Week

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Stories To Read From FNArena

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FNArena
Financial News, Data & Analysis

GPO Box 3145
Sydney NSW 2001

info@fnarena.com

Your editor
Rudi Filapek-Vandyck

Your dedicated team of journo's
Greg Peel
Eva Brocklehurst

Contents

Property Slowdown Hampers REA Group

The outlook has slowed for REA Group, given weak listing volumes in January highlight a deteriorating property market.

-Re-listing revenue returning as a growth driver -Upcoming elections a likely damper -More subdued price rises likely into FY20

By Eva Brocklehurst

A slowing property markets, with fewer listings, is expected to catch up with REA Group ((REA)) in the second half, after first half results that were comfortably ahead of broker expectations.

Listing volumes were weak, nonetheless, in the first half, declining -3% overall. Sydney was down -10% while Melbourne was down just -1%. More recently, listing volumes were down -11% in January, with a -19% fall in Sydney and -13% in Melbourne.

The company has maintained its target for revenue growth to exceed costs growth in FY19, although higher marketing costs are expected to mean this will not happen in the third quarter.

While management predicted lower second half revenue and profit growth, it remains reasonably upbeat. Re-listing revenue, which had been absent, is now returning as properties take longer to sell. Several brokers point out this is the first time the company has called this out as a notable driver of revenue.

Listing volumes in January were very weak and, while January has not been a good guide historically, management is cautious. Moreover, brokers note the upcoming NSW and federal elections could cause a damper on listings through March to May.

Credit Suisse assesses that, while a weaker listings environment has generally opened up an opportunity in the stock, it is too early to take advantage, as the next six months are likely to be affected by uncertainty in the lead up to the federal election.

Macquarie counters with the observation that the Australian business has a number of drivers which are supporting trends, even in the property downturn. This includes the mix and penetration of depth products, re-listing fees and the extended duration for developer listings.

Still, given credit tightening, lower listings and transactions and potentially regulatory fall-out from the Hayne Royal Commission, Ord Minnett lowers estimates to reflect flat revenue growth in the second half.

UBS suspects confirmation that growth is set to slow likely drove the underperformance in the share price, while this could also suggest earnings risk in FY20. Listing improvements are unlikely until FY20 at the earliest, Ord Minnett agrees, amid weak new dwelling construction in Australia and a continued decline in property.

Macquarie points out FY20 may receive a boost should volume trends recover against softer comparables. The broker also notes in the US, Move revenue rose by 11% and continues to grow its Connections for Buyers product.

Citi is more optimistic, suspecting guidance may prove to be too conservative. While acknowledging listings are falling, revenue growth is still expected to be maintained. Citi assesses the property market was far too hot in Australia over the last five years and now has rapidly cooled. It should be "just right" in the not too distant future, in the broker's description.

Morgans believes REA Group should be able to deliver several more years of double-digit earnings growth and show high levels of free cash, which will enable strong growth in dividends.

Premiere Ads

In the first half the shift to premium advertising was the main driver of the solid outcome, with growth in depth revenue that more are than offset weakness in media and finance revenue. Morgans notes the estimated 43% uplift for Premiere ads appears to have accounted for more than 90% of the increase in depth revenues in the half.

Although, the broker is not impressed with the opacity regarding the current share of Premiere ads as a percentage of all listings, noting the company has simply stated there is ample room to grow the category without cannibalisation.

Also, a second write-down in the Asian business is not a good omen, Morgans asserts, and could signal a long battle for market share with PropertyGuru.

Macquarie concurs that Asia remains a fierce battleground which will continue to demand high levels of investment. This is reflected in management's statement, Ord Minnett points out, that first half earnings were likely to be a high water mark for the Asian business, and investment will increase in the region in order to retain the number one position.

Slower Price Rises

Price rises into FY20 are likely to be more moderate. Ord Minnett lowers its annual price increase estimate to 10%, from 15% previously, for non-Premiere ads and retains a 10% increase in estimates for Premiere ads.

UBS assumes the company increases prices again on July 1, 2019 but at a more moderate pace versus history. The broker expects more difficult comparables with depth products from the second half and the easing of developer tailwinds.

Finance growth is also likely to slow, although this may be offset by the potential for a rebound in listings in FY20. The broker remains qualitatively positive on the business but neutral on the valuation. Credit Suisse also suspects the company will be less aggressive in its pricing for FY20, envisaging scope for an increase but lower than the usual double-digit rise.

FNArena's database shows four Buy ratings and three Hold. The consensus target is $86.44, suggesting 17.5% upside to the last share price. Targets range from $75 (UBS) to $105 (Citi).

Residential Gap Looming For Mirvac

Mirvac is expected to continue benefiting from strong office & industrial property markets, while a rundown of apartment pre-sales in FY20 could create an earnings hole in that year.

-Residential sales falling sharply, fewer new apartment launches -Significant residential supply shortage may evolve -Benefiting from a deliberate re-positioning in office & industrial property

By Eva Brocklehurst

Office/industrial and development profits sustained Mirvac Group ((MGR)) in the first half and the market welcomes management's confidence in the short term earnings outlook, given concerns over residential sales. The company is benefiting from strong office markets and limited defaults, which were noted at less than 2%.

The residential margin is expected to stay elevated in FY19 at 25%. Nevertheless, residential sales fell sharply in the half-year and UBS believes the market is overlooking deterioration in the outlook. The broker has become more cautious about FY20-22.

Residential sales fell -40% in the first half and annualising this takes sales down -70% from their peak, or back to pre-FY12 levels. Fewer new projects explains part of the reduction in sales and new apartment launches are expected to be minimal in the next 18 months.

Hence, pre-sales should run down significantly in FY20, a big year for pre-sold apartment settlements. Ord Minnett suspects the market may look through FY20 earnings and take FY19 and FY21 as more representative of the company's earnings capacity.

Mirvac has tightened FY19 guidance to earnings per share growth of 3-4%, implying 16.9-17.1c. yet Macquarie questions whether this is indeed a positive refinement, as guidance should have lifted to 3-5% to account for the buyback.

The broker suggests this miss either implies marginally weaker underlying earnings or the company being particularly conservative. Distribution guidance was maintained, implying 11.6c for the full year.

Meanwhile, Mirvac has noted retail property remains competitive as retailers adapt to a growing share of online transactions, and an excess supply of food catering options is inhibiting growth. Still, Macquarie notes retail leasing spreads remain solid at 2.7%.

Residential

Credit Suisse finds the residential product is proving to be resilient and the company is still on track to achieve more than 2500 lot settlements in FY19. While market conditions in residential may have deteriorated, Mirvac is still experiencing strong demand from owner-occupier buyers and the focus is on middle ring medium-density property.

A strong drop in building approvals and record numbers of completions has signalled to the company that a significant supply shortage is likely to emerge in the next few years.

Opportunities are presenting in Sydney and Melbourne which would which fit Mirvac's criteria, bringing 18% internal rates of return and 18-22% margins. Mirvac is in no rush to restock its pipeline, Credit Suisse points out, with significant value and margins in the current land bank.

The company has not acquired land since 2015, as vendor expectations still need to ease up for Mirvac to be active, but Macquarie notes management has increased its scrutiny of this area.

The main driver of this scrutiny is a belief that Sydney and Melbourne will become under-supplied, given the recent contraction in the housing market. Macquarie also notes the company has identified a longer tail of residential settlements, given the availability of credit is patchy.

While the company was keen to warn analysts about using average property price declines to extrapolate outcomes for its residential portfolio, the broker contends that slower sales are a signal that the market is clearly softening.

Ord Minnett expects residential earnings (EBIT) will peak in FY20 because of high apartment settlements at Eastbourne, St Leonards and Marrickville. The broker allows very elongated settlement periods in all projects.

Office/Industrial

Office and industrial segments were driven by strong net operating income growth of 40% as well as development earnings. The company is benefiting from a deliberate repositioning in this segment, Citi affirms, yet is unsure if office & industrial can decouple from residential conditions.

The broker suspects investors are likely to favour the pure-play stocks, limiting the potential for a sustainable re-rating. Future upside is to be captured from leasing activity on an under-rented office portfolio, Credit Suisse believes, as well as additional income from completions.

The broker considers the office segment is well-positioned to benefit from positive leasing spreads and revaluations. Management intends to dilute exposure to Sydney CBD over time and focus on Sydney's fringe and Parramatta. This is the result of the spread between Sydney CBD rents and surrounding suburbs reaching record highs.

The industrial portfolio is benefiting from its 100% weighting towards Sydney with the positive momentum in industrial markets. Occupancy was maintained at 100%. Future development will be focused on the Elizabeth Enterprise project at Badgery's Creek.

FNArena's database shows two Buy ratings three Hold and one Sell (UBS). The consensus target is $2.55, signalling 0.9% upside to the last share price the dividend yield on FY19 and FY20 forecasts is 4.6% and 4.9% respectively.

Bendigo & Adelaide Bank Under The Pump

Tough competition in mortgages and a growing cost base have cast a pall over Bendigo & Adelaide Bank and brokers agree revenue remains under pressure.

-The bank expected to struggle for earnings growth in the near term -Limited scope to use capital until external conditions improve -Case for industry consolidation is getting stronger

By Eva Brocklehurst

Stresses are increasing for Bendigo & Adelaide Bank ((BEN)) in the face of subdued revenue and brokers suspect, in the wake of the first half result, the market will change its view about how the regional bank is navigating the headwinds.

First half results were weaker than most expected and underlying trends were subdued. Low bad debt charges provided some support to the bottom line, but Deutsche Bank believes this is unsustainably low.

