WEEK 14

FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Friday, 5 April 2024

Material Matters: Pressure On Dividends, Steel & Iron Ore

Rudi's View: (In Search Of) The Holy Grail

And Now For Something Different: Royalties

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FNArena
Financial News, Data & Analysis

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AUSTRALIA

The Market In Numbers - 30 Mar 2024

The Market In Numbers: Look under the bonnet and what do you see?

For most investors, whatever goes on in financial markets is experienced through their own portfolio and personal matters of interest.

The below detailed overview in raw numbers and calculations might assist with assessing trends and currents that might not be apparent from daily volatility and movements.

All index data are ex dividends. Commodities are in USD.

Australia & NZ

Index	28 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
NZ50	12105.290	1.06%	3.10%	2.84%	2.84%	1.58%
All Ordinaries	8153.70	1.59%	2.44%	4.14%	4.14%	10.16%
S&P ASX 200	7896.90	1.63%	2.57%	4.03%	4.03%	9.63%
S&P ASX 300	7847.90	1.61%	2.57%	4.14%	4.14%	9.65%
Communication Services	1579.10	1.36%	-1.07%	-0.57%	-0.57%	2.71%
Consumer Discretionary	3616.60	1.14%	0.74%	11.62%	11.62%	22.86%
Consumer Staples	12357.90	2.53%	1.58%	0.38%	0.38%	-7.04%
Energy	10774.10	2.85%	3.38%	1.42%	1.42%	-0.50%
Financials	7458.60	0.85%	2.90%	11.02%	11.02%	19.92%
Health Care	43439.00	2.49%	1.14%	2.59%	2.59%	5.20%
Industrials	7181.20	2.03%	2.21%	4.59%	4.59%	5.66%
Info Technology	2277.00	-0.79%	2.76%	24.23%	24.23%	24.46%
Materials	17941.90	1.95%	2.18%	-7.94%	-7.94%	-0.50%
Real Estate	3837.20	2.87%	9.18%	14.62%	14.62%	26.06%
Utilities	8284.30	1.06%	3.20%	1.28%	1.28%	-5.15%
A-REITs	1743.60	2.98%	9.58%	16.05%	16.05%	28.71%
All Technology Index	3095.70	0.20%	0.69%	14.91%	14.91%	28.10%
Banks	3085.10	0.89%	2.63%	10.99%	10.99%	23.56%
Gold Index	7242.30	4.82%	16.06%	-1.70%	-1.70%	9.43%
Metals & Mining	5841.60	1.93%	2.23%	-9.67%	-9.67%	-3.56%

The World

Index	28 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
FTSE100	7952.62	0.27%	4.23%	2.84%	2.84%	5.59%
DAX30	18492.49	1.57%	4.61%	10.39%	10.39%	14.52%
Hang Seng	16541.42	0.25%	0.18%	-2.97%	-2.97%	-12.56%
Nikkei 225	40369.44	-1.27%	3.07%	20.63%	20.63%	21.63%
DJIA	39807.37	0.84%	2.08%	5.62%	5.62%	15.69%
S&P500	5254.35	0.39%	3.10%	10.16%	10.16%	18.07%
Nasdaq Comp	16379.46	-0.30%	1.79%	9.11%	9.11%	18.80%

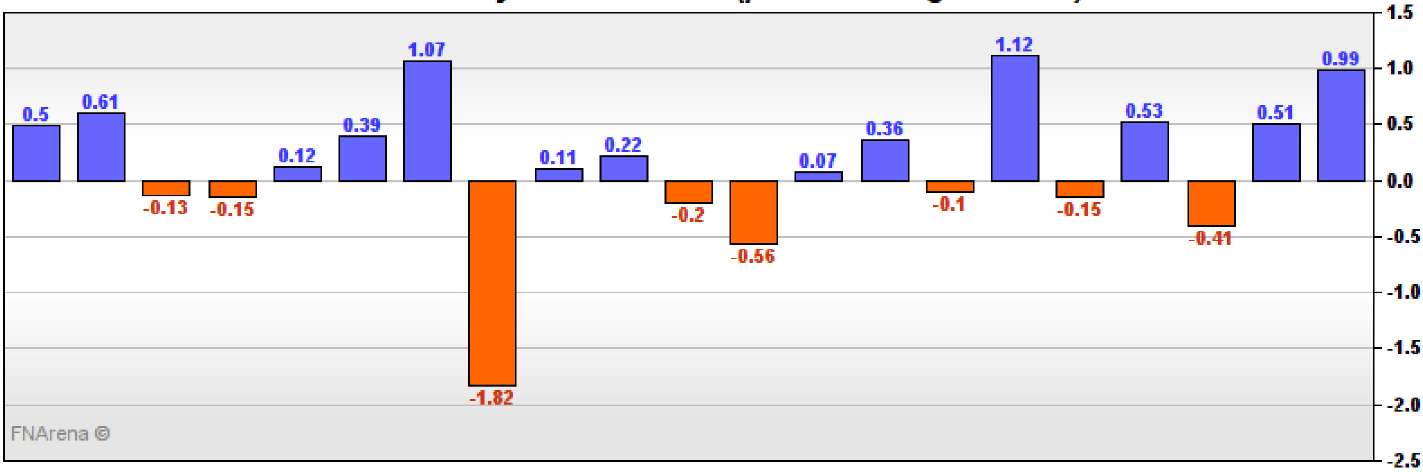
Metals & Minerals

Index	28 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
Gold (oz)	2194.10	0.61%	7.90%	7.32%	7.32%	14.99%
Silver (oz)	24.58	-0.45%	9.68%	0.82%	0.82%	9.10%
Copper (lb)	3.9924	-1.09%	4.87%	4.84%	4.84%	7.41%
Aluminium (lb)	1.0386	-0.09%	5.29%	6.82%	6.82%	8.44%
Nickel (lb)	7.4893	-5.14%	-6.03%	0.70%	0.70%	-15.85%
Zinc (lb)	1.1016	-3.36%	1.37%	-2.05%	-2.05%	5.05%
Uranium (lb) weekly	88.00	2.33%	-7.37%	2.33%	2.33%	56.58%
Iron Ore (t)	101.61	-7.74%	-10.77%	-26.49%	-26.49%	-10.80%

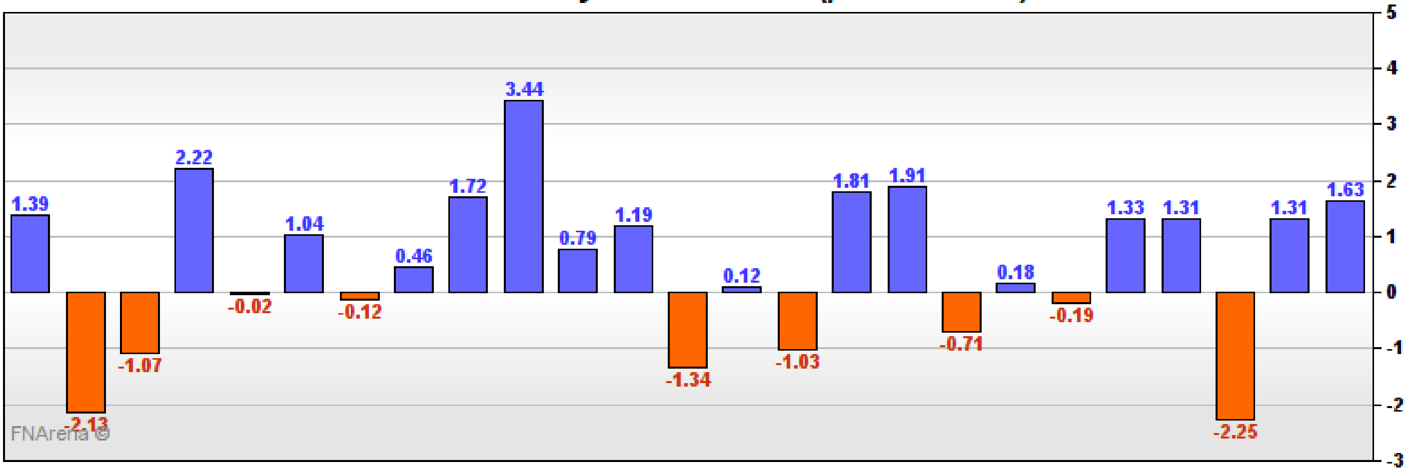
Energy

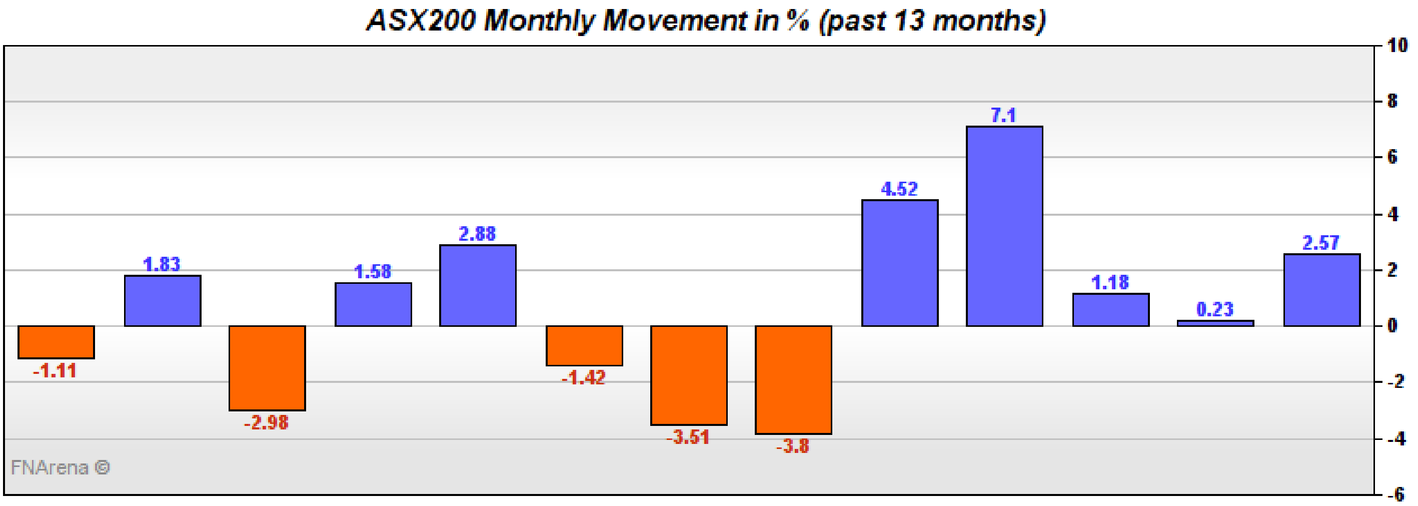
Index	28 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
West Texas Crude	81.72	1.03%	4.27%	10.72%	10.72%	16.98%
Brent Crude	86.35	0.86%	3.46%	8.95%	8.95%	16.20%

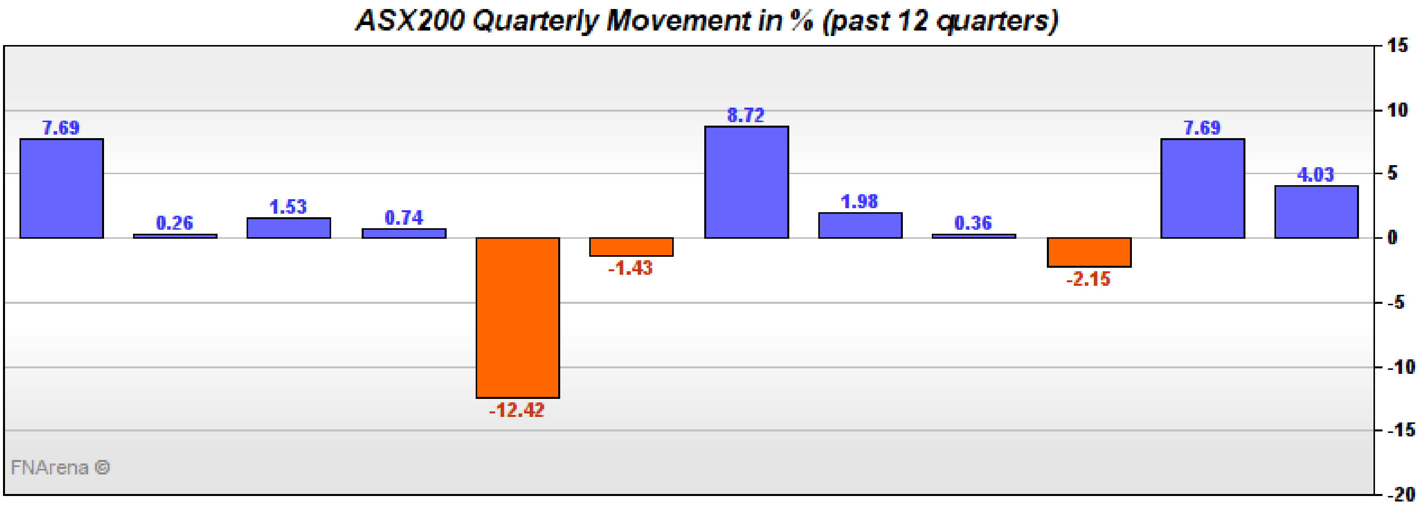
ASX200 Daily Movement in % (past 21 trading sessions)



ASX200 Weekly Movement in % (past 25 weeks)







The composition of above rankings and calculations is fully automated, based on raw data. Investors are advised to find context, interpretation and background elsewhere.

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FNArena welcomes comments and suggestions at info@fnarena.com

AUSTRALIA

March In Review: Fifth Month Of Market Gains

The ASX200 gained 3.3% in March, matching returns from global equities and closing at another record high.

-The ASX200 gained 3.3% (total return) in March
-Small and emerging companies outperformed
-Materials recovered, real estate & gold outperformed
-Investors should await a correction before increasing risk, suggests Macquarie

By Mark Woodruff

Marking the fifth consecutive monthly advance, the ASX200 gained 3.3% (including dividends) in March and closed at another record high. Small caps gained 4.8% in an ongoing outperformance compared to mid-and large cap stocks.

Bonds also gained slightly (long-term interest rates eased) after the Reserve Bank of Australia held the cash rate steady for the third straight month based on steady inflation.

The local bourse kept pace with the global equities rally in March. In a broad measure of global equity market performances, the MSCI All Country World Index (ACWI) rose by 3.4%. The S&P500 in the US gained 3.2%, bringing the year-to-date gain to 10.2%, behind Japan which has gained 19.3% so far in 2024.

The Nasdaq100 index in the US also gained 1.2% in March for a total return of 8.7% over the March quarter. In Australia, the Technology sector gained 2.4% for the month.

Nearly every sector in the ASX200 rose, led by a 9.3% gain for Real Estate, with Communication Services the only sector registering a loss, dragged lower by key online media laggards in Seek ((SEK)) and REA Group ((REA)) which retreated by -3.3% and -1.7%, respectively.

Financials and Real Estate contributed the most, while Materials bounced back from previous months' losses.

The Real Estate sector rallied over 9% in March to become the second-best sector year-to-date behind Information Technology. Gains for Real Estate were broad-based, notes Macquarie, led by Goodman Group ((GMG)), Mirvac Group ((MGR) and Charter Hall ((CHC)) which gained 10.9%, 9.3% and 9.1%, respectively.

The broker feels the sector's gains were strong given a small fall only in bond yields, though less tight credit conditions are supportive.

Small and Emerging companies did particularly well

Small caps continue to close the relative performance gap to large caps, highlights Morgan Stanley, with a 1.8% percentage point relative outperformance in March, driven by a bounce in the performance of Resources, which outperformed Industrials across all size biased indices.

The Small Ordinaries outperformed the ASX50 by 1.8 percentage points in March, while Emerging Companies (ex-300 small caps) had even stronger returns, outperforming the ASX50 by 3.3 percentage points.

Growth outperformed Value by a modest 0.2 percentage points for the month, though did outperform by 4.7 percentage points over the March quarter.

The **Materials sector** on the ASX **recovered from a recent run of losses**, despite a -12% fall in the iron ore price to US$103/t.

The CRB Index rose by 5.5% to 290 over March, with Brent crude oil rising by 4.6% to US$87.5/bbl, and gold jumping by 9.1% to around US$2,229.9/oz.

The Gold sector was the strongest performer with a gain of 16.6% despite only a small fall in real yields as demand for physical gold remains strong, according to Macquarie.

The US dollar Index (DXY), a measure of the value of the US dollar relative to a basket of foreign currencies, increased by 0.4% to 104.55, and the Australian dollar rose by 0.3% to US$0.6516.

ASX Cash Rate Futures currently have a 10% chance the RBA will cut at its next meeting on May 6-7. The odds of a cut at the next meeting fell from a high of over 25% near the start of March as the labour market and growth expectations remain resilient, explains Macquarie.

For the equity market, this broker has developed an equity sentiment index called the **fear of missing out (FOMO) meter**. This gauge takes into account a range of factors including individual investors' stock allocations, net percentage long positions held by asset managers, and the percentage of individual stocks trading above the 200 day moving average for the S&P500 in the US.

The FOMO meter increased by 0.37pts to 1.57 at the end of March, the highest reading since 2004, when US equities subsequently fell by circa -5% in the following six months.

The most extreme component of the meter is the net 52% of asset managers who are long S&P500 equity futures in the US, cautions the analyst, with the only higher percentage during April 2008 (around the mid-point of the global financial crisis).

Macquarie concludes equity sentiment needs to cool, and investors should wait for a correction before rotating more to risk.

Morgan Stanley also highlights the strong recent stock market run in Australia has market multiples for a number of sectors now trading at highs including Discretionary, Financials, Industrials and Real Estate.

