WEEK 17

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Friday, 23 April 2021

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CONTENTS

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INTERNATIONAL

Companies Benefiting From Global Trend Towards Government Insolvency

In search of a solution to ever-expanding debt-to-GDP ratios, Dr Roy van Keulen offers some food for thought, alongside a few ideas of companies likely to benefit

-How will governments improve their debt-to-GDP?
-Taxing lower and middle incomes seems politically impossible for quite some time to come
-Most solutions might simply be to tax the wealthy, reduce spending on healthcare and sell off public assets like roads

By Dr Roy van Keulen

As the US looks close to surpassing an unprecedented debt-to-GDP ratio of 150% (or US$225,000 per US taxpayer), I wanted to explore what happens when governments reach the end of their credit line and are forced to start deleveraging.

In essence, governments can only improve their debt-to-GDP levels in one of two ways: they can either increase their GDP or they can reduce their debt.

The most popular option seems to be to increase GDP. This used to work - after WWII, most OECD countries had record high debt to GDP ratios which they subsequently managed to outgrow.

However, this was achieved through a combination of high population growth and high productivity growth, neither of which OECD countries can reasonably expect to see much of again in the near future.

Whereas most OECD countries saw a baby boom after WWII, today the natural population growth (births - deaths) is negative in most OECD countries (and even more so for the working age population). Immigration seems to be pushing up against the limits of social cohesion in many places. Productivity growth similarly seems to be a distant memory.

<u>What about me: debt reduction</u>

With increasing GDP not providing much respite in improving debt to GDP levels, let's explore the options for reducing debt levels. Broadly speaking, debt levels can be reduced in three main ways: governments can increase revenues through taxes, decrease public spending or sell off public assets.

Increasing revenue through taxation can go some way towards improving debt-to-GDP levels, but not nearly as much as is commonly assumed.

Taxing lower and middle incomes seems politically impossible for quite some time to come (and it's also deflationary) so let's start looking at the politically most feasible options.

If the US would confiscate all the wealth of its billionaires, that would only raise US$4trn out of a US$30trn total debt (after including the US$2.5trn Biden Stimulus Package). It can also only be done once.

Moving down to the 1%, a complete confiscation of all the wealth of the 1% could raise more than the required US$30trn (US$34trn), but it would require emptying out the bank accounts and selling the houses of every high-earning professional in medicine, IT and finance (and generally a large share of the population with a 30 year career behind them).

A more politically tenable option would be to significantly raise income and wealth taxes on this cohort and on the broader top 10%.

However, none of this is without consequences - the top 10% of earners are also among the most mobile. Given that raising taxes on the wealthiest is a likely outcome of today's high debt levels, we should expect a steep increase in demand for emigration from high-debt countries - the right passport or visa may very well become one of the most valuable assets.

Companies like Moelis Australia ((MOE)), which is one of Australia's largest Significant Investor Visa (SIV) fund managers and a pioneer in the program, looks positively exposed to the tailwind of wealth looking for a safe harbor.

What about me: decreasing spending

Although increasing revenue by taxing the wealthy will go some way towards stabilising the debt-to-GDP ratio, governments will most likely also have to look at decreasing their spending.

By and large, government budgets in OECD countries consist of three big buckets; healthcare spending, welfare payments and traditional government tasks such as education, police, military and infrastructure.

Over the past decades, OECD countries have already stripped their traditional government tasks to the bare bones - Infrastructure is now backlogged in most OECD countries and teachers, police officers and soldiers are often underpaid and overstretched.

Decreasing spending in this bucket is likely to yield diminishing returns and result in significant pushback.

Cutting welfare payments (mostly old age pensions) could potentially yield more savings, but taking away entitlements is one of the most politically challenging policies due to the sheer amount of welfare recipients (and it's also deflationary).

Which leaves only healthcare spending. Healthcare stocks are commonly considered defensive, due to the supposed non-discretionary nature of the underlying spending. However, as Greece's recent experience shows, when countries are heading towards bankruptcy and interest rates on government debt start to rise, healthcare spending increasingly moves towards the 'discretionary spending' category.

Greece ended up managing to cut its healthcare spending by more than -40% during 2009-2015, despite an aging population.

As countries throughout the OECD look likely to be forced to decrease their healthcare spending, one outcome could be a global deflation in the price of healthcare products and services. Companies like Medibank Private ((MPL)) and nib Holdings ((NHF)) could see significant margin expansion from this if they can maintain their premiums while being able to spend less on claims.

What about me: asset sales

Finally, governments can sell off their assets. Since the fall of the Soviet Union, most countries around the world have been selling off much of their public assets in energy, telecommunications and transportation (airports, marine ports, air/rail/tram/bus lines).

Companies like Macquarie Group ((MQG)), which helped establish infrastructure as an asset class during this time, stand to benefit from a continuation of this trend.

However, in 2021, for many countries, there isn't nearly as much left on the books in these categories. Governments will therefore also have to start looking for new types of assets to sell off.

Realistically speaking, the only type of asset which many of these countries still have on their books which is of significant value is their public roads (valued at US$3.4trn in the US).

Although few people enjoy paying tolls, at this stage, for many countries, it is the only asset they have left to put a meaningful dent in their debt. Privatising roads and highways is therefore a logical and necessary option for governments to pursue.

As governments become forced sellers of these assets, companies like Transurban ((TCL)) and Atlas Arteria ((ALX)), which have the expertise and experience in managing toll roads, have the opportunity to pick up these assets at bargain prices. (Transurban originally got its start in the 1990s when the Victorian government was forced to sell off CityLink to pay down its debt.)

