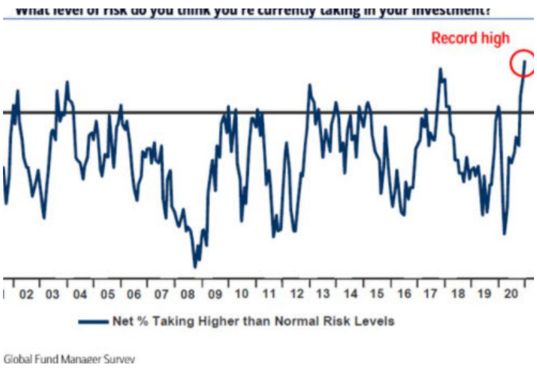
WEEK 5

STORIES TO READ FROM FNArena

Friday, 29 January 2021

Are Chinese Shares A Unique Opportunity? Part I

Material Matters: 2021 Demand, Nickel & Copper



Rudi's View: Why Worry?

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FNArena
Financial News, Data & Analysis

GPO Box 3145 - Sydney NSW 2001
info@fnarena.com

Your editor:
Rudi Filapek-Vandyck

Your dedicated team of journo's:
Greg Peel, Eva Brocklehurst &
Sarah Mills

INTERNATIONAL

Are Chinese Shares A Unique Opportunity? Part I

China plays a vital role in the world economy, yet the West is taking measures to curtail its rise.

-The West to impose controls and restrictions
-China's reaction to Western constraints
-Investors need to consider political, social and ESG pressures

By Mark Woodruff

The relationship between the US and China will be a determinant in the evolution of many key global themes. These include the nature of globalisation, the future of supply chains, information flows and the proliferation of technology.

Despite recent events suggesting the two major competing blocs are on a collision course, China's current critical global role precludes any thoughts of the US decoupling from its current adversary. The country is a major component of global supply and value chains and the world's third largest consumption pool, after the US and European Union.

However, the world coming into view for investors may be less concerned by efficiencies or economics and be driven by perceptions of 'fairness and equality'. A world dominated by politics not rational economic decisions.

In Part I of this article, FNArena examines strategies the US (or the West) may deploy as an alternative to decoupling. It also considers the impact of these strategies upon investors who may be confronted with some difficult choices.

Part II of this article looks at how Chinese government expenditure plans will create tailwinds for certain industries and sectors, while at the same time providing vital clues for share investors.

Before looking forward, it may be timely to explore the history contributing toward China's current mindset.

<u>China's historical self-view</u>

China had always viewed itself as the Middle Kingdom, with surrounding lands having a subordinate tribute relationship with it. This was mostly about perception of state glory. Also the domestic standing of the Emperor had always been stronger if foreign lands accepted China's centrality.

This demand for respect and tribute was mixed with threats of retaliation or promises of rewards. Rewards for what China would have considered as 'appropriate behaviour'.

Unlike European states which for centuries were constantly jostling to gain an incremental advantage and/or maintain a precarious balance of power, China never had to build alliances or truly accept other people's views.

Rather, surrounding lands were treated either as friends (i.e. those that acknowledged China's superiority and tribute system of relationship) or enemies (those that did not).

According to Macquarie, the prevailing and incorrect view in the 1990's and early 2000's was that both China and Russia would ultimately become major stakeholders in an essentially western-oriented global trade and monetary system. The subsequent proliferation of internet and technology would then to lead to greater societal liberalisation.

However, the last eight years has seen the full re-integration of the state and party organisations. China has also returned to a far more 'top-down' model that steers and determines almost all key decisions from law and governance to prioritisation of strategic objectives.

This reliance on state-owned and controlled enterprises has significantly increased, while the private sector has been co-opted into a unified system. This blurs already unclear dividing lines between public and private assets.

This latter point is one of several perceived weaknesses from a Western standpoint, which sometimes leads to caution in trade relationships.

<u>Western concerns about China</u>

China has shifted towards the more illiberal end of the spectrum with an effective merger between the party and the state. Macquarie notes there is also a rising dominance of state and state-owned enterprises (SOEs) in driving strategic and capital allocation decisions. This has convinced the West that China is unlikely to be a stakeholder in the Western-designed global order.

The desirability or otherwise of **allowing Chinese access to Western technology and information has also been constrained** by several factors. These include China's integration of military and civilian technologies, rising defence spending and an aggressive diplomatic and economic posture.

Finally, China continues to draw heavily on Western intellectual capital. This is shown by large deficits in semiconductors and losses in intellectual products. China has been successful in exploiting its deep pool of cheap labour, but it has not invented much, preferring to commercially innovate.

China's reaction to Western constraints

The deepening rift with the US has led to China's recent emphasis on a **'dual circulation' economy to cut the country's dependence on overseas markets and technology**. Chinese president Xi Jingping raised the idea in May 2020, and later elaborated that the country will rely mainly on "internal circulation" (the domestic cycle of production, distribution and consumption). This will be supported by innovation and upgrades in the economy. The strategy will be later supported by "external circulation".

ANZ Bank highlights that trade tensions with the US and high competition in the global technology sector have further urged China to secure its manufacturing sector. The hollowing out of the industrial base in Japan and the US is considered to have provided a vivid lesson for Beijing.

This is simply a reflection of an implicit acceptance that a return to the status quo is impossible, in Macquarie's view. It's a concession the country needs to rely far more on its domestic economy. In effect, China must attain a much higher degree of independence from the West, regardless of whether this is either desirable or efficient.

China has also been the key sponsor of the **Regional Comprehensive Economic Partnership (RCEP)**, which went 'live' in November 2020. This is a free trade agreement between Asia Pacific nations. There are 16 members (including Australia) that should enjoy continued growth in volume and value of trade, while becoming more closely aligned to Beijing in the geopolitical sphere.

China has also been proactive with **the One Belt, One Road (OBOR) initiative**, so as to bind together a broader Sinosphere. This strategy was adopted by the Chinese government in 2013 to invest in nearly 126 countries and international organisations. This potentially provides the country with greater security as well as an economic cushion.

Splitting into spheres

UK asset manager Martin Currie suggests China and the US will continue to line up their own teams. Many countries (like Pakistan and Mexico) won't be able to resist the call because of geographical proximity and economic linkages.

Australia, New Zealand, Canada and the UK are members of the Five Eyes intelligence sharing alliance and are already committed to the US camp.

It is not surprising to Macquarie the separation into effective zones of interest (i.e. Sinosphere versus Anglosphere) is progressing rapidly. This is due to both China's strategy and the Western reaction to it.

With a large domestic market and a significant nearby periphery, **the Sinosphere is likely to encompass at least 25% of the global economy**, with China alone accounting for 20%.

China's critical global role

Currently, China has become an indispensable link in the global economy, and is home to a significant share of global manufacturing capacity in almost every product.

China's contribution to the global value-add is approaching US$2 trillion (broadly on par with the US), and more than three times the contribution of Japan.

The country controls around 13-14% of global exports. This shows a pace of increase that has been much faster than either Germany or Japan had achieved at a similar stage of evolution. China is now the world's second largest global trader, only behind the EU.

Similarly, China today accounts for around 16% of global GDP and it should be closer to 20% by 2025, according to Macquarie. While still lagging the US, China should overtake the EU-plus-UK share of the global economy.

Alternatives to decoupling

China is just far too competitive and systemic to be ignored or quarantined, explains Macquarie, even as some factories move and supply chains duplicate. In fact, ANZ Bank strategists believe China and foreign companies will deepen their engagement over the longer term. Some mergers and acquisitions are considered possible, giving birth to truly global brands.

Nonetheless, the investment bank expects the West to impose ever more stringent **controls on technology**

transfers, information, education and acquisitions. Already, the US has slowed down China's drive towards leadership in the key area of AI, quantum computing and other cutting edge technologies. In addition, the US is trying to force the broader West to adopt its definition of 'clean networks' that are less vulnerable to China's interference (eg 5G and the recent example of TikTok).

Over the next decade it's likely that the flow of trade, goods, services, technology and information will continue to tighten as would acquisitions and the flow of capital. Macquarie considers it unlikely trade and links would be completely severed. However, whatever crosses the borders between the blocs will be closely scrutinised and assessed for its potentially malignant impact.

This would particularly apply to information flow. At present, China has unfettered access to the relatively free global internet, technology transfers, and education and skilling. Additionally, there is access to joint scientific experiments, cross-border acquisitions and open capital markets.

In some instances, there is a high probability that duplicate supply and value would need to be created (e.g. technology).

Macquarie also considers it likely there will be **restrictions on capital flows and on the ability to access markets.**

Investor Choices

Investors are likely to be confronted with the difficult choice of potentially scaling back investment in the world's second-largest economy. In some instances any decision will be taken out of the individual investors hands.

An increasing number of stocks would be likely blacklisted, not by government, but by investment managers. The reasons would not just stem from the US or EU, but rather a potentially very **powerful mix of political, social and ESG pressures**.

Macquarie believes US regulations will likely reduce the ability of the US investors to hold China's financial instruments. Additionally, investors and fund managers are considered likely to start self-censoring by anticipating problems and potentially highly negative headlines.

Investors are likely to remain cautious regarding polluters such as coal, tobacco, steel and cement and potential 'abusers' such as security, military and surveillance. In addition, there are US and EU restriction lists.

Chinese law sets limits to disclosure and currently prohibits Chinese accounting firms from sharing audit documentation on companies, on the grounds of national security. According to Martin Currie, this places all Chinese companies listed in the US on notice. This would limit the investable universe for US-based asset owners.

Going forward the US could potentially make it a condition of trade deals or defence pacts, that the third country signing with the US must disavow relations with China. The investment manager considers this could be the most far-reaching impact for investors in the short term.

Conclusion

As evidenced by a high relative weighting of Chinese technology and intangible companies in Macquarie's Asian and global portfolios, the investment bank is at present comfortable investing in the region.

The size and scope of the Sinosphere is still one of the most attractive globally and opportunities in China are considered to remain strong for those that are willing and/or able to invest.

With such prospects it's unfortunate that investors need to monitor the progress of separation between the Sinosphere and the West. While full decoupling is not feasible, containment and lower intensity is likely.

