Week

16

Stories To Read From FNArena

Thursday, 18 April 2019

FNArena
Financial News, Data & Analysis

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Carrapateena Still Key To OZ Minerals

Despite weak production outcomes in the March quarter, Carrapateena is expected to provide OZ Minerals with a positive catalyst when production starts later in the year.

-Gold credits support production at Prominent Hill in March quarter -Carrapateena remains the key positive catalyst -Antas considered problematic because of low grades

By Eva Brocklehurst

Despite a humdrum production report and negative news on Antas in the March quarter, OZ Minerals ((OZL)) is still making headway. As Shaw and Partners points out, there are myriad growth options the company has developed over the past four years, after being considered a "one-trick pony".

Moreover, the established asset, Prominent Hill, has also overcome challenges to extend mine life, substantially. Production at Prominent Hill was significantly below guidance in the March quarter, as mining rates were affected by equipment availability. Copper grades were ahead of most expectations, at 1.92%. Copper production was 25.6% of the 2019 guidance of 95-105,000t.

Gold production was 32,900 ounces in the quarter, 13% ahead of Macquarie's forecasts. Cash costs were US$0.49/lb, supported by gold credits. Costs were better than expected and reflected elevated gold production relative to copper.

The company has warned that March quarter costs were "abnormally low" and should return to the guidance range. 2019 guidance for 115-125,000 ounces of gold was maintained.

The company spent $116m on its next development, Carrapateena, in the quarter and brokers note underground development rates have increased significantly. Contact was made with the orebody on April 11 and the project remains on track for commissioning in the December quarter.

The scoping study for the block cave will be upgraded to a pre-feasibility study, with an investment decision expected in 2021. Credit Suisse suggests the block cave could be funded internally, assuming a reduction in dividends, but this excludes any assumptions around development expenditure in Brazil or West Musgrave.

At West Musgrave, total tonnage in the quarter dropped by -15% because of the removal of oxides from the economic cut-off level. Credit Suisse is more confident in the mine, as the conversion of inferred resources has lifted the indicated part by 26%, to 141mt, and this improved definition is now 59% of the total resource. Still, the broker suggests the project is a less robust resource, subject to elevated remote area costs. A pre-feasibility study is due in the September quarter.

Antas (Brazil)

Production and costs at Antas were materially below expectations, with copper production -42% below forecasts and gold -8% below. This is the sole operating asset in the suite of Brazilian projects. Credit Suisse envisages plenty of opportunity but considers value conversion is some way off for the portfolio as a whole.

No 2019 guidance has been provided on the asset and OZ Minerals will release an updated mine plan and resource and reserve estimate for Antas in the June quarter. Ord Minnett finds Antas problematic because of lower grades. All-in sustaining costs (AISC) were a high US$2.85/lb, and a fix is required to make the asset viable, in the broker's opinion.

Macquarie reduces throughput and grade assumptions to reflect the run rate. This translates to cuts of more than -30% to copper production and a 30% increase in cash costs for the remaining life of the Antas project. The company will release an updated mine plan and resource and reserve estimate for Antas in the June quarter. Management has acknowledged that the run rate in the first quarter is the best indication for the outlook for the mine.

Macquarie has also reduced mining inventory assumptions that shorten the mine life to just over three years. While forecasts for Prominent Hill and Carrapateena are unchanged the broker makes some adjustments to incorporate additional grade dilution at Antas. Antas now accounts for less than 1% of the broker's valuation of OZ Minerals.

Ord Minnett remains attracted to OZ Minerals' exposure to long-term copper markets and the growth potential, although believes the stock is fair value. The broker awaits a pullback in the share price in order to turn more

positive.

Shaw and Partners, not one of the eight stockbrokers monitored daily on the FNArena database, maintains a Buy rating with a $13 target and Citi, while disappointed in the quarterly update, also sticks with a Buy rating. Morgan Stanley, however, continues to believe the stock is fairly valued, albeit there is growth potential.

FNArena's database shows three Buy ratings, four Hold and one Sell (Credit Suisse). The consensus target is $11.29, suggesting 6.7% upside to the last share price. Targets range from $9.50 (Credit Suisse) to $12.30 (Macquarie).

See also, OZ Minerals Greatly Expands Copper Horizons on March 7 2019.

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Strong Outlook For Iluka Despite Soft Start

The first quarter can be soft for seasonal reasons and mineral sands producer Iluka Resources has assured the market that sales remain in line with historical averages.

-Commissioning of Cataby progressing, Wimmera fines being assessed -Sluggish zircon market post Chinese New Year -Expansion work in Sierra Rutile should assist with achieving guidance

By Eva Brocklehurst

Mineral sands producer Iluka Resources ((ILU)) had a slow start to 2019 but brokers are generally comfortable guidance can be achieved. The company has pointed out the first quarter can be soft for seasonal reasons and sales remain in line with historical averages.

First quarter production was mixed overall, with a seasonally weak zircon market, a planned outage for synthetic rutile kiln maintenance and a delay in shipments affecting sales volumes.

Commissioning of the Cataby project in Western Australia is progressing and heavy mineral concentrate will be transported to Capel in April. Zircon output was higher than Macquarie expected at both Jacinth-Ambrosia and Cataby, while rutile volumes were lower at Cataby and Sierra Leone.

Cataby also produced much lower ilmenite than the broker had expected for an early ramp-up phase. With construction now complete at Cataby, the company expects total capital costs in the mid $250-275m range. The project is forecast to produce 50,000tpa of zircon, 30,000tpa of rutile and 370,000tpa of chloride ilmenite.

The company has also commenced a feasibility study on the extraction and processing of monazite-rich tailings at Eneabba (WA), a new project that Macquarie suggests offers upside risk to base case forecasts. The study is due for completion in the September quarter. Iluka Resources is also continuing to assess the Wimmera (Vic) fines project.

Shaw and Partners believes the stock is ripe with potential, given its market position, balance sheet, well-timed acquisitions and a handy iron ore royalty. The broker emphasises the mineral sands product is not commodity-based, although acknowledges a demand/price tailwind is a pre-requisite for outperformance.

Shaw and Partners is more positive on the titanium dioxide segment (pigments) relative to the zircon aspect (glazes). The broker, not one of the eight stockbrokers monitored daily on the FNArena database, retains a Buy rating with a $13 target.

Zircon

Ord Minnett points out a sluggish market post the Chinese New Year lead to weaker zircon sales figures. Still, the company has maintained 2019 guidance and signalled subdued Chinese zircon demand, as global trade issues weigh on sentiment.

UBS remains hopeful this is simply about seasonality, although warns developments bear watching. Still, inventory is low outside of China and premium zircon supply is tight. Macquarie expects the company will add or subtract volumes in order to keep prices level.

Titanium Dioxide

For the titanium dioxide market the company has noted strength in the demand for pigment, and in the first quarter was unable to satisfy customer requirements for high-grade feedstock and ilmenite. Ord Minnett suspects Iluka will make a decision about re-starting the SR1 kiln shortly, providing titanium dioxide volume to meet the increased demand.

A step up in production is required to meet guidance for the remainder of 2019 after 154,000t was produced in the March quarter. UBS notes this is especially the case for Sierra Rutile (Sierra Leone). Morgan Stanley, however, suggests production is generally in line with 50% of its first-half forecasts.

Commissioning of the second Gangama concentrator will commence in May. Coupled with an improved performance of the Lanti mining unit, this should assist with achieving guidance. Credit Suisse expects volumes will pick up in the second half at Sierra Rutile following the expansion works.

Macquarie believes the market is benefiting from supply shortages and there is emerging upside risk to second half estimates as well as price assumptions in 2020 for both rutile and synthetic rutile. Morgan Stanley also points out its channel checks, which suggest potential for higher retail prices in the second half, appear supported by the company's commentary.

The database has four Buy ratings and two Hold. The consensus target is $10.46, signalling 15.4% upside to the last share price.

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Blackmores Peps Up Its Strategy For China

Elevated inventory persisted over the March quarter amid falling sales for Blackmores, which has recognised the need to reposition its business to better cater for the Chinese market.

-Appointing a new CEO critical to gaining more certainty over the outlook for the nutritional supplements business -Recognises the need to more deeply engage the daigou -Chinese partner remains under consideration

By Eva Brocklehurst

Uncertainty and volatility is likely to prevail for Blackmores ((BKL)) over the short term as the nutritional supplements business re-jigs its strategy. The company has maintained its guidance for modest revenue growth in FY19 and a sequentially lower profit in the second half.

The company's March quarter profit was the weakest since the first quarter of 2015, as operating earnings (EBITDA) fell -35.6%. Still, the March quarter is a seasonally weak trading period, affected by Chinese New Year. Elevated inventory in the China channels exists although Australasia has improved in this regard. Volatility is expected to persist as the market adjusts to the regulatory changes in Chinese e-commerce.

Blackmores continues to invest in marketing across Australasia and China despite falling sales, which were down -13% in the March quarter. Sales were affected by deliberate de-stocking in the Australian retail channel that serves the Chinese market.

