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Friday, 6 March 2020

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AUSTRALIA

Melbourne The Short-Term Key To NextDC

Melbourne is the key to the short term investment case for NextDC, as the ramp-up of the second data centre takes shape.

-Margin is expected to ease back to 50.2% in the second half because of expenditure
-Expectations centre on large contracts for M2 materialising in the short term
-Capacity exists to fund the initial development of S3

By Eva Brocklehurst

NextDC ((NXT)) is racing towards critical mass in its data centres as new entrants circle the sector. Earnings growth in the short term is supported by a contracted order book, while further afield the increased supply could affect prices and demand.

The first half net loss was -$4.9m and Macquarie notes a further 10MW will begin to be billed progressively during FY20 and FY21, which along with 2-3 MW per annum of retail should make consensus estimates for operating earnings (EBITDA) in FY21 achievable.

The company has guided to operating earnings of $100-105m in FY20. Morgans assesses the core business is doing better than the headline numbers would suggest and expects NextDC will comfortably achieve guidance, noting S2 (the second Sydney data centre) is performing well and **the investment case now revolves around cloud service providers coming to Melbourne**.

This will enable the company to monetise its significant investment. Citi liked the margin expansion to 53% in the first half, although margins are expected to fall back to 50.2% in the second half because of expenditure on IT projects and higher energy prices. Contracted utilisation only increased slightly in the first half and there was a lack of retail inventory at S2 because of construction delays.

While bookings improved in M2, Citi notes utilisation remains low, with only 15% of bill capacity currently contracted. Still, hyper-scale activity is lumpy and the broker highlights the company is in discussions with prospective clients regarding some large opportunities. If a contract materialises that is larger than the broker anticipates this would provide upside to forecasts for M2.

In this space, NextDC has indicated the development pipeline and late-stage customer negotiations are firming up and there is **high likelihood of an announcement in the next 6-12 months**.

Morgans updates forecasts for FY22 to factor in more meaningful contracts, underscoring the company's confidence that M2 and M3 will meet the forward requirements of customers and contracts should materialise shortly.

NextDC has started early works at S3 and identified a site for M3. Citi assesses there is a capacity to fund the initial development of S3 but the quantum of additional capital would depend on the pace of contracts gained in existing facilities.

S3 development could be accelerated if another major contract for S2 is awarded by the end of 2020 and S1 hit a record 99% in billed utilisation. Moreover, the company believes the industry is rational while demand remains strong across key markets.

Citi notes NextDC had $500m in liquidity available as of December 31, 2019 to support its investment program. Assuming the company spends a further $80m in the second half, liquidity is envisaged for a further fit-out of generation 2 facilities and the start of developing generation 3.

Competition

Ord Minnett suggests the results demonstrate a predictable earnings stream as well as an ability to control costs. Still, given the intense competition in the wholesale sector the broker is unsure whether the strategy to continue building hyper-scale data centres makes sense in the current environment.

Ord Minnett would prefer either the entry of hyper-scale players in Melbourne or a scaling back of the company's ambitions for development in both Sydney and Melbourne (S3 and M3) before becoming more comfortable about the future direction of the business.

However, Morgan Stanley considers the business remains subject to long-term structural tailwinds, noting there is strategic value in the asset class and highlighting the recent AirTrunk transaction (Macquarie Infrastructure has bought a majority stake in AirTrunk). Singaporean group AirTrunk is building a 110 MW hyper-scale centre in North Sydney which is expected to open for business this year.

FNArena's database has five Buy ratings and one Hold (Ord Minnett) for NextDC. The consensus target is $8.64, suggesting 11.5% upside to the last share price.

AUSTRALIA

Positive Views Prevail For Link Administration

Another downgrade to expectations for FY20 has dented market confidence in Link Administration, yet most brokers are inclined to consider the glass half full.

-FY20 likely to be a transition year
-UK regulatory issues still unclear
-Capital management predicated on return of confidence

By Eva Brocklehurst

Link Administration ((LNK)) may have downgraded expectations for FY20 but brokers take comfort in the fact that PEXA is delivering and there is the prospect of a capital return further afield.

PEXA provided $27m in operating earnings in the first half and exceeded expectations. Management has reiterated its intentions to gear up the business, which could mean further capital returns eventuate.

Morgans suggests original FY20 guidance was always optimistic and, while the downgrades are testing investor patience, FY20 is likely to be a transition year and there should be an improved earnings trajectory into FY21.

FY20 operating earnings (EBITDA) are now forecast to be -10% below FY19. Morgans assesses this largely stems from cyclical elements, such as lower non-recurring revenue in corporate markets.

The downgrade appears to be predominantly from a miss in the market-sensitive businesses and slower reductions in costs, Ord Minnett agrees, suspecting a rebound is likely from the lows of FY20. Given the share price has suffered from numerous downgrades over several years the broker suspects there will be no upside until investors are confident that several issues are in hand.

These include regulatory risks, as there remain questions over what the Woodford review by the UK Financial Conduct Authority will reveal. The company's fund solutions business is also facing elevated costs because of the Woodford investigation.

Ord Minnett admits to having mixed views on the stock. The share price is not demanding but there are some near-term negative catalysts. On balance, the broker opts for a positive view, given earnings forecasts are now more realistic, and maintains an Accumulate rating.

Morgan Stanley, on the other hand, downgrades to Equal-weight, finding the combination of another downgrade, a soft pipeline of new business and some concentration risk a signal that growth will be harder to come by.

While **most of the issues confronting the company should stabilise of the next 12-24 months,** the broker remains cautious. The issues regarding retirement and superannuation solutions (RSS) are well known but there is some client concentration risk, given the exposure to industry super funds.

Credit Suisse found the results disappointing but likes the benefits of a portfolio of businesses where growth in some can offset the challenges in others, and upgrades to Outperform.

M&A/Capital Management

The broker envisages further scope for M&A and capital management in future, although this is partly predicated on a re-rating which may take some time to eventuate, given the need for the market to re-build confidence.

While the transformation program is running behind schedule, management is confident it will deliver $50m in targeted savings by FY22. Morgans also notes new geographies such as Italy and the Netherlands are making a more meaningful contribution to revenue.

However, UBS assesses, while the RSS business is firm, **the downturn in transaction revenue across corporate markets and banking & credit management (BCM) has been sharper than expected**, which partially reflects inertia in the lead up to Brexit.

Nevertheless, this could persist, with volatility a feature as coronavirus takes centre stage. BCM loan growth prospects and the key market of Ireland appear to be moderating and this could weigh on the Pepper European Servicing growth outlook, the broker adds.

FNArena's database has five Buy ratings and one Hold (Morgan Stanley). The consensus target is $6.13, suggesting 32.2% upside to the last share price. Targets range from $5.30 (Morgan Stanley) to $7.10 (Macquarie).

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AUSTRALIA

Afterpay Forgoes Profit And Targets Expansion

Afterpay requires a lot of confidence in its strategy as profitability is sacrificed for rapid expansion in new markets.

-Profitability likely delayed to FY22
-Is the market factoring in all the risks?
-Competition could force higher investment in marketing

By Eva Brocklehurst

Can Afterpay ((APT)) maintain its stellar rate of growth? Most brokers recognise and accept the company's strategy is to grow rapidly and geographically. Operating earnings in the first half were substantially below forecasts because of a material investment in marketing and technology that aims to accelerate growth in existing markets and expand the platform.

Macquarie assesses the business is scaling up well, with active customers up 135% in the first half and merchant numbers up 86%. Given varying levels of maturity, all the company's markets are performing well. The broker also expects marketing expenditure as a potential of total operating expenditure will rise.

Momentum looks set to continue and perhaps even accelerate further. Ultimately, Macquarie suggests, the company will need to convert its early leadership into a sustainable position and establish brand, marketing capability, global reach and cost efficiencies as well as partnerships.

Some of this is occurring already, with a minimal loss rate and a merchant margin of 3.8% that is holding up well. Early customer cohorts in home base Australia are now transacting at 23 times per year while customers in the US and UK are following a similar trajectory at the equivalent point in the cycle. An interesting statistic: the company states 5% of all millennials in the US have used the Afterpay service.

Afterpay delivered to expectations on a sales basis, and the transaction margin was also in line but a material step-up in costs and share-based payments drove a miss at the earnings line for UBS, which now expects profitability will move to FY22. UBS points out the cost base is more variable than the market likely appreciates and a significant and ongoing investment in marketing will be required.

Still, the broker considers the company's aspirational target of 9.5m customers by the end of FY20 is potentially conservative. Afterpay has also confirmed entry into Canada in FY20. Significant partnerships, including a deal with eBay Australia, are expected to come on board in 2020 as well as verticals in travel, health and entertainment.

Morgans believes **the exceptional growth should be weighed against the higher investment required** but remains of the view that penetration of offshore markets will create substantial upside over time.

Downside?

Was there anything not to like in the results? There was no update from the government financial intelligence agency, AUSTRAC, which is still considering the auditor's report while the company works on implementing recommendations from that report.

UBS suspects this could weigh on investor confidence. There is also ongoing uncertainty around a potential Californian investigation. Paradoxically, the broker points out, the more successful the company is the more likelihood it will attract regulatory scrutiny.

The main risks UBS envisages are whether the company can continue to prohibit merchants from surcharging and whether Afterpay could be considered a provider of credit in the future. All up, the broker believes the market is pricing in excessive growth for Afterpay without factoring in all risks.

Competition is also a threat, as there are low barriers to entry and it is relatively easy to replicate the company's product. Competition from other payment methods also mean the business is vulnerable, although first-mover status in Australasia has potentially created a defensive position in the home market. Specifically, Citi is concerned about PayPal, given its established merchant and consumer base.

Attractive Growth

Bell Potter, not one of the seven stockbrokers monitored daily on the FNArena database, considers the company's strategy in the US and UK is sound, as it leads to a network effect that has already been experienced in Australasia. The broker retains a Buy rating and raises the target to $52.50, envisaging higher customer numbers will outweigh a lower earnings profile.

Citi agrees that while the necessary future operating expenditure may be underestimated, the multiple growth levers in the business model are attractive. The broker forecasts a loss at the EBITDA level of -$2m in the second half and materially lowers margin forecasts. While this may bring into question the sustainability of margins, unit economics are expected to improve, as penetration and usage increases.

Wilsons, also not one of the seven, remains cautious about the competitive landscape and the market's valuation, believing the latter is incorporating significant US market share. The broker has a Market Weight rating and $34.41 target.

Morgan Stanley, on the other hand, finds the stock remains an attractive play on the disruption in global payments. Late fees are falling, revealing the customer experience is improving. The broker is confident pursuing market expansion is the right strategy at this point in the cycle.

The database has five Buy ratings and one Sell (UBS). The consensus target is $37.55, suggesting 6.7% upside to the last share price. Targets range from $18.20 (UBS) to $46.50 (Morgan Stanley).

AUSTRALIA

Bega Cheese Increasing Focus On Brands

While Bega Cheese is expanding its focus on brands, the business has been under pressure from reduced milk intake and lower infant formula volumes.

-Cost reduction initiatives expected to benefit the business from FY21-22
-Core export branded/manufacturing business the source of upside
-Target of branded sales comprising 70% of group sales by 2023

By Eva Brocklehurst

Competitive pressure was enhanced for Bega Cheese ((BGA)) in the first half as direct milk intake was reduced and difficult conditions prevailed for nutritionals demand in China.

