

Week
18

Stories To Read From FNArena

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Margin Recovery Central To Flight Centre

Flight Centre has cut pre-tax profit guidance for FY19 for the third time and broker opinions diverge regarding the longevity of the contributing factors.

-Is the company's Australasian leisure business losing market share? -More confidence in a margin turnaround required -Key to achieving targets is demonstrating Australasian issues are not structural

By Eva Brocklehurst

The pace of the decline in the Australasian business has accelerated, and earnings visibility remains low for Flight Centre ((FLT)) after the company cut its pre-tax profit expectations for FY19 for the third time. FY19 pre-tax profit guidance has been reduced to \$335-360m, an 11% downgrade at the mid point, versus \$390-420m previously.

The downgrade is attributed to subdued trading and internal issues, such as the new sales staff wages model, brand consolidation and the review of the company's shop network. It appears Flight Centre has not benefited from the April holiday season and brokers suspect the upcoming federal election will also not be supportive of leisure travel over the coming weeks.

The Australasian leisure business has contributed most of the weakness to the group, but this has been going on for 18 months and Morgan Stanley now questions whether the pressures are not more structural. The broker would like to believe the disruption from store closures, rebranding and new wage deals is transitory, but increasingly suspects this is not the case.

On the other hand, UBS assesses over two thirds of the downgrade is specific to Flight Centre and less than one third is related to cyclical/structural factors.

Macquarie suspects the company's leisure business is continuing to lose market share and underperforming the industry. The broker agrees the weakness could be more enduring, despite management pointing to transitory factors. While value is starting to appear on the stock, Macquarie finds it difficult to perceive a bottom for Australasian leisure and maintains a Neutral rating.

Credit Suisse is more positive, believing Flight Centre is moving towards a more sustainable Australasian leisure business. Leisure is also becoming less material to the overall picture for the longer term. Business outside Australia is expected to generate more than half of group profit in earnings globally.

Trading conditions for travel agents have been tough since late 2018, with customers reluctant to commit to holidays despite enquiry levels remaining high. Deutsche Bank expects this could improve after the federal election, but then the wealth effect from the housing downturn is also likely to be having a negative impact.

The broker is mostly concerned about the brand consolidation going on in the company's businesses and suspects the sales transfer of higher margin cruise and package sales has been lower than expected. Potential solutions involve risking confusion for the customer about what Flight Centre brands stand for.

The stock may be starting to look cheap in an expensive market but Deutsche Bank wants some signs of stabilisation in leisure before becoming comfortable about buying it.

Expenses such as higher net interest post the buyback and technology costs are likely to be enduring and offset the record profit that is expected from international business. Still, Morgan Stanley considers the implied value of the stock is too cheap and maintains an Overweight rating.

Citi observes sentiment around medium-term earnings potential has deteriorated. The broker concedes there is value below the \$40 mark for the stock but intends to remain on the sidelines until signs of stability emerge. Morgans agrees patience is required, and any material re-rating will not occur until there are signs the Australasian business is recovering.

Offshore

Corporate transaction value trends are strong and there are healthy profit indicators for the Americas and UK. Both are on track to achieve record profits and the Americas is set to become the company's second largest market after Australia.

Macquarie expects the corporate & global markets will be the growth drivers over the medium term, highlighting the corporate business, in particular, as high quality and a structurally attractive industry where further market share gains are likely.

Still, as override payments are negotiated at a group level the lower transaction value in Australasian leisure would likely reduce the override payments the corporate operations generate, Morgan Stanley asserts.

Margin

Citi pushes out the required timeline for achieving management's 2% pre-tax profit margin target, to FY25 from FY22. Margins have deteriorated since the target was set, and there would need to be a material rebound in earnings in Australia for the original timeline to prevail.

The broker's second half margin forecasts have been reduced to 1.3%. Morgans assesses the pre-tax profit margin is likely to fall to 1.4%, a level not seen since the GFC. The broker takes the company's margin target with a pinch of salt, considering it aspirational.

UBS points out that, with the exception of Australasian leisure, the rest of the business is performing well and margins are likely to be at trough levels, along with sentiment. The broker forecasts an FY22 pre-tax profit margin of 1.67%.

Efficiency measures, a cycling of one-offs and corporate growth should then mean margins grow in FY20. If a rebound in margins occurs, the broker believes the stock will re-rate and, coupled with the upside risk for the international business, this underpins a Buy rating.

FNArena's database shows three Buy ratings and five Hold. The consensus target is \$44.92 suggesting 17.2% upside to the last share price. The dividend yield on FY19 and FY20 forecasts is 6.8% and 4.5% respectively.

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Better March Qtr But Coles Still Underwhelms

Supermarket sales growth for Coles is expected to decelerate in the next couple of quarters as gains from its collectables campaign lose momentum.

-Downside risk from having to cycle Little Shop campaign in the Sept quarter -Cost pressures in the fresh category supported price inflation -Management acknowledges Coles is underperforming in convenience

By Eva Brocklehurst

Sales momentum is expected to slow for Coles ((COL)) in the next couple of quarters as the comparable impetus from a successful promotional campaign last year is felt, and costs rise. The company has indicated sales growth of around 1.5% is likely in the June quarter, returning to similar levels as in December. For UBS, this implies a significant deceleration in real growth.

Like-for-like sales growth for the company's supermarkets was 2.2% in the March quarter. The Fresh Stikeez promotion boosted basket size, while food inflation supported sales growth. Deutsche Bank notes the uplift from the Stikeez promotion was smaller than that of Little Shop, and driven by basket size rather than transaction growth. This indicates there may not be much of a competitive impact on rival Woolworths ((WOW)).

There is now the downside risk of having to cycle a successful Little Shop campaign in the September quarter. UBS asserts the outlook is now much softer, which supports its Sell rating. While market growth has improved, promotional intensity is down.

Cost Growth

Deutsche Bank is disappointed because in the absence of promotion incentives, the natural sales growth of Coles is tracking well below cost growth. Food inflation is expected to continue building, which should benefit all operators, but Coles needs to provide signs that sales can exceed costs growth before the broker is comfortable about buying the stock.

Cost pressures in the fresh category supported price inflation of 0.9% for the quarter, with drought conditions and the Queensland cyclone having an impact. Yet, when tobacco and fresh food prices are excluded, prices declined -0.9%.

The company is facing specific pressures and strengthening its competitive position will cost money and take time, UBS assesses, calculating Coles trades at an earnings to enterprise value discount -6% to Woolworths, which does not reflect the upside in the near term for Woolworths and the risk to Coles. Credit Suisse prefers Woolworths because it is more advanced in its supply chain initiatives that should bring a competitive advantage.

Citi stands out, with a much more positive outlook for Coles, noting that the rate of overall sales growth in the March quarter was almost twice that of the prior quarter, largely because of higher inflation in fresh food and the timing of New Year's Eve, as well as online growth of 27%.

Underlying trends are considered positive, with better transaction growth expected from big basket shoppers. The broker acknowledges trading conditions in April are difficult to analyse because of the timing of Easter and school holidays.

UBS notes deflation in dry grocery was partially a result of strong private-label growth and inflation is likely to emerge in this category, given it has appeared in fresh food. However, Credit Suisse is not inclined to read too much into this trend outside of price/volume elasticity. Underlying deflation has been at a similar rate for more than 12 months and there has been no acceleration in branded inflation.

Convenience Underwhelms

Coles Express sales fell -32.4%, predominantly because of changes to the terms of the alliance agreement with Viva Energy ((VEA)). Lower sales in convenience stem from lower fuel transactions and softer tobacco growth. The new alliance came into effect on March 1 and Macquarie suspects the slump in headline fuel volumes, down -10.9% in the quarter, should start to turn around as retail fuel prices normalise.

Management has acknowledged that Coles is underperforming in convenience and intends to improve its performance through new store formats and a dedicated merchandise team.

Like-for-like sales growth in liquor of 0.9% was weaker than Citi expected, as wine market conditions remain challenging and there was reduced promotional intensity in beer. The broker notes store conversions are driving growth in an otherwise tough market.

FNArena's database shows one Buy (Citi), four Hold and three Sell ratings. The consensus target is \$12.00, suggesting -5.4% downside to the last share price.

See also, Benefits Of Coles Online Move Uncertain on March 28 and Coles Unloads Risk With Pub Deal on March 6, 2019.

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Transurban Emphasises Domestic Outlook

The current environment in bond markets is supporting Transurban and brokers do not envisage any change in status in the near term.

-Domestic road network expansion emphasised -Will not participate in the initial stage of the Maryland toll project - Opportunity in technology but well into the future

By Eva Brocklehurst

Road network manager and developer Transurban ((TCL)) is working to bed down recent acquisitions and deliver on its developments, intent on completing \$8bn of proportionally funded projects in the next four years.

Transurban's key competitive advantage, in Citi's opinion, is the in-house expertise and insight into traffic. While the interest rate environment is favourable, the broker would like leverage to be lower when rates are historically low. The company has pointed to traffic congestion on Sydney's M2 and M5 which may cause some moderation of growth assumptions in the absence of enhancements.