Blackmores has recognised the need to more deeply engage the daigou (Chinese shopping agents) and is changing its operating model so that more China-influenced sales are going through that segment and not Australasia.

China's new e-commerce regulations have affected the small and medium daigou trade. Credit Suisse points out the new laws have taken a permanent toll on daigou trade as many traders are leaving the industry.

The company also realises it needs to develop new products and that these must be released to the market in a timely manner. Blackmores believes it is winning market share in Australia and Morgans attributes the poor results in the March quarter to company-specific issues.

The broker suspects the company had become too bureaucratic in recent years and was slow at making decisions, while the cost base has been too high. This is now being addressed through the new business improvement plan and all promotional activity is being reviewed to make sure it targets the right consumer market.

Savings

The business improvement plan target of $60m in savings over the next three years has been reiterated, and two thirds of these savings are expected to be reinvested in brand and capability. Management expects cost savings will come from supply chain initiatives, rationalisation of warehousing and IT investment.

Citi remains a seller of the stock until there are improvements in execution in the Chinese market as well as new products. This is considered necessary to grow market share. Increased marketing is not translating to sales, in the broker's view and, while the benefits may be long-dated, there is uncertainty as to whether the investment is achieving the appropriate returns.

A Chinese partner remains under consideration, although there are concerns over IP sharing and reduced financial control, which could be a potential catalyst, in Macquarie's view. While accepting the logic behind the new strategy, the broker also envisages risks over the transition period. There is valuation support at current levels but material improvement is still required.

New CEO

Blackmores may be through the worst of the impact but Morgans finds there is still more to do to fix the business and key to this is the appointment of a new CEO.

Ord Minnett asserts the sales trajectory and margins are not representative of a business with market-leading brands and demographic tailwinds. As the approach to China is under review and a CEO is yet to be found, the broker finds it difficult to assess the near-term outlook with any conviction.

Morgan Stanley agrees the uncertainty over the CEO, inventory levels and regulation creates risks and considers the valuation rich, so an Underweight rating is maintained.

FNArena's database shows four Hold ratings and two Sell. The consensus target is $84.54, signalling -5.0% downside to the last share price. Targets range from $75 (Morgan Stanley) to $95 (Ord Minnett).

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Cochlear's New Implant Should Restore Share

Cochlear has launched its MRI-compatible implant but brokers do not expect the new product will impact revenue and market share until FY20.

-Last of three major manufacturers to offer MRI-compatible cochlear implant -Implant available in Germany and to be subsequently rolled out in other countries -New implant likely to support revenue growth in FY20

By Eva Brocklehurst

Cochlear ((COH)) is making a concerted effort to recapture market share with the launch of its new implant designed to improve compatibility with magnetic resonance imaging (MRI) scans.

The company is the last of the three major cochlear implant manufacturers to bring this implant to market and MRI-compatibility will no longer be a differentiating feature The Nucleus Profile Plus cochlear implant is designed for routine 1.5 and 3 Tesla MRI scans without the need to remove the internal magnet.

UBS points out that these implants will not resolve all the issues that occur in imaging certain parts of the brain, irrespective of manufacturer, and the internal magnet may need to be surgically removed before the recipient undergoes some MRI procedures.

Cochlear's new implant is available in Germany and other countries will follow subject to timing of regulatory approvals. Morgan Stanley points out market share loss was most notable in the US and Germany in the first half, largely on the back of the other companies being first to market with this product.

Market Share

The broker observes market share often varies on the back of product cycles. Cochlear was first to launch smart phone compatible products and received a benefit from this. Now it is the turn for Advanced Bionics, which launched its MRI-compatible implant in the US in August 2018 and its success has resulted in Cochlear losing market share in the Americas.

Advanced Bionics launched its new implant in Europe in October 2018 and quickly gained significant traction, Credit Suisse points out.

The launch of the new implant addresses Ord Minnett's concerns that Cochlear risked ceding market share as implant clinics increasingly alerted potential recipients to the importance of this functionality. The broker still expects a contraction in unit sales in the June half, with growth returning by FY20.

Nevertheless, Advanced Bionics is likely to launch a new processor with enhanced wireless connectivity in the near future and the competitive challenge is expected to continue. UBS, while expecting the launch of Cochlear's new product will stem market share losses, does not expect market share to recover substantially.

The launch in Europe should support near-term sales in the region although Ord Minnett expects the contraction in US sales to become even more pronounced. This reflects the postponing of orders ahead of the US summer launch of the new implant. Morgan Stanley agrees some short-term risk of market share loss remains in place until the unit is fully rolled out.

To meet the mid point of net profit guidance of $265-275m, Morgan Stanley assesses Cochlear needs to deliver 5% growth in the second half. The broker likes the business for the long term because of an under-penetrated market and low disruption risk, as well as higher and expanding returns on equity. However, the valuation keeps Morgan Stanley on an Equal-weight footing for now.

UBS assesses that, in order to reach the current share price, implant unit sales need to grow at a compound rate of 10% over a 10-year period. This is a high target to achieve as cochlear implantation requires certain infrastructure to support the process, such as trained surgeons and audiologists.

Deutsche Bank increases expectations for revenue from FY20 onwards to reflect the launch of the new implant but continues to rate the stock a Sell because a weak FY19 result is likely, and the stock is expensive relative to the growth outlook, with a negative shareholder return implied by forecasts.

FNArena's database shows five Sell ratings, two Hold and one Buy (Citi). The consensus target is $168.30, signalling -6.3% downside to the last share price. Targets range from $151.50 (Deutsche Bank) to $198.00 (Citi).

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US Margins The Key Driver For Brambles

Sales growth for the Brambles' CHEP business reflected strong price realisation and customer expansion in the US, but the critical issue for brokers is easing cost inflation.

-Rising input costs for pallets expected to moderate -More certainty around the outlook likely to underpin valuation premium -US margins considered a key driver of the share price

By Eva Brocklehurst

Visibility on the outlook for Brambles ((BXB)) continues to clear. Sales growth in the March quarter was driven by an increase in volume and price realisation. Sales for CHEP Americas rose 6% while EMEA (Europe, Middle East, Africa) rose 8% and Asia-Pacific 4%. This was broadly consistent with growth rates achieved in the first half and reflected strong price realisation and customer expansion in the US, Canada and Latin America.

The US$2.5bn sale of IFCO is due to close at the end of FY19 and the company is planning to return up to US$1.95bn to shareholders through a special dividend and on-market buyback.

Brambles has simplified its business to just CHEP pallets, which is defensive and expected to perform well in challenging macro economic conditions. Structural challenges have been superseded by rising input costs but now these are moderating and UBS expects above-trend growth over the next three years.

Nevertheless, Citi urges vigilance regarding further downside to volume growth, as inflation headwinds recede and competitive tension returns. The broker is taking the progress on installations as a critical sign of management's confidence in the automation program, in order to deliver the savings that have been projected from FY20.

Citi expects Brambles can capture 80% of the benefits from automation, given the rational industry structure and the benefit that will be shared with customers.

Cost Inflation

Citi envisages catalysts over the next 12 months are moderating cost inflation in US pallets and the completion of the IFCO transaction. There is more certainty around the key drivers of the stock, including the share buyback and special dividend. As a result, the broker believes the market is likely to ascribe a valuation premium to Brambles above its historical average of around 20% relative to the ASX 200 ex-resources.

Through the combination of lower cost inflation, automation of the US pallets business and procurement savings, Citi anticipates around 200 basis points of margin uplift for earnings (EBIT) out to FY22. The broker assesses the market is yet to fully factor in the savings, despite the visibility on the outlook improving. On the other hand, the trading update was largely in line and Morgans continues to believe the stock is fully valued.

Spot transport and lumber costs are declining after being up more than 35% in the middle of 2018 and UBS now suspects the peak of cost inflation has passed and there should be a material positive upswing for earnings in FY20.

Margins

UBS has analysis that shows 84% of respondents rate the company's US margin as one of the most important drivers of the share price. Underpinning this, industry data shows pallet rental prices are rising around 10% and new whitewood pallet prices are currently up 14%.

The broker forecasts an earnings margin of 19% by FY22. Deutsche Bank disagrees with this assessment and continues to believe there is a risk that margins ease back in FY20, amid currency headwinds.

Near-term the margin accretion from automation is likely to be modest, at just around 18 basis points in FY19 but Citi then expects this run rate to rise considerably as the savings start to flow. However, the recovery in margins in CHEP EMEA could be delayed, the broker acknowledges. Cost inflation in EMEA is still expected to moderate, consistent with the Americas, but the rate of recovery is likely to be more subdued.

FNArena's database shows four Buy ratings and four Hold. The consensus target is $12.17, suggesting 1.4% upside to the last share price. This compares with $11.76 ahead of the update.

See also, Brambles Treats Shareholders With IFCO Sale on February 26, 2019.

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Material Matters: Energy, Thermal Coal & Gold

A glance through the latest expert views and predictions about commodities. Energy; thermal coal; and Oz gold miners.