A situation that hasn't been contemplated for decades is aptly summarised by Martin Currie. Investors should be planning for a future where an asset owner's geography effectively determines the investment universe.

Part II looks at how Chinese government expenditure plans will create tailwinds for certain industries and sectors, while at the same time providing vital clues for share investors.

AUSTRALIA

Nickel Mines' Bumper Quarter Well Received

Nickel Mines Ltd posted record earnings in the December quarter and beat all broker forecasts, with coming expansion suggesting further upside.

-Nickel Mines reported record NPI production
-Increased stake in Angel Nickel
-Change to pricing structure

By Greg Peel

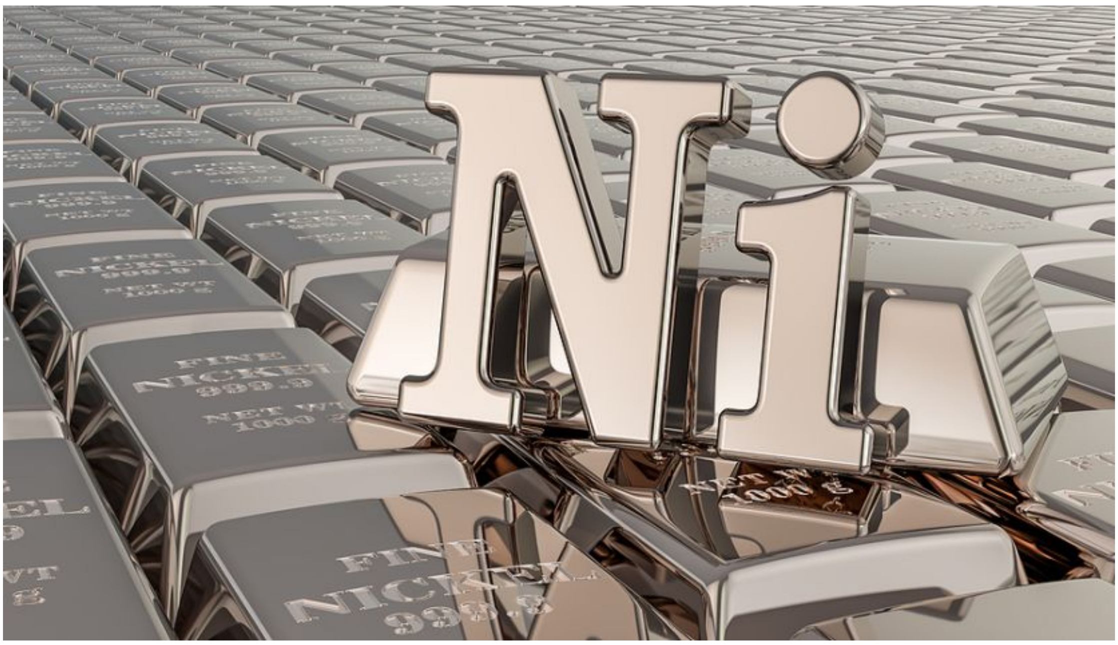
Nickel Mines Ltd ((NIC)) has an 80% interest in two rotary kiln electric furnace (RKEF) projects in the Morowali Industrial Park in Indonesia. Chinese steel company Tsingshan holds the other 20%.

The two projects, Hengjaya and Ranger, together produced a record 11.5kt of nickel in the December quarter, up 8% on the September quarter and 5% year on year. Both production, and realised nickel prices, exceeded broker forecasts by varying degrees.

While costs also increased in the quarter, these include seasonal charges that are annual “one-offs”, in that they will only occur in the December quarters ahead but not every quarter. Bell Potter notes the 2020 charges represented a downward trend from 2019 charges.

The cost impact becomes rather immaterial nonetheless, when one considers Nickel Mines’ margin expanded to 46% in the December quarter from 36% in September thanks to a 22% rise in the period in nickel and nickel pig iron prices. Yet December’s was not only a story of prices but of operational outperformance, with the projects running more than 30% above nameplate capacity.

The miner posted another quarterly record in the form of free cash flow, which Credit Suisse suggests represents a 9.3% yield. Some of this has been drawn away for working capital, and some used to pay down debt on the Ranger RKEF, but the company has also raised US$275m in fresh capital, with a view to production expansion.



Heavenly

In November last, Nickel Mines acquired 70% of the Angel Nickel project now under development in another

Indonesian industrial park, boasting four RKEFs alongside the park's captive power station. Last week the company announced it will lift its Angel stake to 80%, and has since made a down-payment.

Macquarie expects full payment to be made by June this year and with the inclusion of Angel, expects the miner's nickel production to more than double to around 65ktpa within three years. Credit Suisse suggests Angel Nickel should become a structurally low cost, highly cash generative asset.

Moreover, the broker notes the additional 10% equity has been priced based on the same price paid for the original 70%, despite the nickel price rising more than 15% in the interim.

Some Consternation

Amongst all the good news, one matter has raised broker eyebrows. Nickel Mines has decided to switch its nickel pig iron (NPI) pricing from benchmark London Metals Exchange nickel prices to Chinese NPI prices.

Citi is not surprised by the move given the company's RKEF lines have been outperforming nameplate, but the broker expects longer term shareholders may question the benefit. Out to 2025, Citi's commodity analysts foresee NPI prices falling to a discount to LME nickel prices.

Shaw & Partners is also interested to see how this pricing change develops. It is possible, the broker suggests, that a two-tiered market develops, one linked to battery grade nickel sulphate and the other to NPI feedstock for the Chinese stainless steel industry. There is a potential negative for Nickel Mines if battery demand becomes the dominant driving force behind nickel prices, beyond stainless steel demand, leading to LME prices rising above NPI prices.

This possibility is not, however, the reason why Shaw has downgraded its rating on Nickel Mines to Hold (High Risk) from Buy. That's simply due to the recent strong run in the share price. The broker has increased its earnings forecasts but dropped its target to $1.26 from $1.28 on the higher Aussie.

The three FNArena database brokers covering the stock – Macquarie, Citi and Credit Suisse – all retain Buy or equivalent ratings with an average target of $1.47.

Macquarie, for one, notes that if its own 2023 and 2024 nickel price forecasts are used, the stock is trading on 14% and 15% free cash flow yields. Plug in current spot prices and that would be 19% and 20%.

Bell Potter, too, retains a Buy rating, but with a $1.67 target, reflecting operational outperformance, increased Angel ownership and an increase to the broker's long term nickel price assumption.

COMMODITIES

Material Matters: 2021 Demand, Nickel & Copper

Citi expects markets to shift focus towards world ex-China demand in 2021 while Morgan Stanley highlights risks to supply in base metals including zinc, copper and nickel.

-Rising construction-led demand in developed economies
-Nickel: It all boils down to demand and supply
-Copper: Labour-led disruptions pose a key supply risk

By Angelique Thakur

Rising commodities demand ex-China

China has shown a remarkable recovery in demand for commodities in a covid-afflicted world. But China's not our story today. Today we turn the spotlight on all that is ex-China.

A rise in ex-China led demand will be the centre of attention in 2021, believes Citi, especially since demand-supply dynamics for commodities (like copper) hinge on the degree and speed of this ex-China demand rise.

Metals consumption in developed nations was almost back to pre-covid levels by the December quarter, highlights the broker, led by changing consumer preferences that offset the impact of (covid-led) lower mobility on consumption patterns.

A case in point is Citi's ex-China copper consumption tracker that was up 1.2% year on year in November with early December looking firm as well. This is a far cry from the lows of -27% witnessed in April 2020.

The changing consumer preferences mentioned above refer to a rise in metals consumption in areas such as construction, consumer appliances, and automotive sectors in developed markets, that are seeing "outright growth" with the pandemic leading to higher demand for new homes and home renovations.

With money supply increasing in the US, UK and European nations by more than $2.5tr in 2020, Citi suspects there is scope for this demand to continue.

The housing boom of the US will lead to home prices appreciating by circa 5% nationally, forecasts the broker, which will further act as a tailwind for the demand for construction-led commodities.

Nickel: Supply disruption prompts bullish views

Nickel, it would seem, is in for a double bonanza.

A report by Macquarie has the broker foreseeing a brighter future for the commodity, backed by a combination of stainless-steel demand in the near term and higher demand for battery technologies over the medium term.

Demand for nickel mostly comes from the production of stainless steel with the rest from recovery in China and ex-China demand. Combined, these factors have led to a surge in nickel prices in late 2020 and early 2021.

It looks like the party is expected to continue throughout 2021 with Morgan Stanley expecting stainless steel production to grow by 5.4% in 2021.

Western Areas ((WSA)) and Nickel Mines ((NIC)) are Macquarie's preferred nickel stocks while Mincor Resources ((MCR)) and Chalice Mining ((CHN)) remain its preferred development and exploration plays.

On the supply side, Morgan Stanley highlights there has been a significant disruption to the supply of the commodity. Key suppliers like the Philippines have been facing issues partly due to seasonal factors (dip during the monsoon season) but also on account of protests and environmental issues.

A case in point is Vale's decision to sell Vale Nouvelle Calédonie (VNC), the operator of the afflicted Goro nickel-cobalt mine in New Caledonia, to Prony Resources that sparked protests in December that have continued through to 2021.

The Philippines, also the world's largest exporter of nickel, have been fraught with production issues with the 45ktpa Ambatovy operation in Madagascar due to resume production in February 2021 after a lengthy suspension.

The risk to nickel supply looks high and is likely to remain so in the near future, concludes Morgan Stanley. The broker, like Macquarie, has a bullish view on the commodity in 2021, driven by supply growth lagging the recovery in stainless steel demand.

Copper Supply: Choppy waters

Many miners have guided towards possible copper supply disruptions in 2021 across the world, a result of the slower return to full operations and a key fallout of a covid-ravaged world.

Copper production remained flat in Chile in 2020 and any hopes for a better 2021 look dashed with the new year bringing a new set of challenges including a resurgence in covid cases in both Peru and Chile.

Miners like BHP Group ((BHP)) have flagged additional precautionary measures, implying a slower return to full operations. In fact, BHP warned its operations at Escondida will likely be impacted in FY22 as well due to "reduced material movement in FY21".

China-owned Minerals and Metals Group ((MMG)) and UK based Antofagasta are also in a similar plight. But the problems don’t end here with 2021 featuring a high risk of labour-led disruption to copper operations.

