WEEK 36

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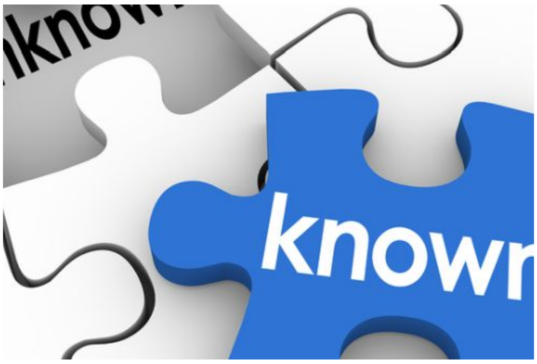
Friday, 2 September 2022



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RUDI'S VIEWS

Rudi's View: What Happened To That Recession?

In this week's Weekly Insights:

-Don't Fight The Fed, Part Deux
-What Happened To That Recession?

By Rudi Filapek-Vandyck, Editor

Don't Fight The Fed, Part Deux

In late May this year, it seems such a long time ago, I wrote about the discrepancy between equity markets and the New Reality behind higher inflation in 2022.

Equities had been largely ignoring the newly developed determination among the world's central bankers to prevent a repeat of the 1970s when persistent run-away inflation dogged economies around the world into what came to be known as stagflation; low growth, high unemployment and both households and businesses struggling to make ends meet.

For investors, it is important to understand that fighting inflation also includes cheaper share prices. It is part of the mix that central bankers have at their disposal to tighten financial conditions, in order to pull the rug from underneath elevated consumer price inflation.

Back in May, however, it was obvious not every participant in financial markets understood that 'Don't fight the Fed' is now carrying a different context from the years prior.

Which is why Jay Powell decided to make the message clear for all with no room for misunderstanding. He used an interview with the Wall Street Journal to convey the missive that fighting inflation is now the Fed's main goal – everything else is of secondary importance, at best.

Finally, the market did get the message. We can all see on today's index price charts how weakness followed until new lows were seen in June. But that's not the full story as equities subsequently started a recovery that, two months in, looked a lot like exuberance was making a come-back.

Which is why Powell sharpened his message once again at the Jackson Hole conference last Friday. Nothing has changed fundamentally between January and May, or between then and last week. But equity markets and animal spirits, you know...

So are we looking forward to a repeat of the May-June scenario?

The final days of August are unlikely to give us many clues because of the usual end-of-month shenanigans when institutions pump up the index to improve their short-term performance, but Wall Street has seen weakness three days in a row, and September-October often turns into a volatile mix.

There is a genuine possibility Powell's message might weigh on general sentiment for a while, in particular if economic data reinforce it and other central bankers (ECB, RBA) also join in.

Weak technicals can easily translate into deeper pullbacks, without necessarily foreboding major disaster. But it's good to keep in mind: the longer the tightening goes on, the shorter the odds for economic recession next year.

My Weekly Insights back in May (just as relevant today):
https://www.fnarena.com/index.php/2022/05/26/rudis-view-dont-fight-the-fed/

What Happened To That Recession?

And in the end... corporate results season throughout August was not as bad as many had feared.

The obvious observation to add is that while most companies managed to cope with rising input costs, supply chain bottlenecks and staff absenteeism (if not shortages), the truth of the matter is most sectors in Australia have been enjoying ongoing strong demand for their products and services - and that might just be the one key factor that is about to change.

That prospect, and the persistent message from central bankers that tightening policies are continuing for longer since inflation remains too elevated for comfort, meant the August price action and share price responses always had a macro factor attached.

To achieve a positive share price follow-through that lasted longer than one day, companies needed more than a forecast-beating result. They also needed a strong, confident and believable guidance for the year ahead, without the prospect of having to face macro-headwinds from rising interest rates, and without macro-inspired selling to interfere.

For many a share price, those were simply too many conditions that needed to be fulfilled. The Australian share market is likely to conclude August with a small gain, helped by last-day-of-the-month support from institutional investors, which might as well serve as the perfect summary for the season: it wasn't too bad, but the prospect remains of recession ahead for the world's largest economies.

In particular following Jay Powell's speech at Jackson Hole, this prospect is poised to remain longer on investors' mind post-corporate results.

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The final stats have not yet been established, but there are sufficient indications corporate Australia performed reasonably 'ok' during the first six to eight months of calendar 2022. Investors need not look any further than market updates on the final day from the likes of Harvey Norman ((HVN)) and Webjet ((WEB)) - both beat forecasts but with different share price responses.

With 318 results included, the FNArena Corporate Results Monitor has registered 96 (30%) companies beating market expectations against 85 (26.7%) "misses" and 137 (43%) reporting in line with forecasts. In response, analysts have issued 76 rating downgrades versus only 27 upgrades, while the average individual price target was cut by -2.25%.

These numbers are not the kind of numbers that describe a positively inspiring results season, but it equally has not been the worst outcome post-GFC - far from.

The August season of 2019, for example, was a decisively worse experience with FNArena only registering 24% "beats", outnumbered by 25% "misses", and soon after banks and cyclicals started announcing dividend cuts, even before covid presented itself months later.

This time around dividends, on balance, still managed to surprise on the upside even though many are expecting leaner payout times are forthcoming.

Many of the surprises this season stemmed from cyclical companies, coal, iron ore and energy producers included, but virtually no one thinks this year's cash abundance for the likes of Whitehaven Coal ((WHC)), Woodside Energy ((WDS)) and Fortescue Metals ((FMG)) will prove sustainable, though it also doesn't by default mean the end of extra benefits for shareholders in these companies either.

On calculations by Wilsons, Australia's Top10 companies in market cap paid their shareholders circa $50bn in dividends, including Woodside's largest interim-payout in eight years and the first dividend increase from Telstra ((TLS)) in seven years.

There was equally excitement in the smaller cap space with Cronos Australia ((CAU)) achieving profitability and declaring a 1c dividend for shareholders; the first ever by an ASX-listed medicinal cannabis company.

Plenty of signals around suggesting payout ratios have peaked, also because boards including Rio Tinto's ((RIO)) are preparing to invest more to secure growth at the other end of the cycle. Also, plenty of dividend payouts were supported by asset sales or merger-benefits.

In addition to dividends, companies are equally still keen to buy in their own shares, with a2 Milk ((A2M)), Nine Entertainment ((NEC)), Northern Star ((NST)), Qantas Airways ((QAN)), Santos ((STO)), and Whitehaven Coal all announcing fresh buybacks.

In the end, a majority of companies (circa 60%) managed to outperform estimates, but about two-thirds saw analysts subsequently cutting forecasts for the year ahead. As a result, the strong 20% growth in aggregate EPS achieved in FY22 is now forecast to be followed up by circa 6% only in FY23. And market strategists are still of the view that further downgrades will be forthcoming.

Wilsons, for example, has now joined UBS's prediction EPS forecasts in Australia might remain under pressure for another six months. Economists at Jarden predict the relative resilience of consumer spending in Australia will start weakening by year-end because of the lagging impact from RBA rate hikes.

The RBA, similar to other central banks, is expected to continue hiking rates at upcoming board meetings.

Jarden: "reduction in spending is what central banks need to achieve in order to bring inflation back into line with targets".

The team of retail analysts at the firm believes covid-beneficiaries, such as household goods, are most at risk in the period ahead, hence Jarden is less keen on JB Hi-Fi ((JBH)), Harvey Norman, Nick Scali ((NCK)) and Kogan ((KGN)). Instead, consumer staples should prove safer, along with typical value-plays and companies servicing youth or higher-income consumers, or those still enjoying the spoils from society re-opening.

Jarden's preference thus lays with the likes of Treasury Wine Estates ((TWE)), Universal Store Holdings ((UNI)), Flight Centre ((FLT)), Domino's Pizza ((DMP)) and Metcash ((MTS)).

Having said this, every season generates its number of disappointments and this time these did not include Telstra, AMP ((AMP)) or QBE Insurance ((QBE)) but your typical defensives: supermarkets, REITs and utilities. Higher costs and rising rates in many cases proved too much to absorb.

The same observation can be made for producers of commodities, especially among smaller cap companies, and in particular the producers of gold. This may yet prove a harbinger of what lays ahead, with Wilsons commenting:

"We believe the current dynamic of passing costs onto consumers cannot last forever, and companies (unless they have a significant competitive advantage) may have to change tact before the end of this calendar year.

"This could lead to margin pressure for many sectors in the ASX 200."

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Among mining companies that disappointed were Aeris Resources ((AIS)), Champion Iron ((CIA)), Sandfire Resources ((SFR)), OZ Minerals ((OZL)), Panoramic Resources ((PAN)), Pilbara Minerals ((PLS)), Resolute Mining ((RSG)), West African Resources ((WAF)), and Westgold Resources ((WGX)).

On UBS's assessment, the Materials sector suffered most from analysts cutting forecasts this month with both miners and building materials companies struggling to cope with input cost pressures. Financials, on the other hand, held up well as banks proved solid and insurers triggered upgrades.

Energy stocks were the stand-out performer thus far in 2022, which equally matches the sector's outperformance overseas.

One conclusion that gained traction throughout the month is that many shares had been sold down too far and those companies sit high on the list of outperformers this month. Consider, for example, the most successful sector in August was Information Technology where, according to Wilsons, 80% of companies beat analysts' estimates, followed by Real Estate (72%) and Financials (65%).

Technology stalwarts that surprised positively this month include Altium ((ALU)), Hub24 ((HUB)), IPH ((IPH)), and Megaport ((MP1)).

Equally important, some of the most highly valued companies on the market continued to add to their success story, including Audinate Group ((AD8)), IDP Education ((IEL)), Lovisa Holdings ((LOV)), Pro Medicus ((PME)) and WiseTech Global ((WTC)). Plenty of others provided lots of evidence it's too big of an ask to achieve a successful turnaround when overall conditions are this challenging, and likely to worsen.

Examples: Appen ((APX)), Aurizon Holdings ((AZJ)), Estia Health ((EHE)), GWA Holdings ((GWA)), Inghams Group ((ING)), Magellan Financial ((MFG)), Mayne Pharma ((MYX)), Nuix ((NXL)), Ramsay Health Care ((RHC)), Wagners Holding Co ((WGN)), and Zip Co ((ZIP)).

Macquarie points out the Australian market (ASX200) is trading on a Price Earnings (PE) ratio of 14.5x on December forecasts and 14.4x on forecasts to June 2023. Macquarie analysts have only 2.6% EPS growth in aggregate left for FY23, followed by 1.2% for FY24. The aggregate forecast for both years is negative for Resources. Macquarie has adopted the view there will be a (global) recession next year.

In small contrast, analysts at Citi remain convinced the Australian economy is likely to remain relatively resilient for longer. Thus their EPS forecast is for 7.7% growth in FY23, followed by a negative -6% in FY24. The Resources sector on Citi's forecasts will still enjoy a year of positive EPS growth ahead (just!), but then fall off the proverbial cliff by FY24 (-23%).