ASX100 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
VUK - VIRGIN MONEY UK PLC	35.20	LTM - ARCADIUM LITHIUM PLC	-12.63
EVN - EVOLUTION MINING LIMITED	21.36	IGO - IGO LIMITED	-10.96
NEM - NEWMONT CORPORATION REGISTERED	16.79	PLS - PILBARA MINERALS LIMITED	-8.81
RMD - RESMED INC	13.09	ALL - ARISTOCRAT LEISURE LIMITED	-7.78
GMG - GOODMAN GROUP	13.08	IEL - IDP EDUCATION LIMITED	-6.13

ASX200 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
360 - LIFE360 INC	60.42	LTM - ARCADIUM LITHIUM PLC	-12.63
WAF - WEST AFRICAN RESOURCES LIMITED	36.36	SIQ - SMARTGROUP CORPORATION LIMITED	-11.49
VUK - VIRGIN MONEY UK PLC	35.20	IGO - IGO LIMITED	-10.96
AWC - ALUMINA LIMITED	34.60	AD8 - AUDINATE GROUP LIMITED	-9.66
RMS - RAMELIUS RESOURCES LIMITED	28.72	PLS - PILBARA MINERALS LIMITED	-8.81

ASX300 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
MSB - MESOBLAST LIMITED	88.14	CXO - CORE LITHIUM LIMITED	-23.81
360 - LIFE360 INC	60.42	CXL - CALIX LIMITED	-22.83
COE - COOPER ENERGY LIMITED	51.72	WBT - WEEBIT NANO LIMITED	-22.81

ZIP - ZIP CO LIMITED	44.79	ABB - AUSSIE BROADBAND LIMITED	-21.32
WAF - WEST AFRICAN RESOURCES LIMITED	36.36	BRN - BRAINCHIP HOLDINGS LIMITED	-19.48

ALL-TECH Best and Worst Performers of the month (in %)

Company	Change	Company	Change
360 - LIFE360 INC	60.42	WBT - WEEBIT NANO LIMITED	-22.81
EML - EML PAYMENTS LIMITED	24.24	BRN - BRAINCHIP HOLDINGS LIMITED	-19.48
PPS - PRAEMIUM LIMITED	14.29	DDR - DICKER DATA LIMITED	-14.46
IFM - INFOMEDIA LIMITED	11.25	4DS - 4DS MEMORY LIMITED	-14.29
OFX - OFX GROUP LIMITED	7.24	AD8 - AUDINATE GROUP LIMITED	-9.66

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Financials	7458.60	2.90%	11.02%	11.02%
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Metals & Minerals

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Copper (lb)	3.9924	4.87%	4.84%	4.84%
Aluminium (lb)	1.0386	5.29%	6.82%	6.82%
Nickel (lb)	7.4893	-6.03%	0.70%	0.70%
Zinc (lb)	1.1016	1.37%	-2.05%	-2.05%
Uranium (lb) weekly	88.00	-7.37%	2.33%	2.33%
Iron Ore (t)	101.61	-10.77%	-26.49%	-26.49%

Energy

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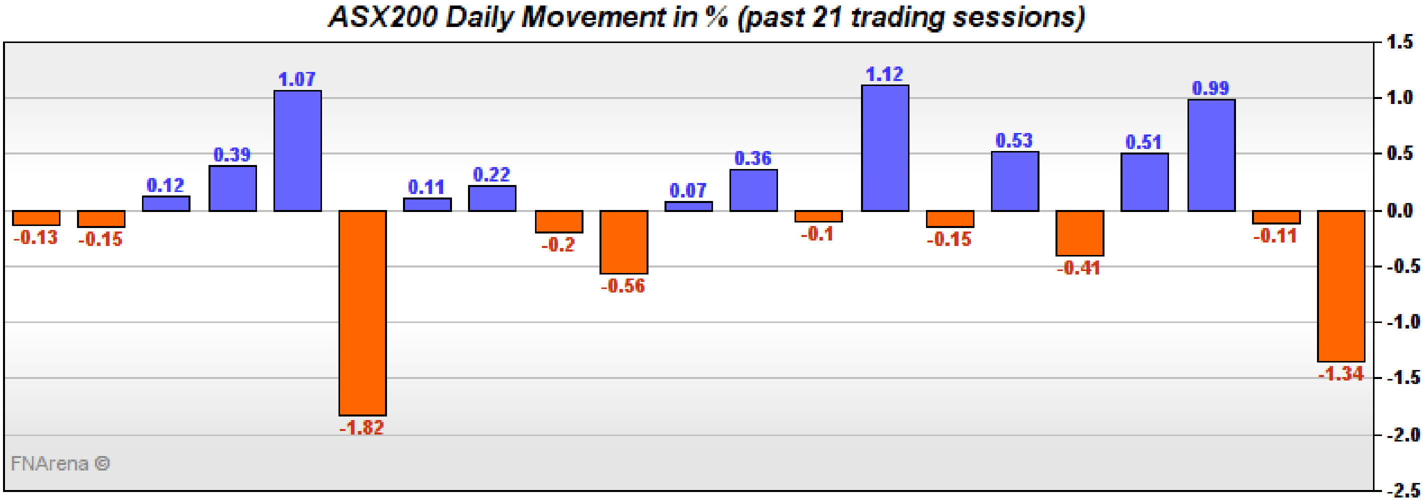

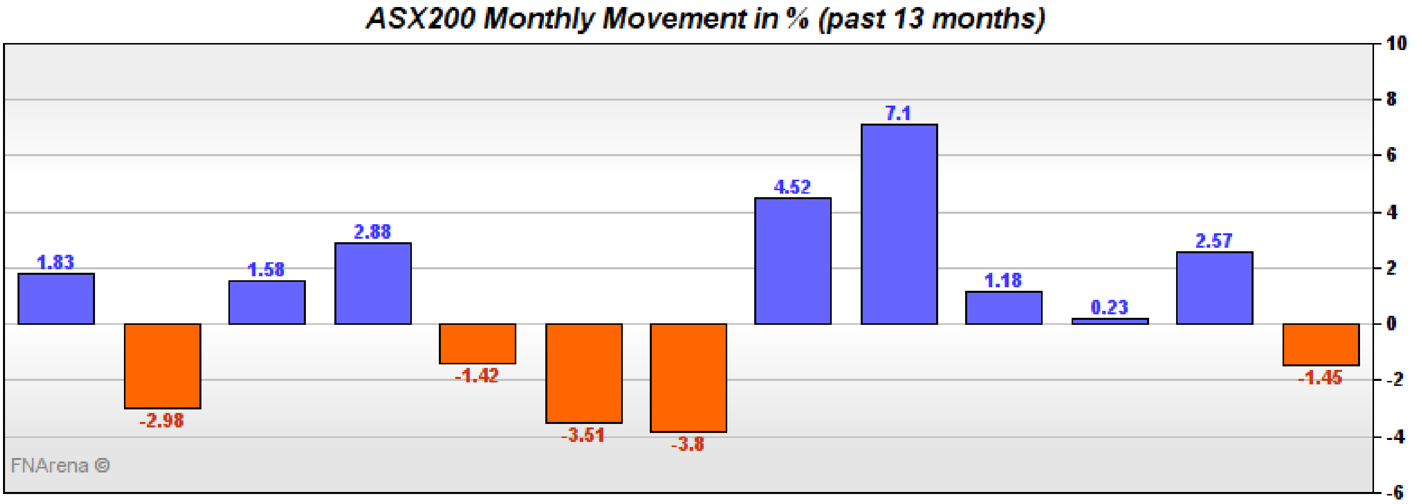

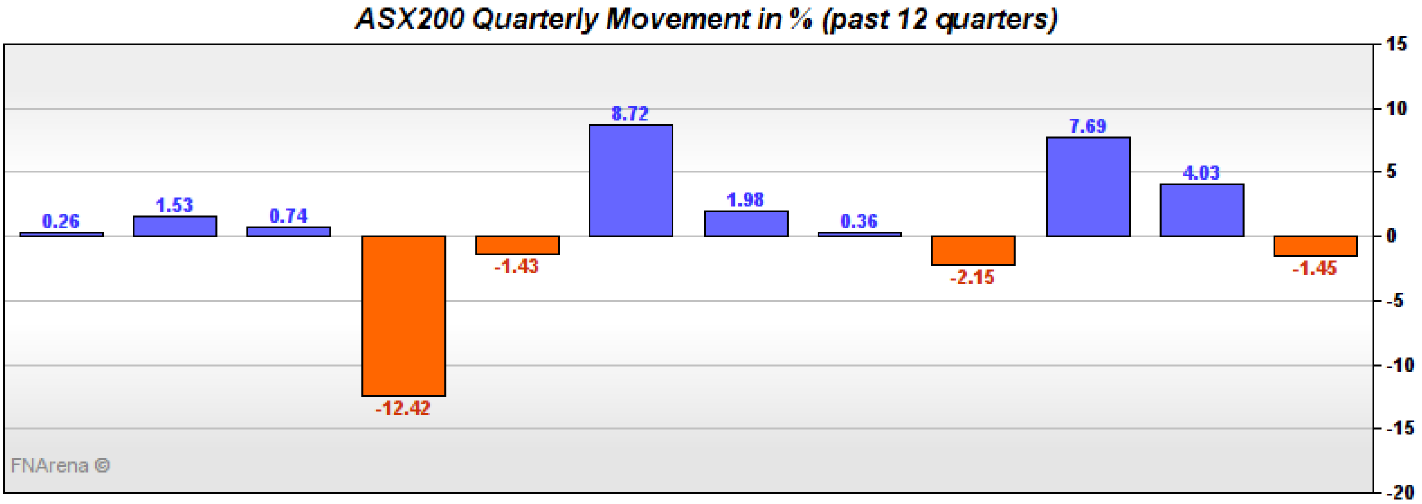

Australian Banks

The average major bank total shareholder return of 2.0% in March lagged the 3.3% return from the ASX200 index, though Morgan Stanley highlights a good March quarter with an average total shareholder return of 12.5%.

During March, ANZ Bank ((ANZ)) and CommBank ((CBA), with gains of 3.3% and 3.4%, respectively, returned in line with the ASX200, though Westpac ((WBC)) and National Australia Bank ((NAB)) underperformed with a retreat of -0.9% and a gain of 2.4%, respectively.

In contrast to the majors, smaller banks outperformed the ASX200 with Bank of Queensland ((BOQ)), Judo Capital ((JDO)) and Bendigo & Adelaide Bank ((BEN)) gaining 7.7%, 6.8% and 5.9%, respectively.

Relative to the ASX Industrials ex Banks, and relative to bonds, Morgan Stanley considers the major banks are expensive compared to the sector average valuation since 2010.

Australian Financials Ex-Banks

Stocks with leverage to rising markets helped Financials Ex-Banks to outperform the ASX200 in March, explains Morgan Stanley, with Magellan Financial Group ((MFG)) Netwealth Group ((NWL)) and Platinum Asset Management ((PTM)) gaining 23%, 11% and 10%, respectively.

The broker highlights Insurers are among the strongest performers this year with shares in QBE insurance, Suncorp Group and Insurance Australia Group rising by 24%, 21% and 14%, respectively. The insurance sector continued with modest outperformance in March.

New Zealand

In common with the ASX200, nearly every sector in the NZX50 gained in March, though small caps continued to struggle.

Despite a confirmed recession for New Zealand, with fourth quarter 2023 output shrinking by -0.1% after falling by -0.3% in the previous quarter, the NZX50 gained 3% to pull the index into positive territory year-to-date.

Technical limitations

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COMMODITIES

Material Matters: Pressure On Dividends, Steel & Iron Ore

Stock picks and commodity forecasts; declining payout ratios for miners; new research coverage for steel companies; and iron ore forecasts.

-Morgan Stanley's commodity forecasts and stock picks
-Diminishing payout ratios for miners
-New coverage of BlueScope Steel and Vulcan Steel
-Price forecasts for iron ore and regional steel

By Mark Woodruff

Morgan Stanley's commodity forecasts and stock picks

Metals and mining equities across the globe have missed out on the record Cyclicals versus Defensives rally and have de-rated to GFC/covid lows relative to the market, new research from Morgan Stanley concludes.

To take advantage of this underperformance, Morgan Stanley's commodities team suggests investors focus on stocks with exposure to commodities that will benefit from lower interest rates and are exposed to fundamentals displaying either supply discipline or supply disruptions.

This disparity between outperformance by cyclicals and market-relative metals & mining valuations has never been this extreme, and Morgan Stanley points out a growing divergence has also emerged within the metals & mining sector fueled by a strengthening narrative around copper.

According to the broker, the market's bullish views on copper and scepticism regarding overall Chinese demand for commodities have rarely been as uniform.

Copper moves to the top of the broker's order of preference on commodities as supply disruptions push the market towards a large deficit. These supply challenges will be hard to resolve and the deficit will persist into 2025, while a further boost for demand is expected from data centres/AI.

This outlook for copper may support pure-play miners in the near-term, yet Morgan Stanley cautions current share prices are already pricing in steep commodity price rises. **Diversified miners offer greater value over the medium-term**, suggest the analysts, but a shift in China sentiment is needed.

Despite China's current lack of appetite for iron ore, the broker outlines a compelling value case for Rio Tinto ((RIO)). Not only does the miner possess low cost/high quality assets, but Rio Tinto also maintains a best-in-class balance sheet with superior volume growth, mainly derived from copper.

Morgan Stanley is forecasting US$10,200/t for copper by the third quarter of 2024.

For iron ore, the broker has lowered its second quarter 2024 price forecast by -21% to US$110/t on stronger shipments, but sees prices rising from the second half of 2024 due to cost support and normalising inventories. FY24-FY26 price forecasts are increased by 22%, 25% and 25%, respectively.

Behind Rio Tinto in the iron ore space, Morgan Stanley prefers Deterra Royalties ((DRR)), followed by BHP Group ((BHP)), and Fortescue ((FMG)).

While Mineral Resources ((MIN)) also has material iron ore earnings, the broker recommends this company based on its lithium credentials in preference to investing in Pilbara Minerals ((PLS)) or IGO Ltd ((IGO)).

As part of its commodity strategy update, Morgan Stanley has downgraded its rating for IGO to Underweight from Equal-weight and lowered the 12-month target price to $5.95 from $7.20. The current mine plan for the company's Greenbushes mine continues to be reworked and the analyst sees risk around future expansions.

Among battery metals, nickel is preferred due to the rapid supply side response to low prices. The analysts believe lithium share price valuations have potential to correct further, though a floor for lithium prices may be approaching.

Valuations for the lithium pure-plays on the ASX remain elevated and the broker is wary around battery supply chain inventories and offline supply which can be restarted.

Gold should also see further upside as rate cuts come through. Apart from falling real yields, strong physical demand from central banks provides a tailwind to support prices, according to the analysts. Evolution Mining ((EVN)), Regis Resources ((RRL)) and Northern Star Resources ((NST)) are the preferred exposures.

Amongst base metals, the broker likes copper (as noted) and nickel on supply tightness and, in order of preference, nominates Evolution Mining for its copper exposure, followed by Nickel Industries ((NIC)), 29Metals ((29M)) and South32 ((S32)).

While the target for Alumina Ltd ((AWC)) rises to $1.30 from $1.10 on higher forecast alumina prices in 2024/25, Morgan Stanley downgrades to Equal-weight from Overweight on valuation.

Evolution Mining is Morgan Stanley's recommended way to play both gold and base metals, noting around 30% of the company's revenue derives from copper.

The broker suggests investors apply caution when considering the coals. Thermal coal is thought to be lacking near-term catalysts, while improved Australian supply and a seasonal lull for Indian steel may weigh on the hard coking coal price.

Regarding uranium, here the 2024 balance looks tight on Kazatomprom's production guidance cut, but Morgan Stanley turns more cautious as supply responds to elevated prices, resulting in the 2026 forecast flipping into a small surplus.

<u>Diminishing payout ratios for miners</u>

The December half last year proved a bountiful period for investors in BHP Group, Rio Tinto and Fortescue as consensus forecasts for dividend payouts were exceeded, but for some miners under coverage by Morgan Stanley there are risks to upcoming returns.

BHP Group's current dividend payout policy is for more than 50% of earnings per share, yet the broker anticipates a second half FY24 ratio of 55%, falling further to 50% in FY25, due to an elevated debt position and ongoing risks posed by legal action surrounding the Samarco dam failure in Brazil.

Ongoing volatility in lithium markets also poses a threat to dividend payouts.

For Mineral Resources, the analysts forecast a FY24-25 payout of 20%, well below the company's payout policy of 50% of underlying profit.

Despite a recent cut to FY24 capex guidance by Pilbara Minerals, Morgan Stanley forecasts no dividends across FY24-25 versus the company payout policy for 20-30% of free cash flow (FCF), because of significant capex plans in place for P680/P1000 expansions at the Pilgangoora lithium project.

The broker currently forecasts FY24 and FY25 payouts for IGO of 20% and 25%, respectively, also toward the lower end of this company's payout policy for 20-40% of FCF.

RBC Capital's new coverage of steel companies

This week RBC Capital Markets initiated coverage on Australia's largest listed steel company BlueScope Steel ((BSL)) and on Vulcan Steel ((VSL)), one of the country's biggest domestic steel and metal distributors.

Vulcan operates as a key link in the steel and metals value chain between producers and bulk traders, and end-users. Main commodity exposures include prices for carbon steel, stainless steel, engineering steel and aluminium, with the company's product demand in A&NZ impacted by activity in construction, manufacturing, and mining industries.

While Vulcan continues to expand its product suite and geographic reach, RBC explains near-term earnings and margins remain under pressure with both demand and prices impacted by slowing economic activity and increased import competition.

BlueScope's geographic footprint extends further with steel manufacturing capabilities in Australia, New Zealand and North America at respectively Port Kembla, Glenbrook and North Star. Management operates a largely vertically-integrated portfolio of steel making and downstream assets across A&NZ and the US, as well as the ASEAN region including China and India.

The company is also a mid-to-downstream distributor of value-add steel.

By making investments to improve value chain integration, BlueScope aims to grow margins by adding capacity via such value-add products as cold rolling and metal coating lines, explains the broker.

As is the case for Vulcan, BlueScope's volume and sales exposures relate to demand for construction, both non-residential and residential. Demand also arises via automotive, manufacturing and agricultural industries. The analysts note key commodity exposures relate to inputs and outputs of steel, which includes prices for iron ore, coke and coal, vanadium, ferrous scrap, hot rolled coil (HRC) steel, and coated and painted products.

RBS rates Vulcan and BlueScope as Sector Perform, or Neutral equivalent, with 12-month target prices of $9.00 and $24.50, respectively.

The macroeconomic backdrop remains a concern for Vulcan, explain the analysts, after first half results revealed depressed earnings due to softening economic conditions, lower global pricing, and de-stocking activity.

Given the Vulcan share price has rallied by 14% post these interim results, it appears to RBC the market is supporting management's claim the business is "well positioned to capitalise on an uplift in the cycle".

Nonetheless, RBC will await a clear inflection point in domestic activity before adopting a more constructive view. It's also noted the stock is currently trading at its highest multiple post listing.

Regarding BlueScope, RBC highlights uncertainty around the Asia-Pacific outlook with Chinese oversupply an ongoing concern, with circa 90mtpa of steel net-exports flooding into the seaborne market and compressing East-Asian steel prices and spreads.

Import parity pricing (IPP) pricing is also under pressure and would be lower if not for the weak Australian dollar, explains the broker.

Management is actively pursuing increased exposure to the highly protected North American steel market to offset the compression in Asian pricing and spreads, which are combining to weigh on the A&NZ and ASEAN businesses, explains RBC Capital Markets.

Forecasts for iron ore and regional steel pricing

Heading into the Chinese construction season, Citi anticipates the country's production of steel will lift from current levels. Steel producers are expected to raise output, with steel exports remaining high, or increasing further.

The broker is confident around increasing steel production because lower iron ore and metallurgical coal pricing is allowing blast furnace mills to make positive margins again. Moreover, the upcoming April-August period represents the high season for Chinese production rates.

By way of background, Citi notes iron ore prices have come under pressure in 2024 from a combination of a slow start to the Chinese construction season, high Brazilian iron ore exports and a high level of exports into China from non-traditional suppliers, thanks to high iron ore prices in late-2023.

Of the iron ore imported into China over January and February this year, 17.5% came from non-traditional sources compared to the 10-year average of 14%.

While China's apparent steel consumption is down -2.6% year-to-date, the broker points out Chinese steel production is up 1.6% on high net steel exports, which have increased by 35% so far this year.

The analysts forecast an improvement in iron ore pricing to a attain a US$120/t average for the second quarter of 2024.

Given high Chinese steel exports, Citi predicts regional steel pricing will remain under pressure.

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ESG Observations From The February Reporting Season In Australia

Decarbonisation, renewables and cyber crime proved the big ticket ESG items during the February reporting season as corporations rushed to get their reporting act into gear ahead of the introduction of mandatory disclosure rules this year.

-Decarbonisation and renewables investment strong
-Companies prepare for incoming mandatory climate reporting
-Cyber crime a big-ticket item and AI gaining traction
-Plenty of green capital expenditure
-More targets and commitments set
-Banks starting to get serious
-REITs pushing ahead
-Waste management, circularity and biodiversity largely sidelined

By Sarah Mills

Decarbonisation progressed strongly among the ASX200 in the December half as companies rushed to cut emissions.