Morgan Stanley highlights almost half of the Chilean mine supply is expected to be impacted by some form of contract negotiation in 2021, with the high copper price backdrop adding to strike risk as workers try to reap some of the upside.

Having said that, Morgan Stanley says in (what it believes is) a conciliatory tone, that the vast majority of labour negotiations will likely be resolved without any disruption.

Morgan Stanley expects copper supply disruption in 2021 to be disrupted by -5% or -1mt, implying a flat global copper supply. This, in turn, hints at a market that will remain in deficit, lending support to copper prices in 2021.

OZ Minerals ((OZL)) remains Macquarie’s preferred exposure to copper with the company boasting many organic catalysts including the update expected on the expansion of its Prominent Hill operations.

Zinc: Riding the supply disruption wave

Adding to the upbeat outlook on base metals prices, Morgan Stanley expects zinc supply disruptions in 2021 to increase to -3% from -2.5%.

This comes even as zinc appears to be on the path to recovery from the largest disruption in 2020 that had impacted the supply of the bluish-silver metal by about -5%.

The restart of critical mines including Gamsberg mine (South Africa) and Caribou mine (Canada) will help bring some relief to the zinc concentrates market, suggests Morgan Stanley, and help keep the metal market close to balance through 2021.

In general, supply risk for zinc remains elevated with miners possibly struggling to ramp up to meet recovering demand through the second and third quarters of 2021, Morgan Stanley concludes.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 22-01-21

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 January 18 to Friday January 22, 2021
Total Upgrades: 17
Total Downgrades: 19
Net Ratings Breakdown: Buy 51.09%; Hold 39.71%; Sell 9.20%

For the week ended Friday January 22, there were seventeen upgrades and nineteen downgrades to ASX listed stocks covered by brokers in the FNArena database.

Macquarie and Credit Suisse both lowered their ratings for Cleanaway Waste Management to Neutral from Buy. The brokers were surprised that CEO and Managing Director Vik Bansal will step down in the first half of 2021. However, Credit Suisse was more concerned by a currently overvalued share valuation than any worries over a smooth management transition.

While there were no material negative percentage changes to target prices for the week, there were several material positive changes made by brokers.

Ord Minnett doubled the target price to $2.00 for Whitehaven Coal and upgraded its rating to Hold from Lighten. More thermal coal price momentum is considered likely to be triggered by winter demand from North Asian consumers.

Meanwhile, a takeover offer by CPE Capital along with its consortium partners for Bingo Industries caused brokers to raise target prices to align with the bid price.

Hub24 also appeared high on the table for the largest percentage increase in target price, after four brokers updated financial models due to an exceptional net inflow of funds.

Over the week, Insurance Australia Group had the largest percentage earnings upgrade by brokers in the FNArena database. This largely resulted from some adjustments to earnings for business interruptions claims and other one-off costs that the group will book in the first half.

Cooper Energy and Karoon Energy were the next on the earnings upgrade table. This resulted from Morgans' suggestion now is an opportune time to invest in the oil and gas sector. The broker has gained additional conviction that both oil and LNG markets have moved off their lows.

Backed by an improved earnings outlook, Macquarie upgraded the rating for South32 to Neutral from Underperform. Morgan Stanley also noted December quarter performance overall was better-than-expected. The soon to be divested South African Energy Coal (SAEC) was universally seen by brokers as an underperformer. Speaking of coal, Whitehaven Coal was next on the table for reasons alluded to in target price discussions above.

After Ord Minnett marked-to-market commodity price forecasts, both Galaxy Resources and Pilbara Minerals received a material percentage increase in forecast earnings. December sales volumes for both companies had also beaten the broker's estimates.

Finally, all seven brokers in the FNArena database were effusive in praise for Super Retail Group after a strong finish to the first half. A combination of increased sales and margins, along with strong operating leverage makes for a heady mix.

The top five percentage earnings downgrades for the week were dished out by brokers to mining companies. OceanaGold had the most material slippage despite reporting a stronger-than-expected preliminary production result for the December quarter.

Coronado Global Resources was runner up with mixed quarterly production results. Morgans simultaneously agreed there is compelling leverage to a higher-than-expected met coal price and lowered the company rating to Hold from Add on valuation concerns. The broker also warned investors of the risks wet weather poses to the Curragh mine output, costs and the company's ability to de-gear.

Total Buy recommendations take up 51.09% of the total, versus 39.71% on Neutral/Hold, while Sell ratings account for the remaining 9.2%.

Upgrade

ANSELL LIMITED ((ANN)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 4/3/0

Ansell's trading update ahead of its first-half results shows the company is doing better than expected, observes Macquarie.

Earnings per share in the first half are expected to be between US81-84cps, 20% ahead of Macquarie's forecast with FY21 earnings expected to exceed the previous guidance range of US135-145cps.

The robust outlook can be attributed to covid related demand across several business units and market share gains in mechanical and surgical segments. The company has also been able to pass through price increases.

Rating is upgraded to Neutral from Underperform with the target rising to $36.35 from $33.35.

ASX LIMITED ((ASX)) Upgrade to Hold from Reduce by Morgans .B/H/S: 0/2/4

Morgans updates the Insurance/Diversified Financials sector earnings on a mark-to-market basis and a broad review of earnings assumptions.

Despite seeing a broadly difficult reporting season for stocks in the sector, the broker believes ASX is one of the best positioned of the large cap stocks to produce solid/stable results.

The analyst upgrades the company to Hold from Reduce after a significant recent fall in the share price.

Morgans also reduces EPS estimates for FY21 and FY22 by -4% and -5%, respectively, mainly on lower futures volumes forecasts. The target price falls to $67.37 from $74.82.

BINGO INDUSTRIES LIMITED ((BIN)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/2/0

According to news reports, CPE Capital along with its consortium partners have made an indicative non-binding offer for Bingo Industries at an enterprise value of over $2.5bn. Based on Credit Suisse's December 2020 forecasts, this implies a share price of $3.33.

The broker believes Bingo Industries has the potential to generate $231m in operating income by FY23 and based on the FY23 forecast, the fundamental value of the stock could be over $4 per share.

Noting the current depressed share price is the result of a cyclical decline in building construction further aggravated by covid, Credit Suisse is of the view any bid for Bingo needs to factor in in the medium-term earnings recovery potential.

Rating is upgraded to Outperform from Neutral with the target rising to $3 from $2.40.

CHARTER HALL GROUP ((CHC)) Upgrade to Buy from Neutral by UBS .B/H/S: 5/1/0

Earnings for Charter Hall Group are expected to improve on the back of higher assets under management and higher operating leverage.

Given a better growth outlook for the group in 2021, UBS shifts its preference from Centuria Capital ((CNI)) to Charter Hall.

Rating is upgraded to Buy from Neutral with the target rising to $16.10 from $12.25.

CENTURIA INDUSTRIAL REIT ((CIP)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/2/0

UBS upgrades Centuria Industrial REIT to Buy from Neutral on the basis that the direct market for industrial assets remains strong in 2021 and will drive cap rate compression.

The broker sees the REIT offering a more defensive exposure as compared to BWP Trust with better growth prospects and a higher weighted average lease expiry.

Target rises to $3.38 from $3.23.

COMPUTERSHARE LIMITED ((CPU)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/1/1

Macquarie sees long-term value in the US Mortgage Servicing segment with upside risk to consensus forecasts.

The broker regards this segment as a key medium-term growth driver supported by unpaid principal balances (UPB) growth, operating leverage and mix shift (more non-performing loans).

The analyst sees over 10% UPB growth from the second quarter FY21 until the $150bn UPB target is achieved in the second half of FY23.

Macquarie upgrades the rating to Outperform from Neutral and raises the target price to $15.95 from $14.35.

DOMINO'S PIZZA ENTERPRISES LIMITED ((DMP)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/2/2

Industry feedback suggests Domino's Pizza Enterprises is winning offshore market share from Pizza Hut etc.

Macquarie believes the shift towards digital delivery will continue in 2021 with 25-35% of the spending that shifts to digital delivery estimated to stick post the pandemic.

The outlook for the stock is positive with Dominos expected to grow in double-digits per annum along with the possibility of accretive acquisitions.

The broker upgrades to Outperform from Neutral. Target rises to $90.30 from $72.10.

EVOLUTION MINING LIMITED ((EVN)) Upgrade to Hold from Sell by Ord Minnett .B/H/S: 1/5/1

Ord Minnett has marked-to-market its forward-curve-based commodity forecasts with estimates for nickel, gold, coal and steel increasing by 7-10% across the forecast period. Barring a higher than expected Australian dollar in 2021, Ord Minnett is positive on the mining sector in the post-covid recovery.

With improving yield curves putting gold back under pressure, the strong start to 2021 was short-lived but Ord Minnett remains positive on the sector.

The broker has upgraded its rating for Evolution Mining to Hold from Sell. The target rises to $4.40 from $4.30.

FORTESCUE METALS GROUP LTD ((FMG)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 3/3/1

Ord Minnett has marked-to-market its forward-curve-based commodity forecasts with estimates for nickel, gold, coal and steel increasing by 7-10% across the forecast period. Barring a higher than expected Australian dollar in 2021, Ord Minnett is positive on the sector in the post-covid recovery.

The broker expects commodity market conditions to remain strong heading into 2021 and is attracted to Fortescue Metals on the belief excess cash will be generated throughout 2021.

Rating is upgraded to Buy from Accumulate. Target rises to $29 from $28.80.

HUB24 LIMITED ((HUB)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/2/0

Hub24's second-quarter funds under administration (FuA) at $22bn were up 16% on a quarterly basis and 3% ahead of Credit Suisse's forecast. The platform saw exceptional net inflows of $1.7bn, up circa 25-35% and $322m ahead of the broker's estimated $1.4bn.

Credit Suisse notes the flows were driven entirely by organic growth with no one-offs called out and reflect the fruits of Hub24’s recent investment in its distribution team.

The broker is optimistic on Hub24's prospects and expects the platform to increase its market share to 5.6% by

FY25 from 2.1% in FY20.