Credit Suisse agrees, noting low bad debt charges, while superficially a positive, also add to the challenge for comparables going forward. The broker downgrades, to Underperform, believing Bendigo & Adelaide will struggle to achieve earnings growth in the near term. The other main positive for brokers is the fact the capital position remained above the APRA threshold (8.5%), with the bank reporting its CET1 ratio at 8.76%.

Ord Minnett points out, while share price fell around -7% following the result, that valuation still does not appear overly cheap, and forecasts a further reduction in return on equity to around 7.5% in the second half. The half-year result would have been worse, in Bell Potter's view, if not for the better credit expense but agrees weaker prospects heading into the second half make it harder for returns to exceed the cost-of-equity.

There may have been slight improvements in the underlying momentum, the broker adds, but the bank is considered a sub-scale operator that will find it still difficult to challenge the majors in this operating environment. Bell Potter, not one of the eight stockbrokers monitored daily on the FNArena database, has a Hold rating and $10.20 target.

Morgan Stanley prefers the bank in its regional exposure but considers the stock expensive. Margins, which disappointed investors in the first half, are expected to drop again in the second half because of growing front book mortgage discounts and persistent pressures from BBSW rates.

Ord Minnett agrees there will be no let-up in competitive intensity and forecasts another -3 basis points reduction in net interest margins in the second half versus the first. The broker believes the bank's model provides for cheap deposits but at the expense of a higher embedded cost base.

Deposit prices may improve versus the first half but, given soft growth, this cannot become a significant positive, in Morgan Stanley's view. The broker does not expect the bank will re-price its standard variable rate mortgages again in FY19. Traction on revenue opportunities, from investing in digital, would be positive if forthcoming, Morgan Stanley asserts, and rising cash rates would underpin the strong deposit franchise, although the chance of this has recently reduced.

Macquarie incorporates an additional 10 basis points in mortgage re-pricing in the second half, to avoid a reduction in revenue , but acknowledges this is not a sustainable long-term strategy. The broker believes, in order to justify a valuation premium in the current environment, banks need to offer expense management opportunities or a capital return. Given capital generation is below its major peers, the bank has limited scope until external conditions improve.

Digital

Morgan Stanley cites narrowing margins, rising risks with Homesafe and a growing cost base as overshadowing the investment in digital. Citi notes cost growth is unable to adjust to this environment, having begun to accelerate in the second half of FY18 and continuing at a 4% rate.

The broker observes the bank is investing in systems and technology at a difficult time, as compliance and regulatory costs have an impact. Core profit declined -8% in the first half, given the weak revenue environment in which a small bank like Bendigo & Adelaide finds it hard to adjust.

Brokers suspect there will be little improvement going forward as the bank still requires system and IT expenditure. Citi downgrades to Sell from Neutral, lowering FY19-21 cash estimates for earnings per share by around -5-11%. This reflects a profitability impact from the exit of the commercial loan exposures and growth in costs.

Morgan Stanley believes the bank should revisit its branch strategy, but there is no shift in the cost-to-income ratio from the 55-56% target range. Instead, the bank is trying to rejig revenue growth via investment in online mortgages and launching a new digital bank. The broker would be more happy with a commitment to absolute cost reductions and improving returns, amid less intense front book mortgage competition.

Consolidation?

Citi believes the case for industry consolidation is getting stronger, particularly regarding more traditional franchises such as Bendigo & Adelaide. Improved efficiencies, in order to combat revenue headwinds, are likely to be only achieved through such consolidation.

Macquarie also considers the main upside risk is consolidation across second-tier banks. While the revaluation of Homesafe has no impact on capital or earnings, the broker suggests it may be a sign of management is recognising the outlook for house prices is subdued. The market is attributing little value to this portfolio and, should the bank be able to dispose of it, there is potential accretion of 2-3%.

FNArena's database shows six Sell ratings. The consensus target is $9.62, suggesting -6.1% downside to the last share price. This compares with $10.60 ahead of the results. The dividend yield on FY19 and FY20 forecasts is 6.8%.

Can JB Hi-Fi Sustain Earnings Momentum?

Despite a strong approach to category management and continued cost savings, the outlook for JB Hi-Fi is affected by a weaker housing market and ever-rising online sales.

-Resilient earnings profile and attractive dividend yield -Soft sales noted for The Good Guys in January -Can innovation offset the disruption caused by increased online sales

By Eva Brocklehurst

While reporting a solid first half result JB Hi-Fi ((JBH)) has noted sales are becoming more volatile and consumers more intent on taking advantage of promotions and events. The company has also noted the November sales period is becoming more active, because of online events such as Black Friday. This has led, UBS believes, to reduced visibility in the outlook.

Moderating housing and the flow-on effect on consumer spending and mounting competition from Amazon as more brands come online, as well as potential new entrants in appliances, muddies the water further. Hence, the broker observes management's tone was more cautious than usual. UBS lifts forecast by 1-2% over FY19-21 and considers the risk/reward balanced, retaining a Neutral rating.

Morgans believes a modest growth profile is factored into the stock and flags a strong chance for the payout ratio to be lifted in coming years, as solid cash generation allows the business to retire debt relatively quickly.

Guidance for FY19 has been provided for the first time, with net profit estimated at $237-245m. Ord Minnett calculates this requires only a 2% rise in earnings (EBIT) in the second half to achieve the high-end of the range. While trading in the second half has started off soft, the broker is confident the company's approach to category management and cost savings will stand it in good stead.

Ord Minnett agrees the external environment, with low consumer confidence and a weakening housing market, is a challenge, but highlights a resilient earnings profile and attractive dividend yield. Deutsche Bank is more circumspect, noting like-for-like sales growth in the core JB Hi-Fi business has slowed to a level that makes operating de-leverage difficult to avoid.

The broker also points out The Good Guys sales were very soft in January, unusual considering there should have been some benefit from sales of air-conditioners during the heatwave. This is attributed to weakness in consumer confidence, which is not expected to improve in the short to medium term.

Morgan Stanley considers FY19 guidance is conservative, even given a difficult consumer environment. The broker also points to sustained earnings growth of 4.5% in the half-year and like-for-like sales growth of 2.8% in the second quarter.

There are several reasons to be cautious, Citi asserts. Cost reductions are being limited by efficiency and higher wage rates, and sales momentum is slowing. The second half will also cycle the FIFA World Cup in the fourth quarter, which the broker estimates is a -40 basis points headwind to growth.

The Good Guys V JB Hi-Fi Australia

First half net profit was ahead of many estimates because of higher earnings from The Good Guys chain. While The Good Guys has been a difficult acquisition for JB Hi-Fi so far, margin pressures have now eased and brokers envisage initiatives around format and range will help to withstand the external environment.

The target of $500m per annum through both organic and strategic acquisitions remains in place and JB Hi-Fi has reiterated a prior group sales target of $7.1bn. Within this, Macquarie points out, JB Hi-Fi Australia is weaker, offset by additional sales in New Zealand.

Morgan Stanley believes JB Hi-Fi can continue to win market share and expand its profitability as it operates with a low-cost-to-sales ratio and has invested heavily in its online offering. Meanwhile, The Good Guys appears to have stabilised in terms of margins which are now improving on a sequential basis. This should drive near-term earnings growth as that business cycles a difficult period.

Citi does not believe margins at The Good Guys will recover completely in the second half, despite a more rational competitive environment. This is primarily because of a return to intense price competition in large appliances.

Credit Suisse blames the muted share price reaction on quality issues and the implied downgrade to JB Hi-Fi Australia earnings in the second half, calculating that, if guidance reflects expectations that The Good Guys earnings have improved, then the corollary is a drop in earnings at JB Hi-Fi Australia. Hence, the opening of five stores in FY19 appears odd to the broker, given the very low rate of sales growth being generated from stores.

Disruption Or Innovation

Credit Suisse also defends its Underperform rating, despite consistent sales growth, by outlining a view that small consumer electronics is one of the most vulnerable categories to online disruption and the company is unlikely to generate a similar profit from such sales as has been historically the case from stores.

Furthermore, falling transaction costs support disaggregation of consumer purchasing and reduces the sustainability of the company's pricing model. Hence, Credit Suisse believes JB Hi-Fi is likely to need to re-set prices significantly, reducing gross profit.

Macquarie is much more positive, believing the business is executing well, and noting the company's solutions business recorded double-digit sales growth. Product innovation is very positive too, with game software, wireless headphones, fitness trackers and home automation/security contributing to growth. Nevertheless, the broker acknowledges software sales continue to decline, dropping -5.6% in the half.

FNArena's database shows three Buy ratings, three Hold and two Sell for JB Hi-Fi. The consensus target is $24.74, signalling 5.2% upside to the last share price. Targets range from $21.10 (Citi) to $28.80 (Macquarie). The dividend yield on FY19 and FY20 forecasts is 5.9% and 5.7% respectively.

Bapcor Attractive Despite Soft Result

Australia's automotive parts sector has weakened over the past few months and Bapcor is not immune. However, brokers consider the business solid and defensive, and the sell-off in the stock overdone.

-May have lost market share in automotive parts to protect margins -Cash conversion is expected to be better in the second half -Franchise repurchase strategy producing results

By Eva Brocklehurst

Both trade and retail slowed for automotive parts business Bapcor ((BAP)) in the second quarter. Management expects some of the build-up in inventory experienced in the first half should reverse in the second, as this stemmed from the timing of product launches and shipments. Therefore, cash conversion is expected to improve.

The domestic automotive sector has weakened over the past 3-6 months and Bapcor is not immune, brokers point out. While the softness should persist through the balance of FY19 the business is considered solid and defensive.