Net profit was down -21%, as a better result at Bega Foods was insufficient to mitigate weakness at Tatura Milk, which was particularly affected by lower intake in northern Victoria. Bell Potter points out, in the last two years, the company's milk collections in south-east Australia have contracted -8% compared with the sector contraction of -2%.

The company has initiated cost reductions to address a $200m compressible cost base, which Bell Potter expects will materially benefit the business from FY21-22. There was a material improvement in operating cash flow in the half, the broker notes, reflecting the benefit of utilising receivable securitisation.

FY20 operating earnings (EBITDA) guidance has been retained at $95-105m. Morgans envisages downside risk to guidance in the event the company increases farm-gate milk prices further in the fourth quarter, or as supply drops again. **Dairy Australia is forecasting a -3-5% reduction in Australia's 2019/20 milk production.**

The Tatura business suffered the largest comparable decline in earnings in the half year, as milk collections fell. Processed milk volumes also fell -5%, with the majority of the reductions in volume being experienced by the Koroit facility. Moreover, demand for infant formula into China has been soft.

Focus On Brands

UBS found the results compositionally different to what had been anticipated but assesses Koroit and the core export branded/manufacturing business are the source of upside. This stems from favourable commodity pricing for Koroit, new toll processing contracts and rises in retail prices.

Underlying operating earnings in the core brands increased 40%, as the increased cost of milk paid to suppliers was offset by a full six-month contribution from Koroit, growth in international branded & consumer packaged business, the closure of Coburg and new customers.

The company also pointed out that Vegemite delivered a small amount of revenue growth, Bega peanut butter won market share and consumers are enjoying Bega Simply Nuts. Vegemite with -40% less salt will be launched in the second half.

The company intends to continue to diversify its branded business, targeting branded sales by 2023 at 70% of group sales. Morgans points out the focus on higher margin, value-added product should reduce some of the volatility in earnings.

The lactoferrin facility is on track for commissioning in April 2020 and will add 35 tonnes of additional capacity, supported by a long-term supply arrangement with an international customer.

Conditions may be challenging but the company is controlling what it can by reducing costs and working capital requirements. Still, the balance sheet is stretched and Morgans does not rule out an equity raising, retaining a Hold rating and $4.17 target.

Net debt is expected to reduce in the second half as inventory is sold. Bell Potter maintains a favourable view on the stock, with a Hold rating and $4.25 target, believing in the success of the integration of the Mondelez assets and the potential to expand the brand portfolio over time.

Coronavirus

Supply growth from major dairy exporters globally has been lagging demand because of unfavourable seasonal conditions and environmental controls. This did underpin prices until the potential for a coronavirus pandemic weakened global dairy prices in recent weeks. At this stage, coronavirus impact is not considered material and the company has noted its supply chain and customer shipments have not been affected.

Bega Cheese intends to further rationalise its supply chain and manufacturing footprint, simplifying processes. However no specific targets were provided. Morgans highlights that poor segment disclosure has made it difficult to ascertain just how the individual businesses are performing, so forecasting accuracy is low.

UBS assesses the balance sheet is now more stable and there is less earnings risk from Tatura as commodity prices for the near term are largely locked in and there is contracted lactoferrin offtake from FY21. UBS has a Buy rating and $5 target and re-bases expectations for Tatura to reflect the likely optimisation of the facility to take sustained lower milk volumes from northern Victoria.

AUSTRALIA

Upbeat US Outlook Underpins Reece

While Australia's subdued building activity is likely to weigh for some time yet, Reece Group is experiencing success as it consolidates a fragmented US market.

-Deploying accelerated store roll-out and acquisition strategy
-Australia could still weigh on earnings before housing finally turns
-Limited impact expected on manufacturing from China

By Eva Brocklehurst

Plumbing, air-conditioning and refrigeration equipment distributor Reece Group ((REH)) has managed to avoid the impact of subdued renovation activity and poor sentiment in Australia, as sales revenue held up in the first half.

The vast potential for growth in the US is expected to underpin the business going forward while Australian conditions are still likely to be difficult through 2020. First half sales growth in the US was 19% and 11 branches were added to the network.

While operating earnings increased 13% in the US, margins declined slightly to 5.6%, attributed to further investment including the opening of three pilot stores. Baillieu estimates underlying sales growth of 8% over the next two years in the US.

Nevertheless, the Australasian business accounts for 75% of earnings so this is could still weigh. First half operating earnings were in line with expectations for a flat result, up just 1% to $263m, and Australasian operating earnings declined -3.8%.

No guidance was provided for FY20 but Citi calculates, based on consensus forecasts, that operating earnings (EBITDA) are expected to grow 6.9%. However, while the acquisition of Todd Pipe should contribute some incremental earnings, the second half is looking a little ambitious and Citi retains a Sell rating and $10.50

target.

Morgans, on the other hand upgrades to Add from Hold. Margins are expected to improve as the company deploys an accelerated store roll-out and bolt-on acquisition strategy. The company has added 11 new stores in the US and five branches across Australia bringing its total to 825 stores worldwide.

Reece acknowledges that **dwelling construction in Australia is yet to find a bottom**, particularly as plumbing is a late-cycle product, and anticipates the next 12 months will be challenging. In the medium term Australia is expected to turn more positive as building approvals recover on the back of housing initiatives stemming from the recent bushfires.

Underlying margins were strong across the company's business in the first half, which Baillieu believes this testament to the strength of the Australian franchise and a pick-up is expected in 2021.

The broker suspects operating conditions in the second half of FY20 will be similar to the first half, albeit amid branch network expansion and market share gains in the US. The broker believes the Australasian operations are providing the strong cash flow that can fund the US expansion.

Moreover, executed well, the **US offers a growth opportunity that could ensue for a decade**. Baillieu also upgrades the stock, to Buy with a price target of $12.90, assessing the multiples do not reflect the potential of the US.

Meanwhile, the company expanded its footprint in 2019 to 33 branches in New Zealand with the acquisition of Edward Gibbon and Heatcraft NZ. This allowed Reece to commence operations in the South Island for the first time.

The company sources products from 30 countries, of which China is a large part, although Chinese factories are back manufacturing so at this point the company is confident the coronavirus impact will be limited.

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AUSTRALIA

Sights Set On TPG Telecom Merger

TPG Telecom appears to have its merger with Vodafone Australia in the bag, sending brokers scurrying to re-evaluate the combined entity.

-Special dividend likely to result from the merger
-Significant cost savings forecast over two years from FY21
-TPG Telecom the main beneficiary of NBN entry-level bundles

By Eva Brocklehurst

TPG Telecom ((TPM)) has been bolstered by a green light for its planned merger with Vodafone Australia and also upgraded earnings guidance after a strong first half. News the Australian Competition and Consumer Commission will not appeal the Federal Court decision to approve the merger has sent brokers scurrying to re-evaluate a merged entity.

UBS points out the merger comprises two highly complementary businesses from customer, asset and cost perspectives. The merger is expected to be completed mid year, subject to some lower-risk approvals, and UBS has a base case special dividend of $0.60.

Under the merger scheme, if net debt is less than $2.37bn, the difference will be paid out to shareholders as a special dividend, after allowing for the capitalisation of Singapore operations. In Singapore TPG Telecom has reached 99.89% outdoor coverage and paid services are to commence this month. Net debt as of January 31 was $1.74bn.

Ord Minnett's valuation of the combined company assumes $200m in cost savings over two years from FY21 and -$2.4bn in net operating losses plus 100,000 in annual mobile subscriptions. The broker assesses the stock is now trading at fair value and downgrades to Hold. No revenue upside from fixed wireless is incorporated into estimates.

Credit Suisse increases its valuation based on the merger proceeding, driven by higher earnings estimates for TPG Telecom on a stand-alone basis and lower capital expenditure for Vodafone Australia.

The company has provided no guidance on current financials for the merger or the potential for cost savings, although Morgans points out TPG Telecom has a history of delivering significant cost savings.

Morgans increases its price target to $8.37 from $5.89 based on valuation of the merged entity but highlights there are many moving parts, including final clearance from authorities, and this valuation is likely to move around as details become clearer in coming months.

First Half

TPG's first half results were robust in the broker's opinion, given cost pressures from NBN and the distraction of the merger. The company declared a 3c fully franked interim dividend, the first time in three years it has edged up. Mobile subscribers did drop in the first half and the company aims to correct this with new plans that include generous data allocations and cheaper excess data versus competitors.

FY20 operating earnings (EBITDA) guidance has been increased by 5% to $775-785m. Of the upgrade, Macquarie notes $7m is from better-than-expected NBN pricing on entry-level products. On a preliminary view, Morgan Stanley found the first half results incrementally positive and together with the ACCC decision expects the shares will now trade towards its bull case of $8.70.

UBS assesses guidance implies a second-half that looks reasonably achievable, as the company appears to be factoring in a continuation of the first half trends. The broker also notes subscriber numbers are growing again, benefiting from a benign competitive environment. This is also supported by the current skew of the roll-out to areas where the TPG brand is strong.

Meanwhile corporate business is enjoying improving margins on the back of on-net sales. Morgans points out corporate did the heavy lifting in the first half, not because of revenue growth but rather because of the company's expertise in the arbitrage between off-net and on-net.

Substantial value has been created with vertical integration, removing third-party carrier costs and putting traffic onto its own network where margins are substantially higher.

NBN

Macquarie notes the company is working its way through NBN headwinds and will have only 13% of its base on copper by the end of the year. Despite rising NBN input costs, broadband earnings should stabilise and improve.

TPG Telecom was the main beneficiary of NBN introducing entry-level bundles. While management has indicated any incremental benefit from reduced NBN access costs for lower speed tiers is already factored into guidance, Credit Suisse envisages scope for some pricing changes that could provide a meaningful benefit.

FNArena's database has five Hold ratings. The consensus target is $7.93, signalling -2.2% downside to the last share price. Targets range from $6.85 (Morgan Stanley) to $8.40 (UBS).

ESG FOCUS

ESG Focus: Aussie Government To Invest In Plastic Recycling

The Federal Government has announced that it will invest in the Australian recycling industry, starting with an overhaul of its procurement laws. 2020 promises to be a busy year.

By Sarah Mills

Changes to government procurement rules

The sustainability push is starting in Australia.

The Federal Government is set to announce an overhaul of Commonwealth procurement rules to give a leg-up to recycling in Australia, and drive a green jobs boom.

Prime Minister Scott Morrison is set to outline a three-point recycling plan at the National Plastics Summit in Canberra on Monday, and is about to set the first environmental sustainability trigger for federal contracts.

It follows the government's announcement last year for Australia's 2025 National Packaging Targets for recycling, and confirms the government's willingness to incentivise new recycling infrastructure, given that recycled plastic is more expensive than virgin plastic.

"We will be changing the Commonwealth Procurement Guidelines to make sure every procurement undertaken by a Commonwealth agency considers environmental sustainability and use of recycled content as a factor in determining value for money," said Mr Morrison.

The news follows a decision by Infrastructure Australia to list national waste and recycling management as one of five national high-priority initiatives.

More specific investment in recycling and infrastructure technology to come

The Morrison government is also expected to announce a commitment to invest in new recycling infrastructure and technology. Details will be released in the May Budget.

“I will have more to say on this closer to the upcoming budget, but the Commonwealth stands ready to co-invest in these critical facilities with State and Territory government, and with industry.”

“We are working with state and territory governments to identify and unlock the critical upgrades that will lead to a step-change in their recycling capacity. And we will invest with governments and with industry on a one-to-one-to-one basis.

