on metallurgical coal pricing, which continues to look tricky.

Bell Potter, not one of the stockbrokers monitored daily on the FNArena database, has a Buy rating and $3.50 target. The database has two Buy ratings and one Hold (UBS). The consensus target is $2.78, suggesting 35.1% upside to the last share price. Targets range from $2.05 (UBS) to $3.50 (Credit Suisse).

AUSTRALIA

Credit Corp Outlook Could Prove Conservative

Brokers suggest Credit Corp's full year guidance is achievable and growth estimates may even be conservative, given successful expansion in the US and acquisition of Baycorp.

-Earnings growth constrained in first half as the US business adds staff
-Potential upside from industry consolidation
-FY20 guidance could prove conservative

By Eva Brocklehurst

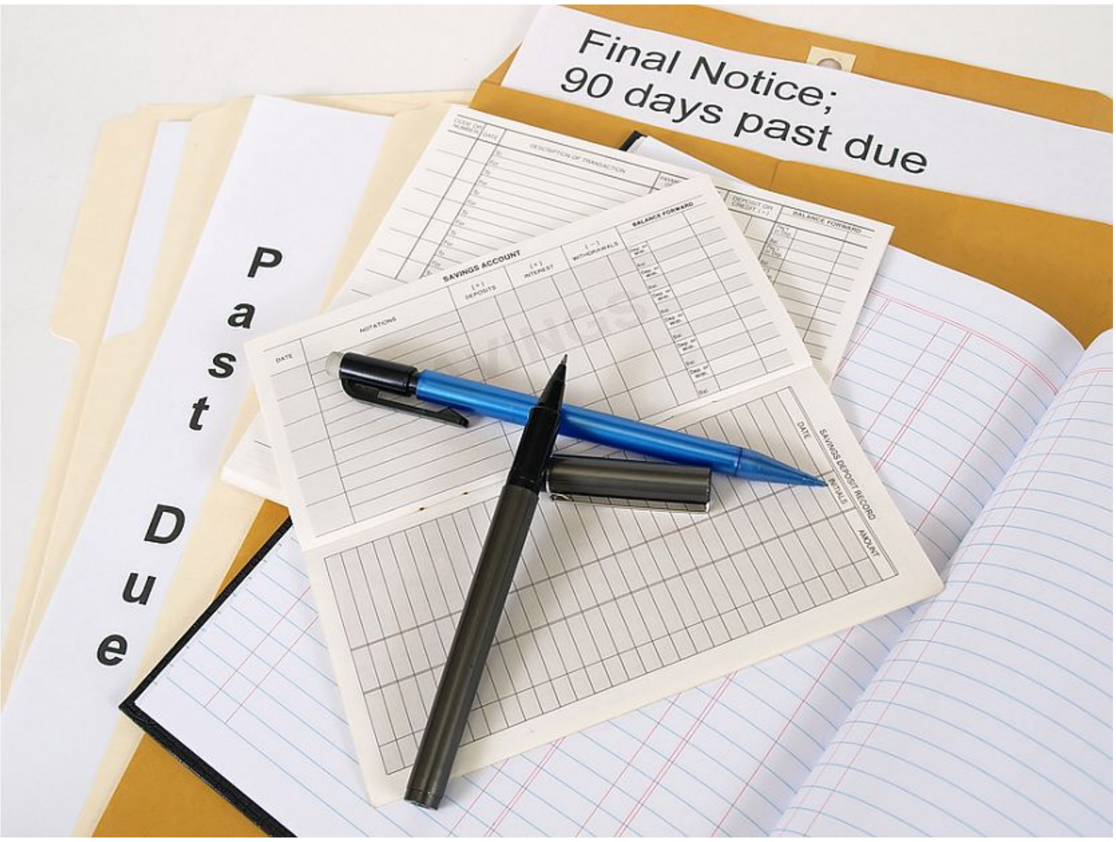
Credit Corp ((CCP)) expects gains in market share in Australian PDLs (purchased debt ledgers) will continue while the industry consolidates and operating issues are heightened for competitors.

The company produced a clean first half result, brokers assess, despite the impact of the acquisition of Australasian debt collector Baycorp, and has reaffirmed all guidance metrics. Net profit of $38.6m indicates full year guidance of $81-83m is very achievable.

Ord Minnett suspects growth estimates are conservative, given PDL acquisition guidance is $310-320m and earnings growth in the first half was clearly constrained as the US business added staff. Earnings per share were flat because of the dilution from a $140m capital raising, although the acquisition of Baycorp in August 2019 means these funds are being put to work, the broker points out.

Domestic cash collections were up 10% with modest productivity improvements. US collections were up nearly 60%, while staff numbers are set to grow a further 65% of the next 18 months as Credit Corp attempts to build market share.

The first half result was consistent with Macquarie's expectations, based on growth in US debt purchases through market share gains and improvement in asset turnover. The Australasian debt buying business is also stable and the broker envisages potential upside from industry consolidation.



Opportunities

Canaccord Genuity highlights the fact that patience at the top of the domestic debt purchasing cycle has presented management with opportunities for share gains and enhanced returns. Moreover, the offshore strategy has been executed successfully.

Despite flat conditions in the Australasian PDL market, FY20 guidance implies 15-18% growth in net profit and Baillieu considers this safe, given there will be a full period of inclusion of Baycorp and a strong profit trajectory in the US.

FY20 is expected to be a year when consumer lending business approaches hurdle returns and management appears to have been resourceful in deploying capital at a time when traditional business has become less attractive.

Nevertheless, Canaccord Genuity suspects that **sentiment has pushed the earnings metrics into a market premium that is a little detached from cash flow forecasts**. On the other hand, this is countered by a high degree of earnings certainty, flexibility on the balance sheet and potential for double-digit growth next year.

Canaccord Genuity, not one of the seven stockbrokers monitored daily on the FNArena database, has a Buy rating and $35.00 target. Valuation is Baillieu's only perceived barrier to a stronger view and any material weakness is considered a buying opportunity. The broker, also not one of the seven, retains a Hold rating with a $34.25 target.

Morgans remains positive about the stock too, believing there is a strong visible organic growth path. There is also further upside potential from capital deployment over the next 12 months. The broker retains a Hold rating on valuation, looking for additional upside, and assesses the company's track record of delivering on targeted returns is intact, while there is upside risk from further acquisitions and higher capital deployment.

The lending division continues to report solid growth with book growth of 13%. **The company's automotive lending product remains in the pilot phase with the loss rate performance still being monitored and not performing as well as required at this stage**.

The main areas which interest Morgans are the $298m of PDLs secured to date while the US cost to collect has increased to 43% because of the rapid increase in personnel. This is expected to reduce to 38% in the longer term.

Major Flow Returning

FY21 PDL purchasing should also benefit from the return of a major bank flow in the second half. The company has estimated this to be around $50m in total invested value and Morgans expects Credit Corp could potentially secure $30-40m. In this instance, FY20 guidance could prove conservative.

Canaccord Genuity observes the Baycorp acquisition has moved the composition of the profit & loss around, and lease accounting means some operating expenditure is now included in the depreciation and interest cost lines. Baycorp is on track to deliver $6m in net profit in FY20.

Ord Minnett expects the company will strategically deploy its financial headroom over the coming years into strong returning assets although, given the re-rating on the stock, much of the upside has been priced in. The broker remains confident in management's ability to execute on its strategy.

The database has one Buy (Macquarie) and two Hold ratings. The consensus target is $33.70, signalling -0.7% downside to the last share price.

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

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

AUSTRALIA

Gold Outlook Spurs Interest In Saracen

Saracen Mineral Holdings offers gold exposure and strong production growth and, amid heightened investor interest, UBS has initiated coverage on the stock.

-Concerns have eased as the Super Pit is being jointly operated
-Super Pit resource and reserve update expected mid 2020
-Track record of beating guidance, positive revisions considered likely in the September quarter

By Eva Brocklehurst

Investors have become more interested in Saracen Mineral Holdings ((SAR)) since it bought a 50% stake in what is described as the Kalgoorlie Super Pit. Saracen offers gold exposure and strong production growth and the acquisition has lifted its profile.

The company acquired the stake in the Super Pit for $1.1bn last November and at the time, UBS notes, there was much debate about whether Saracen could effect change at the asset, as it was the junior and non-operating partner.

However, concerns have now eased as the Supe Pit is being jointly operated, with Northern Star Resources ((NST)) obtaining the other 50% of the business. A strategic review and optimisation plan covering operations, exploration and growth are being undertaken.

Baillieu believes the new management structure, with Saracen overseeing the open pit and Northern Star the underground, will unlock value because of a more collegiate arrangement. Unlike the prior owners, both companies want to pursue growth and this joint venture can provide a meaningful contribution to the bottom line. Macquarie agrees the acquisition has cemented Saracen medium-term production outlook.

The Super Pit is a long life (15 years) asset with exploration potential, particularly underground, and UBS suggests production and economic outcomes should improve over the next three years. The broker initiates with a Buy rating and $4.40 target and boils down its preference for Saracen to a more attractive valuation compared with the modestly superior growth potential at Northern Star.

Production Outlook

Areas including Fimiston South and Fimiston Deeps have been flagged as opportunities which could enhance the outlook in the longer term. A Super Pit resource and reserve update is expected mid 2020.

The company now expects 500,000 ounces of gold will be produced in FY20 and 600,000 ounces in FY21 from its projects. As the Carosue Dam operation is expanded and the Super Pit accesses higher grades after the rehabilitation of the pit wall, this will increase to 800,000 ounces per annum by FY24.

Ord Minnett points out Saracen has more than 15m ounces in its inventory and a growing production profile, all in its own "backyard". Group production was 120,100 ounces at an all in sustainable cost (AISC) of $1089/oz in the December quarter.

While it remains possible to reduce costs to around $1000/oz, UBS does not factor this in because of ongoing cost inflation in the mining industry. Still, the broker expects the joint venture will add value through more aggressive exploration at the Super Pit and enable a greater contribution to mine life.

Carosue Dam produced 52,900 ounces at an AISC of $1321/oz in the December quarter. UBS assesses the mill expansion at Carosue Dam will drive production growth to 240,000 ounces per annum and there is potential to add life beyond the current reserves.

Meanwhile, Thunderbox produced 46,600 ounces at AISC of $754/oz. Canaccord Genuity believes a combination of positive mill reconciliation and preferential treatment of high-grade underpinned Thunderbox. A stockpile is building and this will be important as C-zone open pit mining is completed in the June quarter.

Baillieu considers the transition to the Thunderbox underground, augmented by some open pit ore, is on the cards in 2021. Moreover, given the track record of beating guidance some positive revisions are considered likely in the September quarter.

Saracen has become Citi's preferred gold exposure on the ASX and there are four Buy ratings on the FNArena database. The consensus target is $4.23, suggesting 7.0% upside to the last share price.

Canaccord Genuity, not one of the seven brokers monitored daily on the database, has a Buy rating and $4.30 target. Baillieu, also not one of the seven, has a Hold rating and $4.03 target, noting the stock is almost at a 50% premium to valuation that reflects the rally in the gold price and a conservative valuation for the Kalgoorlie joint venture.

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

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

AUSTRALIA

Brokers Are Mixed On Netwealth’s Prospects

Pressure on revenue margins could cap Netwealth’s profitability despite strong flows.

-Funds under management up 12.6% for the quarter and 50% on the year-
-First half net inflows up 125% from a year earlier
-Brokers see falling revenue margins with downward pricing pressures

By Nicki Bourlioufas

The outlook is mixed for Netwealth ((NWL)), with strong flows boosting the company’s investment platform business despite very competitive pricing pressures and low interest rates putting downward pressure on revenue margins, according to brokers.

Some stockbrokers say falling margins will cap profitability, while others expect the strong flows to continue to the independent Netwealth as the vertically integrated companies exit the wealth management business, benefitting the more nimble and independent players.

Netwealth recently announced strong growth in funds under administration (FUA) to $28.5bn in the second quarter of financial year 2020, up 12.6% for the quarter and a jump of 50.2% on the previous calendar period. Netwealth reported net inflows of $2.9bn during the quarter. For the first half, FUA net inflows totalled $4.4bn. Highlighting strong growth since its IPO in 2017, that represented an increase of $2.4bn or 125% compared to the first half of FY19.

Funds under management (FUM) jumped too, climbing to $5.7bn, up $1.3bn or +9.4% over the previous quarter. Managed Account assets were $4.4bn at the end of the second quarter, an increase of $1.3bn or 40.6% since the end of the first quarter. The company recorded Managed Account net inflows of $1.2bn during the quarter.

Given stronger than expected flows and rising share markets, **Netwealth increased its FUA outlook for FY20 to $32bn, up from $30bn previously**. The shares initially rallied on the result, buoyed by the strong flows, closing at $8.20 before settling to around $8. Bell Potter has a price target of $10.50.

Citi is one of the most upbeat brokers on Netwealth. The platform provider is attracting **the highest flows in the industry**, which it sees as a reflection of the strength of its platform offering from a technology, functionality and service perspective. Citi sees further upside to Netwealth's earnings and forecasts $34bn for FY20. **"We see guidance as conservative and see upside risk to near term earnings from better than expected flows and forecast 3-year EPS growth of 24%."** Citi has upgraded it FY20-22 profit estimates by 3%-4% to reflect stronger than expected flows, and set a new target price of $9.65.

Bell Potter is also very upbeat, suggesting Netwealth is benefiting from the unwinding of the large vertically integrated companies, leading to **"the exit of advisers in the hundreds per month from the formerly large fully-integrated organisations**." The Royal Commission into misconduct in the financial service industry has helped to accelerate this shift from old incumbent products and platforms to the more modern and independent Netwealth, enabling it to achieve faster growth.

While Bell Potter acknowledges that price competition will cap Netwealth's profitability, nevertheless, "we see this as a major competitive advantage to NWL as they have a relatively small adjustment to make to its back-book versus the likes of AMP/IFL/BT Panorama/Macquarie/Colonial/MLC, and **its newer more efficient technology can better capture the benefits of scale**."

However, other brokers aren't so optimistic given declining margins. Macquarie Wealth Management says its "**expectations are that the upgraded FUA does not materially change profitability**." While Netwealth's opportunities to increase market share remain robust, recent pricing arrangements mean long-run revenue margins will fall to 30 basis points or below and cash account fees look unsustainable. That will likely see Netwealth's share price fall, with Macquarie the most downbeat with a $6.00 target price. **"We struggle with valuation on NWL given the implied value in optimistic outer year and terminal earnings."**

Morgans says Netwealth is an attractive business, benefiting from strong leadership and high cash generation. However, short-term pressures exist around pricing and the potential for a lower RBA cash rate. The broker is maintaining a Hold recommendation with the stock trading near its valuation of $8.05. Furthermore, it is forecasting around a -30% fall in revenue margin to 33bps in FY22 from 48bps in FY19, driven by downward fee pressure, a lower cash allocation and lower front book pricing due to competition and a shift in back book to front book pricing.