The company has revised net profit growth guidance to 9% or so for FY19, on the expectation that the soft conditions will persist over the balance of the financial year but brokers are comfortable with this guidance. Morgans expects the company will have a few other levers to pull in the event that trading does not improve, such as supplier support and improved terms from the potential refinancing of debt.

The company has met budget for January and, while like-for-like sales growth is still subdued, has warned about reading too much into the start of the year, as this is a seasonally quiet period.

Operating trends may have weakened but Macquarie suspects the sell-off in the stock is overdone. The broker believes there is a margin of safety, as a deceleration in organic growth is factored into guidance.

Morgan Stanley suggests expectations were low in any case, although acknowledges a little disappointment with the outlook. Gross margin expansion from private label growth and NZ synergies brought first half earnings into line with estimates. The company is expected to be able to push prices ahead of inflation.

Buying Opportunity

The sell-off presents an opportunity to buy the stock in a year where there is below-trend growth, Morgan Stanley asserts, reiterating an Overweight rating. Moreover, momentum has been maintained in in the rolling out of stores.

The main concern for UBS, is the amount of caution expressed by the company's usually optimistic management. A slowdown is being witnessed across the board in New Zealand as well as Australia.

UBS suspects that Bapcor may have lost market share in order to protect margins,yet concludes that the company's trade exposure, over 80%, is highly defensive should a material slowing of consumption occur.

The broker trims earnings forecasts but still believes a return to double-digit profit growth is likely over the medium term. Morgans, meanwhile, upgrades to Add from Hold, doubting trade comparables will stay at subdued levels over the medium term.

The broker is confident in the company's guidance, which does not require a demand uplift. A growth profile of over 10% should be sustained in FY20 and FY21 and Morgans is also assured by the company's inventory management, that should mean cash conversion is better in the second half.

Macquarie notes there was a divergence between company-owned Autobarn stores and the performance of franchises which, while validating the re-purchase strategy, creates margin headwinds in the near term. The broker expects this situation should gradually normalise for the retail arm. The company bought back 22 stores in 2018.

Outside of the retail business, margins were more pleasing to the broker, supported by growth in the Bapcor brands, pricing and optimisation. Servicing delays are also likely to be a short-term issue and management expects a mild improvement in the performance of the trade segment.

The company is now operating three stores in Bangkok and a further three are planned for the second half. The stores are establishing relationships with significant chains and this is expected to provide good growth opportunities.

FNArena's database shows four Buy ratings for Bapcor. The consensus target is $6.99, signalling 17.2% upside to the last share price. This compares with $7.44 ahead of the results.

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Material Matters: Iron Ore, Nickel And Crude Oil

Following the Vale dam collapse in Brazil, analysts have upgraded their short-term iron ore price forecasts as supply drops. Pressure remains on other base metal prices, including nickel, with Vale a major producer.

-Iron ore prices jumped in January following the Vale mine disaster in Brumadinho, Brazil, and supply will likely drop this year -Uncertainty over Venezuelan sanctions hangs over the crude oil market -The nickel price has gained on supply concerns -Gold is up this year on prospects of a pause in US interest rate rises

By Nicki Bourlioufas

While commodity markets have been weighed down by the outlook for slowing global growth, iron ore spot prices jumped after the Vale mine disaster in January.

In addition, over the past three months, zinc stockpiles in exchange warehouses have dropped -40%, while lead and nickel are down -10%. Copper and aluminium are relatively unchanged, but they are down significantly on a six-month basis. This is likely to keep upward pressure on prices, according to ANZ Bank.

In more recent days, base metal prices have been supported by optimism that the US-China trade tensions will be resolved before the current truce ends in March, though aluminium fell as the US lifted sanctions and China's Hongqiao said it would resume some output at its halted smelters, reports Morgan Stanley.

But eyes have been focused on iron ore supply concerns.

Iron Ore

The iron ore price has rallied on the Vale mine disaster. Iron ore recently rose to over US$90/t as Vale declared force majeure following a court order to halt its Brucutu mine operation.

Brucutu has an annual capacity of 30m tonnes (mt) of iron ore and has been in operations for 13 years and is Brazil’s second largest mine. Estimated production losses are near 30mt, which is on top of planned production cut of 40mt announced by the company, according to a research note from CBA Global Markets Research.

CBA forecasts the iron ore price could spike above US$100/t as supply drops, but this could be temporary if Vale successfully challenges the court order halting production at Brucutu. CBA has upgraded its iron ore price forecast by circa 19% to US$82/t in 2019. “We see upside risk to our price outlook given the downside risks and uncertainty facing Vale’s production outlook.”

According to Credit Suisse, Vale's mine suspensions and production cuts will reduce iron ore supply by -52mt on a base case estimate, reducing the 2019 surplus to just 16mt, down from its previous forecast of 68mt.

“In the near term, China port stocks remain depleted; iron ore restocking ahead of construction season will begin after Chinese New Year (CNY); and Vale's force majeure should divert buying to spot cargoes. The iron ore price should soar after CNY,” predicts Credit Suisse.

However, CBA expects Vale will react quickly to limit supply disruptions and by the first quarter of 2020, Vale will be able to bring back nearly all of its lost production from other operations. So CBA doesn’t see a prolonged iron ore price spike above US$90.

Morgan Stanley is more conservative and expects the iron ore price to fall as China winds back steel production in the second half of 2019. “All else equal, without Vale’s expansion, the market will become tighter, but won’t move into deficit. We therefore expect the price to correct from its current level in the US$80/t and maintain our view of a downward trend in price through 2019,” thus reads the forecast from Morgan Stanley.

Nickel

Following the Vale dam collapse, expected nickel production losses from Brazil boosted market sentiment.

Over the 2019 year to February 4, Nickel prices were up 17% to US$12,407 (LME cash). However, prices gained were capped after Vale said that none of its nickel mining operations utilise the upstream method dams which have caused problems in its iron ore operations.

Crude Oil

The uncertainty over the political turmoil in Venezuela continues to hang over the crude oil market. The political turmoil now engulfing the South American nation is likely to see both crude oil production and exports come under pressure. Prices jumped in January.

According to ANZ bank, tighter US sanctions could cripple Venezuela's oil industry. The US has announced it will tighten sanctions on Venezuela, stopping the flow of crude oil between the two countries.

Nicolas Maduro was sworn in for a new six-year term in early January following last year's controversial presidential elections. Following the new sanctions, ANZ expects Venezuelan exports to quickly fall by -300kb/d to around 700kb/d.

So far, the rise in the oil price has been marginal. "We suspect the market is assuming the disruption will be relatively short lived. More importantly, there appears to be a view that a new government under Juan Guaido would reinvigorate investment and thus supply," says ANZ.

According to Citi, Venezuelan exports continue to fall following US restrictions. The US Treasury has indicated it will bar anyone from the US financial system that does business with the state-owned oil company PDVSA. However, while Venezuelan oil is in dislocation mode, "it's premature to call it a disruption," Citi says.

The four main US importers of heavy Venezuelan oil—Chevron, Citgo, Valero and PBF—are scurrying for alternative supplies, bidding up heavy sour crudes, tightening light-heavy, sweet-sour spreads even more than had resulted from the OPEC/Non-OPEC cuts, writes Citi.

With the recent new round of OPEC/Non-OPEC cuts of -1.2-m b/d decided in December 2018, coupled with the tightening sanctions on Iran and Venezuela, the spreads have again narrowed. Heavy sour strength is bolstered through the first half of 2019 by continued complex refinery capacity growth and tight fuel oil markets, says Citi.

Tanker tracking indicates that total exports slipped by -11% m/m in January, but are sharply down -16% to the US following the announcement of sanctions. The US Treasury has indicated it intends to block the government from accessing circa $7bn in assets in the US, which could cost the regime as much as $11bn in oil sales annually.

Gold

Recent dovish statements by the US Fed's chairman have resulted in a weaker US dollar and gains across the precious metals complex. Over the 2019 year to February 4, the gold spot price was up 2.8% to US$1,318, buoyed by the prospects of a halt in US rate rises.

ESG Focus: Only 23% Aussie Investors Understand ESG

A global survey by Legg Mason suggests Aussie investors are among the world's top countries when it comes to adopting ESG principles for investments, but also among the worst with a large percentage indicating they don't understand it.

-More investors globally incorporating ESG into their investment decisions -Still, a large percentage does not understand the principles of ESG -Two-third of Millennials are the driving force behind growing ESG acceptance

By Sarah Mills

Only 23% of Australian investors fully understand Environmental, Social and Governance investing, according to an international survey of investor sentiment published by Legg Mason Global Asset Management.

The survey, titled The Rise of the Conviction Investor: Ethics and the search for outperformance driving trends in 2019, found about 46% of Australians said they understood the area a little and 32% said they didn't understand them at all.

Still, these figures put Australia ahead of most countries, behind the United Kingdom, Germany, France, and Belgium on most metrics, except for the number of those with no understanding. Australian came fourth-last on that ranking.

Legg Mason then polled the investors after showing them a description of ESG, and found 40% strongly agreed fund managers should be actively involved in policing companies they invest in, and 29% said having money in funds that only invest in responsible companies is very important to them.

Overall, 43% of Australian investors said they chose funds based on ESG considerations. Environmental factors were weighted at 30%, and governance at 27%. Social factors only garnered 19% but 45% said a fund manager should consider the treatment of a company's workforce, the effect on the local environment (45%), enforcement of anti-corruption policies (34%), the effect on global climate change (31%) and should avoid unhealthy or addictive products (32%).

The authors have used the survey to announce the rising influence of Millennials on the financial sector.