-2019 oil prices seen underpinned by falling production and supply cuts -Spot LNG prices hovering at levels sufficient for Japanese utilities to switch out of coal -Emerging surplus risks in thermal coal -Macquarie observes some underperformance emerging in individual gold stocks

By Eva Brocklehurst

Energy

Macquarie has upgraded its forecasts for 2019 oil prices, noting just as oil prices rally, LNG prices ease. The broker's forecasts for Brent have been lifted to US$67/bbl for 2019 on the basis that OPEC cuts are likely to be renewed, and there will be indefinite sanctions maintained against Iran and Venezuela.

Commonwealth Bank analysts envisage Brent oil finishing 2019 at US$70/bbl. While falling production in Venezuela and Iran have added to the tightness in markets both countries, along with Nigeria, were exempt from the OPEC-led supply cuts because oil production appeared well below normal levels.

Last minute waivers were issued to eight countries that import oil from Iran to avoid a spike in the price of oil and this has prevented Iran's oil exports dropping to zero. However, parts of the US government, the analysts note, are pushing for Iran's oil exports to reach zero, and this poses even more downside risk to supply and upside to prices.

Macquarie agrees there is potential downside to supply forecasts, which could further boost prices. However, the broker is increasingly bearish on Brent through 2021 and expects structural global oversupply is more likely to push prices back towards US$60/bbl, versus the consensus estimate of US$70/bbl.

Credit Suisse raises its Brent forecasts to US$66.50/bbl for 2019, also noting Saudi Arabian production cuts are steeper than previously expected and there is a decline in Venezuelan production that has eroded the large surplus in the December quarter. Credit Suisse maintains Brent forecast of US$67/bbl for 2020 and US$70/bbl for 2021.

Ord Minnett believes the oil sector is now becoming fully valued. The broker adjusts its price forecasts, lifting estimates for the June quarter to US$70/bbl, followed by US$65/bbl for the remainder of 2019 and 2020. The forecast for 2021 is unchanged at US$60/bbl.

Meanwhile, spot LNG prices are hovering around US$4/MMBtu, which Macquarie notes are sufficient for Japanese utilities to switch out of coal. Credit Suisse reduces its LNG spot estimates to US$6/MMBtu for 2019/20 and suspects 2020 will prove softer than 2019. 2020 is considered to be the year when oversupply is most likely.

The broker notes Oil Search ((OSH)) has reduced its LNG spot exposure. Previously the company was the most sensitive to spot LNG prices but now is similar to Woodside Petroleum ((WPL)).

National Australia Bank analysts envisage LNG export volumes topping out in 2019 as projects come to full operating capacity. This will mean the GDP boost that came from LNG exports will fade. The analysts expect natural gas prices for domestic use in eastern Australia will remain high by historical standards.

Thermal Coal

Commonwealth Bank analysts consider the downside risks have increased for Australian thermal coal prices, on the back of emerging surplus risks and the restrictions on Australian coal imports in China.

In the past China has implemented coal import restrictions to favour domestic producers and the analysts would default to this motive, if Chinese customs clearance times have increased for all oil cargo. However, it appears that Australian cargo is specifically taking longer to clear customs so the motives are more likely to be political.

The analysts also point out any official stance would breach China's free trade agreement with Australia, so it is in the best interests of China to keep any restrictions on Australian coal imports is unofficial as possible. Spot prices may be at the lowest level since July 2017 but the analysts have not yet downgraded forecasts.

Liquidity in the spot market appears to be the main issue, exacerbating emerging surpluses in seaborne thermal coal markets. These concerns reflect rising US and Russian exports in the Asian basin as well as weak Japanese demand.

Thermal coal prices have recently plumbed US$70/t and Credit Suisse believes the main driver is competition from the spot LNG prices, which competes with the coal price. Demand for coal has softened, particularly in Europe where coal to gas switching has been prevalent.

However, the broker believes there is a reasonable case for the Newcastle price to recover. As May thermal coal shipments were sold down to US$70/t July shipments were trading at US$80-82/t. Still, recovery can only be sustained if it occurs in both Newcastle and the Atlantic, Credit Suisse asserts.

National Australia Bank analysts revise down forecasts for thermal coal to US$88/t in 2019 and believe a prolonged trade disruption in China provides downside risk to this forecast.

Oz Gold Miners

Macquarie observes Australian gold producers have been priced for perfection for some time. The outperformance in FY18 has been replaced with individual underperformance in FY19, the broker observes, and quarterly production reports will present potential catalysts.

The most recent examples of underperformance the broker cites are downgrades to production from St Barbara ((SBM)) and Dacian Gold ((DCN)). Regis Resources ((RRL)), Saracen Minerals ((SAR)) and Northern Star ((NST)) have all suffered sell-offs from various missteps post the earnings season.

Macquarie reduces its expectations for Northern Star's Kalgoorlie and Pogo grades and moderates second half production forecasts as a result. Given the ongoing strength of the Australian dollar gold price the broker expects Northern Star to opportunistically take lower grade ore, as was the case in the December quarter. Saracen Minerals recently upgraded FY19 guidance and the ramping up of Whirling Dervish is a key component.

All up, the broker suspects there is some risk in its forecasts for Northern Star and expects flat results from Newcrest Mining ((NCM)), Evolution Mining ((EVN)) and Regis Resources.

There is possible upside for Saracen Minerals, Aurelia Metals ((AMI)) and Alacer Gold ((AQG)). In some instances, the broker notes, the market is still willing to pay a premium. In this case Newcrest Mining and Evolution Mining have maintained valuation multiples.

Broadly, Macquarie considers the sector is on track to meet both production and cost guidance although upward pressures on costs are appearing. The broker believes grades at Cadia could provide upside for Newcrest. The weather is likely to have had some impact on Evolution Mining's Queensland operation, although full year guidance was unchanged post severe weather in February.

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Material Matters: Services, Gas & Iron Ore

A glance through the latest expert views and predictions about commodities. Mining services; gas; iron ore; and lithium.

-Major mining/infrastructure contractors may face capacity constraints -Potential for LNG supply shortages beyond 2024 -Iron ore price edges closer to US$100/t, likely to more than offset volume losses -Increasing pressure on lithium producers to lower prices and improved product

By Eva Brocklehurst

Mining Services

Deutsche Bank acknowledges underestimating the extent of the competitive response from miners in addressing the risk of cost inflation. Iron ore replacement expenditure is providing many opportunities for tier-1 construction-related civil contractors.

Yet, it appears miners are attempting to address cost inflation by reducing the size and complexity of the contracts they offer, in order to attract smaller operators. Value remains most important consideration and the implication is that contractor margins will be kept in check.

One thing that is also evident to the broker is that there are far fewer tier-1 contractors available in Western Australia today compared with the 2012/13 boom. Moreover, the amount of work also emanating from transport infrastructure on the east coast enables tier-1 contractors to be selective, which could mean more certainty for order books and margins through better execution.

In FY20, work done on transport infrastructure is estimated to increase to around $17bn and to $22bn in FY21. Deutsche Bank suspects tier-1 contractors such as CIMIC ((CIM)), Monadelphous ((MND)) and NRW Holdings ((NWH)) may face capacity constraints. The broker expects short-term positive news flow from these three operators.

The broker has Buy ratings on Ausdrill ((ASL)), Imdex ((IMD)) and Seven Group ((SVW)). The latter provides good exposure to mining capital expenditure and infrastructure without execution risk, Deutsche Bank believes.

Gas

The Australian energy market regulator (AEMO), has downgraded its gas supply forecasts after input from producers. 2P reserves have also been downgraded by -6%. The regulator envisages potential further shortages from 2024 under a neutral scenario and, for the first time, has identified underperformance with CSG is a risk to the market.

Canaccord Genuity believes it is time to review the state of the market as spot LNG prices have weakened materially and are nearing multi-year lows in Asia. This has not affected Australian pricing to date but has impacted investor sentiment.

As LNG plants under construction are down -53% from their peak in 2015, the broker is not surprised that the market is expected to tighten in the early 2020s and that Asian buyers are locking in medium-term contracts.

The three LNG mega project's at Gladstone, Queensland, costing in excess of $50bn to construct, are yet to reach collective nameplate capacity. Reaching full utilisation, Canaccord Genuity asserts, remains the most value-accretive opportunity in Australian E&P.

While the sale of Ironbark to APLNG by Origin Energy ((ORG)) has reinforced the view of the value of gas to the LNG projects, the broker is wary that the ACCC is investigating the transaction. Given the potential for government to activate the domestic gas security mechanism the broker prefers volume growth over price leverage.

Iron Ore

Rio Tinto ((RIO)) has downgraded its iron ore shipment guidance for 2019 to 333-343mt, with a recovery in the June quarter still subject to weather conditions. Credit Suisse suspects the lower end of this range is still a stretch, requiring around 88mt per quarter, despite only shipping at or above this rate twice in history.

Nevertheless, less tonnage into an already-tight market is likely to mean prices more than offset the lost volumes. BHP Group ((BHP)) has also downgraded its production outlook for iron ore so the broker expects the market could become tighter.