UBS has the stock as a Sell with a $7.65 price target. Netwealth has cautioned that the stronger FUA outlook won't result in a significant change to its profitability given the pricing pressures - new client wins are being priced below the retail rate card combined with back book transitions to new pricing and accelerated cost reinvestment. **As a result, despite upgrading net flow outlook to $9bn in FY20 and $8bn in FY21, the broker's earnings forecast is relatively unchanged.**

Jarden too expects Netwealth to underperform, forecasting around a -30% fall in the revenue margin to 33bps in FY22 and a price target of $7.40. It is predicting a fall in revenue margins with pressure on fee revenue due to greater competition and lower cash allocations. The cash allocation fell to 7.0% (spot) in the first half from 8.2% (average) in the second half last year, **"which implies a -1.7bps drop in the revenue margin (full period impact)."**

Even Citi is forecasting a decline in margins of 13bps to 36bps in FY22 due to competition from incumbents and new platform players representing a risk, though stronger flows till prop up Netwealth's earnings.

According to FNArena's database, the consensus target price is $7.82, suggesting -5.7% downside to the last share price of $8.29. Targets range from $6.00 (Macquarie) to $9.65 (Citi).

AUSTRALIA

Golden Year Ahead For Northern Star

2020 is shaping up as a pivotal year for Northern Star Resources and, if successful, could make the miner the second-largest gold producer on the ASX.

-Pogo and Kalgoorlie Super Pit could push gold production above 1mozpa
-A continuation of elevated gold prices and a surmounting of geotechnical challenges required
-Additional growth potential in Echo Resources acquisition

By Eva Brocklehurst

Northern Star Resources ((NST)) gained ground on several fronts in the December quarter, setting up a number of potential catalysts in 2020 including added production from the Kalgoorlie Super Pit, expansion at Jundee and improved development rates at Pogo.

Citi was pleased with the size of the turnaround at Pogo and believes both Pogo and the Kalgoorlie Super Pit will be transformational and take production through more than 1m ounces per annum, which would make Northern Star the second largest gold producer on the ASX.

The highlight of the quarter was the acquisition in December of Newmont's 50% joint venture interest in KCGM, joining Saracen Mineral Holdings ((SAR)) as the Australian owners of the so-named Kalgoorlie Super Pit.

Credit Suisse points out Northern Star brings high-grade narrow-vein mining expertise to the JV while Saracen brings modest scale and simple open pit expertise. Moreover, **with new management taking over a very mature operation it might mean there is a change in culture that can deliver a lower cost base and support future life extension**.

Ultimately, the broker assesses the acquisition is underpinned by a positive view on the gold price. The continuation of elevated gold prices and a recovery from the geotechnical challenges in restoring access to the Super Pit are required to extract a return on the purchase price.

Macquarie agrees the next catalysts will be from Pogo and the Super Pit. At Pogo it will be the continued ramp up of production and completion of the mill expansion in FY21. At the Super Pit it will be the outcome of a strategic review that will assess the optimisation of the pit wall remediation and future underground potential.

All-in sustainable costs (AISC) of $1421/oz in the quarter were well above broker estimates, although they fell from $1493/oz in the September quarter. Guidance for FY20 is for 920,000-1.4m ounces at AISC of $1240-1340/oz.

Pogo

Pogo sold 22,500 ounces of gold in December, which Macquarie considers is a milestone in its return to full production. While development and stoping rates are now close to targets, this has come at a higher cost than the broker expected, 31% above forecasts.

Production was up 56% in the December quarter after a poor September quarter and a development deficit is being progressively overcome, although Credit Suisse notes this has been much more challenging than expected at the time of acquisition.

The broker describes costs as "ugly", albeit improving and downgrades the stock to Underperform from Neutral on valuation. For now, Citi also believes the value has been priced in and downgrades to Neutral from Buy.

This view is predicated on a change in the operating model at Pogo and the cost reductions the joint venture can extract at the Super Pit. The inclusion of the Super Pit in the second half and continued improvement at Pogo should mean the company hits its mid range forecast for ounces, although Citi acknowledges cost guidance may be a stretch.

Morgan Stanley is less enthusiastic, noting costs have exceeded both its expectations and guidance and suspects guidance in FY20 may be at risk, particularly when the higher-cost Kalgoorlie Super Pit starts contributing in the second half.

An inflection point has been reached at Pogo which may reduce costs, the broker acknowledges. Around 80% of ore came from stopes as a new mining method takes effect. The company has maintained its guidance for the mine, which implies a significant drop in costs in the second half.

UBS does not believe Pogo is delivering on its full potential, as development rates for the quarter was still below that required to ensure sustainable production. The broker suspects the March quarter could still report variable production and cost performance.

Jundee

Management has also formally announced an expansion in Jundee's milling capacity, which supports a 5% upgrade to UBS earnings forecasts for FY21-22. This will take capacity to 2.7mtpa from the current 2.2mtpa.

UBS believes there is **additional growth potential from Echo Resources which is not yet fully appreciated by the market**, suspecting this recent takeover could provide another 200,000 ounces producing mine. Macquarie also notes the completion of the Echo Resources takeover means the Julius pit is now available for mining, while there are other open pit opportunities at Jundee itself.

Canaccord Genuity, not one of the seven stockbrokers monitored daily on the FNArena database, has downgraded Northern Star to Hold from Buy based on valuation, with a target of $13. The broker continues to rate the organic potential of the portfolio highly and remains conservative about its modelling for the Super Pit.

The Echo Resources takeover and planned development as well as the Super Pit acquisition have been included in Baillieu forecasts. Nevertheless, the broker asserts there is a significant amount of work that both the market and the joint venture need to do to gain a better understanding of the value of the Super Pit.

The broker, also not one of the seven, has a Hold rating and $12.37 target. The database has three Buy ratings, one Hold (Citi) and two Sell. The consensus target is $12.18, suggesting -1.3% downside to the last share price. Targets range from $9.10 (Morgan Stanley) to $14.00 (Macquarie).

FEATURE STORIES

2020 Foresight: Australia

A sluggish economy and a strong stock market in 2019. Forecasts for 2020 are becoming increasingly diverse.

-Equity valuations stretched
-Bushfires/coronavirus cloud monetary/fiscal policy assumptions
-Economic data suggest weak December quarter
-Commodity prices considered key

By Greg Peel

When stock market analysts and economists began preparing their annual market outlooks for the year to come back in November, the US-China "phase one" trade deal was yet to be signed and the UK election was yet to be held. (2020 Outlook: Australia)

Since those reports were complied, Boris Johnson's landslide victory has all but taken Brexit off the list of global risks, pending EU trade negotiations notwithstanding, and the signing of the phase one trade deal has led to no further tariffs or tariff increases and indeed some tariff reductions.

While pundits agree phase one is more show than substance, it has at least reduced uncertainty and lifted global spirits.

In Australia, virtually all in the market were forecasting an RBA rate cut in February due to the sluggish economy, specifically an unwilling consumer. But consensus conceded that further rate cuts were likely to have little impact, thus requiring the Morrison government to lend support with fiscal initiatives. At that time the Morrison government remained hell bent on retuning the budget to surplus.

Morgan Stanley – to choose one forecaster – was assuming a February rate cut but also assuming, albeit without great conviction, Morrison would bring forward the next round of promised tax cuts to the 2020 May budget.

In the interim, the surprisingly swift rebound in house prices, leading to a return of "bubble" warnings, and a surprisingly strong December jobs report have led to the market greatly reducing the odds of an RBA rate cut in February. As for the fiscal side of the equation, nature has intervened.

Fire and Pestilence

The Australian fire season begun last year in August and was raging by November. Then it got worse. The government's response has been in no way swift, but subsequent announcements of assistance handouts equate to some level of fiscal stimulus.

However, even if we assume these government injections square off the GDP against bushfire cost, we're still where we were last year: with monetary policy requiring fiscal policy to provide support.

Morrison has, however, hinted that given the circumstances, a budget surplus is no longer the specific focus. A second round of tax cuts in the May budget?

The government could go one of two ways. It could maintain its stubborn surplus target and use the bushfires as an excuse not to draw down further on the budget, or it could abandon or at least wind back its surplus target while maintaining face with the electorate, using the bushfires as the excuse.

We can look to the US experience of natural disasters and stock market responses as a guide to economic impact.

Not that long ago Wall Street would sell off on natural disaster, such as a hurricane, but then recover again as lost economic growth in the immediate wake of the disaster gave way to a surge in activity in the rebuilding phase. In more recent times Wall Street has pre-empted such a dip-and-rebound, to the extent there is no dip in the first place.

Witness the Australian stock market in January. Outside of the sheer tragedy, the impact on the Australian economy was immediately evident, from holiday cancellations on the NSW south coast right through to the US warning its citizens not to travel to Australia at all lest they be incinerated. From wiped-out food production to massive losses of livestock. Yet how did the Australian stock market react?

Best January in decades.

At least up until Tuesday. Nature has again intervened.

While at this stage experts do not expect the coronavirus will become a devastating global pandemic, they cannot make any promises. What is clear nonetheless is that the Chinese economy will be heavily impacted. The timing – lunar new year – could not have been worse. When China sneezes, Australia catches a cold.

Sluggish Economy

A common theme among analysts as 2019 drew to a close was that Australian stock valuations were stretched on a price to earnings (PE) basis. At the time, the ASX200 was trading around 6700. It has since hit 7100. For such valuations to be justified, corporate earnings need to back up investor sentiment. For PEs to ease back from historically high levels, E has to catch up to P.

All will be revealed next month in the local earnings season. But before the numbers start to flow, we can make a few observations, courtesy of the analysts at EL&C Baillieu.

Australia's GDP grew 1.7% in the September quarter, well below a long term average of 3.2%. Growth appears to have remained sluggish in the December quarter, if we consider: vehicle sales down -7.6% year on year, the lowest since 2011, core retail sales (ex-food) up only 2.2% year on year, almost a full percentage point lower than 2018; dwelling approvals down -14.8% year on year, consumer confidence down -8.2% year on year, the worst reaction to an RBA easing cycle on record; business confidence at a six-year low; ANZ Bank's job ads series down -14.2% year on year; and tourist arrivals up just 1.9% year on year.

That last one pre-dates the true bushfire impact on inbound tourism.

The ASX200 underperformed overseas markets in the December quarter, falling -0.1% in price terms (ex-dividends). Over 2019 the index rose 18.4%. January has been a different story, with the ASX200 shooting up 10% prior to this week, but one must ask what has changed?

<u>Outperformers</u>

A not unsubstantial contribution to that rally has been made by healthcare heavyweight CSL ((CSL)), Baillieu notes, which outperformed in the December quarter and has not looked back as the coronavirus crisis has escalated. Sector peers Ramsay Health Care ((RHC)), ResMed ((RMD)) and Cochlear ((COH)) also outperformed.

A rally in the quarter for oil prices, largely due to geopolitical tensions, provided for solid gains for the likes of Woodside Petroleum ((WPL)), while sustained high iron ore prices supported BHP Group ((BHP)), Rio Tinto ((RIO)) and Fortescue Metals ((FMG)).

Solid gains were seen among industrials Amcor ((AMC)), Transurban ((TCL)) and Brambles ((BXB)), while Wesfarmers ((WES)) waved the flag for the consumer discretionary sector as consumer staples sagged (ahead of Kaufland's capitulation).

The big drag was of course the banks, or at least three of the majors, which fell -10-16%. Commonwealth Bank ((CBA)) fell only -1.2%.

Towards the end of 2019, the analysts at Macquarie were among those calling Australian equity values stretched. They have not since wavered from that belief, but have now looked to the US to suggest that high valuations can be sustained through to mid-2020.

<u>US Expansion</u>

The latest OECD indicator shows an accelerating US economic recovery, Macquarie notes. Importantly, Macquarie states "*We do not think the coronavirus will have a material impact on the cycle*".

The analysts expect the US economy to progress to an expansion phase by March. To that end, and while valuations are high, Macquarie believes the accelerating economic momentum that characterises an expansion phase should provide support for Australian stock prices. Cyclicals tend to outperform during an expansion phase, with bond proxies underperforming due to a rise in bond yields.

Macquarie still favours some rotation to resources given an improving cycle should lift commodity prices. However, an accompanying rise in the Australian dollar will provide a headwind for all stocks with high foreign sales exposure.

Central banks were the key driver of the 2019 bull market in stocks, the analysts note. Volatility could thus rise as we "lap" the first rate cuts of the cycle. The Fed cut in July, September and October last year and is currently expected to remain on hold for the time being. The RBA cut in June, July and October and is currently expected not to cut again until mid-year.

One caveat: If the coronavirus fallout appears extensive, more so than today's mild rebound in the ASX200 suggests, the RBA may yet cut in February.

For stocks to keep rising after we lap these events, warns Macquarie, we need to see a stronger earnings cycle. At this stage, the analysts note, earnings growth forecasts are generally still falling.

More will be revealed next month.

For now, "Make hay while the sun shines," suggests Macquarie. Equity investors displayed an optimistic mood in 2019 and into January. While such returns cannot continue, accelerating economic momentum and the benefits of central bank easing can support stocks till mid-2020.

Baillieu is less enthusiastic.

Headwinds

Aforementioned data suggest the December quarter was as sluggish for the Australian economy as the September quarter. Looking ahead, Baillieu sees more headwinds than tailwinds, keeping pressure on earnings.

The broker expects the RBA will cut twice in the first half of this year, to 0.25%, but believes this will do little for growth. And given we are still two years away from the next election, the government will indeed focus on a return to surplus rather than tax cuts, Baillieu suggests.

The housing recovery under way will peter out in the broker's view, due to limited "pass through" of RBA rate cuts into borrowing rates, poor affordability, record household debt, "bubble" valuations and oversupply.

With returns on cash at zero and ten-year bonds around 1%, funds will be driven into risky assets, Baillieu warns. To that end, investors need to be selective amidst high valuations.

Macquarie believes the Aussie dollar will appreciate on the back of stronger commodity prices, driven by US-led expansion. Baillieu is forecasting the opposite, based on record negative rate spreads, anaemic relative growth and deteriorating commodity prices.

Seems we have "a market".

Baillieu is underweight Australian equities in a global context given the risks surrounding bubble-like home and equity valuations at near-zero interest rates.

Within the Australian market the broker prefers global leaders.

Commodity Prices

Commonwealth Bank's economists have their own view on commodity prices.

CBA believes, writing ahead of coronavirus escalation, the risks to the Chinese economy and commodity prices are skewed to the downside. The phase one trade deal merely represents a truce, the economists insist, given the bulk of US tariffs on imports from China remain in place.