It turns out, Millennials have a higher acceptance of risk and take a long-term view, but they are also more concerned about the ethics of the investments they make. Two-thirds (66%) of Millennials say they choose funds or companies to invest in according to Environmental, Social or Governance (ESG) considerations. This compares with less than a third (32%) of Baby Boomers make the same claim.

On other issues, the survey found strong confidence among Australian investors, 68% being quite confident for 2019 – well above the average 58% recorded by investors in other countries.

The majority of Australians also believed Australia represented the best investment opportunity for 2019, followed by the US at 34% and China at 29%.

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

Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday February 4 to Friday February 8, 2019 Total Upgrades: 6 Total Downgrades: 19 Net Ratings Breakdown: Buy 45.44%; Hold 40.85%; Sell 13.71%

The faster than anyone expected swift recovery in Aussie equities is triggering a deluge in recommendation downgrades from whiplash-affected stockbroking analysts while the February reporting season continues to gather substance in Australia.

For the week ending February 8, 2019 FNArena counted six recommendation upgrades by the eight stockbrokers monitored daily and all went to Buy from Neutral. Three of the upgrades (50%) followed the release of financial results, with GUD Holdings the only one to see its share price punished at first, then recover steadily.

There was a lot more action on the downgrades side of the week's ledger with 19 downgrades recorded, of which only three ratings moving to Sell. Those three unlucky ones are Sydney Airport, IDP Education, and Evolution Mining. Large cap stocks including CSL, AGL Energy, Fortescue Mining, Insurance Australia Group, Transurban, and banks National Australia Bank and Westpac all received one downgrade each.

Meanwhile, and this potentially comes as a surprise: upward adjustments to consensus price targets remain few and far in between. On top of the week's table sits IDP Education (+39%), but any other increases reduce to rather small numbers quickly, with Telstra and Insurance Australia Group still worth mentioning.

Again, the opening week of the February reporting season triggered a lot more action on the negative side with SG Fleet's consensus target diving in excess of -9% ahead of its financial result, followed by sector-colleagues Smartgroup (-5.4%) and EclipX (-5.4%), followed by Platinum Asset Management (-5%), and others.

In terms of changes made to earnings estimates, Alacer Gold commanded top spot for the week with an increase of no less than 229%, followed by AGL Energy (+18%), IDP Education, Cimic Group, Syrah Resources, and others. The flipside has Independence Group at the bottom with a -50% reduction, followed by Orocobre, FlexiGroup (profit warning), Galaxy Resources, and Janus Henderson, now without bond guru Bill Gross.

The local reporting season is getting up to speed this week, while macro influences won't be too far away.

Upgrade

ASALEO CARE LIMITED ((AHY)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/0/0

Pulp prices are falling and Credit Suisse now expects a -30% reduction in pulp costs for Asaleo in 2020, with 2019 supply already hedged. Now that local tissue business has been divested, the broker sees more stable revenue and margins ahead.

Forecast cost relief leads to a forecast earnings increase of 18% in 2020. Target rises to $1.25 from 95c. Upgrade to Outperform from Neutral, noting a 5% yield.

G.U.D. HOLDINGS LIMITED ((GUD)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 4/1/0

Ord Minnett believes, while some dynamics will remain structural, such as weak first half cash flow, the medium-term growth prospects for the business remain intact.

The share price has de-rated and the broker upgrades to Accumulate from Hold. Ord Minnett believes the company can consistently generate more than 6% growth in organic earnings over the medium term.

Market concerns about customer concentration in the automotive division are considered to be overstated. Target is raised to $12.70 from $12.00.

HT&E LIMITED ((HT1)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/2/1

While reducing earnings estimates to reflect lower audience share in the second half of 2018, Credit Suisse believes the stock has fallen too far, given the underlying radio market is growing.

The stock is considered to be offering value at current levels. Rating is upgraded to Outperform from Neutral and the target reduced to $1.95 from $2.23.

INSURANCE AUSTRALIA GROUP LIMITED ((IAG)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/4/1

Ord Minnett notes a strong outlook for domestic commercial insurance rates, leading to an upgrade to Accumulate from Hold for Insurance Australia Group.

The broker finds a favourable insurance cycle, little risk from the Royal Commission and stronger reinsurance protections are underpinning the stock. Target is raised to $8.00 from $7.10.

See also IAG downgrade.

IDP EDUCATION LIMITED ((IEL)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/1/1

Ord Minnett was impressed with the first half result, which beat estimates by 13.4%. Strong revenue growth was demonstrated across-the-board and student placement was up 40%.

The broker observes there are few companies listed on the ASX that provide the same kind of exposure to the Indian growth story and there are few reasons why the company cannot capitalise on the opportunities ahead.

The broker considers the valuation lofty but "irresistible" and upgrades to Accumulate from Hold. Target is raised to $14.16 from $8.41.

See also IEL downgrade.

NOVONIX LIMITED ((NVX)) Upgrade to Add from Hold by Morgans .B/H/S: 1/0/0

The company has exercised its option to increase its stake in PUREgraphite JV. Novonix now hold 75% of the joint venture and has rights to 100% of synthetic graphite above 1000tpa.

Morgans considers this a positive step for the company to maximise super potential value of its synthetic graphite intellectual property.

The broker reduces its risk factor on the JV in line with the milestones identified and upgrades to Add from Hold. Target is raised to $0.54 from $0.40.

While more positive on the stock than previously, the broker cautions investors that the company still has a long way to go to build a profitable battery anode business at scale.

Downgrade

AUSTRALIAN FINANCE GROUP LTD ((AFG)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

Macquarie has downgraded Australian Finance Group to Neutral from Outperform in the wake of the Hayne report, which recommends banning trailing commissions and switching to a borrower pays model for mortgage brokers.

The downgrade reflects caution ahead of more clarity on regulation along with the weakening housing market. The broker has applied a -40% risk discount to valuation given uncertainty. Target falls to $1.17 from $1.95.

AGL ENERGY LIMITED ((AGL)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/4/3

Citi analysts have been among the market optimists when it comes to AGL Energy, but they now see multiple reasons to become more cautious. One of the reasons includes the current share price. A second reason is that investors will find it hard to accurately value new growth projects, including grid scale batteries.

Equally noteworthy is Citi's suggestion AGL Energy might be venturing onto the acquisition path, having plenty of balance sheet capabilities, including the option of expanding overseas or in new areas such as broadband.

The removal of buybacks has triggered a -6%-10% cut to forecasts, also including lower electricity portfolio margins as well as lower cost-out projections. Price target drops to $22.48 from $23.79 and rating downgraded to Neutral from Buy.

ALLIANCE AVIATION SERVICES LIMITED ((AQZ)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 1/1/0

Credit Suisse observes the share price had risen 29% since the August 2018 result, on continued positive news flow, while the rest of the share market went through a difficult period. Qantas ((QAN)) entering the shareholders' register, with the intention of building a majority stake, has fundamentally complicated matters.

Credit Suisse professes not to have any idea how the competition law sits in between Qantas and Virgin Australia ((VAH)) and Alliance Aviation. The analysts think it's best to take a more cautious stance, hence the downgrade to Neutral from Outperform. Target price increases to $2.50 from $2.45.

Earnings estimates have been reduced, but DPS forecasts have gone up, as the financial report itself seems to have missed expectations on several items, but never in a big way (the analysts talk about favourable operating conditions, but with an adverse mix)

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

Credit Suisse observes US immunoglobulin growth is starting to soften. This likely reflects supply constraints rather than a slowing in demand.

The broker does not expect guidance to be raised at the results on February 13, given a weaker northern hemisphere flu season, which could affect volume returns in the second half.

Rating is downgraded to Neutral from Outperform and the target lowered to $210 from $230 as the broker believes the stock is fairly valued.

CALTEX AUSTRALIA LIMITED ((CTX)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 5/1/1

Following a review of the investment thesis and the modest share price recovery, as well as a new alliance between Coles ((COL)) and Viva Energy ((VEA)), Ord Minnett downgrades to Hold from Buy and lowers the target to $27.50 from $30.00.

The broker believes the new alliance between the latter two makes gross margin expansion more difficult and market share losses are expected for Caltex customer Woolworths ((WOW)) and, to a lesser extent, Caltex itself.

CLEARVIEW WEALTH LIMITED ((CVW)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/1/0

Macquarie has downgraded Clearview to Neutral from Outperform in the wake of the Hayne report, the recommendations of which may add to the operational cost of the Life/Wealth Management/Advice model. Life remuneration faces more years of uncertainty, the broker suggests, while Wealth and Advice may be impacted by annual fee arrangement renewals.

The broker has applied a -20% risk discount to valuation given uncertainty. Target falls to 91c from $1.14.

EVOLUTION MINING LIMITED ((EVN)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 1/4/3

After strong price appreciation and some disappointments in the second quarter, amid lower gold grades, Morgan Stanley downgrades to Underweight from Equal-weight.

The broker acknowledges Evolution Mining is a quality gold company, with diversified production, but the sharp increase in the share price since September has meant it is overvalued.

Target is raised to $2.90 from $2.80. Industry view is Attractive.

FORTESCUE METALS GROUP LTD ((FMG)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 2/4/2

Rapidly improving price realisations have driven Morgan Stanley to take profits and downgrade to Equal-weight from Overweight.

The broker calculates the stock is implying an iron ore price of US$66/t and is increasingly now a headline play in the sector.

Target is raised to $6.30 from $5.05. Industry view is Attractive.

INSURANCE AUSTRALIA GROUP LIMITED ((IAG)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 3/4/1

First half results beat Credit Suisse estimates. The broker is cautious about whether the business will still hit the upper end of its guidance range for the full year.