The key difference in these forecasts hides in the timing of when exactly economies will feel the impact from central bank tightening, as well as to the severity of it all.

Adds UBS: *"We note that over the past 20 years, the average annual earnings growth delivered by Australian companies has been 5.5%.*

"Given input cost pressures are not going away, labour supply issues will remain, and interest rates still have further to rise, we would be impressed if 2023 earnings growth is able to meet this historical mark."

One positive is the Australian share market is again offering a prospective yield in excess of 4%, ex-franking.

Concludes Wilsons:

"We currently believe quality is the best place for equity portfolios, within a backdrop of a slowing growth, margin compression and heightened uncertainty.

"Quality companies that have the ability to pass on costs should be well placed as broader margin compression plays out.

"Over the next year, we expect global economic growth and earnings growth to slow significantly. As a result, companies with high quality, resilient earnings streams should be increasingly sought-after by the market and this should lead to outperformance."

Within this framework, Wilsons points at Cleanaway Waste Management ((CWY)), CSL ((CSL)), James Hardie ((JHX)), Lotteries Corp ((TLC)), Telstra, and ResMed ((RMD)).

(This story was written on Wednesday, 31st August, 2022. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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

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

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SMALL CAPS

Universal Store: How Strong Are The Young?

Outlook for Universal Store Holdings remains resilient despite the impacts of covid lockdowns, with a number of analysts predicting the company will exceed its new store targets.

-Universal Store Holdings delivered full year sales at the top end of guidance, despite covid impacts driving a year-on-year earnings decline
-Market largely positive on continued growth underpinned by new store rollouts and resilient demographic
-Store openings exceeding target and increased private product lines offer upside risk

By Danielle Austin

An ongoing store rollout and resilient customer base underpins Universal Store Holdings' ((UNI)) growth outlook, and has carried favour with analysts.

The company reported sales of $208.0m, down -$2.8m on the previous year but near the top end of guidance, while earnings declined -30% year-on-year as the cost of doing business margins rose 540 basis points, both a product of first quarter lockdowns and higher investment by the company.

Selling both third party branded products and private label products, youth apparel retailer Universal Store Holdings has a current network of 77 stores across its Universal Store and Perfect Stranger brands, plus a growing digital platform.

Perfect Stranger, a private label women's banner, has expanded from a Universal Store private label range to an expected seven standalone stores by the end of 2022, with no cannibalisation to its parent brand.

The company's new store rollout continued throughout the year, with a total eleven new stores opened; eight under the Universal Store banner and three under the Perfect Stranger banner. The company guided to five new openings in the first half of the coming year, with four of these being Perfect Stranger stores before an acceleration in Universal Store openings in the second half.

Trading has remained positive in the early weeks of the new financial year, with sales in the first eight weeks of FY23 up 54.7% year-on-year, and with the company indicating sales trends may be improving in August over July.

Stock analysts have largely noted Universal Store Holdings' more resilient customer base continues to support growth initiatives, with the younger demographic less likely to curtail spending habits in an inflationary environment.

Analysts highlighted the company's customer base is less exposed to rising costs of living, has fewer financial commitments and savings goals, and is more likely to place importance on appearance and social occasions, all factors that should see sales remain resilient to the impacts of rising rates.

What the brokers say

Four of FNArena’s database brokers have updated on Universal Store Holdings since the release of the company’s full year results, and between them hold three equivalent Buy ratings and one equivalent Sell rating. These brokers have an average target price of $5.53, ranging from $3.60 at the lower end to $7.00.

Morgans (Add, target price of $7.00) estimates lockdowns took at least a -$20m toll on sales in the last year, but anticipates the company has the opportunity to recover lost sales and accelerate back to double digit growth each year for the next three years. The broker expects a post-lockdown surge, coupled with new store openings and the company’s resilient demographic should drive 19% growth in sales in FY23.

Morgans described the new store openings as representing close to best in class return on investment, while anticipating margins will continue to benefit from more private label products. Morgans lifted its FY23 earnings per share forecast by 5%.

Citi (Buy, target price of $5.75) finds the company’s targeted more than one 100 stores across Australia and New Zealand to be conservative, seeing potential for more than 110 stores across the region. Given the current network of 75 stores, should the company achieve a total 110 stores, the broker estimates 27% upside to FY23 earnings.

The Citi analysts reiterated their rating is underpinned by the company’s new store campaign, as well as a strong balance sheet and a resilient customer base. While Citi largely retained its outlook on Universal Store Holdings’ FY23, it did cut its net profit forecast for FY24 by -7% to account for the impacts of inflationary pressures.

UBS (Buy, target $5.75) noted a strong start to the year is indicative of an attractive sales growth outlook for Universal Store Holdings. This broker notes store growth, particularly in New South Wales and Victoria, remains a significant opportunity for the company, and growth beyond the 100-store target offers upside risk.

Looking ahead, UBS analysts predict higher costs of marketing, labour and rent to impact on earnings margins. The broker lifts its earnings per share forecasts 6% and 7% for FY23 and FY24 respectively.

Noting Universal Store Holdings has outperformed the Small Ords Index 50.0% since June, Macquarie (Underperform, target $3.60) points to the company’s $23.9m net cash position as at the end of the financial year as supportive of the ongoing store rollout.

This broker noted the eleven stores added in the last year, alongside other investment spend, drove the company’s capital expenditure to $7.0m, up $4.0m on the previous year. Macquarie lifts its earnings per share estimates 3.0% and 0.3% in FY23 and FY24 respectively, accounting for increased store rollout estimates, including the opening of a further five stores before the end of 2022.

Jarden and Wilsons, two brokers not monitored daily by FNArena's Australian Broker Call Report, are equally positive about the retailer's prospects in the year(s) ahead.

Wilsons is banking on total sales growth of 34.3% in 1H23e alongside minor gross margin declines with private label sales normalising. Wilsons has an Overweight rating for the stock with a $5.50 price target.

Jarden has grabbed the opportunity to upgrade its rating to Buy from Overweight, while bumping up its price target to $6.10 from $5.50.

FNArena's consensus price target, which does not include Jarden and Wilsons, currently sits at $5.52, suggesting more than 18% upside from yesterday's closing share price. On current consensus forecasts, the shares are yielding 5.4% and 5.9% respectively for this year and next.

SMALL CAPS

Small Cap Reporting Season Highlights

Tim Boreham, with some help from Ausbil, lines up his small-cap favourites from the August reporting season in Australia.

By Tim Boreham

Not for the first time, a hotly-anticipated profit reporting season hasn't quite delivered a definitive message about the market's prospects, although the small to mid cap industrials have fared ok.

Put another way: if soaring interest rates and input costs spell pending doom, CEOs are doing a convincing line in deep denial.

"So far, small cap earnings results have not been anywhere near as bad as expected," says Arden Jennings, the portfolio manager for small caps and microcaps at funds manager Ausbil.

He adds: "we remain cautious on companies with significant debt levels which are now facing headwinds from rising interest costs. The market has begun to reflect this in earnings forecasts."

What caught our eye in the torrent of numbers? Like raindrops on roses and whiskers on kittens – and with apologies to Julie Andrews - here are a few of our favourite things.

Airtasker ((ART))

The odd jobs platform is an overlooked beneficiary of inflation, given a strong uptick of the average price for a task.

The Airtasker Wage Price Index – yes, there is such a thing – showed an average 10.5% rise in the cost of pick-up and delivery tasks in the June quarter, while carpenters nailed down 18% more.

Rising fuel and other input cost mean the toilers are unlikely to be better off, but with Airtasker clipping the ticket on higher volumes, the bottom line benefits are apparent.

Airtasker reported June quarter earnings of $9m, up 31% on gross market value (that is, turnover) of $54m (up $38m).

In pushing up Airtasker shares by 22% on the day, investors were happy to overlook cash outflows of -$3.5m.

Good job!

MyState ((MYS))

Investors yawned, but the Tassie-based financial institution outperformed its peers with a 25% surge in home lending and deposits, to $6.8bn and $5.6bn respectively.

The home loan growth was three times the system average.

MyState posted a $32m net profit, it's second best ever. Another way of stating this is that earnings fell 12% from last year's record $36m.

But we quibble.

We like MyState because it is surfing the revival of the island state which is rapidly shedding its reputation as an economic laggard to the natural home of professional, boutique whisky drinking, art loving telecommuters.

By virtue of its 2015 merger with the The Rock Building Society, MyState also has a strong presence in the Rockhampton region and is leveraged to booming cattle prices.

A special mention as well to the Bundaberg-based **Auswide Bank ((ABA))**, the smallest ASX-listed bank that has consistently grown earnings and embraced technology more ardently than a skivvied Silicon Valley geek.

Auswide grew net earnings by 8% to a record $26.1m and expanded its loan book by 7% to $3.85bn.

"We are nimbler than our bigger competitors and we are able to quickly seize opportunities in the competitive banking landscape, including the roll out of new technologies which have provided new distribution possibilities and efficiency benefits," chimes CEO Martin Barrett.

Kelly Partners Group ((KPG))

Boom or bust and inflation or recession, companies still need decent strategic advice or simply a helping hand to guide them through the morass of compliance.

With an SME focus, the Sydney based chartered accounting chain is as close to a no-brainer as one could get – on the proviso that some listed accountancy groups have failed in the past.

Since listing in 2017, the acquisitive Kelly Partners has doubled its operating business to 31 and grown its client base from 5300 to 13500.

Kelly's full year net earnings grew 22% to $13.3m, with revenue surging 33% to $65m.

The company hasn't issued any new shares since its IPO, but last year did double debt to -$31.4m.

But don't worry – they're accountants and it all adds up.

Kelly shares have surged 22% over the last month and are five times higher than the $1 IPO price.

Mach 7 Technologies ((M7T))

This one's moving at warp speed, with record sales of $33m for the FY22 year, up 30%. Operating cash flow has also improved by almost 500%, to $6.7m.

The US-focused Mach 7 provides medical imaging software and is often mentioned in the same breath as home-grown hero Pro Medicus, whose imaging tools have been adopted by a slew of august medical institutions such as University of California and University of Vermont Medical Centre.

The difference is that Mach 7 is valued at $160m, including $25m of cash, while Pro Medicus is worth $5.5bn.

Given the vastness of the small tech sector, investors have a cornucopia of choice and they can be – and must be – selective as to where to plonk their precious capital.

Johns Lyng Group ((JLG))

Floods? Fires? Famine? Perhaps not the latter, but natural disasters are manna from Heaven for Johns Lyng, which focuses on clean-up rebuilding jobs.

The Ausbil team notes management's "incredibly resilient" growth outlook, especially in the clean-up of recent northern NSW and southeast Queensland floods.

Johns Lyng reported a 40% net profit boost for the full year, with revenue up 57% to $895m. Management highlighted the eastern seaboard floods, our costliest disaster with $4.4bn of insured losses (and rising).

Johns Lyng shares have bucked the soggy market trends, rising by more than 20% over the last 12 months.

The shares have gained sevenfold since listing in October 2017, so kudos to its boat, plane and helicopter-loving founder Scott Didier.