In fact, straitened times in 2023 meant decarbonisation investment dominated big-ticket spending at the expense of nearly everything else save out-of-hand cyber crime, companies grasping for cheap, low-cost reporting efforts on biodiversity, physical safety, and indigenous Reconciliation Action Plans: and there was plenty of talk about AI.

Apart from affordability much of the reporting focus also reflected on preparations for the introduction of a slew of disclosure standards this year as mandatory climate reporting looms, particularly the **Australian Sustainability Reporting Standards**.

On the decarbonisation front, there were plenty of announcements. Scope 1 and Scope 2 emissions reductions dominated with only a few companies attempting the Scope 3 challenge (supply chain emissions).

When it came to decarbonisation choices, renewables and EV fleets proved the flavour of the day, but some companies favoured bio fuels or hydrogen options, some reached for carbon offsets with others doggedly pursuing carbon-capture options.

Indeed, despite a series of scandals and falling prices in the carbon offset market, laggards continued to reach for offsets in 2023, demand hitting a record high (up 6%) in 2023, with December retirements (a key indicator of demand) about 43% higher than the next closest month, according to BloombergNEF.

This is the first in a series of two articles and focuses on the big-ticket investments of decarbonisation and cybersecurity, while rounding up the handful of moves in AI, circularity and biodiversity. We allocate REITs their own section for easy comparison.

The second article covers the social themes of physical and psychosocial safety, industrial and indigenous relations, and modern slavery, plus governance.

As a reminder, investors prefer shorter term targets to long-dated targets (preferably a combination of the two) and regular reporting to allow them to better monitor progress.

The bulk of the research underlying this article is sourced from Macquarie and Jarden.

Decarbonisation – The Naughty And Nice

We lead this section with emissions reductions and green capital expenditure before grouping the source of these cuts under renewable energy, biofuels, EVs, carbon offsets and carbon capture.

As with last year, it is easier to start with the emissions reduction laggards given they represent the minority.

Whitehaven Coal ((WHC)) reported a whopping 25% increase in emissions but Macquarie expects the Daunia/Blackwater acquisition should shift this dial in 2024.

BHP Group ((BHP)) was a surprise laggard, managing to increase emissions 4% in the December half.

Aurizon Holdings' ((AZJ)) thermal coal revenue rose to 29% of revenue in the December half, up from 27% in FY23 – good for short-term investors but not so good for those with an eye on the longer term.

Woodside Energy's total emissions from operated projects in 2023 jumped 17% over 2022, and are up 78% from 2021 levels, observes the Conservation Council of WA. The company's Scope 3 emissions rose 20%, almost doubling since 2021.

Mineral Resources ((MIN)) increased carbon intensity.

And The Winners Are …

Macquarie hands the crown to Cleanaway Waste Management ((CWY)), which managed to cut greenhouse gas emission from its landfill -15% beyond its FY24 target.

Telstra ((TLS)) announced it is now running on 100% renewable energy (in line with its 2025 target) through contracted energy projects.

Wesfarmers ((WES)) cut Scope 1 emissions at WesCEF and invested in abatement initiatives and continued to explore carbon capture solutions.

Smartgroup Corp's ((SIQ)) emissions fell -35% in 2023 from 2022, the company advising 63% of all electricity used by offices was renewable and that the company expected to hit 100% by 2026.

GPT Group ((GPT)) achieved carbon neutrality for Scope 1, 2, and 3 emissions ahead of FY24 target and expects independent certification to be finalised by December.

G8 Education ((GEM)) cut Scope 1 and Scope 2 emissions by -10%.

[dianomi_video]

List of emissions reductions

Plenty of other companies logged reasonable emissions performances.

Analysts observed companies on track with 2025 emissions or renewables targets included: Ampol ((ALD)), Atlas Arteria ((ALX)), Bendigo & Adelaide Bank ((BEN)), Charter Hall Group ((CHC)), Cleanaway Waste Management, Goodman Group ((GMG)), Growthpoint Properties ((GOZ)), Healthco Healthcare and Wellness REIT ((HCW)), HMC Capital ((HMC)), Homeco Daily Needs REIT ((HDN)), Lend Lease ((LLC)), Region Group ((RGN)), and Woodside Energy ((WDS)).

Those on track with 2030 targets included The a2 Milk Company ((A2M)), Ansell ((ANN)), Brambles ((BXB)), Scentre Group ((SCG)), Telstra and Woodside.

Wesfarmers cut Scope 1 and market-based emissions -8% and its Mt Holland lithium mine has entered the ramp up phase.

Santos managed to ease its Scope 1 and Scope 2 emissions but Scope 3 emissions spiked 9%. The company's methane emissions fell -6%.

Adbri ((ABC)) launched lower carbon cement and concrete brands EvoCem and Futurecrete and analysts observed it was tracking ahead on FY24 emissions cuts.

Transurban ((TCL)) advised it had achieved 100% renewable electricity for its North American operations.

Worley's ((WOR)) Scope 1 and Scope 2 emissions fell -7%.

Woolworths Group ((WOW)) has renewable electricity across 23% of its operations and cut both Scope 1 and Scope 2 emission from a 2015 base line.

Companies Set Targets And Commitments

Analysts advised that progress on decarbonisation, renewable energy and scope 3 emissions proved standouts during the reporting season with more than 70 companies providing climate-related updates.

New rounds of commitments featured, some companies upping the ante and others just setting the groundwork.

Jarden observes Qantas Airways ((QAN)) announced a 10% Sustainable Aviation Fuel target for 2030.

Macquarie observes QBE Insurance Group ((QBE)) set an internal carbon price of US$65/t laying the foundation for internal investment in emission reduction projects. (The insurer announced 100% renewable electricity use for the third year).

QBE's Scope 1 and 2 emissions reductions were well in advance of its target and the insurer continues to decarbonise its fleet, observes the analyst.

Scope 3 emissions also drew QBE's focus as it negotiated with its supply chain and it's expects to set a target by the end of 2025.

Woodside announced a Scope 3 target, which complements its US$5bn new energy investment target, say analysts.

Genesis Energy ((GNE)), National Storage REIT ((NSR)) and Ventia Services Group ((VNT)) set emissions targets, the latter two for 2030, and Genesis for 2040.

TPG Telecom ((TPG)) achieved SBTi validation for long-term, short-term and net zero targets.

Iress ((IRE)) significantly raised its 2030 Scope 1 and Scope 2 emissions reduction target

Aurizon announced plans to decarbonise its fleet either through battery electric locomotives, battery electric tender or hydrogen electric tender.

Origin Energy ((ORG)) expects to meet a virtual power plant (VPP) target of 2GW by FY26. A relatively new kid on the block, VPPs are better known as battery aggregation, which connect batteries in an energy sharing network, usually with residential solar panel and battery systems.

Seek ((SEK)) achieved Climate Active carbo-neutral certification and is finalising a renewable energy agreement to hit 100% renewable energy by 2025.

The company committed to 40% renewables use for operations by 2024.

Pilbara Minerals ((PLS)) aims to cut power related emissions intensity by -80% by 2030, although absolutes are expected to rise with expanding operations, say analysts. The company also advised it was moving from diesel to natural gas.

Many companies were also preparing for upcoming mandatory climate reporting, Magellan Financial Group ((MFG)), for example, readying for its first climate report disclosures aligned to TCFD.

In particular, many were readying themselves for the introduction of Australian Sustainability Reporting Standards (ASRS), which are expected to be handed down in the June quarter.

The standards will be phased in across three groups over four years based on entity size and profile.

Macquarie believes the companies that are captured by the initial rules (68% of its coverage) are fairly well positioned to meet these standards, perhaps with the exception of Scope 3 (supply chain) emissions.

The analyst expects the advent of the ASRS will result in a **greater integration of ESG with company financial statements**.

Macquarie observes those developing roadmaps and gap assessments as a priority ahead of the introduction of mandatory climate reporting included Domain Holdings Australia ((DHG)), G.U.D. Holdings ((GUD)), Maas Group ((MGH)), Pepper Money ((PPM)), Qualitas ((QAL)), Qantas Airways, QBE Insurance, REA Group ((REA)), Region Group, Seek, Transurban, TPG Telecom and Whitehaven Coal.

Rounding Up Green Capex

Green capital expenditure continued to feature in the December half.

Macquarie observes roughly 22% of ASX200 companies announced decarbonisation spending in the February reporting season and the analyst expects growing scrutiny to emerge on project returns.

Origin Energy reported it was targeting renewable and storage capacity in its generation portfolio at 4GW by 2030.

Macquarie observes the company is adopting a capital light approach to wind and solar, developing but not holding assets, saving its balance sheet for battery investments.

Its 260MW Stage 1 ($600m) battery at Eraring is under construction and its 240MW Stage 2 project remains in the feasibility stage.

Origin plans to spend -$400m at Mortlake's 300MW battery following a final investment decision and feasibility studies are underway for Darling Downs and Templers West, observes the analyst.

The company has also established joint ventures for Hunter Valley offshore wind tenders, a controversial move given expected electorate backlash.

G.U.D. Holdings is slowly lifting its renewables use, installing a 200kw solar system and started sourcing GreenPower electricity for its Australian distribution businesses.

Seven Group ((SVW)) expects 20% of Coates branches will be subject to a solar rollout by June 30.

On the future-facing commodities front, South32's ((S32)) final investment decision on the Hermosa Taylor zinc deposit was agreed, generating a capital expenditure bill of -US$2.2bn.

First production is expected in 2027 and initial operating life is estimated to be 28 years.

The company also announced plans to cut emissions by 2035 and convert Worsley Alumina's fire coal-fired boiler to natural gas, with a second due in the June half.

Santos plans to spend -US$500m on energy efficiency projects over the decade, as well as -US$3bn to -US$4bn for other decarb low carbon fuel hubs and nature based offset projects.

The company has a demonstration scale e-methane project at Moomba on the go and the Bayu Undan carbon capture and storage project FEED is 86% complete.

Woodside has invested -US$355m out of its US$5bn budget for new energies, estimates Macquarie.

The company reiterated its expectation of achieving a new energy internal rate of return of more than 10% and payback within 10 years.

Fortescue ((FMG)) installed 320km of transmission lines for the Pilbara energy connect program and is targeting more than 500km of transmission lines.

Only three out of the company's promised five final investment decisions were forthcoming in the half: Fortescue's Phoenix Hydrogen Hub at a cost of -US$550m; its Gladstone PEM50 Project; and its Green Iron Trial Commercial Plant in the Pilbara.

The company's estimated capital expenditure bill for FY24 comprised: between -US$300m and -US$500m on decarbonization; and another -US$500m for Fortescue Energy. Of that, -US$104m was spent on decarbonization in the first half and -US$165m on Fortescue Energy.

Rio Tinto's decarbonisation capex for FY24 is estimated at -US$750m, up from -US$425m in FY23. Analysts observe the company has to average roughly -US$1bn capex a year to reach its 2030 target, excluding Safeguard Mechanism costs.

AGL Energy ((AGL)) is rolling out 800MW's worth of grid batteries, at: Liddell (500MW at a cost of -$750m with construction to be finalised in 2026); Broken Hill (50MW in the testing phase); and Torrens Island (250MW and already operational).

Macquarie observes the company plans to spend between -$3bn and -$4bn by FY30 and another -$5bn to -$6bn by FY36.

AGL expects to deliver post-tax returns of 6% to 8.5% on renewables and 7% to 11% on firming and flexible generation.

Downer EDI ((DOW)) advised it was planning renewable investment to cut scope 2 emissions, cutting 490t by investment in solar PV at asphalt plants, and cutting 3850t through renewable energy purchases.

Viva Energy ((VEA)) advised its ultra-low sulphur gasoline project was being constructed at an estimated cost of -$200m with completion expected in June 30, 2026.

Regis Resources ((RRL)) commissioned a 9mw solar farm to supplement its diesel power at Garden Well Power Station and a 62MW integrated wind, solar and battery facility at its Tropicana mine is pegged for completion in the first half of 2025.

Sandfire Resources ((SFR)) commissioned the construction of a dedicated solar facility at Matsa to supply 25% of the mine's electricity progressively from 2025 and is examining options at Motheo.

The assessment phase at Beach Energy's ((BPT)) Otway Basin has been finalised and the project is awaiting commercial assessment.

The company has prioritised three projects for the second half of 2024: a flare reduction/permeate recovery project in Beharra Springs; a wind power generation study at Taranaki Basin; and gas plant electrification at Lang Lang.

G8 Education rolled out more than 95-kW of solar energy, which the company estimated saved it $330,000 in energy costs a year.

Orora oxyfuel technology investments to cost -$90m over FY23 to completion in FY25.

Woolworths declared sustainability capex of -$49m.

Elsewhere, Ampol, APA Group ((APA)) and Tabcorp ((TAH)) all announced decarbonisation spending this season.

<u>Other Decarbonisation Observations</u>

Given a slower-than-forecast ramp-up in renewables, Macquarie doubts Origin Energy will close Eraring in August 2025, believing it will leave the NSW energy market too tight.

Rio Tinto signed Australia's largest renewable PPA to supply its Gladstone aluminium operations from Windlab's 1.4GW Bungaban wind energy project.

Adbri and Boral ((BLD)) pointed to growing momentum in demand for low carbon materials.

Both companies, along with BlueScope Steel ((BSL)) advised they were examining alternative fuels and electrification.

ASX ((ASX)) is still working on its proposed carbon exchange.

<u>Hydrogen And Other Alternative Fuels</u>

Having garnered $115m in grants, Origin Energy expects to be delivering green hydrogen from the mid 2020s.

Ampol announced it was laying the groundwork for customer trials of Australian hydrogen refuelling units after reaching an agreement with One H2.

Viva Energy reported it had supplied the Australian Defence Force with sustainable aviation fuel, and had signed a deal with Cleanaway to provide renewable diesel.

Viva Energy also has plans to repurpose its Geelong refinery to process biogenic and waste feedstocks and signed a 10-year power purchase agreement with Acciona Energia.

Bankers Getting Into Gear

Banks are starting reporting on fossil fuel exposures and are more consistently entering the sights of analysts.

At this rate, banks should be seriously getting their ESG act into gear by 2025.

Macquarie observes Commonwealth Bank's ((CBA)) loans to coal miners were steady at $1bn, while lending to oil and gas fell to $2bn from $2.6bn.

CBA's investment in sustainable finance was $5.9bn in the December half observes Macquarie and the bank is targeting $70bn by FY30, suggesting a strong ramp-up from here.

The bank's renewable energy exposure sat at a fairly small $6.1bn, up 30% from June 30.

Infrastructure and mining services

It was raining green Aussie dollars (and some greenbacks) for the Australian infrastructure and mining services sector.

Maas Group advised renewable energy projects were the major contributor to its 29% improvement in earnings (EBITDA) for the December half and that its renewables pipeline for the next three to five years was strong.

Worley logged sustainability related work of $2.86bn in the December half – equating to 51% of aggregated revenue. The contractor advised sustainability constituted 83% of its factored sales pipeline, up from 77% in FY23. Worley retains its target of gaining 75% of its revenue from sustainability business by FY26.

The company advised it is now separating renewables, critical minerals, remediation, restoration and direct air capture out from green transitional business such as natural gas, decarbonization of traditional markets and carbon capture utilisation and storage.

APA Group cited plenty of renewables, transmission and gas opportunities advising it has $1.8bn of sustainable work in the pipeline excluding the Pilbara over FY24-FY26.

Ventia Services ((VNT)) and Genus Plus ((GNP)) also reported strong pipelines.

Carbon Offsets And Safeguard Mechanism

Resources companies reached for carbon offsets to manage voluntary and compliance-based offset costs such as the Australian Safeguard Mechanism's ACCUs.

Rio Tinto estimated a -US$1bn impact out to 2030 for capitalised voluntary and compliance-based offset costs.

Carbon-offset projects/solutions were mentioned by Cooper Energy ((COE)), Karoon Energy ((KAR)), Santos, Viva Energy and Woodside.

Viva Energy advised the Safeguard Mechanism was likely to result in greater net emissions reduction than its -20% voluntary commitment.

QBE Insurance purchased carbon credits to maintain carbon neutrality. These were related to renewable energy and fire abatement projects.

Whitehaven Coal reiterated its Safeguard mechanism cost of $1/t for the December half. The company will have to purchase approved carbon offsets before March 31, 2025 to meet the FY24 emission intensity compliances.

The coal miner says its reporting is in line with the incoming Australian Sustainability Reporting Standards

REITs

Among the REITs, the highlights included:

Arena REIT ((ARF)) installed solar systems on 88% of its portfolio and received a 6-star NABERS, up from 5.5. It also achieved a 100% sustainability linked loan margin discount for meeting its FY23 sustainability performance targets.

All up, Arena cut Scope 1 and Scope 2 emissions by -13% and maintained its Climate Active carbon-neutral certification.

Charter Hall ((CHC)) topped the 2023 GRESB (Global Real Estate Sustainability Benchmark) Report for Australia and NZ listed retail entities. Its NABERs rating was steady at 5.

Goodman Group also earned a star, its global solar installations landing at 312MW placing it on track to meet it 2025 target of 400MW.

The company also continued to decarbonise its data centres as planned.

The rest of the field were relatively lacklustre. HomeCo Dail Needs REIT ((HDN)) is largely on track to meet targets, as were HealthCo Healthcare & Wellness REIT and Vicinity Centres ((VCX)).

Most REIT's emissions reduction focused on renewables and Mirvac Group ((MGR)) and Growthpoint Properties ((GOZ)) mentioned electrification. Mirvac ((MGR)) and Stockland ((SGP)) reported they had procured lower carbon materials.

<u>Carbon Capture</u>

Having established in previous articles the dubious decarbonisation credentials of many carbon capture projects (for example injected carbon capture projects are expensive, uneconomic to date, and can be prone to leaks), we round up progress among the ASX's carbon wranglers.

Macquarie observes Santos' and Beach Energy's Moomba injected carbon capture project is now 80% complete and the pair expects first carbon injection in 2024.

Santos's Western Australia and Alaska Pikka CCS projects are underway, as are its nature-based projects in Papua New Guinea, Alaska and Australia.

The company says electrification should cut the carbon intensity of its operations, freeing up carbon capture storage capacity to sell to customers for external revenue.

Woodside appears to continue to seek out carbon capture opportunities despite the failure of its project at Gorgon; in the December half it was reported only one third of the targeted emissions were buried.

<u>All That Techie Stuff</u>

Despite tightened purse strings, cybersecurity and scams were areas that could not afford to be ignored given the scale of losses being incurred globally.

According to PwC's 2024 Global Digital Trust Insights Survey cyber costs grew sharply during 2023.

Macquarie observes cyber crime reports rose 23% year on year according to ReportCyber to nearly 94,000.

Jarden expects 2024 will continue to draw cyber investment given rising cyber crime and fraud.

Commonwealth Bank came out swinging in 2023, advising in the February reporting season it had invested more than -$750m to protect customers from financial crimes such as fraud, scams and hacking.

Jarden observes that resulted in the prevention and recoup of more than $100m in scams in the December half.

Telstra and Commonwealth Bank launched a scam indicator in partnership called Cleaner Pipes. The project is estimated to have blocked 10m scam calls, 11m scam SMSs and 280m scams and unwanted emails. Yay!

Bendigo & Adelaide Bank advised its customer-related fraud losses fell -$9.5m due to scam and fraud detection investment.

TPG Telecom introduced cross-industry collaboration initiatives to protect customer information, which included partnerships with the Commonwealth Bank and the Australian Financial Crimes Exchange.

Challenger ((CGF)) (which spent -$10m) and Ingham's Group ((ING)) also reported cybersecurity investments while Domain Holdings, Seek and Telstra reported a focus on cyber defence and governance, observes Macquarie.