CBA suspects any stimulus from Beijing this year will involve infrastructure investment. More will be known following the government's "Two Sessions" in March.

In the oil market, CBA suggests China's commitment within the phase one deal to buy energy products from the US looks exceptionally challenging. China has committed to buy US$18.5bn of US energy products in 2020 and US$33.9bn in 2021. In 2017, China bought US$9bn. To meet the targets China would need to buy US crude oil and LNG. That suggests someone else will miss out.

CBA estimates 8-10% of Australian LNG exports are exposed to substitution as a result of the phase one deal.

In terms of price, CBA forecasts Brent crude to average US$63/bbl in 2020 as supply discipline from OPEC-Plus keeps oversupply – mostly US shale – contained. Supply disruptions are always a threat, particularly if tensions between the US and Iran heat up again, but CBA believes these threats are only likely to provide temporary price support.

For iron ore, it's a battle between increasing global seaborne supply and China's winter steel production cuts. CBA sees prices well supported in the March quarter but pressure thereafter.

Rising seaborne supply is also an issue for accompanying coking coal. Prices have improved so far this quarter but CBA expects a lower trend through 2020 on rising supply along with Chinese import restrictions and subdued demand from India.

Rising seaborne supply and Chinese import restrictions are also issues for thermal coal, as is the trend to switch from coal-fired electricity generation to cleaner gas-fired. CBA expects prices to track sideways through 2020.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 24-01-20

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday January 20 to Friday January 24, 2020
Total Upgrades: 18
Total Downgrades: 19
Net Ratings Breakdown: Buy 37.62%; Hold 45.87%; Sell 16.50%

These are busy days for stockbroking analysts. Not only are fewer of them around (thanks to industry changes and the EU), Australian equities have been on a tear since the start of the year, despite corporate profit warnings accumulating. And then there is the February reporting season, soon to be with us in full force.

For the week ending Friday, 24th January 2020, FNArena registered no less than 18 upgrades in ratings for individual ASX-listed entities against 19 downgrades. Ten of the 18 lifted to a Buy, while only six downgrades moved to Sell.

Property owners and infrastructure funds were prominently represented among the 18 upgrades. Dexus Property Group alone received three upgrades during the week and all went to Buy. Other stocks receiving a fresh Buy recommendation include Woolworths, QBE Insurance and Cimic Group.

Oddly enough, the week's table for downgrades in recommendations equally contains yield payers including Stockland, Transurban, Sydney Airport and Scentre Group. Junior gold producers are equally represented through multiple downgrades.

Tables for positive and negative adjustments to valuations and price targets are showing plenty of action, and a continuation of the story told by changes in recommendations. On top of the week's table for positive revisions for price targets sits Shopping Centres Australasia, followed by Fortescue Metals, Charter Hall Retail, Charter Hall Long WALE , Mirvac Group and Megaport.

On the negative side we find the largest reductions befell nib Holdings (profit warning), followed by Downer EDI (profit warning), Cimic Group (profit warning), Whitehaven Coal (disappointing quarterly) and Nufarm (yet again a profit warning).

The trend in earnings forecasts, one week before the February reporting season starts, is heavily skewed to negative revisions, also because of the aforementioned profit warnings. On the positive side we find Metcash, Origin Energy, Senex Energy and Megaport enjoying positive momentum. On the flipside, reduced expectations dominate for Nufarm, South32, Downer EDI, Galaxy Resources, St Barbara and nib Holdings.

The corporate calendar in Australia continues with miners and energy producers releasing quarterly production updates, including Oil Search and Fortescue Metals, while Credit Corp unofficially kicks off the February reporting season today, followed by IGO on Thursday and GUD Holdings and ResMed on Friday. All the while China is celebrating New Year and trying to contain the spreading coronavirus.

Upgrade

CIMIC GROUP LIMITED ((CIM)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/2/0

The company will exit its 45% stake in BIC Contracting that operates in the Middle East. Weakening market conditions in the region were cited as well as a desire to focus on opportunities in the main geographies of Australasia and Asia-Pacific.

Cost of the exit is higher than Credit Suisse expected, with a P&L post-tax impact of around -$1.8bn in 2019 and a cash impact of -$700m in 2020. The final dividend for 2019 has been cancelled.

The decision to exit removes an overhang from a known issue and Credit Suisse believes the extent of the sell off in the shares provides a buying opportunity. Rating is upgraded to Outperform from Neutral. Target is reduced to $35 from $36.

CHARTER HALL LONG WALE REIT ((CLW)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 2/2/0

Macquarie upgrades to Neutral from Underperform, to reflect a new valuation methodology. The broker assesses the portfolio is backed by long-term sustainable cash flow that is attractive for those investors seeking income return.

Underlying growth is supported by fixed and CPI-linked annual reviews. Target is raised to $5.88 from $4.74.

CHARTER HALL SOCIAL INFRASTRUCTURE REIT ((CQE)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 1/0/0

Ord Minnett upgrades Charter Hall Social Infrastructure REIT to Accumulate from Hold in view of the longer weighted average lease expiry and considers the stock oversold. Target is $3.65.

The sector is trading broadly in line with valuation, yet appears attractive relative to the domestic market on a range of metrics, in the broker's view. The broker expects A-REITs will remain net buyers and fund acquisitions with a combination of debt and equity.

CHARTER HALL RETAIL REIT ((CQR)) Upgrade to Outperform from Underperform by Macquarie .B/H/S: 1/3/2

Macquarie reviews the outlook for convenience landlords and upgrades to Outperform from Underperform. The broker remains attracted to the defensive nature of the cash flow.

Direct market transactions limit the downside risk to net tangible assets and the stock offers a 6.4% distribution yield, which is cash backed. Target is raised 33% to $5.20.

DEXUS PROPERTY GROUP ((DXS)) Upgrade to Outperform from Underperform by Macquarie and Upgrade to Accumulate from Hold by Ord Minnett and Upgrade to Buy from Neutral by UBS .B/H/S: 5/1/0

Macquarie finds the earnings trajectory solid, with underlying growth in the office portfolio supplemented by trading profits. The buyback is also supporting the share price.

The broker notes the outlook for office market rents is moderating but the earnings profile of Dexus Property remains sound. Rating is upgraded to Outperform from Underperform. Target is raised 6.3% to $13.26.

Ord Minnett upgrades to Accumulate from Hold on the basis of further office capitalisation rate compression.

The sector is trading broadly in line with valuation, yet appears attractive relative to the domestic market on a range of metrics, in the broker's view.

The broker expects A-REITs will remain net buyers and fund acquisitions with a combination of debt and equity. Target is $13.50.

UBS upgrades to Buy from Neutral. After a prolonged period of above-trend rental growth in Sydney and Melbourne office markets, the broker anticipates a moderation in 2020/21, with net effective rental growth of 1-3% per annum.

Importantly, the broker envisages ongoing capitalisation rate compression, strong cash flow from annual escalations and positive leasing spreads. Target is raised to $13.60 from $12.90.

FORTESCUE METALS GROUP LTD ((FMG)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 1/3/3

The commodity price outlook is far more accommodative and Credit Suisse lifts the target to $11.00 from $7.50. Rating is upgraded to Neutral from Underperform.

This reflects not just material changes in estimates for earnings per share but also the strength of Fortescue Metals' balance sheet and a buoyant outlook for dividends.

Credit Suisse expects China's steel demand will remain firm in the first half but decline from the second half as property construction may ease.

However, given the strong rhetoric around infrastructure a 1.6% increase in Chinese steel demand is assumed for 2020, well above previous forecasts.

HUB24 LIMITED ((HUB)) Upgrade to Add from Hold by Morgans .B/H/S: 3/1/1

Funds under administration in the December quarter were up 10%. Net inflows were 2% higher. The obvious headwinds, Morgans suggests, are pricing pressure and earnings on cash transaction account balances.

The broker is cautious about the impact on sentiment and earnings from any change to pooled client cash. Taking a longer-term view, Morgans expects the company will scale up successfully and deliver solid earnings growth.

Rating is upgraded to Add from Hold and the target reduced to $13.35 from $13.79.

INFIGEN ENERGY ((IFN)) Upgrade to Add from Hold by Morgans .B/H/S: 1/1/0

Infigen Energy's output from the wind farms connected to the National Electricity Market was 22% higher in the first half. The major driver was a full half output from the Bodangora farm.

Futures point to a softer spot market in the second half, which Morgans suspects will be positive for Infigen Energy.

Morgans upgrades earnings forecasts for FY20, envisaging less volatility in the spot market that will take the pressure off spot purchases.

The broker believes an increasing focus on carbon emissions could mean that the stock is useful as a hedge against potentially increasing carbon prices.

Rating is upgraded to Add from Hold and the target raised to $0.76 from $0.64.

MIRVAC GROUP ((MGR)) Upgrade to Neutral from Sell by UBS and Upgrade to Hold from Lighten by Ord Minnett.B/H/S: 2/3/0

UBS upgrades to Neutral from Sell after incorporating recently-acquired projects. Mirvac is the preferred A-REIT for a residential recovery, having underperform Stockland ((SGP)) by -18% since the 2019 election, and given the preference for office over retail.

If Mirvac can execute on its strategy and introduce third-party capital to the BTR projects, the broker assesses it should be able to reach its medium-term target of 5000 units by FY24. Target is raised to $3.30 from $3.00.

Ord Minnett upgrades to Hold from Lighten because of the value-accretive development pipeline, and raises the target to $3.20 from $2.95.

The sector is trading broadly in line with valuation, yet appears attractive relative to the domestic market on a range of metrics, in the broker's view.

The broker expects A-REITs will remain net buyers and fund acquisitions with a combination of debt and equity.

METCASH LIMITED ((MTS)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 2/4/0

Macquarie upgrades to Neutral from Underperform, as the share price has fallen to the target of $2.65. The broker assesses the stock screens cheap on a discounted cash flow measure.

However, Macquarie remains concerned over the prospect of further customer losses and the associated operating de-leverage.

NIB HOLDINGS LIMITED ((NHF)) Upgrade to Neutral from Sell by Citi and Upgrade to Neutral from Sell by UBS.B/H/S: 0/5/2

Citi factors in small positive gains, allowing for the full impact of the reserve top up the company has to make to the claims provision. The broker assesses some value has crept into the stock and upgrades to Neutral from Sell. Target is steady at $6.85.

While nib is gaining traction from its Qantas ((QAN)) Assure initiative, weak industry dynamics continue to weigh. Industry policyholder numbers are stagnant and affordability constraints remain elevated.

Citi anticipates earnings per share will contract -8% in FY20 and maintains only a low single-digit growth forecast for FY21-22.

The company has lowered its guidance for FY20 underlying profit by -15%, to more than $170m from more than $200m. A component of the downgrade relates to higher costs but most of the pressure has been blamed on higher claims inflation.

UBS downgrades estimates for FY20 by -16% and FY21 by -10%. The stock is now trading on a more sustainable footing and the broker upgrades to Neutral from Sell. Target is reduced to $5.85 from $6.50.

QBE INSURANCE GROUP LIMITED ((QBE)) Upgrade to Buy from Neutral by Citi .B/H/S: 5/2/0

Citi has upgraded to Buy from Neutral as the insurer updated with worse than expected impact from crop insurance, but with otherwise in-line underlying performance. Citi thinks the market will look through this short term impact, and so do Citi analysts, clearly.

Forecasts have been sliced due to the crop insurance impact, and the analysts point out QBE Insurance remains a business containing many moving parts. Citi retains a positive outlook medium term. Price target shifts to $15.20 from $13.45.

SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP ((SCP)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 1/3/1

Amid a sector wide review, Macquarie upgrades to Neutral from Underperform. Target is $2.91.

While the broker prefers the convenience-based landlords over regional landlords, given defensive cash flows, the stock is already trading on a 5.4% distribution yield and 25% premium to net tangible assets so the broker finds it is difficult to become more positive.

WOOLWORTHS LIMITED ((WOW)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/3/1

Macquarie upgrades to Outperform from Neutral, envisaging upside to earnings from strong same-store sales growth. The broker likes the dominant store footprint and potential efficiency gains.

Moreover, Woolworths is well-positioned to undertake capital management once the Endeavour assets are distributed. Target is raised to $42.40 from $37.00.

Downgrade

AGL ENERGY LIMITED ((AGL)) Downgrade to Sell from Neutral by UBS .B/H/S: 1/0/6

UBS notes AGL Energy is heavily exposed to changes in average wholesale electricity prices. All else being equal, the broker calculates a -$5/megawatt-hour annual reduction in average prices across all National Electricity Markets equates to a -$190m reduction in annual earnings (EBIT).

Lower electricity price forecasts mean the broker's FY20-22 estimates for earnings per share are reduced by -5-7% from prior estimates.

While the share price has risen 7% over the last three months, and will be supported as the remainder of the buyback is completed, earnings headwinds remain, the stockbroker finds.

As a result, UBS downgrades to Sell from Neutral, reducing the target to $18.35 from $18.85.

AP EAGERS LIMITED ((APE)) Downgrade to Hold from Add by Morgans .B/H/S: 3/2/0

New car sales are under pressure and Morgans downgrades 2019-21 forecast by -1-2.4%. In the short term the broker is also wary of the wide divergence in consensus forecasts.

The stock provides strong leverage to a recovery in vehicle sales but the potential for further downgrades is a risk the broker would prefer to avoid until there is further clarity.

Rating is downgraded to Hold from Add. Target is reduced to $11.96 from $12.02.

ALACER GOLD CORP ((AQG)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/1/0

December quarter production delivered on 2019 guidance. Credit Suisse was pleased with the commissioning of sulphide production although this was at the lower end of guidance.

The 2020 guidance, for 310-360,000 ounces, at the high end is below the broker's current 2020 sulphide forecast.

Nevertheless, Credit Suisse is not concerned about its current modelling of 2020 production as there is potential upside from oxide.

Rating is downgraded to Neutral from Outperform on valuation. Target is unchanged at $7.20.

DOMINO'S PIZZA ENTERPRISES LIMITED ((DMP)) Downgrade to Sell from Neutral by Citi .B/H/S: 0/4/2

Citi analysts believe Domino's Pizza's High PE multiple is directly linked to the prospect for more store openings and growth in Europe, but thus far in FY20, they note, store growth has been soft.

The analysts observe their forecasts are -3-4% below consensus at the moment. As equities are on a tear, including for the company's peers, they have added 5% to their price target, to $48.60.

However, given the prospect for disappointment, directly related to store rollouts, Citi has decided to downgrade to Sell from Neutral.

DOWNER EDI LIMITED ((DOW)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 3/1/1

The company has reduced FY20 net profit guidance to $300m from $365m, representing a -18% reduction. The downgrade stems from the issues being faced by the ECM and mining businesses.

A small number of loss-making ECM construction contracts and lower forecast revenue as well as a delay in two mining projects contributed.