UBS found nothing in the investor briefing to sway sentiment, noting the stock's performance over the last six months has probably been driven by a flight to yield, as evidenced by a -0.7 percentage point contraction in the US and Australian bond yields. Deutsche Bank also expects low bond yields will continue to underpin the sector in the short term.

Sydney's WestConnex opens new M4 tunnels in 2019 and there are new M5 tunnels to be opened in 2020. A proportion of the funding is secured although there is still a requirement for a further \$3-4bn of corporate level funding, which is exposed to interest-rate fluctuations.

UBS notes some favourable debt transactions recently. Liquidity and debt markets diminishes the risk and it is possible the company can gradually better its current 4.7% effective interest cost.

Transurban has confirmed it will not participate in the initial stage of the Maryland high-occupancy toll project in the US, considering it too complex and involving a high risk of project delays. Instead domestic road network expansion is a favoured.

Tax

Citi asserts it is none the wiser after the company attempted to address capital releases and tax issues. Capital releases are unknown beyond FY19/20 in terms of timing and quantum.

The company has stated a majority of its distributions will be covered from cash flow but this, Citi suggests, implies a wide range for future capital releases. Transurban has guided to around 5% and 4% growth in distributions in FY19 and FY20 respectively.

Given the reliance on capital releases and a mild tax headwind, Citi believes upgrades to distributions are becoming less likely. The company indicated when concessions are likely to commence paying tax but tax rates are still unknown. UBS agrees the tax outlook is opaque.

Transurban Holdings is not expected to pay tax until 2023. Both UBS and Macquarie note details of the West Gate trust structure are limited, but suspect Transurban will be unlikely to pay the full 30% rate of tax.

In the medium term, Macquarie suggests that instead of accelerated dividend growth the company could also recycle its surplus capital to fund new developments. NSW is the obvious choice but there are also opportunities in Brisbane and Montreal, Canada. Macquarie considers these initiatives carry the most added value for shareholders.

Aside from the question of the impact on traffic, the company pointed out that the take-up of zero emission vehicles could accelerate a drop in Australian government fuel excise collections. If implemented, Morgan Stanley estimates current Labor Party policies for transport emission reductions could mean a fall in excise collection in the order of -25%, adding further pressure on private sector investment in infrastructure.

Technology

There were a number of market dynamics which the company alluded to, including smart mobility, road user charging and motor vehicle technology, supporting cheaper, safer road travel with integrated networks. However,

while the company alluded to the long-term opportunity from technology, Macquarie points out this is about decades into the future.

There are three Buy ratings, three Hold and two Sell on FNArena's database. The consensus target is \$12.68, suggesting -5.7% downside to the last share price the dividend yield on FY19 FY20 forecasts is 4.4% and 4.6% respectively.

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Exploration A Catalyst For Independence Group

After record nickel production in the March quarter, brokers are looking for exploration success to extend and add value to Independence Group's Nova mine.

-Main value generation outside of higher metal prices lies with exploration -Tropicana gold grades affected by higher throughput at the new mill -Securing higher payability terms a key catalyst, as the company reviews potential downstream nickel production

By Eva Brocklehurst

The Nova nickel mine achieved a record March quarter for Independence Group ((IGO)), which more than offset a softer-than-expected result from the Tropicana gold mine. Stronger copper, nickel and cobalt prices helped, amid a catch-up of sales volumes relative to production

Mined grades outpaced reserves and operating expenditure was down -23% in the quarter, with cash costs down to \$1.50/lb. Copper and cobalt production was 30% above UBS forecasts. UBS now forecasts production of 30,400t in FY19, ahead of guidance at 30,000t. Nova benefited from a much higher ore grade than brokers expected and is delivering on tonnage and grade, while copper recovery of 87% has been sustained.

Tropicana was weaker than most brokers expected. Gold production was -10% below UBS estimates and costs were 14% higher. Grades were the culprit. After the SAG mill was commissioned in November 2018, throughput and recovery have only marginally risen. This is attributed to coarser grind size with higher throughput. Citi suspects the intention was to trade off recovery against increased throughput.

The company and its partners have formally approved the Boston Shaker underground and declared a maiden reserve. Guidance is for Tropicana production to be maintained at 450-500,000 ozpa over the next five years.

Exploration

The main value for Nova, outside of supportive metal prices, is exploration success, Credit Suisse asserts, in order to leverage the high quality and long life of the mill infrastructure, and considerable resources are being deployed to this end.

The company has a record \$51m exploration budget for 2019, largely slated for finding the next 'Nova' in the Fraser Range or within the Nova mining lease. The company believes the Fraser Range hosts a belt of other greenstone deposits just waiting to be found, and the discovery of a nickel-copper-cobalt orebody nearby by Mark Creasy appears to support this view.

Macquarie upgrades to Outperform from Neutral, suspecting Nova will beat production guidance for FY19. The broker also finds recent exploration results encouraging, with a successful discovery offering material upside to base case forecasts.

UBS assesses exploration success could be materially accretive and extend Nova's mine life beyond the current six years. The broker agrees value has re-emerged, as the share price is now pricing in a US\$5/lb long-term nickel price and a -10% discount rate on Tropicana.

The broker calculates the stock is trading on a 10-18% free cash flow yield for FY19-21 estimates and remains net cash. The broker upgrades to Buy from Neutral, believing the -10% decline in the share price in April has provided an opportunity for exposure to a high-quality, low-cost nickel producer.

Sulphate option

Current concentrate offtake contracts expire in 2020 and UBS models payability lifting to 80% for nickel and 45% for cobalt. The broker believes the scarcity of nickel and cobalt concentrate in the context of growing demand from electric vehicles will mean strong competition from smelters. However, some of the bullish long-term price estimates need to be pared back in terms of electric vehicles, UBS advises.

Independence Group is investigating investing in downstream nickel sulphate production. Macquarie considers the sulphate study, due for completion at the end of 2019, presents upside risk for nickel payability. The broker does not currently include the project in forecasts, expecting key concentrate customers will lift payabilities to match the potential returns on the project, given the scarcity of nickel concentrate.

Still, securing higher payability terms is a key catalyst. Having extended the pre-feasibility to the December quarter, Credit Suisse believes the company is buying time for offtake agreements to be negotiated, in order to replace expiring contracts in December 2019 and June 2020 for an undefined period up until a conceptual project could, potentially, be operating.

The company appears to be leveraging higher nickel payability from smelter customers, insinuating that it may soon have a commercial option for in-house conversion. Credit Suisse is reminded the company's current role in the nickel supply chain ends as a 13% nickel concentrate seller.

This ties in with exploration success at Nova, as the current mine life could potentially decline to just four years by the time a conceptual sulphate plant starts up, and maybe only three years by the time it achieves nameplate.

FNArena's database shows three Buy ratings and three Hold. The consensus target is \$4.76, suggesting 3.7% upside to the last share price. Targets range from \$4.10 (Credit Suisse) to \$5.30 (Ord Minnett).

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Listings Slump Impinges On Domain

Brokers suspect depressed real estate listings are likely to confront Domain for some time and several have moved their ratings to the sidelines as a result.

-Real estate listings likely to deteriorate further in the June quarter -Domain taking action on costs, expected in the low single digits in FY19 -Most brokers on the sidelines until headwinds ease

By Eva Brocklehurst

Domain Holdings ((DHG)) sustained both upgrades and downgrades to broker views after its March quarter update revealed a slump in listings. Digital revenue was in line but total revenue fell -6% in the March quarter. Depth listings fell -13%, although this was offset by yield improvements of around 14%.

UBS assumes listings deteriorate further in the June quarter, affected by the unfavourable timing of Easter and Anzac Day and the upcoming federal election. This has resulted in reductions of -6-11% to the broker's FY19-20 estimates for earnings per share.

The company has mounted an argument for growth in depth advertising revenue, although Morgans believes it remains constrained until volumes recover. Domain has also made progress in lifting the number of 'Platinum All' and 'Gold All' subscribers and a detailed regional breakdown of penetration rates for different advertising has revealed significant opportunities outside of Sydney and Melbourne.

Yet, given the weak trends, the company is taking action on costs and has guided to total costs in FY19 in the low single digits. While this helps to preserve profits, Morgans suspects questions will be asked if the company is under-investing in technology and new products.

Volumes, usually, are expected to rebound the following year after weakness, in terms of comparable data, but Credit Suisse points out this is not necessarily the case. An analysis of the property turnover rate in the US/UK since the GFC shows volume in these markets was depressed for a sustained period and is yet to return to pre-GFC levels. The broker downgrades to Underperform from Neutral, taking into account earnings changes and reflecting the downside risk.

Yield Improvement

Macquarie calculates around 7-8% of the yield improvement was driven by price and 6-7% from mix/depth. This is a positive aspect, in that it fills in the structural growth story.