Rating is upgraded to Outperform from Neutral with the target price rising to $26 from $21.50.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 3/3/1

Morgan Stanley believes banks will outperform the ASX200 in 2021 given domestic economic trends, a cyclical earnings recovery and healthy balance sheets. In addition, there is considered a lower overall risk profile and ongoing sector rotation.

The broker favours those banks with the most earnings and dividend leverage to a recovery and potential upside to operating performance. Also, additional relatively low investor expectations and more attractive valuations are considered important factors.

Morgan Stanley has increased earnings and EPS estimates due to modest upgrades to housing loan growth forecasts for all
banks, and material reductions in impairment charges for the majors.

The broker believes National Australia Bank's strategy is clear, the operating performance has been sound and loan losses have
peaked. Additionally, capital is strong and there is potential for a strong dividend recovery.

The broker upgrades the EPS estimates for the bank for FY21-23 by 22%, 5% and 4.5%, respectively.

The rating is increased to Equal-weight from Underweight and the target is increased to $24.50 from $20.10. Industry view: In-line.

REGIS RESOURCES LIMITED ((RRL)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 5/2/0

Ord Minnett has marked-to-market its forward-curve-based commodity forecasts with estimates for nickel, gold, coal and steel increasing by 7-10% across the forecast period.

With improving yield curves putting gold under pressure and an elevated AUD tempering its higher gold price forecast, the broker notes the strong start to 2021 was short-lived but remains positive on the sector.

Rating for Regis Resources is upgraded to Buy from Hold. Target is increased to $4.50 from $4.20.

SOUTH32 LIMITED ((S32)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 5/2/0

South32's second-quarter result was mixed with stronger production offset by higher tax expenses.

The outlook for Cerro Matoso and Cannington mines has improved, driving 20-30% upgrades to Macqaurie's short and medium-term earnings outlook.

Backed by the improved earnings outlook, Macquarie upgrades its rating to Neutral from Underperform. Price target rises to $2.70 from $2.10.

See also S32 downgrade.

STOCKLAND ((SGP)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/3/0

With ongoing strength in the residential sector expected to continue despite expectations of stimulus tapering, UBS expects prices to remain strong in 2021. Low rates will further help increase sales, adds the broker.

Stockland's pre-sales are expected to grow considerably as sales outstrip production and settlements.

Rating is upgraded to Buy from Neutral with the target rising to $4.50 from $3.80.

SYDNEY AIRPORT HOLDINGS LIMITED ((SYD)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 3/3/1

Traffic numbers for Sydney Airport have improved somewhat but international travel remains anaemic and Ord Minnett believes a full recovery will be a long-drawn-out affair.

Post-NSW border restrictions, Ord Minnett has pulled back its second half passenger numbers estimate and now expects Sydney Airport to report net operating receipts of 3.9cps, down -14% on its previous forecast.

Rating is upgraded to Hold from Lighten with a $6 target.

TRANSURBAN GROUP ((TCL)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 3/2/2

Ord Minnett highlights improving traffic growth across Transurban Group’s assets and believes things will normalise in FY22. Completion of the WestConnex and NorthConnex projects will be positive for cash flows and drive strong growth, adds the broker.

The broker forecasts Transurban's earnings will stabilise at about 20% above pre-covid levels in FY22 and grow 40% higher in FY23. Any price weakness is seen as an opportunity by the broker.

Rating is upgraded to Buy from Hold with the target price rising to $16.50 from $16.

WHITEHAVEN COAL LIMITED ((WHC)) Upgrade to Accumulate from Lighten by Ord Minnett .B/H/S: 6/1/0

Ord Minnett upgrades Whitehaven Coal to Accumulate from Lighten with the target price doubling to $2 from $1.

With northern Asia consumers scrambling for thermal coal amidst winter, Ord Minnett believes there may be some more price momentum near term but the broker also believes it is unlikely to be sustainable.

Reinforcing its operating and financial leverage, Whitehaven Coal's outlook is now back to profitability. Production guidance remains unchanged with Narrabri problems offset by a strong second half forecast for Maules.

Downgrade

BEACH ENERGY LIMITED ((BPT)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/2/0

Energy analysts at Citi have increased price expectations for cude oil and LNG. The 2021 Brent oil price forecast moved to US$59/bbl from US$52/bbl. The team sees oil peaking at US$61/bbl in 1Q22.

The offsetting observation is that, on a long-term horizon, Citi analysts believe most share prices in the sector are relatively fairly valued. They also suggest the sector overall is likely to remain well supported for the near term.

Beach Energy's rating has been downgraded to Neutral from Buy with a slightly weaker share price target; $1.94 instead of $1.98.

CENTURIA CAPITAL GROUP ((CNI)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/1/0

UBS downgrades Centuria Capital Group to Neutral from Buy with the target reducing to $2.43 from $2.46.

While Centuria Capital has strong growth potential, UBS sees less scope to materially grow office and investment bonds, which form circa 50% of the group's assets under management. Organic growth is still expected to be solid.

CENTURIA OFFICE REIT ((COF)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/1/1

UBS downgrades its rating on Centuria Office REIT to Neutral from Buy due to a lack of catalysts. The target falls to $2.10 from $2.50.

While the REIT has the benefit of a diversified geographic exposure, more than 22% of income is either vacant or expiring in FY21 or FY22. UBS forecasts subdued rental growth of 2% in FY22.

Also, the REIT does not have the cost of equity to grow and its gearing is elevated relative to peers while the cost of debt is unlikely to fall materially from circa 2.4%.

CHARTER HALL RETAIL REIT ((CQR)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/2/2

Despite sales in supermarkets normalising, UBS believes the demand for yield in a low-interest rate environment will support non-discretionary shopping centres.

Preferring Aventus Group ((AVN)) over Charter Hall Retail REIT, UBS downgrades its rating to Neutral from Buy on valuation grounds. Target rises to $3.60 from $3.50.

CORONADO GLOBAL RESOURCES ((CRN)) Downgrade to Hold from Add by Morgans .B/H/S: 3/1/0

Morgans thinks marginal investors at the current share price are positioning for a potential met coal price spike.

As a result, the broker notes the disappointing 2020 headline financials didn't surprise the market. While the broker agrees there is compelling leverage to a higher-than-expected met price, the rating is lowered to Hold from Add on valuation.

Despite the analyst highlighting solid improvement for second half production, investors should be conscious of the risks wet weather poses to Curragh output, costs and the company's ability to de-gear.

The target price is increased to $1.35 from $1.31.

CROWN RESORTS LIMITED ((CWN)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 3/3/0

Credit Suisse downgrades rating on Crown Resorts to Neutral from Outperform on the basis of share price appreciation.

Covid and casino closures make predicting earnings a difficult task in the near-term. The broker has been valuing Crown based on its FY23 operating income forecast that matches pre-covid FY19 numbers.

Although Crown is undergoing a number of regulatory inquiries and investigations, Credit Suisse thinks the probability of Crown losing its Sydney restricted gaming licence is low. $10.35 target retained.

CLEANAWAY WASTE MANAGEMENT LIMITED ((CWY)) Downgrade to Neutral from Outperform by Credit Suisse and Downgrade to Neutral from Outperform by Macquarie.B/H/S: 2/5/0

Cleanaway Waste Management's CEO Vik Bansal has decided to step down, leaving Credit Suisse surprised since the company is navigating through the pandemic and Vik Bansal has a solid track record.

While the search for a replacement has commenced, Chairman Mark Chellew will take on duties as Executive Chair in the meantime with CFO Brendan Gill delaying his retirement and staying on as COO.

Noting the considerable uncertainty around CEO transition, Credit Suisse downgrades to Neutral from Outperform with a target of $2.45.

Cleanaway Waste Management's CEO and Managing Director Vik Bansal will step down in the first half of 2021. This comes as a surprise to Macquarie since the broker expected Mr Bansal's tenure to extend longer especially after overcoming a difficult first half.

The broker sees little change in the strategic and operational direction of the business during this transition and retains its forecasts.

Even so, the rating is downgraded to Neutral from Outperform on valuation grounds with a target of $2.55.

GOODMAN GROUP ((GMG)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/5/0

Underlying fundamentals for Goodman Group like higher asset valuations, equity flows for logistics assets and rising tenant demand remain attractive and all point towards the group achieving earnings growth of 9% pa.

On the flip side, a rising bond yield and an elevated valuation offset the strong fundamentals and are likely to negatively impact the group's relative attractiveness in the sector, predicts the broker.

Rating is downgraded to Neutral from Outperform with the target falling to $18.77 from $19.86.

GPT GROUP ((GPT)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/3/1

Despite the possibility of the office metrics surprising on the upside, UBS downgrades its rating on GPT Group to Neutral from Buy since the broker believes the group's funds management earnings and acquisition hurdles indicate weaker earnings ahead.

Going forward the broker forecasts -10% growth in assets under management to June 2022. The group also needs to address elevated leverage and a lack of diversification in the GPT wholesale shopping centre fund.

The target price increases to $4.55 from $4.50.

INCITEC PIVOT LIMITED ((IPL)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 5/2/0

Fertiliser prices are strengthening and even with a weaker USD, have created a stronger near-term outlook for Incitec Pivot, suggests Credit Suisse.

The broker has upgraded its FY21 forecasts while downgrading its FY22 forecast figures due to AUD/USD currency assumptions. With robust demand and moderate supply additions, the broker expects a more favourable backdrop for fertilisers in 2021.

While constructive on the near-term outlook, Credit Suisse reduces its rating to Neutral from Outperform led by the recent share price strength. Target rises to $2.73 from $2.70.

JB HI-FI LIMITED ((JBH)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/7/0

Sales increased by 23% for JB Hi-Fi in the first half while net profit rose 86%. While admitting these results are a reflection of a unique set of circumstances, Credit Suisse argues the market is still not sufficiently pricing in factors like permanent changes to spending.

Consequently the broker has more confidence in the company's FY22 earnings than the market. Other positives include an enhanced cash position posing an upside risk to the interim dividend and an increasing likelihood of capital management activities.

Even so, Credit Suisse downgrades its rating to Neutral from Outperform with the target rising to $54.72 from $53.02.

LENDLEASE GROUP ((LLC)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/4/0

For Lendlease Group to hit its return on equity targets, the group has to increase its profitable capital recycling, suggests Macquarie.

Having said that, the broker is of the view the capital cycling initiatives are likely to be more difficult given the current macro backdrop.