Many companies announced the rollout of cyber security training through their organisations and others to cybersecurity governance (which we cover in our next article).

Australian Finance Group ((AFG)), G8 Education, Kelsian Group ((KLS)), Nine Entertainment ((NEC)), SG Fleet Group ((SGF)) and The Lottery Corporation ((TLC)) also announced greater cyber spend.

It will be interesting to see what types of innovation will flow from increased investment over the next couple of years.

AI Attracting Greater Investment

As for Artificial Intelligence, Jarden observes 23 companies across several sectors were making all the right noises.

Flight Centre ((FLT)) suggested AI could be used to categorise emails to prioritise urgent requests and increase agent efficiency.

Telstra advised it was piloting AI applications such as Ask Telstra, and that it had consequently improved 50% of its key process. Telstra expects to hit its target of 100% by FY25.

Jarden says “responsible AI” were the kind of words investors were keen to hear and AMP ((AMP)), Commonwealth Bank and Seek all came in to bat on this front.

AMP reported it was developing a “responsible AI framework”, Commonwealth Bank rolled out a “responsible AI” toolkit, and Seek was developing “responsible AI” principles.

Pro Medicus ((PME)) invested $5m in Euclid, a company specialising in technology for cardiac CT.

Corporate Travel Management ((CTD)) major AI and machine learning project scheduled for FY24/FY25.

Biodiversity

Macquarie observed “nature” was sidelined in the December half by incoming mandatory climate reporting with Ampol, for example, advising it had deprioritised biodiversity for that very reason.

Meanwhile, Jarden observes the finalisation in late 2023 of the **Taskforce on Nature-Related Financial Disclosures** gave companies a hook upon which to hang their reporting hats, GPT Group announcing its maiden Climate and Nature Disclosure Statement.

GPT Group brings to five the number of companies to have committed to adopting the Taskforce on Nature-related Financial Disclosures (TNFD), the others being Brambles, Transurban, Telstra and Vulcan Energy ((VUL)).

Other companies to mention nature in their December-half results included Bendigo & Adelaide Bank, Charter Hall, and Qantas, most of which focussed around strategies, and disclosures.

Woodside committed to supporting positive biodiversity outcomes in their areas of operation and developed a Biodiversity Positive Program Framework.

In terms of projects, Iluka Resources ((ILU)) successfully trialled the rehabilitation of a seeding method and conducted its largest vegetation data collection operation at Jacinth-Ambrosia.

Sandfire Resources is working on the rehabilitation of DeGrussa as part of a framework agreement with Yugunga-Nya to protect indigenous heritage.

Circularity And Waste Management

It was fairly quiet on the circularity front, despite the rapidly approaching **Australian 2025 National Packaging Targets**.

Boral announced it was recycling 2m tonnes of construction material annually.

Cleanaway opened its Altona facility capable of recycling 1bn PET plastic bottles a year to produce 20Kt of recycled PET resin, to make new PET bottles.

The waste collector also launched its Victorian container deposit scheme in November through TOMRA, establishing 140 collection points across 28 local government areas capturing 2m Victorians.

Cleanaway also posted a reduction in environmental notices to 14 from 17 (in the June half).

JB Hi-Fi ((JBH)) phased out 15c yellow bags and replaced them with paper bags and multi-use non-woven bags. It also installed battery and mobile phone recycling stations across JB Hi-Fi and Good Guys shops.

Woolworths reported it had cut virgin plastic in packaging by -29% from an FY18 baseline.

Ampol reported it is planning recycling initiatives at retail sites to reduce food and packaging waste and plans to design its own-brand packaging to meet National Packaging 2025 targets.

General waste management also gained a flag, Seven announcing waste compaction technology at WesTrac PFCs had cut landfill volumes, improved centre economics and lowered the company's environmental impact.

CSL ((CSL)) reported it had cut biohazard disposable waste by -10% to -15% in the December half as it is rolling out its Rika platform.

We are still keeping a keen eye on the Licella technology that Amcor ((AMC)) has hitched its wagon to. The Teeside, England, rollout of the technology (through Mura) has yet to make any shipment of recycled product according to media reports. First product was promised in early 2024, so one would expect to see the proof by June 30.

Licella is a technology that claims to be able to recycle nearly all types of plastic back to oil ready for recycling back into plastic, the quality of which would essentially be that of virgin plastic.

EV Charging and Hydrogen Refuelling

Lots going on with hydrogen refuelling and EV charging initiatives.

Fuel replacement initiatives were on trend – batteries, hybrids, alternative fuel gas substitution and hydrogen refuelling all gaining a flag.

Kelsian advised it was decarbonising its fleet and had closed the December half with 94 battery electric buses and 4 hydrogen fuel cell buses. The company is targeting 379 buses by the end of 2025.

SG Fleet Group reported its EV orders increased five-fold on the previous corresponding half.

Kiwis Cracking It

The Kiwis appear to be all over ESG, companies like Contact Energy ((CEN)) ticking boxes all over the place, from environment, to social to governance, and here we highlight some of the environmental moves.

Of particular note, Contact Energy's emissions intensity from thermal generation fell roughly -30% in the half following the closure of Te Rapa on June 30.

The company also commissioned two geothermal plants during the half adding 1.9TWh.

Auckland International Airport ((AIA)) completed a trial to separate organic waste in domestic and international terminal food courts and spent -NZ$5m on a transitional waste facility.

Air New Zealand ((AIZ)) ordered its first battery powered all electric aircraft to join in 2026.

Fletcher Building ((FBU)) reported it is on track for a -30% reduction in carbon emissions by 2030. With certified sustainable products rising to 74% from 71%.

Meridian Energy's ((MEZ)) renewable deployment has risen to 4.9GW from 4.7GW in the previous corresponding period.

Meridian also spent -NZ$186m on batteries, the first of which were due to arrive in the March quarter, to be finished in 2024.

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INTERNATIONAL

The Power Of New Weight-Loss Drugs

GLP-1s offer far more across the healthcare sector than just weight-loss, with far-reaching societal implications.

By Nabil Hanano, Associate Portfolio Manager, Global Growth Equities at T. Rowe Price

New diabetes and obesity drugs are a watershed development for the healthcare sector, patients and investors.

Profound advances in a class of drugs that have proven successful at treating the twin epidemics of diabetes and obesity represent a golden age of health care innovation. The impact on improved health outcomes is likely to be significant in coming years as more therapies become available.

The investment implications are also enormous. Select drug developers are positioned to significantly grow their earnings from these drugs, called glucagon-like peptide-1 (GLP-1) agonists.

At the same time, we expect downstream impacts across every health care segment, including biotechnology, pharmaceuticals, medical devices, and health care insurance. Because GLP-1s may meaningfully lower food consumption in developed countries and allow it to be redistributed to poorer ones, they may also lower carbon emissions and serve important environmental, social, and governance (ESG) goals for investors.

How impactful could these new drugs be?

For context, about 40 million people in the US are living with diabetes and its consequences, such as heart disease, vision loss, and kidney disease. More than 100 million Americans struggle with obesity, which can be a precursor to diabetes and has an even wider range of comorbidities. Given current trends, the majority of children in the US are expected to become obese in adulthood, threatening increased health care spending and shorter lifespans.

Unfortunately, established treatments for diabetes and obesity have come with adverse side effects; required significant effort and monitoring from the patient; and, in the case of the latter, exhibit limited efficacy.

This is in part because the exact causes of obesity and insulin resistance have long remained unclear—and go far beyond an epidemic lack of willpower. Cheap and ubiquitous processed food is part of the problem, but it is not fully understood why some people are able to regulate its intake better than others.

Advances in GLP-1s represent a **watershed in both our understanding of obesity and its treatment**. GLP-1 drugs have been around for over a decade, but more potent and longer-lasting versions (sold under the brand names Ozempic and Wegovy) have come to market just in the past few years. Two even more recent versions (Mounjaro and Zepbound) also incorporate the action of gastric inhibitory polypeptide (GIP).

It is not surprising that the leading pharmaceutical companies are investing heavily in the development of GLP-1s as well as other new anti-obesity medications. At this point, the two with drugs already on the market—Novo Nordisk and Eli Lilly—have a significant head start, and we are closely monitoring the efforts of competitors to catch up.

Demand is outstripping supply

Given their robust efficacy in treating both diabetes and obesity, physicians are eager to prescribe GLP-1 drugs and patients are enthusiastic to take them. Yet fewer than 1 million of the roughly 100 million non-diabetic people living with obesity in the US who could benefit from GLP-1s are using them. Availability in pharmacies has been the primary constraint as the manufacturing capacity for the most effective drugs cannot keep up with patient demand.

Capacity is steadily increasing, but new plants to produce injectable GLP-1s cost billions of dollars and can take three to four years to build. Monitoring capacity is a key additional factor to consider when assessing investment opportunities, in addition to access/reimbursement, market share, and other factors we analyse.

GLP-1s in pill form will likely be a game-changer

We are also focused on the expected release of effective GLP-1s in pill form, which we anticipate by 2026. This could be a game-changer for the drug class as it could unlock a significantly larger market opportunity. While one GLP-1 product, Novo Nordisk's Rybelsus, is currently available in pill form, it is less effective compared with its injectable counterparts and has specific administration requirements that some patients find cumbersome.

Drug companies are investing heavily in creating small-molecule GLP-1s that can be taken in pill form. This could be significantly more cost-effective for drug companies as manufacturing a pill in large volumes is generally cheaper and more straightforward than producing sterile pre-filled injectables.

The cost savings, can in turn, be passed on to payors and patients, which may also help to improve access. In addition to saving on manufacturing costs, pills can be more straightforward than injectables for primary care doctors to prescribe, as they are easier for patients to understand and administer.

Indeed, given the production constraints on pre-filled syringes, GLP-1s in pill form are relatively easy to produce in essentially limitless quantities—making them the only way we can reach the underserved community of 100 million people in the U.S. alone who could benefit from their use.

Beyond pharmaceuticals, increased penetration of GLP-1s could have market implications for other healthcare segments, particularly once pricing comes down with the availability of oral products.

As the downstream savings in other health care costs associated with diabetes and obesity begin to materialize, governments and private insurers will have increased incentives to broaden coverage. A GLP-1 prescription could save insurers from other healthcare costs, such as treatments for high blood pressure, high cholesterol, heart failure, sleep apnea, and kidney dialysis—let alone other significant costs such as strokes or liver failure.

Impact on other companies and industries

The second- and third-order effects of GLP-1s will also be important considerations for investors. Some companies are already starting to see an impact, as diabetes patients continue to shift from other medications to newer GLP-1 drugs and more people with obesity initiate therapy. Reduced demand for bariatric surgery has already been noted by several companies. And the **impact is spreading beyond healthcare**.

Fast food companies are considering the potential impact on demand, as are makers of snack foods, since GLP-1s not only reduce food intake but may also influence a shift toward more healthy choices.

Alcohol companies may also be vulnerable to more health-conscious habits among consumers as well due to GLP-1s' potential to combat addictive behaviours.

Looking further down the road, a healthier global population that consumes fewer calories and lives longer will have an impact throughout the global economy. Workers are likely to be more productive as they take less sick time, but a longer-living population may also require more elder care and challenge pension systems.

[dianomi_video]

Active investing in health care's "golden age"

While we believe the advent of effective GLP-1 drugs is a momentous development for the health care system, economy, and markets, we are hopeful that this is only another step in what we believe is a **dawning of a golden age of healthcare**.

The many billions of dollars spent in private and government-funded labs over the past few decades in understanding the genetics of disease is just now bearing fruit in new treatments.

Advanced computing power and the recent advances in artificial intelligence promise that the pace of discovery and innovation will accelerate. However, profiting from these profound changes as investors will require looking beyond balance sheets and gaining a deep understanding of the science and technology behind their promise.

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

RUDI'S VIEWS

Rudi's View: Investor Worries, Gold, Westpac, and Conviction Buys

In this week's Weekly Insights:

-Everybody Worried?
-Gold As Insurance
-Westpac, Technology Laggard
-Conviction Calls and Best Buys
-Rudi Unplugged - Send In Your Questions

By Rudi Filapek-Vandyck, Editor

Everybody Worried?

Bubble. Hype. Overpriced and overbought. These are all popular terms used by market commentators and investment experts in relationship to share markets in the US and locally in recent times.

Not a day goes by without various comparisons with the Nasdaq in 2000, Japan in the late 1980s, 1987, the Nifty Fifty era or the 1930s being made. It's not difficult to understand why investors are getting nervous, including subscribers here at FNArena.

And yet, I am not overly worried. When it comes to those aforementioned historical comparisons: my view is they are way, way, way too simplistic, with too much hyperbole attached.

Okay, after two strong quarters, as we've just experienced, it's not unusual for markets to pause and consolidate, they might even pull back, who knows? On short-term technical indicators, markets are overbought, so there's reason to expect some weakness at some point.

But I wouldn't hold my breath for a Grand Correction. I simply don't see a valid reason for this to occur, other than wishful thinking by those who want the market to undergo a big correction out of self-interest.

Things can change, of course, and the worst change to occur is rapid decelerating economic momentum alongside a further pick-up in inflation. That is a combination financial markets will not take lightly.

But thus far there's no evidence this is the scenario for the rest of the year.

I do agree with the assessments made elsewhere that the easy gains have now been made from the October lows, but this does by no means prevent share markets from posting further gains.

Markets will likely encounter **more volatility** from here onwards, as the path forward will become less uniform, with more side-steps and alternative scenarios to be considered by those whose job it is to make forecasts about economies and financial markets.

Underlying sentiment is still positive and likely to remain supportive as long as economies hold up, companies keep up with forecasts, inflation trends lower and the prospect of central bank rate cuts remains on the horizon.

I don't think the reducing number of potential rate cuts this year or next is the point to focus on for investors.

Markets are confident rate cuts will come. That remains the key foundation under this year's share market strength, together with technological innovation (AI, GLP-1s, cybersecurity, etc) and a surprising resilience in consumer spending and economies generally.

Goes without saying, there are no watertight certainties in financial markets, or in life generally, hence a more cautious investor can always transfer some of his equity exposure to cash.

If my comfort and confidence prove accurate, the global up-trend for equities will likely become more inclusive, meaning more money will start flowing into laggards to close the valuation gap with the share market winners to date.

Of course, nothing goes on forever, and things ***will*** change, at some point, maybe even without a warning signal first.

I am just not convinced right now is the right time to start worrying about all the bad things that can possibly happen. Let's leave that for another time.

Gold As Insurance

Last week I explained what drives gold, and how, but I did not mention the **All-Weather Model Portfolio** always carries some gold exposure, currently the equivalent of one stock at around 5%, through the Global X physical GOLD ETF (in AUD).

The reasoning as to why starts with the observation that, when measured over elongated holding periods, the return generated from owning gold falls in line with total return generated from local shares. But gold seldom moves in line with the local index, which implies its outperformance comes during times when equities are facing headwinds.

To some, gold offers diversification. In my world, the comparison with insurance suits best. When opting for insurance, no matter which specific kind, the buyer always hopes it never needs to be called upon, but if/when disaster strikes, it's great to know there's at least partial compensation at hand.

This is how I view gold. It's not a speculative tool for me. I may not even treat it as a genuine investment next to long-term portfolio holdings in CSL ((CSL)), Goodman Group ((GMG)), REA Group ((REA)), TechnologyOne

((TNE)), et cetera. But as a natural insurance policy, gold has a function, if one treats it as such.

The All-Weather Model Portfolio is constantly including some exposure to gold, through an ETF to keep things simple. The exposure itself is at times reduced or extended in line with the risks perceived to the world and financial markets generally.

As I often stated in the past: how much gold you own is directly related to how comfortable you are with the world and the outlook.

Back in 2020, when market mayhem hit through covid, the exposure to gold was (temporarily) increased to 11% of the portfolio. Back in 2022, when global bond markets triggered a devaluation of highly priced risk assets, the exposure was no more than circa 2%, later on increased to the current 5%.

Where I disagree with the army of true gold bugs (and financial system doom forecasters) is that I do not blindly treat gold as the natural safeguard against inflation and fiat currency pricing power erosion that must always be owned in copious amounts.

History is very clear about this: there are times when gold does not perform, and might even cause a lot of disappointment through negative returns (remember the 1990s?), plus it's a big bonus to understand how and when gold stands ready to close the gap with the share market's performance.

See also last week's update: https://fnarena.com/index.php/2024/03/27/rudis-view-facts-fiction-about-gold/

Westpac, Technology Laggard

Corporate announcements to the ASX can be read in different ways. Last week's announcement by Westpac ((WBC)) declaring the bank is (finally) ready to spend $3bn between now and 2028 to simplify, upgrade and unify technology systems across the banking network is essentially a public *mea culpa* for neglecting to make necessary and long overdue investments much, much earlier.

For those following the sector closely, it's hardly a secret Westpac has become the sector laggard locally, both in terms of relative valuation and total investment return, with only regional competitors lagging more.

Investors wouldn't know any of this by simply observing the shares (out)performing over the past few months, as a "cheap" looking valuation regularly offers a bigger bounce when investor money returns into the sector, but the picture of Westpac's underperformance is easily recognised when taking a longer term, multi-year view.

To put this in simple terms: when measured from late 2018, the shares have made no progress at all, when the next worst performer of the local Big Four is ANZ Bank ((ANZ)) with a share price advance in double digit percentage.

As per usual, investors holding a sample of only three of the Big Four in portfolio (because CommBank ((CBA)) shares are always "too expensive") rather don't want to know how much return they've missed out on over that period.

The answer you might be looking for is pretty straightforward: investments in technology. Or rather: the lack thereof.

Everyone intimately familiar with the various technology systems and platforms that keep these banking businesses running knows there are a lot of outdated legacies that continuously get swiped under the carpet. Because shareholders want their dividends, and it's never a great time to undertake large-scale distractions, as genuine investments in technology always turn out.

I could recall some of my personal experiences, each embarassing in their own right (for the bank, I am left with the annoyances) but maybe the best way to back up the above is through the observation that whenever an international banking analyst puts together a global sector overview of where banks stand in the ever-evolving technology race that increasingly shapes Haves and Have-Nots in the 21st century, Australian banks are never placed at the forefront of anything.

They are not the worst, but they also are nowhere near the best in the business.

In Australia, both Westpac and ANZ Bank have some catching up to do. Not only with the best-in-class operators offshore (if ever that were to happen at all), but equally in comparison with CommBank and National Australia Bank ((NAB)) locally.

The differences between the Big Four in Australia are painfully illustrated through the respective cost-to-income ratios (CTIs) because better technology equals more efficient execution and thus lower costs. On FY23 financials, CTIs for both Westpac and ANZ Bank sit on 49% with CBA and NAB on 44%.

Wait, it gets worse, as they all are struggling to keep cost inflation in check. Hence, those numbers are projected to rise first before we can see them drop. Westpac is struggling more than the others. Its CTI is projected to rise to 52%, which would make it the worst in the sector locally by an arm's length.

Knowing all of the above, why then have investors and sector analysts not been more enthusiastic about Westpac's announcement?

For starters, the bank's track record is nothing to boast about. But equally important: these are long-drawn out processes, with lots of risks and potential for negative outcomes along the way. Heavy costs come first, depressing profits and margins, with potential benefits not to be seen until much, much later.

As everyone knows, such large projects never finish on time or within budget. Investors should be prepared to learn about delays, unforeseen hiccups, and cost blow-outs. It'd be a small miracle if none of such developments were to surface over the next number of years. Take a slightly dimmer view and risks are rising for much larger investment, and a dividend cut, at some point.