The broker also believes the move to price smaller geographic zones will allow more tactical strategies from 2020 and this could benefit yield. Domain is looking to access the large, authenticated digital base of Nine Entertainment ((NEC)) and believes its data asset contains a competitive advantage that is hard to replicate.

Macquarie upgrades to Neutral from Underperform, as the share price has now reverted to the level of its target. The broker expects strong earnings growth in 2020 on the back of improving volume trends.

Morgans goes the other way, downgrading to Reduce from Hold. The broker cites a mounting number of risks to earnings, including a failure to grow market share in non-core states, rising marketing and technology costs, regulatory changes and a re-negotiation of the current Fairfax supply agreements.

Weakness in new listings is likely to continue until after the federal election, Ord Minnett suspects. The broker reduces earnings estimates, expecting declines of -16% for the second half and leading to a downgrade in the stock to Hold from Accumulate.

The broker continues to prefer Domain to REA Group ((REA)) because of the potential upside under Nine Entertainment's holding (60%). Still, Ord Minnett is prepared to wait on the sidelines until the listings headwind eases.

FNArena's database shows one Buy rating (Morgan Stanley, yet to comment on the update), four Hold and two Sell. The consensus target is \$2.70, signalling -1.5% downside to the last share price. Targets range from \$2.19 (Morgans) to \$3.20 (Morgan Stanley).

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Orora Stacks Up Despite Slow Start

Packaging business Orora is reviewing its cost structures after a slow start to 2019, although brokers consider the business well-placed in a softening economy.

-Glass volumes are lower in Australasia while fruit packaging is strong -No material impact from electricity prices expected in the near future -Valuation justified by defensive growth attributes and strong balance sheet

By Eva Brocklehurst

2019 has started off slowly for Orora ((ORA)), with the weakness primarily stemming from a US government shutdown and weather affecting North American business. Of note, the company has experienced an improvement in March and April. North America represents 36% of the company's FY19 earnings.

In Australasia there are signs the economy is slowing, although the signals are mixed for short-term demand. Glass volumes are lower, as wine exports to China weaken, while fruit packaging is strong. Adverse weather in Queensland had a minor impact over the March quarter. Macquarie points out April sales were in line with, or just ahead of, expectations despite the uncertainty.

As a result, cost structures are being reviewed, in both Australasia and the US. The company is integrating recent acquisitions and, once these costs roll off fully, Morgans expects the North American performance will improve.

Recent cuts to US paper prices are not expected to have a material impact, which Citi believes is because of lower OCC (old corrugated cardboard) input costs, which may have provided a greater benefit had the company not locked in higher fixed-price contracts. Other inputs, such as kraft paper and starch, are expected to remain a headwind in the second half.

Energy Agreement

Renewable energy agreements that were entered in FY18 are providing greater certainty for electricity costs and the company is not expecting a material impact from electricity prices in the near future.

In relation to gas, Orora has signed an initial two-year agreement with Senex Energy ((SXY)), commencing January 1, 2020. The gas will be supplied at a fixed cost in line with current market levels and indexed annually. Citi estimates current market prices for the gas are in the low \$9/GJ, around \$ 2/GJ higher than Orora's legacy contracts.

The broker calculates this implies a significant \$7.0m per annum of additional energy costs from January 2020. With Orora requiring 5.0PJ of gas annually, Citi expects it will announce further contracts in coming months.

The company continues to expect constant currency earnings to be higher in FY19 than FY18. While the economy is tougher to negotiate, brokers point out Orora operates in relatively defensive areas of food and beverages. Morgans asserts the high-quality, defensive business with a strong balance sheet means recent share price weakness offers an attractive entry point for long-term investors.

Macquarie also considers the stock's valuation is justified by the defensive growth attributes and strong balance sheet. The broker does point out that a recovery in US earnings is an FY20 story, although recent demand and peer results in the US are notably subdued.

The company continues to focus on sustainability, and to this end is performing trials with plastic replacements such as fibre. Sustainable packaging initiatives include fibre trays, fibre punnets and fibre bubblewrap.

M&A

Meanwhile, the Pollock and Bronco acquisitions are tracking to plan and the company's priority is to settle these before making any further acquisitions. Beyond this, with plenty of deployable capital, M&A will focus on North America, and Mexico is also an attractive location Macquarie suggests.

FNArena's database shows three Buy ratings, four Hold and one Sell (Morgan Stanley, yet to comment on the update). The consensus target is \$3.48, suggesting 13.3% upside to the last share price. Targets range from \$3.20 (Morgan Stanley) to \$3.92 (UBS, yet to comment on the update). The dividend yield on FY19 and FY20 forecasts is 4.3% and 4.6% respectively.

Disclaimer: the writer has shares in the company.

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NAB Bites The Dividend Bullet

National Australia Bank has reduced its dividend pay-out in the first half, largely as expected, although a capital raising came as somewhat of a surprise to brokers.

-First half result would have been worse if not for better-performing wholesale bank -Brokers generally consider a build in capital and reduction in the dividend are the right decisions -NAB retains the flexibility to consider all forms of exiting MLC

By Eva Brocklehurst

National Australia Bank's ((NAB)) income growth was erased in the first half by an additional \$95m in customer remediation charges, although a strong markets division helped offset the weak conditions in retail banking and wealth management.

Bell Potter suggests the first half result would have been worse if not for the better-performing wholesale bank. However, dilution from the raising of equity in FY19 is seen largely offsetting the underlying earnings growth relative to peers.

Macquarie considers National Australia Bank is in better position than peers because of an underweight position in Australian retail banking, as slowing volume growth, fee pressures and competition do not bode well for the near-term outlook of retail franchises.

Strong growth was witnessed in NZ housing, with a 9% increase in the second half of FY18, a positive in Credit Suisse's view. There was also a 3% reduction in general expenses achieved through productivity savings and the broker considers capital generation was reasonable.

Still, impaired loans increased. The bank pointed out there were a few troublesome exposures that caused bad debt charges to increase to \$449m in the half. The increase in arrears highlights emerging stress for highly geared households, Morgan Stanley asserts, albeit new impaired loans have increased off a low base. The broker suspects that loan loss normalisation has begun and forecasts impairment charges to increase to 18 basis points in the second half and 21 basis points in FY20.

Shaw and Partners notes the bank delayed increasing its standard variable rate by four months and suffered the consequences. Morgans, too, remains mindful of the loss of operating momentum on the home loan front, amid the departure of CEO Andrew Thorburn and the more significant remediation charges that may be pending.

While the bank considers it is "broadly on track" to achieve cost savings Morgans suspects that it is falling behind on productivity-related aspects and sticks with a Hold rating. Ongoing uncertainty around management and the future direction of the business make it hard to have a more constructive view, hence, Macquarie also maintains a Neutral rating.

Morgan Stanley asserts the building of capital and the reduction in the dividend are the right decisions and the risk of de-rating is lower than for the other major banks, and Bell Potter concurs that this is a commercially sensible outcome that would only be positive for the bank down the track.

Bell Potter not one of the eight stockbrokers monitored daily on the FNArena database, lowers operating income estimates because of the subdued conditions while increased cost efficiencies suggests flat underlying costs in 2019 and 2020. The broker maintains a Buy rating and \$27.60 target.

Dividend/Capital Raising

The interim dividend was re-based to \$0.83 a share from \$0.99. Many brokers have argued for some time that the bank needed to re-set its dividend and this was not a surprise. The quantum was larger than Credit Suisse expected and the timing of a capital raising was a surprise, although this ultimately removes two uncertainties. The bank will raise around \$1.8bn through a discounted dividend reinvestment plan (DRP) and a partial underwriting.

Credit Suisse incorporates a dividend of \$0.83 per share per half for FY19 and FY20 and envisages scope for small increases in FY21. Bell Potter considers the bank has finally addressed its relatively weaker capital base and this no reason why the pay-out ratio should not increase in the medium term.

Morgan Stanley, on the other hand, does not believe the dividend can grow and DRP neutralisation appears unlikely. Adverse outcomes relating to New Zealand regulatory changes or remediation could mean there are further initiatives needed to top up capital in the future.

Shaw and Partners calculates, if the bank has set this dividend on the basis of a 70% pay-out ratio, then annual cash earnings per share of \$2.40 is achievable. Refunds to customers were considerable and such items are likely to be present in the second half, the broker notes.

The bank is unable to provide an indication of the proportion of the \$1.3bn in fees allocated to aligned financial planning groups from 2009 to 2018 that will be returned to clients. This compares with the refund rate of 31% currently provision for clients of salaried advisers.

National Bank has reaffirmed it is on track to meet the minimum 10.5% CET1 requirement by January 1, 2020. This does not take into account higher NZ capital proposals but Bell Potter believes the bank has sufficient options to mitigate the risk. This includes re-pricing actions, reducing lending and may be either divesting assets in Australia or de-merging NZ operations.

Business Lending

Business lending continues to be one of the bank's strengths, with 4% growth in non-housing loans in the half year. However, Shaw and Partners points out there was a decline in both Australian business and home loan margins to a similar extent. The broker, not one of the eight monitored daily on the FNArena database, has a Buy rating and \$28 target.