As management has historically taken pride in meeting guidance, Credit Suisse suspects the downgrade to profit is likely to be taken poorly by investors and it may take a while for confidence to recover.

Rating is downgraded to Underperform from Neutral and the target lowered to $7 from $8.

FLIGHT CENTRE LIMITED ((FLT)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 3/4/0

Credit Suisse observes recent travel data have been weak, consumer sentiment is poor and there is a strong second half skew to guidance.

At this point, the broker queries the assumptions about a recovery that are implied in FY20 guidance and downgrades to Neutral from Outperform, lowering the target to $44.83 from $47.49.

NUFARM LIMITED ((NUF)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/3/0

The company expects first half operating earnings between $55-65m. Macquarie expects regulatory approval for the Latin American sale will occur in February and notes this is key to fixing the balance sheet.

Rating is downgraded to Neutral from Outperform, given limited returns and the potential for ongoing challenging conditions in the second half stemming from competitive markets and constrained raw material supply. Target is reduced to $5.77 from $5.83.

ORIGIN ENERGY LIMITED ((ORG)) Downgrade to Hold from Add by Morgans .B/H/S: 4/3/0

Fundamentals for the company's energy markets have become weaker. Given that around 50% of operating earnings are derived from energy markets Morgans believes this will be a drag on the performance.

The APLNG business is likely to continue performing well but the broker assesses the opportunities to grow earnings are limited. Future performance of APLNG will increasingly be a function of commodity prices, the broker adds.

Morgans believes investors that are looking for exposure to oil price would do better by focusing on stocks with a pure concentration in energy exports. Rating is downgraded to Hold from Add and the target is lowered to $8.43 from $8.62.

PEET & COMPANY LIMITED ((PPC)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/1/0

Macquarie is concerned about the risks associated with FY20 earnings per share, forecasting this to drop -36%. The forecast assumes significant sales in the first half are settled in the second half.

While residential markets are improving the broker envisages downside risk. Rating is downgraded to Neutral from Outperform. Target is steady at $1.25.

QANTAS AIRWAYS LIMITED ((QAN)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/2/0

Following a strong run up in the share price, Citi downgrades Qantas to Neutral from Buy. Target is raised to $7.45 from $6.90.

Pre-tax profit forecasts for FY20 are reduced by -1%, consistent with the company's guidance about the impact of industrial action at Jetstar.

Citi believes the current share price adequately reflects a rational Australian domestic market, capital distributions and upside from Project Sunrise.

REECE AUSTRALIA LIMITED ((REH)) Downgrade to Hold from Add by Morgans .B/H/S: 0/2/0

Following recent share price strength, amid expectations of a cyclical upswing, Morgans downgrades to Hold from Add.

Estimates for earnings per share in FY20 are reduced by -7%, to reflect lower local demand and revised appreciation assumptions. Target is raised to $12.45 from $11.47.

RIO TINTO LIMITED ((RIO)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 2/4/1

Ord Minnett downgrades to Accumulate from Buy. Quarterly production was generally in line with forecasts. The broker notes the attractive metrics in the stock but a strong run up in the share price has led to the downgrade.

The main disappointment was a decline in copper grades at Kennecott and lower copper guidance for 2020 with weak grades persisting before recovering in early 2021.

The main positive surprise was bauxite, which was 9% ahead of forecasts. Target is steady at $112.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 3/3/1

Production was solid in the December quarter and beat Macquarie's forecasts. Timing on the decision for the development of McPhillamys looks to have been delayed and the broker reduces valuation for the project.

While positive on the outlook for Duketon, this does not breach the valuation gap to McPhillamys and Macquarie downgrades to Underperform from Neutral. Target is reduced -7% to $4.20.

RESOLUTE MINING LIMITED ((RSG)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

The company will raise up to $146m from institutions and $25m from its largest shareholder, with up to $25m in the share purchase plan at a -6.4% discount to the last closing price. Funds will be used to retire the US$130m bridging loan.

Macquarie acknowledges this will provide some relief to the balance sheet but the near-term performance of Syama will determine further de-leveraging capacity over 2020.

The dilution drives a reduction in the target to $1.20 from $1.40 and a downgrade to Neutral from Outperform.

SCENTRE GROUP ((SCG)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/0/4

UBS downgrades to Sell from Neutral, noting occupancy, income and valuations remain under pressure. Store closures and retailers entering administration over the past month have been abnormally high and, the broker assesses, could impact up to 84 tenancies across the company's portfolio.

With income uncertainty increasing at a time when there is a large number of retail assets on the market, UBS expects valuations will be under pressure. Target is reduced to $3.70 from $3.90. The broker also updates earnings estimates to reflect the Booragoon acquisition.

STOCKLAND ((SGP)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 1/1/3

Ord Minnett downgrades Stockland to Lighten from Hold following a period of flat earnings growth and the recent surge in the share price. Target is raised to $4.30 from $4.20.

The sector is trading broadly in line with valuation, yet appears attractive relative to the domestic market on a range of metrics, in the broker's view. The broker expects A-REITs will remain net buyers and fund acquisitions with a combination of debt and equity.

SUNCORP GROUP LIMITED ((SUN)) Downgrade to Neutral from Buy by Citi .B/H/S: 2/2/3

On the bank-insurer's own acknowledgment, natural hazard costs including bushfires have risen some -$109m above 1H allowances. In isolation this reduces Citi's forecast for 1H20 by -14%, point out the analysts.

A repeat for H2 seems unlikely because of aggregate and stop loss reinsurance protections. Citi explains this means the opposite is likely to occur in H2, leaving no net impact on FY20 numbers.

Citi analysts have made only minimal adjustments to their forecasts. There is one looming negative, however, and that will be the next round of negotiations with the reinsurers. Citi pulls back its rating to Neutral from Buy. Price target falls to $14.30 from $14.50.

SYDNEY AIRPORT HOLDINGS LIMITED ((SYD)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/4/1

International traffic declined -0.4% in December while domestic rose 1.3%. Macquarie notes the outlook for international capacity growth in 2020 has shifted to a contraction of -0.5-1.5%.

The broker now considers the valuation is challenged and downgrades to Neutral from Outperform.

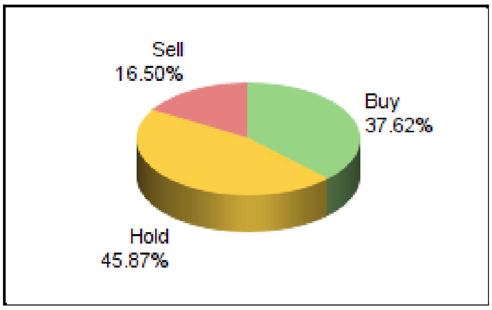
Macquarie reduces operating earnings (EBITDA) estimates by -1.7% for 2020 and 2021, reflecting lower international passenger expectations. Target is reduced to $8.68 from $8.77.

TRANSURBAN GROUP ((TCL)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 1/4/2

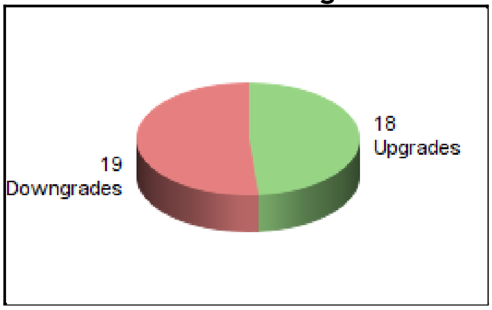
The company is moving to become a tax-paying entity over the next two years although Ord Minnett does not consider this a major headwind for earnings.

The broker estimates the annual tax impost will normalise quickly in FY22 and peak at 10% of free cash flow. The broker downgrades to Accumulate from Buy based on valuation. Target is raised to $16.50 from $16.00.

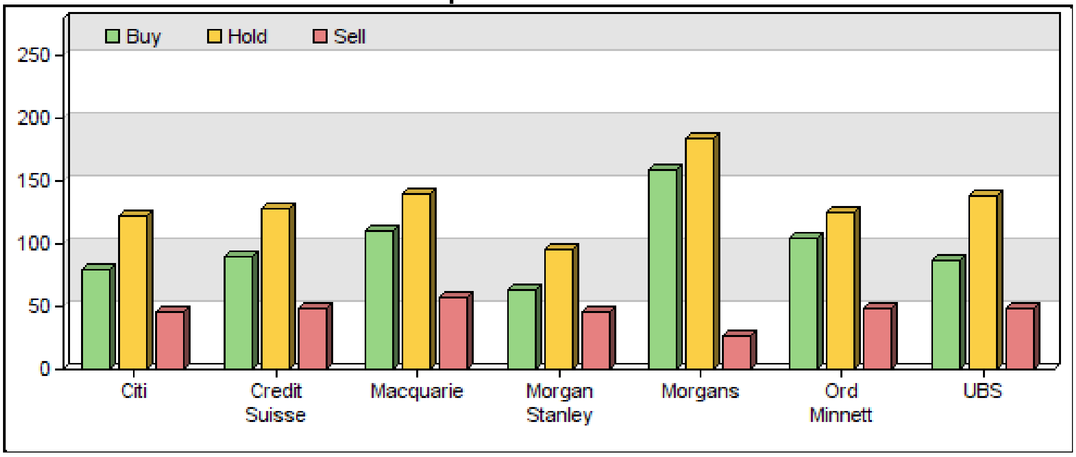
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	CHARTER HALL LONG WALE REIT	Neutral	Sell	Macquarie
2	CHARTER HALL RETAIL REIT	Buy	Sell	Macquarie
3	CHARTER HALL SOCIAL INFRASTRUCTURE REIT	Buy	Neutral	Ord Minnett
4	CIMIC GROUP LIMITED	Buy	Neutral	Credit Suisse
5	DEXUS PROPERTY GROUP	Buy	Sell	Macquarie
6	DEXUS PROPERTY GROUP	Buy	Neutral	UBS
7	DEXUS PROPERTY GROUP	Buy	Neutral	Ord Minnett
8	FORTESCUE METALS GROUP LTD	Neutral	Sell	Credit Suisse

9	HUB24 LIMITED	Buy	Neutral	Morgans
10	INFIGEN ENERGY	Buy	Neutral	Morgans
11	METCASH LIMITED	Neutral	Sell	Macquarie
12	MIRVAC GROUP	Neutral	Sell	UBS
13	MIRVAC GROUP	Neutral	Sell	Ord Minnett
14	NIB HOLDINGS LIMITED	Neutral	Sell	Citi
15	NIB HOLDINGS LIMITED	Neutral	Sell	UBS
16	QBE INSURANCE GROUP LIMITED	Buy	Neutral	Citi
17	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP	Neutral	Sell	Macquarie
18	WOOLWORTHS LIMITED	Buy	Neutral	Macquarie
Downgrade				
19	AGL ENERGY LIMITED	Sell	Neutral	UBS
20	ALACER GOLD CORP	Neutral	Buy	Credit Suisse
21	AP EAGERS LIMITED	Neutral	Buy	Morgans
22	DOMINO'S PIZZA ENTERPRISES LIMITED	Sell	Neutral	Citi
23	DOWNER EDI LIMITED	Sell	Neutral	Credit Suisse
24	FLIGHT CENTRE LIMITED	Neutral	Buy	Credit Suisse
25	NUFARM LIMITED	Neutral	Buy	Macquarie
26	ORIGIN ENERGY LIMITED	Neutral	Buy	Morgans
27	PEET & COMPANY LIMITED	Neutral	Buy	Macquarie
28	QANTAS AIRWAYS LIMITED	Neutral	Buy	Citi
29	REECE AUSTRALIA LIMITED	Neutral	Buy	Morgans
30	REGIS RESOURCES LIMITED	Sell	Neutral	Macquarie
31	RESOLUTE MINING LIMITED	Neutral	Buy	Macquarie
32	RIO TINTO LIMITED	Buy	Buy	Ord Minnett
33	SCENTRE GROUP	Sell	Neutral	UBS
34	STOCKLAND	Sell	Neutral	Ord Minnett
35	SUNCORP GROUP LIMITED	Neutral	Buy	Citi
36	SYDNEY AIRPORT HOLDINGS LIMITED	Neutral	Buy	Macquarie
37	TRANSURBAN GROUP	Buy	Buy	Ord Minnett

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	DXS	DEXUS PROPERTY GROUP	75.0%	17.0%	58.0%	6
2	CQR	CHARTER HALL RETAIL REIT	-17.0%	-50.0%	33.0%	6
3	MGR	MIRVAC GROUP	40.0%	10.0%	30.0%	5
4	NHF	NIB HOLDINGS LIMITED	-29.0%	-57.0%	28.0%	7
5	CIM	CIMIC GROUP LIMITED	50.0%	25.0%	25.0%	4
6	CLW	CHARTER HALL LONG WALE REIT	50.0%	25.0%	25.0%	4
7	SCP	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP	-10.0%	-30.0%	20.0%	5
8	MTS	METCASH LIMITED	25.0%	8.0%	17.0%	6
9	FMG	FORTESCUE METALS GROUP LTD	-29.0%	-43.0%	14.0%	7
10	QBE	QBE INSURANCE GROUP LIMITED	64.0%	50.0%	14.0%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	MP1	MEGAPORT LIMITED	33.0%	83.0%	-50.0%	3
2	AQG	ALACER GOLD CORP	67.0%	100.0%	-33.0%	3
3	AD8	AUDINATE GROUP LIMITED	67.0%	100.0%	-33.0%	3
4	NUF	NUFARM LIMITED	40.0%	60.0%	-20.0%	5
5	QAN	QANTAS AIRWAYS LIMITED	60.0%	80.0%	-20.0%	5
6	DOW	DOWNER EDI LIMITED	30.0%	50.0%	-20.0%	5
7	PTM	PLATINUM ASSET MANAGEMENT LIMITED	-100.0%	-80.0%	-20.0%	5
8	APE	AP EAGERS LIMITED	60.0%	80.0%	-20.0%	5
9	SCG	SCENTRE GROUP	-42.0%	-25.0%	-17.0%	6
10	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	-25.0%	-8.0%	-17.0%	6