This requires an allowance for expense savings in the second half and steady assumptions of peril and investment income. The broker increases FY19 net profit estimates by 11% to incorporate the beat to forecasts.

As the stock has outperformed the market in the last four months and there is some earnings risk emerging into the second half, the broker downgrades to Neutral from Outperform. Target is raised to $7.80 from $7.65.

See also IAG upgrade.

IDP EDUCATION LIMITED ((IEL)) Downgrade to Sell from Neutral by UBS .B/H/S: 3/1/1

UBS observes almost every section of the company's business is delivering growth and the digital strategy is progressing well. This presents a real opportunity to take market share. First half results were ahead of expectations.

UBS believes valuation at current levels is stretched and downgrades to Sell from Neutral. Target is raised to $12.90 from $11.30.

See also IEL upgrade.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Downgrade to Hold from Add by Morgans .B/H/S: 3/4/1

Morgans considers the leadership changes a negative development, amid increased risk of a cut to dividends, disruption to the transformation strategy and more remediation charges.

First quarter cash earnings were slightly lower than the broker expected with revenue the main area of softness.

Going forward, the run rate is expected to improve as increases to standard variable rates become effective.

Morgans downgrades to Hold from Add and reduces the target to $25.00 from $31.50.

OCEANAGOLD CORPORATION ((OGC)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/3/1

2019 production and cost guidance are weaker than Macquarie expected. The focus in 2019 is on exploration, with a US$40-50m program scheduled for multiple prospects.

Macquarie is maintaining an eye on the Didipio underground and ramp up at Haile. The broker downgrades to Neutral from Outperform. Target is $5.00.

PUSHPAY HOLDINGS LIMITED ((PPH)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 0/1/0

The company's third quarter update appeared solid to Ord Minnett at first glance, although management has indicated that revenue in FY19 will be at the lower end of guidance.

With respect to FY20, 30% growth off the FY19 base is considered a reasonable target. Nevertheless, the broker's confidence in stated targets is low, suspecting that increasing online penetration with existing customers is getting harder to obtain.

Rating is downgraded to Hold from Buy. Target is reduced to $3.47 from $3.89.

RIO TINTO LIMITED ((RIO)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 3/4/0

Ord Minnett notes iron ore prices have rallied in response to supply uncertainty as a result of the tailings dam failure at the Vale mine in Brazil. The broker concludes supply disruption from the tragedy is likely to be modest.

Still, the better iron ore price improves the outlook for Australian iron ore miners, although the recent rally in share prices has accounted for this.

The broker downgrades Rio Tinto to Hold from Accumulate, although maintains a preference for RIO over BHP ((BHP)) based on cheaper metrics. Target is raised to $92 from $90.

SMARTGROUP CORPORATION LTD ((SIQ)) Downgrade to Hold from Add by Morgans .B/H/S: 4/2/0

While the company has a strong track record, Morgans takes a slightly more cautious stance heading into the results on February 18. No formal earnings guidance has been provided.

The broker believes an acquisition is a realistic proposition in 2019, which represents the primary upside risk to forecasts.

However, the stock is trading at a fair multiple, with the prospect of softer organic growth in the near term, and the broker downgrades to Hold from Add. Target is reduced to $11.20 from $11.65.

SYDNEY AIRPORT HOLDINGS LIMITED ((SYD)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 4/1/3

In anticipation of lower air travel demand in 2019, international airlines are cutting their capacity plans, Credit Suisse notes. To that end, the broker lowers its international passenger growth forecast to 0% from 5% previously and domestic to 0% from 2%.

The broker's dividend forecasts fall -4% in 2019 and -9% in 2020. Target falls to $6.40 from $6.80. Downgrade to Underperform from Neutral.

TRANSURBAN GROUP ((TCL)) Downgrade to Hold from Add by Morgans .B/H/S: 4/3/1

Morgans expects the first half earnings growth will be principally driven by acquisitions. The broker expects around 13% growth in operating earnings (EBITDA) with a relatively flat margin.

No change is expected to FY19 distribution guidance of $0.59 per security. The company will report its first half result on February 12.

Morgans downgrades to Hold from Add, given recent strength in the share price. Target is raised to $12.29 from $12.03.

TECHNOLOGYONE LIMITED ((TNE)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 0/4/0

The share price has increased over 65% since Ord Minnett initiated coverage in July 2018. The broker believes growth has now been captured in the valuation and downgrades to Hold from Buy.

While there is potential for earnings upgrades over the medium term, the broker would like to have a more evidence of accelerating back book cloud adoption before upgrading forecasts. Target is raised to $6.10 from $6.00.

WESTPAC BANKING CORPORATION ((WBC)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 2/4/2

Ord Minnett downgrades to Hold from Accumulate, following the first half result from Commonwealth Bank ((CBA)) which provides further evidence of a very challenging retail banking environment.

Retail banking accounts for 38% of Westpac's revenue and Australian home loans are 62% of its group loans. The broker reduces the target to $28.90 from $30.90.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ASALEO CARE LIMITED Buy Neutral Credit Suisse 2 G.U.D. HOLDINGS LIMITED Buy Neutral Ord Minnett 3 HT&E LIMITED Buy Neutral Credit Suisse 4 IDP EDUCATION LIMITED Buy Neutral Ord Minnett 5 INSURANCE AUSTRALIA GROUP LIMITED Buy Neutral Ord Minnett 6 NOVONIX LIMITED Buy Neutral Morgans Downgrade 7 AGL ENERGY LIMITED Neutral Buy Citi 8 ALLIANCE AVIATION SERVICES LIMITED Neutral Buy Credit Suisse 9 AUSTRALIAN FINANCE GROUP LTD Neutral Buy Macquarie 10 CALTEX AUSTRALIA LIMITED Neutral Buy Ord Minnett 11 CLEARVIEW WEALTH LIMITED Neutral Buy Macquarie 12 CSL LIMITED Neutral Buy Credit Suisse 13 EVOLUTION MINING LIMITED Sell Neutral Morgan Stanley 14 FORTESCUE METALS GROUP LTD Neutral Buy Morgan Stanley 15 IDP EDUCATION LIMITED Sell Neutral UBS 16 INSURANCE AUSTRALIA GROUP LIMITED Neutral Buy Credit Suisse 17 NATIONAL AUSTRALIA BANK LIMITED Neutral Buy Morgans 18 OCEANAGOLD CORPORATION Neutral Buy Macquarie 19 PUSHPAY HOLDINGS LIMITED Neutral Buy Ord Minnett 20 RIO TINTO LIMITED Neutral Buy Ord Minnett 21 SMARTGROUP CORPORATION LTD Neutral Buy Morgans 22 SYDNEY AIRPORT HOLDINGS LIMITED Sell Neutral Credit Suisse 23 TECHNOLOGYONE LIMITED Neutral Buy Ord Minnett 24 TRANSURBAN GROUP Neutral Buy Morgans 25 WESTPAC BANKING CORPORATION Neutral Buy Ord Minnett Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 MMS MCMILLAN SHAKESPEARE LIMITED 80.0% 60.0% 20.0% 5 2 TLS TELSTRA CORPORATION LIMITED -6.0% -25.0% 19.0% 8 3 GUD G.U.D. HOLDINGS LIMITED 70.0% 60.0% 10.0% 5 4 VOC VOCUS GROUP LIMITED -25.0% -33.0% 8.0% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SGF SG FLEET GROUP LIMITED 33.0% 67.0% -34.0% 3 2 IGO INDEPENDENCE GROUP NL 8.0% 42.0% -34.0% 6 3 SIQ SMARTGROUP CORPORATION LTD

67.0% 100.0% -33.0% 6 4 PTM PLATINUM ASSET MANAGEMENT LIMITED -100.0% -75.0% -25.0% 4 5 IEL IDP EDUCATION LIMITED 30.0% 50.0% -20.0% 5 6 ECX ECLIPX GROUP LIMITED 20.0% 40.0% -20.0% 5 7 OGC OCEANAGOLD CORPORATION 8.0% 25.0% -17.0% 6 8 QAN QANTAS AIRWAYS LIMITED 17.0% 33.0% -16.0% 6 9 TPM TPG TELECOM LIMITED -33.0% -20.0% -13.0% 6 10 SYD SYDNEY AIRPORT HOLDINGS LIMITED 13.0% 25.0% -12.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 IEL IDP EDUCATION LIMITED 14.532 10.403 39.69% 5 2 TLS TELSTRA CORPORATION LIMITED 3.088 2.983 3.52% 8 3 IAG INSURANCE AUSTRALIA GROUP LIMITED 7.698 7.519 2.38% 8 4 RIO RIO TINTO LIMITED 86.936 86.079 1.00% 7 5 IGO INDEPENDENCE GROUP NL 4.383 4.342 0.94% 6 6 MMS MCMILLAN SHAKESPEARE LIMITED 17.176 17.016 0.94% 5 7 GUD G.U.D. HOLDINGS LIMITED 13.385 13.268 0.88% 5 8 AGL AGL ENERGY LIMITED 20.849 20.674 0.85% 8 9 VOC VOCUS GROUP LIMITED 3.101 3.077 0.78% 8 10 BWP BWP TRUST 2.988 2.970 0.61% 3 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 SGF SG FLEET GROUP LIMITED 3.493 3.843 -9.11% 3 2 SIQ SMARTGROUP CORPORATION LTD 12.078 12.778 -5.48% 6 3 ECX ECLIPX GROUP LIMITED 2.366 2.502 -5.44% 5 4 PTM PLATINUM ASSET MANAGEMENT LIMITED 4.215 4.440 -5.07% 4 5 QAN QANTAS AIRWAYS LIMITED 6.308 6.500 -2.95% 6 6 TPM TPG TELECOM LIMITED 6.508 6.690 -2.72% 6 7 OGC OCEANAGOLD CORPORATION 4.842 4.967 -2.52% 6 8 CSL CSL LIMITED 211.450 213.450 -0.94% 8 9 SYD SYDNEY AIRPORT HOLDINGS LIMITED 7.080 7.105 -0.35% 8 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 AQG ALACER GOLD CORP 41.823 12.684 229.73% 4 2 AGL AGL ENERGY LIMITED 185.186 156.000 18.71% 8 3 IEL IDP EDUCATION LIMITED 26.280 24.400 7.70% 5 4 CIM CIMIC GROUP LIMITED 256.480 241.500 6.20% 5 5 SYR SYRAH RESOURCES LIMITED -6.699 -7.023 4.61% 5 6 BWP BWP TRUST 17.900 17.300 3.47% 3 7 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 6.578 6.358 3.46% 6 8 DOW DOWNER EDI LIMITED 50.920 49.280 3.33% 6 9 NWH NRW HOLDINGS LIMITED 15.900 15.600 1.92% 3 10 LLC LENDLEASE GROUP 85.127 83.627 1.79% 5 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 IGO INDEPENDENCE GROUP NL 8.767 17.822 -50.81% 6 2 ORE OROCOBRE LIMITED 10.077 13.240 -23.89% 8 3 FXL FLEXIGROUP LIMITED 22.220 26.100 -14.87% 6 4 GXY GALAXY RESOURCES LIMITED 3.449 3.980 -13.34% 5 5 JHG JANUS HENDERSON GROUP PLC. 337.447 382.637 -11.81% 5 6 ANN ANSELL LIMITED 133.225 145.605 -8.50% 8 7 ORG ORIGIN ENERGY LIMITED 59.014 63.743 -7.42% 7 8 MIN MINERAL RESOURCES LIMITED 259.967 278.633 -6.70% 3 9 COL COLES GROUP LIMITED 61.980 66.348 -6.58% 8 10 BLD BORAL LIMITED 40.942 43.742 -6.40% 7 Technical limitations