Ord Minnett prefers National Australia Bank because of its growth and margin outcomes in SME (small-medium enterprise) lending, the NZ business and corporate & institutional banking. The broker considers this more than offsets the challenges in the smaller consumer and wealth divisions.

The bank has pointed out that the intended public markets exit of MLC is delayed to FY20 while it retains the flexibility to consider all forms of exiting the business. Morgans believes a trade sale has become more difficult amid a more challenging regulatory and operating environment.

FNArena's database shows three Buy ratings four Hold and one Sell (UBS, yet to comment on the result). The consensus target is \$26.53, signalling 3.0% upside to the last share price. Targets range from \$23.00 (UBS) to \$29.50 (Citi). The dividend yield on FY19 and FY20 forecasts is 6.5%.

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Material Matters: Cobalt, LNG And US Oil

A glance through the latest expert views and predictions about commodities. Cobalt; European ETS; Australian gold miners; LNG; and US oil.

-Macquarie suspects strong recovery in cobalt price unlikely -Earnings risk raised for European materials companies - Bullish longer-term theme emerging for Australian gold miners -Strong consensus for weaker LNG prices long term - US crude stocks finely balanced

By Eva Brocklehurst

Cobalt

A strong recovery in the price of cobalt is unlikely, Macquarie asserts. Cobalt prices have picked up over recent weeks because of tighter supply and another firm month of electric vehicle sales in China.

Further price gains now appear diminished, the broker points out, amid news that Glencore will resume some sales of Katanga units and as Umicore downgrades earnings guidance because of challenges in the battery materials division.

Weaker cobalt prices played a part in the latter's downgrade announcement but Macquarie also cites the company's statement that "demand patterns for cathode materials have deteriorated in the past couple of months".

There was some expectation that the de-stocking activity that often accompanies a slide in prices had come to an end and the buyers were returning after the Chinese New Year. Yet, after allowing for mine disruption and increasing discounts because of weak pricing, Macquarie still calculates a real oversupply for the raw material of 18,500t. The broker assesses the market is facing demand shocks, slowing sales growth in electric vehicles and a shift away from cobalt intensity in cathode materials.

European ETS

Changes to Europe's emissions trading scheme (ETS) could jeopardise the competitive position of energy-intensive European materials companies after 2020. Assets in steel, cement, aluminium and copper smelting have suffered from a deteriorating global competitive position.

Most of these assets are captured under the region's ETS via the passing through of carbon dioxide allowance costs in power prices by power producers. Allocations and compensation are agreed until 2020.

However, the new version of the system that comes into effect in 2021 provides no base around the level of free allocations and the ability to compensate for leakage of economic activity. Morgan Stanley believes these developments warrant close attention and the recent increase in carbon pricing has lifted the potential earnings risk materially.

Oz Gold Miners

Recently, Macquarie observes the only support for the gold price was weak manufacturing data in Europe. Still, a bullish longer-term theme for gold is the emerging prospect of a peak in the US dollar, as global growth finally stabilises.

After the March quarter's reports, the broker notes Evolution Mining ((EVN)) expects a big final quarter to achieve the top half of its FY19 production guidance range. Cowal remains a strong organic growth prospect and the broker upgraded the stock to Outperform recently.

Regis Resources ((RRL)) published an updated resource and maiden reserve as well as a new mine plan for the Rosemont underground. This delivered a 37% increase in resources and a maiden reserve estimate of 600,000t at 6.4g/t for 123,000 ounces. Macquarie upgraded to Outperform.

Meanwhile, Saracen Minerals ((SAR)) is on track to meet its upwardly-revised guidance of 345-365,000 ounces. Exploration and organic growth prospects continue to deliver results, which Macquarie believes will support the company's aspirational 400,000 ozs/pa run rate.

LNG

On current LNG contract prices, Citi calculates a tight spread at 11.5-12.0% FOB is likely to persist for 1-2 years. The broker notes strong consensus that long-term LNG prices delivered into Asia will be weaker, at around US\$7-8/mmBtu as opposed to the US\$8.5-9.0/mmBtu implied by ASX energy stocks.

The bright spots in the market include the precedent set by a Japanese contract that was recently repriced at 14.1%, which may set a benchmark for upcoming price reviews for many of the ASX energy company projects. Citi acknowledges precedents are not always accurate, as specific contracts may vary considerably.

Another positive is an apparent willingness to support greenfield projects and independents to ensure a concentration on the supply side does not emerge. This is positive for Woodside Petroleum ((WPL)), in the broker's view. Citi retains a Sell rating on the stock as well as for Oil Search ((OSH)), with a Neutral rating on Santos ((STO)) and Origin Energy ((ORG)).

The broker believes the companies have a choice, either protect their schedules, or wait for the market to firm by allowing the schedules to slip or making a final investment decision without contract coverage. The broker concedes the latter choice exposes shareholders to the risk that prices stay low anyway as demand disappoints and competing projects catch up.

US Oil

Citi observes US crude and product stocks are finely balanced. The US has indicated it will not renew any sanction waivers to buyers of Iranian oil. Brent crude oil has climbed to 6-month highs and the market appears to have been wrong-footed, expecting renewed waivers for five of the eight countries that received them back in November 2018.

Meanwhile, Saudi Arabia is not rushing to end its production cuts, although it is currently under producing its quota. Citi assesses this to mean supply can be added back to the market and the country still be in compliance with the slated production cuts.

US crude inventory has built up in the week ending April 19, as gross imports outpace the higher local refinery runs. Gross crude imports to the US have risen from all major trading partners. In particular, imports of crude from Saudi Arabia doubled and imports from Iraq recovered after being at zero the previous week. Imports from Venezuelan rose to 0.2m b/d.

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ESG Focus: Thermal Coal's Tipping Point; How Fast, How Soon?

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The crucial tipping point for thermal coal use in the USA could come as early as 2025, new data suggest.

-US Energy Information Agency report sets out timeline -Transition time closes in for the West -ESG targets could hasten the process

By Sarah Mills

Investors (should) know that coal is in decline but are seeking timelines around a coal transition. A recent article in The Guardian suggests the tipping point in the United States could be as early as 2025: data that helps firm up timelines for a coal transition in the West.

The article notes that about 75% of US coal production already costs more than wind and solar energy, and by 2025, the entire US coal system will be out-competed on cost by wind and solar, even after factoring in new construction.

This figure comes from a report for Energy Innovation and is based on the public financial filings and data from the Energy Information Agency (EIA), a principal agency of the US Federal Statistical System.

The report follows a series of reports late last year showing that solar and wind power are now cheaper, including storage, than coal.

The situation for coal in the United States has been exacerbated by the shift to natural gas and the cost of installing pollution controls, all of which places pressure on existing plant utilisation.

The report also follows the publication of data from the EIA recently showing renewable generation in the United States had doubled since 2008 and now supplies 17.6% of the nation's electricity.

The fact that US is a global renewables laggard among major economies (even China sits at 38.3%), suggests that 2025-30 could be a key transition period for thermal coal use in the West, especially given the strong progress in Europe.

Germany is closing coal-fired plants and building renewables, France is committed to nuclear energy and the Nordic states are committed to renewables.

Russia is well behind, having set a renewable energy goal of 4.5% by 2020. Hydrocarbon companies hold immense clout in Russia - the country boasting enormous coal resources, but this could change rapidly as the economics of renewable generation continue to improve.

Coal only comprises about 14.4% of Russia's total energy use, but the nation is the fourth largest generator and consumer of electricity in the world.

Russia does, however, have enormous land resources and capacity to move to renewables when the time is deemed correct.

The EIA notes that the growth in US renewables and research and development in the renewables industry has been spurred by state policies, such as the American Reinvestment and Recovery Act of 2009 and the Production Tax Credit and Investment Tax Credits for wind and solar.

However, the EIA also recently published figures in its Annual Energy Outlook 2019 predicting US thermal coal consumption would drop this year then level off after 2020, and comprise 17% by 2050.

The agency expects the share of US total utility-scale electricity generation from natural gas-fired power plants to rise from 35% in 2018 to 39% by 2050.

It expects renewables to rise to just 31% by 2050.

Yet it is hard to justify such estimates if coal is under such intense pressure from both gas and renewables.

Given the present rate of technological advances, renewables are also expected to become even cheaper, so for coal consumption to remain at near present levels for 30 years, even after accounting for population increases, seems anti-intuitive.

The United States would compromise its global competitiveness by paying more than necessary for energy.

Similarly, renewables at just 31% also seems counter intuitive, especially given even gas will be subjected to carbon-related taxes, regulations, and ESG targets.