The government is also expected to finalise negotiations for a ban on waste exports with COAG in two weeks time, including paper, glass and tyres.

Plastics and packaging sector gains reprieve

As part of the announcement, Mr Morrison made it clear that the government would not tax or “punish” companies into recycling as has happened in some countries – no doubt drawing a sigh of relief from the plastics and packaging industry. It also gave a strong signal about the direction that recycling will take in Australia.

The plastics industry has been lobbying for some time to reinvest more of the $2.6bn waste levy collected by the States and Territories into recycling infrastructure and technology. At present, the figure is roughly 8%.

All eyes will be peeled on the dollar-value pegged to the announcement.

The market has been expecting this news for some time now, ever since China stopped importing Australian plastic for recycling as part of its National Sword policy.

Recent domestic developments

Interestingly, Cleanaway Waste Management ((CWY)) is one of few stocks not to take a massive pounding in the recent share-market furore.

In mid February, Pact Holdings ((PGH)), Cleanaway and Asahi Beverages signed a memorandum of understanding for a plastic recycling joint venture to develop a local plastic pelletising facility to process up to 28,000 tonnes of plastic bottles and other recyclables into food grade pellets. The facility will be based in Albury Wodonga to service the East Coast market

Cleanaway also has a joint venture with Norwegian collections giant TOMRA – the world leader in reverse vending systems.

The Cleanaway/Pact/Asahi joint venture will create 30 jobs – not massive by any means but no doubt a harbinger of what is to come. Pact and Asahi cited their interest as being to increase the recycling component in their portfolio mix – a clear nod to the growing influence of ESG investment.

It also acknowledges the sustainability push that will accompany the fourth industrial revolution.

In the United States last year, Amcor ((AMC)) piloted a single-stream curbside recycling of flexible plastic packing in Pennsylvania.

The Australian Food and Grocery Council has already noted that its members were making significant investments in waste and recycling to align with the 2025 national packaging targets.

The four targets to be achieved by 2025 are:

- 100% reusable, recyclable or compostable packaging.
- 70% of plastic packaging to be recycled or composted
- 30% of average recycled content to be included in packaging.
- The phase out of problematic and unnecessary single-use plastics packaging.

The 2025 national packaging targets will bring a complete and systemic change to the way the country creates, collects and recovers packaging and will be driven by the Australian Packaging Covenant Organisation.

The markets can expect more announcements like Cleanaway's over the year, but investors need to do their research.

Shakeup of waste management industry

The waste management industry model is not that of a manufacturer – it is essentially just collect and dispose – generally either bury, incinerate or export.

Australia has a poor manufacturing capability given offshoring (although the fourth industrial revolution and sustainability initiatives may see an increasing amount of manufacturing return to the country) and it will take considerable investment, skills and know-how to shift the model.

Or perhaps some players will branch of into recycling and others will specialise in the more traditional model, as there will still be a need for that.

As chance would have it, FNArena was just about to publish an ESG Focus report on recycling this week, that will examine the megatrends for the industry.

The author owns shares in Cleanaway Waste Management.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 28-02-20

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday February 24 to Friday February 28, 2020
Total Upgrades: 28
Total Downgrades: 7
Net Ratings Breakdown: Buy 39.60%; Hold 45.03%; Sell 15.37%

It was the final week of the local February reporting season and boy, there was frantic activity everywhere. Investors were selling shares on Covid 19 uncertainty and recession fears, while stockbroking analysts were digesting fresh corporate updates and remodeling accordingly.

For the week ending Friday, 28th February 2020, FNArena registered no less than 26 upgrades in ratings for individual ASX-listed stocks, against only nine downgrades. Star of the week was building materials stalwart Adelaide Brighton which received four upgrades, though three of those only went up to Neutral/Hold.

Spark Infrastructure is the only other stock that received multiple upgrades during the week. Of the two, only one upgrade moved to Buy.

Equally noteworthy is that of the nine downgrades for the week, none shifted to Sell.

The combined ratios for the seven stockbrokers monitored daily by FNArena are 45% of all ratings are Neutral/Hold, 39.60% of all ratings are Buy/Outperform and the remaining 15%-plus consists of Sell recommendations. The latter group has remained fairly stable for quite a while, so the main dynamic consists of changes between Buy and Hold with the latter representing most stocks as the robust upswing throughout calendar 2019 matured.

Dynamics for valuations and price targets on one hand and earnings estimates on the other remain in contradiction with each other. The trend for the former remains more positive than negative, while the overall trend for profit forecasts has once again made a decisive swing to the downside.

As such, the February reporting season can hardly be regarded a positive exercise for corporate Australia, regardless of the macro-economic concerns that have clouded the outlook.

Coca-Cola Amatil enjoyed the largest increase to price targets on a better-than-feared six months performance, followed by Healius, Inghams Group, and Super Retail. Stocks for which price targets took a noticeable step backwards throughout the week include AP Eagers, Flight Centre, and -irony oh irony- Adelaide Brighton.

When it comes to the week's upgrades to profit forecasts, lots of fireworks are on show, with OceanaGold the week's primus inter pares, at considerable distance followed by Galaxy Resources, Costa Group, Appen, and Santos. But there were equally enormous (if not gigantic) reductions to forecasts, with Ardent Leisure, Afterpay, Audinate Group and Zip Co the main casualties for the week.

As such, investors can take guidance from the final week of the February reporting season in that, on average, earnings forecasts are once again trending lower, with plenty of exceptions spread across multiple segments of the share market.

Upgrade

ADELAIDE BRIGHTON LIMITED ((ABC)) Upgrade to Neutral from Sell by Citi and Upgrade to Neutral from Underperform by Macquarie and Upgrade to Equal-weight from Underweight by Morgan Stanley and Upgrade to Add from Hold by Morgans.B/H/S: 2/4/1

Citi's statement is one for the ages: Adelaide Brighton "posted its weakest result in a decade and expects 2020 to fall a further 10%". Luckily, for loyal shareholders, the analysts also think improvement is on the horizon.

About the result released, the verdict is: FY19 is in-line (with prior profit warning), but FY20 guidance is (yet another) miss.

It is Citi's view that the next upturn in construction activity is not likely to materialise before 2021. The analysts laud the fact the company's balance sheet has been restored, allowing the board to reinstate dividend payments, after having scrapped the interim payout earlier.

On the assumption most of the bad news is now reflected in the share price, Citi upgrades to Neutral from Sell. Target price unchanged at $3. Forecasts have been reduced on weaker-than-expected guidance.

Adelaide Brighton's -36% fall in profit was not quite as bad as Macquarie had forecast. The loss was driven by lower volumes, reduced pricing and higher input costs. 2020 guidance is for a further -10% fall but the broker is forecasting below guidance due to ongoing complexities.

That said, the stock has fallen -24% since Macquarie downgraded to Underperform last month and with earnings expectations now re-based, residual risks are better balanced, the broker believes. Upgrade to Neutral from Underperform. Target falls to $3.00 from $3.30.

2019 results were in line with guidance on expectations. Morgan Stanley expects investor demand to improve once the impact of the implied downgrade to 2020 has passed.

The broker believes it is too early to take a more positive stance but upgrades to Equal-weight from Underweight. Target is $3. Industry view: Cautious.

2019 results were in line with expectations. Cash flow and dividend were a positive surprise for Morgans.

The broker considers the risk/award profile now more attractive, which compensates for the structural challenges facing the business.

Rating is upgraded to Add from Hold. With the market likely to take time to gain confidence in the earnings recovery, the broker suggests investors accumulate the stock. Target is reduced to $3.30 from $3.65.

AUSTRALIAN FINANCE GROUP LTD ((AFG)) Upgrade to Add from Hold by Morgans .B/H/S: 2/0/0

Morgans upgrades Australian Finance Group to Add from Hold. While the company's FY20 first-half result was slightly shy of the broker, it was 11% above consensus, and net interest margins (NIM) shot through the roof - double Morgans' forecast.

Favourable securitisation markets played a role. More than half of the NIM rise reflected the spread compression in the one-month bank bill swap rate over the one-month overnight indexed swap. The broker says the balance was attributable to strong growth in the higher margin Link product, as well as out-of-cycle repricing.

While tipping modest NIM growth ahead, the broker perceives upside risk from growth in Link. Morgans notes NIM as a percentage of revenue is rising (given a constrained mortgage market) and says the company's overall risk profile is rising in that it is leaning towards a securitisation model rather than the more defensive wholesale mortgage broking business; and given that global events can affect the residential-mortgage-backed securitisation market.

The broker believes the company has enough cash to weather 12 months of such a disruption, which would hit the share price.

In the meantime, EPS forecasts rise 3% for FY20, 11% for FY21 and 14% for FY22. Target price rises to $3.25 from $2.50.

AINSWORTH GAME TECHNOLOGY LIMITED ((AGI)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/0/1

Historical horse racing machine expansions in Kentucky are significant and Macquarie considers Ainsworth Game the best placed manufacturer. The broker also assumes the rest of the business stabilises.

Hence, the PE of 20x FY21 estimates is considered attractive, plus there is upside earnings risk. Rating is upgraded to Outperform from Neutral. Target is steady at $0.80.

AP EAGERS LIMITED ((APE)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/2/0

2019 underlying pre-tax profit was below Ord Minnett's forecast. The broker assesses headwinds continue for the near term, including new vehicle sales and the exit of Holden from the market.

Nevertheless, AP Eagers is considered ideally positioned to participate in industry consolidation and accelerate its market leadership.

Now that a re-basing appears to have occurred in the 2019 result, and the share price is at a more realistic level, the broker upgrades to Accumulate from Hold. Target is reduced to $10.50 from $11.50.

See also APE downgrade.

ALUMINA LIMITED ((AWC)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 1/3/2

Ord Minnett upgrades to Hold from Lighten. The broker lowers 2020 earnings estimates after accounting for amortisation of the WA gas contract pre-payment.

Ord Minnett no longer envisages significant de-rating catalysts, with the stock trading close to its recent lows amid support from a 4%-plus dividend yield. Target is raised to $2.10 from $2.00.

BLUESCOPE STEEL LIMITED ((BSL)) Upgrade to Neutral from Sell by UBS .B/H/S: 4/2/0

BlueScope Steel's result featured a solid beat for Australian steel, thanks to a recovering housing market, but underperformance in building products in Asia and North America.

Asia is impacted by the virus but despite this being a short term hit, competition is also an issue, UBS notes. The group's net result beat guidance by 10%.

The broker's prior Sell rating reflected slowing Australian housing, North Star execution risk and elevated valuation. The first and last of these have now reversed, hence UBS upgrades to Neutral. Target rises to $13.00 from $12.28.

COOPER ENERGY LIMITED ((COE)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 3/1/0

The underlying -$2m net loss in the first half was well below Ord Minnett's forecasts of a $12m profit.

Nevertheless, the broker remains positive on the stock as it is trading well below valuation and earnings and cash flow are insulated because of the fixed-price contracts.

There are a number of upcoming catalysts including a final investment decision on Minerva and the development of the Annie field. Ord Minnett upgrades to Buy from Hold and reiterates a $0.64 target.

EBOS GROUP LIMITED ((EBO)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 2/2/0

First half results were broadly in line and Credit Suisse was impressed with the integration of the Chemist Warehouse supply contract.

There were a number of margin pressures in evidence and Credit Suisse has some questions about the sustainability of some earnings streams, given the extent of the initiatives required to offset the pressures.

Nevertheless, EBOS appears to be well-positioned for a number of growth opportunities and the broker upgrades to Neutral from Underperform. Target is raised to NZ$22.47 from NZ$21.75.