A downgrade to iron ore production in isolation may be disappointing but for both companies the cause (weather) was out of their control. With the iron ore price edging closer to US$100/t this is expected to more than offset volume losses.

Morgan Stanley notes the iron ore price is also being supported by a recovery in steel margins and demand in China. The impact of the decline in Vale's shipment is likely to be felt in China's ports by late April and it remains uncertain when production will recover, or whether some idled domestic Chinese supply will re-start later this year to ease the deficit.

Nevertheless, Morgan Stanley does not envisage a long-run structural change to the iron ore market and retains a bearish view. The broker's long-term price estimate is US$55/t, set by the marginal cost of production.

The bearish view is underpinned by a forecast for falling steel output in China, amplified by the rising use of scrap. India is a major growth market and Morgan Stanley assumes iron ore industry growth in line with the domestic requirement. Even if all of India's additional iron ore demand were to be imported, this will total just 100mt of extra demand by 2025.

Lithium

Citi forecasts a lower-for-longer price scenario for lithium and reduces price forecasts by up to -23% over the medium term. On the back of these forecasts the broker reduces earnings estimates for Galaxy Resources ((GXY)), Orocobre ((ORE)) and Pilbara Minerals ((PLS)). The broker maintains Buy ratings on the three stocks.

The broker believes the current Galaxy Resources share price is ascribing no value to the Sal de Vida project, while potential partnerships can significantly unlock value. Pilbara Minerals is most exposed to price volatility because of its significant spodumene supply ramping up in a short period of time.

The broker is convinced that the industry is adjusting from a seller's market that has enabled producers to enjoy high sales prices and lock in prices at relatively robust levels under long-term deals. There is increasing pressure from customers to lower prices and improve product specifications. New supply coming to the market appears to have emboldened the customers of Chilean producers to seek better terms.

Demand for lithium hydroxide is also expected to overtake demand for lithium carbonate by 2023, thanks to development of high nickel, low cobalt cathode materials. The consultants the broker met suggest the market is moving increasingly to surplus but should tighten again from 2024.

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ESG Focus: Coal Showdown At The ESG Corral - Part One

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future: https://www.fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

Consensus is that it's not a matter of 'if' for coal's decline but 'when'. FNArena reviews a number of factors affecting the pace of the global transition. This is Part One.

- More than 100 major global financial institutions have divested from thermal coal - More than 78% of global asset owners are seeking to align investments with the UN's Sustainable Development Goals - Institutions are pushing banks for greater transparency on carbon exposure - The world's biggest developer of coal-fired plants is now investing in renewables

By Sarah Mills

The rate of global ESG adoption, and the growing exodus of financial institutions has accelerated sharply within the past year.

Readers who are yet to catch up with this new dynamic that is increasingly commanding investors' attention are being directed towards FNArena's dedicated website section on the theme; ESG Focus.

Direct link: https://www.fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

In January, Jeremy Grantham, co-founder of US$118bn Boston-based asset management firm Grantham, Mayo & van Otterloo (GMO), and one of Bloomberg's "50 Most Influential", declared thermal coal "dead meat".

He added the life of coking coal would only exceed that of thermal coal by a maximum of 20 years.

The exodus

In March, The Institute for Energy Economics and Financial Analysis (IEEFA) published a report on the state of play with institutions and coal.

The report points out that more than 100 major global financial institutions have divested from thermal coal, including the top 40 global banks and 20 globally significant insurers.

More than five major financial institutions divested in the first nine weeks of 2019, and in the past two weeks, five more have divested, including the first major Chinese institution: the State Development & Investment Corporation.

"Since January 2018, a bank or insurer announced their divestment from coal mining and/or coal-fired power plants every month, and a financial institution who had previously announced a divestment/exclusion policy tightened up their policy to remove loopholes, every two weeks," states the IEEFA report.

By the end of 2018, 415 global investors managing a collective US$32trn called for a complete thermal coal phase out by 2030 across the OECD. China is also committed to phasing out coal.

Lets not forget the Climate Action 100+ group

To date, more than 300 investors managing US$33trn have signed on to the initiative.

They are mobilising across dozens of countries to apply pressure on carbon emitters and support for the Financial Stability Board's Task Force on Climate-related Financial Disclosures has tripled.

According to a Morgan Stanley survey of 118 global asset owners, more than four in five asset owners are pursuing or considering ESG integration and more than two thirds had allocated funds to some form of ESG strategy.

More than 78% sought to align their investments with the UN's Sustainable Development Goals.

Evaporation of funding has major repercussions for thermal coal industry

Coal-fired energy generation is highly capital intensive in the construction phase of the project – from then on, it's primarily maintenance and administration.

To date, pension funds have financed that construction. Once starved of pension funding, and given the limited life of existing coal-fired plants, thermal coal becomes a dying market.

Its heir is most likely to be renewable energy, which is receiving the lion's share of alternative investment dollars.

"US$2 trillion a year of capital flows go into energy systems globally so without access to that capital, the transformation to renewables becomes so much faster," says IIEFA's Director of Energy Finance Studies, Australasia, Tim Buckley.

What has been particularly concerning for Australia has been the more recent pivot of Japan on coal, heralded by the exodus of Japanese institutions. Japan is Australia's largest consumer of coal.

Last May, Dai-ichi Life announced it would no longer insure coal. Sumitomo Mitsui Trust Bank will no longer insure coal-fired power plants, and on February 15, Japan's Itochu Corp announced it would no longer fund new coal-fired power plants and thermal coalmines.

Over the past two decades, Itochu has been inside the top 10 of investors in the Australian coal industry.

How is this institutional solidarity panning out in reality?

There is no doubt that financial pressure is being brought to bear upon miners. Institutions are pushing banks for greater transparency in their loan portfolios so that they can calculate each bank's exposure to carbon.

Funding sources are drying up. Yancoal ((YAL)) was forced to seek a dual listing in Hong Kong after the company was ostrasised by local fund managers. Rio Tinto ((RIO)) recently offloaded the company's coal assets to Glencore.

But just weeks ago, even Glencore, the most recalcitrant of miners, after just doubling down on coal with the Rio purchase, buckled to pressure from the Climate Action 100+ group of institutions and announced a cap on coal output.

Japan, after just announcing its commitment to build 45 new High Efficiency Low Emissions coal-fired plants in 2017, has cancelled 75% of its proposed coal-fired pipeline, according to IEEFA's Buckley.

Last September, Marubeni, the world's biggest developer of coal-fired plants announced its withdrawal. The company pledged to build no new plants and halve its ownership of existing coal-fired plants by 2030.

Marubeni is now investing in renewables – a strategy being adopted by most utilities around the world.

IEEFA's Buckley says the implications for a country as reliant on thermal coal as Australia are real: "With New South Wales' No. 1 market being Japan, some 44% of the state's total thermal coal export volumes, those expecting to export thermal coal to Japan [will] need to review their business models."

So where does this leave the miners?

"Mollification" has now become a catch-cry for the mining industry. The world's biggest mining conglomerates are aligning themselves in word, if not in spirit, with the institutions, signing joint statements on climate change and employing other investor positioning strategies.

A few years ago, institutions presented a joint statement to coal miners requesting they not lobby against climate change, and the miners consented.

However, the Minerals Council of Australia continued to lobby as a representative body, but it too was forced to modify its stance.

Its CEO, Mitch Hooke, resigned after BHP Group ((BHP)) reportedly threatened to review its membership, supposedly due to pressure from institutions on the issue. Hooke's departure has been cited as evidence of the growing influence of the global anti-coal lobby.

According to Ausbil, the number of general companies implementing climate change measures has increased in the past year – just another nail in the coal coffin.

"Several companies have now adopted the Taskforce on Climate-related Financial Disclosures (TCFD) reporting framework, which provides better transparency on the risks and opportunities from climate change. The Climate Action 100+ initiative has also grown to a major engagement initiative with significant scale and leverage," Ausbil says in a press release.

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Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday April 8 to Friday April 12, 2019 Total Upgrades: 1 Total Downgrades: 9 Net Ratings Breakdown: Buy 41.86%; Hold 43.00%; Sell 15.14%

The local share market's dilemma was once again reflected in stockbroking analysts' activity during the week ending on Friday, 12th April 2019.

For the week, FNArena registered one single upgrade in recommendation for an ASX-listed stock; Senex Energy was lifted to Neutral/Hold. On the other side of the ledger, six recommendations were pulled back to Neutral/Hold, with three downgrades pulling back to Sell.

Among the fresh Sell ratings we find energy producer Santos, regional lender Bank of Queensland -post disappointing interim result release- and housing market-exposed portal owner Domain Holdings.

FNArena's daily monitoring is limited to eight major stockbrokerages in Australia, but still, these numbers can serve as an indication as to general sentiment and considerations among investors of all kinds and sizes. Is it worth chasing short term momentum or is it safer to start taking some exposure off the table?