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

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Uranium Week: It's Not Easy Being Green

With a Democrat majority in the House, US energy policy may up for greener scrutiny. But will nuclear be a part?

-US uranium production well down in 2018 -Cameco production well down in 2018 -US uranium market overwhelmed by red tape

By Greg Peel

The US produced 345,425lbs U3O8 equivalent in the December quarter 2018, down -35% on the September quarter and -45% on December 2017. Concentrate production was down -40% year on year and marks the lowest level since 1950, or if recycled material is not counted, the lowest level since the US Energy Information Administration began keeping records in 1949.

Canada's Cameco reported 2.4mlbs uranium production in the December quarter, down -65% year on year. The miner's total 2018 production of 9.2mlbs U3O8 equivalent was down -61% on 2017. Cameco nevertheless sold 35.1mlbs in 2018, up 4%, and achieved an average realised price of US$37.01/lb, up 2%.

Producer buying in the uranium spot market was a feature of 2018 and has continued into 2019. Outside of stockpiles, we can presume that given the spot uranium price rose all year and is currently at US$28.90/lb, and Cameco was selling at an average US$37.01/lb, Cameco was active in the spot market and the company's decision to suspend production at its key McArthur River mine was a sensible one.

That US$28.90 spot price was unchanged last week from the week before on industry consultant TradeTech's weekly price indicator. Last week volumes dropped back to 800,000lbs in five transactions. Lower volumes are likely a result of uranium buyers and sellers currently being mired in "red tape", TradeTech suggests.

Apart from the Energy Information Agency currently conducting its annual survey, the US Department of Commerce has moved forward on its section 232 investigation by issuing a wide-ranging and lengthy questionnaire.

When the petition that sparked the investigation was sent to the DOC last year, the Republicans controlled the House. That is no longer the case, and subsequently the Democrats have requested that the two petitioners forward all correspondence with the Trump administration by March 1.

We can see where this is heading.

Going Green

The Democrat representative for New York and the Democrat senator for Massachusetts have together introduced a Green New Deal resolution to Congress for the US to adopt a policy of "clean" and zero-emission energy sources in order to address climate change. The resolution suggests shifting away from fossil fuels and other sources of emissions within ten years.

The resolution also suggests shifting away from nuclear power.

The Nuclear Energy Institute has subsequently pointed out that nuclear operates 24/7 in the US, provides 20% of US electricity generation and 50% of emission-free generation. Any approach to eliminating greenhouse gases requires all clean energies, including nuclear, to work together, the NEI insists.

Former US Secretary of Energy, Ernest Moniz, has suggested zero carbon emissions within ten years may be impossible to achieve.

Meanwhile in Pennsylvania, state lawmakers plan to introduce a bill that would lead to nuclear power being subsidised, as is the case for renewable sources since 2004. The subsidy is needed to save the state's five nuclear power plants, the clean energy they produce, and the 16,000 technicians they employ, the lawmakers suggest.

The subsidy would be paid by Pennsylvania taxpayers.

A green world is a costly one.

TradeTech's uranium term price indicators remain unchanged at US$30.00/lb (mid) and US$32.00/lb (long).

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

The Short Report

Guide:

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

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

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

Summary:

Week ending February 7, 2019

Last week saw the ASX200 rally hard, from around 5850 all the way to 6100. Thank you Mr Hayne.

To that end, and given all the attention the big banks received with regard hedge funds setting themselves short, we note from the Top 20 table below that ANZ Bank ((ANZ)) shorts fell to 1.4% from 1.5% last week, Commonwealth Bank ((CBA)) to 2.1% from 2.3% and Westpac ((WBC)) to 1.9% from 2.1% while National Bank ((NAB)) saw no change at 0.7%.

These may seem like minimal changes, and indeed minimal short positions, but we have to remember that in market cap terms, the four banks alone make up some 20% of the ASX200. So not insignificant.

There was a bit of action at the top of the most shorted table last week, although no move at the time reflected an earnings report release.

Poultry producer Inghams Group ((ING)) has moved into second spot on the table with an increase to 15.7% shorted from 14.8%. While Inghams produces poultry for the table it also produces stock feed, and will be impacted by droughts and flooding rains.

The town of Ingham in Queensland was one of the worst hit by flooding, but there’s no connection.

Lithium producer Galaxy Resources ((GXY)) saw shorts fall to 15.3% from 16.9% but short positions in the battery-related space are highly volatile.

JB Hi-Fi ((JBH)) shorts fell to 14.6% from 15.6% ahead of Monday’s earnings release, which scored a “not bad” and resulted in only a modest share price increase.

Nanosonics ((NAN)) shorts rose to 7.0% last week from 5.5%. But given they were 7.5% the week before that, and 6.0% the week before that, I’m going to ignore it.

A few familiar faces returned to the bottom end of the 5%-plus shorted table last week, but they’d been lurking not far below anyway.

Recent trading updates from auto-related companies suggest things aren’t quite as bad as feared for the consumer-facing car industry, hence those stocks have enjoyed a bit of a recovery. Which is probably why we see Automotive Holdings ((AHG)) and ARB Corp ((ARB)) back in the table.

We also welcome a newbie to the table in funds management platform Hub24 ((HUB)), at 5.6% shorted. Analysts are still not entirely sure how the outcome of the Royal Commission will impact on the platform space.

No Movers & Shakers this week.

Weekly short positions as a percentage of market cap:

10%+

SYR 16.7 ING 15.7 GXY 15.3 JBH 14.6 IVC 13.3 ORE 13.0 MTS 12.7 BWX 11.8 MYR 11.3 DMP 10.9

No changes

9.0-9.9

BAL, HVN, SDA, PLS

In: SDA, PLS Out: SUL, NUF 8.0-8.9%

NUF, SUL, IFL

In: NUF, SUL Out: SDA, PLS, MSB

7.0-7.9%

MSB, RWC, NAN

In: MSB, RWC, NAN Out: BKL, MND

6.0-6.9%

AMC, MND, AMP, BKL, SGM, GMA, RSG, A2M, BEN, BOQ, SEK, CCP, HT1

In: MND, BKL, RSG, SEK Out: RWC, FLT, NWS, BGA

5.0-5.9%

CGF, BGA, LYC, HUB, NWS, APT, A2B, DHG, KAR, AHG, WSA, PTM, BIN, MLX, CLH, ARB, KDR

In: BGA, NWS, HUB, DHG, AHG, WSA, BIN, ARB Out: NAN, SEK, RSG

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code Last Week Week Before Code Last Week Week Before AMC 6.9 6.8 RIO 3.9 3.6 ANZ 1.5 1.4 S32 0.7 0.7 BHP 4.5 4.8 SCP 0.9 1.1 BXB 0.5 0.4 SUN 0.8 0.8 CBA 2.3 2.1 TCL 1.5 1.5 COL 1.9 1.8 TLS 0.5 0.4 CSL 0.2 0.2 WBC 2.1 1.9 IAG 0.3 0.3 WES 1.5 1.6 MQG 0.3 0.3 WOW 2.8 2.9 NAB 0.7 0.7 WPL 0.8 0.9 To see the full Short Report, please go to this link

IMPORTANT INFORMATION ABOUT THIS REPORT

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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.

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

Praemium Needs Higher Flows For Re-Rating

Fund administration platform provider, Praemium, delivered a mixed first half, as the Australian business performed strongly while UK revenues were much softer than brokers expected.