Conclusion

For most OECD countries, improving their debt-to-GDP ratios will require taxing the wealthy, reducing spending on healthcare and selling off public assets like roads.

This is not to say that all countries will do so in exactly the same way. However, with countries with a debt-to-GDP ratio of over 150% now representing well over 30% of global GDP, we can expect that as these countries are forced to deleverage, that this will result in an unprecedented global movement of High-Net-Worth individuals, deflation in healthcare costs and an unprecedented increase in the privatisation of public roads.

INTERNATIONAL

China In Africa: Implications For Australia

China is spending US$40bn a year in Africa. Longer term consequences can include Australia's exports of iron ore

-China has been working hard on strengthening ties with African nations, resource-rich or otherwise
-China's dispatch of PPE and vaccines to friendly nations in Africa has been a smart exercise in diplomacy
-All eyes on Guinea's Simandou deposit when it comes to Australia's position of global iron ore exporter

By Ed Kennedy

Recently *The Economist* held a webinar 'Africa-China Relations: new frontiers of co-operation?'.

One does not have to be a financier or policy wonk to recognise the substantial implications for the African region and the People's Republic of China in deepening ties between the two. But the impact of an ever-increasing closeness certainly isn't confined to Africa and China. Australia's economic future could have a huge stake in it too.

As China continues its rapid economic growth and builds the influence that comes with such clout, it can find in Africa not only an opportunity to enhance trade ties, but also diversify its import sources. In an era in which Australian-Chinese relations are at the lowest they've been in decades, Australia now needs to prepare for years ahead where Beijing may find in Africa an opportunity to shore up strength at home while diminishing existing trade ties with Australia.

The core takeaways from *The Economist* webinar considered alongside broader trends in Australian-Chinese relations illustrate the time is ripe for a substantial recalculation. For a re-think among Australian political and business circles regarding the future of its trade ties with the world's most populous nation. In particular, as it concerns iron ore.

The Economist Snapshot

Overseen by Pratibha Thaker, Editorial Director, Middle East & Africa and Sanya Suri, Country Analyst, *The Economist's* webinar showed the deft skill in which China has built strong ties with African nations via a variety of economic avenues.

As Ms Thaker detailed, China is Africa's single largest bilateral trading partner, and two-way trade pre-pandemic in 2019 accounted for around US$208bn. It's been the largest single export market for 16 African states, and been the largest source of imports for 33 African states. The covid-19 pandemic has of course upended all normality in global trade - and this includes China's relations in Africa - but such stats illustrate the length and depth of China's foundations in the region.

The complexity of China's African relations from one nation to another means any notion of a 'grand strategy' - beyond the commonality shared by many African states having signed up to China's signature Belt and Road Initiative (BRI) - is of course elusive.

But consistent themes can indeed be identified. As Ms Thaker noted, Chinese investment in Africa has hit around US$40bn a year since 2011. Resource-rich nations like Zambia, Democratic Republic of Congo and Angola have all been favourites of Beijing.

China's dispatch of PPE and vaccines to friendly nations in the region has also been a smart exercise in diplomacy interwoven with a recognition of hard economic truths; for China to maintain and build on its economic ties in African nations, it requires the latter to have a healthy workforce. Accordingly, helping end the pandemic in the region is a key aim for Beijing.

Building the Road Ahead

Although any relation between nations is always multi-layered, for African states the core incentive to build closer ties with China has come down to infrastructure. Per a 2019 Brookings report and according to the African Development Bank, between US$130bn to US$170bn a year would be required to help close the regional infrastructure gap. Yet the gap between these figures and the rate of spending has also been substantial, with investment sometimes not even getting over the US$100bn mark. Closer ties with China has helped African nations bridge this gap.

In and of itself, infrastructure investment in Africa by China doesn't pose a challenge for the Australian economy. As indeed - save for situations where Chinese business may hold exclusive rights to the use of such infrastructure to the exclusion of others - Australia and other nations can ultimately stand to benefit from investment that leads to the improvement of amenities, wherever it's sourced from.

But where Australia's economy does stand to suffer is the alternative market Africa could build in the years ahead in the mining sector - and see it **directly compete with Australia as a supplier to China**.

The Iron Ore Factor

Iron ore is a key element in the Australian-Chinese relationship. Australia provides around 60% of China's supply. Given the immense demand China has for iron ore - the key ingredient in steel production - it's recognised even if the Australian-Chinese relationship has soured elsewhere in recent months following the outbreak of the covid-19 pandemic, by and large this trade flow should continue as normal. At least in the short term.

Because although Australia is presently the key supplier of iron ore to the nation, it's not the only one. Brazil is the second largest iron ore supplier in the world, and a key source for China. Yet ultimately, it's not within Latin America's largest nation that the greatest potential threat to Australia's ongoing export to its biggest customer is held. Instead, it's held to be in the tiny West African nation of Guinea. A state with a population of around just 13 million, but within its borders the belief there's the world's largest untapped reserves of iron ore.

As well as the Simandou project - predicted to have a 100Mt production capacity - Guinea also holds Kalia and Zogota. These are expected to be much smaller than Simandou, but still significant. All are expected to be operational by around the middle of the decade. Chinese investment has also been essential to the reactivation of the Tonkolili mine in Sierra Leone.

Save for some astounding discovery in Africa or truly remarkable turn of events in the Australian-Chinese relationship, the Great Southern Land is well-placed to remain the top supplier of iron ore to China, at least for the next few years.