Unsurprisingly, given the quiet period in between the February reporting season and quarterly production reports, AGMs and a pick up in out-of-season financial reporting that is cranking up overall activity from this week onwards, the table for positive revisions to valuations/price targets only contains a few names worthy to point out.

Kathmandu, Magellan Financial and Senex Energy all enjoyed increases between 2.6% and 6.5% during the week.

Their gains were matched by noteworthy decreases only for Asaleo Care (selling off operations) and Bank of Queensland (disappointing result), again signalling how quiet overall activity is within the present context.

There is slightly more happening with earnings forecasts where Automotive Holdings, Oil Search, Santos, ResMed, Graincorp and Estia Health have all been enjoying positive revisions, but with negative implications materialising for companies including Perseus Mining, Michael Hill, Senex Energy, Bank of Queensland, and Whitehaven Coal.

Maybe the busier calendar ahead might spur analysts into a higher level of activity?

Upgrade

SENEX ENERGY LIMITED ((SXY)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 3/2/0

Ord Minnett adjusts oil price forecasts for the March quarter which leads to a lift in forecasts for the June quarter to US$70/bbl, and US$65/bbl for the remainder of 2019 and 2020.

The broker upgrades Senex Energy to Hold from Lighten based on valuation. Target is raised to $0.40 from $0.34.

Downgrade

BELLAMY'S AUSTRALIA LIMITED ((BAL)) Downgrade to Neutral from Buy by Citi .B/H/S: 0/3/0

The share price has appreciated 41% year-to-date, believe it or not, and Citi analysts counter it is time for a pause, hence why the downgrade to Neutral from Buy. The broker remains a supporter of the company and the chosen

strategy.

Irrespective, Citi analysts acknowledge concerns around potential further delays in Bellamy's SAMR registration remain (or are resurfacing, depending on one's view) while the new product formula essentially still needs to prove itself.

Target price increases 8% to $10.50 as Citi has now incorporated the new formula in its model. The analysts speculate China might be favouring local products, which increases the odds Bellamy's SAMR licensing is facing further delays.

BANK OF QUEENSLAND LIMITED ((BOQ)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 0/4/3

A difficult first half has led Bank of Queensland to reduce its interim dividend to $0.34 per share, representing a pay-out ratio of 82%. Ord Minnett envisages scope for the dividend to be cut again as, without this, the pay-out ratio would climb into the high 80% range, which appears unsustainable.

The broker still believes the stock is expensive versus peers, despite the decline in the share price. Target is lowered to $8.50 from $9.45 and the rating is downgraded to Lighten from Hold. While the major banks are not immune to revenue headwinds, greater diversification suggests they are better able to absorb the regulatory costs.

BEACH ENERGY LIMITED ((BPT)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/3/0

Credit Suisse models no near-term earnings impact from lower LNG spot prices but increases the target to $2.02 from $1.91 after upgrading its 2019 oil price forecasts and assigning some value for production upside.

Rating is downgraded to Neutral from Outperform as the broker considers the run-up in the share price now more fully reflects the value. The broker likes the company's exposure to the east coast gas market and the growth potential.

BLUESCOPE STEEL LIMITED ((BSL)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 4/3/0

The recovery in steel prices at the beginning of 2019 has stalled, Morgan Stanley observes. The broker still envisages steel prices will support strong earnings and cash flow but in the short term are unlikely to trend higher.

The broker adjusts estimates for earnings (EBIT) across FY19 and FY20, raising by 3.4% and downgrading by -7.1% respectively. One event that may provide a positive catalyst is a formal announcement of a North Star expansion. The broker considers this highly likely to proceed as the returns are potentially attractive.

Rating is downgraded to Equal-weight from Overweight, and Morgan Stanley would look for steel price momentum to re-start before becoming a buyer again. Target is reduced to $17 from $18. Industry view: Cautious.

CSR LIMITED ((CSR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/4/2

Macquarie notes the US market is experiencing incremental improvement and low single-digit growth is considered the most likely outcome for housing starts in 2019. Home builders remain cautiously optimistic entering the spring selling season.

Meanwhile, Australian housing starts are estimated to fall to around 150,000 in 2020. The broker downgrades CSR to Neutral from Outperform as the rally in the stock has rebalanced the risk/reward. Target is $3.45.

DOMAIN HOLDINGS AUSTRALIA LIMITED ((DHG)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 2/4/1

Macquarie downgrades Domain to Underperform from Neutral. This follows the recent rally in the stock. The target is $2.70.

The broker notes properties are taking longer to sell on average and the combination of school holidays, a late Easter and then Anzac Day will mean activity in April is likely to be very subdued. Beyond this, the broker finds the market difficult to call.

The main focus going forward will be execution in Victoria, in the broker's view, and the company's ability to leverage the broader platform of Nine Entertainment ((NEC)).

MAGELLAN FINANCIAL GROUP LIMITED ((MFG)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/6/0

Citi has downgraded Magellan Financial to Neutral from Buy following a strong share price performance, fueling the view it's time for a breather and the risk-reward proposition has become "less compelling".

Marking to market and accounting for stronger fund inflows has further pushed up earnings estimates. Target price lifts to $39.80 from $35.30.

Citi suggests Magellan Financial needs to add additional growth for further outperformance, but current optionalities require more time.

OIL SEARCH LIMITED ((OSH)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 3/4/1

Ord Minnett adjusts oil price forecasts for the March quarter which leads to a lift in forecasts for the June quarter to US$70/bbl, and US$65/bbl for the remainder of 2019 and 2020.

Based on valuation the broker downgrades its recommendation on Oil Search to Hold from Buy and raises the target to $8.65 from $8.60. The broker suggests the sector is now becoming fully valued.

SANTOS LIMITED ((STO)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 3/4/1

Credit Suisse upgrades 2019 oil price forecasts, partly offset by lower LNG spot prices, and increases the target to $6.40 from $6.28.

The broker downgrades to Underperform from Neutral because of the difficulty getting the valuation to match the current share price under global oil price assumptions.

Credit Suisse has not changed its view on the fundamentals of the company's business and the scope for growth.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 SENEX ENERGY LIMITED Neutral Sell Ord Minnett Downgrade 2 BANK OF QUEENSLAND LIMITED Sell Neutral Ord Minnett 3 BEACH ENERGY LIMITED Neutral Buy Credit Suisse 4 BELLAMY'S AUSTRALIA LIMITED Neutral Buy Citi 5 BLUESCOPE STEEL LIMITED Neutral Buy Morgan Stanley 6 CSR LIMITED Neutral Buy Macquarie 7 DOMAIN HOLDINGS AUSTRALIA LIMITED Sell Neutral Macquarie 8 MAGELLAN FINANCIAL GROUP LIMITED Neutral Buy Citi 9 OIL SEARCH LIMITED Neutral Buy Ord Minnett 10 SANTOS LIMITED Sell Neutral Credit Suisse Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SXY SENEX ENERGY LIMITED 60.0% 50.0% 10.0% 5 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 AHY ASALEO CARE LIMITED 67.0% 100.0% -33.0% 3 2 BPT BEACH ENERGY LIMITED 40.0% 60.0% -20.0% 5 3 KMD KATHMANDU HOLDINGS LIMITED 33.0% 50.0% -17.0% 3 4 MFG MAGELLAN FINANCIAL GROUP LIMITED 14.0% 29.0% -15.0% 7 5 BSL BLUESCOPE STEEL LIMITED 50.0% 64.0% -14.0% 7 6 DHG DOMAIN HOLDINGS AUSTRALIA LIMITED 7.0% 21.0% -14.0% 7 7 OSH OIL SEARCH LIMITED 25.0% 38.0% -13.0% 8 8 STO SANTOS LIMITED 25.0% 38.0% -13.0% 8 9 CPU COMPUTERSHARE LIMITED -31.0% -19.0% -12.0% 8 10 BOQ BANK OF QUEENSLAND LIMITED -44.0% -38.0% -6.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 KMD KATHMANDU HOLDINGS LIMITED 2.450 2.300 6.52% 3 2 MFG MAGELLAN FINANCIAL GROUP LIMITED 34.734 33.413 3.95% 7 3 SXY SENEX ENERGY LIMITED 0.466 0.454 2.64% 5 4 BPT BEACH ENERGY LIMITED 2.038 2.006 1.60% 5 5 DHG DOMAIN HOLDINGS AUSTRALIA LIMITED 2.736 2.721 0.55% 7 6 OSH OIL SEARCH LIMITED 8.614 8.595 0.22% 8 7 STO SANTOS LIMITED 6.953 6.938 0.22% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 AHY ASALEO CARE LIMITED 1.047 1.150 -8.96% 3 2 BOQ BANK OF QUEENSLAND LIMITED 8.794 9.193 -4.34% 8 3 CPU COMPUTERSHARE LIMITED 17.914 18.226 -1.71% 8 4 BSL BLUESCOPE STEEL LIMITED 15.786 15.929 -0.90% 7 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 AHG AUTOMOTIVE HOLDINGS GROUP LIMITED 15.545 3.045 410.51% 7 2 OSH OIL SEARCH LIMITED 44.708 39.489 13.22% 8 3 STO SANTOS LIMITED 54.955 49.102 11.92% 8 4 RMD RESMED INC 51.274 48.383 5.98% 8 5 GNC GRAINCORP LIMITED 6.285 6.010 4.58% 4 6 EHE ESTIA HEALTH LIMITED 16.900 16.275 3.84% 4 7 AHY ASALEO CARE LIMITED 5.967 5.800 2.88% 3 8 DMP DOMINO'S PIZZA ENTERPRISES LIMITED 169.086 165.529 2.15% 8 9 EVN EVOLUTION MINING LIMITED 13.293 13.036 1.97% 8 10 KMD KATHMANDU HOLDINGS LIMITED 20.913 20.633 1.36% 3 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 PRU PERSEUS MINING LIMITED -0.163 -0.130 -25.38% 3 2 MHJ MICHAEL HILL INTERNATIONAL LIMITED 6.000 6.367 -5.76% 4 3 SXY SENEX ENERGY LIMITED 1.180 1.240 -4.84% 5 4 BOQ BANK OF QUEENSLAND LIMITED 79.071 82.457 -4.11% 8 5 WHC WHITEHAVEN COAL LIMITED 58.496 60.370 -3.10% 8 6 APE AP EAGERS LIMITED 48.445 49.695 -2.52% 4 7 MIN MINERAL RESOURCES LIMITED 96.933 98.933 -2.02% 3 8 JHX JAMES HARDIE INDUSTRIES N.V. 93.160 94.408 -1.32% 7 9 SKI SPARK INFRASTRUCTURE GROUP 6.624 6.684 -0.90% 7 10 DHG DOMAIN HOLDINGS AUSTRALIA LIMITED 7.399 7.441 -0.56% 7 Technical limitations