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

First half results were in line with recently issued guidance but the company has revised down earnings guidance to $240-300m for FY20 because of a broad-based slowdown in travel.

Credit Suisse also downgrades FY21 first half assumptions, expecting travel to recover slowly. The broker does not believe the results quell the debate regarding the Australian leisure distribution, which is now exacerbated by coronavirus risks.

A balanced view also acknowledges the potential for strong growth in corporate and the expanding presence in North America and Europe.

Hence, Credit Suisse suggests stabilisation of earnings is likely to be most important for the share price performance and upgrades to Outperform from Neutral. Target is raised to $47.40 from $44.83.

HUB24 LIMITED ((HUB)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/0/1

First half earnings missed Credit Suisse forecasts because of a deterioration in IT services profitability and higher expenses in the platform division.

Nevertheless, the broker found many positive aspects including strong growth in funds under administration, slower revenue margin contraction and further earnings margin expansion.

Credit Suisse observes valuation support has recently emerged and upgrades to Outperform from Neutral. Target is reduced to $12.80 from $13.00.

INFOMEDIA LTD ((IFM)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/0/0

UBS was impressed with the revenue growth in the first half, complemented by strong operating leverage. Results were in line. The broker envisages opportunity for continued growth across multiple existing and new segments.

Rating is upgraded to Buy from Neutral, as UBS recognises the business deserves a higher premium. Target is raised to $2.40 from $1.95.

INGHAMS GROUP LIMITED ((ING)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/4/0

The first half result was weaker than the prior corresponding half, as expected, albeit slightly ahead of Credit Suisse forecasts.

The broker was pleased with the positive momentum and assesses full year expectations are achievable.

While feed costs remain elevated, they are already factored into the base. Demand is also robust.

The broker upgrades to Outperform from Neutral, envisaging upside on a 12-month view. Target is raised to $4.00 from $3.50.

INVOCARE LIMITED ((IVC)) Upgrade to Add from Hold by Morgans .B/H/S: 2/3/1

2019 results, which were better-than-expected, were supported by rebound in the number of deaths after a soft 2018, amid a strong performance from renovated sites and contributions from acquisitions.

Management continues to expect the number of deaths to revert back to the long-term trend. Morgans upgrades to Add from Hold, given increased confidence in the growth outlook. Target rises to $15.87 from $13.63.

LINK ADMINISTRATION HOLDINGS LIMITED ((LNK)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 5/1/0

Operating earnings missed Credit Suisse estimates in the first half. However net profit was better, as stronger-than-expected earnings in PEXA offset the operating earnings miss.

The company has provided net profit guidance for FY20 of "at least $160m" but downgraded operating earnings guidance for continuing operations to "approximately -10% lower".

Credit Suisse was disappointed with the outcome but can envisage the benefit from owning a portfolio of businesses that contain growth in some that offsets the challenges in others.

Rating is upgraded to Outperform from Neutral, predicated on a re-rating which may take some time to come as the market rebuilds confidence. Target is reduced to $5.90 from $6.90.

See also LNK downgrade.

MIDWAY LIMITED ((MWY)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 1/1/0

The first half result serves to remind Ord Minnett of the cyclical nature of price and volume demand in the company's business, particularly from Chinese customers.

The normalised net loss was slightly below Ord Minnett's forecasts. Guidance has been reiterated and the company is yet to witness any significant impact arising from the coronavirus outbreak.

Ord Minnett considers guidance is achievable if Asian paper production remains robust.

With the share price materially below valuation, the rating is upgraded to Buy from Hold. Target edges up to $2.08 from $2.07.

NANOSONICS LIMITED ((NAN)) Upgrade to Add from Hold by Morgans .B/H/S: 2/0/1

First half results were below forecasts. Downside risks come from pricing pressures as hospital budgets remain tight.

The market remains focused on the commercial launch of the technology platform, expected in FY21.

Morgans revises down near-term forecasts to reflect the delay in new product revenue but increases longer-term assumptions.

Rating is upgraded to Add from Hold. Target is raised to $7.36 from $6.14.

NIB HOLDINGS LIMITED ((NHF)) Upgrade to Buy from Neutral by Citi .B/H/S: 1/5/1

nib Holdings issued a profit warning in January and yesterday's H1 report still fell short of expectations. Citi analysts have included a marking-to-market in their update, which has resulted in a minor increase for FY20 estimates, but decreases of -6% and -3% for FY21 and FY22, respectively.

The analysts note management's guidance for FY20 implies a better second half. Beyond FY20, Citi projects continued pressure on gross margins as claims inflation is expected to outweigh average premium rate increases.

Citi thinks the shares have been oversold and thus upgrades to Buy from Neutral. Target price falls to $5.60 from $5.80.

OIL SEARCH LIMITED ((OSH)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/4/0

2019 net profit was broadly in line with Ord Minnett's forecasts. Management has suggested that all partners are now aligned on a 3-train project in PNG.

While recognising it is difficult to predict the outcome of discussions, Ord Minnett does not believe the current share price is assigning value to the expansion.

Rating is upgraded to Accumulate from Hold. Target is raised to $7.20 from $6.85.

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

Peet & Co's first half earnings were 10% above Macquarie and management indicated it was not comfortable with current FY consensus forecasts. Sales volumes increased 52% in the half.

The broker forecasts a -36% fall in profit in FY20 due to a slowdown in sales in FY19, but expects earnings to bottom ahead of a step-change in FY22. FY20 earnings risk prompted a downgrade to Neutral last month but with confidence growing and an improving residential market, the broker upgrades back to Outperform. Target rises to $1.41 from $1.25.

RELIANCE WORLDWIDE CORPORATION LIMITED ((RWC)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/3/0

Reliance Worldwide's result missed forecasts and guidance due to soft US revenues, which in turn were largely due to de-stocking of Sharkbite products by a US wholesaler pivoting to private label, UBS notes. The market has been wary of such events, the broker suggests, but management noted cycles of customer de-stocking and re-stocking are "normal" in this game.

That said, the broker feels this result adds concern to revenue growth expectations and hence a PE de-rate is appropriate. Target falls to $4.20 from $4.45 but on yesterday's share price move, UBS upgrades to Buy.

See also RWC downgrade.

SPARK INFRASTRUCTURE GROUP ((SKI)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Hold from Reduce by Morgans.B/H/S: 2/5/0

2019 results were ahead of forecasts. The growth outlook for TransGrid has firmed, given the government/industry consensus that increased transmission interconnection is required, most notably with the NSW government plan to side-step regulatory approvals.

Rating is upgraded to Outperform from Neutral, given the discount to valuation and improved relative cash flow outlook. Target is raised to $2.40 from $2.30.

Spark Infrastructure posted a solid result that beat Morgans, albeit cash flows were weaker than expected. Maiden FY20 dividend guidance, of a -1.5c cut to 13.5c, indicates the anticipated decline has begun. The broker expects dividends may bottom out at 11c in FY22 and average 12.3c across FY21-25.

Target rises to $2.05 from $2.00. A combination of target increase and share price sell-off lifts forecast total shareholder return to 5%, hence Morgans upgrades to Hold.

SERVCORP LIMITED ((SRV)) Upgrade to Buy from Neutral by UBS .B/H/S: 1/0/0

First half results were stronger than UBS expected, driven by 300 basis points of margin expansion. Outperformance in Southeast Asia was the highlight, which was partly offset by widening losses in the US.

UBS considers the US business challenged but a potential upside catalyst if it can be turned around. Rating is upgraded to Buy from Neutral and the target is raised to $5.10 from $4.80.

SENEX ENERGY LIMITED ((SXY)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/2/0

First half results were in line with expectations. Operating expenditure was ahead of expectations and this, along with sustaining capital expenditure, remains the key uncertainty and driver of value, Credit Suisse suggests.

The time to start accumulating the stock may be nearing and market concerns regarding pricing may be overdone.

That said, Credit Suisse still asserts, for those who remain wary of being long CSG in the ramp-up phase, a preference for Strike Energy ((STX)).

Rating is upgraded to Outperform from Neutral. Target is $0.37.

WOOLWORTHS LIMITED ((WOW)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 1/4/0

Despite the softer outlook, Credit Suisse does not believe there are issues of underperformance and the stock is a good place to be in a market that is likely to favour quality.

Credit Suisse upgrades to Neutral from Underperform although prefers Coles ((COL)) on valuation. Target is raised to $39.70 from $35.63.

The scale of wage under-payment continues to disappoint. There was a deceleration in comparable store sales growth in Australian food and continuing high capital expenditure in the first half. The second half is expected to be a challenging period for expenses.

Downgrade

AP EAGERS LIMITED ((APE)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/2/0

The operating business from the merged company reported underlying earnings (EBITDA) of $163.2m in 2019. Synergies are tracking ahead of the initial target, Macquarie observes.

Acquisition accounting played into the underlying results, the broker points out and, although there is potential for earnings growth, the extended risk from reduced credit availability and a prolonged cyclical downturn suggests further evidence is required for a rebound.

Rating is downgraded to Neutral from Outperform. The target is lowered to $9.40 from $14.00 to align with automotive comparables.

See also APE upgrade.

LINK ADMINISTRATION HOLDINGS LIMITED ((LNK)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 5/1/0

First half earnings missed expectations. The combination of another downgrade to FY20 guidance, soft new business and some client concentration risk means Morgan Stanley considers re-positioning for growth is harder than previously anticipated.

While acknowledging several issues should stabilise over the next 12-24 months, Morgan Stanley downgrades to Equal-weight from Overweight. Target is reduced to $5.30 from $7.50. In-Line industry view maintained.

See also LNK upgrade.

OCEANAGOLD CORPORATION ((OGC)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 4/1/0

Ord Minnett observes investors brushed aside the 2019 results to focus on Didipio. While the company is making progress it is taking longer than previously expected.

The broker pushes out the assumed re-start to 2021. This will come at a cost and means a slower ramp up to full production.

Still, value is envisaged in the underlying portfolio. Rating is downgraded to Accumulate from Buy. Target is reduced to $3.10 from $3.50.

RAMSAY HEALTH CARE LIMITED ((RHC)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/6/0

Citi thought it was an in-line result, but incorporating AASB16 accounting is pushing down EPS forecasts by -8% and -4% for FY20 and FY21 respectively. The recommendation shifts to Neutral from Buy given recent share price increase.

Ramsay Health Care's price target has gained $1 to $75. Citi notes how management has stuck with its FY20 guidance but due to AASB16 low single-digit growth in EPS is translating into -6%.

The margin in Australia is under pressure because health insurers cannot increase prices. Citi expects less decline in H2 and a subsequent reversal in FY21. Part of Citi's future outlook for private hospital operators is based upon the view that governments cannot let the malaise in health care and insurance deteriorate indefinitely.

RELIANCE WORLDWIDE CORPORATION LIMITED ((RWC)) Downgrade to Neutral from Outperform by Credit Suisse.B/H/S: 3/3/0

First half revenue was in line although operating earnings (EBITDA) were below expectations because of lower Americas volumes.

Given the company emphasised new products as a growth contributor and disappointed in this regard, Credit Suisse downgrades to Neutral from Outperform.

The broker believes, now, the current pipeline does not warrant the anticipated R&D and commercial expenditure, as first half sales have not materialised.

This points to lower growth in the future. Target is reduced to $3.75 from $4.80.

See also RWC upgrade.