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	SCP	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP	2.546	2.406	5.82%	5
2	FMG	FORTESCUE METALS GROUP LTD	9.253	8.753	5.71%	7
3	CQR	CHARTER HALL RETAIL REIT	4.337	4.138	4.81%	6
4	CLW	CHARTER HALL LONG WALE REIT	5.925	5.665	4.59%	4
5	MGR	MIRVAC GROUP	3.364	3.266	3.00%	5
6	MP1	MEGAPORT LIMITED	11.477	11.143	3.00%	3
7	DXS	DEXUS PROPERTY GROUP	13.192	12.820	2.90%	6
8	PTM	PLATINUM ASSET MANAGEMENT LIMITED	3.870	3.780	2.38%	5
9	MFG	MAGELLAN FINANCIAL GROUP LIMITED	50.673	49.544	2.28%	7
10	SGP	STOCKLAND	4.583	4.487	2.14%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	NHF	NIB HOLDINGS LIMITED	5.797	6.564	-11.68%	7
2	DOW	DOWNER EDI LIMITED	8.014	8.620	-7.03%	5
3	CIM	CIMIC GROUP LIMITED	35.225	37.450	-5.94%	4
4	WHC	WHITEHAVEN COAL LIMITED	3.201	3.346	-4.33%	7
5	NUF	NUFARM LIMITED	5.972	6.238	-4.26%	5
6	AD8	AUDINATE GROUP LIMITED	9.633	9.950	-3.19%	3
7	AQG	ALACER GOLD CORP	8.633	8.800	-1.90%	3
8	RRL	REGIS RESOURCES LIMITED	4.837	4.916	-1.61%	7
9	SCG	SCENTRE GROUP	3.832	3.868	-0.93%	6
10	FLT	FLIGHT CENTRE LIMITED	43.853	44.233	-0.86%	7

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	MTS	METCASH LIMITED	22.050	20.850	5.76%	6
2	ORG	ORIGIN ENERGY LIMITED	57.503	55.920	2.83%	7
3	SXY	SENEX ENERGY LIMITED	1.000	0.978	2.25%	5
4	MP1	MEGAPORT LIMITED	-22.033	-22.500	2.08%	3
5	RIO	RIO TINTO LIMITED	928.242	913.343	1.63%	7
6	FMG	FORTESCUE METALS GROUP LTD	200.120	197.449	1.35%	7
7	RRL	REGIS RESOURCES LIMITED	42.567	42.080	1.16%	7
8	CGF	CHALLENGER LIMITED	53.429	52.871	1.06%	7
9	MFG	MAGELLAN FINANCIAL GROUP LIMITED	221.157	219.300	0.85%	7
10	IGO	INDEPENDENCE GROUP NL	35.582	35.422	0.45%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	NUF	NUFARM LIMITED	14.070	21.066	-33.21%	5
2	S32	SOUTH32 LIMITED	8.802	11.627	-24.30%	7
3	DOW	DOWNER EDI LIMITED	42.643	53.103	-19.70%	5
4	GXY	GALAXY RESOURCES LIMITED	-22.031	-18.866	-16.78%	6
5	SBM	ST BARBARA LIMITED	24.938	27.998	-10.93%	4
6	NHF	NIB HOLDINGS LIMITED	29.957	33.586	-10.81%	7
7	AQG	ALACER GOLD CORP	39.387	43.053	-8.52%	3
8	STO	SANTOS LIMITED	50.583	55.018	-8.06%	6
9	SUL	SUPER RETAIL GROUP LIMITED	70.885	77.032	-7.98%	6
10	AD8	AUDINATE GROUP LIMITED	1.863	2.000	-6.85%	3

Technical limitations

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

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

WEEKLY REPORTS

Uranium Week: Uncertainty Lingers

The uranium market is again in stasis as several lingering issues provide for collective uncertainty.

-No response yet to White House Working Group recommendations
-No indication regarding Iran sanction waiver expiries
-No interest from buyers

By Greg Peel

The global uranium industry has begun 2020 with the same issue besetting it in 2019 – uncertainty.

It was two years ago this month two US uranium miners petitioned the US government to force US nuclear power generators to buy 25% of their uranium requirements from US miners which otherwise buy cheaper imports from the likes of Russia et al. The response from the White House was ultimately to set up a Working Group to examine the entire US nuclear fuel cycle.

Clearly appreciating that forcing an already uncompetitive US nuclear power industry to prop up an uncompetitive US uranium mining industry was not a viable solution, the Working Group recommended the US government, specifically the Department of Defense, instead buy uranium from US miners to build strategic stockpiles, thus satisfying the "national security" concern.

It is presumed the price the US government would have to pay would not only exceed that of cheaper imports, but be sufficient to keep the US uranium mining industry afloat, providing for shuttered or new production to come on line.

President Trump is yet to respond to the Working Group's recommendations, and no deadline has been set for him to do so.

<u>And Iran</u>

In 2019, the US had placed sanctions on Iran intended to prevent Iran from developing nuclear weapons. Waivers were nevertheless provided for those companies, US or otherwise, assisting Iran with the development of nuclear power generation. Those waivers are set to expire on January 31.

As yet there is no indication as to whether they will expire or be extended. In the interim, tensions between the US and Iran have clearly escalated. Iran wants to renegotiate, but only if the sanctions are lifted, which Trump has refused to do.

Congress is split on whether or not the waivers should be extended. One the one hand, some members are pushing hard for expiry – taking the toughest possible stance on Iran – while others point out that having allied eyes inside Iran's nuclear power industry is the safest way to monitor what Tehran is up to, hence the waivers should be extended.

No indication as yet. A decision will have a flow-on effect to US imports of uranium from Russia and others, thus impacting uranium prices.

And speaking of Russia, there is also uncertainty relating to the US Russia Suspension Agreement, which the US Department of Commerce has until December this year to review.

But wait, there's more.

Following on from the US Working Group, Congress has directed the US Department of Energy's Office of Nuclear Energy to initiate a study to identify key challenges in reconstituting uranium mining and conversion capabilities in the US.

It is in this climate nuclear power generators, US or otherwise, have to make decisions about locking in term delivery contracts for a decade or more, thereby locking in a price. As one might understand, they are currently reluctant to do so until a clearer picture emerges.

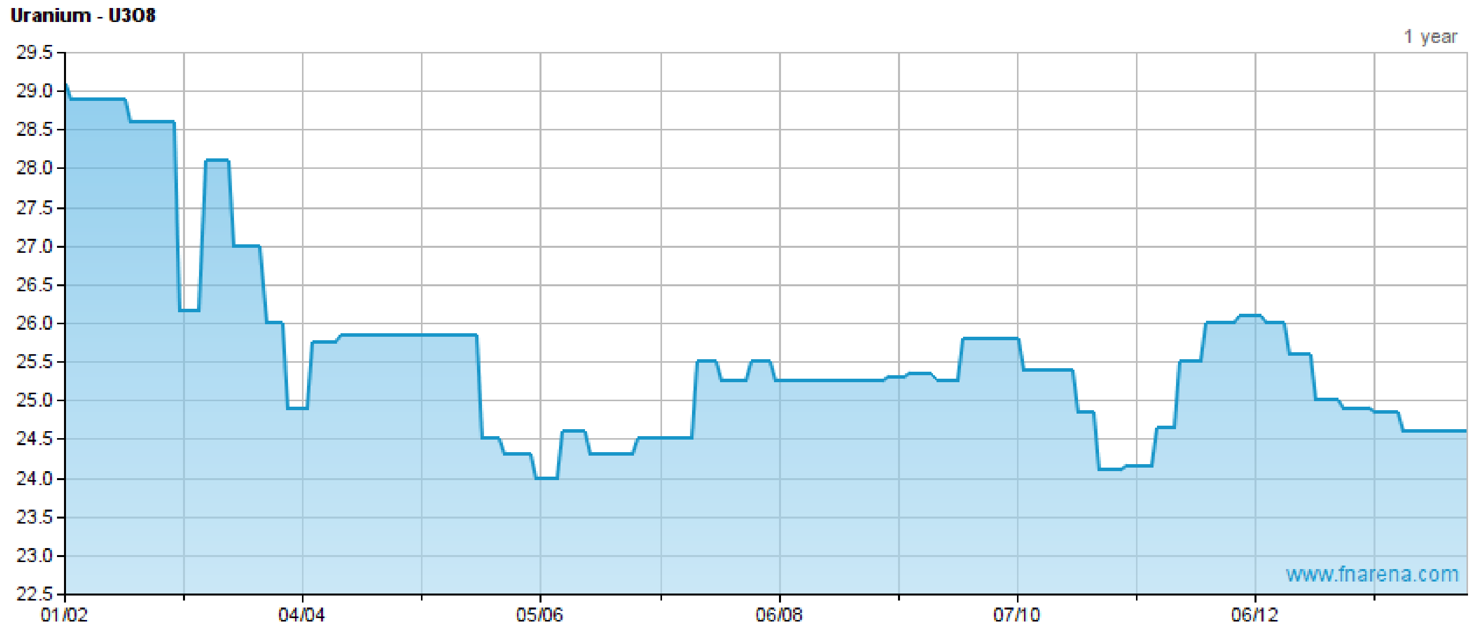
Tumbleweeds

Industry consultant TradeTech reported all of one sole transaction in the uranium spot market last week, for 100,000lbs U3O8 equivalent.

TradeTech's weekly spot price indicator has fallen -US5c to US$24.45/lb.

There were no transactions reported in term markets.

TradeTech's term price indicators remain at US$29.00/lb (mid) and US$33.00/lb (long).



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

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

DAILY MARKET REPORTS

Australian Broker Call *Extra* Edition - Jan 29, 2020

An additional news report on the recommendation, valuation, forecast and opinion changes for ASX-listed equities.

In addition to The Australian Broker Call Report, which is published and updated daily (Mon-Fri), FNArena has now added The Australian Broker Call *Extra* Edition, featuring additional sources of research and insights on ASX-listed stocks, also enlarging the number of stocks that make up the FNArena universe.

One key difference is the *Extra* Edition will not be updated daily, but merely "regularly" depending on availability of suitable quality content. As such, the *Extra* Edition tries to build a bridge between daily updates via the Australian Broker Call Report and ad hoc news stories, that are not always timely for investors hungry for the next information update.

Investors using the *Extra* Edition as a source of input for their own share market research should thus take into account that information after publication may not be up to date, or yet awaiting another update by FNArena's team of journalists.

Similar to The Australian Broker Call Report, this *Extra* Edition includes concise but limited reviews of research recently published by Stockbrokers and other experts, which should be considered as information concerning likely market behaviour rather than advice on the securities mentioned. Do not act on the contents of this Report without first reading the important information included at the end of this Report.

The Australian Broker Call *Extra* Edition is a summary that has been prepared independently of the sources identified. Readers will check the full text of the recommendations and consult a Licenced Advisor before making any investment decision.

COMPANIES DISCUSSED IN THIS ISSUE

Click on a symbol for fast access.
The number next to the symbol represents the number of brokers covering it for this report -(if more than 1)

AMG APC APT BSA BTH CAJ CVL EGH EGN IMA JYC LME LNK PBP PPS PVS (2) WZR

AMG AUSMEX MINING GROUP LIMITED

Industrial Metals - Overnight Price: $0.07

State One Stockbroking rates ((AMG)) as Hold (3) -

The mineral exploration company has exposure to projects in two Australian mineral provinces- the Cloncurry Project in Queensland and the Burra Project in South Australia.

State One Stockbroking values the Cloncurry Gold Exploration Target at $20m, the Canteen IOCG Prospect at a discounted value of $15m while the value of the Burra Project is considered to be $30m. In total, Ausmex Mining has been assigned an Enterprise Value (EV) of 65m.

Even at an estimated 75% upside from the current price levels, State One Stockbroking considers Ausmex Mining a risky pick and recommends a Hold on the stock. The target price is $0.11.

The report was published on December 23, 2019.

Target price is **$0.11** Current Price is **$0.07** Difference: **$0.04**
If **AMG** meets the State One Stockbroking target it will return approximately **57%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY20:

State One Stockbroking forecasts a full year **FY20** dividend of **0.00** cents and EPS of **minus 1.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 7.00**.

Forecast for FY21:

State One Stockbroking forecasts a full year **FY21** dividend of **0.00** cents and EPS of **minus 1.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 7.00**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

APC AUSTRALIAN POTASH LIMITED

Agriculture - Overnight Price: $0.11

Patersons rates ((APC)) as Initiation of coverage with Speculative Buy (1) -

The ASX-listed minerals company fully owns the Lake Wells Sulphate of Potash (LWSOP) project located North-East of Kalgoorlie. Patersons believes this is one of the best locations for SOP production and highlights the presence of 18.1mt drainable SOP.

A recent Definitive Feasibility Study by the company confirms a long-life project of 30 years with the icing on the cake being the global demand for SOP growing at a CAGR (Compounded Annual Growth Rate) of 1.3% to 2040, affirms the broker.

The study also estimates a pre-tax NPV (Net Present Value) of $665m along with an Internal Rate of Return (IRR) of 25%. Patersons has initiated coverage with a Buy (Speculative) rating on the back of an experienced management team and anticipation of strong margins of up to 50%. The target price is $0.23.

The report was first published on October 8, 2019.

Target price is **$0.23** Current Price is **$0.11** Difference: **$0.12**
If **APC** meets the Patersons target it will return approximately **109%** (excluding dividends, fees and charges).

Forecast for FY20:

Patersons forecasts a full year **FY20** dividend of **0.00** cents and EPS of **minus 1.50** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 7.33**.

Forecast for FY21:

Patersons forecasts a full year **FY21** dividend of **0.00** cents and EPS of **minus 3.50** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 3.14**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

APT AFTERPAY LIMITED

Business & Consumer Credit - Overnight Price: $36.70

Goldman Sachs rates ((APT)) as Buy (1) -

Goldman Sachs has updated for Afterpay’s performance in H120 and opines the buy now, pay later player's customer base may have reached 7.2m globally by December 31, 2019.

Afterpay was on a roll with its Gross Merchandise Value (GMV) adding up to $3.7bn till December 2019. It is likely, suggests the broker, for Afterpay to not only achieve its GMV forecast of $4.3bn for 1H20 but exceed it by up to $0.50bn.

Even so, the estimates for FY20 have not been changed as Goldman Sachs suspects the growth is seasonal and wants to observe trends further. Goldman Sachs is positive about the company's prospects as the combined potential market opportunity for its payment service in ANZ, US and UK is estimated to be worth $1tn.

Buy rating retained with a target price of $42.90.

The report was published on January 14, 2020.

Target price is **$42.90** Current Price is **$36.70** Difference: **$6.2**
If **APT** meets the Goldman Sachs target it will return approximately **17%** (excluding dividends, fees and charges).
Current consensus price target is **$33.84**, suggesting downside of **-7.8%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY20:

Goldman Sachs forecasts a full year **FY20** dividend of **0.00** cents and EPS of **minus 2.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 1835.00**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **5.1**, implying annual growth of **N/A**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **719.6**.

Forecast for FY21:

Goldman Sachs forecasts a full year **FY21** dividend of **0.00** cents and EPS of **30.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **122.33**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **22.1**, implying annual growth of **333.3%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **166.1**.

Market Sentiment: **0.7**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

BSA BSA LIMITED

Industrial Sector Contractors & Engineers - Overnight Price: $0.40

PhillipCapital rates ((BSA)) as Initiation of coverage with Buy (1) -

The communications and technical services company has three main segments and a substantial chunk of its earnings is recurring, opines Phillip Capital. The results for BSA for FY18 and FY19 were impacted by abnormal items but the storm has passed and the outlook for FY20 remains strong, according to the broker.