-Despite a highly competitive industry, growth in funds under administration is robust -UK operation adversely affected by outflows in the last 6-12 months, still to break even -Impact of reduced industry pricing still unclear

By Eva Brocklehurst

Praemium ((PPS)) has suffered from the correction in global equities that occurred late in 2018, delivering a mixed result in the first half. The company provides exposure to the growth in funds under administration on its platforms in Australia and the UK.

The Australian business performed strongly, with operating revenue up 13% and steady margins at 42%. Funds under management (FUM) increased to $5.9bn, up 20%. In contrast, UK revenues were much softer as the company was affected by a steep fall in UK stocks, unfavourable exchange rate moves and the loss of a managed funds business from a major client in the Middle East.

Yet, the magnitude of the fall in the share price, around -16%, surprised Shaw and Partners, although admittedly this is a high-multiple stock and thus needs to maintain a commensurate rate of revenue growth to sustain the current share price. Bailieu considers the drop in the share price an over-reaction and maintains a Buy rating and $0.90 target.

The broader client network in Australia has been enhanced by the launch of a major upgrade to the platform in February. This should expand the addressable market in Australia to a broader platform valued at $860bn.

Of note, Asgard has been retained as a key client for a minimum of a further three years and up to six years. All up, Shaw and Partners considers the business an attractive Australian outfit, with a large addressable market and impressive five-year compound earnings growth forecasts of 16%.

The company has no debt and, despite a fragmented and highly competitive industry, growth in FUM remains robust. This is also prior to international operations achieving break even. Shaw and Partners has a Buy rating and $0.90 target.

However, the result signals to Bell Potter that the company needs to deliver better conversion of operating earnings to reported earnings as well as translate new clients to increased flows. Praemium has won several new clients in both Australia and the UK but a higher level of gross flows needs to feature in order for the stock's rating to recover. Bell Potter has a Hold rating and $0.67 target.

The broker points out Praemium is the only listed investment platform provider that does not provide net flow figures on a quarterly basis, and suspects the conversion of gross to net flows is lighter than what it should be.

Wilsons assesses the opportunities and pressures are now better reflected in the stock, despite ongoing weakness in the UK and the increasingly competitive domestic platform market. The broker upgrades to Hold, with a target of $0.59, noting the shares have fallen around -30% since August.

Unified Managed Account

Bailieu expects the new adviser portal and the unified managed account (UMA) will add significant business over the long-term. Morgans agrees, noting the company's confidence in the second half outlook following the recent launch of UMA, but warns regulatory changes in the wind could reduce the appeal of such solutions. Morgans has an Add rating and $0.87 target.

Wilsons accepts the new platform broadens the service and allows a company to more effectively tender for platform contracts, although early traction is required to offset near-term UK headwinds. The launch also coincides, brokers conclude, with a lift in competitive intensity and, as Wilsons points out, market penetration is therefore not a certainty.

UK

The UK segment made an operating earnings (EBITDA) loss of -$600,000 and, as the result of the departure of advisers within a major client, Guardian, the operation has been adversely affected by outflows of over -$300m in the last 6-12 months.

Wilsons asserts, for many observers, the UK was supposed to be the providing the next leg of growth for the company but it remains sub-scale and management commentary has suggested outflows will continue in the second half. Canaccord Genuity remains positive about the outlook for Praemium as well as the opportunity to accelerate growth rates above its industry market share, retaining a Buy rating with an $0.85 target.

What is still unclear is whether Praemium will experience some collateral damage from a scaling down of prices in the financial platform industry, although the company believes it is equipped to handle a higher level of competition. There may have been a number of one-off items that clouded the quality of the result and the persistent losses in international also detracted from the performance, but the business is solid, Bailieu concludes.

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FOFO In February

In this week's Weekly Insights:

-FOFO In February -February Previews: Miners & Energy -Index Changes Afoot -Conviction Calls -Rudi On TV -Rudi On Tour

FOFO In February

By Rudi Filapek-Vandyck, Editor FNArena

Something peculiar happened last week.

The FNArena/Vested Equities All-Weather Portfolio, which up until February had been outperforming the ASX200 Accumulation Index (including dividends), experienced first hand the potential consequences if one's portfolio does not include miners and energy stocks or major banks. In one swift move whatever was there in relative outperformance disappeared and was replaced by relative underperformance.

I am referring to the Big Four Banks and their share price moves following the release of what is generally accepted was a rather forgiving slap on the wrist, and not much more, for a sector whose shenanigans and embarrassing client-unfriendly corporate culture had dominated newsflow and headlines throughout most of 2018.

And so the avoidance of much worse scenarios triggered a fierce rally in banks' share prices, usually reserved for tiny little tiddlers in the margin of the share market. In the context of Australia's Big Four banks representing more than 20% of the ASX200, with CommBank ((CBA)) alone weighing some 7.2%, this is a major event.

In particular if you happen to be a professional funds manager and your performance already has been on the lighter side, a position many of domestic fundies have found themselves in for the past five years.

Now consider the fact that banks have been underperforming since early 2013, but in particular post May 2015, and that large swathes of the professionals had simply gone underweight the sector in response, and you instantly understand what I am talking about.

That Big Rally we witnessed last week was not all about a softer than feared slap on the wrist by Commissioner Hayne; it was as much about fund managers scrambling to secure their job. If your performance already is hardly keeping up with the market, you are underweight that particular sector and then banks' share prices start rallying, you literally see your future running away from you.

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Australian equity strategists at JP Morgan, Jason Steed and Radhika Wadhwa, introduced a new acronym to describe what happened last week: FOFO - a fear of financials outperforming.

JP Morgan keeps a regular tab on domestic funds managers and on its own sets of data, nearly 75% of managers locally had been running their portfolio allocations at a deep underweight position for the banks. Wait, this story is yet to become a lot more interesting.

On JP Morgan's data, the aggregate underweight position of local fund managers is circa $30bn across the four majors. Were these managers to conclude that the outlook for CommBank & Co is about to improve materially, and they need to move to market-weight by fully erasing their relative underweight positions, this would translate into the equivalent of two months' of daily trading volumes for each of the Big Four.

Yes, this is a major insight. You can read that last sentence again if you like.

For those who like more detail, consider the following: according to JP Morgan, two-thirds of funds managers were running portfolios pre-Hayne report on average -600bp underweight the banks' weighting in the ASX200. Each 100bp narrowing would amount to an estimated nine days of volume, individually, based on the three months average traded value by stock.

Of course, these numbers, while impressive, tell us nothing more than what we already knew. The professionals are not too keen on the banks, still. But watch out when the tide really turns. We could be witnessing a sector turnaround that lasts for many months, not just a week or so.

On my scattered observations, stockbroker Morgans has been among the professionals increasing their relatively lightweight exposure to the banks, while Morgan Stanley showed no appetite at all. JP Morgan itself is with Morgan Stanley. No appetite to change that underweight positioning.

Another observation made by Steed and Wadhwa is that fundies are scaling back their overweight positioning towards resources stocks. At least they were up until December when the latest data had been gathered and analysed.

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Meanwhile, sharply higher share prices and a big drop in day-to-day volatility might lure investors into the comforting impression that everything is going to be just fine this year; late 2018 was simply a big, misguided scare, and nothing more.

Well, the Federal Reserve has lent its ear to market concerns, and responded, which is what is currently supporting this phase of the recovery rally. But how long before the market's attention will shift towards the reason that share prices sold off last year?

That reason might not be about an economic recession on the horizon, but downward pressure on US corporate earnings is genuine and real. Morgan Stanley's market strategists in the US have lowered their base case S&P500 EPS growth prediction to 1% only.

This is still positive, for sure, but it is lower than current market optimism, and certainly lower than what is priced into today's equities in the US. You should not be surprised the in-house view is now that bond yields will also be lower by year-end. The year-end target of 2750 for the S&P500 (currently above 2700) suggests not a lot of positive return in store for the remainder of 2019, on a net basis.

For good measure: not everybody agrees with such assessment, otherwise share prices probably wouldn't be where they are right now, but a number of less pessimistic market analysts agrees with Morgan Stanley the underlying signals from the Q2 reporting season in the US, now in its final chapter, are negative.

On Citi's numbers, for example, the downward revisions to analysts' forecasts, predominantly on the basis of companies providing downbeat guidance, is the worst since the GFC. As Citi analysts point out, back then the world was experiencing a true global financial crisis, which is unlikely on the menu this calendar year, so hopefully things may not turn out as badly as is the current trend.

Do keep in mind, market forecasts in the US now are heavily biased towards a pick up in earnings growth in the second half of the year. Even Citi itself acknowledges this can potentially prove too optimistic, though we probably won't know for certain until later in the year.

Locally, the reporting season is still young, but early signs are Australian companies are not significantly outperfoming rather mediocre growth forecasts. Make sure you have plenty of exposure to strong and healthy businesses, instead of solely focusing on cheap looking valuations.

Only A few days ago, Bendido and Adelaide Bank ((BEN)) shares were trading above $11.30. Now, after the release of disappointing interim financials, the shares have fallen to just above $10. This regional bank hasn't achieved "growth" for a number of years now, and it doesn't look like that is about to change.

GUD Holdings ((GUD)), on the other hand, saw its share price fall post the release of interim financials, but the share price had recovered in full by the time the shares went ex-dividend, which was today.

I also note ResMed ((RMD)) shares are gradually climbing their way back after being punished for failing market expectations in late January. And REA Group ((REA)) shares put in a great performance today, having experienced more sellers than supporters after management guided for less revenue growth in the second half.

I don't think suffering shareholders in Bendalaide Bank can expect a similar pattern, and that, as they say, is one of the key differences that will be on display this February reporting season.

February Previews: Miners & Energy

Commodity prices have remained persistently high, but costs have been rising too and resources analysts at UBS, for one, believe one factor will be found to have largely cancelled out the other factor throughout the February reporting season in Australia.