STEADFAST GROUP LIMITED ((SDF)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 3/1/0

First half results beat Credit Suisse estimates. The broker appreciates the fact the business is setting up for sustainable earnings, but growth remains below what can be expected in a positive premium rate environment.

Following the recent outperformance of the share price and lower underlying growth, Credit Suisse downgrades to Neutral from Outperform. Target is $4.

WAGNERS HOLDING COMPANY LIMITED ((WGN)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/2/1

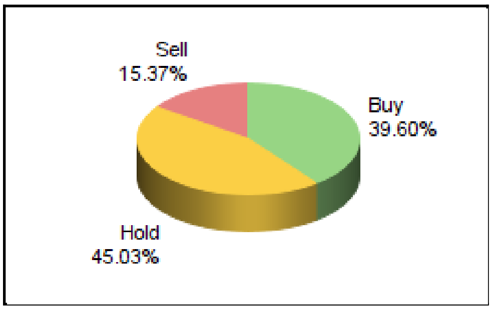
The company posted a net loss in the first half of -$1.2m and FY20 earnings guidance is reduced -40%.

The change is attributed to major uncertainty over project timing as well as concrete and cement market conditions in south-east Queensland.

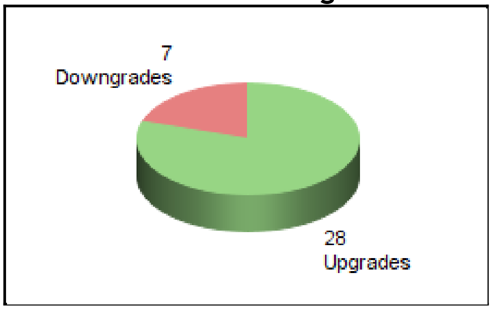
Credit Suisse is most concerned about the second half earnings from south-east Queensland, while further commentary regarding Mozambique has pulled back in both likelihood and value.

.Rating is downgraded to Neutral from Outperform. Target is reduced to $1.50 from $2.30.

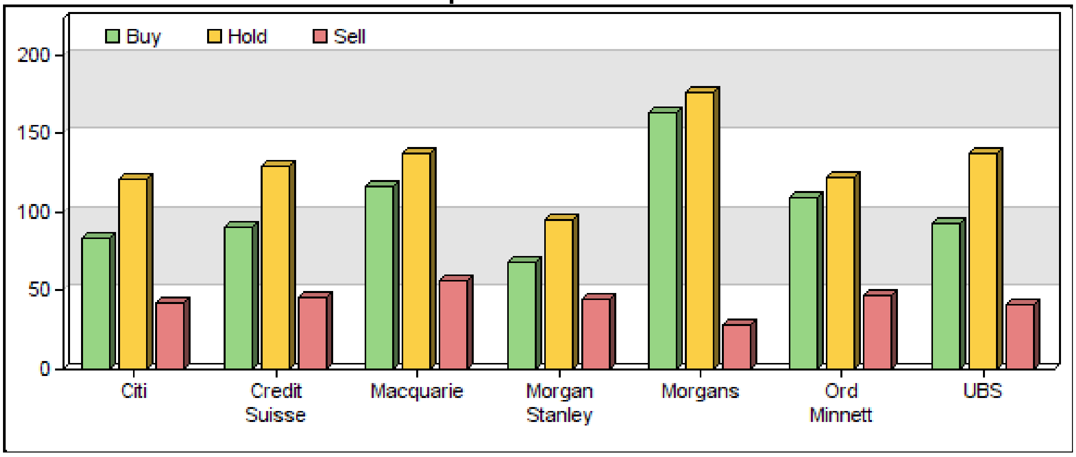
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ADELAIDE BRIGHTON LIMITED	Buy	Neutral	Morgans
2	ADELAIDE BRIGHTON LIMITED	Neutral	Sell	Macquarie
3	ADELAIDE BRIGHTON LIMITED	Neutral	Sell	Citi
4	ADELAIDE BRIGHTON LIMITED	Neutral	Sell	Morgan Stanley
5	AINSWORTH GAME TECHNOLOGY LIMITED	Buy	Neutral	Macquarie
6	ALUMINA LIMITED	Neutral	Sell	Ord Minnett
7	AP EAGERS LIMITED	Buy	Neutral	Ord Minnett
8	AUSTRALIAN FINANCE GROUP LTD	Buy	Neutral	Morgans
9	BLUESCOPE STEEL LIMITED	Neutral	Sell	UBS
10	COOPER ENERGY LIMITED	Buy	Neutral	Ord Minnett
11	EBOS GROUP LIMITED	Neutral	Sell	Credit Suisse
12	FLIGHT CENTRE LIMITED	Buy	Neutral	Credit Suisse
13	HUB24 LIMITED	Buy	Neutral	Credit Suisse
14	INFOMEDIA LTD	Buy	Neutral	UBS
15	INGHAMS GROUP LIMITED	Buy	Neutral	Credit Suisse
16	INVOCARE LIMITED	Buy	Neutral	Morgans
17	LINK ADMINISTRATION HOLDINGS LIMITED	Buy	Neutral	Credit Suisse
18	MIDWAY LIMITED	Buy	Neutral	Ord Minnett
19	NANOSONICS LIMITED	Buy	Neutral	Morgans
20	NIB HOLDINGS LIMITED	Buy	Neutral	Citi
21	OIL SEARCH LIMITED	Buy	Neutral	Ord Minnett
22	PEET & COMPANY LIMITED	Buy	Neutral	Macquarie
23	RELIANCE WORLDWIDE CORPORATION LIMITED	Buy	Neutral	UBS
24	SENEX ENERGY LIMITED	Buy	Neutral	Credit Suisse
25	SERVCORP LIMITED	Buy	Neutral	UBS
26	SPARK INFRASTRUCTURE GROUP	Neutral	Sell	Morgans
27	SPARK INFRASTRUCTURE GROUP	Buy	Neutral	Credit Suisse
28	WOOLWORTHS LIMITED	Neutral	Sell	Credit Suisse
Downgrade				
29	AP EAGERS LIMITED	Neutral	Buy	Macquarie
30	LINK ADMINISTRATION HOLDINGS LIMITED	Neutral	Buy	Morgan Stanley

31	OCEANAGOLD CORPORATION	Buy	Buy	Ord Minnett
32	RAMSAY HEALTH CARE LIMITED	Neutral	Buy	Citi
33	RELIANCE WORLDWIDE CORPORATION LIMITED	Neutral	Buy	Credit Suisse
34	STEADFAST GROUP LIMITED	Neutral	Buy	Credit Suisse
35	WAGNERS HOLDING COMPANY LIMITED	Neutral	Buy	Credit Suisse

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	ABC	ADELAIDE BRIGHTON LIMITED	14.0%	-57.0%	71.0%	7
2	HLS	HEALIUS LIMITED	38.0%	8.0%	30.0%	4
3	COE	COOPER ENERGY LIMITED	75.0%	50.0%	25.0%	4
4	HUB	HUB24 LIMITED	60.0%	40.0%	20.0%	5
5	SXY	SENEX ENERGY LIMITED	67.0%	50.0%	17.0%	6
6	IFN	INFIGEN ENERGY	67.0%	50.0%	17.0%	3
7	BSL	BLUESCOPE STEEL LIMITED	58.0%	42.0%	16.0%	6
8	ING	INGHAMS GROUP LIMITED	33.0%	17.0%	16.0%	6
9	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	8.0%	-8.0%	16.0%	6
10	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	-7.0%	-21.0%	14.0%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	AX1	ACCENT GROUP LIMITED	67.0%	100.0%	-33.0%	3
2	SDF	STEADFAST GROUP LIMITED	63.0%	88.0%	-25.0%	4
3	RHC	RAMSAY HEALTH CARE LIMITED	14.0%	29.0%	-15.0%	7
4	CCL	COCA-COLA AMATIL LIMITED	-36.0%	-25.0%	-11.0%	7
5	APE	AP EAGERS LIMITED	50.0%	60.0%	-10.0%	5
6	OGC	OCEANAGOLD CORPORATION	70.0%	80.0%	-10.0%	5
7	LNK	LINK ADMINISTRATION HOLDINGS LIMITED	75.0%	79.0%	-4.0%	6

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	CCL	COCA-COLA AMATIL LIMITED	12.279	10.833	13.35%	7
2	HLS	HEALIUS LIMITED	3.313	3.092	7.15%	4
3	ING	INGHAMS GROUP LIMITED	3.542	3.317	6.78%	6
4	SUL	SUPER RETAIL GROUP LIMITED	10.400	10.072	3.26%	7
5	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	3.365	3.272	2.84%	6
6	AWC	ALUMINA LIMITED	2.108	2.067	1.98%	6
7	RHC	RAMSAY HEALTH CARE LIMITED	71.769	70.531	1.76%	7
8	SDF	STEADFAST GROUP LIMITED	4.270	4.208	1.47%	4
9	AX1	ACCENT GROUP LIMITED	2.163	2.133	1.41%	3
10	HUB	HUB24 LIMITED	13.102	12.980	0.94%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	APE	AP EAGERS LIMITED	10.796	12.442	-13.23%	5
2	FLT	FLIGHT CENTRE LIMITED	39.954	43.266	-7.65%	7
3	ABC	ADELAIDE BRIGHTON LIMITED	3.086	3.193	-3.35%	7
4	OGC	OCEANAGOLD CORPORATION	3.930	4.040	-2.72%	5
5	COE	COOPER ENERGY LIMITED	0.625	0.640	-2.34%	4
6	BSL	BLUESCOPE STEEL LIMITED	14.508	14.847	-2.28%	6
7	OSH	OIL SEARCH LIMITED	6.800	6.927	-1.83%	7
8	STO	SANTOS LIMITED	8.607	8.727	-1.38%	6
9	SXY	SENEX ENERGY LIMITED	0.447	0.453	-1.32%	6
10	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	8.063	8.139	-0.93%	7

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	OGC	OCEANAGOLD CORPORATION	27.606	7.935	247.90%	5
2	GXY	GALAXY RESOURCES LIMITED	-4.752	-22.134	78.53%	6
3	CGC	COSTA GROUP HOLDINGS LIMITED	12.540	8.556	46.56%	5
4	APX	APPEN LIMITED	67.840	51.063	32.86%	3
5	STO	SANTOS LIMITED	61.767	50.802	21.58%	6
6	CCL	COCA-COLA AMATIL LIMITED	57.213	52.258	9.48%	7
7	OML	OOH!MEDIA LIMITED	19.920	18.538	7.45%	4
8	NEA	NEARMAP LTD	-8.100	-8.733	7.25%	3
9	A2M	THE A2 MILK COMPANY LIMITED	46.512	43.834	6.11%	7
10	VEA	VIVA ENERGY GROUP LIMITED	8.103	7.653	5.88%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	ALG	ARDENT LEISURE GROUP	-3.000	-0.167	-1696.41%	3
2	APT	AFTERPAY LIMITED	-7.250	5.133	-241.24%	6
3	AD8	AUDINATE GROUP LIMITED	-1.110	1.863	-159.58%	3
4	Z1P	ZIP CO LIMITED	-5.367	-2.367	-126.74%	3
5	ORE	OROCOBRE LIMITED	-5.078	-2.718	-86.83%	7
6	CRN	CORONADO GLOBAL RESOURCES	19.042	45.498	-58.15%	3
7	COE	COOPER ENERGY LIMITED	1.258	2.710	-53.58%	4
8	PLS	PILBARA MINERALS LIMITED	-2.007	-1.440	-39.38%	4
9	AWC	ALUMINA LIMITED	10.623	16.294	-34.80%	6
10	WHC	WHITEHAVEN COAL LIMITED	7.639	11.586	-34.07%	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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WEEKLY REPORTS

Uranium Week: Keeping A Lid On It

Aggressive selling in the uranium market kept a lid on spot prices during February despite increased utility demand.