Even though BSA exited its HVAC - Major projects business in September 2019 due to considerable losses on its Royal Adelaide Hospital contract, the broker remains optimistic.

This is due to a string of positive factors like BSA Connect’s extension of the NBN contract, getting new customers onboard (BSA Maintain), getting a contract for the WestConnex tunnels fire suppression system (BSA Build).

The broker also reckons the company can think of acquisitions now, owing to a comfortable cash position.

Phillip Capital initiates coverage on BSA with a Buy recommendation and a target price of $0.49.

The report was published on December 30, 2019.

Target price is **$0.49** Current Price is **$0.40** Difference: **$0.09**
If **BSA** meets the PhillipCapital target it will return approximately **22%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY20:

PhillipCapital forecasts a full year **FY20** dividend of **1.00** cents and EPS of **3.50** cents.
At the last closing share price the estimated dividend yield is **2.50%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **11.43**.

Forecast for FY21:

PhillipCapital forecasts a full year **FY21** dividend of **1.30** cents and EPS of **4.20** cents.
At the last closing share price the estimated dividend yield is **3.25%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **9.52**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

BTH BIGTINCAN HOLDINGS LIMITED

Cloud services - Overnight Price: $0.88

PhillipCapital rates ((BTH)) as Initiation of coverage with Buy (1) -

A global leader recognised for its 'Bigtincan Hub software', Bigtincan uses machine learning to increase the effectiveness of sales and customer service reps.

Even though the firm incurred operating losses in FY19, it has made a significant move towards profitability with revenues up by 51% in the same period, declares Phillip Capital. The broker expects strong profitability with guidance for 30-40% organic revenue growth in Q1 FY20.

Scrutinizing growth, Phillip Capital comments it is driven by a switch to Cloud, SaaS and mobility. The software company is focusing on achieving growth rather than becoming profitable currently, an observation by the broker made on account of Bigtincan having made five acquisitions to bolster its position in the market.

The broker expects one more year of losses and negative cash flows, before turning "modestly profitable" in FY21. Additionally, the company is looked upon as a SaaS business with "significant global expansion potential".

For all these reasons, the broker has initiated coverage on this stock with a Buy rating and a target price of $0.78.

The report was first published on December 20, 2019.

Target price is **$0.78** Current Price is **$0.88** Difference: **minus $0.1** (current price is over target).
If **BTH** meets the PhillipCapital target it will return approximately **minus 11%** (excluding dividends, fees and charges - negative figures indicate an expected loss).
The company's fiscal year ends in June.

Forecast for FY20:

PhillipCapital forecasts a full year **FY20** dividend of **0.00** cents and EPS of **minus 1.30** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 67.69**.

Forecast for FY21:

PhillipCapital forecasts a full year **FY21** dividend of **0.00** cents and EPS of **0.30** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **293.33**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

CAJ CAPITOL HEALTH LIMITED

Healthcare services - Overnight Price: $0.26

Shaw and Partners rates ((CAJ)) as Buy (1) -

Capitol Health has made a foray into the South Australian market by acquiring Fowler Simmons Radiology. This acquisition is important as it also highlights the firm's strategy of diversifying across geography and clinical specialty, comments Shaw and Partners.

The broker is keen on this stock as the diagnostic imaging services provider is trading at below-market multiples and is seen as an attractive investment with a “conservatively geared” balance sheet.

There is also an anticipation of a bounce-back in earnings with the broker increasing EPS estimates by 1.1%, 3.8% and 4.5% over FY20-22. However, a continuously subdued macro-environment tempers the optimism somewhat and this caution has been incorporated in the broker's FY20 estimates.

Buy rating retained with the target price increasing marginally to $0.30 from $0.29.

The report was published on January 23, 2020.

Target price is **$0.30** Current Price is **$0.26** Difference: **$0.04**
If **CAJ** meets the Shaw and Partners target it will return approximately **15%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY20:

> Shaw and Partners forecasts a full year **FY20** dividend of **1.00** cents and EPS of **1.50** cents.
> At the last closing share price the estimated dividend yield is **3.85%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **17.33**.

Forecast for FY21:

> Shaw and Partners forecasts a full year **FY21** dividend of **1.30** cents and EPS of **1.90** cents.
> At the last closing share price the estimated dividend yield is **5.00%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **13.68**.

Market Sentiment: **0.5**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

CVL CIVMEC LIMITED

Industrial Sector Contractors & Engineers - Overnight Price: $0.40

Euroz rates ((CVL)) as Initiation of coverage with Speculative Buy (1) -

Civmec has secured a long term contract for block construction and consolidation of vessels for the Australian Navy’s offshore patrol vessel program. This, believes Euroz, is an avenue for long term revenue.

The construction and engineering player has a wide scope of offering and provides value-add fabrication capability to large scale resources and infrastructure projects.

The broker is cognisant of the issues faced by Civmec but is confident due to an $819m order book. The broker notes a decrease in margins for 2019 but envisages an improvement in 2020 supported by a strong first quarter and a plethora of large projects.

The broker initiates coverage with a Speculative Buy recommendation and a target price of $0.54.

The report was first published on December 20, 2019.

Target price is **$0.54** Current Price is **$0.40** Difference: **$0.14**
If **CVL** meets the Euroz target it will return approximately **35%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY20:

Euroz forecasts a full year **FY20** dividend of **0.90** cents and EPS of **3.41** cents.
At the last closing share price the estimated dividend yield is **2.25%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **11.73**.

Forecast for FY21:

Euroz forecasts a full year **FY21** dividend of **1.00** cents and EPS of **3.96** cents.
At the last closing share price the estimated dividend yield is **2.50%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.10**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

EGH EUREKA GROUP HOLDINGS LIMITED

Aged Care & Seniors - Overnight Price: $0.39

Taylor Collison rates ((EGH)) as Initiation of coverage with Hold (3) -

Taylor Collision sees “little market risk” to the Eureka Group’s business model although it does admit organic earnings will “infrequently exceed high-single digits”.

The critical factor in favour of the accommodation builder is that the number of Australians aged 65+ years is predicted to reach 8.8m or 22% of the population by 2057.

With Eureka Group’s strategy to significantly ramp up the owned units, the broker believes the acquisition pipeline looks attractive, which would help the builder save on costs and achieve economies of scale.

The broker feels the firm is fairly priced and initiates coverage on it by setting a Hold recommendation. The target price is $0.37.

The report was published on December 31, 2019.

Target price is **$0.37** Current Price is **$0.39** Difference: **minus $0.02** (current price is over target).
If **EGH** meets the Taylor Collison target it will return approximately **minus 5%** (excluding dividends, fees and charges - negative figures indicate an expected loss).
The company's fiscal year ends in June.

Forecast for FY20:

Taylor Collison forecasts a full year **FY20** dividend of **0.00** cents and EPS of **2.50** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **15.60**.

Forecast for FY21:

Taylor Collison forecasts a full year **FY21** dividend of **0.00** cents and EPS of **2.80** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **13.93**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

EGN ENGENCO LIMITED

Industrial Sector Contractors & Engineers - Overnight Price: $0.66

PhillipCapital rates ((EGN)) as Initiation of coverage with Hold (3) -

The engineering company, following a turnaround process, is debt-free and has been profitable for four years.

Engenco’s FY19 results reported an uptick in revenues by 11% and Phillip Capital believes the company is currently trading at a 12% premium to its peers on FY20 earnings basis. The broker is positive about FY20 on account of strong customer demand and avenues for organic growth.

Even though Phillip Capital considers Engenco's shares to be fully valued, it reckons the company is ready to begin a new chapter. The broker also notes the investors' willingness to back the "owner-driver" business model is an additional feather in Engenco's cap.

Phillip Capital initiates coverage giving a recommendation of Hold and target price of $0.51.

The report was first published on December 20, 2019.

Target price is **$0.51** Current Price is **$0.66** Difference: **minus $0.15** (current price is over target).
If **EGN** meets the PhillipCapital target it will return approximately **minus 23%** (excluding dividends, fees and charges - negative figures indicate an expected loss).
The company's fiscal year ends in June.

Forecast for FY20:

PhillipCapital forecasts a full year **FY20** dividend of **2.00** cents and EPS of **3.41** cents.
At the last closing share price the estimated dividend yield is **3.03%.**
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **19.35**.

Forecast for FY21:

PhillipCapital forecasts a full year **FY21** dividend of **2.50** cents and EPS of **4.10** cents.
At the last closing share price the estimated dividend yield is **3.79%.**
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **16.10**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

IMA IMAGE RESOURCES NL

Mineral Sands - Overnight Price: $0.23

Hartleys rates ((IMA)) as Accumulate (2) -

The mineral sands producer operates the Boonanarring zircon mineral sand project and began production in December 2018. It updated its Boonanarring ore reserves to 10.7mt from 19.9mt although it did increase the HM grade and zircon grade estimates.

The decrease in the ore reserve is mostly due to exclusion of low-value material and has led to the mine life being about three years.

On the back of changes to the ore reserves and mine life, the broker tempers its recommendation from Buy to Accumulate with the target price decreasing to $0.31 from $0.38.

The report was published on December 23, 2019.

Target price is **$0.31** Current Price is **$0.23** Difference: **$0.08**
If **IMA** meets the Hartleys target it will return approximately **35%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY19:

Hartleys forecasts a full year **FY19** dividend of **0.00** cents and EPS of **5.80** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **3.97**.

Forecast for FY20:

Hartleys forecasts a full year **FY20** dividend of **0.00** cents and EPS of **7.10** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **3.24**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

JYC JOYCE CORPORATION LTD

Furniture & Renovation - Overnight Price: $1.50

Euroz rates ((JYC)) as Initiation of coverage with Buy (3) -

Joyce Corporation partners with quality fast growing small to medium sized businesses and provides them with funding to grow operations, notes Euroz. The company also operates three brands, all of which are expected to expand geographically.

Euroz is positive about Joyce and forecasts strong earnings from the core businesses.This, clarifies Euroz, is in addition to new opportunities arising in the future.

The broker initiates coverage of the stock with a Buy rating and target price of $2.20.

The report was first published on December 20, 2019.

Target price is **$2.20** Current Price is **$1.50** Difference: **$0.7**
If **JYC** meets the Euroz target it will return approximately **47%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY20:

Euroz forecasts a full year **FY20** dividend of **12.30** cents and EPS of **13.70** cents.
At the last closing share price the estimated dividend yield is **8.20%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.95**.

Forecast for FY21:

Euroz forecasts a full year **FY21** dividend of **12.70** cents and EPS of **15.40** cents.
At the last closing share price the estimated dividend yield is **8.47%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **9.74**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

LME LIMEADE INC

Cloud services - Overnight Price: $1.82

Moelis rates ((LME)) as Initiation of coverage with Buy (1) -

The company helps enterprises improve their culture and employee engagement via its software platform, explains Moelis. The broker further notes Limeade completed a $100m Initial Public Offering (IPO) to list on the ASX in December 2019.

Moelis views the company positively and believes Limeade can leverage its competitive leadership in areas like employee well-being to grow further. Moelis anticipates an increase in sales momentum. The broker initiates coverage on this stock with a Buy and target price of $2.27.

The report was first published on January 12, 2020.

Target price is **$2.27** Current Price is **$1.82** Difference: **$0.45**
If **LME** meets the Moelis target it will return approximately **25%** (excluding dividends, fees and charges).

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

LNK LINK ADMINISTRATION HOLDINGS LIMITED

Wealth Management & Investments - Overnight Price: $6.26

Goldman Sachs rates ((LNK)) as Initiation of coverage with Neutral (3) -

The superannuation funds administrator faced headwinds in the form of regulatory risk, Brexit and increasing competition in 2019. Consequently, Link Group underperformed the ASX200 to the tune of -30%, notes Goldman Sachs.

PEXA remains the proverbial ace in the Group's sleeve and with entry to barriers like a lack of interoperability within the industry, the broker reckons PEXA would entrench its position as market leader.

Goldman Sachs assumes a stance slightly below guidance, although still expecting earnings growth in double digits in FY21/FY22.

The broker states the possibility for re-rating to be contingent on guidance for H2, regulatory clarifications and how the group deals with competition.

Coverage initiated on the stock with a Neutral rating and a target price of $6.65.

The report was first published on January 22, 2020.

Target price is **$6.65** Current Price is **$6.26** Difference: **$0.39**
If **LNK** meets the Goldman Sachs target it will return approximately **6%** (excluding dividends, fees and charges).
Current consensus price target is **$6.76**, suggesting upside of **8.0%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY20:

Goldman Sachs forecasts a full year **FY20** dividend of **15.00** cents and EPS of **30.00** cents.
At the last closing share price the estimated dividend yield is **2.40%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **20.87**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **31.0**, implying annual growth of **-48.3%**.
Current consensus DPS estimate is **18.2**, implying a prospective dividend yield of **2.9%**.
Current consensus EPS estimate suggests the PER is **20.2**.

Forecast for FY21:

Goldman Sachs forecasts a full year **FY21** dividend of **18.00** cents and EPS of **35.00** cents.
At the last closing share price the estimated dividend yield is **2.88%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **17.89**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **35.7**, implying annual growth of **15.2%**.
Current consensus DPS estimate is **19.5**, implying a prospective dividend yield of **3.1%**.
Current consensus EPS estimate suggests the PER is **17.5**.

Market Sentiment: **0.8**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

PBP PROBIOTEC LIMITED

Pharmaceuticals & Biotech/Lifesciences - Overnight Price: $2.18

Taylor Collison rates ((PBP)) as Initiation of coverage with Hold (3) -

Probiotec has issued guidance for FY20 and Taylor Collison notes the company expects revenues to cross $100m and operating profits to be close to $17m respectively for the period.

The industry remains competitive with knowledgeable customers putting pressure on manufacturing margins, observes the broker.

The consumer health manufacturer has expanded via bolt-on acquisitions and the broker considers growth prospects to be good, with the effect of EPS (earnings per share) accretive acquisitions starting to kick in.

Having said that, Taylor Collison believes this has already been factored in the share price and that the company needs some time to integrate the recent acquisitions.

Taylor Collison initiates coverage of Probiotec with a Hold recommendation. The target price is $1.95.

Target price is **$1.95** Current Price is **$2.18** Difference: **minus $0.23** (current price is over target).
If **PBP** meets the Taylor Collison target it will return approximately **minus 11%** (excluding dividends, fees and charges - negative figures indicate an expected loss).
The company's fiscal year ends in June.

Forecast for FY20:

Taylor Collison forecasts a full year **FY20** dividend of **4.00** cents and EPS of **11.30** cents.
At the last closing share price the estimated dividend yield is **1.83%.**
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **19.29**.