Yet in the short term Beijing's current displeasure with Canberra - interwoven with the widespread perception greater action on carbon emissions is an overdue step by Australia's federal government - means the local iron ore industry is right to look to the years ahead with some degree of unease. This given the current circumstances in the trade stoush, and the role West African nations could soon play as a competitor.

Australian-Chinese Trade and Investment

There's no doubt Australia is more vulnerable to a rapid downturn in trading relations with China, than the reverse. But what is in doubt is whether the current low point of Australian-Chinese relations is a temporary blip, or instead the end of an era. If it's the former, it appears clear it will be many years until Beijing turns a cordial hand towards Australia once more. If it's the latter, Australia must begin a new chapter that pursues economic diversification to cushion the blow of any further salvos from Beijing in the trade dispute that's seen the imposition of punitive tariffs on Australian wine, barley, and other goods dispatched to China.

Already there's some sign this is occurring, with India increasingly viewed not only as a key regional strategic partner for Australia - alongside Japan and the U.S. - but also a trading partner. Following recent Chinese tariffs, India notably took additional barley from Australia. Although this is welcome, given Australian-Indian trade is around just 10% of Australia-Chinese trade, the economic relationship has a long way to go.

However painful tariffs may be, the potential for Beijing to swiftly reverse them remains. More concerning for Australia's economic growth, the 61% drop in Chinese investment during 2020. While the pandemic undoubtedly accounts for part of this decline, Australia's Foreign Investment Review Board (FIRB) is set to become a lightning rod for criticism going forward given recent reforms to it that beefed up restrictions.

To those seeking to drive more investment from China (and other nations) in Australia, the FIRB is too strong. For those desiring Australia increase protection of key infrastructure and tighten restrictions surrounding what foreigners can own in sensitive areas of the economy, the FIRB is too weak. In this dynamic, any reform done in any fashion guarantees more criticism.

Whatever the merits of either view, the differing perspectives - and thus the volatility of the debate - surrounding the FIRB will only increase in future. So although Australia perhaps has some wiggle room in redefining its relationship with China, it will also find itself with fewer options than it once had due to elevated concerns surrounding Australian national security.

Domestic Challenges to Define African-Chinese Relations

For those tempted to draw a straight line fearfully between China's growing engagement with African nations and a decline of the Australian economy, it's important to consider the picture in whole. In particular, Beijing has more than enough on its plate with numerous territorial disputes in the Asian region it's involved in heating up, as well as profound domestic challenges. China's gender imbalance issue alone - the byproduct of the 'one child' policy it maintained for many years - would take generations to address. Chinese health authorities recognise the scale of the problem, having previously called it the "most serious and prolonged" of its kind in the world.

In this dynamic, the notion Beijing would recklessly throttle iron ore trade with Australia and thus jeopardize its domestic steel production appears unfathomable at present. This said, a few years ago a large and rapid fallout of Australian-Chinese relations would have seemed quite unlikely. Ultimately, the greatest determinator in the long term of Beijing's fate and fortunes with Africa - and how it may factor that in when it comes to relations with Australia - is set to be determined by those who live in the region.

While in the next few years - with many nations still reckoning with covid-19 as China seeks to move beyond it - Beijing is well-placed to make some gains, further along it's expected its relations across Africa will be tested by the latter's own demographic developments. As of 2020 almost 60% of Africa's population is under 25. With estimates by 2050 the region could hold 2.5 billion people - almost 25% of a global population set to be near-10 billion - the growing critics of Chinese influence in Africa could have both more voices in support of them, and greater heft domestically to pursue more diversified economic growth.

With high youth unemployment already a region-wide issue in Africa before covid-19 hit, many among the next generation of leaders will have first-hand experience with a long period of unemployment, and a new skepticism towards a globalised economy. There's already signs of this demographic swelling now.

As Sanya Suri noted in *The Economist's* webinar, the pandemic has led to a decline in household incomes for many Africans, and China's economic presence in the region looms as an easy target for criticism. Yes, this sentiment may diminish once recovery begins. This said, for evidence once a protectionist-bent is in place it can persist for years, one need only look at the ongoing strength of Donald Trump's political movement, or the ultimate outcome of the Brexit era in the UK.

The Bottom Line

Just as century after century has seen sailors come undone when seeking to sail around the Cape of Good Hope, Australia shall has to navigate its future relations with China dealing with strong headwinds from Africa. Ones that shall undoubtedly make the nation's voyage through the 2020s harder, and potentially even deal a significant blow should Guinea mines (or another nation) turn the global iron ore market on its head. For Canberra and Co now there's a strong case to chart a new course, before conditions worsen and external factors make it that much harder to steer the ship effectively.

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AUSTRALIA

EML Payments Targets The Open Banking Pillar

In a further move to diversify its earnings streams, EML Payments is expanding into open banking. This story was originally published on April 12, 2021. It has been republished to clarify the strategic investments made by PayPal in Tink, previously grouped under the umbrella of M&A.

-Higher debit volumes, new markets, cross-selling opportunities
-Robust aspirational targets can be met with good execution
-Earnings should become increasingly visible and less lumpy

By Eva Brocklehurst

As the pandemic has exposed the advantages of diverse earnings streams, EML Payments ((EML)) is expanding into open banking with the acquisition of Sentenial Group. The transition away from gift & incentive cards commenced with a move into pre-paid financial services and now EML Payments has added a further string to its bow with open banking.

Sentenial is a payments platform operating in the cloud that offers direct debit, credit, real-time payment and account-to-account transfers for enterprises and banks. I**ts key growth business, Nuapay, capitalises on the structural shift in the UK/EU towards open banking and non-card payments.**

The purchase price is EUR70m plus an earn-out of up to EUR40m. The latter is contingent on Nuapay achieving a revenue target of EUR30m in 2023. Nuapay is the core growth business, with earnings targets derived from expectations for increased gross debit volumes (GDV) from major customers, new markets and cross-selling.