After all, we are living through an era of significant technological innovation and this in itself requires businesses to spend more to stay relevant.

Success is by no means guaranteed and nothing is stopping NAB or CBA to step up their own investments in further technological upgrades in the meantime.

The recent short term share price performance put aside, it shouldn't surprise if Westpac remains the local sector laggard for much longer. This might please your typical income investor as the yield on offer might well remain the highest for longer (together with ANZ's), but not so much for those who measure in total return against the broader market.

All of this also raises the obvious question: when will co-laggard ANZ Bank bite the bullet and announce its own catch-up investment project?

Given ANZ Bank is in the process of acquiring full ownership of Suncorp Group's banking operations, that might well loom as the obvious trigger point. As shown by the example provided by Westpac; the longer these necessities are ignored and postponed, the more painful the consequences ultimately will be.

As per usual, successful long-term investing does not start with picking the cheapest option available; it's about understanding why companies deserve to trade at a discount, while others are granted a premium, and deserve it.

Conviction Calls and Best Buys

This month's update on stockbroker **Morgans' Best ideas** on the ASX has witnessed the removal of Mineral Resources ((MIN)) and the inclusion of Superloop ((SLC)).

Mineral Resources had been added in late January 2023 and the (negative) return has not lived up to expectations. Morgans does believe lithium prices have likely bottomed for the present cycle, but this is possibly already reflected in the share price. While there remain multiple reasons to retain exposure to the diversified miner, clearly there's now less conviction and thus the stock is no longer a Best Buy idea.

Morgans' selection now comprises of 26 ASX-listed companies, including the likes of CSL, QBE Insurance ((QBE)) and Woodside Energy ((WDS)) among large caps and Pilbara Minerals ((PLS)) and South32 ((S32)) in the local resources sector.

Among beaten-down REITs, the broker's conviction resides with Dexus Industria REIT ((DXI)) and HomeCo Daily Needs REIT ((HDN)). There are more cyclicals represented through WH Soul Pattinson ((SOL)), Karoon Energy ((KAR)), GQG Partners ((GQG)), Beacon Lighting ((BLX)), Universal Store Holdings ((UNI)), Acrow ((ACF)), and

Dalrymple Bay Infrastructure ((DBI)).

Structural growth continues to attract too with ResMed ((RMD)), NextDC ((NXT)), Objectice Corp ((OCL)), Tyro Payments ((TYR)), Mach7 Technologies ((M7T)) and Camplify Holdings ((CHL)) included.

Then there's the re-opening trade, still alive more than three years after covid lockdowns, alongside temporary tactical trade ideas through Treasury Wine Estates ((TWE)), Inghams Group ((ING)), Avita Medical ((AVH)), Flight Centre Travel ((FLT)), and Helloworld ((HLO)).

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Clients of **Ord Minnett** have also received notice of the broker's most preferred exposures.

These include Westpac Bank, GQG partners and Medibank Private ((MPL)) in the financial sector, Ramelius Resources ((RMS)) and Sandfire Resources ((SFR)) in the mining sector, and CSL for healthcare.

In consumer staples the favourite is Select Harvests ((SHV)), while Webjet ((WEB)) is preferred among consumer discretionary companies. Brambles ((BXB)) is the favourite among industrials, with Goodman Group ((GMG)) and Waypoint REIT ((WPR)) the two choices in the REITs sector.

For exposure to energy & utilities, Ord Minnett's preference lays with Santos ((STO)) and Viva Energy ((VEA)). In telecommunication services Telstra ((TLS)) remains the *primus inter pares*.

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Macquarie's Model Growth Portfolio currently consists of the following constituents (ranked by portfolio weight, largest first):

-Goodman Group
-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-NextDC
-CSL
-Computershare ((CPU))
-Northern Star ((NST))
-The Lottery Corp ((TLC))
-Flight Centre
-Cleanaway Waste Management ((CWY))
-Mineral Resources
-Pilbara Minerals
-Steadfast Group ((SDF))
-ResMed
-Pexa Group ((PXA))
-Treasury Wine Estates
-Viva Energy

Macquraie's **Model Income Portfolio** currently consists of (ranked by portfolio weight, largest first):

-Westpac Bank
-Suncorp Group ((SUN))
-Telstra
-National Australia Bank
-ANZ Bank
-CommBank
-BHP Group ((BHP))
-Coles Group ((COL))
-Premier Investments ((PMV))
-Aurizon Holdings ((AZJ))
-Atlas Arteria ((ALX))
-APA Group ((APA))
-Deterra Royalties ((DRR))
-GPT Group ((GPT))

-GUD Holdings ((GUD))
-Metcash ((MTS))
-Charter Hall Retail REIT ((CQR))
-Amcor ((AMC))

Rudi Unplugged - Send In Your Questions

I still need to pin down the exact date, but the previously announced Rudi Unplugged video broadcast shall be recorded over the next two weeks.

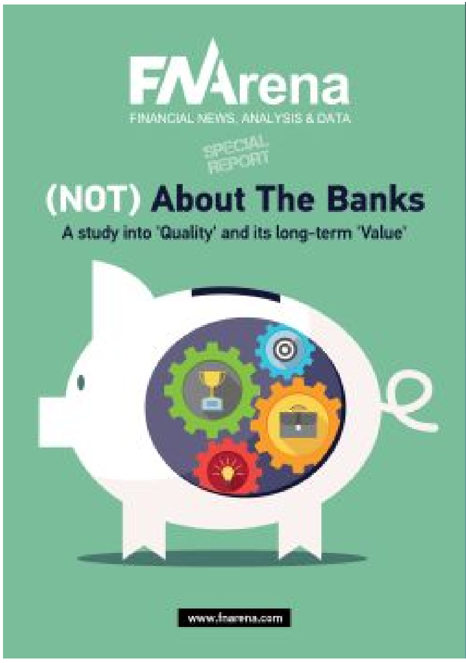
So... time to send in your questions, be they about the market, the All-Weather Model Portfolio, individual stocks of interest, the service FNArena provides, or something completely different.

editor@fnarena.com

I shall keep you all posted.

FNArena Subscription

A subscription to FNArena (6 or 12 months) comes with an archive of Special Reports (20 since 2006); examples below.



(This story was written on Monday, 2nd April, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday 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: contact us via the direct messaging system on the website).

RUDI'S VIEWS

Rudi's View: (In Search Of) The Holy Grail

On March 20 and 21 FNArena Editor Rudi Filapek-Vandyck presented respectively to the CPA's SMSF discussion group, online, and members and guests of the Australian Shareholders Association (ASA) in Sydney, in person on stage.

The video recording of the first presentation is available via the FNArena website and through Youtube: https://fnarena.com/index.php/fnarena-talks/2024/03/22/to-august-beyond/

To make the content of this presentation available to a wider audience, FNArena has decided to also publish a shortened, curated transcript, with limited illustrations from the slides used.

A full copy of the Powerpoint presentation slides is available for paying subscribers via the SPECIAL REPORTS section on the website.

Presentation: To August & Beyond, March 2024.

Welcome. With today's presentation I have tried to combine the short term with the long term.

This idea is also embedded in the title I have chosen. As investors in the share market, we always tell ourselves we are in this for the long term; we know investing is a marathon, rather than a short-term sprint.

In practice, we are constantly being influenced by the short term, also because of the sector and the media telling us all about the short term, what is happening, and what is not happening in the here and now.

Short Term: February Results

Let's start with the short term.

In Australia, we have two major corporate results seasons; in August and February, and a gaggle of companies reporting in between.

Last year, both February and August seasons proved quite disappointing. Twice the market rallied hard leading into each season, and twice results were simply not good enough and all those gains disappeared in full.

The situation at the start of February was not dissimilar. Again, we saw a big rally beforehand, but this time the gains have not disappeared.

Because expectations were low, the stats look 'ok'. I think it's probably correct to conclude the reporting season was 'good enough', I am not sure whether this also means it was 'good'.

The macro-outlook has by now changed too.

As investors, we are now looking forward towards, hopefully, a trough in economic momentum, and we are in particular looking forward to central bankers cutting interest rates.

Consumer spending is hopefully holding up, that's the hope, and it is supporting the market broadly.

The big winner from the February reporting season is technology, and that was very much noticeable. We saw big spikes in share prices for some of the technology stocks. Some of those results proved absolutely mind blowing.

It didn't get that much coverage in the general media for the simple reason that technology is supposedly a US phenomenon.

But also, there are many more retailers and consumer-oriented companies listed on the ASX, that were equally meeting or beating expectations, so much more attention went to discretionary retailers.

Another factor is technology trading on above average PE multiples, and everybody, including the media, has a psychological problem with that.

Another sector that performed really well is building materials.

In general terms, the season was being saved by smaller cap companies, not so much the large caps.

The losers in February were the international cyclicals; mining and energy companies.

Those results generally were quite disappointing, and that translated into share prices going backwards. Both the energy and mining sector were at the bottom of performance tables over January and February.

Another sector that simply never seems to get it right is telecommunication, with exception, maybe, of a few small caps.

Plus the one sector that used to be a shoe-in for solid performances is healthcare and again, February did not deliver for healthcare.

Investors will have to be more patient when it comes to healthcare stocks.

The irony here is that what happens in February doesn't necessarily give us any guidance for what lays ahead.

For example, healthcare is seen as one the best performing sectors in terms of profit growth for the years ahead.

In terms of profits generally, the current forecast sees the average earnings per share (EPS) retreat by -5.5% in FY24. For FY25 consensus sees a positive gain of 4%.

The long-term average for Australia is positive growth of 5.5%, thus the general expectation is for below-average growth this year and in the next.

Needless to say, in a polarised market the outlook between sectors is very much diverse.

On the positive side, we find insurance, healthcare, and technology. On the negative side, we find commodities and the banks, for example.

All in all, it's 'good enough' to retain an undercurrent of cautious optimism supporting the market.

<u>The Broader Picture</u>

Another observation is the index gained some 2% in total since the start of the year, some 0.80% all-in throughout February, but in the US gains are generally much higher.

And that difference in performance is not something that only happened this year.

If we zoom out and look at the broader, longer-term perspective, we see a huge gap has opened up between US markets and the local ASX.

It happened during the 1990s, when the main drivers were technology, the internet and internet infrastructure, but it didn't last that long. Eventually both markets converged again, and Australia outperformed for a number of years. That came to an end with the GFC.

The gap has really opened up since 2015.

Reversion To The Mean?

Observation: the gap between Australia and US markets has probably never been this wide, and it has never been witnessed for this long. It's been going on for 16 years now, and counting.

This raises a lot of questions. As one of popular approaches in finance is to position for reversion to the mean, we should be very excited in Australia.

The local market has a lot of catching up to do and this could potentially translate into many, many years of outperformance relative to the US.

Of course, there are many ways in which this can happen. It can also mean US shares tank and we don't - and all the scenarios in between.

Interestingly, if we take a very long-term perspective of one hundred years and longer, the performances of US shares and the ASX turn out relatively similar.

Both markets are in the Global Top Three of best performing share markets longer term. It makes the current outperformance of US markets even more remarkable.

So the key question thus becomes: is it feasible we will see a reversion to the mean?

To find the answer, we need to investigate whether there is a fundamental reason as to why the US is outperforming so strongly and for so long.

If we find that fundamental reason, and it remains in place, we might need to conclude there's no reversion to the mean on the horizon, not until underlying fundamentals change.

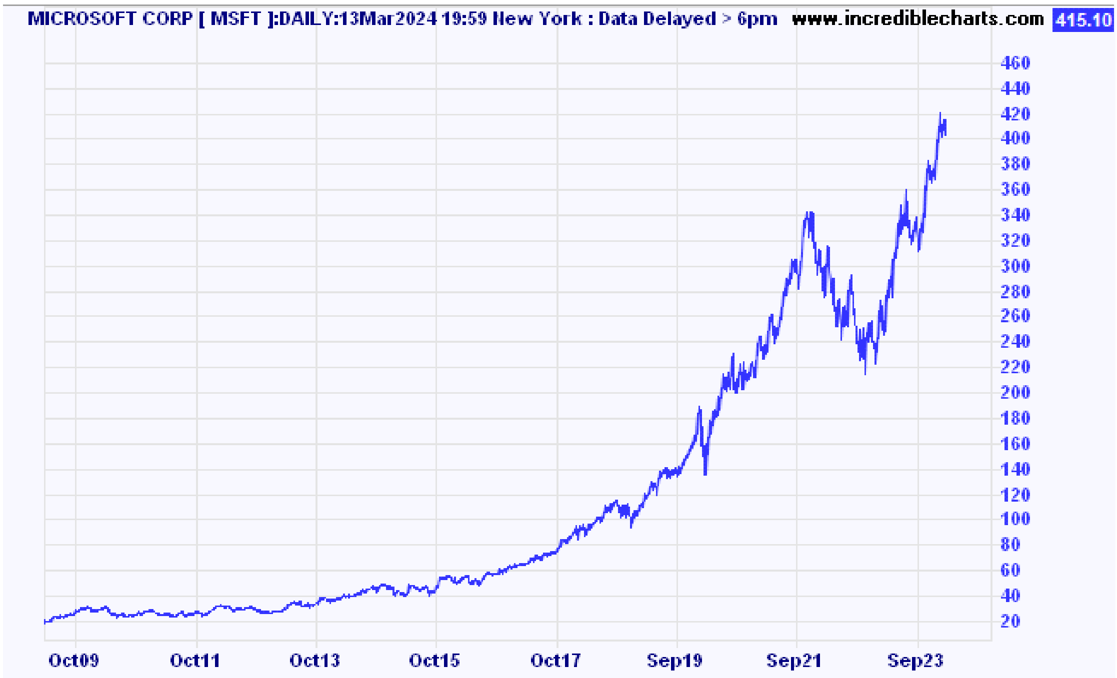
The Longer Term Picture

There are many different ways of investing and trying to make money from the share market.

For many people it consists of hopping on and off of stocks, buying and selling, trying to pick the troughs and peaks in share prices.

But let's just assume, for this exercise, we like to buy and hold for longer periods of time.

Within such framework, the stock I am showing you right now is nothing but the ideal proposition.



Yes, of course, there’s the occasional bout of volatility, and there are sell-offs along the way, but ultimately the share price moves from the bottom left-hand corner on the price chart to the right hand corner near the top.

As a long-term investor, that’s what we want to see. This is the sort of stock we like to hold in our portfolio.

This is Microsoft. Maybe Microsoft is showing us why US markets are outperforming Australia?

Let’s compare, say, with one of our major index constituents. Let’s look at a long-term price chart for National Australia Bank ((NAB)).

I’d like to think if I showed both price charts to a five-year old, the conclusion would be that shares on number one are going ‘up’ and shares on number two not so much.

Hence, NAB shares over 16 years have gone through a lot of volatility, as have Microsoft shares, but, ultimately, they’ve made no real progress over that time.

Could we possibly have found the explanation for the big gap in relative performances between both markets?

At the very least, I think we have discovered something that needs to be investigated further.

Some people might say Microsoft is a technology company. And NAB is a bank. That's your explanation right there.

"The outperformance in the 1990s was simply about technology and we are repeating the same story over and again."

So, let's stay inside the finance sector in Australia, let's compare the banks.

I've gone back to the bottom of the GFC, 6th of March 2009.

The worst performer in Australia among the Big Four is Westpac ((WBC)). If you held those shares from the absolute bottom until three weeks ago, you'd had made 4.7% per annum on average, plus dividends, and franking.

If we add dividends that'll bring total return up to between 9-10% per annum. That's not too bad, I think most investors would agree.

But we are measuring from the bottom of the GFC. If we measure from a later date, when share price levels were higher, that 4.7% quickly reduces towards zero. All that's left then, on the long-term average, are the dividends and franking.

Let's now compare with CommBank ((CBA)).

Same starting point, same length of holding period, and the average return is more than 22% per annum, ex-dividends.

The difference is enormous.

If I then broaden my perspective, and compare with Macquarie Group ((MQG)), not quite apples versus apples, but we are inside banks and financials nevertheless, the average return climbs to 68% per year. Plus dividends on top.

I guess what we are discovering here is this is not about technology versus banks.

Also, allow me to point out:

Westpac is the 'cheapest' of the banks. CommBank is the most 'expensive', not only at the end of the holding period, but CBA has been the most expensive throughout the whole 16 years.

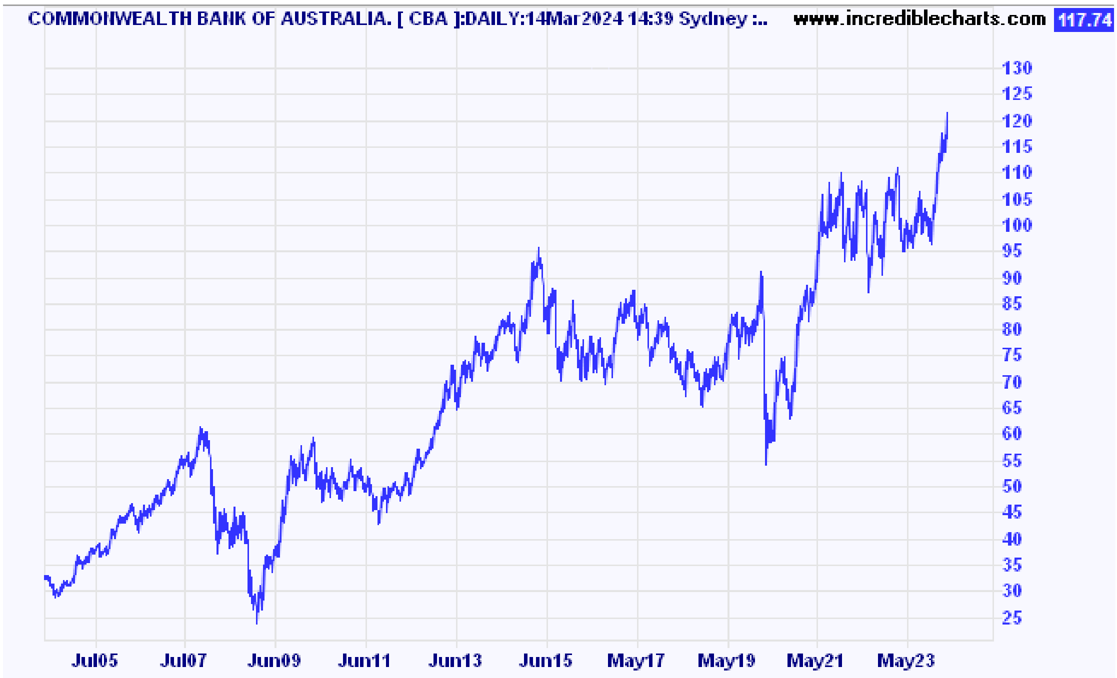
CommBank pays the lowest yield in the sector. Westpac pays the highest yield. Macquarie sits on both accounts closer to CommBank than to Westpac.

Observation: the cheapest stock has generated the worst return. The highest yield equals the worst return.

We might be onto something important here.

Compare all four of the Big Banks in Australia and I think we all agree, the price chart for CBA looks pretty similar to that of Microsoft, while the other three don't.

What we see is a sharp difference. What could potentially explain this?



<u>The Quality In Businesses</u>

From Warren Buffett's recent homage to the late Charlie Munger: Charlie taught me it's better to **invest in wonderful companies at a reasonable price** instead of in reasonable companies at a cheap price.

In my personal research, I focus on finding wonderful, great, high-quality businesses. But that's a very contentious concept: what makes a great company while others are not?

I discovered research conducted in the US and locally by Betashares on this matter.