Forecast for FY21:

Taylor Collison forecasts a full year **FY21** dividend of **5.00** cents and EPS of **11.90** cents.
At the last closing share price the estimated dividend yield is **2.29%.**
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **18.32**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

PPS PRAEMIUM LIMITED

Wealth Management & Investments - Overnight Price: $0.50

Bell Potter rates ((PPS)) as Buy (1) -

The investment platform recently crossed $3bn in Funds Under Administration (FUA) and delivered record inflows of $228m for the December quarter. The international business net-flows are also up 90% to $776m in 2019. The broker considers the firm is well on its way to achieving breakeven point in the coming months.

With outflows from the ANZ Private transition factored in, the broker notes the new reporting features and new asset categories added to the platform. After considering the December quarter update, Bell Potter has upgraded the EPS estimates by 2%, 3.5% and 2.7% for FY20, FY21 and FY22 respectively.

Buy recommendation retained with the target price increased to $0.75 from $0.73.

The report was published on January 22, 2020.

Target price is **$0.75** Current Price is **$0.50** Difference: **$0.25**
If **PPS** meets the Bell Potter target it will return approximately **50%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY20:

Bell Potter forecasts a full year **FY20** dividend of **0.00** cents and EPS of **2.20** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **22.73**.

Forecast for FY21:

Bell Potter forecasts a full year **FY21** dividend of **1.20** cents and EPS of **2.40** cents.
At the last closing share price the estimated dividend yield is **2.40%.**
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **20.83**.

Market Sentiment: **1.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

PVS PIVOTAL SYSTEMS CORPORATION

Hardware & Equipment - Overnight Price: $1.60

Moelis rates ((PVS)) as Buy (1) -

Pivotal Systems Corporation has pre-reported Q4 FY19 revenue of US$6.4m, bringing the total 2H19 revenue to US$7.3m. This is against the guidance of a stronger second half due to delay in shipment and increased production lead times, observes Moelis.

The company is expected to increase its sales with the memory semiconductor cycle turning favourable and an uptick in new bookings for FY20. Currently valued bottom of the cycle at 11.6x EV/2021e EBITDA, the gas flow monitoring company nevertheless offers a strong market share expansion story, suggests the broker.

The broker is very optimistic and expects a future re-rating of the stock. For now, Buy rating retained and the target price moves down marginally to $2.23 from $2.26.

The report was first published on January 21, 2020.

Target price is **$2.23** Current Price is **$1.60** Difference: **$0.63**
If **PVS** meets the Moelis target it will return approximately **39%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY19:

Moelis forecasts a full year **FY19** dividend of **0.00** cents and EPS of **minus 10.09** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 15.85**.

Forecast for FY20:

Moelis forecasts a full year **FY20** dividend of **0.00** cents and EPS of **minus 2.74** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 58.42**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

---

Shaw and Partners rates ((PVS)) as Buy (1) -

Pivotal Systems is a manufacturer and supplier of gas flow controllers. The company recently announced its fourth-quarter results for FY19, notes Shaw and Partners. with the unaudited fourth-quarter revenues being US$6.4m

The broker is optimistic even though the company’s revenues were hit due to shipment delays and an increase in lead time. This is due to an increase in new orders along with an upturn in semiconductor equipment sales, the broker explains. Shaw and Partners expects this to continue in FY20.

The broker is positive and rates this stock a Buy with target price of $1.7.

The report was first published on January 21, 2020.

Target price is **$1.70** Current Price is **$1.60** Difference: **$0.1**
If **PVS** meets the Shaw and Partners target it will return approximately **6%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY19:

Shaw and Partners forecasts a full year **FY19** dividend of **0.00** cents and EPS of **minus 9.80** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 16.32**.

Forecast for FY20:

Shaw and Partners forecasts a full year **FY20** dividend of **0.00** cents and EPS of **3.32** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **48.27**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

WZR WISR LIMITED

Hardware & Equipment - Overnight Price: $0.00

Moelis rates ((WZR)) as Buy (1) -

Wisr has hit a home run in the December quarter, originating new loans worth $31.6m. This is a mere six weeks after its last update in November 2019 and the broker reckons the party will continue for now.

Terming the increase in the volume a "step change", Moelis has lifted its original revenue estimates by 7.8% to $8.9m in FY20 and by 8% to $30.5m respectively.

Initiatives like the transition to a better loan funding model and commercialisation of the auto-secured personal loan product are expected to bear fruits in 2H20.

The company is an attractive investment prospect in the broker’s opinion and hence, Moelis rates this stock a Buy with target price of $0.28.

The report was last published on January 13, 2020.

Target price is **$0.28**
The company's fiscal year ends in June.

Forecast for FY20:

Moelis forecasts a full year **FY20** dividend of **0.00** cents and EPS of **minus 0.60** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **0.00**.

Forecast for FY21:

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

---

WEEKLY REPORTS

The Short Report - 30 Jan 2020

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

Summary:

Week ending January 23, 2020

Last week saw the ASX200 shoot up to a new all-time high before beginning to stutter ahead of the coronavirus scare.

But for a couple of exceptions, short position changes last week were very minimal from the week before. The bulk of the red and green below reflects modest bracket creep.

Two companies exhibited short position changes of one percentage point or more.

One was data centre operator NextDC ((NXT)), the shorts on which fell to 10.8% from 11.9% on no new news. Given the stock rallied 15% in the space of ten days we can conclude (a) short positions were beginning to bail and (b) that helped feed the rally.

I noted in last week's Report shorts in Mineral Resources ((MIN)) had fallen to 8.8% from 10.7% in late December, noting the company is not just a lithium miner but an iron ore miner and mineral processor as well. Last week shorts fell to 7.8%.

Mineral Resources has decided to put its Wodgina lithium mine into care & maintenance until prices improve. Given the most shorted stocks on the ASX (not counting Kirkland Lake Gold) are lithium or graphite miners, Mineral Resources' decision to sit it out and concentrate on its other operations probably means shorters no longer consider the stock a lithium exposure.

No Movers & Shakers this week.

Weekly short positions as a percentage of market cap:

10%+

KLA 28.2
GXY 18.9
SYR 17.3
ORE 13.7
SDA 13.1
NEA 12.3
ING 12.1
GWA 12.0
JBH 11.3
RSG 11.1
BGA 11.0
CGC 10.9
NXT 10.8
WEB 10.3

Out: MTS

9.0-9.9

MTS, BKL, SUL, DMP

In: MTS

8.0-8.9%

PLS, IVC, HUB, NUF

Out: MIN

7.0-7.9%

CUV, HVN, MIN, PPT, NCZ, A2M, MYR, CTD, BEN, BOQ, BIN, IFL

In: MIN, BEN, BOQ, BIN

6.0-6.9%

RWC, PNI, CGF, SGM, NEC, BWX

Out: BEN, BOQ, BIN, SGM, NEC, BWX

5.0-5.9%

SGM, BWX, JIN, CLH, MSB, MND, AMP, RFF, NEC, WSA, CLQ, KGN, GMA, MYX, COE

In: SGM, BWX, NEC, WSA, KGN Out: WOR

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
AMC	0.5	0.6	NCM	1.1	1.3
ANZ	0.5	0.6	RIO	4.0	3.8
BHP	3.2	3.0	SCG	0.4	0.5
BXB	0.2	0.3	SUN	0.6	0.6
CBA	0.7	0.7	TCL	0.4	0.4
CSL	0.0	0.1	TLS	0.4	0.3
GMG	0.3	0.3	WBC	0.5	0.5
IAG	0.5	0.4	WES	0.6	0.7
MQG	0.2	0.2	WOW	0.7	0.6
NAB	0.6	0.5	WPL	0.7	0.8

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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

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

WEEKLY REPORTS

The Wrap: RBA, Coronavirus & Telecoms

Weekly Broker Wrap: rate cuts; coronavirus; telecoms; wealth managers; and gaming.

-Morgan Stanley, NAB economists push out timing of RBA rate cut
-If coronavirus contagion extends beyond 3-4 months then global economy could be impacted
-String of issues dominating telcos in 2020
-Major uncertainties overhang retail wealth managers
-Two casinos in one location heralds margin risk

By Eva Brocklehurst

Rate Cuts

Morgan Stanley is moving the timing of a cut to the Reserve Bank of Australia's cash rate to April from February, believing the February 4 meeting lacks a catalyst. The case remains strong for a reduction in 2020, perhaps two, as forward labour indicators suggest a softening over the first half.

Yet, the December labour market data was strong and the consumer price index was broadly in line with forecasts. That said, Morgan Stanley is still confident the RBA will cut and envisages a second reduction could transpire in August. Moreover, the broker assesses there is scope for a weaker Australian dollar as the market is underpricing both the timing of the first rate cut and the risk of a second.

National Australia Bank economists are also inclined to believe the RBA will stay its hand in February and use the recent improvement in the unemployment rate to buy time.

The NAB economists expect a cut in April as well and a second one around mid year. By April it should be clear that private sector growth is flat, consumer spending is soft and the recent gains in employment will not be sustained. They expect the headwinds for consumption and business investment are likely to persist.

Coronavirus

Morgan Stanley observes the coronavirus has led to a suspension of economic activity and imposed pressures of both global and Chinese growth. The virus appears to be more contagious than SARS at its peak, with increased incidence of 790/day in the past five days.

The Chinese authorities have imposed intercity travel restrictions and extended national holidays by three days. The most affected industries are travel, entertainment and retail , while extended factory suspensions could weigh on industrial production and trade.

While there may be some adverse impact to first quarter global growth, the underlying drivers of a global recovery remain intact. If the situation extends beyond three or four months global growth could be further impacted.

Citi assesses coronavirus is hitting the global economy at the worst possible time of year, as it has coincided with Chinese New Year. The broker estimates 20-27% of Chinese visitors to **Sydney Airport** ((SYD)) arrive during February and March.

Wuhan, the city at the centre of the outbreak, has direct services to Sydney three times a week via China Eastern Airlines. The broker estimates the best case scenario for Sydney Airport is that the virus is contained in the near term and Chinese passenger numbers decline by -50% over February and March, affecting 2020 operating earnings (EBITDA) by less than -0.5%.

A worst-case scenario could be a -5% decline in 2020 international passengers and this could affect operating earnings by -5-7% the broker assesses the potential impact on **Auckland International Airport** ((AIA)) is similar in a best case scenario but less severe in a bear case.

Telecoms

UBS notes two aspects of the National Broadband Network are being reviewed at the moment, including an inquiry by the Australian Competition and Consumer Commission (ACCC) into access pricing and a parliamentary committee inquiry into the NBN business case.

One of the issues relates to the NBN overbuilding existing RSP (retail service provider) fibre infrastructure and purportedly providing services directly to enterprise customers in contravention of its remit.

The broker notes a concession has been proposed, whereby NBN will commence a consultation and instead of overbuilding existing RSP fibre run a process in which it would request one a more pre-qualified suppliers to provide dark fibre, or run a reverse auction process and allow existing fibre network providers to bid for the right to supply.

UBS suggests this concession could be an incremental positive for RSP margins but makes no changes to forecasts. In the case of **Vocus Group** ((VOC)) NBN "mission creep" has little impact on near-term earnings and the existing customer base, while for **Telstra** ((TLS)) the broker remains comfortable with its estimate of the NBN gap being as large as $3.7bn.

Goldman Sachs agrees several issues will dominate the 2020 outlook for Australasian telecoms. One will be the Federal Court decision on the proposed merger of **TPG Telecom** ((TPM)) and Vodafone Australia.

The other issues include the outlook for mobiles, the earnings potential from a separation of Telstra's infrastructure business, and the NBN's corporate consultation. The broker has a Buy rating for Telstra, given its earnings trajectory on mobiles and an opportunity to still cut costs. There is also significant potential to crystallise value from the infrastructure.

Goldman Sachs upgrades Vocus Group to Buy from Neutral, to reflect a positive earnings trajectory in enterprise and an improved operating environment. The broker's least preferred stock in the sector is **Spark Infrastructure** ((SKI)) with a Sell rating as it is overvalued.

Wealth Managers

Morgan Stanley assesses major uncertainties are overhanging retail wealth managers. There are major earnings implications for the longer run from the elevated role of super trustee boards as well as for vertical integration.

There is also uncertainty over the capacity to execute on advice transformation and capture margins for shareholders. Unless **AMP** ((AMP)) and **IOOF** ((IFL)) can deliver an economical value proposition to planners and customers the risk of being irrelevant is real, in the broker's view.

While these are major issues for these two companies there is also some impact on **Challenger** ((CGF)). Morgan Stanley prefers IOOF, based on a greater capacity to execute and additional scale and synergies from the ANZ P&I acquisition. IOOF also has a simpler platform structure.

While AMP is working to complete its exit from the life business this is not guaranteed with several approvals outstanding. The broker forecasts wealth outflows for AMP of around -$4bn in the second half.

With the industry potentially seeking broader and more appealing options the structural tailwinds for annuities are less certain, Morgan Stanley points out, and falling bond and cash rates may present headwinds to retail demand and the margin outlook for Challenger.

Gaming

Aristocrat Leisure ((ALL)) remains the top pick for JP Morgan in the Australian gambling industry and **Tabcorp** ((TAH)) is the least preferred. The broker expects Tabcorp's wagering revenue will decline by around -5% this year.

JPMorgan also downgrades **Star Entertainment** ((SGR)) to Neutral because of a softer domestic outlook for the next 12 months. Recent trading history shows the stock is above its historical one-year PE average of 15.8x.

The broker believes the current discount to **Crown Resorts** ((CWN)) is warranted. Although initial interest in Crown's Barangaroo will be strong, when the facility opens in late 2020, the negative impact of two casinos in one location means the gambler has the ability to choose. Competitive promotions are likely to herald margin risk.

RUDI'S VIEWS

Retail Investors Might Be Key For Equities Bull Market

Dear time-poor reader: *it's falling profits and coronavirus spreading versus cash from the sideline; plus is that a new Green Mega Trend on the horizon?*

In this week's Weekly Insights:

-Retail Investors Might Be Key For Equities Bull Market
-Not King Coal
-Get More Out Of Your Subscription

Retail Investors Might Be Key For Equities Bull Market

By Rudi Filapek-Vandyck, Editor

The 2020 decade opened with a bang as, globally, investors started preparing for a recovery in growth later in the year on the back of ongoing loose policies from central banks and early indications of a bottom in the global slump.

Towards the end of last year, investor focus seemed to be on elevated valuations after what had been the best performance since 2009 for many an equity index. From the moment January began it quickly became obvious cash on the sidelines was burning a hole in fund managers' souls, and that cash was looking to be deployed sooner rather than later.

It's not always the Australian share market starts the new calendar year by rising more than 6% in less than three weeks - more than double the 3% return achieved during the prior six months. Admittedly, there is an element of catching up as December proved rather gloomy for the ASX, exacerbated by a large foreign seller during the final trading session for the year.