UBS analysts see their confidence in both dynamics growing having paid attention to what companies have been communicating and reporting in overseas markets. If the offshore pattern is to be repeated here in Australia, companies exposed to aluminium in particular might be prone to disappointment because of higher-than-forecast costs.

Nevertheless, conservative balance sheets are still offering further room for capital management, including sizable cash returns to shareholders. UBS has nominated Rio Tinto ((RIO)) as primes inter pares when it comes to having the ability to return cash -lots of it- to eager shareholders.

Numerous asset sales plus healthy operational margins on the back of a higher-for-longer iron ore price may well translate into the Rio Tinto board expanding the current share buyback to US$3.6bn, while also announcing a special dividend in excess of US$1bn, while still paying out a large ordinary dividend. There's no end to the cash boom times this time around!

More cash back surprises could stem from Alumina ltd ((AWC)) and from ex-BHP's South32 ((S32)), with gold miner Evolution Mining ((EVN)) potentially joining the sector's cash splash later in the year. Newcrest Mining ((NCM)) could also join in, but the board at Australia's largest gold miner needs to keep an eye on capex requirements for Golpu, UBS explains.

Macquarie, on the other hand, predicts investors will have a harder-than-usual task in assessing financial performances from oil and gas producers this season, and accountancy adjustments and forthcoming changes to the petroleum resource rent tax (PRRT) are to blame.

First off, the introduction of AASB16 as of January 1st this calendar year affects the way leasing arrangements are being accounted for, now turning into financing costs from depreciated assets and liabilities previously. It sounds complicated, and it probably is too much detail already for many of us, but the change in accountancy will disturb analysts' neatly kept excel file data in a meaningful way, says Macquarie.

The Coalition government has already expressed the intention of moving into a new PRRT regime by July 1, 2019.

Macquarie thinks Woodside Petroleum ((WPL)) stands to be most affected by both impacts, and is therefore preaching caution ahead of its financial result this month. Santos ((STO)) remains the broker's top pick, also because cost cutting, drilling and acquiring the Quadrant asset all seem to have gone smoothly thus far, virtually guaranteeing positive karma and share price momentum.

All of the above should bode well for engineers, contractors and whoever provides services to resources companies. It therefore cannot be a surprise that analysts are anticipating some stellar results from this particular segment this month. Wilsons' three sector favourites are Ausdrill ((ASL)), Austin Engineering ((ANG)), and NRW Holdings ((NWH)).

Two other Buy-rated sector peers are Monadelphous ((MND)) and Mastermyne ((MYE)). Analysts at Wilsons are expecting guidance to be at least maintained across the sector, if not supported by signals the outlook overall for these services providers is steadily improving.

Macquarie likes Beach Energy ((BPT)) as well.

Energy companies across the board are expected to start talking up their growth aspirations by 2025, predict the analysts, pointing out this in itself will mark a major shift from recent years when stabilisation was the sector's prime focus.

See also last week's February Reporting Season Preview:

https://www.fnarena.com/index.php/2019/02/07/february-reporting-season-preview/

Index Changes Afoot

We're still a few weeks away from the next announcement by Standard&Poor's about fresh inclusions and drop-outs from key local share market indices, but analysts at Wilsons have already put forward their predictions, which contain a few interesting changes, if proven correct.

The potentially largest favourable impacts are (this time) reserved for small resources stocks with all of Coronado Global Resource ((CRN)), Carnarvon Petroleum ((CVN)), Mt Gibson Iron ((MGX)), and Paladin Energy ((PDN)) awaiting probable inclusion in both the ASX300 and the Small Ordinaries indices. It means these highly volatile, cyclical small cap stocks might become "investment grade" for a number of institutional funds managers.

One small cap stock that has attracted a lot more attention than it used to, Jumbo Interactive ((JIN)), might also enjoy ongoing favourable consequences from the next S&P Indices update; it too might be cum inclusion for the ASX300 and Small Ordinaries.

Washington H Soul Pattinson ((SOL)) could be upgraded (so to speak) to large cap status, with Wilsons flagging possible inclusion in the ASX100, which can be a short term negative when small cap managers have to sell and large cap managers see no need to hurry in. Servcorp ((SRV)) might be booted out of the ASX300 and Small Ordinaries, with negative consequences.

Other changes considered possible are swapping Coles ((COL)) for Goodman Group ((GMG)) in the ASX20, replacing Orica ((ORI)) with Tabcorp Holdings ((TAH)) for the ASX50, and replacing Janus Henderson ((JHG)), IOOF ((IFL)) and Pendal Group ((PDL)) in the ASX100 with said Soul Pattinson, Beach Petroleum ((BPT)) and Altium ((ALU)).

What applies to Soul Pattinson can of course equally apply to Altium given this high growth market darling tends to trade on stiff market premia, even during the worst of times.

All of a sudden, suggested changes to the ASX200 seem small, benign and inconsequential. Wilsons is not sure, but thinks there could be two swaps upcoming whereby Automotive Holdings ((AHG)) and Infigen Energy ((IFN)) get booted out, and replaced by Clinuvel Pharmaceuticals ((CUV)) and Hub24 ((HUB)).

Suggested changes for the much broader ASX300, traditionally the home of many small caps due to the overall size of the Australian market, come in larger numbers with Wilsons pre-assessment pointing at 13 stocks that could possibly lose their spot: Blue Sky Alternative Investments ((BLA)), Servcorp, Class ((CL1)), Monash IVF Group ((MVF)), WPP AUNZ ((WPP)), Villaworld ((VLW)), and, on a lesser probability, Karoon Gas ((KAR)), Amaysim ((AYS)), Altura Mining ((AJM)), ARQ Group ((ARQ)), Integrated Research ((IRI)), Clean Teq Holdings ((CLQ)) and Kogan ((KGN)).

Stocks considered possible additions when the announcement is made on March 8, are Coronado Global Resources, Redcape Hotel Group ((RDC)), Carnarvon Petroleum, Sundance Energy Australia ((SEA)), Mt Gibson Iron, Jumbo Interactive, Paladin Energy, and, with ascribed lesser probability, Reece Australia ((REH)), Codan ((CDA)), Ramelius Resources ((RMS)), Baby Bunting ((BBN)), Alacer Gold ((AQG)), Zip Co ((Z1P)), and Pacific Current Group ((PAC)).

As per always, some impact might reveal itself in some of these share prices in the lead up to the announcement, scheduled for March 8, 2019.

Conviction Calls

Last week I caught up on Morningstar's selection of Best Stock Ideas for 2019. It wasn't long before Morningstar announced its analysts had made a few changes.

Have been added to the list are Carsales ((CAR)) and Crown Resorts ((CWN)), while G8 Education ((GEM)) and a2 Milk ((A2M)) have been removed, both following recent outperformance.

Other stocks included in the selection are Aveo Group ((AOG)), InvoCare ((IVC)), James Hardie ((JHX)), Link Administration ((LNK)), Macquarie Group ((MQG)), Pendal Group ((PDL)), Telstra ((TLS)), Westpac ((WBC)), and Woodside Petroleum ((WPL)).

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Over at Stockbroker Morgans, Model Portfolios have been trimming exposure to BHP Group ((BHP)) and Rio Tinto ((RIO)), while buying additional shares in Wesfarmers ((WES)) and Sydney Airport ((SYD)). In addition, the prior tactical underweight position towards local banks has been corrected in the aftermath of the public release of the Hayne report recommendations.

The Growth Model Portfolio has sold out of ALS ltd ((ALQ)) and bought ResMed ((RMD)), still considered a High Conviction stock inside the local healthcare sector.

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Elsewhere, at Morgan Stanley, market strategists are calling for a more defensive positioning, even more as their Model Portfolio had already adopted a defensive bias. As such, Morgan Stanley's Model Portfolio has been selling resources exposure, including the full removal of gold.

In another interesting move, the strategists added Spark New Zealand ((SPK)) on the belief this represents a less risky telecom exposure in comparison with peers in Australia. China stimulus anticipation has led to the inclusion of zircon through Iluka Resources ((ILU)).

Healthcare and consumer staples are the two largest sector exposures, followed by insurance, metals & mining, and energy. On "Super-sector positioning", this leaves the Model Portfolio with two big overweights to Defensive Industrials and Resources, and with two clear underweights to Cyclical Industrials and Financials.

Banks remain the largest underweight sector in the portfolio, with only National Australia Bank ((NAB)) owned above its index weight.

Instead, Morgan Stanley's Model Portfolio very much likes Insurance Australia Group ((IAG)), QBE Insurance ((QBE)) and Macquarie Group ((MQG)) among financials, while also owning overweight positions in Aristocrat Leisure ((ALL)), Domino's Pizza ((DMP)), Tabcorp ((TAH)), Treasury Wine Estates ((TWE)) and all three of CSL ((CSL)), Cochlear ((COH)) and ResMed ((RMD)), which explains the largest sector exposure to local healthcare.

Rudi On TV

My weekly appearance on Your Money is now on Mondays, midday-2pm.

Rudi On Tour In 2019

-ASA Inner West chapter, Concord, Sydney, March 12 -ASA Sydney Investor Hour, March 21 -ASA Toowoomba, Qld, May 20 -U3A Investor Group Toowoomba, Qld, May 22 -AIA Adelaide, SA, June 11 -AIA National Conference, Gold Coast, Qld, 28-31 July -AIA and ASA, Perth, WA, October 1

(This story was written on Tuesday 12th February 2019. It was published on the day in the form of an email to paying subscribers at FNArena, and again on Thursday as a story on the website).

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