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

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Uranium Week: And The Winner Is...

The US Commerce Department's section 232 recommendations regarding uranium imports have finally been submitted to the White House.

-The recommendations are in but the wait continues -Yellow Cake buys more uranium -Honeymoon just beginning

By Greg Peel

The US Department of Commerce has completed its investigation into uranium imports under section 232, regarding "national security", and has submitted its recommendations to the White House.

Hooray!

The recommendations remain confidential.

Oh.

The president has 90 days to respond.

A spokesman for the original petitioners – two US uranium producers – told Reuters "We believe that President Trump will recognize the danger of relying on large and increasing levels uranium imports from Russia, China and our geopolitical rivals".

A spokesman for a group of US utilities told Reuters "The geopolitical issues they raised have been more than adequately debunked. The petition would create a mandated market to make profits for two companies".

Game on.

Have your cake

While uranium market participants pondered yet another three months of waiting for an answer, London-based investment vehicle Yellow Cake is undeterred. The Alternative Investment Market-listed firm has successfully placed 12m new shares, raising approximately US$30m.

The funds will be used to take up an option to buy at least a further 1mlbs U3O8 under Yellow Cake's arrangement with Kazakhstan's formerly fully state-owned, now partially listed, uranium producer Kazatomprom. The purchase price has been set at US$25.88/lb.

Yellow Cake will spend around US$27m in this round, with the balance of the option to buy US$100m worth of U3O8 open to end-2019. The firm "believes that the current uranium price level represents a compelling buying opportunity," a statement suggested.

And not all utilities, both US and non-US, are sitting on their hands waiting for the 232 outcome. Several were in discussions or evaluating offers last week for significant volumes to be delivered in the near future, industry consultant TradeTech reports.

TradeTech's weekly spot price indicator has ticked up US10c to US$25.85/lb.

Term market indicators remain at US$28.00/lb (mid) and US$32.00/lb (long).

Who's the Boss?

The Australian federal government has granted permission for uranium to be exported from the Honeymoon mine in South Australia to countries which are signatories to the global Treaty on the Non-Proliferation of Nuclear Weapons. Honeymoon had been put under care & maintenance by its previous owners due to the weak uranium price.

"Renewing the export permit is a major step towards restarting production at Honeymoon," said the MD of new owner Boss Resources ((BOE)), "as uranium is Australia's most heavily regulated commodity." The company is also in discussions with utilities regarding offtake agreements.

The Australian government permits only four mines to export uranium, being Olympic Dam, Ranger (not currently mining), Beverley/Four Mile and now, once again, Honeymoon. Three of the four are in South Australia, which

permits uranium mining at the state government level. Ranger, in the Northern Territory, resides under federal law.

The states of Queensland and Western Australia forbid uranium mining under current state governments, albeit WA has exempted four projects that were granted approval under a previous government. The Queensland economy is heavily reliant on coal production, an industry which no state government of either stripe has ever been game enough to take on.

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

The Short Report

Guide:

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

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

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

Summary:

Week ending April 11, 2019

Last week saw the ASX200 hit a bottom below 6200 before chopping its way back again.

Again there was not a lot of movement in short position last week, as the table below indicates, with most moves representing slight bracket creep.

The two exceptions are Inghams Group ((ING)), the shorts in which fell to 15.4% from the prior week's table-topping 17.4%, and Bank of Queensland, which saw its shorts rise to 9.1% from 8.0%.

See below.

Weekly short positions as a percentage of market cap:

10%+ GXY 17.3 SYR 16.7 JBH 15.5 ING 15.4 NXT 14.8 NUF 14.4 BAL 12.0 MTS 11.7 ORE 11.6 BWX 10.9 SDA 10.7

No changes

9.0-9.9

IVC, SUL, IFL, DMP, PPT, HVN, MYR, PLS, BOQ

In: PLS, BOQ 8.0-8.9%

CSR, KGN, AMC, BKL, RWC

In: RWC Out: PLS, BOQ

7.0-7.9%

SGM, BIN, HUB

In: SGM Out: RWC

6.0-6.9%

BGA, AMP, MSB

Out: SGM, DHG, BEN

5.0-5.9%

WSA, BEN, CGF, DHG, KDR, RSG, COE, GMA, HT1, LNG, CGC, RIO

In: BEN, DHG, CGC Out: CAR Movers & Shakers

Poultry producer Inghams Group had been drifting lower into its earnings report in February, largely impacted by the east coast drought pushing up feed prices. The impact proved to be worse than expected when Inghams took a dive on its result.

A new CEO, appointed last year, is yet to unveil his new strategy but last week the company provided an update that saw the share price take another tumble, after having regained the ground lost in February. This despite wheat (feed) prices having fallen back and the company seeing improvement in New Zealand.

The stock has once again rebounded but a drop in shorts to 15.4% from 17.4% suggests someone took some profits.

Bank of Queensland had been creeping up the shorted charts after issuing a profit warning in February, and still managed to disappoint when it released its official result last week, which included a cut in dividend. The outlook remains bleak, analysts suggested.

In this case profits were not taken, rather shorts increased to 9.1% from 8.0%. The FNArena database shows no fans among brokers, with the regional lender attracting four Sell ratings and four Holds.

ASX20 Short Positions (%)

Code Last Week Week Before Code Last Week Week Before AMC 8.5 8.3 RIO 5.0 5.4 ANZ 1.2 1.3 S32 1.4 1.1 BHP 3.6 3.7 SCP 1.2 1.3 BXB 0.2 0.3 SUN 0.4 0.4 CBA 2.0 2.1 TCL 1.6 1.6 COL 1.8 2.1 TLS 0.6 0.6 CSL 0.4 0.4 WBC 2.1 2.1 IAG 0.4 0.4 WES 2.0 2.2 MQG 0.3 0.3 WOW 2.8 2.9 NAB 1.1 1.0 WPL 0.6 0.7 To see the full Short Report, please go to this link

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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Still Hope For Michael Hill

Despite a soft top line in the March quarter, brokers are reasonably confident that jeweller Michael Hill has enough in the kitty to meet FY19 expectations.

-Australia the only market to report an improvement sequentially in same-store sales trends -Brokers optimistic that sales momentum is improving -Further cost savings considered likely

By Eva Brocklehurst

Brokers found the latest update from jeweller Michael Hill International ((MHJ)) rather dull. March quarter sales slipped -0.8% with same-store sales down -1.5% while the company closed five stores and opened one. Citi anticipates a further six unprofitable stores in Australia are likely to be closed over FY20 and FY21.

Among the key markets, only Australia reported a sequential improvement in same-store sales trends. Both New Zealand and Canada reported a material slowing. Credit Suisse is particularly disappointed by deterioration in sales in the March quarter. Nevertheless, the stock is trading at a discount to the broader retail sector and continues to offer attractive value, in the broker's view.

Citi would like to witness consistent growth before recommending the stock, given the recent volatility in like-for-like sales and a competitive mid-range jewellery market. There is also a lack of long-term growth drivers for the business following its exit from Emma and Roe and the US market.

The broker acknowledges sales momentum has improved somewhat, as a weak January was partly offset by strong sales in March. Meanwhile, Michael Hill has multiple events planned such as a new Mother's Day campaign and a new diamond campaign in the current quarter

New product launches will be used as an integral part of future promotions to generate consumer interest. The company also points out integrated merchandising, marketing retail functions should improve communication.