But here institutions and other investors had equally moved some of their funds into cash and defensive assets, away from the share market, which temporarily proved the correct decision, until the new year started with a big upswing. There is **anecdotal evidence that some of the cash that deserted equities late last year has made a swift come back in January.**

For good measure: not everybody is on board with the improved outlook for the global economy further into the current calendar year, while many an expert eye continues to be wary of today's share prices already reflecting lots of optimism and good news. The problem of elevated looking share price valuations was countered by expectations that market consensus for corporate profits will be proven too conservative, and thus valuations are not as high as they seem.

The irony in the Australian context is that bushfires and weather events inflicting damage and retailers struggling post Boxing Day 2019 continue to elicit profit warnings from listed companies already facing continuous challenges from a moribund domestic economy, a recovery in the local housing market notwithstanding.

The past few weeks have seen **profit warnings from companies** including Suncorp ((SUN)), Insurance Australia Group ((IAG)), QBE Insurance ((QBE)), AMA Group ((AMA)), Apollo Tourism & Leisure ((ATL)), Gentrack Group ((GTN)), nib Holdings ((NHF)), Medibank Private ((MPL)), Mosaic Brands ((MOZ)), Super Retail ((SUL)), Nufarm ((NUF)), Kogan ((KGN)), Cimic Group ((CIM)), Downer EDI ((DOW)), and Beacon Lighting ((BLX)).

At first glance, none of these warnings should have come as a major surprise. Bushfires and weather events lead to spikes in insurance claims. Extreme weather triggers changes in consumption, and affects tourism, outdoor sports and leisure, and the agricultural sector. Consumer spending is on the nose, and not just because of the bushfires. Engineers and project underwriters are risky businesses (see also: RCR Tomlinson and Forge Group, as well as Lendlease Group).

Analysts are already anticipating Qantas ((QAN)) will be next in providing guidance for fewer-than-anticipated international travelers, as well as Sydney Airport (((SYD)) in extension of the same theme. Note also: the benign response to the share price of QBE Insurance post warning possibly signals investors, in some cases, are willing to look beyond the immediate impact, at least for now.

In contrast, a handful of small caps have issued **positive revisions to profit guidance** and these share prices, understandably, have (mostly) shot the lights out in response. This small congregation of positive stand-outs thus far includes Polynovo ((PNV)), Bell Financial Group ((BFG)), Catapult Group ((CAT)), Objective Corp ((OCL)), EML Payments ((EML)), Data#3 ((DTL)), and K&S Corp ((KSC)).

Investors did not wait for any market updates to assume that reduced geopolitical tension and an improving global outlook was working to the benefit of iron ore producers such as Fortescue Metals ((FMG)), Mount Gibson ((MGX)), BHP Group ((BHP)), and Rio Tinto ((RIO)).

But now the sudden emergence, and spreading of the coronavirus from China has, temporarily at least, put a firm halt to that trend.

Looking beyond the events that have both stimulated and cooled down investor sentiment this January, the observation still stands that analysts' forecasts for corporate profits are still declining, as they were throughout 2019, and this means the trend of rising valuations when corporate profits are not keeping pace has continued into the new year.

Globally, there is a lively discussion going on whether traditional valuation methods still apply in a world that sees businesses and models transform at rapid pace. I can definitely back up some of the arguments, which is why I have not been as downbeat as many others on, say, CSL ((CSL)), Xero ((XRO)), and Goodman Group ((GMG)). But what about bricks & mortar retailers? Their landlords? The banks?

One of the lingering doubts among investors globally is that banks are making sizable investments into new technologies, but contrary to other sectors, there doesn't appear to be any tangible benefits coming from these investments. At least not in the short term. In Australia, banks might have seen the nadir in this down-cycle, but unless cash profits see a positive revival, they still won't be a fantastic investment beyond the occasional bounce.

Meanwhile, the prospect for further dividend cuts from the more vulnerable in the sector continues, with Bank of Queensland ((BOQ)) widely considered as not done yet when it comes to negatively adjusting the payout to shareholders in line with operational pressures and the need for significant investments.

It is against this background that investors will soon be bombarded with ASX-listed companies releasing performance reports for the six months ending in December. Given share prices tend to be high, even with a step-back from the all-time record because of coronavirus concerns, I'd suggest volatility is likely to spike yet again next month.

Given profit reports might be impacted short term by the factors mentioned above, investors will be keen to learn more about how the managers at the helm of companies see the future. Increasingly, this will include how companies can and are ready to prepare for climate and weather-releated events.

Don't underestimate the importance of the events this summer in Australia and elsewhere. It is more than likely they have changed the mindset of both business leaders and institutional investors, irrespective of the games played by politicians the world around.

See also further down "Not King Coal".

As per usual, FNArena will keep a detailed Monitor of the corporate results released in February as seen through the eyes of the analysts covering Australian companies. Our **Corporate Results Monitor**, which runs all-year, currently consists of a forward looking calendar, and little more, but it'll soon start filling up with updated reviews.

https://www.fnarena.com/index.php/reporting_season/

Note: paying subscribers (6 & 12 months) have access to past reports going back to August 2013.

Retail Investors Are Net Sellers Of Equities

One of the big mysteries behind the scenes of the current bull market in equities is the dramatic fall in investor participation, a fact I have highlighted on more than one occasion in recent years. The old adage was always that bull markets, in order to remain sustainable, required more buyers than sellers, but this market has thrown out the traditional blueprint, and then some.

For **three successive years now, investors have been net sellers of US equities**, yet share prices have continued to rally higher.

A recent in-depth analysis by UBS strategists Keith Parker and Sean Simonds estimates total selling in US stocks is close to the selling that occurred at the height of the financial crisis ten years ago.

To put some concrete numbers to that statement, on UBS's calculations net selling since March 2017 had by December last year accumulated to -US$690bn, which is vastly larger than the -US$475bn that occurred during the global downturn of 2015-2016 and the -US$414bn that was withdrawn (net) during the global financial crisis of 2007-2009.

Calculated as percentages of the average market cap, however, net selling in 2017-19 amounts to -2.7% which compares to -2.9% during the GFC.

Another important observation made by the UBS strategists is that retail investors are mostly doing the selling. Apparently, most of the money that flows out of equities moves into cash.

We don't have any comparable data or analysis for Australian equities, at least not that I am aware of, but it seems but a fair assumption, I think, that some of that money has found its way back into equities, both here and overseas.

Are we experiencing the ultimate capitulation that ensures this bull market has at least one more leg upwards left in it? Your guess is worth as much as mine.

But we are going to find out exactly how much life is left in this bull market this year, of that I am confident.

Today's market update marks my first Weekly Insights story for calendar year 2020. Subscribers should note last week I posted two updates on stockbrokers' conviction calls. All my writings can be accessed via the Rudi's Views section on the website.

Next week Weekly Insights will bring you a detailed preview of the upcoming February reporting season.

Weekly Insights continues below.

****

Before we move on to more things financial...

Our democracies are in danger. I know this sounds extremely hyperbolic, but it is not.

Since the middle of the twentieth century we have all become accustomed to the fact societies and political systems have become more open, accessible and accountable. In particular in the West, and in particular after the iron curtain collapsed in the late eighties.

Today we take too many things for granted. We assume bad history won't repeat. And just like the proverbial frog in gradually heating up water, we don't notice or even understand how the parliamentary system, the role of government, and its institutions are being undermined and eroded away. Read *The Fifth Risk* by Michael Lewis. Read *Fascism, A Warning* by Madeleine Albright.

There are, of course, many more authors, books and publications that can be read, but the message remains the same: undemocratic forces are on the rise, and they have the momentum on their side. Increasing limitations placed on free and independent media, of which FNArena is a proud member, is but one factor that is easy to identify.

Awareness is the first step to defending our democracies, who have never been flawless, but nevertheless far superior to any of the alternatives history shows us.

Be aware.

****

Not King Coal

Forget about your political beliefs and alliances, as Editor of an online media company specialised in finance and investing, it is my task to inform you about emerging new trends that will have an impact on asset prices.

In the wake of unprecedented bushfires in Australia and global investment manager Blackrock announcing it considers thermal coal exposure a No-Go for the future, the focus among investors is increasingly shifting away from "dirty" coal; the kind used by utilities including AGL Energy and Origin Energy to supply power to Australian businesses and households.

Of course, thermal coal will remain in use for decades to come across the globe, but that won't stop the world's institutional investors selling their exposure and avoid getting involved with the sector ever again. Which is what is happening today.

How this scenario exactly is going to play out is anybody's guess, but I'd wager both Rio Tinto ((RIO)) and BHP Group ((BHP)) did not sell their thermal coal operations for no reason. Plus BHP-offshoot South32 ((S32)) is now also in the process of divesting its exposure in South Africa.

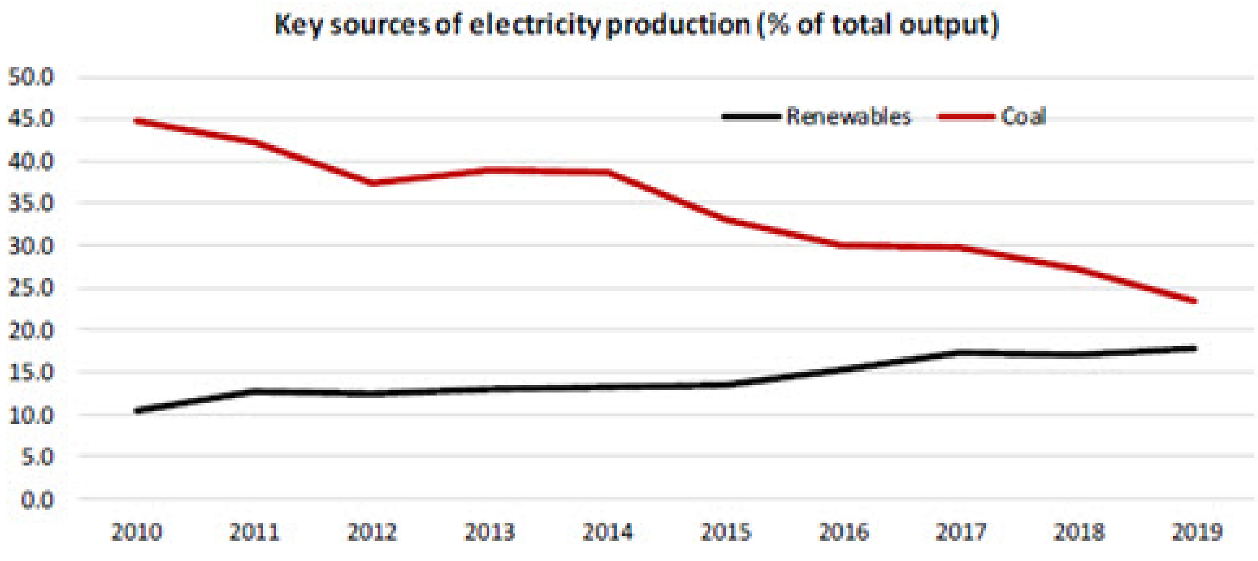
Maybe the share market is not the first place to focus on. Last year Peabody Energy, a US-based company that advertises itself as the largest private-sector coal company in the world, was forced to pull an US$800m junk bond raising which sent shivers through the global corporate bond market.

Earlier this month, one of the local experts in corporate credit in Australia sent a written warning to his clientele: institutions are selling their corporate bonds. They are of the intention to never return. It is but logical to expect a profound impact on liquidity and on the traded value of these corporate bonds.

The warning stated that while the companies behind such bonds might still look solid, from a fundamental credit analysis perspective, it is but plausible such bonds will start trading at a discount to intrinsic value, and might not recover from it. Moreover, when refinancing comes along, there might not be enough appetite around to provide ongoing financial support.

In other words: the corporate credit market is shifting into Risk Off mode for thermal coal exposure. No more appetite. Investors better take note.

Below is a recent chart showing trends for coal and renewables as the key source for electricity generation in the US. Sure, coal is still more important than all renewables combined, but is that the real message here?



Source: CEIC, DBS

In today's share market share prices for producers including Coronado Global Resources ((CRN)), Whitehaven Coal ((WHC)) and New Hope Corp ((NHC)) are low because the price of the commodity has fallen sharply, and there will always be a class of investor who remains interested as long as the share price looks cheap enough, but here too new trends are building momentum. Green energy and sustainable investing are two of them.

Don't just take my word for it. Last week Saxo Bank released a fresh outlook assessment for global equity markets with the premise being the world is about to experience a seismic shift on the back of disruption to and shortages of food, clean water and clean air.

Both governments and their citizens, including businesses and investors, will increasingly direct their focus towards the realisation the current model is based on "unsustainable economic activity", in the words of Saxo Bank, who now predicts rising climate awareness will drive a "green mega trend" in global equities.

Starting today.

Since late 2018, FNArena has been running a dedicated news section to ESG matters on its website. Check it out at ESG Focus:
https://www.fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

There is a lot more to digest in the following two paragraphs from Saxo Bank's release than initially meets the eye:

"*Governments will increase investments and subsidies for "green" industries, starting a new mega trend in equity markets. We believe that these green stocks could, over time, become some of the world's most valuable companies — even eclipsing the current technology monopolies as regulation accelerates during the coming decade. Investors should consider tilting their portfolios towards green stocks so they don't miss this long-term opportunity.*

"Meanwhile, central banks and governments have decided to throw out the old playbook of not adding stimulus in the late stage of an expansion in which the labour market is tight. Both monetary and fiscal policy is readily being deployed in 2020 across all the world's largest economies. This is not the time to be underweight equities."

Get More Out Of Your Subscription

Message to all fresh and existing subscribers: last year already we added "**Guide To The Website**" to the black ribbon that runs across the top of the website. You can always ask the team questions via the messaging system on the website, but a visit here might explain more than you are looking for:

https://www.fnarena.com/index.php/guide-to-the-website/

(*This story was written on Tuesday 28th January 2020. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).*

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

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

****

BONUS PUBLICATIONS FOR FNARENA SUBSCRIBERS

Paid subscribers to FNArena (6 and 12 mnths) receive several bonus publications, at no extra cost, including:

- The AUD and the Australian Share Market (which stocks benefit from a weaker AUD, and which ones don't?)
- Make Risk Your Friend. Finding All-Weather Performers, January 2013 (The rationale behind investing in stocks that perform irrespective of the overall investment climate)
- Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection)
- Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow.
- Who's Afraid Of The Big Bad Bear? eBook and Book (print) available through Amazon and other channels. Your chance to relive 2016, and become a wiser investor along the way.

Subscriptions cost $440 (incl GST) for twelve months or $245 for six and can be purchased here (depending on your status, a subscription to FNArena might be tax deductible):
http://www.fnarena.com/index2.cfm?type=dsp_signup

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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


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