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ESG Focus: Impact investors Eyeing Off Forestry

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ESG Focus: Impact investors Eyeing Off Forestry

The Global Impact Investing Network (GIIN) has published a report into capital flows in forestry Land-use regulation and carbon-credits are fostering interest in the industry The UN Sustainable Development Goal 15 calls for an end to deforestation, bringing the industry under the SASB guidelines Research from the Leonardo Dicaprio Foundation identifies deforestation as one of three key planks to halt and reverse climate change By Sarah Mills

The Global Impact Investing Network has published its Scaling Impact Investments in Forestry report in late April.

Forestry is considered a key factor in dealing with carbon emissions and, as a result, impact investors are eyeing off sustainable forestry as a key opportunity, from both an environmental and carbon-credits perspective.

There is a reasonable level of expectation that greater land-use regulation, and a carbon tax, will be introduced within five years.

The New York Declaration on Forests is just one of a number of government initiatives already in play to halt deforestation, and has been signed by 37 governments, 20 sub-national governments, 53 multi-national companies, 16 groups representing indigenous communities and 63 non-government organisations.

The UN Sustainable Development Goal (SDG) 15 calls for an end to the practice, which means the Sustainable Accounting Standards filings introduced recently, which are linked to the SDG goals, should start having an impact within the next five years.

However, success to date has fallen short of the Declaration's pledge to halve the rate of deforestation by 2020.

While net global deforestation has slowed -50% over the past 25 years according the UN Food and Agricultural organisation, this is partly because much of the forests have already been denuded, and planted forests have increased. But lopping is continuing across large swathes of the Amazon old-growth rainforests and in other tropical regions such as Indonesia, albeit at a slightly slower rate.

But the carbon profile of the investment is compelling.

The Leonardo Dicaprio Foundation (LDF) One Earth Climate Model published earlier this year by scientific publisher Springer Nature, identifies forestry as a key component in its roadmap for meeting at surpassing the Paris Climate Agreement targets.

The report states that up until now, it was assumed to be almost impossible to achieve the carbon targets needed to keep temperatures below 1.5 degrees Celsius (we would have to cease using all fossil fuels within seven years).

But the LDF research shows that this could be achieved through a rapid transition to 100% renewables by 2050 (65% by 2030), alongside massive reforestation and conservation efforts, which would include a moratorium on land conversion by 2030 (this would have interesting investment repercussions in itself), and a shift to regenerative agriculture.

Research from UTS of the world's electricity grids suggest that shifting to 100% renewables is not only a possibility but it would be cheaper.

From an investment perspective, it would require a global annual investment of \$1.7trn a year, which pales beside current government subsidies to fossil fuel companies (estimated at \$5trn by the International Monetary Fund))

The GIIN report notes that interest in sustainable and impact forestry investing has grown steadily over the past two decades.

The report examines asset owners and managers and provides recommendation on unlocking capital into the sector.

An earlier GIIN report, produced with Cambridge Associates, shows that sustainable timber typically outperforms conventional timber. GIIN notes that this has primed the pump for the institutional capital flows.

The report outlines recommendations that will be needed to provide the transparency and predictability to clear the path for that capital:

Improve and clarify product market fit - fund structures are often underpinned by different and disparate cash flow, making projection on risk and return difficult. Use blended finance - to mitigate risk for mainstream investors. Develop partnerships - with conservation organisations to access land-rights sales and enhance sustainability (conservation easements in the US have influenced regulation to conserve land into perpetuity while managing and deriving value from the land). Integrate vertically - many sustainable operators are opting for vertically integrated supply chains by investing in management or processing companies, cutting cost and allowing environmental management across the chain. Strengthen communication - to help asset owners understand the business models and risks of forestry funds. There are those in the market who perceive the forestry business as a long-term commitment, building positions now in the event of regulation on land access - which is expected to be a certainty within the decade.

However, the industry as it stands can be fraught, ranging from companies in land rights battles with natives between Chile and Argentina, government-backed deforestation in areas such as Indonesia and the Amazon, to poorly management tax schemes.

Regulation, standardisation and time will be required to set the stage for these capital flows.

In the meantime, the focus is honing in on supply chains to pressure them to remove non-sustainable timber from operations.

Peter Murphy, Market Building Manager at GIIN, says: "...we've long seen significant interest from institutional portfolios driven both by impact and return, as well as by the unique profile of the assets - forests.

"The biological growth cycle of trees is not influenced by economic cycles and provides longer tenured investments that often match institutional investors' portfolio management needs."

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Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday April 22 to Friday April 26, 2019 Total Upgrades: 0 Total Downgrades: 5 Net Ratings Breakdown: Buy 41.70%; Hold 42.97%; Sell 15.33%

The long Easter weekend and Anzac public holiday made their impact felt in the week ending Friday, 26th May 2019. For the week in total, FNArena registered five downgrades for ASX-listed entities, and not one single upgrade.

With four of the five downgrades affecting mining stocks, it's probably a fair conclusion market scepticism is creeping into this year's star performers. In earlier updates we noticed a number of downgrades for yield providing stocks. And the energy sector has had their share as well, as did the banks.

The good news: most downgrades still transfer to Neutral/Hold.

Not much to report on changes in price targets and valuations; there are but a tiny number. Both Galaxy Resources and Alumina Ltd further reinforce the mining theme, and both endured noticeable reductions of -11.6% and -3.3% respectively.

There was a bit more action in changes to earnings forecasts with resources stocks equally presented on the positive side of the week's ledger. Woodside Petroleum, Alumina Ltd, Oil Search and St Barbara all enjoyed rising forecasts.

The negative side shows much larger numbers though with forecasts for the likes of Galaxy Resources and Graincorp falling like a rock, while Northern Star's quarterly update also disappointed, and with sizeable cuts descending upon South32, Orocobre, and National Australia Bank (yet to report).

This week sees an acceleration in the release of quarterly production reports, interspersed with shareholder gatherings and a number of out-of-season financial results. It's getting busier at the micro level.

Downgrade

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

Production of bauxite and alumina was in line with Macquarie's estimates. Costs were 11% above estimates. This drives earnings downgrades. The resumption of full production at Alunorte presents a key downside risk to alumina prices, in the broker's view.

This is likely to weigh on the share price of Alumina Ltd and Macquarie downgrades to Neutral from Outperform. Target is reduced to \$2.35 from \$2.80.

BHP GROUP ((BHP)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/5/1

Stronger for longer commodity prices have allowed for steep appreciation in the share price but UBS analysts believe prices for iron ore and metallurgical coal are poised for weakness on a 6-12 months horizon, hence the analysts see further upside as limited.

On this basis they have downgraded to Neutral from Buy. In addition, the outlook for crude oil prices is also seen as "subdued", which is yet another headwind forming. Price target lifts to \$36 from \$35 on further updates to modeling input and forecasts.

GALAXY RESOURCES LIMITED ((GXY)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 4/0/1

Better grades offset weak recoveries at Mount Cattlin, Macquarie observes. The company has stopped looking for a development partner for Sal de Vida and the broker notes no timeline has been provided, although the company still intends to develop the asset.

As Sal de Vida is increasingly uncertain and Macquarie believes funding could be difficult to source during muted market conditions, the rating is downgraded to Underperform from Neutral. Weak recoveries at Mount Cattlin also remain of concern. Target is reduced to \$1.50 from \$2.10.

KOGAN.COM LTD ((KGN)) Downgrade to Neutral from Buy by UBS .B/H/S: 0/1/0

The company has announced a strong March quarter of trading and two new vertical markets: Kogan Energy Compare and Kogan Cars with EclipX Group ((ECX)). UBS believes these will be slow profit producers.

The company has also launched a retail subscription service to tie in with its upcoming credit card offer. UBS envisages near-term risk is to the upside for earnings but considers this priced into the stock.

To become more positive, the broker requires a strong ramp up of at least one new vertical and improving cash flow. Rating is downgraded to Neutral from Buy and the target is raised to \$5.80 from \$5.00.

SOUTH32 LIMITED ((S32)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 4/3/0

March quarter production was weak and guidance has been reduced for the alumina and thermal coal assets. This translates to -14-22% reductions to Macquarie's earnings forecasts for the next four years.