Canaccord Genuity points out open banking allows third party applications to consumer banking and financial accounts and is likely to be an important offering for emerging financial technology companies, allowing payment products to be embedded in their solutions.

Sentenial, as the core business, processes around EUR45bn in GDV, while Nuapay generated EUR600m in 2020 and is targeting EUR15bn in GDV by FY23.

Open banking remains in its infancy and EML Payments has made a considerable investment to further its exposure, Wilsons acknowledges. While guidance and aspirational targets are arguably "bold", the broker believes they are still possible, although execution needs to be very good.

With two large clients already on board, Worldpay and Cybersource, Macquarie is more confident the company can achieve its forecasts, although the roll-out to merchants and usage rates will be critical.

EML Payments plans to globalise its platform and Canaccord Genuity believes the attractive nature of this emerging segment is best illustrated by the sizable M&A transactions by major payment providers that are occurring at elevated valuation multiples such as Mastercard/Finicity and strategic investments made by Paypal in Tink.

Lofty Expectations

Wilsons expects Sentenial will generate operating earnings (EBITDA) margins of around 40% in FY23 and is aware that Nuapay ramping up GDV to EUR15bn in three years requires significant incremental volumes flowing through the platform.

This may not materialise in the timeframe for many reasons and hence the broker's forecasts reflect some conservatism. FY21 forecasts are completely unchanged and only a EUR31.5m contribution in revenue is factored in from Sentenial by FY24.

Macquarie also errs conservatively, anticipating only 60-65% of the earn-out will be achieved, although should the target be achieved thereafter, there is an additional 25-30% of valuation upside.

The broker suspects it will take around 12-18 months before there is enough momentum to begin factoring in the upside to forecasts. Management has acknowledged there are some competitors with greater scale than Sentenial, which Macquarie assesses is a risk to EML Payments gaining material share.

Nevertheless, the acquisition provides the opportunity to take part in the structural growth of the industry in the UK and Europe. Outside of this, the broker assesses further upside for EML in FY22 will be coming from a recovery in multi-currency cards and shopping centre traffic and maintains an Outperform rating with a $6.20 target.

Wilsons acknowledges the targets for Nuapay are high but EML is increasingly developing a reputation for executing on acquisitions. If the earn-out targets are met this will materially increase both vertical and geographical diversity as well as revenue and earnings visibility.

EML is expected to become a leading financial technology stock, offering both prepaid and open banking globally. The broker derives a target of $6.51 by applying a 25% premium to the peer enterprise value/EBITDA multiple of 18.5x multiplied by FY23 EBITDA and retains an Overweight rating.

Wilsons likes the stock as the business strategy is becoming increasingly visible and shifting towards a less "lumpy" earnings. Gift & incentive cards are expected to fall from 12% of GDV in FY19 to 5% in FY21, then to around 1% in FY23.

Canaccord Genuity expects investors will value EML Payments on a through-the-cycle basis and, after incorporating Sentenial into forecasts amid expectations from further upside stemming from acquisitions, maintains a Buy rating and $6.25 target.

The company is also in a strong financial position, expected to be net cash by around $120m at the end of FY21. After the first half result, UBS noted the gift & incentive card business in shopping centres was less affected by the pandemic than previously anticipated, so the recovery outlook looks better.

As a result, **further upgrade and re-rating potential exists as the market becomes increasingly comfortable with the company's business profile**. UBS has a Buy rating and $5.70 target.

See also, [EML Payments Lights Up Reloadable Cards](#) on February 18, 2021

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AUSTRALIA

Eagers Automotive Enjoys Luxury Conditions

Eagers Automotive is experiencing a rare combination in the automotive sales industry – tight supply and strong demand. Will it last?

-Largely debt free, which allows for acquisitions
-Gradual easing of premium conditions over 2021/22
-Profit margins likely to reduce but stay above pre-pandemic levels

By Eva Brocklehurst

Eagers Automotive ((APE)) enjoyed premium conditions in the first quarter but this has not settled several unknowns regarding the outlook beyond the pandemic. The company has experienced a rare combination in the automotive sales industry - tight supply amid strong demand.

Pre-tax profit was $98m in the quarter which did not include property sales. While brokers are upgrading estimates conservatively, questions about whether such conditions can continue, and for how long, remain.

Credit Suisse notes, once the Daimler sale is completed, Eagers will exit with a debt-free balance sheet and plenty of options for both dealer and property acquisitions.

Both the sale of the Daimler business and the compnay's Milperra property are on track for completion in the first half, expected to deliver a net pre-tax gain of $32-36m and reduce profit by -$10m. UBS incorporates the sale and the stronger first quarter but estimates for 2022 and beyond are unchanged.

UBS does not extrapolate the first quarter, while noting the second and fourth quarters have historically been the strongest. The broker acknowledges medium-term value drivers are intact, such as strength in front-end volumes and continuing optimisation of the cost base and portfolio.

Moelis expects the company should "at least" replicate the first quarter result in the second and deliver sequential growth in the first half. The forward order book has continued to build and the broker suspects **the**

issue of new car availability will be the major driver of sales over the next few quarters.

Morgans points out while supply constraints continue, these are clearly not interfering enough with deliveries and forward orders remain strong. Over the longer term, the broker believes the company, using a strong balance sheet, can target strategic acquisitions.

Margins

To date, supply ex-restrictions has been almost perfect in terms of profitability with margins at historically high levels and this has more than offset sales that were unable to be delivered.