The key risk, we guess, is that we don't have any more floods, fires, cyclones or hailstorms. Fat chance of that.

Life 360 ((360))

This one's not so much our favourite thing at fluffy kitten level, but a value tech play if management can reign in its losses as promised.

The San Francisco-based Life 360 is in the family protection game, which means using tracking devices to keep tabs on youngsters – in the nicest possible way.

In the case of an accident, for example, the app will call for an ambulance before the victims even realise they are injured (14,349 times in the June half, so stuff sure does happen).

In a company-transforming move, Life 360 late last year paid circa US$170m ($240m) for the tracking device outfit Tile and raised $280m of equity.

In the first (June) half, Life 360 generated revenue of just under US$100m and management guides to US$245-260m for calendar 2022. The company also lost an underlying -US$30m in the first half, with full year guidance of an adjusted -US$35-38m.

This deficit compares with the previous year's -US$13m, but to be fair subscription-based companies need to spend money before they reap the revenue.

Life360 has lost more than half its value year to date – including 8% on Monday alone - with its $900m market cap supported by US$79m of cash.

The stock should be worth more if management can fulfill its assurance of "sustainable positive cash flow" by late 2023.

This article does not constitute share recommendations and readers should seek their own financial advice from a property qualified party.

SMALL CAPS

Shine Comes Off Adore Beauty

This story was originally published earlier this morning but contained a few factual inaccuracies, which have been corrected.

Cycling off lockdown benefits looks to prove challenging for Adore Beauty, with the online retailer reporting a -28% decline in sales in the first seven weeks of the new year.

-Adore Beauty's FY22 missed expectations, with the first seven weeks of FY23 equally disappointing
-Management does not anticipate meeting its 2-4% earnings margin guidance in the coming year
-Higher value return customers and expanded private label lines underpin longer-term growth potential

By Danielle Austin

Having largely missed market forecasts with its FY22 performance, Adore Beauty ((ABY)) added further disappointment with lower-than-anticipated margin guidance for the year ahead.

With management not anticipating the company can achieve its 2-4% earnings margin target in the coming year, analysts are assuming a margin of 1.7% for FY23 before anticipating a recovery to 2.6% in FY24. The online retailer cited inflation to freight and sales costs, as well as 45% inflation in cost per click marketing, as the driver for the downgrade.

Since its maiden listing on the ASX in October 2020, Adore Beauty has become the number one pureplay online beauty retailer in Australia, offering products across the premium beauty, wellness and personal care products. Its first private label brand was launched two months ago, in June.

FY22 delivered full year earnings of $5.3m, a -30% decline on the previous year, while earnings margins reduced to 2.7% from 4.2%. The first seven weeks of the new financial year did not break the trend with the retailer witnessing a -28% decline in sales.

Moving forward, Adore Beauty will rely more on repeat customers, as new customer growth slows. Returning customers contributed around 70% of revenue in FY22, 62% in FY21 and 56% in FY20. While new customer growth remains above FY19 levels, it has slowed as trading conditions have normalised from the previous covid-related boost.

Expansion of the company’s private label brand is expected to drive long-term margin growth for the retailer, with the launch of a second private label brand expected in the second quarter of FY23. Private label products are expected to contribute 10% to earnings by FY27, which could represent an approximate 5 percentage point benefit to margins, and 15% beyond FY27.

Near-term guidance disappoints the market

Of FNArena's database brokers, both Morgan Stanley and UBS have updated on Adore Beauty since the company's full year results release. Both brokers are equivalent Buy and equivalent Hold rated respectively, and between them have an average target price of $1.90. Outside of database brokers, Shaw and Partners and Jarden have also updated, both are Buy rated.

Noting the retailers' first seven weeks of FY23 have tracked well below expectations, Morgan Stanley (Overweight, target price of $1.90) highlights the company is cycling strong 26% growth in the previous year. The broker notes its earnings target multiple represents a -25% discount to other profitable domestic e-commerce peers, with the beauty category more competitive than other retail segments.

Describing Adore Beauty's full year results as only marginally below its expectations, Shaw and Partners (Buy, target $2.50) liked that long-term targets remain positive, with the company continuing to guide to earnings margins between 8-10% in FY27, and margins above 10% beyond that.

This broker noted with the stock declining -22% in the last six months, amongst a -20-70% decline across the e-commerce and retail sectors, Adore Beauty's present valuation is compelling assuming the company can achieve longer-term targets. Short-term, Shaw and Partners downgraded its sales and earnings forecasts -12% and -61% respectively, noting some conservatism to its downgrades.

UBS (Buy, target $2.10) noted the early trading decline in the new financial year was in line with its own expectations for the company. UBS anticipates the beauty category will prove more resilient than other retail categories in a softer trading environment given the less discretionary and lower value nature of beauty purchases. This broker described the company's longer-term earnings margins targets as "ambitious", and continues to guide to margins of 7% in FY27 and 9% in following years.

Noting the retailer missed its earnings forecast by -16%, Jarden (Buy, target $2.49) raised concern around Adore Beauty's ability to grow its new customer base amid rising marketing and customer acquisition costs.

This broker notes the company intends to focus on attracting and retain customers with a higher lifetime value. Jarden has lowered its earnings per share estimates -75% and -18% in FY23 and FY24 respectively, reflecting lower margins and ongoing challenging trading conditions.

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SMALL CAPS

Lovisa: More Growth, More Markets, More Growth

Lovisa Holdings continues its global takeover with significant store expansion into the US in the last year, as analysts suggest a move into the Chinese market could be on the cards.

-Lovisa Holdings' FY22 yet again beat market expectations
-Aggressive store rollout remains on the cards
-Retailer experienced strong trading in early weeks of the new financial year
-Analysts are predicting upwards of 130 new store openings in the coming year

By Danielle Austin

With an increased store network underpinning its FY22 result, Lovisa Holdings ((LOV)) delivered 59.2% year-on-year sales growth, and trading in the early weeks of the new year suggests firm growth will continue. The company reported revenue of $448.2m, earnings of $140.8m and net profit of $58.2m, while gross margins improved 220 basis points over the year to 78.9%.

An ongoing global rollout continues to be the focus for management at the company, with an additional 85 stores opened in the last year seeing the retailer close out the year with a global network of 629 stores.

Of these, 44 were opened in the second half of the year and the company has already successfully opened a further 22 stores to date in the new year, a run rate that analysts have estimated could see a total 130-140 new stores opened in the coming year, far exceeding the historical opening rate of 50-100 stores annually.

First stores were opened in new markets Poland and Canada, while an additional 37 stores were opened in the US, alongside new store openings in Cyprus, Lebanon, Namibia and Hong Kong.

Like any discretionary retailer, consumer confidence uncertainty does pose risk to performance moving forward, but analysts highlighted the company should benefit from its younger consumer base, who are likely less sensitive to changes in interest rates.

Onwards and upwards

Five of FNArena’s database brokers have updated on Lovisa Holdings since the company released its full year results. Between them, four of these brokers are equivalent Buy rated and one is equivalent Hold rated, with an average target price of $22.84, out of a range of $18.00-$27.70.

Citi’s conviction in Lovisa Holdings has improved following the full year beat, with the broker (Buy, target $24.00) expecting further expansion into new markets is not only on the cards for the retailer, but imminent, with Italy and Mexico potential new geographies.

Given these countries both border existing markets, Citi notes the company would be able to leverage existing infrastructure, and sees potential for Lovisa Holdings to open 75 stores in Italy and 58 in Mexico, expanding its total network 23% with these two markets.

The broker also sees Hong Kong as a possible gateway into the Chinese market, and considers the retailer's recent expansion into Hong Kong as a likely indicator of its interest in entering the Chinese market at some point, potentially once covid restrictions in the region ease.

Citi highlighted the company’s CEO has experience in the Chinese market, which should prove beneficial should they pursue market expansion, and estimates the retailer could open 161 stores across Chinese cities, which could represent a $108m sales benefit.

Citi lifted its earnings per share forecast 1% in FY23, but retained its FY24 forecasts with greater investment costs offsetting benefits of an increased store network.

Lovisa Holdings delivered mid to high single digit beats to Macquarie’s estimates at the earnings, net profit and earnings per share lines with its full year result. This broker (Outperform, target $27.70) noted Lovisa Holdings should prove more resilient than retailer peers given its positive exposure to low price point products and a younger core demographic who are less likely to curtail spending in the current economic environment.

Given the company’s full year beat, Macquarie lifted its earnings per share estimates 15% and 14% in FY23 and FY24 respectively.

Jarden (Overweight, target $22.29) considers Lovisa's positive outlook is underpinned by the material pickup in pace of the international store rollout. This broker anticipates 116 new store openings in the coming year, and a further 113 in FY24.

Lifting new store assumptions has driven a 15% increase to the broker’s FY23 revenue estimate, and a 19% increase to its FY24 revenue estimate. This broker’s earnings estimates also increased 5% and 10% for the same years respectively. Jarden expects the company can deliver a 33% earnings per share compound annual growth rate through to FY25.

Morgans rates Lovisa an Add (equivalent of Buy) with a price target of $24.50. Morgan Stanley has a positive Overweight rating but with a price target below the current share price of $18. UBS too has a more modest price target ($20) and rates the stock Neutral.

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

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

SMALL CAPS

Growth A Gem in Michael Hill's Crown

Despite losing more than 10,000 trading days in the last year, Michael Hill has again delivery strong growth, and looks to pivot from transformation to growth in the coming year.

-Michael Hill delivered a strong year, underpinned by digital marketplace expansion in line with its transformation strategy
-Early momentum evident, with sales in the new year up 18.5% on FY22 and 13.4% on FY21
-Company returns profits with a $20m buyback and 50-75% dividend ratio

By Danielle Austin

Michael Hill International ((MHJ)) has delivered a full year result that has more than satisfied the market, with the fourth quarter marking the twelfth consecutive quarter of positive same-store sales growth.

With the company transitioning from a transformation period to a growth one, Michael Hill looks focused on opportunities to expand its footprint into new geographies and services. The last year has seen the company successfully execute on its marketplace strategy through partnerships with The Iconic in Australia and New Zealand, and The Bay in Canada.

In the coming year, the retailer will look to extend its digital platform in Canada, adding dual-language optionality to capture market share in additional Canadian regions, as well as launching global international shipping. Further, the company continues to develop a digital platform that will allow customers access to bespoke design, sustainability and financial services, that should drive new revenue streams.

The company delivered 7.0% year-on-year revenue growth to $595.2m, 11.1% comparable earnings growth to $62.9m, and 13.9% net profit growth to $46.7m. Underlying earnings did decline -3.6%, attributed to a $2.8m wage subsidy. Michael Hill reported same-store sales growth of 4.2% in Australia, 8.9% in New Zealand and 11.3% in Canada, as well as gross margin improvement of 270 basis points, 140 basis points and 360 basis points in these respective geographies.

Demonstrating strong trading early in the new financial year, Michael Hill has reported sales are up 18.5% on the previous comparable period in the first eight weeks. Analysts have highlighted this early strength has benefitted from cycling off lockdowns in this same period last year, but noted sales are still up 13.4% on FY21 figures.