Cost guidance is also expected to come under pressure for a number of assets. Earnings upgrade momentum has vanished and Macquarie downgrades to Neutral from Outperform as a result. Target is reduced to \$3.60 from \$4.00.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Downgrade 1 ALUMINA LIMITED Neutral Buy Macquarie 2 BHP GROUP Neutral Buy UBS 3 GALAXY RESOURCES LIMITED Sell Neutral Macquarie 4 KOGAN.COM LTD Neutral Buy UBS 5 SOUTH32 LIMITED Neutral Buy Macquarie Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 GXY GALAXY RESOURCES LIMITED 60.0% 80.0% -20.0% 5 2 AWC ALUMINA LIMITED 20.0% 40.0% -20.0% 5 3 S32 SOUTH32 LIMITED 57.0% 71.0% -14.0% 7 4 BHP BHP GROUP 13.0% 25.0% -12.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 BHP BHP GROUP 37.391 37.249 0.38% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 GXY GALAXY RESOURCES LIMITED 2.350 2.660 -11.65% 5 2 AWC ALUMINA LIMITED 2.610 2.700 -3.33% 5 3 S32 SOUTH32 LIMITED 3.906 3.984 -1.96% 7 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 WPL WOODSIDE PETROLEUM LIMITED 247.159 228.936 7.96% 8 2 AWC ALUMINA LIMITED 26.771 25.401 5.39% 5 3 OSH OIL SEARCH LIMITED 45.313 43.818 3.41% 8 4 SBM ST BARBARA LIMITED 32.690 31.933 2.37% 5 5 SGM SIMS METAL MANAGEMENT LIMITED 81.633 81.050 0.72% 7 6 MP1 MEGAPORT LIMITED -26.600 -26.650 0.19% 3 7 QBE QBE INSURANCE GROUP LIMITED 87.006 86.850 0.18% 8 8 RIO RIO TINTO LIMITED 938.425 936.746 0.18% 8 9 SDA SPEEDCAST INTERNATIONAL LIMITED 32.430 32.372 0.18% 4 10 NCM NEWCREST MINING LIMITED 100.565 100.412 0.15% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 GXY GALAXY RESOURCES LIMITED -0.276 1.822 -115.15% 5 2 GNC GRAINCORP LIMITED -0.688 6.285 -110.95% 4 3 NST NORTHERN STAR RESOURCES LTD 34.780 41.828 -16.85% 7 4 S32 SOUTH32 LIMITED 32.072 33.664 -4.73% 7 5 ORE OROCOBRE LIMITED 9.698 10.125 -4.22% 8 6 NAB NATIONAL AUSTRALIA BANK LIMITED 218.500 226.657 -3.60% 8 7 CRN CORONADO GLOBAL RESOURCES 60.774 62.078 -2.10% 3 8 SYR SYRAH RESOURCES LIMITED -3.343 -3.341 -0.06% 5 9 URW UNIBAIL-RODAMCO-WESTFIELD 46.943 46.954 -0.02% 4 Technical limitations

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

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Uranium Week: Counting The Days

President Trump may not need all of the 90 days he has to make a decision on section 232 but there is no guarantee of a timeframe.

-Uncertainty still reigns -Japan to close reactors -India to build new ones

By Greg Peel

Uranium market watchers are undoubtedly tired of section 232 but unfortunately uncertainty still hangs like a spectre over the market. The bottom line, after the US Department of Commerce delivered its recommendations on April 14 after using most of the allotted 270 days to get there, is that President Trump has up to 90 days to make a decision.

The good news is the similar 232 decisions with regard steel and aluminium, which led to tariffs, took the president only 46 and 58 days respectively to decide upon. The bad news is an auto import decision is still being awaited after 68 days, and an investigation into titanium is now also underway. So things are starting to back up.

Activity in the uranium spot market was off to a slow start last week following Easter, industry consultant TradeTech reports, but by midweek sellers had begun to lower prices in order to attract buyers. The spot price had remained unchanged the week before. Lower prices did lead to an increase in transaction volume.

TradeTech's weekly spot price indicator ended the week down -US65c at US\$25.20/lb.

There were no transactions reported in term markets. TradeTech's term price indicators remain at US\$28.00/lb (mid) and US\$32.00/lb (long).

Comings & Goings

It's been eight years since the Fukushima disaster and the pace of Japanese reactor restarts remains glacial. Not only do legacy reactors need to be upgraded to strict new safety standards in reference to the earthquake/tsunami that sparked the disaster, but they must also meet the regulator's anti-terrorism upgrade requirements.

The Nuclear Regulation Authority has now indicated plants that do not meet the deadline for anti-terrorist upgrades will be issued with closure notices. Three Japanese utilities have admitted upgrades to some ten plants between them will not be completed on schedule.

Meanwhile India is ramping up its own nuclear power ambitions, with plans announced to build an additional 12 plants in an effort to ensure a more secure power supply. The first stage of the country's nuclear program has now reached maturity with 18 operating plants.

To that end, India's leading supplier of uranium, Kazakhstan, is considering increasing export levels to India from the 13mlbs U3O8 contracted for 2015-19 to 19.5mlbs or more for the next five years. Kazakhstan is the world's swing producer and is currently limiting its own production in order to support prices.

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The Short Report

Guide:

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

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

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

Summary:

Week ending April 26, 2019.

Last week saw the ASX200 rocket up 125 points in two sessions to a new post-GFC high and consolidate in the third of what was only a three-session, holiday punctuated week.

Unsurprisingly, little happened in short land. Movements below reflect only minor bracket creep.

With participants returning to the market this week after the holiday break, and with the index quite volatile around the new high, we'll see how things play out in next week's Report.

No Movers & Shakers for now.

Weekly short positions as a percentage of market cap:

10%+

SYR 17.5 GXY 16.9 JBH 15.7 ING 15.6 NXT 15.1 NUF 14.7 ORE 12.2 MTS 11.8 BAL 11.4 BWX 10.7 SDA 10.3

No changes

9.0-9.9

IVC, PPT, DMP, SUL, PLS, HVN, IFL, KGN, CSR

In: KGN, CSR Out: MYR, BOQ 8.0-8.9%

BOQ, AMC, MYR, SGM, RWC, BKL

In: BOQ, MYR, SGM

7.0-7.9%

HUB, BIN

Out: SGM

6.0-6.9%

BGA, WSA, CGF, MSB, AMP

In: WSA, CGF

5.0-5.9%

DHG, RSG, COE, MLX, KDR, NEC, GMA, LNG, RIO, HT1, BEN

In: COE, MLX, NEC Out: CGC

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code Last Week Week Before Code Last Week Week Before AMC 8.8 8.6 RIO 5.2 4.9 ANZ 1.2 1.0 S32 1.3 1.4 BHP 3.5 3.5 SCP 1.3 1.2 BXB 0.1 0.1 SUN 0.3 0.3 CBA 1.8 1.8 TCL 1.6 1.5 COL 1.8 1.9 TLS 0.5 0.5 CSL 0.4 0.4 WBC 2.1 1.9 IAG 0.3 0.3 WES 1.9 1.7 MQG 0.3 0.3 WOW 2.7 2.8 NAB 0.9 0.8 WPL 0.7 0.7 To see the full Short Report, please go to this link

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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The Wrap: Housing, Rates, Election & A-REITs

Weekly Broker Wrap: house prices; RBA cash rate; Australian election; and A-REITs.

-House prices showing no signs as yet of a trough -More than one cut to the cash rate could have major implications for banks -ALP policy agenda likely to impact most sectors of the economy -A-REITs reiterate guidance, office & industrial outlook the main positive

By Eva Brocklehurst

House Prices

Australian house prices fell again in April, to be -9.7% below the peak. Morgan Stanley points out forward indicators are not suggesting a trough has occurred, and expects prices to drop further.

National auction clearance rates have improved since late last year but remain at levels that imply more price declines. Broadly, national days on market and vendor discounting continue to deteriorate. A slowing residential construction outlook will also have an impact.

UBS agrees home prices show no signs of bottoming. House prices have slumped to their worst levels since the GFC and the broker points out the turnover rate has reached a record low of under 3%, which is a very negative indicator for renovations & consumption.

Going forward, UBS expects price reductions to reach -14% and create a negative wealth effect on consumption.

RBA Cash Rate

Morgan Stanley expects the Reserve Bank of Australia to cut official interest rates in November, acknowledging this is later than the market is factoring in. The market is implying a 50% likelihood of a reduction to the cash rate at the next RBA board meeting (May).

Morgan Stanley expects a reduction in the cash rate stemming from below-trend growth will only occur once the labour market shows sustained weakness. Moreover, while rate cuts may be helpful, the broker doubts these would result in a near-term trough in house prices.

Much of the credit tightness that has driven house price weakness has been unrelated to the price of credit and more linked to the regulatory environment. This is not expected to change.

JP Morgan concludes that the revenue impact from one cut to the cash rate would be manageable, with mortgage re-pricing modest, but two rate cuts may be more difficult for the banking sector to absorb, as concerns would be raised about reaching the lower bounds on some deposit costs.

Still, the broker expects this would help stabilise house prices and provide support for asset quality more generally. There is also scope envisaged for APRA (Australian Prudential Regulatory Authority) to relax its 7.25% interest rate floor, which is beginning to look implausibly high.

JP Morgan economists expect two cuts to the cash rate, in May and June. The broker acknowledges the market is a little less pessimistic, although is still pricing in at least one rate cut by the end of 2019.

The broker estimates that, for the major banks, 10-13% of funding sits in non-interest sensitive deposits and equity. Bendigo & Adelaide Bank ((BEN)) appears the most vulnerable of those under coverage, with its low-cost deposit/equity equivalent estimated at around 15% of funding and no replicating portfolio in place. Still, lower rates would make FY19 major bank dividend yields very attractive.

Australian Election

Implementation of an incoming federal government's plans after the federal election on May 18 is likely to be contingent on the cross-bench. Morgan Stanley's analysis indicates neither party appears likely to hold a majority in the Senate, although a hung parliament or minority government is considered unlikely.