The first quarter is usually the cyclical low point in terms of industry volumes and, coupled with the payment by Toyota of incentives in December each year and original equipment manufacturer (OEM) payments at the end of each quarter, Morgans assesses it plausible that pre-tax profit can reach $400m in 2021, although retains a forecast of $340m.

Supply constraints will ultimately ease and should mean automotive margins return to normal, although **there is a potential structural shift in OEM supply that reflects a 'Just in Time' model, meaning margins may stay above pre-pandemic levels.**

All up, Morgans believes there is an upside risk to forecasts should the current trends continue for longer than anticipated. Current dynamics are likely to continue for most of 2021, Ord Minnett agrees, and the medium-term is positive for the company as it benefits from the adjusting industry structure.

Profitability in automotive dealerships have been largely driven by gross margin expansion rather than consumer purchase decisions being brought forward, the broker adds.

New vehicle sales, on a rolling 12-month basis, are currently well down on averages experienced over the past decade. Hence, Ord Minnett does not believe an uplift in volumes and the resultant OEM rebates will counter margin expansion even if supply substantially increases.

Morgan Stanley lifts estimates for pre-tax profit in 2021 to $331m and notes, from dealer checks, that dealerships are carrying 1-2 months in order backlogs. The broker assumes pre-tax profit margins normalise in the second half as supply constraints ease and volume growth flattens.

2022

So, what will 2022 look like? Morgan Stanley highlights demand has just started to turn around from multi-decade lows and circumstances will simply become "good" if they just revert to the long-term average.

Credit Suisse envisages the combination of rising house prices, strong equity markets and participation in non-traditional assets are collectively making demand greater than it was prior to the pandemic. The broker opts for a gradual flattening of these conditions over 2022 and considers the current stock multiple appropriate.

Bell Potter agrees the current P/E ratio, in the mid-to high teens, is right for what is likely to be peak earnings and, not one of the seven stockbrokers monitored daily on the FNArena database, maintains a Hold rating with a $16.50 target. The broker assumes the current supportive environment continues before some reversion towards the norm in the December quarter.

Moelis continues to assume supply remains tight through 2021 and its valuation is based on 2022, when margins on sales should return to mid cycle levels. The broker expects that supply will increasingly shift to electric vehicles and this will raise issues for the industry as the rolling out of infrastructure will become important.

Moelis, also not one of the seven, has a Buy rating and $17.81 target. The database has five Buy ratings and one Hold (Credit Suisse). The consensus target is $16.34, suggesting 1.5% upside to the last share price.

AUSTRALIA

Narrabri's Faults Dog Whitehaven Coal

Whitehaven Coal has been unable to take full advantage of strong coal prices as it encounters further faulting at Narrabri

-Narrabri faults drag production/sales lower
-Similarly difficult June quarter likely
-Yet longer term cash flow projections are intact

By Eva Brocklehurst

Problems affecting the coal seams at Narrabri have again reared up for Whitehaven Coal ((WHC)). The company has experienced two weeks of lost production and damage to the longwall that requires a further two weeks of downtime for repairs.

Furthermore, damage to the major port of Newcastle caused by floods has also meant production and sales were weaker than expected in the March quarter. The company has lowered FY21 guidance by -3% to 20.6-21.4mt.

Guidance for Gunnedah and Maules Creek is unchanged while Narrabri production has been downgraded to 4.5-4.9mt. Cost guidance has increased to $73-75/t from $69-72/t. This was not the company's finest quarter, Shaw and Partners asserts. Yet the broker does not believe the issues at Narrabri are irreversible and the negative impact on pricing is not permanent.

Shaw suspects Narrabri will not be performing at its best into year-end while upside is around a year away. Citi also envisages more operating disappointments for Narrabri over the next year, assessing Whitehaven Coal is a deep-value play but not for the fainthearted.

Macquarie increases forecast losses for FY21 to -$62m and remains cautious about the outlook for thermal coal, although acknowledges there is upside to estimates in a spot price scenario.

The broker also points out **Whitehaven does not sell a large amount of thermal coal to China and therefore its volumes have been less affected by Chinese import restrictions on Australian coal**.

Yet the import restriction has negatively affected the price for 5500 calorie thermal and metallurgical (coking) coal. The issues at Narrabri have meant an increase in low quality coal sales which, in turn, means the discount to benchmark prices has increased to -12% for thermal coal.

Narrabri

A downgrade to production guidance at Narrabri follows a previous downgrade in February. Cost expectations have also increased. Given lower production in the March quarter Whitehaven drew down on inventory in order to boost sales.

The Narrabri longwall has experienced persistent faults since November, damaging equipment, and there is a corresponding impact on Whitehaven's earnings, just as the company should be enjoying a spike in quality coal prices.

Morgans downgrades estimates for FY21 by -30% on a combination of lower revenue and higher costs. Confidence has taken a hit as well and this risks Narrabri's value being discounted until production and costs have stabilised.

Still, the broker considers the stock oversold as the market is inferring zero value for Narrabri, which is an overstatement of the issues. A -20% cut to second half output Narrabri will hit cost guidance by -5% in FY21 and this also includes the need to refurbish key components because of wear and tear.

Hence, the June quarter appears similarly difficult although the company expects improvements in FY22 because of better drilling delineation of seam structures. The broker believes those looking at the fundamentals will discount profitability until at least the technical issues are ironed out.

This also delays the potential for any upside to the dividend. The company will also be unable to fully leverage the spike in prices until the shallow mining in the longwall panel 203 is achieved, in around 18 months.