The central question remains the same: what have companies in common whose price chart looks similar to CBA's, Macquarie's, and Microsoft's over a long period of time?

The research suggests a strong correlation exists between companies that invest and those that don't, or only a little.

The real gap becomes evident when we compare Nasdaq companies with those in the S&P500, while removing those from the Nasdaq that are also in the S&P500.

As a percentage of sales, investments by those Nasdaq winners are absolutely massive if one also considers how large some of those companies are, like Meta, for example, or Alphabet, or Microsoft.

So… what makes a great company, according to this research, is that it invests, on average, ten times as much as others, on developing new products, on reinforcing the moats, on strengthening market share, on improving and expanding products and services, etc.

<u>This Time Is Different</u>

There's a tendency in finance to joke about the four most dangerous words ever used: this time is different.

It's usually in reference to market bubbles and share markets at all-time highs.

But I've been arguing now for a number of years that this time <u>*is*</u> different.

At the macro-level, we are still operating inside a slow growth environment, and we have been for quite a while.

And probably the key change is that we are living through an almost unprecedented time of technological advances, innovations, and changes.

I believe those dynamics polarise the market, because not every company is adept enough to catch up.

This is also what we see in the share market, where since 2015 share prices have become polarised between the Haves and the Have Nots.

In February, one observation was that companies are increasingly mentioning and referring to artificial intelligence (AI), both in the US and in Australia.

AI has the potential to further polarise economies and companies.

It's not necessarily going to happen immediately; these are long-winded processes. But as investors with a longer-term horizon, I think this is most definitely something we should pay attention to.

In my own research, I pay attention to the concept of megatrends; trends that remain in place for a very long time. If companies are being driven by such megatrends, it means they have the wind in the sales for a very long time.

As an investor, we need to ask ourselves the question what is more important; the short-term valuation or the prospect to enjoy strong investment returns over an extended period of time?

Valuing Companies

Another element that is changing is how to value modern day businesses.

There are still people in today's share market who think they can simply put a backward-looking PE ratio on all companies, universally, and decide which ones are a good buy and which ones are not.

I say good luck with that, you are very well adjusted to the 19th century. Please, stop using backward-looking PE ratios; you're not doing yourself any favours.

Secondly, accept that valuing a company has become increasingly more sophisticated.

For those who'd like to research this aspect more, I happily refer to Aswath Damodaran, considered the Dean of valuing companies in our lifetime.

Website: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/home.htm

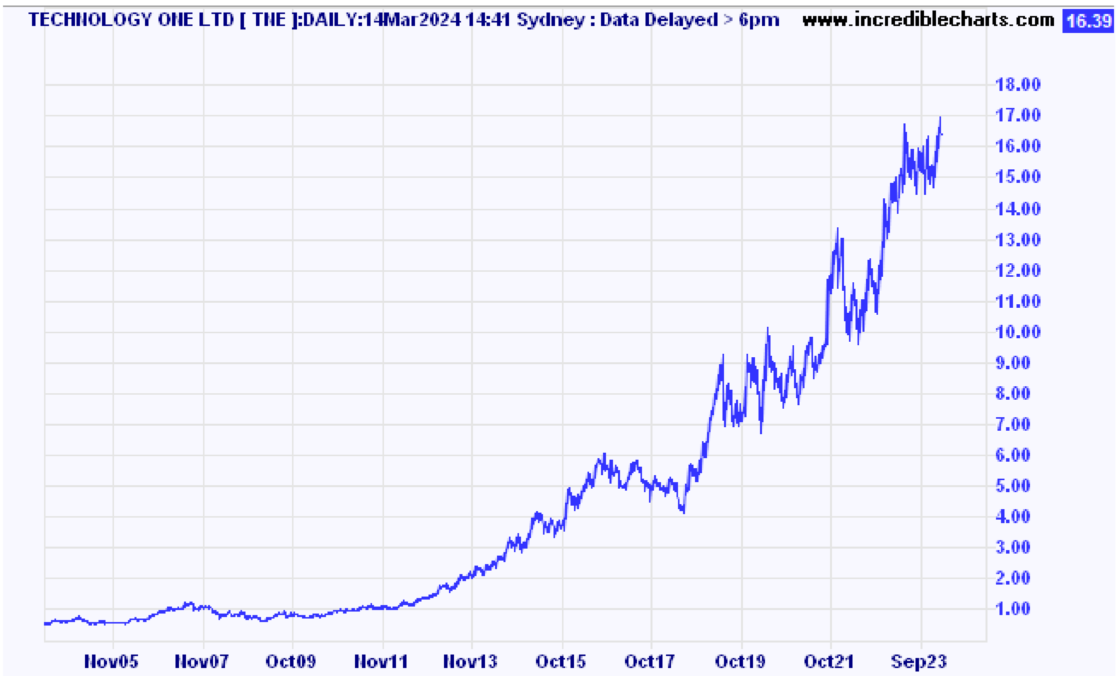
All-Weather Performers

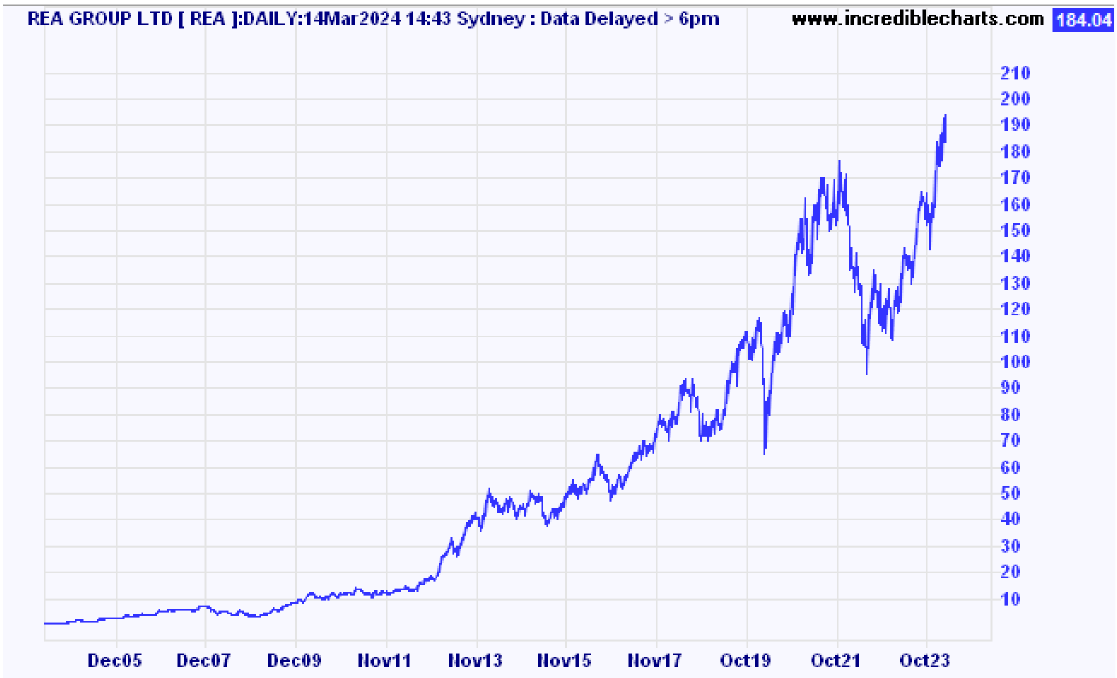
I started my research into high-quality performers on the ASX after the GFC and the subsequent bear market.

In essence, I got interested in figuring out why some companies perform so much better through tough times and downturns while others drop like flies.

Since that time, my research has identified a number of **All-Weather Performers** in the Australian share market.

Let's find out how some of my favourite companies compare against Microsoft & Co.

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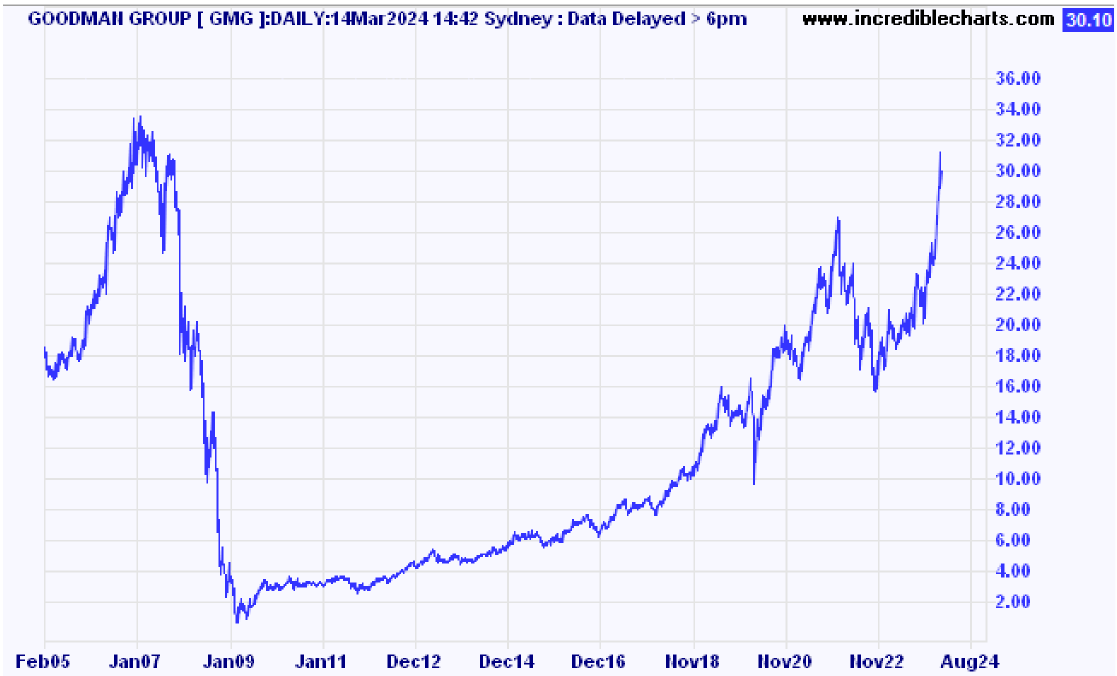
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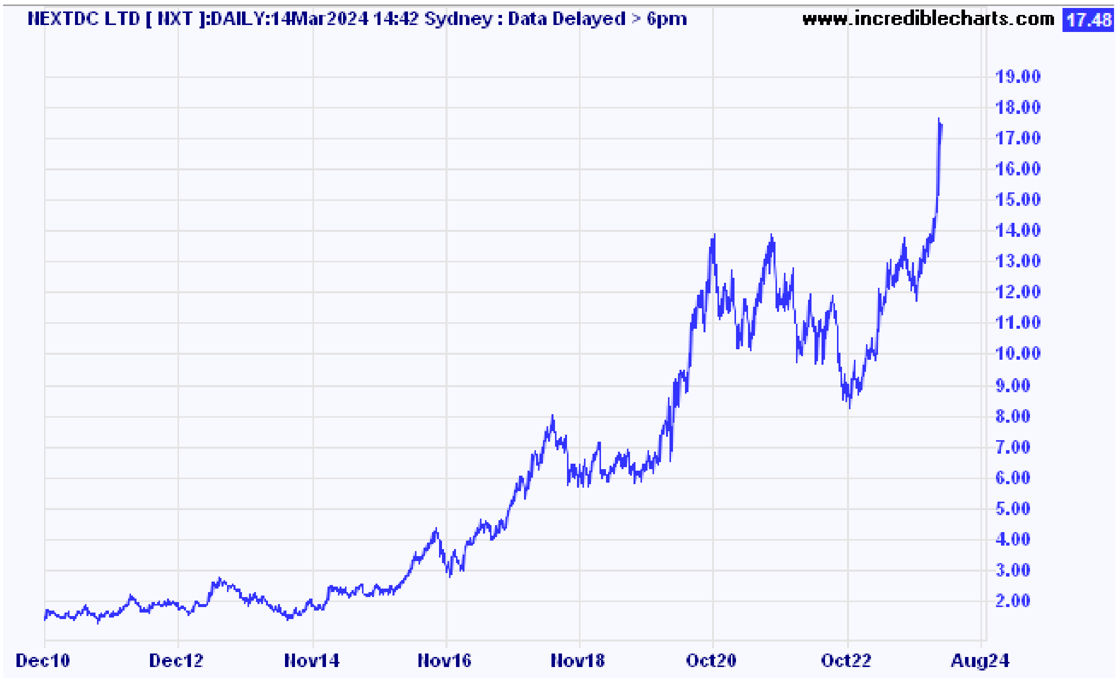

Maybe one observation to make here is that you can have US-type returns in Australia, as long as you have Microsoft-type companies in your portfolio.

And I am not referring to the technology component, but simply to the similarity on these price charts.

Conclusion

What I've tried to show you today is there's a lot we don't see when we're focusing on the short-term, but investing is a long-term endeavour and maybe we should pay more attention to the differences in between companies and the different dynamics that rule them?

The share market consists of a **small minority of exceptional performers** and a large majority of mediocre wannabes.

As an investor, I am happy to stick with the minority.

(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.)

P.S. I - All paying members at FNArena are being reminded they can set an email alert for my Rudi's View stories. Go to My Alerts (top bar of the website) and tick the box in front of 'Rudi's View'. You will receive an email alert every time a new Rudi's View story has been published on the website.

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

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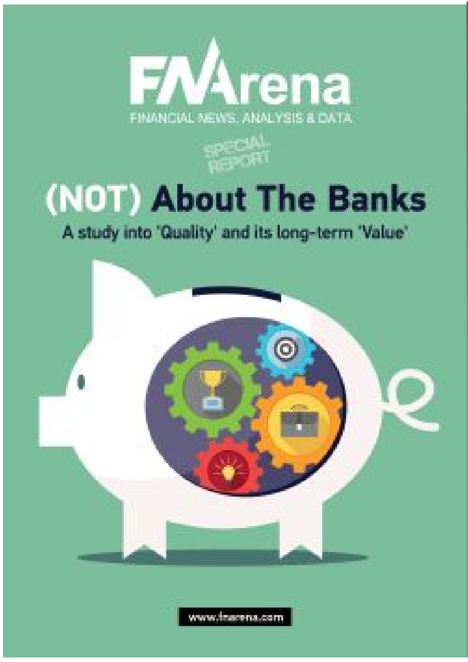

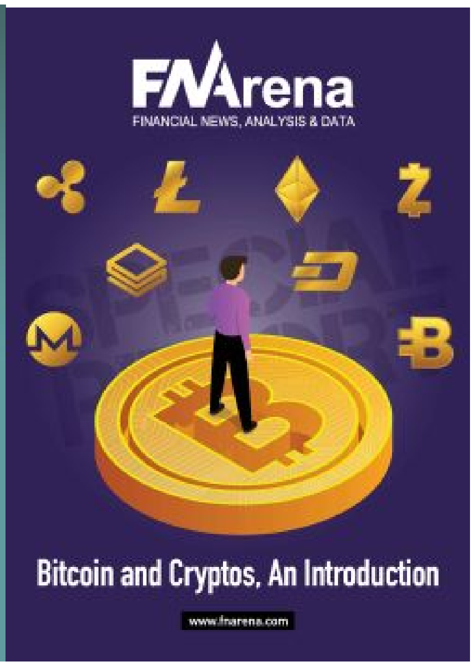

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SMALL CAPS

And Now For Something Different: Royalties

The benefits of royalties and where to access them via the ASX.

By Tim Boreham, Editor, The New Criterion

Royalty – as in the Windsor variety - has endured more than a few reputational hits of late. The same can be said for royalties, which are not a gaggle of surviving monarchies but the right to a revenue cut of a producing asset.

While royalties are well-known in North America – notably in the oil and gas and precious metals sectors – the concept tends to draw a blank with investors here in Australia.

Similarly, local miners are unfamiliar with the use of royalties as a funding source - an adjunct to better-understood debt and equity.

In essence, the sector is more on the outer than Harry and Megan.

That's a pity, because royalty payments are usually revenue based and tend to increase in inflationary times, without the holder being subject to rising input costs or the requirement to commit more capital.

In the non-resources sphere, entertainment royalties are equally foreign to us at a time when more mega artists have sold off their portfolio rights (including Bruce Springsteen and Bob Dylan).

Australians' aversion to royalties – and, we suspect, royalty post The Queen's demise – makes the $2.5bn market-cap **Deterra Royalties** ((DRR)) an ASX unicorn.

The stock is as close as we get to Canada's $60bn market cap Franco Nevada, the global leader in precious metal royalties.

A spin-off from mineral sands miner Iluka Resources ((ILU)) , Deterra holds one key asset: the right to a 1.232% revenue share from BHP's Mining Area C (MAC) iron-ore project in the Pilbara.

Not surprisingly, Deterra chief Julian Andrews is on a mission to spruik the benefit of royalty flows to both investors and as a corporate funding source.

"Royalties don't have the best reputation in Australia," he told the Melbourne Mining Club recently, adding that they are well understood and widely used in the global oil and gas sector.

Deterra's mandate includes developing new projects in exchange for royalty streams.

"There are strong overseas examples of royalties being used to fund a project that otherwise would not be built," Andrews says.

"We are talking to the market and the industry about how royalties can be used more efficiently to fund a project."

Meanwhile, the MAC project is the gift that keeps giving: when a current extension to the south flank is completed, the long-life project will account for roughly 8% of seaborne iron ore.

In the half year to December 2023, MAC generated revenue of $119m for Deterra, $79m of which trickled to the bottom line.

Deterra distributed a full-franked dividend of 14.89 cents per share – a payout ratio of 100%.

Andrews says royalty funding better aligns investors with the ebbs and flows of the commodity cycle and corporate performance.

In other words, if a project output slows temporarily, the return to royalty holders does as well. Unlike bankers or equity holders, they are not baying for blood and this equates to superior returns over time.

"We get paid when the mine is producing and we don't get paid when it isn't … we have a qualitatively different interest in the project."

As with MAC, royalty holders participate in the growth of an asset without having to contribute additional capital.

Another benefit is that given the revenue is over the life of a mine, royalty-based projects tend to be valued on a net present value basis, rather than a discounted market value.

While Deterra is kicking tyres on new royalty deals, some things are off limits. Given a royalty agreement in essence is a bit of paper, sovereign risk is crucial and thus the company is unlikely to invest in African or South East Asian projects.

"We're focused on more developed mining jurisdictions, somewhere we would be happy to take our family for a holiday."

Commodity-wise coal is off limits – thermal or metallurgical – while the precious metals sector is well served already. "We have a relatively small team and need to focus our attention on where we have relatively high chance of success," Andrews says.

He dubs royalty funding as "another quiver in the arrow for CFOs": not the funding be-all-and-end all, but an adjunct to debt and equity that sits in the middle of the capital hierarchy.

Andrews reports a decent flow of royalty opportunities, often involving parties that have acquired them by "happenstance" (such as tenement holders vending an asset).

In 2020 BHP spin-off **South32** ((S32)) sold a portfolio of gold royalties to Canada's Elemental Altus Royalties Corp for US$55m in cash and scrip.

In 2022 South32 followed up with a US$200m base metal royalty sale.

Both results were better than expected, but sometimes deals can end up in more trouble than Prince Andrew's spin doctor. For instance, South32 is in dispute with IGO Ltd ((IGO)) over $122m of alleged unpaid royalties pertaining to the Tropicana gold mine (now owned by Regis Resources ((RRL)) and Anglo gold).

[dianomi_video]

In the microcaps space, the $12m market cap **High Peak Royalties** ((HPR)) has a swag of oil and gas royalties here and in the US, with counterparties including Santos, Origin Energy and Shell Australia.