Rating is downgraded to Neutral from Outperform with the target price falling to $13.16 from $13.98.

POLYNOVO LIMITED ((PNV)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/1/0

PolyNovo's first half NovoSorb BTM sales were below Macquarie's expectations, mostly led by US weakness in October-November due to hospital capacity constraints.

The broker has updated its Hernia revenue forecasts, assuming first product sales occurs in the second half of FY22 rather than the first half. The addressable market has also been updated to include only ventral hernia surgeries, estimates to comprise of circa 20-25% of all hernia surgeries in the US.

With an uncertain near-term outlook, Macquarie moves to Neutral from Outperform. Target price rises to $2.75 from $2.55 on higher costs.

SOUTH32 LIMITED ((S32)) Downgrade to Hold from Add by Morgans .B/H/S: 5/2/0

Despite a second quarter result ahead of estimates, Morgans lowers South32's rating to Hold from Add, due to a recent share price rally.

Divestment of the company’s South African Energy Coal (SAEC) business is progressing, and management is now targeting sale completion by 31 March 2021.

The broker sees further upside potential from a continuing commodity cycle. While it's considered there's less upside potential from aluminium and manganese, coal markets are likely to recover.

The broker reduces the target price to $2.60 from $2.65.

See also S32 upgrade.

SCENTRE GROUP ((SCG)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/1/3

UBS downgrades Scentre Group to Sell from Neutral on valuation grounds.

The broker believes the retail re-opening trade has mostly played out and expects a deterioration in leasing spreads along with lower occupancy levels in 2021.

Target rises to $2.58 from $2.40.

THE STAR ENTERTAINMENT GROUP LIMITED ((SGR)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 3/4/0

Credit Suisse has reduced its rating on Star Entertainment Group to Neutral from Outperform with the target Price unchanged at $3.85.

The broker's FY21 earnings forecast is down substantially while earnings forecasts for FY22-FY23 have been increased. In FY19, the group was incurring about $78m/month in operating costs and the broker expects $75m/month in FY22.

In the first half, the broker expects operating income of $231m, down -25% versus last year due to covid restrictions.

SANTOS LIMITED ((STO)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/3/0

Energy analysts at Citi have increased price expectations for cude oil and LNG. The 2021 Brent oil price forecast moved to US$59/bbl from US$52/bbl. The team sees oil peaking at US$61/bbl in 1Q22.

The offsetting observation is that, on a long-term horizon, Citi analysts believe most share prices in the sector are relatively fairly valued. They also suggest the sector overall is likely to remain well supported for the near term.

The new price target for Santos, $7.58 compares with $7.34 previously. Rating has been downgraded to Neutral from Buy.

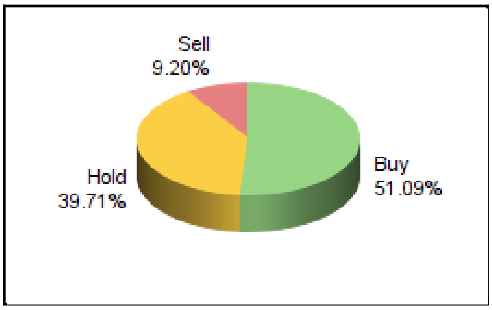
VICINITY CENTRES ((VCX)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/2/2

UBS downgrades its rating on Vicinity Centres to Sell from Neutral on valuation grounds.

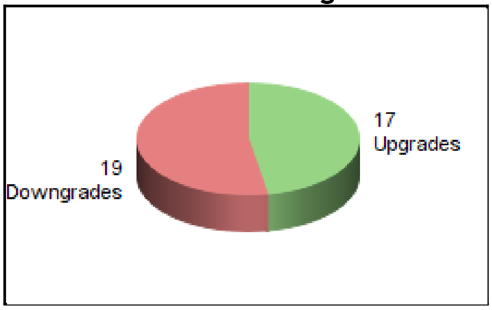
The broker believes the retail re-opening trade has mostly played out and expects a deterioration in leasing spreads along with lower occupancy levels in 2021.

Target price rises to $1.46 from $1.38.

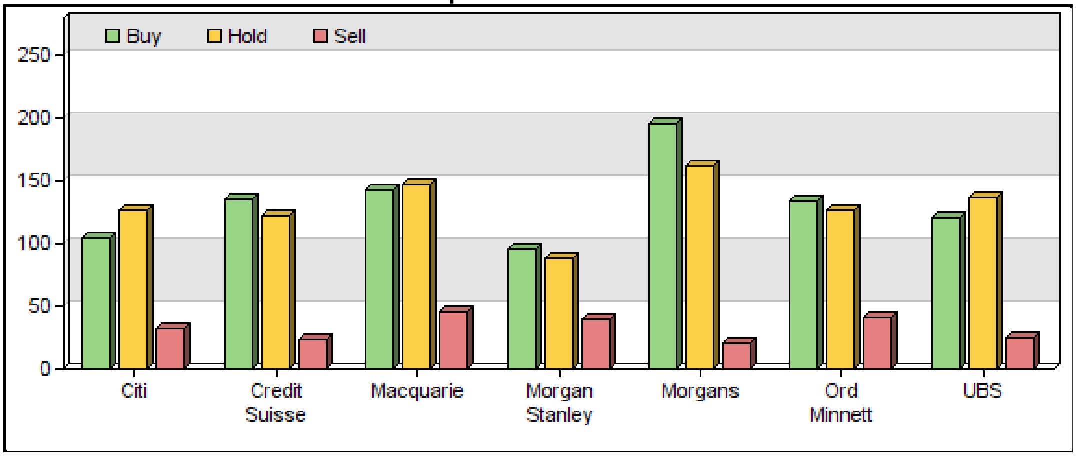
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ANSELL LIMITED	Neutral	Sell	Macquarie
2	ASX LIMITED	Neutral	Sell	Morgans
3	BINGO INDUSTRIES LIMITED	Buy	Neutral	Credit Suisse
4	CENTURIA INDUSTRIAL REIT	Buy	Neutral	UBS
5	CHARTER HALL GROUP	Buy	Neutral	UBS
6	COMPUTERSHARE LIMITED	Buy	Neutral	Macquarie
7	DOMINO'S PIZZA ENTERPRISES LIMITED	Buy	Neutral	Macquarie
8	EVOLUTION MINING LIMITED	Neutral	Sell	Ord Minnett
9	FORTESCUE METALS GROUP LTD	Buy	Buy	Ord Minnett
10	HUB24 LIMITED	Buy	Neutral	Credit Suisse
11	NATIONAL AUSTRALIA BANK LIMITED	Neutral	Sell	Morgan Stanley
12	REGIS RESOURCES LIMITED	Buy	Neutral	Ord Minnett
13	SOUTH32 LIMITED	Neutral	Sell	Macquarie
14	STOCKLAND	Buy	Neutral	UBS
15	SYDNEY AIRPORT HOLDINGS LIMITED	Neutral	Sell	Ord Minnett
16	TRANSURBAN GROUP	Buy	Neutral	Ord Minnett
17	WHITEHAVEN COAL LIMITED	Buy	Sell	Ord Minnett

Downgrade

18	BEACH ENERGY LIMITED	Neutral	Buy	Citi
19	CENTURIA CAPITAL GROUP	Neutral	Buy	UBS
20	CENTURIA OFFICE REIT	Neutral	Buy	UBS
21	CHARTER HALL RETAIL REIT	Neutral	Buy	UBS
22	CLEANAWAY WASTE MANAGEMENT LIMITED	Neutral	Buy	Macquarie
23	CLEANAWAY WASTE MANAGEMENT LIMITED	Neutral	Buy	Credit Suisse
24	CORONADO GLOBAL RESOURCES	Neutral	Buy	Morgans
25	CROWN RESORTS LIMITED	Neutral	Buy	Credit Suisse
26	GOODMAN GROUP	Neutral	Buy	Macquarie
27	GPT GROUP	Neutral	Buy	UBS
28	INCITEC PIVOT LIMITED	Neutral	Buy	Credit Suisse
29	JB HI-FI LIMITED	Neutral	Buy	Credit Suisse
30	LENDLEASE GROUP	Neutral	Buy	Macquarie
31	POLYNOVO LIMITED	Neutral	Buy	Macquarie
32	SANTOS LIMITED	Neutral	Buy	Citi
33	SCENTRE GROUP	Sell	Neutral	UBS
34	SOUTH32 LIMITED	Neutral	Buy	Morgans
35	THE STAR ENTERTAINMENT GROUP LIMITED	Neutral	Buy	Credit Suisse
36	VICINITY CENTRES	Sell	Neutral	UBS

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	WHC	WHITEHAVEN COAL LIMITED	79.0%	50.0%	29.0%	7
2	FPH	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	-25.0%	-50.0%	25.0%	4
3	CIP	CENTURIA INDUSTRIAL REIT	50.0%	25.0%	25.0%	4
4	HUB	HUB24 LIMITED	60.0%	40.0%	20.0%	5
5	CHC	CHARTER HALL GROUP	75.0%	58.0%	17.0%	6
6	SGP	STOCKLAND	25.0%	8.0%	17.0%	6
7	CPU	COMPUTERSHARE LIMITED	25.0%	8.0%	17.0%	6
8	ABP	ABACUS PROPERTY GROUP	50.0%	33.0%	17.0%	4
9	ASX	ASX LIMITED	-64.0%	-79.0%	15.0%	7
10	ANN	ANSELL LIMITED	50.0%	36.0%	14.0%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	COF	CENTURIA OFFICE REIT	25.0%	100.0%	-75.0%	4
2	CWY	CLEANAWAY WASTE MANAGEMENT LIMITED	21.0%	50.0%	-29.0%	7
3	AVN	AVENTUS GROUP	75.0%	100.0%	-25.0%	4
4	CNI	CENTURIA CAPITAL GROUP	50.0%	75.0%	-25.0%	3
5	CRN	CORONADO GLOBAL RESOURCES	75.0%	100.0%	-25.0%	4
6	CWN	CROWN RESORTS LIMITED	50.0%	67.0%	-17.0%	6
7	GPT	GPT GROUP	8.0%	25.0%	-17.0%	6
8	LLC	LENDLEASE GROUP	33.0%	50.0%	-17.0%	6
9	BPT	BEACH ENERGY LIMITED	67.0%	83.0%	-16.0%	6
10	GMG	GOODMAN GROUP	17.0%	33.0%	-16.0%	6