The company has also announced a buyback of 5% of its issued shares, which at the current share price represents around $20m. In addition, Michael Hill committed to a 4 cents per share final dividend, which combined with the 3.5 cents per share first half dividend will see the company deliver a total payout of 7.5 cents per share. The total payout represents 67% of net profits, and the company guided to total dividend payouts in the 50-75% range moving forward.

Tougher comparables ahead, digital penetration to drive growth strategy

Of FNArena's database brokers, two cover Michael Hill. Both Citi and Macquarie are Buy-equivalent rated, and between them have an average target price of $1.67.

Citi (Buy rated and with a target price of $1.48) noted Michael Hill delivered a beat with its full year result, and likes the company's net cash position at the end of the year which it believes will facilitate acquisition activity and growth initiatives.

Although the broker noted the start to the new financial year has been better than expected, it reiterated its forecast for 7.4% total sales growth in the first half, implying growth will slow to 2.5% for the remaining eighteen weeks of the half as the company cycles tougher comparables. The broker also highlighted that should the Canadian digital platform gain traction from the addition of dual-language optionality, it sees potential for the retailer to launch physical stores in Quebec. The broker lifts its earnings per share forecasts 7-10% in FY23 and FY24, accounting for the company's strong trading update and revenue growth opportunities.

Macquarie (Outperform rated and with a target price of $1.86) acknowledged the company delivered a solid full year result, and described it as a well-managed company closing in on the end of a transformation period. Macquarie analysts highlighted new region and service expansion would be a focus for the retailer moving forward.

The broker also highlighted ongoing growth of the company's Brilliance by Michael Hill loyalty program, now with 1.4m members compared to the 800,000 reported in FY21, and that loyalty program members spend close to double what non-members do, with Brilliance members contributing around 76% of total revenue. The analysts described Michael Hill as offering investors an appealing blend of conservatism and growth.

Describing the company's result as solid given the challenging environment of the last year, Jarden (Buy rated and with a target price of NZ$1.50) also updated on Michael Hill and noted the result demonstrated fundamentals across all key markets were robust.

Jarden revised its earnings per share estimates -1.9%, 5.3% and 15.3% through to FY25, reflecting both near-term earnings caution and lower depreciation. The broker also expects margins will feel the pinch of inflationary pressures, and lowered its earnings forecasts -3.8% and -15% for FY23 and FY24 respectively as a result.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 26-08-22

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday August 22 to Friday August 26, 2022
Total Upgrades: 14
Total Downgrades: 38
Net Ratings Breakdown: Buy 55.75%; Hold 36.49%; Sell 7.76%

Rating downgrades were to the fore in another busy period of the August reporting season. For the week ending Friday August 26 there were fourteen upgrades and thirty-eight downgrades to ASX-listed companies covered by brokers in the FNArena database.

Pilbara Minerals received ratings downgrades from three separate brokers after FY22 earnings and FY23 cost guidance missed consensus expectations. Credit Suisse downgraded to Underperform, while Ord Minnett and Citi downgraded to Hold on valuation. All three brokers remain positive on the long-term prospects for lithium.

Accent Group received the largest percentage increase in target price last week. Following in-line FY22 results the focus was on a bright start to FY23 trading.

Morgans lifted its target to $2.00 from $1.40 and upgraded its rating to Add from Hold. The broker noted a renewed focus on selling at full price, which should support a recovery in the gross profit margin in FY23. Management guided to growth in higher margin products, fewer promotions, and improved vertical brand penetration.

Wisetech Global was next after in-line FY22 results and FY23 guidance in advance of expectations. Overweight-rated Morgan Stanley raised its target to $62 from $50 after assessing the financial and strategic value of the core CargoWise software platform is rising sharply as customers navigate an increasingly complex global supply chain.

Ord Minnett raised its target to $64 from $52, despite lowering its rating to Accumulate on valuation, while Macquarie (Underperform) increased its target to $46 from $42. The analyst felt news of the signing of UPS as a global rollout customer was a "solid win".

Brokers combined to raise the average target price for Whitehaven Coal after in-line FY22 results. Morgans noted shares provide an option over ongoing energy market dislocation and can continue upwards on windfall earnings and dividends. While the final dividend disappointed, Morgan Stanley forecast larger returns in FY23.

Citi downgraded its rating for the company to Neutral from Buy on the expectation thermal coal prices will moderate at the same time as costs are rising and management increases its capex budget.

On the flipside, Wagners Holding Co had the largest percentage fall in average target price last week, after FY22 results missed expectations. Construction Material Services margins were weaker than Macquarie expected, as price improvement proved too slow to counter a sharp increase in costs.

Morgans lowered its target to $1.10 from $1.45 due to the application of lower multiples, an increased debt forecast and a reduced value for Earth Friendly Concrete. More positively, Credit Suisse maintained its Outperform rating and felt the business will gain share in the south-east Queensland construction materials market, though reduced its target to $1.60 from $2.00.

Brokers lowered their target prices for Adbri after disappointing first half results. Macquarie also downgraded its rating to Neutral from Outperform and suggested cost pressures will linger and materially reduce the broker's margin assumptions and offset any price traction.

Citi attributed the weak result to a lack of pricing power in the face of rising costs, even though the company beat on sales. A strong pick-up in construction materials volumes was evident to Ord Minnett, though leverage to an improved outlook was still missing.

Target prices were also reduced for Appen following a miss for first half results compared to broker expectations.

After noting no material improvement in second half trading, Ord Minnett felt revenue and orders of up to US$360m may be at risk, as management has signalled much lower conversion levels. The broker downgraded its rating to Sell from Hold and reduced its target to $3.00 from $4.00.

Citi (Sell) noted growth of Appen’s work-in-hand has slowed, while Underperform-rated Macquarie was disappointed by weaker than expected guidance and lowered its target price to $3.30 from $3.60. The company also featured third on the table for the largest percentage fall in forecast earnings last week.

Coming first was Sonic Healthcare, despite producing FY22 results in advance of consensus expectations. Management failed to provide FY23 guidance though noted long-term covid volumes will be -10-20% off peak levels.

Ord Minnett downgraded its rating for the company to Hold from Accumulate and expected group earnings to more than halve on lower covid testing volumes which are already declining across all major markets, signalling the end of a period of super profits.

On the other hand, Overweight-rated Morgan Stanley noted the absence of cost inflation for Sonic Healthcare, while the base business accelerated more than expected.

Tabcorp was next after a slight miss versus broker expectations for FY22 results. Ord Minnett failed to see upside from current market share without promotional bonuses or benefits being significantly increased to simply defend existing market share and maintained its Lighten rating.

Alternatively, Morgans upgraded its rating to Add from Hold on the potential for the digital strategy (with enhancements) and sustainable cost efficiencies. With a new app coming and better marketing, the analyst forecast improved market share. The dividend yield and a relatively low multiple were also considered an attraction.

Brokers lowered earnings forecasts for Fisher & Paykel Healthcare after a profit warning accompanied an FY23 trading update. Macquarie lowered FY23-24 Hospital revenue forecasts on higher destocking and a slower clinical adoption ramp-up and reduced its rating to Neutral from Outperform on valuation.

Citi reduced its earnings forecasts by -31% and -19% for FY23 and FY24 and noted significant uncertainty around forecasting earnings due to ongoing covid impacts.

Judo Capital received the largest percentage increase in forecast earnings. FY22 results were ahead of prospectus, and Credit Suisse noted FY23 guidance is strong, particularly for interest margins and loan growth.

Ord Minnett repeated its view the company will continue to take share in the SME lending market and Macquarie noted higher interest rates are set to assist earnings in the coming year.

As explained in last week’s report, many FY22 broker forecasts for a range of companies were severely depressed by pandemic-related factors. With the advent of a new financial year, overall forecasts for those companies have received a boost as FY22 forecasts rolled off broker financial models.

This boost occurred even if existing (sunnier) forecasts for FY23 and beyond were downgraded due to changed reporting season results/outlooks, as was the case for Nanosonics, Star Entertainment Group and Boral, which all featured in the table for forecasts earnings upgrades by brokers last week.

While FY22 underlying net profit for Nanosonics beat Ord Minnett's forecast, the broker lowered its EPS forecasts by -50% (on small numbers), largely due to lower-than-expected FY23 revenue guidance and retained its Lighten rating.

Morgans downgraded its rating to Hold as its price target for Nanosonics had been reached and also noted the launch of the new CORIS product could take a couple of years. Citi observed the transition to a direct distribution model was largely complete though required significant investments and retained its Sell rating.

Despite broadly in-line FY22 results, management at Star Entertainment Group flagged increased costs from tight labour markets, supply chain issues and rising inflation.

Morgans retained its Hold rating on concerns about ongoing regulatory investigations and potential delays for the sale and leaseback of The Star Sydney buildings, while Outperform-rated Macquarie highlighted resilient revenue streams and felt there is a re-rating opportunity ahead.

While Boral recorded in-line FY22 results, Citi retained its Sell rating due to a challenging outlook. Macquarie assessed a weaker operational outcome than guided and remained concerned over the unhedged energy portfolio. While price increases are helping, the analysts noted costs and weather impacts remain hard to forecast.

Total Buy recommendations take up 55.75% of the total, versus 35.49% on Neutral/Hold, while Sell ratings account for the remaining 7.76%.

Upgrade

ALTIUM ((ALU)) Upgrade to Outperform from Underperform by Macquarie .B/H/S: 3/1/0

Altium's FY22 revenues came in ahead of guidance, while earnings margins were at the upper end of guidance. Stronger-than-forecast results were largely driven by Octopart, which beat Macquarie's estimates by 13% from both stronger clicks as well as cost-per-click.

Altium's outlook is improving, in Macquarie's view. Management's conviction in hitting its FY26 targets is increased by stronger-than-forecast revenue per subscriber growth, although this was offset by weaker overall subs growth and higher churn.

Upgrade to Neutral from Underperform. Target rises to $31.40 from $25.20.

ANSELL LIMITED ((ANN)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 3/3/0

FY22 earnings were in line with guidance while beating consensus estimates because of stronger second half healthcare margins. Ansell is guiding to lower sales in FY23 and Credit Suisse forecasts group sales will be down -4%.

EPS guidance is US$1.15-35 as cost headwinds prevail. The broker expects the lower end of the guidance range, as the top end would imply sales growth, in contrast to expectations.

Rating is upgraded to Neutral from Underperform as Credit Suisse no longer envisages a negative catalyst for the stock. Target is raised to $25.20 from $24.00.

See also ANN downgrade.

ACCENT GROUP LIMITED ((AX1)) Upgrade to Add from Hold by Morgans .B/H/S: 2/2/0

FY22 earnings were in line with the July update and Morgans' estimates. Accent Group did not disclose sales growth for FY22 but indicated, given disruptions from the pandemic, this was fairly ordinary.

Nevertheless, with demand for new products running strongly over recent weeks, Morgans has become more positive about the prospect of sales growth.