High Peak pocketed gross revenue of $301,000 in the December 2023 quarter, for net income of $125,000.

For a broader exposure, Betashares Global Royalties ETF ((ROYL)) provides a one-stop exposure to global companies that earn a substantial portion of their revenue from royalty income.

Tracking the Solactive Global Royalties Index, the fund's biggest exposures are Canada's Wheaton Precious Metals Corp (12% of the portfolio), Universal Music Group NV (11%) and Royalty Pharma PLC (10%).

The fund has gained 8% since inception, but has declined -3.5% over the last 12 months.

"Royalty companies generally display attractive fundamental characteristics such as strong and recurring cash flow, high gross margins, strong debt servicing and high return on capital," Betashares says.

Indeed: they're a right-royal opportunity for investors seeking something a little bit different.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 28-03-24

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

By Mark Woodruff

Guide:

The FNArena database tabulates the views of eight major Australian and international stockbrokers: Citi, Bell Potter, Macquarie, Morgan Stanley, Morgans, Ord Minnett, Shaw and Partners 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 March 25 to Thursday March 28, 2024
Total Upgrades: 6
Total Downgrades: 7
Net Ratings Breakdown: Buy 55.53%; Hold 35.33%; Sell 9.14%

For the week ending Thursday March 28, 2024, FNArena recorded six rating upgrades and seven downgrades for ASX-listed companies by brokers monitored daily.

The tables below show percentage upgrades by brokers to average earnings forecasts were larger than downgrades, while percentage upgrades to average target prices were also greater than negative adjustments.

For those few remaining companies that reported results last week, the reader may refer to FNArena's daily Corporate Results Monitor (https://fnarena.com/index.php/reporting_season/), which currently provides a summary of broker research on all companies that have reported results post February.

The Monitor provides explanations for why Sigma Healthcare and Premier Investments sit atop the tables for positive change to earnings forecast and target prices, respectively.

For the second week in a row, Sigma headed up the earnings upgrade table after FY24 earnings came in at the top end of management's guidance range. Last week's update of research by Ord Minnett propelled the average earnings forecast in the FNArena database even higher.

Despite a "weak" FY24 result due to fewer covid test sales, cost inflation and intense competition, the broker predicted materially better earnings in coming years due to improved operating leverage, and an ongoing focus on both cost efficiencies and private label products.

The analyst raised the FY25 margin forecast for Sigma by eight basis points as management announced the development of over 250 private label products, 80% of which will launch in the second half of FY25. The broker highlighted the gross margin for private label products is typically six times higher than for branded products.

The potential merger with Chemist Warehouse Group is not factored into Ord Minnett's forecasts at this time, due to the risk of regulatory intervention.

Sigma also came third on the positive change to average target price list behind Webjet, which was boosted by positive management commentary at the WebBeds B2B strategy day.

According to UBS, the update highlighted Webjet's ability to leverage technology, big data and AI projects (currently underway) to customise and increase delivery speed to customers. As a result of these initiatives, the analyst is expecting material growth well in advance of consensus expectations.

Morgan Stanley agreed with UBS and came away from the strategy day with a more constructive outlook for the short term. Stronger total transaction value growth and lower, more competitive take-rates are expected to provide a net tailwind for near-term earnings.

An ongoing rebound in leisure travel and Webjet's market share were implied by several targets that management expects to achieve by FY30, which were all ahead of analysts' forecasts.

Management anticipates the B2B division will deliver $10bn of total transaction value by FY30, two years earlier than Ord Minnett's original forecast.

Average broker earnings forecasts increased last week for Cooper Energy, Sandfire Resources, and 29Metals.

During last week, Morgans adopted a more positive view than consensus on demand conditions for commodities, in the expectation US dollar weakness and a return to growth in the West combine to offset the weak property market in China. Due to sustained supply deficits in coming years, copper and oil exposures are preferred.

The broker raised its price forecasts for both oil and LNG, resulting in higher earnings forecasts for Cooper Energy and a target of 30 cents, up from 28 cents.

Morgans is also optimistic around the early track record of the company's new management team, who have rolled out a series of value-accretive debottlenecking activities at the long-troubled Orbost gas plant.

Citi's earnings forecast for Sandfire Resources increased last week after the broker's commodities team upgraded the second quarter copper price outlook to an average US$9,000 per tonne. Citi noted softer copper supply and the expectation of more aggressive interest rate cuts by the US Federal Reserve.

While the analyst's target price for Sandfire increased to $7.30 from $6.90, the recommendation was downgraded to Sell from Neutral on a full valuation after a 20% year-to-date share price rally. It's thought Sandfire has benefited from being the go-to-name for copper exposure on the ASX.

Early last week, 29Metals also benefited from Citi's increased copper price forecasts, but (more) bad news was to follow.

Following the suspension of operations at the company's Capricorn Copper operations due to an extended period of rainfall, Macquarie downgraded its rating for 29Metals to Underperform from Neutral and lowered the target by -44% to 25 cents. The broker listed several negatives including: 29Metals is now a one asset producer with a leveraged balance sheet; there's a high operating cost base at Golden Grove; and the CEO is in transition.

Morgan Stanley is also concerned about liquidity levels at 29Metals though suggested additional capital may not be required should the spot copper price rise another 5%, or debt payments are delayed. An additional insurance payment of around $15m would also help stave off the need for additional cash.

Management will ramp-down operations at Capricorn Copper over the next six weeks and a re-start plan will be provided at the March quarterly result.

Genesis Minerals received the only materially negative change to average earnings forecast by brokers last week. After taking into account details released by management on the five/ten-year outlook, Macquarie lowered EPS forecasts for FY24-28 by -28%, -9%, -54% and -43%, respectively, with meaningful upgrades for following years.

Genesis plans to mine 1.3m ounces of gold over the next five years (in line with the broker's forecasts) though management's estimates for around 75,000 ounces per annum over the subsequent five years is stronger than the analyst's prior forecast. An Outperform rating and $2.00 target were maintained.

MMA Offshore was downgraded to Hold form Buy last week by both Shaw and Partners and Bell Potter after a subsidiary of Singapore-based Cyan Renewables offered $2.60 per share in cash for the company after signing a binding Scheme Implementation Deed.

Shaw downgraded to reflect the likelihood MMA Offshore will be acquired at the agreed price, but Bell Potter felt the door was left ajar for a potential competing offer.

Bell Potter described the bid, which reflected an 11% premium to the prior closing price, as reasonable but not a knockout.

Total Buy ratings in the database comprise 55.53% of the total, versus 35.33% on Neutral/Hold, while Sell ratings account for the remaining 9.14%.

Upgrade

APA GROUP ((APA)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/3/0

Following the release of the Australian Energy Market Operator's (AEMO's) Gas Statement of Opportunities (GSOO) and the Victorian Gas Planning Report (VGPR), Macquarie notes (like in 2023) the market is heading for a gas shortfall.

The broker suggests the likely first trouble will occur in the winter of 2026, though the material shortfall will be in 2027 or 2028. It's felt APA Group will benefit from growing contracting in off peak on the energy performance contract (EPC) to deliver more gas in Victoria.

Target rises to $9.40 from $8.90 after the broker also incorporates a lower tax assumption. The rating is upgraded to Outperform from Neutral on valuation.

BHP GROUP LIMITED ((BHP)) Upgrade to Add from Hold by Morgans .B/H/S: 2/4/0

Morgans adopts a more positive view than consensus on demand conditions for commodities in the expectation US dollar weakness and a return to growth in the West offsets the weak property market in China.

Due to sustained supply deficits in coming years, the broker prefers copper and oil exposures. The iron ore price is expected to remain healthy until around 2026 when low-cost, high-quality supply from the Simandou mine in Africa enters the market, and potentially lowers prices.

The analysts anticipate gold stocks could rally to 'catch up' to all-time highs for gold prices. Oil, LNG and uranium price forecasts are increased, while the 2024 spodumene price estimate is further trimmed.

Morgans upgrades its rating for BHP Group to Add from Hold after a recent share price selloff and is preferred over Rio Tinto and Fortsecue for iron ore exposure. The $47.60 target is unchanged.

BEACH ENERGY LIMITED ((BPT)) Upgrade to Add from Hold by Morgans .B/H/S: 6/1/0

Morgans adopts a more positive view than consensus on demand conditions for commodities in the expectation US dollar weakness and a return to growth in the West offsets the weak property market in China.

Due to sustained supply deficits in coming years, the broker prefers copper and oil exposures. The iron ore price is expected to remain healthy until around 2026 when low-cost, high-quality supply from the Simandou mine in Afriac enters the market, and potentially lowers prices.

The analysts anticipate gold stocks could rally to 'catch up' to all-time highs for gold prices. Oil, LNG and uranium price forecasts are increased, while the 2024 spodumene price estimate is further trimmed.

The target for Beach Energy rises to $2.15 from $1.65 and the rating is upgraded to Add from Hold after a new analyst at Morgans updates financial assumptions. Higher oil and gas price forecasts are also incorporated into forecasts.

PREMIER INVESTMENTS LIMITED ((PMV)) Upgrade to Neutral from Sell by UBS .B/H/S: 2/2/1

Premier Investments delivered 1H earnings (EBIT) of $209.8m, exceeding forecasts by consensus, UBS and also beating management guidance for around $200m. The broker upgrades to Neutral from Sell and the target rises to $31 from $27.

Even though sales growth missed expectations held by the broker and consensus, higher gross margins and good management of cost-of-doing-business (CODB) won the day, explains the analyst.

UBS is now more confident of earnings margin expansion beyond FY24, given a change in channel and brand mix along with the sound
cost-of-goods sold (COGS) and CODB management.

The company is working towards a demerger of Smiggle into a separately listed entity by January 2025, and is exploring a demerger of Peter Alexander into a separately listed entity during 2025.

PLATINUM ASSET MANAGEMENT LIMITED ((PTM)) Upgrade to Buy from Hold by Bell Potter .B/H/S: 1/2/2

While management has been notified clients are looking to redeem -$1.4bn from funds under management (FUM) in the coming
months, Bell Potter has raised its target to $1.20 from $1.13.

The broker explains an expected -$20m reduction in costs from the company's first phase of a turnaround program has a large positive impact on earnings, due to operational gearing.

The -20% share price fall in reaction to the announced redemptions is overdone, believes Bell Potter, given an improving
risk/return trade outlook. The rating is upgraded to Buy from Hold.

SIMS LIMITED ((SGM)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/0/1

UBS upgrades its rating for Sims to Buy from Neutral on an improving scrap price and volume outlook and because share continue to trade at around 90-95% of book value.

Also, the analyst sees ongoing improvement as the company moves away from low-margin dealer-sourced volumes, while simultaneously locking in more domestic buyers.

As the broker's FY25 EPS forecast rises due to increased North America Metals (NAM) EBIT/t margin expectations, the target increases to $14.50 from $13.60.

With US mill lead times lifting, and service center inventories largely normalised, UBS expects tailwinds to emerge for Sims in the 2Q of 2024, which is a seasonally stronger period for US steel demand.

<u>Downgrade</u>

29METALS LIMITED ((29M)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 1/1/1

Macquarie downgrades its rating for 29Metals to Underperform from Neutral and lowers the target by -44% to 25c following the suspension of operations at Capricorn Copper due to an extended period of rainfall.

The broker lists the negatives: 29Metals is now a one asset producer with a leveraged balance sheet; there's a high operating cost base at Golden Grove; and the CEO is in transition.

The analyst doesn't assume in forecasts a restart at Capricorn Copper as part of the base case, as that would require a long-term tailings solution. Two proposed tailings capacity options by management do not represent such a long-term solution, in the broker's view.

ARISTOCRAT LEISURE LIMITED ((ALL)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 3/2/0

Ord Minnett expects Aristocrat Leisure's unmatched research and development expenditure within the industy will continue to see the company maintain game quality and differentiate from lower-end competitors.

Comparing Aristocrat Leisure with Light and Wonder ((LNW)) and International Game Technology, the broker notes Aristocrat Leisure typically spends 12% of revenue on design and development, versus a respective 9% and 7% from peers.

Ord Minnett expects this spend can ensure consistency in deploying popular titles from Aristocrat Leisure.

The rating is downgraded to Hold from Accumulate and the target price of $45.00 is retained.

INFOMEDIA LIMITED ((IFM)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 2/1/0

As both the general stockmarket and in particular the technology sector have rallied since Bell Potter last updated its valuation for Infomedia in February, the broker increases valuation multiples for the company.

The broker downgrades the rating for Infomedia to Hold from Buy as the new target of $1.80, up from $1.75, is only around 4% ahead of the latest share price. No earnings forecast changes are made.

The analyst expects a good FY24 result with reasonable margin expansion on high-single-digit revenue growth.

MINERAL RESOURCES LIMITED ((MIN)) Downgrade to Hold from Add by Morgans .B/H/S: 3/3/1

Morgans adopts a more positive view than consensus on demand conditions for commodities in the expectation US dollar weakness and a return to growth in the West offsets the weak property market in China.

Due to sustained supply deficits in coming years, the broker prefers copper and oil exposures. The iron ore price is expected to remain healthy until around 2026 when low-cost, high-quality supply from the Simandou mine in Africa enters the market, and potentially lowers prices.

The analysts anticipate gold stocks could rally to 'catch up' to all-time highs for gold prices. Oil, LNG and uranium price forecasts are increased, while the 2024 spodumene price estimate is further trimmed.

Despite believing lithium prices have likely bottomed, Morgans rating for Mineral Resources is downgraded to Hold from Add after a recent share price rally. The broker still sees plenty of reasons for investors to maintain their holdings.

The $71 target is unchanged.

MMA OFFSHORE LIMITED ((MRM)) Downgrade to Hold from Buy by Bell Potter and Downgrade to Hold from Buy by Shaw and Partners.B/H/S: 1/2/0

MMA Offshore has entered into a binding scheme implementation agreement with Cyan for the acquisition of all issued shares at $2.60 per share, in a deal the MMA Offshore has unanimously recommended to shareholders in the absense of a superior proposal.

Bell Potter described the bid, which reflects an 11% premium to the prior closing price as reasonable but not a knock out. It notes this leaves the door open for a potential competing offer.

The rating is downgraded to Hold from Buy and the target price decreases to $2.60 from $2.70.

Aligning with Shaw and Partners valuation for MMA Offshore, a subsidiary of Singapore-based Cyan Renewables is offering $2.60 per share in cash after signing a binding Scheme Implementation Deed.

The broker's $2.60 target is maintained and the rating downgraded to Hold from Buy to reflect the likelihood MMA Offshore will be acquired at the agreed price.

Shareholders will have the opportunity to vote on the Scheme in late-June to mid-July 2024.

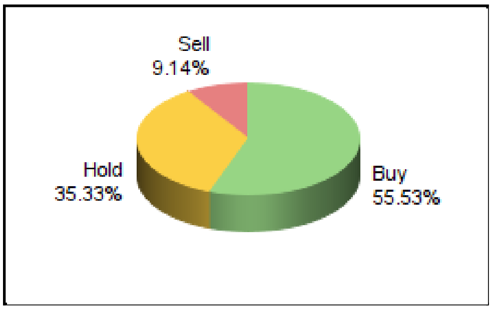
SANDFIRE RESOURCES LIMITED ((SFR)) Downgrade to Sell from Neutral by Citi .B/H/S: 3/2/1

Amid softer copper supply and the expectation of more agressive cuts from the US Federal Reserve, Citi's commodities team has upgraded its second quarter copper outlook to an average US$9,000 per tonne.

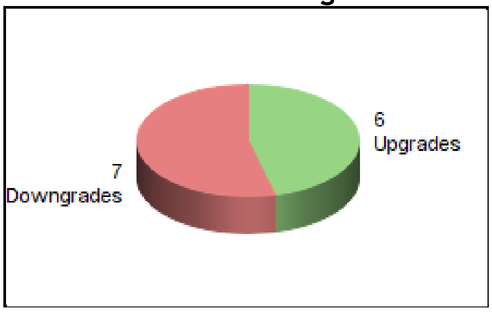
The broker points out Sandfire Resources is up 20% year-to-date, benefitting from being the go to name in copper on the ASX, and now looks fully valued to Citi. The broker expects there will be other entry points in the coming two years.

The rating is downgraded to Sell from Neutral and the target price increases to $7.30 from $6.90.

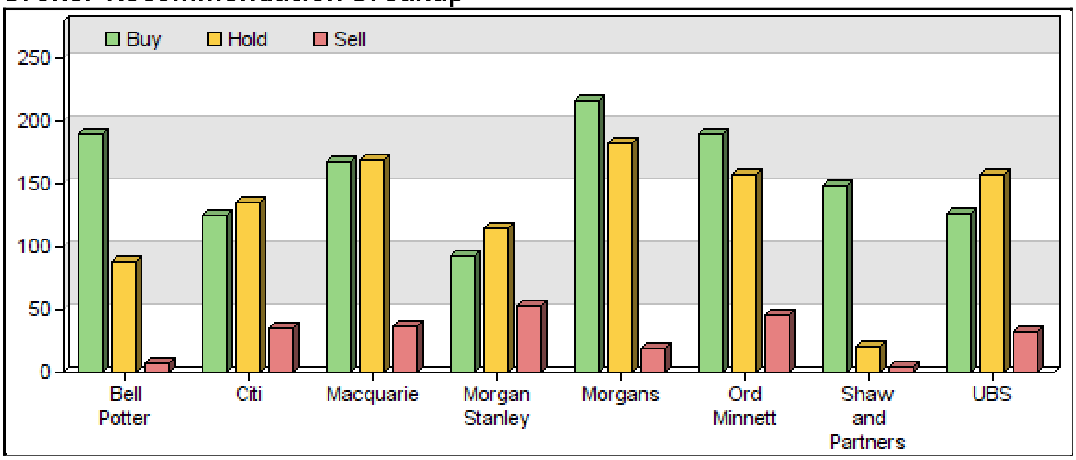
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	[APA GROUP]()	Buy	Neutral	Macquarie

2	BEACH ENERGY LIMITED	Buy	Neutral	Morgans
3	BHP GROUP LIMITED	Buy	Neutral	Morgans
4	PLATINUM ASSET MANAGEMENT LIMITED	Buy	Neutral	Bell Potter
5	PREMIER INVESTMENTS LIMITED	Neutral	Sell	UBS
6	SIMS LIMITED	Buy	Neutral	UBS
Downgrade				
7	29METALS LIMITED	Sell	Neutral	Macquarie
8	ARISTOCRAT LEISURE LIMITED	Neutral	Buy	Ord Minnett
9	INFOMEDIA LIMITED	Neutral	Buy	Bell Potter
10	MINERAL RESOURCES LIMITED	Neutral	Buy	Morgans
11	MMA OFFSHORE LIMITED	Neutral	Buy	Shaw and Partners
12	MMA OFFSHORE LIMITED	Neutral	Buy	Bell Potter
13	SANDFIRE RESOURCES LIMITED	Sell	Neutral	Citi

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	PMV	PREMIER INVESTMENTS LIMITED	30.300	26.300	15.21%	5
2	WEB	WEBJET LIMITED	9.434	8.451	11.63%	7
3	SIG	SIGMA HEALTHCARE LIMITED	1.057	0.957	10.45%	6
4	BKW	BRICKWORKS LIMITED	30.800	28.208	9.19%	6
5	ELD	ELDERS LIMITED	8.503	8.087	5.14%	6
6	LTR	LIONTOWN RESOURCES LIMITED	1.350	1.290	4.65%	5
7	BPT	BEACH ENERGY LIMITED	2.006	1.934	3.72%	7
8	APM	APM HUMAN SERVICES INTERNATIONAL LIMITED	1.777	1.717	3.49%	3
9	RWC	RELIANCE WORLDWIDE CORP. LIMITED	5.433	5.250	3.49%	6
10	COE	COOPER ENERGY LIMITED	0.227	0.220	3.18%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	29M	29METALS LIMITED	0.433	0.467	-7.28%	3
2	IEL	IDP EDUCATION LIMITED	24.333	24.783	-1.82%	6
3	MRM	MMA OFFSHORE LIMITED	2.600	2.633	-1.25%	3
4	PLS	PILBARA MINERALS LIMITED	3.575	3.608	-0.91%	6
5	AMC	AMCOR PLC	15.525	15.658	-0.85%	6
6	ALQ	ALS LIMITED	12.288	12.300	-0.10%	4

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	SIG	SIGMA HEALTHCARE LIMITED	1.637	0.650	151.85%	6
2	COE	COOPER ENERGY LIMITED	0.633	0.300	111.00%	3
3	BKW	BRICKWORKS LIMITED	20.017	14.080	42.17%	6
4	29M	29METALS LIMITED	-8.400	-10.667	21.25%	3
5	SFR	SANDFIRE RESOURCES LIMITED	-4.286	-5.014	14.52%	6
6	BPT	BEACH ENERGY LIMITED	15.983	14.917	7.15%	7
7	MIN	MINERAL RESOURCES LIMITED	186.629	175.486	6.35%	7
8	PMV	PREMIER INVESTMENTS LIMITED	163.660	155.320	5.37%	5
9	APA	APA GROUP	20.350	19.550	4.09%	5
10	ELD	ELDERS LIMITED	62.300	60.900	2.30%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	GMD	GENESIS MINERALS LIMITED	5.300	5.950	-10.92%	4
2	PLS	PILBARA MINERALS LIMITED	10.567	11.083	-4.66%	6
3	KAR	KAROON ENERGY LIMITED	52.442	53.639	-2.23%	5
4	WEB	WEBJET LIMITED	30.886	31.557	-2.13%	7
5	S32	SOUTH32 LIMITED	13.795	14.056	-1.86%	6

6	CWY	CLEANAWAY WASTE MANAGEMENT LIMITED	7.917	8.040	-1.53%	6
7	MQG	MACQUARIE GROUP LIMITED	921.560	932.960	-1.22%	5
8	ALQ	ALS LIMITED	65.200	66.000	-1.21%	4
9	IEL	IDP EDUCATION LIMITED	62.308	62.475	-0.27%	6
10	BHP	BHP GROUP LIMITED	403.675	404.142	-0.12%	6

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WEEKLY REPORTS

Uranium Week: The Need For New Supply

With the attitude towards nuclear energy shifting positively worldwide, the need for new and restarted uranium production is becoming critical.