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	WHC	WHITEHAVEN COAL LIMITED	2.029	1.757	15.48%	7
2	BIN	BINGO INDUSTRIES LIMITED	2.950	2.634	12.00%	4
3	HUB	HUB24 LIMITED	25.228	22.938	9.98%	5
4	CRN	CORONADO GLOBAL RESOURCES	1.483	1.365	8.64%	4
5	CNI	CENTURIA CAPITAL GROUP	2.393	2.230	7.31%	3

6	STO	SANTOS LIMITED	7.263	6.899	5.28%	7
7	CHC	CHARTER HALL GROUP	15.483	14.842	4.32%	6
8	SGP	STOCKLAND	4.147	4.005	3.55%	6
9	IPL	INCITEC PIVOT LIMITED	2.676	2.593	3.20%	7
10	FMG	FORTESCUE METALS GROUP LTD	21.821	21.193	2.96%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	COF	CENTURIA OFFICE REIT	2.133	2.310	-7.66%	4
2	ASX	ASX LIMITED	71.007	72.071	-1.48%	7
3	AVN	AVENTUS GROUP	2.805	2.840	-1.23%	4
4	LLC	LENDLEASE GROUP	14.070	14.135	-0.46%	6

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	IAG	INSURANCE AUSTRALIA GROUP LIMITED	7.867	1.600	391.69%	7
2	COE	COOPER ENERGY LIMITED	0.033	-0.043	176.74%	5
3	KAR	KAROON ENERGY LTD	0.213	-1.320	116.14%	3
4	S32	SOUTH32 LIMITED	23.427	12.007	95.11%	7
5	WHC	WHITEHAVEN COAL LIMITED	-4.696	-8.769	46.45%	7
6	GXY	GALAXY RESOURCES LIMITED	-2.197	-3.759	41.55%	6
7	PLS	PILBARA MINERALS LIMITED	-0.640	-0.980	34.69%	4
8	SUL	SUPER RETAIL GROUP LIMITED	119.157	89.320	33.40%	7
9	OSH	OIL SEARCH LIMITED	3.091	2.530	22.17%	7
10	APT	AFTERPAY LIMITED	15.751	13.051	20.69%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	OGC	OCEANAGOLD CORPORATION	-17.694	-12.791	-38.33%	4
2	CRN	CORONADO GLOBAL RESOURCES	-16.868	-13.913	-21.24%	4
3	NIC	NICKEL MINES LIMITED	5.910	6.936	-14.79%	3
4	NST	NORTHERN STAR RESOURCES LTD	60.634	67.667	-10.39%	5
5	BPT	BEACH ENERGY LIMITED	13.802	15.182	-9.09%	6
6	TYR	TYRO PAYMENTS LIMITED	-3.633	-3.333	-9.00%	3
7	Z1P	ZIP CO LIMITED	-11.880	-11.020	-7.80%	5
8	SAR	SARACEN MINERAL HOLDINGS LIMITED	23.950	25.840	-7.31%	4
9	HMC	HOME CONSORTIUM LIMITED	13.033	13.900	-6.24%	3
10	SGR	THE STAR ENTERTAINMENT GROUP LIMITED	10.720	11.363	-5.66%	7

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WEEKLY REPORTS

Uranium Week: Upcoming Catalysts For Uranium Industry

As the weekly uranium spot price oscillates in a tight range, we examine further impetus for the nuclear industry after the US re-joins the Paris climate agreement.

-Biden rejoins Paris climate agreement
-Upcoming catalysts to continue momentum for nuclear
-Minor covid disruption for Kazatomprom
-Uranium spot price remains range-bound

Momentum gained by the US nuclear industry during the Trump administration is expected to be maintained after the Biden administration's commitment to low-carbon energy, assesses industry consultant TradeTech. One of the first executive orders signed on January 20 was for the US to re-join the Paris Climate Agreement.

Upcoming catalysts include a full Senate vote on the American Nuclear Infrastructure Act. This includes an annual program for a US Strategic Uranium Reserve, which would provide assurance of the availability of uranium recovered in the US, in the event of a market disruption and support strategic fuel cycle capabilities within the nation.

In addition, plans were outlined in the US Department of Energy Office of Nuclear Energy's "Strategic Vision" in early January. These include goals to address key challenges in the US nuclear sector and pursue first-of-their-kind projects.

During his campaign, President Biden's political platform proposed a US$2 trillion climate plan that includes nuclear power. In particular, the plan calls for development of small modular reactors, which are suitable for load-following or as a backup for wind power.

It also supports "leveraging the carbon-pollution free energy provided by existing sources like nuclear and hydropower." The US nuclear industry is hoping that this bipartisan support extends to measures at State and Federal level to assist reactors that are at risk of closure. The Biden administration's first major policy test will be at Exelon's Byron and Dresden nuclear power plants in Illinois, both of which will be closed in late 2021 unless government support is forthcoming.

In addition, the Biden climate plan outlines the creation of an Advanced Research Projects Agency on Climate to target affordable, innovative technologies to help the US achieve a 100% clean energy target that includes advanced reactors that are applicable to a wider range of applications than conventional nuclear reactors.

<u>Company News</u>

Last week, JSC National Atomic Company **Kazatomprom** and its French joint venture partner, Orano Mining, reported a covid-19 outbreak at uranium miner Joint Venture KATCO LLC, which operates in the Turkestan region of Kazakhstan.

After initially reporting on 20 January that "several" positive cases had been identified, Kazatomprom stated on 22 January that 666 employees and contractors at KATCO's Moinkum and Tortkuduk operations were tested for covid-19, and the final reports showed 128 positive cases.

As a result, personnel who tested positive were isolated and are receiving treatment if required, and contact tracing was completed to quarantine exposed individuals.

Several non-core site activities have been suspended. Kazatomprom stated that the current situation will not have a significant impact on its planned 2021 annual production volumes. This will be welcome news for Orano in particular, given its supply from Cameco's Cigar Lake is suspended and its Cominak operations in Niger will close in March 2021.

Global miner **BHP Group** ((BHP)) reported uranium production of 2.08mlbs U3O8 for the second quarter, unchanged from the same period a year ago and up 8% from the previous quarter. Uranium is produced as a by-product at the company's Olympic Dam operation in South Australia.

ASX-listed uranium developer **Bannerman Resources** ((BMN)) has advised that it has been included in the Index Composition for the Global X Uranium ETF (NYSE:URA).

Bannerman CEO Brandon Munro stated, "Inclusion in the Global X Uranium ETF is an important step forward for Bannerman as interest in the asymmetrical uranium macro grows amongst generalist investors and Bannerman gains recognition for the value enhancements from our recently announced Etango-8 Uranium Project in Namibia."

The Global X Uranium ETF provides investors access to a broad range of companies involved in uranium mining and the production of nuclear components, including those in extraction, refining, exploration, or manufacturing of equipment for the uranium and nuclear industries.

The rules that govern the Index composition were changed in August 2020 to increase the ETF's exposure to "pure-play" uranium companies from 50% to 70%. The fund has since attracted a substantial inflow of funds. The current assets under have management grown to more than US$270 million.

Uranium Pricing

TradeTech's **Weekly Spot Price** Indicator is US$29.80/lb, down -US$0.40/lb from last week. The indicator has shown little volatility for several months and has gravitated around the US$30/lb mark since August 2020.

The average weekly spot price in 2021 is US$30.20/lb, US$0.49/lb above the 2020 average.

A total of four spot market transactions are reported for the week, which involved almost 500,000 pounds U3O8.

TradeTech's **term price** indicators are US$34/lb (mid) and US$37.00/lb (long).

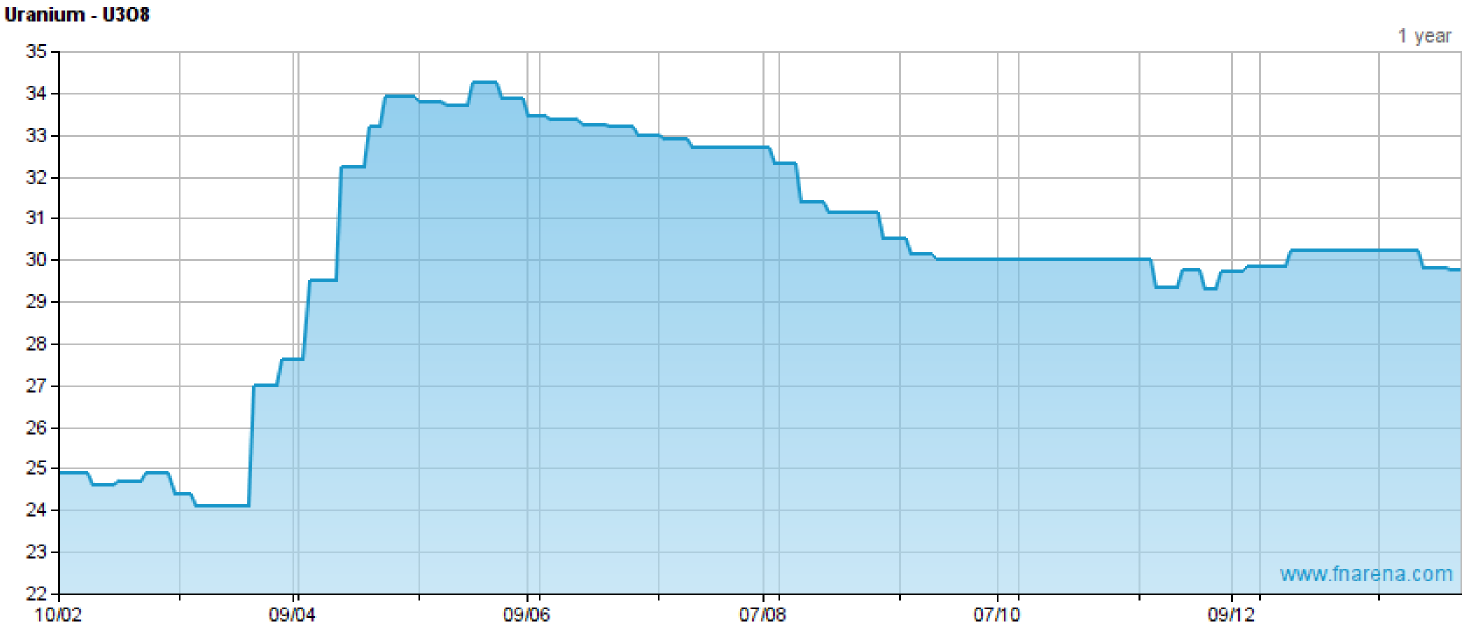
The term uranium market remained quiet this week, with no new demand or transactions reported. US utilities continue to sit on the sidelines as they monitor market developments and evaluate their procurement strategies for 2021.