A renewed focus on selling at full price should support a recovery in the gross profit margin in FY23 and the broker upgrades the rating to Add from Hold. The target is raised to $2.00 from $1.40.

CARINDALE PROPERTY TRUST ((CDP)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 1/0/0

Carindale Property Trust reported FY22 funds from operations up 7.2% on FY21 but -1.5% below Ord Minnett's forecast due to slightly lower net property income. FY23 distribution guidance represents growth of 5.0%.

The result highlight for the broker was a significant lift in net tangible asset (NTA) value, up 8.4% half-on-half, driven solely by rent growth. The stock is trading at a -38% discount to NTA and offers a 5.8% forecast dividend yield.

Upgrade to Buy from Hold, target rises to $5.40 from $5.00.

ENDEAVOUR GROUP LIMITED ((EDV)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 2/1/2

Endeavour Group's result was in line with forecast. Ord Minnett puts the share price slide down to too-high expectations on a PE of 27x, and concerns over the retail liquor margin outlook.

Market expectations have been reset lower and consensus expectations are likely to hold up, the broker suggests, as modest retail
downgrades are offset by upgraded gaming earnings. As a result, the outlook remains positive, and broadly consistent.

Target rises to $8.50 from $8.40 while the rating is upgraded to Buy from Accumulate on valuation.

FLIGHT CENTRE TRAVEL GROUP LIMITED ((FLT)) Upgrade to Neutral from Sell by Citi .B/H/S: 0/4/2

Following FY22 results, Citi upgrades its rating for Flight Centre Travel to Neutral from Sell after a material share price fall, and now that revenue margin issues are factored-in to consensus expectations. The target rises to $16.60 from $15.55.

Yesterday, the broker noted the underlying operating earnings loss was pre-reported in July, and there were no surprises in the FY22 result. Citi asserts revenue margins of around -25% below pre-pandemic levels are unsustainable and need to normalise before there is a proper recovery.

Moreover, capacity revisions are heading down instead of up. Hence, the broker calculates, for Flight Centre Travel to hit FY23 consensus revenue estimates at existing take rates implies 11% more than the total transaction value the market is expecting.

KOGAN.COM LIMITED ((KGN)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/1/1

Credit Suisse notes selling costs moderated in the second half of FY22 and price increases for Kogan First should provide additional support in FY23. A small profit is now expected in FY23, with estimates for FY24 and FY25 upgraded by 38% and 30%, respectively.

As the stock has underperformed in the wake of the result and the cash position is better, Kogan.com is upgraded to Neutral from Underperform. Target increases to $3.66 from $3.44.

LENDLEASE GROUP ((LLC)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 5/1/0

FY22 operating profit was ahead of Ord Minnett's forecast. The final dividend meant the full year pay-out at $0.16 was softer than the broker's $0.18 forecast.

Lendlease Group has lifted development work in progress and there is completion visibility out to the end of FY25. An earnings recovery remains a story of FY24 and beyond, Ord Minnett asserts, underpinned by large cap one Sydney Harbour profits.

Rating is upgraded to Buy from Accumulate and the target lifted to $12.50 from $12.00.

MONADELPHOUS GROUP LIMITED ((MND)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/2/0

FY22 net profit and revenue were ahead of Credit Suisse estimates. No guidance was provided. The broker lifts FY23-24 estimates for earnings per share by 6.3-9.0%.

The broker is now more positive about Monadelphous Group because of the prospective margins, expecting the run rate margin to be approaching 7% by the end of the first half which positions FY24 for an EBITDA margin greater than 7%.

Credit Suisse acknowledges this view relies heavily on execution but believes the company has earned the benefit of the assumption, raising the rating to Outperform from Neutral and the target lifts to $14.10 from $10.30.

See also MND downgrade.

NIB HOLDINGS LIMITED ((NHF)) Upgrade to Neutral from Sell by Citi .B/H/S: 0/6/0

Citi assesses the nib Holdings FY22 earnings report as better than expected with arhi's 2H22 net margin of 9.9% higher than forecast, due to benign claims from covid impacts, and iihi recovering more swiftly than anticipated.

The FY22 premium growth 7% for iihi was achieved despite a -5% fall in policyholders which Citi attributes to the mix of workers versus students.

Citi earnings forecasts are adjusted by 24% for FY23 and 14.5% for FY24.

The rating is upgraded to Neutral from Sell and the target price is raised to $7.80 from $6.95.

QANTAS AIRWAYS LIMITED ((QAN)) Upgrade to Outperform from Underperform by Credit Suisse .B/H/S: 5/0/1

The FY22 loss of -$1.86m was slightly more than Credit Suisse expected. Net debt was better than forecast. Qantas Airways expects a record fuel bill in FY23 of $5bn but has announced a -10% cut to domestic capacity, and anticipates unit revenue growth of 10% compared to FY19 levels will fully offset higher fuel costs.

Credit Suisse highlights the airline's pricing power in the domestic market, with a market share close to 70%, but remains surprised by the idea that higher fuel costs can be fully offset with capacity reductions and unit revenue increases.

It seems Qantas is assuming competitors are either unwilling or unable to fill a capacity gap. Rating is upgraded to Outperform from Underperform and the target lifted to $5.65 from $4.35.

TABCORP HOLDINGS LIMITED ((TAH)) Upgrade to Add from Hold by Morgans .B/H/S: 3/2/0

After Tabcorp Holdings reported in-line FY22 results, Morgans upgrades its rating to Add from Hold on the potential for the digital strategy (with enhancements) and sustainable cost efficiencies. The target price increases to $1.20 from $1.15.

With a new app coming and better marketing, the analyst expects the company's 24.9% digital revenue market share to improve. The dividend yield and a relatively low multiple are also considered an attraction.

VIVA ENERGY GROUP LIMITED ((VEA)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Buy from Accumulate by Ord Minnett.B/H/S: 5/1/0

Viva Energy's first half result impressed Credit Suisse. Refining margins are expected to strengthen into the second half while the outperformance of the commercial business should continue.

The refining dividend has been pulled forward, given the strong cash position. Credit Suisse expects the company to remain net cash at the end of 2022 and believes further capital management is an increasing possibility.

Earnings upgrades are largely in commercial as refining costs are a partial offset. Rating is upgraded to Outperform from Neutral and the target lifted to $3.14 from $2.77.

FY22 results were very strong with record operating earnings albeit in line with forecasts. Ord Minnett found the post-covid recovery clearly evident and positive trends are expected to continue.

Retail margins are now set to expand and commercial sales volumes are elevated. The stock offers good exposure to a recovery and Ord Minnett upgrades to Buy from accumulate. Target is lowered to $3.35 from $3.40.

<u>Downgrade</u>

ADBRI LIMITED ((ABC)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/6/0

On further assessment of Adbri's result, Macquarie notes the stock is now trading well below historical multiples but can see no impetus for a re-rating at this stage. Hence a downgrade to Neutral from Outperform.

The good news is Adbri did show strength when it wasn't raining, and did post impressive cost controls. The bad news is it rarely stopped raining and cost cuts were not enoght to overcome inflation, pariticularly fuel costs.

Macquarie suggests the result shows cost pressures are going to linger, markedly reducing the broker's margin assumptions and offsetting any price traction. Target falls to $2.15 from $3.45.

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

While Credit Suisse was anticipating a guidance miss from AGL Energy, the broker notes reported net profit of $225m met the lower end of the $220-270m guidance range. Operating cash flow of $1,227m surprised to the upside, and Credit Suisse expects cash flow improvement to be largely retained moving into FY23.

The company suggests there will not be a major step up in earnings in the coming year. Credit Suisse notes a number of items not previously factoring into its forecasts, including a -$1bn reduction in onerous contract provision that it estimates will have a -$85m impact on earnings.

The broker forecasts 30% net profit growth in the coming year, anticipating an accelerated pass through of higher costs. The rating is downgraded to Neutral from Outperform and the target price decreases to $8.20 from $10.80.

ALLKEM LIMITED ((AKE)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 5/1/1

FY22 EBITDA missed forecasts. Production at Mount Cattlin for FY23 has been downgraded -12% to 140-150,000t while costs are up 14%. Credit Suisse notes possible upside from operating improvements with two improvement projects underway for Olaroz.

Allkem's recent share price improvement no longer appears to factor in the risk of a downturn emerging in the lithium market from the June half, the broker observes.

Believing this is a sector wide issue the rating is downgraded to Underperform from Neutral as a result. Target is reduced to $10.30 from $10.40.

AMCOR PLC ((AMC)) Downgrade to Neutral from Buy by UBS .B/H/S: 1/6/0

UBS downgrades Amcor to Neutral from Buy after a strong recent share price performance, which is now approaching the new target price of $19.40, down from $20.00.

Amcor's FY22 performance, including FY23 guidance, was smack bang in line with market consensus expectations.

FY23 reported EPS guidance implies growth of -1% to +4%, and suggests to the analyst an impressive level of underlying organic growth (5-10%). However, it's thought this relatively high level of organic growth lessens the odds for further guidance upgrades.

The analyst suggests the market is well aware of the mentioned FX headwinds and organic EPS growth guidance of 5-10% looks "solid", with a new $400m buyback on top.

UBS thinks Amcor has yet again delivered solidly, and in line.

ANSELL LIMITED ((ANN)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 3/3/0

Ansell's underlying FY22 EPS was a 10% beat compared to the consensus forecast. While FY23 EPS guidance was also in line, Morgan Stanley suggests effective guidance is higher, given current currency headwinds and one-off costs from closing the Russian business.

The broker downgrades its rating to Equal-weight from Overweight on an uncertain outlook and as there is only small upside to the $27.77 target price, down from $28.93. Industry view In-Line.

See also ANN upgrade.

APPEN LIMITED ((APX)) Downgrade to Sell from Hold by Ord Minnett .B/H/S: 0/0/3

The first half net loss of -US$3.8m was in line with Ord Minnett's forecast. There has been no material improvement in trading to date in the second half and the broker believes revenue and orders of US$360m may be at risk, as management has signalled much lower conversion levels.

The seasonal skew to the second half is also expected to be weaker. Challenges are stemming from decreased investment expenditure from Appen's largest customers and the broker envisages limited opportunity for this to turn around in the near term.

Rating is downgraded to Sell from Hold and the target lowered to $3 from $4.

ALUMINA LIMITED ((AWC)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/2/0

First half earnings (EBITDA) for Alumina Ltd, via its 40% interest in the AWAC joint venture with Alcoa, were in line with Citi's forecast though profit was a miss. An interim dividend of US4.2cps was declared.

The broker downgrades its rating to Neutral from Buy as near-term alumina prices are expected to remain volatile, weighing on the 2H. It's felt FY23 may be better, on the assumption the EU gas crisis is resolved. The $1.60 target price is unchanged.

The analyst also mentions dividends may be constrained in the 2H, given the majority of capex is planned for that period.

COCHLEAR LIMITED ((COH)) Downgrade to Underperform from Neutral by Macquarie and Downgrade to

Neutral from Buy by Citi .B/H/S: 1/4/1

FY22 results were in line with Macquarie's estimates and its forecasts for FY23 capture the benefits associated with the new N8 processor as well as longer-term implant growth assumptions.