-New/restarted uranium production needed
-Spot price down month on month
-Baltimore bridge collapse adds to issues
-Paladin Energy produces first uranium

By Greg Peel

Last week Morgan Stanley hosted a webcast with S&P Global focusing on the current dynamics playing out in global uranium markets.

S&P Global sees a dramatic shift in attitude toward nuclear energy continuing to transpire, particularly as Western countries work towards becoming more self-reliant with regard to enrichment capacity as they move away from Russian supply.

Historically, Russia has played an outsized role in uranium enrichment. Enrichment remains a key pinch point for the industry, according to S&P Global, but not as much as uranium conversion capacity.

S&P Global sees sustained strength in uranium prices as having the potential to incentivise new projects to come online and/or projects to be restarted. New supply is potentially seen to be coming from the US, Canada and Africa, as exploration budgets continue to expand, led by investment from Canada.

The extent of supply shortfalls depends on the number and size of nuclear developments that are greenlit in the next 2-4 years, with S&P Global noting development of reactors requires significant amounts of capex. Despite a vast number of nuclear plant designs being developed globally, many of these have not operated in a commercial setting, posing risks to their viability.

Uranium inventories have been on the decline in North America and Europe since peaking in 2014-15, according to S&P Global. Current inventory levels are seen as supportive for new contracts to be signed between suppliers/buyers, with a number of US utility companies recently signing deals with new/emerging producers for supply.

S&P Global forecasts 7.9GW of new nuclear capacity to be added by 2050 in North America, with most of this ramping supply back-end weighted in the 2040 decade.

<u>Prices</u>

March represents the close of the fiscal year for several parties that participate in the spot uranium market, industry consultant TradeTech notes, which brought corporate year-end objectives into the picture last month. As a result, the market saw sellers aggressively lower offers throughout Good Friday in order to attract buyers.

TradeTech's weekly spot price indicator fell -US$1.75 to US$86.25/lb.

One late buyer at March-end pushed TradeTech's monthly spot price indicator to US$87.00/lb, down from US$95.00/lb at end-February.

TradeTech's mid-term price indicator has fallen to US$95/lb from US$100/lb, while its long-term price indicator has risen to US$80/lb from US$75/lb.

Last month, US Energy Secretary Jennifer Granholm said that she encouraged the US Congress to ban uranium supplies from Russia, because doing so would free up funds to support domestic development of fuel for next generation nuclear reactors.

Even without sanctions in place in the US, Russia's invasion of Ukraine has already fundamentally altered the uranium market by shifting buyer preference toward non-Russian affiliated sources of supply.

Adding further strain to the market was the collapse of the Key Bridge in the port of Baltimore, after being struck by a container vessel. The port is shut down indefinitely as authorities begin the salvage operation.

The port of Baltimore happens to be one of the ports in North America that accepts enriched uranium product, TradeTech notes.

Vessels originally scheduled to arrive in Baltimore containing both natural and enriched uranium will now be forced to find another port willing and able to accept them as shippers and port authorities scramble to handle the increased demand. This is expected to add delays and increased costs to shipments destined for North America in the coming weeks and months.

Restarted Supply From Africa

In line with its original target, Australian-listed Paladin Energy ((PDN)) has achieved first commercial uranium production and drumming at its Langer Heinrich operation in Namibia. The focus now shifts to sustainably ramping up production and building finished product inventory, ahead of shipments to customers.

Paladin currently has some 80% uncapped upside exposure to the uranium spot price through to the end of 2030. The set-up remains positive, in Canaccord Genuity's opinion.

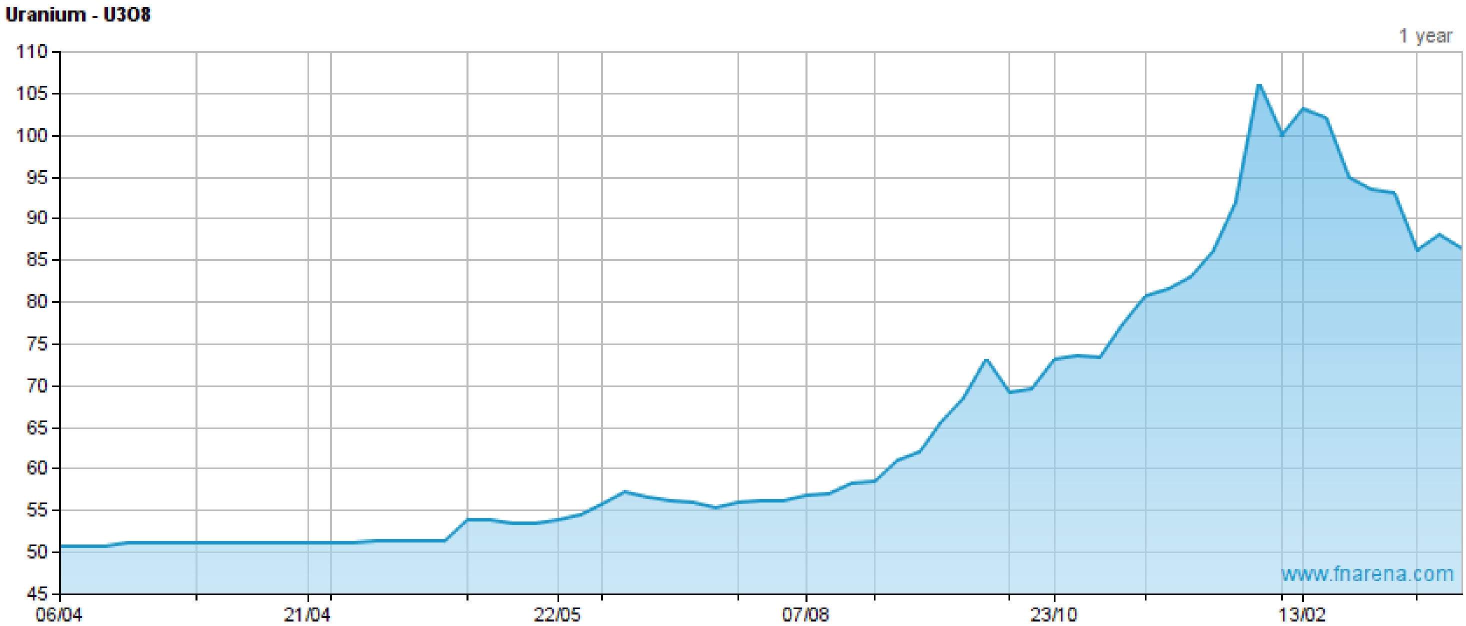
With 28 countries signing a declaration at COP28 which aims to achieve a tripling of nuclear energy capacity globally by 2050, there is no doubt, in the broker's view, of the need for increased mine supply.

After more than a decade of underinvestment and increasing market bifurcation, there is a clear requirement for the appropriate and sustained pricing signals to get the supply chain moving.

With Kazatomprom highlighting risks to its production targets, issues in Niger, and the potential for Russian sanctions, Langer Heinrich is coming online at the right time, suggests Canaccord Genuity.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	01/04/2024	0.1100	0.00%	$0.19	$0.05			
AGE	01/04/2024	0.0600	▲ 5.36%	$0.08	$0.03		$0.100	▲66.7%
BKY	01/04/2024	0.2900	▼-10.00%	$0.80	$0.26			
BMN	01/04/2024	3.8000	▲ 3.35%	$3.99	$1.19		$7.040	▲85.3%
BOE	01/04/2024	5.0300	▼- 0.21%	$6.12	$2.21	98.7	$5.697	▲13.3%
DYL	01/04/2024	1.4100	▼- 0.37%	$1.76	$0.48		$1.770	▲25.5%
EL8	01/04/2024	0.5000	0.00%	$0.68	$0.27			
ERA	01/04/2024	0.0570	▼- 3.39%	$0.20	$0.03			
LOT	01/04/2024	0.4100	0.00%	$0.44	$0.17		$0.610	▲48.8%
NXG	01/04/2024	12.8300	▲ 0.85%	$12.99	$5.16		$17.500	▲36.4%
PDN	01/04/2024	1.4400	▼- 2.14%	$1.46	$0.52	400.6	$1.513	▲5.0%
PEN	01/04/2024	0.1300	0.00%	$0.20	$0.08		$0.340	▲161.5%
SLX	01/04/2024	5.0000	▲ 7.10%	$5.78	$2.92		$7.600	▲52.0%



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WEEKLY REPORTS

The Short Report - 04 Apr 2024

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

Summary:

By Greg Peel

Week Ending March 28, 2024.

Last week the ASX200 surged on end-of-quarter buying before hitting a new all-time high this week (yay!) and then giving it all back again yesterday on diminishing central bank rate cut expectations.

There was not much change in the table last week beyond a bit of shuffling around.

Flight Centre ((FLT)) fell out of the 10% bracket, dropping to 9.1% shorted from 10.7% the week before.

There's been no new news. The stock did ascend with the rest of the market last week before quickly descending again this week.

For the sake of anything more to report, we note rare earths explorer Arafura Resources ((ARU)) has crept up another bracket after appearing at the bottom of the table a week before (not for the first time).

Arafura joins Lynas Rare Earths ((LYC)) in creeping upward.

Weekly short positions as a percentage of market cap:

10%+

PLS 20.5
IEL 13.8
SYR 13.3
LTR 10.0

Out: FLT

9.0-9.9%

FLT

In: FLT

8.0-8.9%

CXO

No changes

7.0-7.9%

GMD, SYA, WBT, DYL, ACL, CHN, LYC, STX, LIC

In: CHN, LYC , LIC

6.0-6.9%

BOQ, MIN, OBL, ARU, NAN

In: ARU Out: LIC, LYC, CHN

5.0-5.9%

VUL, A2M, WEB, IMU, CUV, IFL

Out: ARU, BGL

Movers & Shakers

Nothing this week.

[dianomi_video]

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.3	0.3	QBE	0.2	0.2
ANZ	0.4	0.4	RIO	3.6	3.5
BHP	0.5	0.5	S32	1.5	1.3
CBA	1.4	1.4	STO	1.1	1.1
COL	0.5	0.6	TCL	0.3	0.3
CSL	0.3	0.4	TLS	0.2	0.3
FMG	1.0	0.9	WBC	1.0	1.1
GMG	2.3	2.3	WDS	0.7	0.7
MQG	0.6	0.8	WES	1.0	1.0
NAB	0.7	0.8	WOW	0.2	0.3

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

In Brief: House Prices; Soft Landings; Copper Deficit

House prices to continue to rise, consumer services overlooked; soft landing experience; copper deficit ahead.

-Rising house prices to drive economic growth
-Consumer services companies seen offering value
-Comparison to the Fed in 1995
-Copper demand to outstrip supply

By Greg Peel

Bet Your House

House prices in March rose for the 14th month in a row, notes Jarden, up 0.6% month on month and up 8.8% year on year. Overall, between a reacceleration in monthly growth rates, a rebound in auction clearance rates to the high 60% levels from the lower 60% levels in late 2023, and a further improvement in sentiment, the housing market appears to be reaccelerating after slowing into end-2023, the broker suggests.

We are also now seeing volumes lift materially, which could suggest upside risk to housing-sensitive parts of the economy, Jarden believes, such as household goods and renovations activity. While the broker expects the positive price growth trend to continue over 2024, the analysts do expect growth to moderate given the gap between prices and borrowing capacity, and increased volumes.

Jarden’s base case assumes no RBA rate cuts until February 2025, with APRA leaving the 3% serviceability buffer in place, but earlier easing would represent material upside risk. The broker estimates each -50 basis points of cash rate or buffer cuts are worth around 4-5% for house prices.

While Jarden does not think the recovery in the housing market will have much bearing on the RBA's rate decisions in isolation, it could have an impact on the timing of rate cuts if it flows through to a broader economic recovery. In particular, the broker believes the housing recovery - once combined with tax cuts and improving consumer confidence - could support consumer spending in the second half of 2024.

Set for Take-Off

The earnings results of companies selling consumer goods were a standout in the recent reporting season, Wilsons notes. Consumer services companies (travel, fast food, gaming) on the other hand, especially fast food and travel, have underperformed the retailers over the past six months.

The market may be overlooking consumer services, Wilsons suggests. These companies still boast above-average earnings growth potential, and valuations look attractive at current levels in the broker's view.

Looking forward, the possibility of a soft economic landing coupled with improving consumer sentiment suggests a positive outlook for consumer services over the next 12-24 months.

As such, Wilsons is increasing its allocation to the consumer services sector through the addition of Webjet ((WEB)) to its model portfolio.

Webjet presents a compelling investment opportunity, the broker believes. The company boasts superior fundamentals relative to its peers, with strong metrics like high net profit margins, return on invested capital, and a healthy net cash position.

Webjet's price/earnings-to-growth (PEG) ratio of 1x suggests it offers growth "at a very reasonable price".

Webjet joins incumbent portfolio components Aristocrat Leisure ((ALL)), Collins Foods ((CKF)), Corporate Travel Management ((CTD)), Domino's Pizza ((DMP)), Flight Centre ((FLT)), IDP Education ((IEL)), Light &Wonder ((LNW)), Star Entertainment ((SGR)) and Tabcorp ((TAH)).

Like it's 1995

The Fed is becoming more confident a soft landing scenario is nicely materialising, notes CIBC Capital Markets. Escaping the tight hold of the Fed without entering a recession is not easy, CIBC points out, and is rare.

In all likelihood, the economy could have landed softly in 2020 but then covid happened. So we have to go back to the 1995 episode -- the only soft landing in the post war era -- to assess not only to what extent the conditions in the first half of the 1990s were similar to today's situation, but also to get a sense of what might await us at the end of the runway.

Of course, no two cycles are the same, CIBC admits, but the striking similarities between now and then make this exercise worthwhile.

Toward the end of 1993, the US economy was recovering from the savings & loans crisis and the 1991 recession. The unemployment rate was falling rapidly and the capacity utilisation rate was rising fast. Both indicators were approaching levels that, back then, were thought to trigger an acceleration in inflation.

The Fed made its first move in January 1994 and had raised rates by 300 basis points to 6.05% by early 1995. There were some small rate adjustments in 1995, but in many ways, this was the first post-war experience of "higher for longer", CIBC notes. Importantly, in 1994, inflation was trending downward at the time of the first hike with then Fed chairman Alan Greenspan chasing phantom inflation out of a fear of being behind the curve.

In the current situation, the first move by the Fed was trigged only after actual inflation was very evident. (The Fed has been universally accused of having been way behind the curve).

The sequence of events back then was very similar to what we have seen since 2021, CIBC points out. The tightening cycle was preceded by a major sell-off in the long-end of the curve in 1993, with the ten-year bond rate rising by 260 basis points. In the current cycle, the bond market correction was, of course, more ferocious.

But back then, like now, the US economy did not succumb to the Fed's pressure in a way consistent with such a rapid tightening trajectory. The economy of the mid-1990s did indeed slow in response to the Fed's moves, but it stayed well clear of contraction, with real GDP growth bottoming out at a 2.2% annual pace in the fourth quarter of 1995.

In conclusion, CIBC suggests the US economy is showing promising signs of achieving the second soft landing in peacetime history. The similarities to the 1995 situation are very clear and shouldn't be ignored. At the margins, those similarities are consistent with a moderate easing trajectory by the Fed and potentially strong productivity-led, non-inflationary growth.

Call the Doctor

In a challenging year to date for the resources sector as a whole, copper has been one of the standout commodities of 2024, Wilsons notes, with spot prices approaching 12-month highs.

The recent rally in the copper price has been driven by the pull-forward of expectations of market deficits into 2024 following significant supply cuts in recent months.

Leaving aside copper's strong long-term demand outlook (energy transition will drive a demand step-change, the broker suggests), from a cyclical perspective the global macro environment is also supportive of copper demand over the next 12 months.

With interest rate cuts from the Fed expected this year and a soft landing scenario likely for the global economy, Wilsons believes demand for copper should be well-supported given its range of industrial uses, such as in construction, consumer goods, machinery et cetera (and let's not forget EVs). The copper price is also poised to benefit from a weaker US dollar.

Supply cuts from some of the world's largest copper producers have been the central driver of the dramatic shift in copper's near-term supply/demand dynamic, the broker notes, with a meaningful deficit now expected this year, which contrasts to previous expectations of a surplus in 2024. Several large projects have faced political, social, and operational disruptions, removing significant supply from the market.

Wilsons point out there is a downward trend in the rate and size of major copper discoveries. In the five years to 2022, copper discoveries have totalled 4.1mt, representing a significant decline from the 70.6mt of discoveries between 2013-2017, and an even greater decline compared to the long-run trend.

As such, the existing pipeline of new copper supply will be insufficient to meet future demand. The IEA forecasts a supply deficit of some -2.8 mt in 2030 under the global (developed economies) net zero carbon emissions scenario. Moreover, there are downside risks to supply amidst widespread delays and cost overruns on planned developments, as evidenced in recent months.

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