Many of the utilities in the US that postponed buying decisions due to a variety of legislative and trade issues in 2020 are expected to move into the term market over the course of the coming year. This is as US energy policy and that of individual states become clearer, explains TradeTech.

Sellers point to the potential for ongoing risk from covid-19 to essential works, along with already announced production shutdowns and curtailments. In addition, there is renewed energy surrounding nuclear energy policy. These are all advanced as reasons for keeping a close eye on the capability of production to respond as needed, in a timely fashion and at a reasonable cost.

This is underscored by the recent news from Kazakhstan, the global leader in uranium production, that it had experienced a -15% drop in 2020 mined output compared to 2019.

As the year progresses, those utilities that have postponed term purchases, due to uncertainties overhanging the market, will eventually be faced with locking in commitments to provide for security of supply, explains TradeTech.



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

WEEKLY REPORTS

The Short Report - 28 Jan 2021

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

Summary:

Month ending January 21, 2021.

Welcome to the first Short Report of 2021. As the Short Report has been taking a short holiday, this first report for the year highlights short position movements over the full month of its hiatus. As of next week, the Report will return to its usual weekly update cycle.

The trend in the short side of the Australian market as 2020 came to a close was one of steadily reducing short interest, in line with a steadily recovering stock market. It is notable this trend did not change over the summer break, despite the madness currently going on in the US.

The Wall Street short squeeze is a US issue, not an Australian one. But as I write, of course, the local market is tanking.

Given the longer timeframe, there have been several short position movements of one percentage point or more in the interim, but no new individual stock developments we didn't know about before Christmas.

Salmon and prawn farmer Tassal Group ((TGR)) shorts have risen to 12.2% from 9.8%. My suggestion last year was this is due to fear of Chinese export bans extending beyond lobsters.

Biotech Mesoblast ((MSB)) shorts have risen to 10.3% from 8.0%. Late last year the company was denied FDA approval on its flagship drug, sending the company back into trials.

Network services provider Service Stream ((SSM)) shorts have risen to 7.3% from 5.8%. The company had been expected to win NBN contracts for all of Australia, but was passed over for NSW and Victoria.

Gold miners Northern Star Resources ((NST)) and Resolute Mining ((RSG)) have appeared in the table at 6.8% each, from below 5% prior. Resolute provided a disappointing production report last week, but the opposite was true for Northern Star.

We might conclude, therefore, that shorters are playing the company's upcoming merger with Saracen Minerals ((SAR)).

On the other side of the ledger, nickel miner Western Areas ((WSA)) shorts have fallen to 7.0% from 10.8%. The miner suffered seismic issues in the September quarter. While yet to update on the December quarter, Western Areas has since enjoyed a substantial jump in the nickel price, which has likely sent the shorters scurrying.

A bleak northern winter has sent thermal coal prices rising, benefitting Whitehaven Coal ((WHC)), which last week posted a strong production report. Shorts have fallen from 6.1% to below 5%.

Weekly short positions as a percentage of market cap:

10%+
WEB 14.5
TGR 12.2
MSB 10.3

In: TGR Out: WSA

9.0-9.9

No stocks

Out: TGR

8.0-8.9%

ING, AVH, IVC

Out: MSB, FLT, A2M

7.0-7.9%

A2M, FLT, MTS, SSM, MYR, WSA

In: WSA, A2M, FLT, SSM, MYR Out: Z1P

6.0-6.9%

FNP, NST, RSG, Z1P, EML

In: Z1P, NST, RSG, EML Out: BOQ, CUV, WHC

5.0-5.9%

NEA, EOS, CUV, ALK, PME, BVS, BOQ

In: CUV, BOQ, PME, BVS Out: SSM EML, BEN, AMA, SXL, COE

Movers & Shakers

Movers & Shakers will return next week, as long as something moves & shakes.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.3	0.3	MQG	0.4	0.3
ANZ	1.1	1.0	NAB	1.3	1.3
APT	1.2	1.2	NCM	0.2	0.2
BHP	3.6	3.6	RIO	0.4	0.4
BXB	0.2	0.3	TCL	0.5	0.5
CBA	0.6	0.6	TLS	0.4	0.3
COL	0.5	0.4	WBC	1.0	0.9
CSL	0.1	0.1	WES	0.4	0.4
FMG	0.3	0.3	WOW	0.3	0.4
GMG	0.2	0.1	WPL	1.2	1.4

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.

RUDI'S VIEWS

Rudi's View: Why Worry?

In this week's Weekly Insights:

-Why Worry?
-Conviction Calls

By Rudi Filapek-Vandyck, Editor FNArena

Why Worry?

As reported in earlier updates, I returned from holidays thinking this market is way too confident, way too bullish, and way too exuberant on numerous accounts. Turns out, market strategists at Bank of America (short cut BofA) are in full agreement.

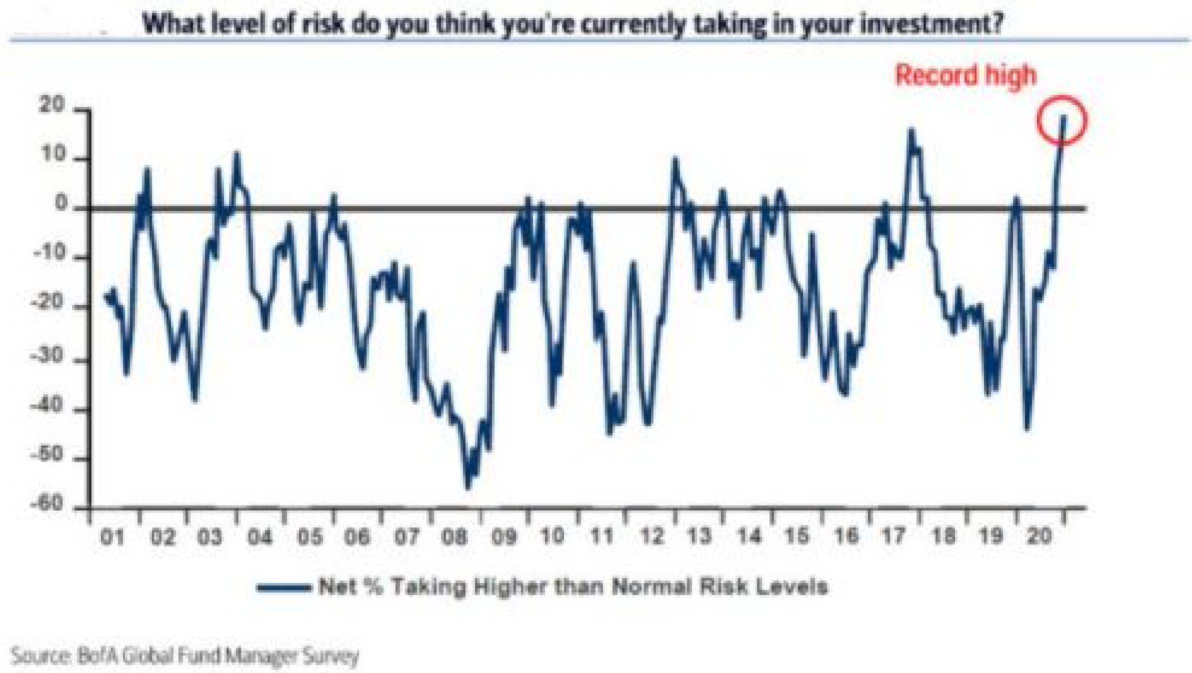
BofA's latest global fund manager survey suggests institutions the world around have fully embraced the 2021 re-opening & economic recovery trade, using defensives, quality and growth stocks as the funding source to stock up on miners, energy companies and banks.

Emerging Markets have become the new Go To destination. Elsewhere it's small cap stocks. And now average cash holdings (at 3.9% as at mid-January) are at their lowest level since March 2013.

On BofA's own experience, when cash levels are this low the odds for an imminent correction shorten significantly. Hence, no surprise, the January update from the BofA global find managers survey comes with the warning: market correction could be imminent.

Other indicators from the same survey show overall sentiment is firmly "bullish" while expectations for global EPS growth, a pick-up in inflation and a rise in bond yields are at or near all-time highs in the history of the survey. For the first time since October 2019 being long technology stocks is no longer the most crowded trade with the survey revealing the most crowded trade is now being long Bitcoin.

The graphic below shows respondents' answer as to how much risk they are taking with their strategies. I think the visual speaks for itself.



Of course, share markets are not going to roll over and correct simply because of one survey. And, on my observation, BofA first started hinting at elevated levels of share market optimism and increased odds for a correction about three months ago. In hindsight, that was too early.

But here's a Tweet I picked up earlier:

"A remarkable number of people I admire greatly are talking, very quietly, about how they are taking down risk. No great fuss. No great fanfare. Very matter-of-fact but...

These are the people who generally do this stuff before the crowd. Just thought I'd pass that on."

The BofA survey was conducted from January 8 to 14.

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For good measure, the BofA survey results are being reflected in just about every portfolio and model portfolio update that has passed my desk over the past month, while earnings forecasts, in particular for energy and mining companies and for banks, are firmly on the rise, as also shown by the January sector reports the FNArena team has reported on.

Rising forecasts tend to coincide with increasing optimism and higher share prices. Many of this month's sector updates come with predictions of further upside, so it's anyone's guess how exactly this uptrend can/shall continue. Can elevated market comfort be sustained as long as earnings forecasts and economic data point to ongoing improvement?

I guess we will find out. The February reporting season is almost upon us. In the all-dominating US corporate results season has just begun.