The downside for Cochlear, in the broker's view, comes from risks associated with Oticon Medical dilution, a recovery in market share for Advanced Bionics and staffing constraints. Macquarie downgrades to Underperform from Neutral and reduces the target to $194 from $197.

Cochlear reported a weaker than expected FY22 result according to Citi, with underlying earnings -3% below consensus estimates.

The company has guided to FY23 earnings up between 5-10% at $290-$305m which is 2% below consensus, pre the results. with earnings to be weighted to the 2H23.

Broker earnings forecasts are lowered by -10% and -9% for FY23 and FFY24 due to a slower than anticipated recovery from covid.

The rating is downgraded to Neutral from Buy and the target price is lowered to $225 from $245.

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

First half earnings were below expectations amid higher costs and lower market share.

HT&E has provided a positive outlook and trading update and Macquarie notes the business resilience has been improved with the Grant acquisition. Industry trends are also favouring radio expenditure.

Still, the valuation appeal is reduced and the broker is cautious about the buyback so the rating is downgraded to Neutral from Outperform. Target is steady at $1.40.

ILUKA RESOURCES LIMITED ((ILU)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/3/0

Credit Suisse found the first half mixed, with net profit ahead of estimates and underlying EBITDA in line. The interim dividend was substantially below expectations.

Iluka Resources has dismissed the prospect of softening demand, instead focusing on supply chain and customer desire for supply security.

The broker disagrees with this and forecasts price weakness as the global economy stumbles in 2023. Rating is downgraded to Neutral from Outperform. Target is lowered to $10.00 from $10.48.

LYNAS RARE EARTHS LIMITED ((LYC)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/1/0

Macquarie downgrades estimates for rare earth pricing, given the disruptions and softer consumer confidence that has weighed on demand over recent months.

This drives reductions in earnings forecasts for Lynas Rare Earths and the rating is downgraded to Neutral from Outperform, given a strong share price performance. Target is lowered to $10.40 from $12.50.

MONADELPHOUS GROUP LIMITED ((MND)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 3/2/0

Monadelphous Group reported an FY22 underlying net profit just ahead of Ord Minnett's forecast. The final dividend took the full-year payout to 49cps versus the broker's 40cps expectation.

The strong result was driven by robust demand for maintenance services, the broker notes. Supportive commodity prices enabled buoyancy in key resources and energy end-markets, with oil and gas activity also increasing.

Engineering construction saw a significantly weaker performance in the second half as key projects completed in the first half, but the next wave will ramp up in FY23.

Target rises to $12.50 but Ord Minnett downgrades to Accumulate from Buy on valuation.

See also MND upgrade.

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

Nanosonics reported FY22 earnings in line with expectations and the recent trading updates, notes Morgans, with the results benefiting from a tax benefit and lower operating costs.

To implement the full transition to a direct sales model, the company has increased inventory by 91% to $22.6m. Nanosonics is now responsible for 91% of the new installed base and 86% of the 4Q upgrades.

Morgans adjusts EBITDA forecasts by -6% and -4% for FY23 and FY24 after a downgrade in guidance from management, with the analyst pointing out the launch of the CORIS via the de Novo path which could take a couple of years.

The target price is adjusted very marginally to $4.87 from $4.86.

Morgans downgrades the rating to Hold from Add as the stock has reached the price target.

NEW HOPE CORPORATION LIMITED ((NHC)) Downgrade to Sell from Neutral by Citi .B/H/S: 3/0/1

Citi acknowledges the potential of higher for longer coal prices from an ongoing EU gas crisis, but decided to downgrade its rating for New Hope to Sell from Neutral. Buy-rated Whitehaven Coal ((WHC)) is preferred for thermal coal exposure. The $3.00 target is unchanged.

The broker's decision follows a 98% share price rally in six months as thermal coal prices have breached new highs.

Following fourth quarter results, underlying FY22 earnings (EBITDA) came in 23% above the analyst's forecast.

NUIX LIMITED ((NXL)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 0/1/0

Following a review of Nuix's FY22 results, Morgan Stanley lowers its rating to Equal-weight from Overweight and reduces its price target to $0.90 from $5.50. Industry view: Attractive.

The broker feels a turnaround has begun though execution risk is high. There's considered to be better value elsewhere under Morgan Stanley's coverage with the market's focus now upon higher quality stocks with proven profitability and a clear path to global scale.

PANORAMIC RESOURCES LIMITED ((PAN)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

Having fully examined Panoramic Resources's FY22 result, Macquarie downgrades to Neutral from Outperform and cuts the target price to 24c from 25c.

Macquarie is surprised by the drawing down of the revolving credit facility, which stems from the delay of a fifth shipment and was secured in April 2021 as part of the US$45m financing package with Trafigura. The facility is now fully drawn.

As a result, Macquarie expects the company's net debt is expected rise to $45m at the end of the September quarter, increasing balance-sheet risk. Should the facility be repaid in the quarter, the company's cash balance would fall to $13.4m.

The company has signalled a previously planned August shipment has been delayed because of ongoing tightness in international sea freight markets, with 11,000t of nickel-copper-cobalt concentrate now stockpiled at Wyndham.

Macquarie now expects there will be only one shipment during the first quarter of FY23. On the positive side, Panoramic Resources has arranged the revolving credit facility for use in these situations and this will not affect the ramp up at Savannah in FY23.

EPS forecasts fall -11% in FY23; -15% in FY24; -9% in FY25; and -23% in FY26. IGO ((IGO)) is a major shareholder of the company.

PACT GROUP HOLDINGS LIMITED ((PGH)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 1/2/1

Pact Group delivered FY22 revenue and net profit ahead of Ord Minnett's forecast. Yet the dividend of 1.5c, which took the full year pay-out to 5c per share, was well below expectations.

Ord Minnett observes execution to date has been challenged by hyperinflation and supply chain inefficiencies. Nevertheless, the company is considered well-positioned to benefit from the push towards sustainability.

The broker moderates its view and downgrades to Hold from Buy, reducing the target to $2.20 from $3.10.

PILBARA MINERALS LIMITED ((PLS)) Downgrade to Underperform from Neutral by Credit Suisse and Downgrade to Hold from Buy by Ord Minnett and Downgrade to Neutral from Buy by Citi.B/H/S: 1/2/1

FY22 earnings missed forecasts. FY23 guided costs are 11% above consensus estimates. As a result, Credit Suisse downgrades Pilbara Minerals to Underrperforrm from Neutrral.

Nevertheless, the short-term macro environment is considered supportive, with upside from possible capital management at the December AGM when a maiden dividend policy may be introduced.

The broker suggests this could start attracting yield investors, supporting valuation. Target is reduced to $2.30 from $2.40.

FY22 net profit was below Ord Minnett's forecast and no dividend was declared, as expected. FY23 production guidance is ahead of expectations, at 540-580,000t, with a faster ramp up of Ngungaju although costs are also guided to be higher, at US$445-490/dmt.

Pilbara Minerals has indicated delays for long lead items are more of a concern than labour shortages. Ord Minnett remains constructive on the lithium market outlook as deficits persist that should keep prices elevated.

Yet the stock is downgraded to Hold from Buy as it is trading in line with valuation, given the recent run up in the share price. Target is $3.50.

Following an around 40% rally in share price over the last month, Citi reviews the relative valuation of Pilbara Minerals against peers, and decides to lower its rating to Neutral from Buy.

No changes are made to the broker's forecasts.

PTB GROUP LIMITED ((PTB)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

PTB Group has received a all-cash bid from Precision Aviation Group at $1.595 a share. The board has supported the bid, which is at a strong premium, and intends to enter a scheme of arrangement.

Morgans considers there is little chance the deal will not be completed and therefore reduces its rating to Hold from Add. Target is $1.60, up from $1.51.

RIO TINTO LIMITED ((RIO)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 4/3/0

Macquarie downgrades its iron-ore price outlook -20% for the next 18 months.

The broker forecasts that prices will fall to US$85/t by this December quarter as subdued demand from China, particularly the property markets, and China's slower than expected recovery, sends iron-ore supply into surplus.

Earnings forecasts for Rio Tinto fall -20%. Dividend estimates also step down.

Rating downgraded to Neutral from Outperform. Target price falls to $100 from $116.00.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Sell from Neutral by Citi and Downgrade to Neutral from Outperform by Credit Suisse.B/H/S: 2/1/2

Citi's downgrade to Sell from Neutral is not directly linked to Regis Resources' FY22 performance, which proved ever so slightly better-than-forecast, both by Citi and market consensus.

But then...

The valuation is seen as full with the market ostensibly already awarding upside to the, as yet not approved, McPhillamys project, the broker suggests.

Citi doesn't see a lot of momentum for the gold price on the horizon. Even so, the broker sees better opportunities in the sector elsewhere.

There are a number of other negatives, with the broker highlighting "permitting an open pit project in NSW requires patience would be an understatement".

Target drops to $1.60 from $1.70.

The FY22 EBITDA of $336m missed Credit Suisse estimates, because of a non-cash stockpile write-down. Management has indicated stockpiles are attractive from a cash perspective and remain in the mine plan but are not likely to be positive for earnings given the sunk costs.

Regis Resources has also re-started dividend payments, with a final dividend of 2c. While Credit Suisse forecasts a 3c annual pay-out over the next few years it is becoming cautious about the balance sheet, should the company go ahead with McPhillamys.

Amid the continued risks, the broker downgrades to Neutral from Outperform. Target is reduced to $1.60 from $1.80.

RELIANCE WORLDWIDE CORP. LIMITED ((RWC)) Downgrade to Hold from Add by Morgans and Downgrade to Hold from Buy by Ord Minnett.B/H/S: 4/2/1

Morgans determines from FY22 results for Reliance Worldwide (that exceeded expectations), that activity is softening in all regions, and lowers its rating to Hold from Add. The target falls to $4.42 from $4.83.

Management advised that July group sales were down -3% and that detached housing construction in the US is slowing, despite strength in commercial, multi-residential, and mixed-use construction.

Demand for water heaters has also softened and wholesalers are reducing inventory levels because of improving supply chains, said the company.

Ord Minnett believes the demand outlook is increasingly uncertain for Reliance Worldwide. Some customers are starting to unwind inventory, affecting volumes and sales.

FY22 underlying net profit and sales were ahead of forecasts, with the company benefiting from the acquisition of EZ-Flo in November. Yet EBITDA margins declined to 22.9% amid commodity cost pressures and dilution from EZ-Flo.

Ord Minnett downgrades to Hold from Buy and lowers the target to $4.50 from $6.20.

SCENTRE GROUP ((SCG)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/4/0

First half results were well ahead of estimates, largely from lower-than-expected rent relief. While finance costs were also below estimates, these are expected to increase meaningfully in the second half.

Scentre Group is now guiding to free funds in 2022 above $0.19, signalling growth of 14.2%. Distribution guidance is "at least" $0.15. The broker suspects the company will look to provide higher distributions in the future although there could be some variability in the pay out.