The business will also be cycling weak comparables in Australia and New Zealand over the remainder of FY19, while a shift in Easter promotions to the June quarter versus the March quarter in 2018 could provide a tailwind.

While softness characterised the top line, Morgans agrees sales have improved over recent weeks. The broker calculates a gross margin in the quarter of 60.8%. Gross margin in the year to date is 62.1%, down -60 basis points on the prior corresponding period. Morgans understands this reflects changes to the promotional model and reduced discounting previously.

The company's earnings are materially skewed to the first half and, given no outlook statement was forthcoming, Morgans expects this historical skew will be maintained. Credit Suisse also points out the first half is of critical importance, typically generating 70-80% of full-year earnings. The broker forecasts FY19 earnings (EBIT) of $37.3m.

Costs

The company delivered its initial $5m of cost savings in January and a further $5m is expected over FY20. Morgans assesses Michael Hill has been reasonably conservative in its assumptions and there should be potential to cut costs further over time. The broker expects results from reductions to the cost base will be quickly realised and phase two cost reductions also looks relatively low risk, stemming from efficiencies in the supply chain.

There are three Buy ratings and one Hold (Citi) on FNArena's database. The consensus target is $0.75c, suggesting 23.5% upside to the last share price. The dividend yield on FY19 and FY20 forecasts is 8.2% and 8.4% respectively.

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SMSFundamentals: ETFs Get Active

SMSFundamentals is an ongoing feature series dedicated to providing SMSF trustees with valuable news, investment ideas and services, in line with SMSF requirements and obligations.

For an introduction and story archive please visit FNArena's SMSFundamentals website.

ETFs Get Active

A change of heart from the US SEC may open the door for rapid growth of actively managed ETFs both in the US and Australia.

-Few active EFTs listed to date -SEC backs down on transparency requirements -Interest in active ETFs expected to grow

By Greg Peel

Investment funds can initially be divided into two categories – passive and active.

A passive fund seeks only to provide an equivalent investment return to a particular benchmark, such as the ASX200, by holding a portfolio replicating that benchmark. The fund manager cares not whether the index goes up or down as it is the investor's decision to be passive.

Other passive funds may create a portfolio that does not specifically replicate a benchmark but invests in a particular theme, such as "high yield stocks". Once the portfolio is established it's a case of "set and forget". The fund manager may choose the stocks but it is again the investor who decides if the portfolio is worthy of investment.

By contrast, an active fund seeks to provide superior returns to a particular benchmark, such as the ASX200, by creating a portfolio of stocks the fund manager believes can outperform the benchmark that is not fixed in its composition. The fund manager can buy and sell and rejig positions within that portfolio as it sees fit without reference to the investor.

In this case the investor is not so much investing in a portfolio but in a portfolio manager. Clearly a fund's track record becomes its major selling point. In a non-listed fund the fund manager is not obliged to inform the investor of portfolio changes beyond mandated periodic reporting..

It is at that point the investor typically learns the "price" of that fund, reflecting its return. By contrast, exchange-traded funds, listed on the stock exchange, are priced in real time by the market. ETF sponsors are obliged to provide a bid and offer price if no other exists at any time.

Active fund managers do not publish their portfolio selections other than periodically given this is their "intellectual property". If selections were publically available then anyone could follow the fund manager without actually investing with the fund manager. This is also the case in Australia with active ETFs. It would be a bit pointless for an ETF sponsor to share its proprietary selections with the world.

Which is why, until recently, active ETFs were few and far between in the biggest ETF market of them all, the US. The US Securities & Exchange Commission required active ETFs to disclose their portfolios on a daily basis, thereby disclosing their buy/sell choices on any day, for fear a "black box" ETF could not be priced by the market, thus a comparison to the sponsor's bid/offer price could not be made.

This requirement kept most active managers out of the burgeoning US ETF market.

Yet in a rare case of the tail wagging the dog, the SEC this month provided conditional approval allowing active ETFs to trade without being obliged to disclose portfolio selections on a daily basis, thus catching up with Australia.

Not that the Australian market is teeming with active ETFs either. But Antipodes Partners, an associate of Pinnacle Investment Management in the US, has recently launched an active ETF. In reference to the SEC decision, Pinnacle's director of listed products, Chris Meyer, suggested:

"The move could potentially spur many more fund managers to offer more active ETFs while allowing them to protect their intellectual property of the securities they own by not revealing their portfolio changes to market on a daily basis.

"The decision is considered a win for active stock pickers who do not want to reveal their holdings for fear front runners and others may seek to capitalise on predicting their next move."

Active ETFs in the US will still be obliged to publically disclose their portfolio holdings quarterly, as is the case in Australia.

"As the active ETF market grows in the US, increased education on what active ETFs are and the benefits they offer for investors should help stimulate interest in, and adoption of active ETFs in Australia," Meyer suggests. "That bodes well for the industry's growth".

In the US, ETFs represent in excess of 20% of the broader mutual fund industry. The US accounts for almost 70% of the global US$4.8trn ETF market, indicating how important a change like this could be for the adoption of active ETFs globally in the view of Antipodes Partners.

By comparison in Australia, the ETF market is at about 7% of the retail managed fund industry and was valued around US$30bn as at end 2018.

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Treasure Chest: Time To Buy Mayne Pharma?

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. After a long period with a negative or neutral position on Mayne Pharma, Wilsons has decided now is the time to buy.

-Well-placed for opportunistic product development and/or acquisitions -Specialty division profitability could double over the next few years -More stable generic pharmaceutical environment assessed

By Eva Brocklehurst

Mayne Pharma ((MYX)) has provoked a change in attitude from Wilsons. The broker has held a negative or neutral position on the stock for nearly two years but now upgrades to Buy. The reasons for the change are the fact product management of generics has improved and sales erosion has been contained. Also, there are some market opportunities developing, with key product launches planned for FY20/21.

Wilsons considers the business is well-placed to return to what it does well, namely opportunistic product development and/or acquisitions (M&A). Specialty brands appear capable of driving improvements in operating margin, cash conversion and valuation.

Macquarie agrees the positive momentum should continue for the specialty brands amid contributions from key products in the pipeline and ongoing growth for Fabior and Sorilux. However, the broker has pointed out that competing product launches have contributed to a moderation of volumes in these two products.

Meaningful contributions from Lexette/Tolsura are expected, albeit in the medium to longer term. Wilsons expects specialty division profitability could double over the next few years as the sales teams are better utilised. Prescribing data in the March quarter signals a strong launch for Lexette, amid stable performance from dermatology foams Fabior and Sorilux.

Specialty Focus

Credit Suisse agrees the company's focus on higher-margin specialty products merits a higher multiple in the stock, maintaining an Outperform rating. UBS has a Neutral rating and considers there is little chance of a re-rating of the stock until there is evidence of an improvement in operating leverage.

UBS observed at the time the first half result was a big improvement on the previous half, albeit assisted by currency moves. Specialty brands have also come to the fore for the broker, although costs are notably elevated.

The company's profitable authorised generic versions of 200mg and 50mg of Doryx continued to do well in the March quarter, with Wilsons assessing 18% prescription growth for the former and 30% for the latter. This success is partially offset by a -15% reduction in branded Doryx volumes.

Mayne Pharma has indicated a more stable generic pricing environment, although brokers expect generic markets will stay competitive. Wilsons considers the US generics business is back on a profitable and competitive footing and earnings growth should be stable, although the composition may change markedly.

Wilsons believes the stock is cheap, given the promising profile over the next year. While generic earnings may still be volatile in the short term, growth is consistent in specialty products and contract business and, hence, the cash-flow and balance-sheet proposition is improving.

The broker, not one of the eight stockbrokers monitored daily on the FNArena database, has a $0.75 target and has lowered estimates for earnings per share by -10% over FY19-20, allowing for important competitive developments since the first half results in February.

There are new competitors for two of the company's leading generic products Wilsons points out. Teva Pharmaceuticals has confirmed plans to launch against one of the company's most prominent R&D assets, a generic version of Merck's contraceptive product, NuvaRing. Dr Reddy also expects to launch its version of Merck's contraceptive product in the second half of 2019.

FNArena's database shows two Buy ratings, one Hold (UBS) and one Sell (Macquarie). The consensus target is $0.87, suggesting 27.9% upside to the last share price. Targets range from 75c (Macquarie) to $1.00 (Credit Suisse).

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Everybody Is Waiting...

In this week's Weekly Insights:

-Everybody Is Waiting... -No Weekly Insights Next Week -CSL Challenge: Market Share & Margins -Conviction Calls -More Pain For Active Funds Managers -Rudi On TV -Rudi On Tour -Rudi Talks

By Rudi Filapek-Vandyck, Editor FNArena

Everybody Is Waiting...

The concerns of the less-than-bullish investors and investment experts have been perfectly captured in the graphic below: global equities have de-coupled from underlying corporate earnings forecasts and the gap between rising share prices and tentatively recovering profit growth prospects has become quite large in 2019.