Both Bell Potter and Citi agree this move should substantially de-risk production. Mining at Narrabri will move to longwall 110 early in FY22, adjacent to the problematic 109 currently being mined. Still, this is a deep and geologically complex position.

On the other hand, **Maules Creek is operating to plan and providing some offset, although sales were affected by floods and infrastructure outages** that resulted in elevated stockpiles of 1.96mt.

Pricing

Morgans is less concerned about the lag in exposure to higher prices, although it is obvious that the company will now have less tonnage to place in the high-value market. Quarterly saleable coal was 4.2mt. Metallurgical coal accounted for 20% of the production in the quarter and the company reported realised prices of US$96/t. This was 32% above the second quarter.

Goldman Sachs explains thermal coal price realisations were -15% below the average spot price of the quarter because of lags in pricing and higher ash coal from Narrabri. Around 50% of Whitehaven Coal's thermal product is sold on a lagged basis and the broker expects further discounts compared with benchmarks in the June quarter.

Goldman Sachs calculates the company is currently pricing in a long-run thermal coal price of US$60/t at an Australian dollar of US$0.70. This compares with its long-run assumptions of US$67/t for 6000cal coal ex Newcastle and spot prices at around US$90/t.

All up, the broker believes de-gearing and cash flow projections are intact. Whitehaven is targeting $500m in net debt before being on the hunt for greenfield acquisitions. The broker is positive about the outlook for coal markets in 2021 because of improving seaborne demand and constrained supply.

Morgan Stanley agrees conditions should improve from the second half of FY22 and finds the stock compelling in terms of cash flow. Moreover, spot prices imply near-term deleveraging and any prolonged weakness in the share price is considered a buying opportunity.

Among those stockbrokers not monitored daily on the FNArena database Goldman Sachs has a Buy rating with a target of $2.10 while Bell Potter has a $2.25 target and a Buy rating. Shaw and Partners has a Buy rating with a $2.50 target. The database has five Buy ratings and two Hold. The consensus target is $1.94, signalling 33.1% upside to the last share price.

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AUSTRALIA

Ampol Recovery Linked To Fuel Consumption

Resilience in Fuels and Infrastructure delivers strong first quarter 2021 result ahead of expectations for Ampol, despite a challenging external environment, volatile retail fuel volumes, and reduced regional refiner margins/volumes.

-Ampol's Q1 beats consensus by 23%
-Upgrades to guidance
-Petrol and diesel margins starting to recover
-Fuel and Infrastructure standout division

By Mark Story

Given the ongoing effect of snap lockdowns and NSW-Queensland flooding during the quarter, Ampol ((ALD)) turned in a solid first quarter 2021 earnings result of $150m, beating consensus forecasts by 23%. Given the rate of volume recovery throughout the quarter, some brokers see scope for upgrades for the fuel retailer through the course of 2021, with guidance now looking too conservative.

Ampol's total Australia volumes were down -5% for the quarter versus fourth quarter 2020, but in its quarterly update the company suggested March monthly volumes had improved; and if extrapolated would be tracking at the upper end of guidance (14 billion litres per year). As a result, Macquarie was quick to upgrade Ampol's Australia volumes from 13.5 billion litres (bottom of guidance) to 13.8bl (above mid-point).

Equally encouraging, while the latest Australian Institute of Petroleum (AIP) data suggests that first quarter 2021 petrol and diesel margins are down 13% and 41%, margins are starting to recover with petrol margins in April tracking 8 cents per litre ahead of the (2015-19) historical average.

<u>Fuel & Infrastructure the standout performer</u>

While Ampol reported higher earnings across its three major segments, the clear standout was Ampol's Australian Fuel and Infrastructure (F&I) division, which excluding Lytton reported earnings of $85m ($71m first half 2020), with Australian earnings $59m ($47m first half 2020) and international earnings of $26m ($24m first half 2020).

While jet volumes were a headwind (down -53% on first half 20 and -16% on fourth quarter 2020), the company benefited from an $18m currency gain.

Overall, Ampol managed to optimise costs to lift Australia F&I earnings margins to 1.8cpl (from 1.2cpl in 1Q20), which has offset a 14% year on year fall in Australian fuel volumes.

Convenience retail

Despite lower foot traffic and with convenience retail fuel volumes down -7% year on year, non-fuel Convenience Retail continued to show positive momentum during the first quarter, with shop sales up 10% year on year. But due to lower fuel volumes and margins, first quarter 2021 convenience earnings of $78m were down -24% year on year, while retail gasoline and diesel margins were down year on year by -13% and -41%, respectively.

Historic Cost Profit (HCOP) of $175m was well up on the $29m loss in 1H20, with an inventory gain of $93m ($109m loss 1H20) proving to be a positive.

UBS expects Ampol to benefit from improving fuel volumes as travel restrictions ease, with further upside from successful execution of the company's convenience retail strategy. While wholesale weakness in gasoline (-21% versus the previous period) tends to indicate rival EG Group has been losing market share, Macquarie notes that in the shop, sales growth of around 10% (life for like) and cost/wastage control is supporting retail momentum.

The broker maintains its Outperform rating on Ampol and after upgrading 2021 earnings per share by 2%, has increased the target price 2% to $32.25 on the improved outlook.

Due to underlying cost pressures (notably compliance, labour, and rent), Ord Minnett also remains upbeat on longer-term retail fuel margin trends. Despite retail fuel volumes being down -7%, the broker notes that they outperformed other wholesale retail customers (gasoline -21% and diesel -8%). While Ord Minnett cited site quality as arguably a key support, the broker also noted that Ampol rebranding could also be a contributing positive factor going forward.