-U3O8 spot price range-bound
-February volumes drop from January
-Japanese reactor restarts still a slow process

By Greg Peel

Activity in the spot uranium market was relatively consistent through the month of February, industry consultant TradeTech reports. Only a handful of transactions were completed each week and the consultant's weekly spot price indicator was restricted to a US50c range, from US$24.50 to US$25.00/lb.

Five transactions were concluded in the final week totalling 6700,000lbs U3O8 equivalent. TradeTech's indicator closed the week and the month at US$24.90/lb, up US20c on the week and unchanged from end-January.

Over 2.5mlbs changed hands over the month in 17 spot market transactions. This compares to 5.1mlbs in 27 transactions concluded in January.

Market participants were encouraged to see an increased level of end-user buying interest emerge in the spot, mid and long term uranium markets this month, TradeTech notes. But this increased utility demand has yet to translate into higher prices.

Several parties concluded transactions or entered into negotiations with preferred suppliers in uranium term markets over the month. One utility selected a supplier for over 1.5mlbs U3O8 to be delivered over a five-year period beginning in 2023. Another utility concluded a purchase for UF6 to be delivered in the mid term period.

TradeTech's term price indicators nonetheless remain unchanged from end-January, at US$28.25/lb (mid) and US$33.00/lb (long).

Keeping a lid on the market is a strong contingent of sellers that are highly motivated to secure end-user business, TradeTech reports. As a result, these sellers have submitted extremely competitive offers in some cases depending upon timing, delivery location, form, and the desire to establish a relationship with a particular buyer.

The monthly uranium spot price remains nearly -3% below the average for 2019.

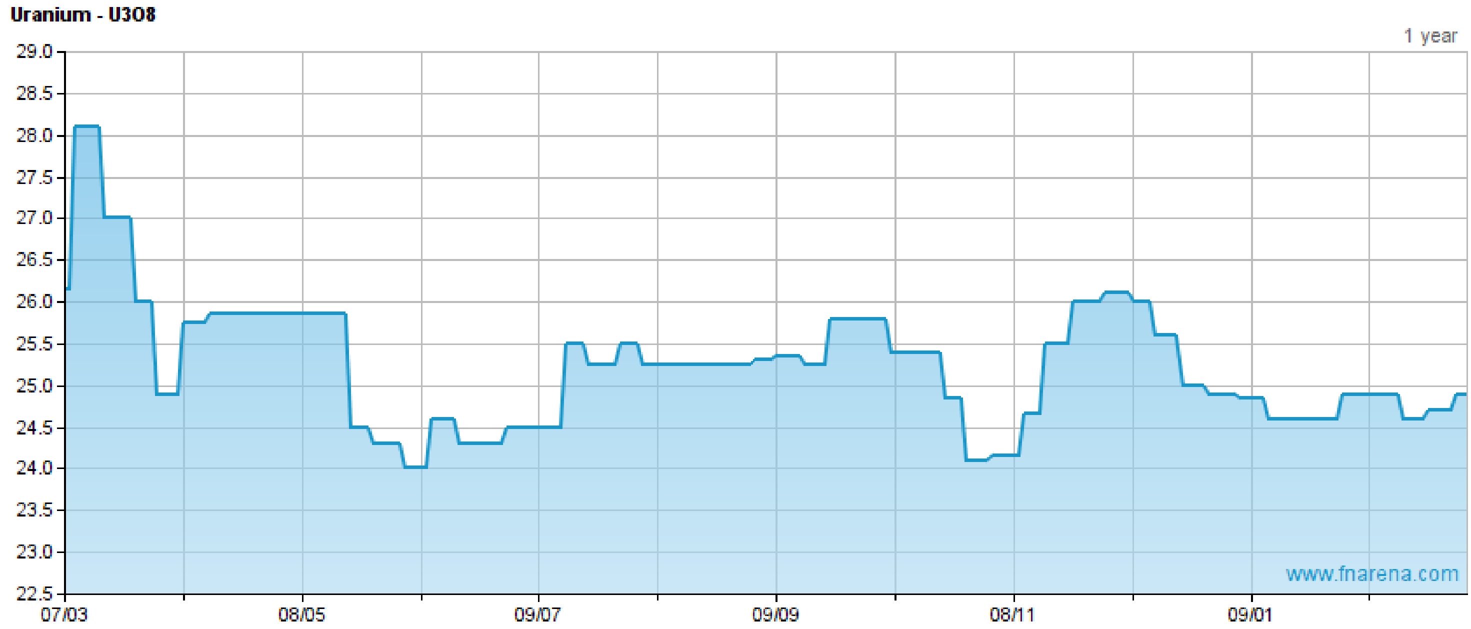
Demand Side

Meanwhile, China's nuclear electricity generation increased by 18% in 2019, taking nuclear's share of Chinese electricity production to 4.9% from 4.2% in 2018. Clearly there's a long way to go, and construction of coal-fired power stations continues a-pace. Beijing aims to have 200GW of nuclear generating capacity by 2035.

Tohoku Electric Power Co's Onagawa unit 2 plant last week passed a safety screening by Japan's Nuclear Regulation Authority, which paves the way for the reactor to be restarted after anti-disaster measures are completed by the end of March 2021.

Onagawa Unit 2 is the second damaged reactor to pass the NRA's stricter safety standards introduced after the Fukushima accident in 2011. Tohoku Electric still needs to build an 800m seawall at the Onagawa facility and gain local resident consent before it can restart the plant. That's one hell of a wall.

As the ninth anniversary of Fukushima approaches, only nine of Japan's prior 40-plus fleet of reactors have restarted. None of those were specifically damaged in the tsunami. Seventeen more are currently working through the restart approval process. Tokyo hopes to return nuclear power to 20-22% of all electricity generation in Japan by 2030.



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WEEKLY REPORTS

The Short Report - 05 Mar 2020

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

Summary:

Week ending February 27, 2020

Last week the ASX200 fell -7.5%.

It was the last week of result season, but while some companies did manage to buck the overall selling trend on earnings beats, most were simply swept up in the tide.

Shorters were in no hurry to lock in profits on downside moves, although the odd green stock in the table below did rally on result, suggesting some short-covering. Note that Harvey Norman ((HVN)) saw a trimming of shorts, but it did not report until the day after the week in question and fell -14% that day.

Only one stock saw a short position move of one percentage point or more. No surprises – Corporate Travel Management ((CTD)) shorts rose to 9.5% from 7.7%. The company posted a weak earnings result but this was nevertheless swamped by a significant virus-related downgrade to full year guidance.

We note shorts in peer Webjet ((WEB)) remain unmoved at 10%, despite the stock falling -27% in the week. The week before, Webjet had posted an earnings beat that was worth an 11.5% rally on the day.

On Thursday February 27, the ASX200 peaked out on earnings result enthusiasm, oblivious to what was about to happen.

No Movers &Shakers this week.

Weekly short positions as a percentage of market cap:

10%+
GXY 20.1
SYR 17.2
ING 14.0
ORE 13.8
SDA 13.0
MTS 12.1
NEA 11.9
CGC 11.3
GWA 10.9
JBH 10.4
WEB 10.0

No changes

9.0-9.9

BGA, NCZ, CTD, BEN, SUL

In: NCZ, CTD Out: CUV

8.0-8.9%

PLS, PPT, CUV, BKL, NXT

In: CUV Out: NCZ, DMP, HVN

7.0-7.9%

HVN, KGN, BOQ, IVC, MYR, DMP

In: HVN, DMP Out: CTD, HUB

6.0-6.9%

HUB, A2M, SGM, BIN, NUF

In: HUB Out: RSG

5.0-5.9%

RSG, RWC, CLH, MYX, IFL, CLQ, AWC, FLT, BUB, SEK, COE, NEC, MND, CSR, DCN

In: RSG, BUB, SEK, NEC, MND, CSR Out: MIN, JIN, BWX, CGF

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
AMC	0.6	0.5	NCM	0.8	0.8
ANZ	0.6	0.6	RIO	3.9	3.8
BHP	3.5	3.2	SCG	0.7	0.7
BXB	0.2	0.3	SUN	0.8	0.8
CBA	0.7	0.7	TCL	0.4	0.4
CSL	0.1	0.1	TLS	0.3	0.3
GMG	0.1	0.1	WBC	0.7	0.6
IAG	0.6	0.5	WES	0.6	0.6
MQG	0.3	0.4	WOW	0.5	0.7
NAB	0.6	0.6	WPL	1.0	1.0

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

The Wrap: Banks, Retailing And Waste

Weekly Broker Wrap: banks; retail & consumers; and waste.

-Regional banks most affected by the latest cut to the RBA cash rate
-Coronavirus spread puts further pressure on banks, retailers
-Decline in tourism-related business could weaken Australia's already soft consumption growth
-Victoria's waste management proposals likely to be favourable in the medium term for listed stocks

By Eva Brocklehurst

Banks

The latest reduction in the cash rate, which is now at a record low of 0.5%, will have a significant knock-on effect on the earnings outlook for banks. Macquarie assesses a -5% impact on bank earnings and even a -9% hit for **Bendigo and Adelaide** ((BEN)). Following the reduction in October, banks had indicated that fully passing through additional rate cuts was not feasible.

Yet, it appears they lack the required political capital to stare down the government's call and avoid passing on the latest reduction to customers.

Regional banks are most affected and Macquarie expects they will smooth the impact through re-pricing initiatives but suffer more churn in the medium term. Amid a growing risk to earnings from slowing economic activity, the broker retains an Underweight view on the sector.

JPMorgan had assumed the banks would hold back around one third of any cash rate reduction and agrees Bendigo & Adelaide is the most exposed. Rate cuts also make it increasingly difficult to manage deposit spreads effectively.

Hence, there is further pressure on pay-out ratios and it raises the prospect of more cuts to the dividend. JPMorgan economists expect a follow-up cut to the cash rate of -25 basis points in April and for the banks to pass through two thirds.

UBS also expects another, final, reduction in April and agrees returns for the banking sector are likely to fall towards single-digits, placing further pressure on capital and dividends. The broker does not believe current interest margins and returns on equity are sustainable.

Meanwhile, the spread of coronavirus is creating a pronounced impact on global growth and Morgan Stanley asserts there is rising pressure to cut rates further as a result.

The broker forecasts another cut in April and again in August and increased disruption could bring the latter forward to the June quarter. The flow-on effect will mean more margin pressure for the banks while the likelihood of higher loan losses increases, stemming from the impact of coronavirus on the tourism, education, retail and wholesale sectors.

Among the major banks, Morgan Stanley believes **Westpac** ((WBC)) has most exposure to affected industries and **Commonwealth Bank** ((CBA)) the least.

There is now the potential for a serious consideration of quantitative easing. JPMorgan believes this reinforces pressures on net interest margins in the medium term while **Macquarie Group** ((MQG)) appears best positioned to benefit from QE.

<u>Retail</u>

ANZ Bank economists note early indicators of retail expenditure by tourists and locals point to a weak March quarter for retailing. The reduction in outgoing travel may soften the impact of tourism on retail but a decline in tourism-related employment could weaken Australia's soft consumption growth.