If the Labor Party wins government, its reform agenda is likely to impact most sectors of the economy. Morgan Stanley believes it could obtain the bulk of its policy agenda and the degree of compromise would depend on the strength of its majority.

Both parties are focused on retaining a surplus and paying down debt. Moreover, a focus on budget discipline from both parties means any additional fiscal stimulus in the face of slowing growth is likely to be reactive. The broker considers current market pricing too optimistic, in that it implies a more favourable economic outlook and larger stimulus.

While the current government has longer-dated tax cuts the Labor Party plans smaller and more redistributive cuts. All up, the Labor Party's tax package will be modestly less stimulative to aggregate disposable income than that of the Coalition.

The Labor Party's intention to reduce the capital gains tax discount to 25%, and limit negative gearing to new properties, is expected to have a modest negative impact on house prices. The impact on housing turnover is likely to be comparatively larger. There appears to be a relative subsidy for new construction but the ultimate impact, in Morgan Stanley's view, will depend on risk and return expectations.

The removal of imputation refunds is the largest near-term revenue raising activity in the Labor Party's policy. The greatest impact will be on high-yield stocks with a large domestic retail base, such as banks or telecommunications, while there may be some diversification into real estate investment trusts and other tax-exempt structures as they do not currently pay franked dividends.

Morgan Stanley considers the accelerated depreciation scheme in the Labor Party's policy, targeted at new investments to help boost business, will impact private businesses, which may be more cash flow constrained than larger companies.

Industrial relations proposals are not expected to have a near-term impact, although changes may raise labour costs for those stocks with a high degree of low-wage or flexible labour. Caps that the Labor Party is proposing to health insurance premiums, at 2% for two years, are expected to have negative earnings implications for both health insurers and hospitals.

A-REITs

A-REITs (Australian real estate investment trusts) underperformed the broader ASX 200 index in April. Citi highlights a resilient sector, as, on a market cap weighted average basis, growth is forecast around 2%. Charter Hall ((CHC)) is at the top end, with growth of 14-17% and Vicinity Centres ((VCX)) at the lower end, flat to down -1%. The office and industrial outlook is positive and Mirvac ((MGR)) is the pick for Citi in this segment.

There was no negative news flow in the latest quarter, and Shaw and Partners suspects the underperformance could simply have been profit taking after a good run. All A-REITs under Shaw and Partners' coverage reiterated full year guidance.

Residential-exposed A-REITs, Mirvac and Stockland ((SGP)), reiterated FY19 lot settlement targets but the broker downgrades Mirvac to Hold from Buy on the back of pricing movements, as it is trading well above target.

Citi notes Stockland's third quarter deposits were down -28%. Mirvac, more heavily affected by the timing of apartment settlements, also recorded materially lower numbers of settlements. Still, Citi believes Mirvac's large apartment settlement profile should bode well for FY20.

JP Morgan's preferred exposures are Vicinity Centres, Lendlease ((LLC)) and Charter Hall. The broker also downgrades Mirvac to Underweight, believing it to be fully valued. The broker envisages pressure on residential earnings beyond FY20, as sales rates have slowed noticeably.

Meanwhile retail sales trends were challenging, as expected. JP Morgan does not expect any material improvement in the retail segment in the June quarter, although fiscal and monetary stimulus could mean sales growth improves in the second half of 2019.

Citi also notes specialty sales growth decelerated in the March quarter and there is ongoing pressure on retail income growth. The environment is expected to get tougher with Vicinity Centres expecting no further disposals until after FY19. The broker reiterates its Sell call on Scentre Group ((SCG)), GPT Group ((GPT)), Charter Hall Retail ((CQR)), Shopping Centres Australasia ((SCP)) and BWP Trust ((BWP)).

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Treasure Chest: Perpetual Needs To Expand

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. Recent strength in the share price and a weak March quarter update have caused Bell Potter to downgrade Perpetual to Sell.

-Risk to Bell Potter's revised rating if the company's scales up its business -March quarter performance benefitted from global equity markets -Brokers concerned about lack of clarity in the new CEO's strategy

By Eva Brocklehurst

While the March quarter update from fund manager Perpetual ((PPT)) was soft, many brokers remain prepared to accept a full valuation, given the recovery in markets and the expansion opportunities that lie ahead for the business.

Not so Bell Potter, which has downgraded to Sell from Hold. The recent strength in the share price and the weak March quarter update have catalysed the broker's reaction. Perpetual experienced the worst quarterly net flows from its investments division since 2011, with net outflows of -\$1.9bn. Macquarie also downgraded recently, to Underperform from Neutral, envisaging downside risk to flows, and despite market conditions remaining supportive.

Outflows in the March quarter were derived primarily from the institutional channel but intermediary and retail channels also contributed to the shortfall. A \$1.6bn increase in assets under management from market movements helped offset the outflows. The loss in the March quarter largely related to a single Australian equities mandate, at -\$1.3bn of net outflows, and the recovery in markets offset the impact on funds under management.

Citi considers the company was a beneficiary of global equity markets. Otherwise, the March quarter would have been rather different. The broker is not cheered by the lack of clarity in the company's outlook and believes investors should ascribe a higher risk to its shares.

Continued outflows of around -\$300m per quarter are likely for the foreseeable future, in Bell Potter's view. Nevertheless, the broker acknowledges the risk to its revised rating if the company utilises its cash and relatively high PE (price/earnings ratio) to scale up its business via acquisitions.

Expansion Potential

Morgan Stanley considers the March quarter performance strengthens the case for new growth opportunities. In this regard, and in order to refresh distribution, the broker notes Perpetual is raising up to \$440m for a credit income trust and, hence, diversifying beyond Australian equities is already underway.

An elevated valuation can persist in the short term, Credit Suisse suggests, given several positive catalysts on the horizon, as the company has announced new investment teams and accretive acquisitions as part of the new CEO Robert Adams' strategy.

Regardless, Bell Potter believes the current PE at 17x, and moving to 18x in FY19, is too expensive and there is better value elsewhere. The broker, not one of the eight monitored daily on the FNArena database, downgrades estimates for earnings per share by -2.4%, -7.6% and -8.3% in FY19, FY20 and FY21, respectively. Bell Potter reduces the target to \$35.17 from \$36.50.

Morgans believes the stock is inexpensive for a fund manager, although remains cautious about outflows in the investments division and the potential execution risk from the new growth strategy.

The broker requires signs of progress under new management before becoming more positive and maintains a Hold rating. UBS also acknowledges the company is taking a bolder approach but considers the timing and scale of expansion is unclear.

FNArena's database shows six Hold ratings and one Sell (Macquarie). The consensus target is \$39.14, signalling -4.5% downside to the last share price. The dividend yield on FY19 and FY20 forecasts is 5.9%.

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Late April 2019: Selected Charts

In this week's Weekly Insights:

-Late April 2019: Selected Charts -Orora And Xero -Rudi On TV -Rudi On Tour -Rudi Talks

By Rudi Filapek-Vandyck, Editor FNArena

Late April 2019: Selected Charts

Weekly Insights this week is built around a selection of charts from recently released research and strategy reports, interspersed with brief market commentary to illustrate the current status of equity markets globally.

The framework for sending this story out via email is smaller than for display on the website. In case some of the charts included are difficult to decipher, subscribers can revisit this story on the website from Thursday morning onwards, with all charts in larger format.

Low volatility has swiftly returned to global equity markets, allowing key indices to resume recovery and uptrends, with US indices reaching for new all-time record highs while the Australian share market has posted a fresh 11.5-year high.

From inside the broad church on Wall Street passers-by can hear the same gleeful sermon echoing onto New York corners and streets every Sunday morning: Thank you Jerome Powell, thank you Federal Reserve.

Last week central banks in Canada and Australia further joined the world's Big Four -the US, Europe, China and Japan- by leaning towards further accommodation and, if required, monetary stimulus. Instantly, equity markets have discovered there is more optimism available, pushing share market indices higher, irrespective of the many troubles and question marks that were so prominent only five months ago.

There is no room for second guessing as to why financial assets globally are back into a buoyant mood. Probably the best way to illustrate the difference between late 2018 and the first four months of 2019 is through Morgan Stanley's line up of asset performances per annum below.

Markets have gone from "almost everything works" back in 2017, to "nowhere to hide" in the second half of 2018, to now back to "everything shall be all right".

Behind the apparent swift return of broad market optimism though, a painful conundrum has opened up for many a professional investor: when and where to deploy all or parts of the overweight in cash that is still sitting on the sidelines?

Algos, robots and short term traders have been licking their fingers since the week after Christmas, but most investors have remained cautious, if not sceptical, and kept a large portion of their portfolio in cash.

Investors would have been waiting for pull backs since mid-February, only to see equity markets grind their way higher. Further adding to this year's dilemma are the fact that earnings forecasts ex-USA are still sliding -in particular true in Australia ex-resources- while many a strategist cannot see much more lasting upside from present levels, unless bond yields go much lower (and stay there) or earnings forecasts can rise soon.