Rating is downgraded to Neutral from Outperform as, while the broker remains attracted to the quality portfolio, investor sentiment is likely to hinder a further meaningful recovery in the share price. Target is lowered to $3.08 from $3.20.

STOCKLAND ((SGP)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/3/0

Stockland reported FY22 earnings slightly above guidance as noted in Citi's first take.

The broker considers the group has provided conservative guidance for FY23, but funds from operations are likely to be flat with the group expecting to pay tax in FY23.

The trading update revealed a softening in the residential market which is guided to impact on FY24 and beyond., while Stockland is increasing the logistics development pipeline to around $600m from $400m.

Citi downgrades the rating to Neutral from Buy on a flat earnings outlook for the next 2 years, and the target price is lowered to $3.96 from $4.25.

SONIC HEALTHCARE LIMITED ((SHL)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 2/3/1

FY22 underlying net profit was broadly in line with Ord Minnett's forecast largely underpinned by stronger higher-margin coronavirus testing.

Sonic Healthcare has emerged from the pandemic with a refreshed balance sheet but will face a tougher cost environment and a health system with funding and staffing challenges, the broker asserts.

Even with acquisitions supporting growth, group earnings are expected to more than halve as coronavirus testing volumes slow. Volumes are now declining across all major markets, signalling the end of a period of super profits.

Ord Minnett downgrades to Hold from Accumulate and lowers the target to $36.00 from $37.50.

SPARK NEW ZEALAND LIMITED ((SPK)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/2/0

Spark New Zealand's FY22 results were in line with estimates. Guidance for FY23 is better than Credit Suisse expected, with the midpoint of EBITDAI of NZ$1.185-1.225bn implying 5% growth.

Capital management, foreshadowed after the TowerCo sale, is in the form of an NZ$350m buyback. Despite the strong guidance the upside is limited and the broker downgrades to Neutral from Outperform. Target is raised to $5.00 from $4.90.

TPG TELECOM LIMITED ((TPG)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/3/0

First half results from TPG Telecom, excluding merger restructuring costs, are in line with Macquarie's expectations, with underlying earnings up 3% half-on-half.

Macquarie notes consensus estimates remain above the company's guidance for high single digit earnings growth, and expects downgrades will weigh on the share price in the next 6-12 months.

Accounting for a higher operating cost base, Macquarie's earnings forecasts decrease -7%, -9% and -12% through to FY24, while earnings per share decrease -35%, -23% and -27%.

The rating is downgraded to Neutral from Outperform and the target price decreases to $5.70 from $6.80.

VENTIA SERVICES GROUP LIMITED ((VNT)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 2/0/0

First half pro-forma net profit was below Ord Minnett's forecasts although Ventia Services is considered on track to achieve 2022 prospectus forecasts.

Infrastructure services were the main drag on earnings in a challenging operating environment. Still management has highlighted favourable contracting structures and the essential nature of much of the work in hand.

Ord Minnett downgrades to Accumulate from Buy on valuation while the target is raised to $2.80 from $2.70.

VIVA LEISURE LIMITED ((VVA)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/1/0

Viva Leisure reported FY22 revenues below Citi forecasts and losses broadly in line.

The analyst points to a higher utilisation rate of 69% for owned locations as well as growth in membership for owned locations, but notes the negative 12-month pushback in the 400 location target.

Citi adjusts earnings forecasts by -1% and -38% for FY23 and FY24, respectively for a slower than expected rollout of locations and weaker consumer backdrop.

Concerns around the capital intensity to fund growth with the new scrip option for acquisitions as well as the cost of living headwinds are highlighted as reasons contributing to the downgrade in the stock fto Neutral from Buy.

The target price is lowered to $1.39 from $1.85.

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

Wagners reported below Macquarie's forecast. Construction Material Services margins were weaker than expected, as the company was unable to secure sufficient price improvement fast enough to counter sharp cost growth.

New Generation Building Materials sales were better than expected, with Composite Fibre Technologies revenues rising 32%, and Macquarie notes increased production capacity in A&NZ and a new facility in Texas set this division up for growth ahead.

While the stock is trading at the low end of historical valuation, the broker sees little chance of a re-rating. Outlook commentary is opaque, and cost pressures are unlikely to abate in the near term.

Downgrade to Neutral from Outperform. Target falls to 85c from $1.30.

WHITEHAVEN COAL LIMITED ((WHC)) Downgrade to Neutral from Buy by Citi .B/H/S: 5/1/0

Citi's downgrade to Neutral from Buy is linked to the fact the broker sees thermal coal prices moderating at the same time as costs are rising and Whitehaven Coal intends to fire up capex.

Target price falls to $7.40 from $7.85.

Yesterday, the broker highlighted Whitehaven Coal's FY22 result outpaced consensus by 10% while the dividend sharply disappointed at 48c, compared with Citi's forecast of 71c, given management is considering a buyback.

Estimates have been reduced. Interestingly, Citi's DCF-valuation has only declined to $9 from $10.30 but for specific coal uncertainty a discount has been applied.

WOOLWORTHS GROUP LIMITED ((WOW)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 1/3/1

Woolworths Group's FY22 only slightly missed Ord Minnett's numbers, with the broker acknowledging it was a strong performance overall.

The downgrade to Lighten from Hold occurs because the broker sees cost inflation as a problem, with the company believed to rely on margin expansion to keep its growth story going.

Yet another downgrade for the New Zealand operations is seen as a negative too. Forecasts for the years ahead have been reduced.

Ord Minnett argues Woolworths needs to become "leaner" and less-reliant on suppliers facilitating gross margin expansion. Target drops to $34 from $35.40.

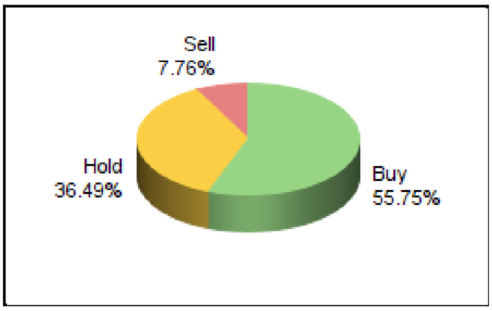
WISETECH GLOBAL LIMITED ((WTC)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 2/1/1

WiseTech Global reported FY22 underlying net profit of $181.8m, ahead of Ord Minnett's forecast. The final dividend was also ahead of expectations.

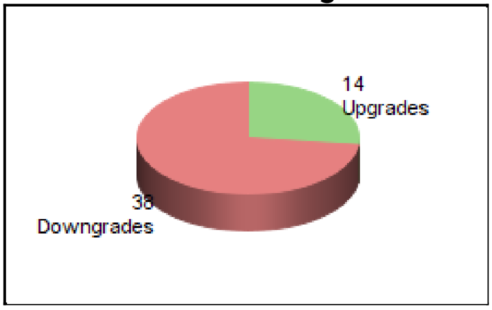
FY23 guidance is well ahead of forecasts and driven by the global roll-out over the second half as well as price rises and cost control.

FY23 guidance is for 21% revenue growth and 25% EBITDA growth and reflects continued margin expansion. While expecting potential upside, Ord Minnett downgrades to Accumulate from Buy based on valuation. Target is raised to $64 from $52.

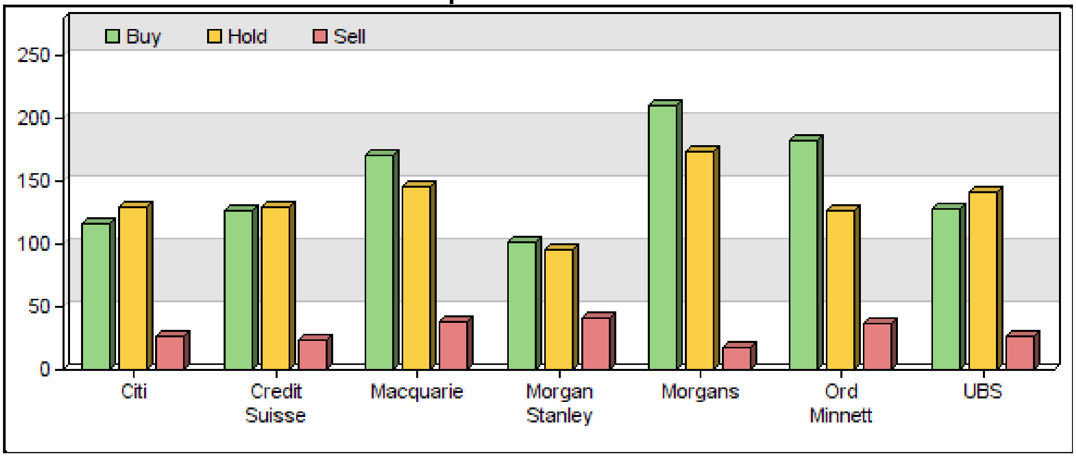
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ACCENT GROUP LIMITED	Buy	Neutral	Morgans
2	ALTIUM	Buy	Sell	Macquarie
3	ANSELL LIMITED	Neutral	Sell	Credit Suisse
4	CARINDALE PROPERTY TRUST	Buy	Neutral	Ord Minnett
5	ENDEAVOUR GROUP LIMITED	Buy	Buy	Ord Minnett
6	FLIGHT CENTRE TRAVEL GROUP LIMITED	Neutral	Sell	Citi
7	KOGAN.COM LIMITED	Neutral	Sell	Credit Suisse
8	LENDLEASE GROUP	Buy	Buy	Ord Minnett
9	MONADELPHOUS GROUP LIMITED	Buy	Neutral	Credit Suisse
10	NIB HOLDINGS LIMITED	Neutral	Sell	Citi
11	QANTAS AIRWAYS LIMITED	Buy	Sell	Credit Suisse
12	TABCORP HOLDINGS LIMITED	Buy	Neutral	Morgans
13	VIVA ENERGY GROUP LIMITED	Buy	Buy	Ord Minnett