Despite an improvement in retailing in the December quarter, retail volume growth is likely to be modest in 2020, particularly if coronavirus concerns escalate or if food prices continue to rise relative to the CPI.

Coronavirus is not only affecting retail through the impact on travel but also because some are electing not to dine out and are avoiding crowded areas. The economists point out, even without the disasters of the bushfires and the spread of coronavirus, retail sales were always unlikely to sustain the December quarter trajectory.

Per-person retail data shows that the average household is buying less over time and nominal expenditure on anything other than groceries, pharmaceuticals and toiletries is barely growing. Moreover, structural barriers to spending such as high debt, poor wage growth and the rising cost of non-retail essentials are creating limits to how much households can spend.

However, while retail stocks have sold off on the broader concern about disruption from coronavirus, Citi does not believe this translates to a lack of valuation support as there has been decent earnings growth across a number of discretionary retailers.

One changing dynamic, which Citi notes, is that retail inflation has accelerated and non-retail inflation has eased. The rate of inflation in the December quarter was above long-term trends in food, tobacco and clothing.

This comes at a time when the overall level of the CPI remains low and living cost pressures are benign, in the broker's view. The main catalyst that will encourage faster retail spending, Citi envisages, is higher house prices, faster housing churn and lower savings.

In the current environment, Morgans prefers defensive, quality retail stocks. Given the limited information available to companies at the time of the last reporting period the broker suspects the coronavirus outbreak will continue to have an impact on retailers. Those with private-label/fast fashion/high turnover models are likely to be the first to feel the pressure. In contrast, those with more of a domestic, wholesale supply base should more insulated in the short term.

Recent feedback indicates Chinese factories, outside of Wuhan, are back up and running to some extent, although there is no obvious backlog. The next potential development in the coronavirus saga is the impact on actual demand and how much pressure this places on discretionary income

Stimulus, either fiscally or monetarily, may be forthcoming but the broker still envisages a rising risk to domestic discretionary income and expenditure.

Morgans has upgraded two stocks which have de-rated heavily, **JB Hi-Fi** ((JBH)) to Add from Hold and **Domino's Pizza** ((DMP)) to Add from Reduce. The broker notes the latter experienced a trading benefit during the SARS period in its Japanese operations.

The broker also includes **Bapcor** ((BAP)) as one of those best placed in the larger more defensive names and has downgraded one stock, **Accent Group** ((AX1)) to Hold from Add.

Waste

Victoria has proposed a 10-year recycling plan that includes increasing landfill levies to $125.90/t by July 1, 2022. While the focus may be on pricing power implications of these levies, Macquarie suspects the strategy is just further confirmation of a significant shift that is underway in Australian waste management.

Victoria is also introducing a container deposit scheme starting in 2022, implementing a four-bin collection system to improve the quality of recyclable material and developing downstream markets for recycled materials.

Macquarie suspects the net impact for waste management firms such as **Cleanaway Waste** ((CWY)) and **Bingo Industries** ((BIN)) could be favourable. There is increased opportunity for investment in longer-tenure infrastructure-like assets.

The broker prefers Cleanaway, despite its exposure to landfill, for its ability to capture the growth opportunities, as value and pricing visibility prevents a more constructive view on Bingo Industries.

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SMALL CAPS

AMA Group: Rising Costs, High Debt Raise Alarm

Some brokers have become less comfortable with the high debt on AMA Group's balance sheet. Others see an attractive valuation, and consolidation opportunity.

-Investors scared off by AMA Group's large 1H loss, no interim dividend
-Some broker say FY20 earnings guidance looks optimistic
-High debt raises chance of debt covenant breach

By Nicki Bourlioufas

Investors sold down smash repair company AMA Group's ((AMA)) shares in February following the release of weak half-year results which included reporting a statutory loss of -$12.3m. While management restated its FY20 earnings guidance, some brokers are doubtful its forecasts will be achieved.

AMA Group, the market leader in vehicle panel repairs and automotive parts and accessories in Australia, reported its earnings before interest, taxes, depreciation, and amortisation (EBITDA) dropped -22% on the previous first half despite contributions from acquisitions driving 34% revenue growth.

Reduced repair volumes due to prolonged dry weather and lower insurance claims frequency dragged on the financial results. The company owns and operates several businesses and brands and is the largest accident repair group in Australia. Stagnant pricing of repairs and rising costs, as well as acquisition costs, weighed on earnings.

A decrease in new car sales also weighed on its earnings. Adding to the losses was the impact from the adoption of new accounting standard AASB 16 Leases.

Despite the headwinds, AMA restated its FY20 guidance for underlying EBITDA of $73m to $77m, but brokers respond this looks "optimistic". A sharp fall in AMA's price confirms the market's scepticism. “Given the stock closed the day at $0.59/share (down -24%) investors appear dubious of guidance,” said Canaccord Genuity in a research note. Canaccord has reduced its target price to $1.30 from $1.40.

According to Wilsons, the company's FY20 guidance looks “very optimistic” and a favourable outcome on pricing discussions with key insurers to mitigate cost inflation in the second half is critical to the earnings outlook. The broker has a $0.64 target price on AMA.

While AMA’s valuation is seen as attractive, the risks are described as “elevated” on both earnings and the balance sheet. The outcome of discussions with insurers in the second half will dictate the EBITDA margin run-rate into FY 2021, says Wilsons, which assumes the Panel EBITDA margin increases to 7.9% in H2 and 9.0% in FY21 and beyond.

Moelis has reduced its EBITDA forecast by -9% to $64m (it was $70m) and also dropped by -8% its FY21 estimate to $101m, below company guidance, largely due to more conservative assumptions around timing of recovery in Panels and Parts & Accessories, and the Capital SMART integration/synergy implementation. Moelis has downgraded AMA to a Hold with a target price of just $0.66.

Another disappointment for investors was that no interim dividend was declared given 1H trading underperformance and “robust” acquisition pipeline. AMA, however, expects to pay a full year dividend in August 2020.

Drowning in debt

High debt is another problem for the company. Net debt for the 1H period was $238.8m, which Canaccord estimates represents net debt to equity of 58%. The broker forecasts FY20 net debt of $245m. Based on guidance around FY21 EBITDA of $110m, that would represent a leverage ratio of circa 2.2x on net debt of $238.8m.

Wilsons notes a need for balance sheet repair given a debt covenant breach is possible. Wilsons forecasts a leverage ratio at 2.9x in FY 2021 and says a breach will arise if that ratio rises above 3.25x. Under this scenario, an equity raising of up to $100m would likely be required. Wilsons has retained a Market Weight rating.

There is, however, some good news for AMA. Outside the first half problems of dry weather and rising repair costs, the second half period will benefit from a full six-month contribution from the Capital SMART integration, which is expected to deliver EBITDA of $17m.

AMA says the Capital SMART integration is well progressed and management is confident of delivering in excess of $17m of synergies for FY21.

Bell Potter remains upbeat and sees the valuation as attractive. Bell Potter did decreased its price target by -29% to $1.00, but as this remains at a significant premium to the share price, the rating remains Buy.

UBS too remains optimistic. UBS sees a consolidation opportunity within the Australian panel repair market and with AMA shares trading on a FY21 PE of 7.7x (pre-AASB), “*we think a substantial re-rating opportunity exists if AMA can successfully deliver on guidance and renegotiate pricing to cover the higher cost of parts.*”

UBS maintains its Buy recommendation, having reduced its price target to $1.20 from $1.30, though it does still sees earnings risk depending on how negotiations go with the major insurers.

TREASURE CHEST

Treasure Chest: Viva Energy REIT In Play?

Speculative interest in Viva Energy REIT has increased and brokers assess the earnings outlook remains particularly attractive.

-Attractive long lease duration and fixed rental growth
-Tenant concentration risks are high
-Charter Hall companies enter the ring

By Eva Brocklehurst

Service station owner Viva Energy REIT ((VVR)) is expected to appeal to income investors in an increasingly volatile market, and speculative interest has ramped up with the exit of a major shareholder.

The company, for 2020, has guided to distributable earnings growth of 3-3.75%. Goldman Sachs finds the earnings outlook attractive because of the long duration of the company's leases and the fixed rental growth.

There are also opportunities for acquisitions. Viva Energy REIT acquired 15 assets in 2019, for $95m, and for 2020 there is a target of $100m, of which $20m has already been outlaid. Ord Minnett assumes $60m in acquisitions per annum in 2021-23 and calculates above-average growth in earnings per share of 5% over the

next three years.

There is also minimal capital expenditure on maintenance required, because of the weighting to triple net lease structures (where tenants pay R/E taxes, insurance and maintenance costs), a major reason why Ord Minnett likes the stock, along with the fixed rental growth.

Goldman Sachs expects a compound earnings growth rate of 3.9% over the next three years, which should drive cash flow. The broker, not one of the seven stockbrokers monitored daily on the FNArena database has a $2.92 target and upgrades to Buy from Neutral.

The portfolio is now valued at $2.65bn across 469 service stations and the weighted average lease expiry is more than 11 years. Moelis, also not one of the seven, has a Hold rating and target price of $2.83, which equates to a 5% implied capitalisation rate (the ratio of income to the asset value) on the portfolio.

The broker was surprised that there was only three basis points of capitalisation rate compression on the back of one third of the portfolio being independently revalued. This implies that valuers are yet to factor in the 7-Eleven portfolio trade and the BP portfolio sale, both of which occurred late in 2019.

Recent transactions surrounding service stations should be supportive, Goldman Sachs points out, as this is a highly fragmented market. There are around 7500 across Australia, with the company owning just 6% or thereabouts.

The broker also assesses the sensitivity to movements in the 10-year Australian government bond yield has become less pronounced. Despite any prospect of the security moving about because of bond rates, Morgans highlights the attractive distribution yield of 5.2%, paid half yearly.

Risks

The company does have tenant concentration risks as it derives revenue largely from one tenant, that being Viva Energy Group ((VEA)). The latter is exposed to volatility in oil prices, refining margins and economic cycles. Any decline in profitability could affect the stability of rental income.

Adding further complexity, VEA sold its 35.5% interest in Viva Energy REIT recently. This means Viva Energy REIT will need to seek approval from its lenders that the repayment of debt facilities will not be called, although Morgan Stanley notes the Baa1 credit rating provides options in the bank and non-bank markets.

The broker has also pointed out **no announcement has been made on management rights for the service stations, which currently reside with VEA**. The sale of the VEA stake, of which 10% went to Charter Hall ((CHC)) related companies, Moelis contends, puts Viva Energy REIT in play as a likely target.

Brokers suspect Charter Hall et al are unlikely to remain passive investors. Ord Minnett notes these businesses have been very active in the asset class, having acquired $1.7bn in BP service stations.

FNArena's database has two Hold ratings and one Sell (Morgan Stanley). The consensus target is $2.72, signalling -0.2% downside to the last share price. The dividend yield on FY20 and FY21 forecasts is 5.5% and 5.8% respectively.

TREASURE CHEST

Treasure Chest: GPT May Be Under Appreciated

Has too much focus been placed on GPT's retail property portfolio when the industrial division weighting is increasing?

-Industrial/logistics to be a driver of medium-term earnings growth
-Will investors increasingly turn to those A-REITs with hard asset?s
-GPT well-positioned for any downturn in real asset values

By Eva Brocklehurst

Is property stock GPT ((GPT)) under appreciated? Goldman Sachs suggests this may be increasingly the case amidst the volatility caused by an environment of macro uncertainty. GPT has many established assets and may have been sidelined in favour of those that have greater leverage to the asset pricing cycle.