A hard core worry wart would add: and what if/when inflation starts to pick up in a meaningful manner? Better watch out! But so far the data are painting the opposite story. See also the latest CPI read in Australia. It's why a larger number of market participants is now convinced the RBA is ready to start cutting the cash rate, sooner rather than later.

The market approach below from Shaw and Partners CIO Martin Crabb is certainly not universal, but it shows today's dilemma for investors: the "fair value" for the Australian share market (which is seldom crossed for a prolonged time; see April 2015) suggests there really is not much left for further returns ex-dividends, in a broad, general sense, but that doesn't mean markets are about to fall into a heap either. There is still so much cash on the sidelines...

Meanwhile, analysts at Citi report their proprietary Bear Market Check List essentially remains in "no worries" territory. Share markets will have to rise a lot further and for a lot longer to start troubling their bear market indicator, say the analysts.

Historical analysis conducted by Macquarie shows the importance of movements in bond yields for income providing equities, but investors might want to pay attention as not every yield stock is impacted equally.

Some benefit from falling bond yields, some benefit from rising bond yields. Of more importance, perhaps, is that "growth" beats all temporary headwinds; a fact not shown on Macquarie's graphic overview, but one that should never be forgotten.

Stocks such as Goodman Group ((GMG)) and Charter Hall ((CHC)) have performed well on the back of falling bond yields, but their performance has been equally assisted by robust growth and the prospect of robust growth continuing.

As such, the overview by Macquarie below is nothing but a generalised framework, it does not include the absence or prominence of growth for individual companies affected by bond market movement.

Shorter term, the US corporate reporting season is providing support for US markets, and by extension for share markets in Australia and elsewhere. Never mind that Australian banks are now cutting dividends, with Bank of Queensland ((BOQ)) recently doing exactly that.

National Australia Bank ((NAB)) might first pay out more franking credits ahead of a possible Labor government, but analysts have little doubt NAB's dividend reduction now or a little later is pretty much a fait accompli.

Conditions will have to sour further and for longer to also put dividends at Westpac ((WBC)) and CommBank ((CBA)) under threat, which is certainly not impossible. However, such a scenario would have been more feasible, perhaps, if global central banks were still tightening, but they are not. The domestic bond market is now priced for two RBA rate cuts in 2019.

Medium term, investors and analysts in the US are keeping the faith in the return of positive growth in US corporate profits by Q4 2019; see the graphic overview below.

Question: what are the chances for US equities to experience a meaningful "correction" while general belief in this prospect remains intact?

Within this context investors should be keeping their fingers crossed that Morgan Stanley's proprietary leading indicator for US corporate profits will be proven wrong.

As suggested below, the indicator is showing quite a steep deterioration from here onwards, which would temper overall enthusiasm and potentially raise some nasty question marks for markets trading on above average valuations.

Morgan Stanley strategists have been surprised by the share market's strong V-shaped recovery. They had been warning for a negative Q1 reporting season, but that proved largely off the mark.

Let's take this back to Australia and more specifically to the banks locally... Market chatter about more dividend cuts has been offset by a softening in overseas funding costs, which has created a positive platform from which slightly higher estimates of profitability have pushed share prices higher.

As suggested by the graphic display from Wilsons below, share market performances for Australian banks often reflect a tightening or softening in overseas funding costs, predominantly in direct correlation to bond movements in the US.

As far as that other important segment of the Australian share market is concerned, resources stocks have been enjoying a very favourable environment thus far in 2019.

It's still about China, of course, but as shown on the graphic below, China's positive impact nowadays comes with more benign upticks in infrastructure spending.

China is transitioning towards more services as its domestic economy is facing unfavourable demographics, among numerous changes taking place, including greener policies for energy usage and commodities intensity.

But the fate of resources might be closely tied-in with what comes next in China's meticulously managed credit cycles. Right now, or so it seems, the credit expansion inside the Middle Kingdom is back 'on', but Macquarie's graphic also shows cycles are becoming shallower.

Macquarie's overview also shows China's credit cycles seem to spend more time near bottoms, probably reflecting Beijing's reluctance in pressing the credit expansion button too quickly/too often given the large amount of debt that has already been built up through prior credit expansion policies.

My personal view is that general industry shock post-2011, combined with a mountain of worries about what future demand might look like, has created a highly favourable environment for major producers of metals and minerals. Or to put it in layman's terms: it's the supply side, stupid!

Many a miner is swimming in cash, and stoically refusing to do anything else with it than pampering shareholders with share buybacks and large dividends.

Expectations for a general pick-up in spending have thus far not been met, thus the question remains: how long before contractors and engineers can welcome a big increase in spending on projects and equipment?

The one insight that is keeping analysts optimistic, at least for the equipment side for the industry, relates to recent Morgan Stanley research from which the graphic below stems: average mining machinery is now 10 years old, the oldest age recorded in three decades. Is it any wonder supply issues have become more common? How long before investing starts picking up in a meaningful manner?

Domestically, Australia continues to struggle with a long-winded property downturn, of which the flow-on impacts are being felt by discretionary retailers, automotive dealers and landlords. The core of the domestic problem is predominantly concentrated in the over-building of high rise apartment blocks.

The graph below from the economics team at National Australia Bank shows the change in market dynamics for apartments post 2015; this is a nasty looking reversal of fortune. Investor expectations for a quick reversal in market trend are probably best kept on ice for the time being.

Meanwhile, back in the USA, "the most hated bull market in modern history" has seen investors withdraw funds from US equities in each of the past four years, and the first four months of 2019 (not shown) have seen a continuation of this pattern. So how can US equities be enjoying such a strong rally when money prefers to flow elsewhere?

The answer is corporate share buybacks, of course. As is clearly shown on the graphic overview below, American companies have been the number one buyer of their own stocks, and the numbers are many times larger than what looks like, in comparison, tiny net funds outflows.

But make no mistake: Corporate America has been so flush with cash, they also spent increasing amounts of cash on shareholder dividends (including technology companies which have become quite the reliable payers) as well as on capex; see chart below.

With Australia pretty much obsessed with its housing downturn gripping the capital cities, it may not be widely known average house prices in the US have been falling as well.

Am I seeing too much convergence or is the "financialisation" of the global economy leading to similar patterns across country borders? Car sales are declining in multiple countries.

Another surprising observation is that adjusted for population growth, total miles driven by American cars peaked in 2005 and has been tracking sideways since at a level resembling the late 1990s. Thanks to Dennis Gartman for pointing this out.

One thing that needs to be pointed out is that excess liquidity provided by the world's most important central banks has provided tremendous support for asset prices (see: global equities) but it doesn't cure all economic or fiscal ailments.

See the graphic below for the steep fall in global trade volumes which are yet to show a meaningful recovery. Maybe this is why so much hope is adhered to trade agreement discussions between Washington and Beijing?

Finally, and this time without an accompanying graphic, a lot of commentary is being spilt on the apparent discrepancy between the "bearish" story derived from ultra-low bond yields and the "bullish" story from ever rising equities. I don't agree with such simplistic assessment.

Global bond markets are not telling a "bearish" story, they are reflecting the low inflationary environment in which we are operating, further supported by prospects of central bank intervention and, most likely, the swift return of Quantitative Easing (QE) in case economies need ongoing support.

As such, bond markets and equities anno 2019 are not in contradiction with each other; we are witnessing near perfect symbiosis. And so much cash is sitting on the sidelines...

Orora And Xero

Last week I received a question from a subscriber on my views regarding packaging company Orora ((ORA)) and accountancy software developer Xero ((XRO)). I have decided to share my response with other subscribers and readers of Weekly Insights.

Thanks for your question.

Both Orora and Xero have been on my list of selected stocks I follow closely for quite a while, see also All-Weather Performers on the website. Both are also included in the All-Weather Model Portfolio I have been managing since late 2014.

I have a suspicion that Orora hasn't had many friends of late because of the high oil price, and because Amcor is about to conclude a major acquisition in the US. As funds managers like to be part of the new Amcor story, they probably shifted some funds into Amcor and out of Orora.

I also believe that, as a result, investors are currently undervaluing the shares, suggesting your timing could be ideal.

Xero shares are much more beholden to what happens on the Nasdaq in the US. Its shares are not as undervalued as Orora's, but shorter term a lot will depend on their next financial market update.

As with Aristocrat Leisure, TechnologyOne, DuluxGroup, etc Xero reports out of season. The calendar on the FNArena website shows Xero's FY19 results release is scheduled for 16th May.

Longer term, I think both companies are well-positioned for robust growth for many years into the future. Which is why they are included in my personal selection in the first place.

Good luck with it all,

Your Editor

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

Rudi On Tour In 2019

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

Rudi Talks

Audio interview two weeks ago about what's happening in the Australian share market:

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

(This story was completed on Sunday 28th April 2019. It was published on the following Tuesday in the form of an email to paying subscribers, and will be again on Thursday as a story on the website).

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

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