14	VIVA ENERGY GROUP LIMITED	Buy	Neutral	Credit Suisse
Downgrade				
15	ADBRI LIMITED	Neutral	Buy	Macquarie
16	AGL ENERGY LIMITED	Neutral	Buy	Credit Suisse
17	ALLKEM LIMITED	Sell	Neutral	Credit Suisse
18	ALUMINA LIMITED	Neutral	Neutral	Citi
19	AMCOR PLC	Neutral	Buy	UBS
20	ANSELL LIMITED	Neutral	Buy	Morgan Stanley
21	APPEN LIMITED	Sell	Neutral	Ord Minnett
22	COCHLEAR LIMITED	Sell	Neutral	Macquarie
23	COCHLEAR LIMITED	Neutral	Buy	Citi
24	HT&E LIMITED	Neutral	Buy	Macquarie
25	ILUKA RESOURCES LIMITED	Neutral	Buy	Credit Suisse
26	LYNAS RARE EARTHS LIMITED	Neutral	Buy	Macquarie
27	MONADELPHOUS GROUP LIMITED	Buy	Buy	Ord Minnett
28	NANOSONICS LIMITED	Neutral	Buy	Morgans
29	NEW HOPE CORPORATION LIMITED	Sell	Buy	Citi
30	NUIX LIMITED	Neutral	Buy	Morgan Stanley
31	PACT GROUP HOLDINGS LIMITED	Neutral	Buy	Ord Minnett
32	PANORAMIC RESOURCES LIMITED	Neutral	Buy	Macquarie
33	PILBARA MINERALS LIMITED	Neutral	Buy	Ord Minnett
34	PILBARA MINERALS LIMITED	Neutral	Buy	Citi
35	PILBARA MINERALS LIMITED	Sell	Neutral	Credit Suisse
36	PTB GROUP LIMITED	Neutral	Buy	Morgans
37	REGIS RESOURCES LIMITED	Neutral	Buy	Credit Suisse
38	REGIS RESOURCES LIMITED	Sell	Neutral	Citi
39	RELIANCE WORLDWIDE CORP. LIMITED	Neutral	Buy	Morgans
40	RELIANCE WORLDWIDE CORP. LIMITED	Neutral	Buy	Ord Minnett
41	RIO TINTO LIMITED	Neutral	Buy	Macquarie
42	SCENTRE GROUP	Neutral	Buy	Credit Suisse
43	SONIC HEALTHCARE LIMITED	Neutral	Buy	Ord Minnett
44	SPARK NEW ZEALAND LIMITED	Neutral	Buy	Credit Suisse
45	STOCKLAND	Neutral	Buy	Citi
46	TPG TELECOM LIMITED	Neutral	Buy	Macquarie
47	VENTIA SERVICES GROUP LIMITED	Buy	Buy	Ord Minnett
48	VIVA LEISURE LIMITED	Neutral	Buy	Citi
49	WAGNERS HOLDING CO. LIMITED	Neutral	Buy	Macquarie
50	WHITEHAVEN COAL LIMITED	Neutral	Buy	Citi
51	WISETECH GLOBAL LIMITED	Buy	Buy	Ord Minnett
52	WOOLWORTHS GROUP LIMITED	Sell	Neutral	Ord Minnett

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	AX1	ACCENT GROUP LIMITED	1.740	1.405	23.84%	4
2	WTC	WISETECH GLOBAL LIMITED	55.750	47.213	18.08%	4
3	WHC	WHITEHAVEN COAL LIMITED	8.592	7.450	15.33%	6
4	MND	MONADELPHOUS GROUP LIMITED	12.624	11.400	10.74%	5
5	QAN	QANTAS AIRWAYS LIMITED	6.263	5.880	6.51%	6
6	NHC	NEW HOPE CORPORATION LIMITED	4.675	4.398	6.30%	4
7	ALU	ALTIUM	33.475	31.550	6.10%	4
8	AKE	ALLKEM LIMITED	15.207	14.510	4.80%	7
9	VEA	VIVA ENERGY GROUP LIMITED	3.223	3.145	2.48%	6
10	SCG	SCENTRE GROUP	3.002	2.957	1.52%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	WGN	WAGNERS HOLDING CO. LIMITED	1.183	1.583	-25.27%	3
2	ABC	ADBRI LIMITED	2.597	3.257	-20.26%	7
3	APX	APPEN LIMITED	3.567	3.967	-10.08%	3

4	AGL	AGL ENERGY LIMITED	8.872	9.760	-9.10%	5
5	SGP	STOCKLAND	4.150	4.538	-8.55%	6
6	RWC	RELIANCE WORLDWIDE CORP. LIMITED	4.789	5.224	-8.33%	7
7	TPG	TPG TELECOM LIMITED	6.417	6.907	-7.09%	6
8	HT1	HT&E LIMITED	1.650	1.775	-7.04%	4
9	HMC	HOME CONSORTIUM LIMITED	6.018	6.338	-5.05%	6
10	SGR	STAR ENTERTAINMENT GROUP LIMITED	3.410	3.540	-3.67%	5

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	JDO	JUDO CAPITAL HOLDINGS LIMITED	4.125	0.400	931.25%	4
2	NAN	NANOSONICS LIMITED	1.300	-0.233	657.94%	3
3	SGR	STAR ENTERTAINMENT GROUP LIMITED	9.856	-2.996	428.97%	5
4	BLD	BORAL LIMITED	18.912	4.740	298.99%	6
5	COE	COOPER ENERGY LIMITED	12.200	-10.400	217.31%	5
6	KAR	KAROON ENERGY LIMITED	37.100	12.327	200.97%	3
7	QAN	QANTAS AIRWAYS LIMITED	42.470	-66.222	164.13%	6
8	TRS	REJECT SHOP LIMITED	20.933	8.767	138.77%	3
9	FLT	FLIGHT CENTRE TRAVEL GROUP LIMITED	36.197	-127.300	128.43%	6
10	AKE	ALLKEM LIMITED	118.400	66.387	78.35%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	SHL	SONIC HEALTHCARE LIMITED	175.017	308.250	-43.22%	6
2	TAH	TABCORP HOLDINGS LIMITED	3.965	6.665	-40.51%	6
3	APX	APPEN LIMITED	6.100	9.133	-33.21%	3
4	FPH	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	31.674	44.531	-28.87%	3
5	AWC	ALUMINA LIMITED	9.057	12.178	-25.63%	5
6	PTM	PLATINUM ASSET MANAGEMENT LIMITED	16.450	20.325	-19.07%	5
7	HMC	HOME CONSORTIUM LIMITED	23.675	29.080	-18.59%	6
8	CHC	CHARTER HALL GROUP	93.383	113.917	-18.03%	6
9	S32	SOUTH32 LIMITED	65.039	78.675	-17.33%	7
10	PPT	PERPETUAL LIMITED	217.017	254.633	-14.77%	5

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WEEKLY REPORTS

Uranium Week: Japan Returns

News last week of Japan's plans to restart idled reactors and build new ones provided a boost to uranium markets.

-Japan plans to restart more and build new next-generation reactors
-Only six Japanese reactors currently operating
-The news boosts uranium equities

By Greg Peel

In the wake of the 2011 Fukushima disaster, Japan has 33 remaining commercial nuclear reactors, and electric power companies have asked the Nuclear Regulation Authority to approve the reactivation of 25. To date, 17 have cleared the agency's safety review. Although 10 of the 17 reactors were reactivated after local consent was received, only six are operating.

Japanese nuclear policy has flip-flopped with changes in government in the interim, and a lot of resistance has been met at the local level to reactor restarts. But the situation has changed.

In a policy shift that aims to return Japan to a focus on nuclear power for the first time since Fukushima, Prime Minister Fumio Kishida said last week that the country will restart more idled nuclear plants and consider developing next-generation reactors.

Immediately following the announcement, uranium equities shot up up significantly.

Uranium equities had already been boosted by the passage of the nuclear-supportive US Inflation Reduction Act into law the week before. Industry-specific developments allowed relevant stocks to avoid the carnage wrought on Friday by Jerome Powell's Jackson Hole speech.

However, in another quiet summer week in the spot uranium market, the last transactions were booked on the Thursday ahead of said speech. Industry consultant TradeTech's weekly spot price indicator rose US75c to US$48.50/lb.

Given speculative investor interest has dominated the spot market over the last year of financial turmoil, spot uranium prices have been beholden to general financial market volatility. Whether the Japanese news can offset Friday's Fed-driven market crunch remains to be seen.

There is no such volatility in uranium term markets, which is where actual end-users seek delivery contracts with actual producers. Term markets have been dominated since February by the war in Ukraine and its global energy supply ramifications.

TradeTech's term market price indicators remain at US$51.50/lb (mid) and US$53.00/lb (long).

TradeTech reports several utilities are close to reaching final agreement on terms with suppliers. Separately, a number of utilities are expected to enter the market in the coming months.

Paladin Energy

Australian-listed Paladin Energy ((PDN)) released its FY22 report last week. Earnings are not in focus as the company is in the process of restarting its Langer Heinrich project after a long post-Fukushima hiatus and has recently successfully raised new capital to that end.

The project is on track and uranium prices remain supportive, with Macquarie making no changes to its forecast of positive earnings from FY24.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE

BKY	29/08/2022 0.3300	0.00%	$0.64	$0.14			
BMN	29/08/2022 2.3700	▲14.04%	$2.29	$0.15			
BOE	29/08/2022 2.5900	▲ 3.03%	$3.10	$0.17		$2.600	▲0.4%
ERA	29/08/2022 0.2600	0.00%	$0.58	$0.16			
LOT	29/08/2022 0.2700	▲19.05%	$0.46	$0.19			
PDN	29/08/2022 0.8500	▲13.24%	$1.12	$0.52	-136.4	$0.900	▲5.9%
PEN	29/08/2022 0.1900	▲13.33%	$0.35	$0.14			
VMY	29/08/2022 0.1900	0.00%	$0.33	$0.11			

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WEEKLY REPORTS

The Short Report - 01 Sep 2022

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

Summary:

By Greg Peel

Week Ending August 25, 2022.

Last week opened badly for the ASX200 after a steady rally, as Wall Street responded in shock to a German PPI printing an annual growth rate of 37.2%. Bond rates across the world jumped, and the US ten-year hit 3%.

But late in the week Wall Street settled, allowing the local market to focus on corporate earnings results. A comeback rally ensued. This week again began badly following Jerome Powell's speech at Jackson Hole, and another big fall is underway today.

Last week was the busiest in the reporting season. However, despite some solid share price moves up and down in response, there were no meaningful changes in short positions.

We can nevertheless note the list of stocks shorted by 5% or more remains long, and right now, as earnings season winds up, global stock market sentiment remains fragile.

We shall thus see how the shorters fare in coming weeks.

Weekly short positions as a percentage of market cap:

10%+
FLT 15.8
BET 12.8
DEG 10.8
SQ2 10.6
NAN 10.3
LKE 10.0

In: LKE

9.0-9.9

ZIP

Out: LKE

8.0-8.9%

CCX, ING, RRL

In: CCX, ING

7.0-7.9%

EML, MP1, TPW ING, IEL, CCX, CUV

In: TPW Out: CCX, ING, IEL, CUV

6.0-6.9%

PBH, WEB, BGL, 92E, IEL, PNV, CUV, VUL, BRG, KGN, PNI, AMA, MFG

In: IEL , CUV, AMA, MFG Out: TPW

5.0-5.9%

JBH, APX, BOQ, JHG, RBL, PDN, UMG, IMU, FFX

Out: AMA, MFG, CXO, ASM

Movers & Shakers

Nothing this week.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.3	0.2	NAB	1.0	0.9
ANZ	0.5	0.8	NCM	0.1	0.2
BHP	0.4	0.4	RIO	0.6	0.6
CBA	1.2	1.1	STO	0.1	0.1
COL	0.7	0.8	TCL	0.4	0.5
CSL	0.3	0.2	TLS	0.3	0.2
FMG	1.7	1.7	WBC	1.2	1.2
GMG	1.1	1.0	WDS	0.7	0.8
JHX	0.5	0.5	WES	1.0	0.9
MQG	0.5	0.5	WOW	0.6	0.6

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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