Self-help initiatives

Due to higher Fuels & Infrastructure (ex Lytton) earnings plus the support of a low quality, one-off currency gain, the broker has increase its earnings forecasts by 11% in calendar year 2021 and 1.2% in calendar year 2022. Ord Minnett maintains a Hold rating on Ampol, with the target price increasing to $27.00 from $25.73.

Having made significant progress on self-help initiatives, especially in property divestments, capital management ($300m off-market buyback, $500m subordinated notes issue and Convenience Retail roll-out), lower waste and optimised labour, the broker believes Ampol is well positioned to leverage a boost to external demand.

While continued growth in convenience is a focus for investors, in Goldman Sachs' view the first quarter 2021 result likely benefited from consumer preference for local convenience stores (versus larger retail formats) during covid lockdowns. In this context, the broker believes the Convenience strategy needs further de-risking.

Goldman believes the weaker first quarter result implies second quarter 2021 replacement cost operating profit (RCOP) earnings will need to recover to second quarter 2019 levels, to meet consensus first half and 2021 consensus earnings expectations.

In light of this, plus a potential risk to the outlook for the business from court proceedings between Ampol & EG Group and Ampol & Chevron, plus uncertainty over Lytton's future, the broker maintains a Sell rating, with a target price $23.40.

Lytton refinery

While there is no comment from Ampol yet on the future of Lytton refinery, UBS expects an update on management's review of Lytton within the next ten weeks. After breaking even in first quarter 2021, with realised refining margins ahead of UBS' forecast, the broker's expects the Lytton Refinery to remain operational as refining margins in the region improve.

Fuelling that outlook, management gave calendar year 2021 guidance of 6 billion litres of Lytton production.

However, not all brokers agree, with Macquarie maintaining Lytton still looks incentivised to close, with Ampol needing to work to replace Lytton's earnings of $60-80m/year on mid-cycle margins. In addition to further lockdowns, Macquarie believes a decision on refining at Lytton as the other key risk going forward.

Meantime, Goldman Sachs continue to see the closure of the Lytton refinery as likely, with Ampol needing to either invest in or rent additional capacity without the benefit of buy/sell/swap agreements or shared access arrangements following the closure.

However, UBS notes that Ampol has still yet to commit to receive the Federal Government's Interim Production Payment.

While UBS maintains a Buy rating and target price $30.90, the broker believes closure of Lytton would reduce the broker's valuation to $27.20/sh, all other things being equal. To reflect better-than-expected performance from Lytton and strong realised margins in Australia, UBS has lifted FY21forecast earnings by 8%.

Fuel volumes won't hit pre-covid levels until 2024

But given that the broker does not expect Australia's fuel volumes to recover to pre-covid levels until 2024, UBS's earnings outlook beyond 2021 remain largely unchanged, with fuel volumes expected to recover gradually.

The broker expects Ampol to achieve its $85m non-fuel convenience earnings uplift by FY24, with the rollout of more sites (20 new stores are anticipated in 2021) and continued focus on reducing wastage and labour costs.

Meantime, Ord Minnett expects a conversion of Lytton to an import terminal, with it broadly cash flow neutral. The broker expects near-term costs to be offset by import terminal income and an uplift in the Ampol earnings multiple.

The capital framework is forecast to be increased materially as without the refinery, Ord Minnett believes earnings volatility should reduce significantly. Ord Minnett also believes a conversion would also assist Ampol reduce its scope 1 and 2 emissions significantly.

This could, Ord Minnett adds, be part of Ampol's broader energy transition statement, which the broker believes should also focus on alternative energy (eg hydrogen) and fast-charging for electrical vehicles.

Credit Suisse does not see much scope for sustained improvement in break-even margins at Lytton given significant over-capacity in the Asia region. Credit Suisse does not think Ampol could sustain the $87mn earnings that the broker currently assumes for Lytton in FY23 on an import model.

The broker maintains a Neutral rating on Ampol with the target price reducing to $27.50 from $27.54.

Rebranding

As at end of the first quarter, 109 sites have been rebranded to Ampol. An additional five Metro C-stores are expected to be delivered in second Quarter, while a further 15 are planned for the second half of 2021, taking the Metro count to 25-30 sites. Overall Ampol is targeting 100 stores per month from March.

While an acceleration in Ampol's site rebranding activity is set through the second half of 2021, Macquarie notes that this is the period in which the company's market share and pricing need to be watched most closely.

In Goldman Sachs' view an increased roll-out on re-seller network and EG stores is needed, to de-risk concerns that not all of the network owners are prepared to re-brand to Ampol from Caltex.

AUSTRALIA

Accelerating Demand For Scrap Drives Sims

Rising scrap prices and a sharp increase in volumes have allowed Sims to deliver FY21 earnings guidance way ahead of expectations

-Brokers looking for signs of a structrual shift in demand
-Global stimulus driving scrap demand
-Outlook for low-emissions steel key to scrap longer term

By Eva Brocklehurst

Times are good for scrap metal handlers and Sims ((SGM)) is no exception, guiding to FY21 earnings way ahead of expectations. March quarter intake was back to 95% of FY19 average monthly volumes and there has been a general improvement in gross margins per tonne.

Scrap prices rose in all markets in which the company participates. Prices for both ferrous and non-ferrous are above FY18-19 levels and UBS is not surprised that margins have expanded to $60/t today from $30-35/t back then.

The company expects FY21 earnings (EBIT) of $260-310m, with the mid point 70% above Ord Minnett's forecasts and causing Macquarie to upgrade FY21 estimates for earnings per share by 83%. Cost savings are also ahead of budget, with $70m of cost reductions along with disciplined buying underpinning the improvement.