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Those familiar with my writings know I have created a habit of reassessing the strategy and portfolio holdings at every serious downturn for risk assets. The last time was in March last year. Arguably, the start of a new calendar year is equally a great opportunity to take another look at what has worked out and what hasn't thus far, and what might not be the best position to have for the year ahead.

This year a general reassessment, and general clean-out of the portfolio, looks double-appropriate given the sharp switch in share market momentum that has characterised the closing part of 2020, with firm continuation in January.

As reported earlier, the FNArena/Vested Equities All-Weather Model Portfolio decided to move part of its holdings into cash earlier in the month. This move was partially inspired by broad share market enthusiasm in combination with rising bond yields, but equally by the fact that Quality, Growth and Reliable Yield -the core constituents of the strategy- are now all on the wrong side of market momentum.

The portfolio will remain true to its core strategy, but a general re-orientation nevertheless seems but appropriate. Below are a number of considerations that can be used as a general framework for portfolio re-adjustments ahead of the February reporting season.

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The Australian economy once again stands out within international context as the country has dealt remarkably well with the pandemic and thus the economic recovery is not dependent on a successful vaccine rollout. Keeping the borders closed will suffice, thank you very much. Not so great for Qantas, Sydney Airport, Flight Centre and the like, but super-duper for just about everybody else.

Short-term mortgages below 2% and the inability to travel overseas have once again injected renewed oomph into the local property market and retailers can hardly believe their sales figures these days. No surprise, housing related stocks and discretionary retailers are among the most wanted on the ASX. Combine both in one company and you have a double-winner!

Equally important, there is a growing sense among analysts both these trends can potentially stick around for a while. This means anything that might look bloated on current forecasts, like a high PE ratio, probably isn't, as long as that operational momentum continues. Rule number one when assessing investment opportunities: don't treat PE ratios, share price targets and/or forecasts as a static input. If current trends persist, earnings estimates will simply receive more upgrades.

The same principle applies for energy producers, mining companies and banks. Positive sentiment is feeding into higher prices for energy and base materials, while banks are enjoying a widening spread between short term and longer dated government bonds; essentially delivering free money to bank shareholders through widening profit margins.

January has equally proven strong operational trends are continuing for Buy Now, Pay Later companies, as well as for operators of alternative financial platforms, including Hub24 ((HUB)), Netwealth ((NWL)) and Praemium ((PPS)).

Global optimism, a lower-risk economic recovery profile and downward pressure on the USD have quickly catapulted AUD to a much higher level against the greenback, and this has created a headwind for foreign earners, of which the local healthcare sector is the prime example. Cochlear ((COH)), ResMed ((RMD)), CSL ((CSL)) and the like have not necessarily done anything wrong, but rising bond yields in combination with a much stronger AUD have proved too much combined pressure for their share prices in recent months.

The same pressure has fallen upon local technology companies that failed to show unquestionably strong operational momentum a la BNPL and financial platforms. The likes of Megaport ((MP1)), Appen ((APX)) and Altium ((ALU)) combined macro pressure with disappointing market updates, hence why their share prices received the double-whammy slap-down punishment. At some point, these share prices will come back in favour, though it may as yet be too early for that (disappointments tend to take a while to be digested).

For investors with a longer-term horizon, it should not be forgotten that strong mega-trends such as cloud computing, artificial intelligence and data-analysis, telehealth, online gaming, vaccines and protective gear, electric vehicles, etc are not withering because of current market fixation on emerging markets, small caps, miners and banks.

Ansell ((ANN)) shares, for example, couldn't find a single buyer post-October, or so it seemed, with its share price tanking from $42-plus to $34-minus but all it took was a reaffirmative trading update to inject new momentum in that share price. TechnologyOne ((TNE)) didn't even need to provide another market update; one positive update by Bell Potter elicited a similar response.

Both stocks are held in the All-Weather Model Portfolio. Such examples should be encouraging for investors looking outside of the current popular parts of the share market, though it is equally good to remind ourselves that investors are a fickle lot. Don't be surprised if opportunities such as Ansell and TechnologyOne require more patience in 2021, at least as long as there is so much perceived potential still in Westpac ((WBC)), BHP Group, Senex Energy ((SXY)) and the like.

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One special mention needs to be made about yield stocks. With rising bond yields one of the consensus forecasts on Wall Street (and beyond) for calendar year 2021, your typical bond proxies are facing more resistance than usual, which in many cases has already shown up in weaker prices and noticeable share market underperformance.

Most income-seeking investors would have a long-term horizon and not be too fussed about what happens short term with the share price as long as those dividend payments keep arriving. In most cases there is no change to cash flow projections for REITs and infrastructure companies as a direct result from rising bond yields.

However, those investors focusing on total return including dividends might want to reconsider allocating more exposure towards industrial companies this year. It remains true that headwinds are best tackled with operational growth, and this includes higher bond yields. Industrial companies in general usually have more options to achieve (higher) growth, assuming they are not solely dependent on borders re-opening quickly or struggling with an existential threat from tech-disruption.

Therefore the likes of Aurizon Holdings ((AZJ)), Super Retail ((SUL)), Pendal Group ((PDL)), Amcor ((AMC)), Accent Group ((AX1)) and Perpetual ((PPT)) are likely to outperform your typical bond proxy this year, and potentially by quite a margin. The banks are firmly making their come-back on income-seeking investors' radar, with analysts busy upgrading their forecasts.

Non-bond proxies offering relatively high dividend yield include Orora ((ORA)), Magellan Financial ((MFG)), Sonic Healthcare ((SHL)), Suncorp ((SUN)), and Iress (IRE)). Of course, as with REITs that own office towers and shopping malls, investors must remain cognisant some of the attractive looking stocks today can easily turn into a value trap in case of adverse outcome. Educated risk assessment remains an investor's best friend, more so this year I would argue.

Within this context, it is worth highlighting Telstra ((TLS)) shares are staging a noteworthy come-back from the sub-$2.80 price reached in October last year. For loyal shareholders, the past five years have been an extremely frustrating experience, probably best illustrated by the fact Telstra shares sprinted to $6.50 in January 2015, and subsequently lost almost half their value over the following 5.5 years.

The company is now segregating into separate divisions and looking to sell equity in hard assets including telecom towers and infrastructure which should prove a straightforward and obvious way to unlock more shareholder value. Selling assets should also guarantee there will be no further cuts to the 16c in annual dividends in the years ahead, which is yet another positive.

I suspect Telstra might well prove one of the surprise-outperformers in 2021. Certainly, it can be argued the prospect of asset equity sales has turned the stock into a lower-risk dividend opportunity while many of its peers are facing obvious headwinds.

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"*We worry that investors are not acting in a way that underscores any sense of caution*" market strategists at Citi stated in their most recent market update. Similar to the BofA survey mentioned earlier, Citi's proprietary Panic/Euphoria model has investor sentiment firmly into Euphoria territory.

Citi's Euphoria reading has never been as high as the current reading with the data series stretching as far back as 1987. It does raise a few questions. Is it time for a breather/pause/pull back is but one of them.

Conviction Calls

Ahead of the February reporting season, Morgan Stanley analysts have nominated IDP Education ((IEL)) as their number one conviction pick for upside earnings surprise and share price outperformance for the year ahead.

With international borders in many cases closed, but with pent up student demand, IDP Education would be one of the prime beneficiaries of the resumption of international travels and the re-opening of borders. But wait, there is more; the analysts are anticipating an agreement that would see the unification of the distribution of International English Language Testing System, in short IELTs, tests between IDP and the British Council.

Such an agreement will, simply put, save the company a lot of costs plus increase its pricing power. Morgan Stanley sees a step-by-step scenario unfolding whereby, ultimately, global distribution of the tests will be unified. The result for IDP should be no less than transformational, predict the analysts.

All in all, while the global pandemic has put a serious dent in the business, Morgan Stanley is equally of the view it has materially improved the company's competitive position. For now, Morgan Stanley's base case valuation sits at $24 per share. Rating is Overweight, against the background of an In-Line industry view.

Morgan Stanley's conviction call received an extra-boost on Monday when UBS followed up with its own bullish assessment for the company's outlook.

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Analysts at Morgan Stanley (different ones) can see a valuation for shares in REA Group ((REA)) of $150, which is the level at which the shares peaked out at early this month, but their peers at Morningstar have no such warm and fuzzy feelings for Australia's dominant online properties portal.

Morningstar has pretty much always had a problem with the seemingly lofty valuation the share market was ascribing to the majority News Corp-owned REA Group, but late last year's rally has really turned the mood sour. Equity strategist Gareth James believes investors have lost their marbles, or something along those lines.

Yes, low interest rates accommodate a higher valuation, and yes, buoyant prospects for the domestic housing market bode well for the company's growth outlook, but there are limits to everything, and right now the limit to valuing the shares by reasonable measures has well and truly been crossed, and then some.

At least, that's the view of Gareth at Morningstar. Fair value for the shares would be in the vicinity of $80, so goes the argument. Grossly overvalued is thus the verdict.

For good measure, on Morningstar's projections REA Group's earnings per share (EPS) are still expected to grow by 16%, underlying CAGR, over the next five years, which is down from a hefty growth pace of over 40% some six years ago, as pointed out in the Morningstar report. It's equally an poignant observation the group's international expansion has not lived up to expectations with total group profits still determined by the Australian operations in the order of 96%.

The most decisive factor mentioned, probably, are rising interest rates and bond yields. It is Morningstar's view that a recovery in economic growth will lead to higher inflation which then leads to less accomodative central banks and higher bond yields. While this is what standard economic theory prescribes, it has to be mentioned not everyone is as yet as convinced about this scenario for the year(s) ahead, or whether bond yields can go up much higher at all given the global status on debt.

Of the five other stockbrokers in the FNArena database covering this stock, none has a Sell rating, though all price targets are well below Morgan Stanley's, but also well above Morningstar's, ranging between $110 and $130. It'll be interesting to see what happens to those numbers after the company has released its interim report in February.

REA Group is part of my selection of All-Weather Performers on the ASX and proudly held as a core constituent in the FNArena-Vested Equities All-Weather Model Portfolio (see also dedicated section on the website, for paying subscribers).

(This story was written on Monday 25th January, 2021. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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