Australian investors have been equally enjoying the power of central bank support. Every time the RBA sends a signal it might be ready to lower the cash rate, Australian equities find more buyers lining up from the sidelines. As witnessed, again, on Tuesday when the minutes of the most recent RBA board gathering further fueled market speculation about an imminent rate cut.

Beyond the RBA again coming to the international central bank stimulus party, global equities remain supported by a general expectation that economic data in key regions, including Europe, China and the US, should soon start generating better looking trends of improvement. Further out, corporate profits in the US are still expected to bottom this quarter and next, and rise again in Q4.

Meanwhile, of course, many an institutional portfolio is holding an above average level of cash. So what happens when everyone is ready to jump in on the next sell down?

Yes, indeed, the market refuses to give in, instead making all the cash holders on the sidelines look foolish, and let them wait for longer than they thought feasible.

No Weekly Insights Next Week

Next week starts with an Easter holiday on the Monday (and, coincidentally, my birthday) so there will be no Weekly Insights. Next Edition is therefore scheduled for the final day of April, just before I leave for my next presentation in Melbourne.

CSL Challenge: Market Share & Margins

After having advocated for years that every investor with a long term outlook should have CSL shares in the portfolio, I launched the CSL Challenge at the beginning of calendar 2019. For more information: see the link at the bottom of this story.

ECP Asset Management, a long term shareholder in Australia's highest quality outperformer CSL ((CSL)), recently updated its thoughts and views on one of its substantial shareholdings as follows: "In CSL, we see a company that is organically growing the supply of plasma ahead of the industry, while in a supply constrained market.

"The company's sustainable competitive advantage is driven by its extensive suite of products that allows it to generate higher revenue per litre than its competitors, and is also the lowest cost producer, a powerful combination."

However, while such is an unquestionable positive assessment, it is also a longer term view and the share market doesn't do long term well, in particular not when something somewhere raises questions in the short term.

In the short term, market talk is all about "margin pressure" which first arose in late 2018, depressing the share price then, and it's now prominently present in the latest research reports, and subsequently (somewhat) depressing the share price this month. So how a serious issue is this "margin pressure" and should we, long term shareholders in the company, be worried?

Hardly.

For starters, CSL remains the international benchmark for an industry that continues to experience stronger demand than supply can satisfy. Not only does the company remain better placed than each of its competitors, it also

remains the only supplier that is seriously investing in expanding its collection facilities, thus effectively increasing market share, further enhancing its international number one market positioning.

But we seem to have entered a phase whereby the investments in new collection centres are likely to have a slight negative impact on margins initially. On top of this comes the argument that as the US economy strengthens, collection centres such as CSL's need to offer higher rewards to continue attracting sufficient numbers of donors, which also exerts downward pressure on the average margin.

Healthcare analysts in Australia are now increasingly adjusting their numbers downwards, while readily acknowledging this is far from a fait accompli. For a complex business such as is CSL's, many other factors play a role, including new products and geographies, the mix in between various products (with general acknowledgment the high margin products are doing just fine) and management's drive to find cost efficiencies.

Most importantly, I think, is that CSL's specialised products, such as Hizentra for the treatment of Chronic Inflammatory Demyelinating Polyneuropathy (CIDP), are as yet unknown throughout most of the global health sector. So one big unknown remains how much more leverage/demand can be created by getting more people familiarised with this product and its advantages for treatment of CIDP.

The bottom line: even with downgrades in forecasts coming through, growth expectations -in constant currency terms (CSL reports in USD)- for earnings per share (EPS) for the foreseeable future (three years ahead and more) remain between high single digit and low double digit percentages in each year. Really, the differences between the various forecasts are not more than 2%-3% between low markers and the more bullish analysts; or between those who have downgraded as yet and those who have not.

Which makes this whole issue more like an exercise in hair splitting, really, even though short term traders and those who wish the CSL share to crash might still jump on board the bandwagon and try to create something important out of it. Apart from short term pressure on the share price, I very much doubt whether it'll turn out more than a tiny blip in an ongoing robust, long term uptrend for the shares.

While I am at it, I thought I'll provide some background behind short term issues and question marks for other high quality healthcare stocks on the ASX:

-ResMed ((RMD)): while question marks remains about management's newly chosen strategy to expand into SaaS and out-of-hospital care through acquisitions, there remain plenty of analysts who remain convinced the best strategy will prove to grant management the benefit of the doubt. Stockbroker Morgans, for instance, has kept the stock stoically as one of its Conviction Buys. ResMed is scheduled to release Q3 results on May 3, Australian time.

-Cochlear ((COH)): long running concerns about a constantly elevated valuation have been replaced with concerns about the company's competitive edge now competing companies seem to have momentum on their side. It is now up to management at Cochlear to formulate an effective response. And what-do-you-know, this morning the company announced in a release to the ASX "the launch of the Nucleus Profile Plus Series cochlear implant,designed for routine 1.5 and 3 Tesla magnetic resonance imaging scans without the need to remove the internal magnet".

One thing you can always count on with quality companies such as these, they seldom let their clients and shareholders down for long. It'll still be a few quarters before this new product gathers all the required licenses and approvals, and market traction, but the response is in the pipeline.

-Ramsay Health Care ((RHC)): only Blind Freddy has missed the share price recovery and subsequent stabilisation for private hospitals operator Ramsay Health Care, despite the threat of a Labor government post May keeping a tight lid on health insurance cost inflation, which also makes life more difficult for private hospitals in Australia. But signs of increasing improvement in operational dynamics in Europe is feeding into growing optimism that better times lay ahead after a few truly challenging years for the former market darling. To put things in perspective: we are still talking 2%-3% potential to the upside, but sometimes little things can have large impacts, and Ramsay Health Care's prospects could be on the rise again, which is supporting the share price.

A few weeks ago I invited readers of Weekly Insights to share their experiences as a CSL shareholder and we received truly amazing, wonderful, touching and surprising responses. I'll put them together in a follow-up story in the not too distant future. Plus an update shall follow about who will be the lucky receiver of a nice bottle of wine via Australia Post.

The FNArena/Vested Equities All-Weather Model Portfolio holds shares in all four companies mentioned.

To find out more about the CSL Challenge: https://www.fnarena.com/index.php/2019/01/14/rudis-view-join-the-csl-challenge/

Conviction Calls

Model portfolio managers at stockbroker Morgans have elected to reduce exposure to Wesfarmers ((WES)) while increasing exposure to Woolworths ((WOW)). At the same time, portfolio weighting for Cleanaway Waste Management ((CWY)) has been slightly reduced as well.

The portfolio managers communicated their moves as maintaining discipline at times when the overall share market is potentially stretched.

Following the same mantra, the broker's Growth Model Portfolio has trimmed exposures to BHP Group ((BHP)) and to Rio Tinto ((RIO)) while selling out of Computershare ((CPU)). This portfolio holds "higher than usual cash, ready to deploy into upcoming opportunities".

Elsewhere, the Cross Asset Income Model Portfolio has further trimmed ownership of Transurban ((TCL)) shares.

More Pain For Active Funds Managers

Anecdotal observations suggest 2019 is not the ideal hunting ground for active funds managers looking to beat their benchmarks without counting on pure plain luck or taking on excessive risk.

A recent update on domestic funds managers data by JP Morgan (data available up until the February reporting season) suggests few institutions are believers in sustainable upside for Australian banks, still, but they also started reducing overweight positions in resources, while average cash positions remain on the rise.

More interesting, perhaps, is JP Morgan's analysis into how domestic funds managers tend to perform in each of the corporate results reporting seasons of August and February. Analysing data for the past five years, JP Morgan analysts conclude more managers are able to outperform each year in August, but not so in February.

This, of course, raises a few questions such as: what is so different about February that makes outperformance too much of an ask for most?

JP Morgan's analysis suggests the Value style of investing performs better in August, not so in February. But then the Growth segment of the share market displays a similar pattern, albeit with smaller losses in February. Small cap managers in particular would find Februaries hard to outperform in, concludes the analysis, with higher volatility in stocks ex-50 and ex-100 likely to blame.

For those interested in the statistical numbers: only 44% of funds managers on average manages to outperform benchmarks in February while in August that percentage rises to 60%. Within this context, February 2019 actually proved an above average positive month for the sector with just over 50% beating their benchmark. Among active managers researched by JP Morgan, 45% outperformed in February.

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

Rudi On Tour In 2019

-ASA Melbourne, May 1 -ASA Toowoomba, Qld, May 20 -U3A Investor Group Toowoomba, Qld, May 22 -AIA Adelaide, SA, June 11 -AIA National Conference, Gold Coast, Qld, 28-31 July -AIA and ASA, Perth, WA, October 1

Rudi Talks

Last week's audio interview about what's happening in the Australian share market:

https://www.youtube.com/watch?v=FpCnk1RSnCY

(This story was written on Tuesday 16th April 2019. It was published on the day in the form of an email to paying subscribers, and will be 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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