Credit Suisse is also inclined to believe too much focus may be placed on the retail portfolio and not enough on the commercial development, although suggests the stock is fairly valued. The re-weighting towards 20% industrial exposure is on track and the broker believes the development pipeline will be a driver of medium-term earnings growth.

While agreeing the market could be under appreciating the company's industrial/logistics segment and this will be a driver of growth, Morgan Stanley believes retail will remain a drag on the business in 2020 and Macquarie too, points out retail free cash flow was negative in the 2019 results.

The exposure to retail assets, 43% as of December 2019, could have affected investor sentiment, Goldman Sachs acknowledges, but assesses the stock has underperformed the sector over the last 12 months and all concerns are effectively priced in.

At the results, the company's development pipeline revealed $662m in office/logistics projects that are underway, helping to reduce the weighting to retail. GPT has strong growth in the office segment and strong occupancy in industrial provides a tailwind.

Yet, while reflecting on this point, Citi has highlighted **weaker leasing conditions in retail are likely**, and in offshore markets retail portfolios have persistently surprised to the downside.

Goldman Sachs' numbers show GPT offers a 12-month total return of 9% versus an average of 1% for the A-REITs (Australian Real Estate Investment Trusts) under coverage. The stock is currently trading on an FY21 free funds from operations (FFO) multiple of 16.3x which compares with the broker's A-REIT coverage average of 17.3x.

Hence, the rating is upgraded to Buy with a target of $5.97. Goldman Sachs, not one of the seven stockbrokers monitored daily on the FNArena database, also finds there is little risk to distribution guidance for FY20, which implies a distribution yield of 4.7%.

Changing Tack?

Goldman Sachs expects the focus of investors will increasingly shift to the distinctions between A-REITs and to those such as GPT, where the underlying value of the real estate asset provides an anchor compared with those that are lighter on assets and higher on real estate funds management.

Moreover, there are some GPT assets that have a potential for change of use. One of these is a significant landholding adjacent to the Rouse Hill town centre (NSW). GPT is currently seeking approval for 2000 apartments and a 20,000 square metre commercial development.

Recent transactions and commentary from the A-REITs during reporting season suggests further upward moves in Australian commercial real estate values are expected and **it remains too early to tell whether the recent retracement in equity market valuation will affect the pricing of real assets**, Goldman Sachs points out.

Although a further step down in bond yields would provide an element of valuation support, this has been accompanied by a widening of credit spreads. This indicates an upward re-pricing of risk.

Regardless, if there is ultimately a decline in commercial real estate values Goldman Sachs believes GPT is well-positioned for such an environment. Gearing is below the company's target range of 25-35% at 22.1%. Moreover, the exposure to asset values is low.

FNArena's database has five Hold ratings and one Sell (Morgan Stanley) for GPT. The consensus target is $6.21, suggesting 4.5% upside to the last share price. The dividend yield on FY20 and FY20 forecasts is 4.6% and 4.8% respectively.

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RUDI'S VIEWS

Lose The Losers, Back The Winners

Dear time-poor reader: irrational herd behaviour is dominating the share market. Below is the best strategy to deal with it (late 2018 revisited)

Lose The Losers, Back The Winners

By Rudi Filapek-Vandyck, Editor FNArena

Right now, the main thing to fear is fear itself.

Those among you who have a knack for history will recognise the implicit reference to Franklin D Roosevelt's first inauguration speech as the 32nd President of the United States, delivered on Saturday March 4, 1933. There was no facebook at the time, and no twitter, but otherwise the basic ingredients remain the same.

For financial markets, the question has quickly shifted from "should we be worried about this?" to "How long should we worry, and how many bad things might happen in the meantime?"

Never before has the ASX200 fallen from its all-time record high in a comparable magnitude in such a short time. We all collectively blinked and -10% had gone with the wind, and that's just the market average. Some stocks are down -30-40% in a flash.

At face value, this is all about a virus for which we don't have a cure and containing it from spreading into more countries seems almost wishful thinking. But if we pause and look at the facts and details for a few moments, we might realise we are talking about something that is a little stronger than the seasonal flu, does not attack small children and has a low mortality rate, even among the most vulnerable; elderly with a pre-existing condition.

But you wouldn't know it by reading media stories about shoppers hoarding non-perishable essentials as if WW III is but a few weeks away. On Friday, an Italian waiter in close contact with his family back home informed me people in the streets of Italy are physically attacking others of Chinese appearance. This includes Italians from Chinese origin who've never visited China.

Investment experts like to point at computer programmed algorithms or the rapidly increased market share of passive instruments like ETFs when share markets go through rapid turmoil like we are experiencing, but I tend to simply think "humans". This is what we do best. We cannot see any danger for downside near the peak, and we cannot help but feel that the world is about to end when share prices keep falling.

It is upsetting. Too much to bear for most.

Another anecdote from the week past: someone jumps in an Uber and is asked by the driver if it's ok to park the car briefly near the side of the road. The explanation? Share markets are falling. Need to sell my shares.

Because of all the biases, it is difficult to get a good grip on what is happening and what should be our most appropriate response. To those who had been complaining (in some cases for years) about how expensive asset values had become, this is the Day of Reckoning. I've already noticed some have started talking next bear market.

Others are proud they are sitting 100% in cash.

There is also a large group who likes to point out the current cycle has a lot more left, still, and thus cheaper shares are offering better opportunities to get on board.

I have been surprised by how quickly the mood darkened and self-perpetuated into a downward spiral. Now economists are talking coordinated stimulus from the world's central bankers. On Monday, National Australia Bank revised its forecasts to two RBA rate cuts in response to the coronavirus-inspired turmoil.

One cut on Tuesday and again in April will take the official cash rate to the central bank's self-imposed floor of 0.25%. The next step will include Quantitative Easing (QE); pumping liquidity in the system though additional credit for banks, and through buying of bonds, corporate credit, and mortgage-backed securities. Economists at UBS already reported recent movements in Australian bonds are implicitly suggesting QE is coming.

To think that long term US bond yields sank to new all-time lows last week, while three-quarters of the commentariat, globally, was calling for an end to the bond bull market three years ago is, simply put, astonishing. If ever anyone wanted evidence that financial market forecasters are no better than the worst weather expert, simply look up bonds, yields, and forecasts. Make sure you have lots of nibbles and alcohol in the fridge.

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My own view is that it is too early to start preparing for the next bear market. As such I believe the broad, indiscriminate share market selling behind the global headlines is offering level-headed investors a great opportunity to re-calibrate their portfolios. For those who like to jump on and off targeted equities, the focus will most likely shift towards stocks that have been absolutely trashed, as these will -at some point- offer the highest recovery potential.

But for those who like to think of themselves as an investor with a long-term horizon, the best opportunities are unlikely to be among the heaviest falls. On the contrary, the best opportunities might be in stocks that offer less risk and robust, higher quality growth, that possibly have fallen less than others. Stocks you always wanted to own, but never offered a genuine pull-back opportunity.

This now is your chance to strengthen and de-risk the portfolio.

Back in October 2018 I wrote a story titled "Out With The Garbage", which essentially outlined the same strategy. If one is not carrying enough cash to jump on newly created opportunities, the logical step is to sell out of misfits, disappointments, and everything that hasn't lived up to expectations. I would even argue, you do this anyway, irrespective of what is available in cash.

You'll thank yourself for it in a while from now.

Here is a direct link to the story from October 2018:
https://www.fnarena.com/index.php/2018/10/17/out-with-the-garbage/

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For Australian investors, the timing of this sell-off could have hardly been more beneficial. Most listed companies released financial reports in February and their share prices sold down regardless. This now offers the unique opportunity to buy into strong and healthy performers whose share price would otherwise have risen a lot higher.

For good measure: the February reporting season was not a good one. On FNArena's preliminary assessment, some 30% of reporters beat expectations versus 26% disappointing, which at face value is not out of whack with most seasons from the past, but underneath the bonnet, hiding in the finer details, there is a lot of bad news on top of disappointing trends to consider.

For example, contrary to some of the more positive expectations pre-February, EPS forecasts on average have taken yet another step down, to circa 2% growth. With covid-19 weighing on corporate outlooks, it's probable that by August there won't be any average growth left for the ASX200. That'll be the second year in succession. Dividends on average disappointed in February, and for once large resources companies were part of the general disappointment.

For the first time FNArena has split its assessment for the ASX50, the top200 and all of the 300-plus reporters under coverage. Now consider that for the ASX50, total "misses" outnumbered "beats" 14 against 11. For the ASX200 the outcome was not different: 47 misses against 43 beats.

On Monday, analysts at Goldman Sachs labeled February "the weakest earnings season since the GFC, with further downgrades to come". Before February, Goldman Sachs had declared August last year the weakest post-GFC. Corporate Australia is not in good nick.

The key question investors have to consider is whether it is better to stick with companies that showed weakness and disappointment in February, in the hope they might get it right by August, or whether it is time to increase the overall quality level, with reduced risk?

You already know my answer to that question. The FNArena-Vested Equities All-Weather Model Portfolio in February waved goodbye to Link Administration ((LNK)) and Nearmap ((NEA)) and instead we added Pro Medicus ((PME)) while topping up on stocks we like to own more of, including Altium ((ALU)), Atlas Arteria ((ALX)), Goodman Group ((GMG)), Macquarie Group ((MQG)), ResMed ((RMD)) and Xero ((XRO)).

We will continue to monitor further developments, and make adjustments accordingly.

In the meantime, there are a few particular groups of stocks investors might want to focus on post February; those who are simply better-than-the-rest and those who might be staging a successful come-back. I'll write a proper reporting season assessment by early next week, but scanning through 300-plus corporate assessments from February has generated the following three baskets of stocks:

Basket: **Simply Better-Than-Most**
Companies whose history of performances makes one jealous, but only if they are not in your portfolio. High quality, robust performers with a long history include a2 Milk ((A2M)), Accent Group ((AX1)), Breville Group ((BRG)), Charter Hall ((CHC)), CSL ((CSL)), IDP Education ((IEL)), JB Hi-Fi ((JBH)), Goodman Group, and ResMed.

Basket: **Tomorrow Is Looking Better**
Companies whose performances in February have fueled expectations for better times ahead, including Cleanaway Waste Management ((CWY)), Freedom Foods ((FNP)), InfoMedia ((IFM)), Integral Diagnostics ((IDX)), James Hardie ((JHX)), Nick Scali ((NCK)), Pinnacle Investment ((PNI)), and Super Retail ((SUL)).

Basket: **Tomorrow's Future With Less Risk**
The February reporting season has marked the end of the easy trend for technology stocks that offer the promise of new innovative business models and old economy disruption. Companies that are increasingly distinguishing themselves in a positive manner include Afterpay ((APT)), Altium, Appen ((APX)), Bravura Solutions ((BVS)), Data#3 ((DTL)), and NextDC ((NXT)).

Other companies that stood out in their own specific way: Adairs ((ADH)), AUB Group ((AUB)), Austal ((ASB)), Australian Finance Group ((AFG)), City Chic ((CCX)), CommBank ((CBA)), Fineos Corp ((FCL)), Magellan Financial Group ((MFG)), and People Infrastructure ((PPE)).

No doubt, there is more to be learned from the past four weeks of corporate reporting, which is why the FNArena Corporate Results Monitor can be quite the valuable asset:
https://www.fnarena.com/index.php/reporting_season/

(This story was written on Monday 3rd March, 2020. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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

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