Guidance far surpassed Credit Suisse's estimates too. The broker assesses the second half should be the highest earnings half-year period for more than a decade, surpassed only by the second half of 2008 when EBIT was $511m and ferrous scrap prices exceeded US$700/t.

In this context, Credit Suisse notes current spot pricing for ferrous is US$430/t, so not that high. What has been considerable, nonetheless, is the speed and magnitude of the increase in ferrous scrap prices.

The broker concludes **a material portion of Sims' earnings can be attributed to the inventory cycle, in which the company acquires lower-priced scrap that is transferred for sale into a higher priced market**, generating expanded margins.

Morgan Stanley does not extrapolate this significant upgrade to earnings expectations and would become even more positive on further evidence the current strength in scrap is a result of structural shifts in demand rather than short-term cyclical factors.

The broker notes disruptions from the pandemic and a potential moderation of steel prices could exert pressure, although expects ongoing earnings momentum will continue to support the stock. While earnings are robust, Citi expects a normalisation over the next 18 months to more sustainable levels, forecasting around $226m and $189m in EBIT for FY22 and FY23, respectively.

Margins

Credit Suisse does not believe current margins are sustainable and cautions that a repeat cannot be expected from the second half although, from a broader view, expects global fiscal and monetary stimulus will continue to drive scrap consumption.

UBS assesses that the improvement is coming from margins rather than volumes, driven by higher prices and inventory gains, as the average price of acquired scrap is lower against the time a whole cargo is sold (cyclical factors). The broker forecasts FY22 EBIT margins of $41/t compared with $40/t in FY21.

UBS is also on the lookout for new US electric arc furnace capacity that will drive higher demand for scrap and also news that China is importing more ferrous scrap as it slowly moves towards higher scrap usage in blast furnaces in order to reduce emissions.

Green Steel

Morgan Stanley points out markets are tight and **emissions control measures in Tangshan have potential to increase demand for ferrous scrap and tighten the market further**. Chinese initiatives regarding emissions reductions is a development the broker will be watching closely.

Ord Minnett remains attracted to the scrap markets because of the potential as raw material for low-emissions steel, signalling a positive environmental backdrop, and there is a potential for China's imports to increase and underpin prices. Yet the low earnings visibility and recent bounce in the share price suggests the upside is now incorporated into the outlook for Sims.

On the other hand, UBS argues that upside from a shift towards more scrap-intensive steelmaking over the long-term is not reflected in the price of the stock. The share price has doubled since October, when expectations about China's re-opening helped accelerate scrap prices.

Further consistency from the company's updates as well as the increasingly positive environmental thesis stemming from 'green steel' should stimulate investor interest, in the broker's view.

Still, UBS warns that Sims remains a cyclical business and global trade disputes can mean scrap markets freeze, leading to poor margins. Also, margins are likely to decrease over time as competition from established operators intensifies.

UBS also highlights cloud recycling is becoming a higher-value stream within e-cycling and Sims is looking to grow volumes in this area to 200,000t by FY25 from just 20,000t in FY20. FNArena's database has two Buy ratings and four Hold for Sims. The consensus target is $17.47, suggesting 5.9% upside to the last share price.

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AUSTRALIA

Origin Draws The Short Straw On Gas

One of them had to give way in the dispute between Beach Energy and Origin Energy over gas pricing, and it was the latter that ended up downgrading guidance

-Market not heeding consistent earnings warnings from Origin Energy
-Subdued electricity markets meet up with higher gas procurement costs
-Further risk of price reviews for the Cooper Basin portfolio

By Eva Brocklehurst

After Beach Energy ((BPT)) and Origin Energy ((ORG)) thrashed out an agreement for gas prices in Victoria's arbitration courts the latter has had to issue an -8% downgrade to energy markets guidance.

Origin Energy has downgraded FY21 operating earnings (EBITDA) guidance to $940-1020m, implying an adverse outcome from arbitration. Part of this downgrade to guidance was attributed to the price review and the rest to subdued energy demand and pricing.

Morgans lowers FY21 estimates for energy market operating earnings to $980m, primarily because of the higher gas costs, having already carried a conservative electricity margin forecast.

Ord Minnett suggests the market is still not heeding consistent warnings from Origin, as consensus seems to expect earnings to double in the next two years. Overly optimistic estimates are considered by the broker to be a major driver of the stock's de-rating that occurred in 2020.

Natural gas gross profit is expected to decline because of higher procurement costs and increases in the Japan-Korea market index, as well as lower volumes and prices on commercial and industrial sales which reflect the current subdued market conditions domestically.

Origin has signalled mild weather has caused energy demand to slump, which provides less opportunity for its generation fleet to take advantage of volatile electricity prices, and has warned once again that lower wholesale electricity prices and higher gas procurement costs are going to have a material impact on profitability in FY22-23.

Credit Suisse does its valuation check after the update and calculates that at the current share price, the energy markets equity value is $0.19 and FY22/23 free cash flow forecasts ex APLNG are less than 1%.

The broker assesses prices and volumes in electricity & gas all seem to be worsening for Origin, reducing gas gross margin estimates to allow for the arbitration outcome as well as gas and electricity sales volumes.

On a macro basis, Macquarie believes the negative earning cycle for Origin has further to go, although expects a base will emerge in FY22 as earnings are sourced from more traditional retailing, along with risk management.**Structurally weaker earnings are enhancing the need for debt reduction and dependence on oil hedging to remove volatility**, the broker points out.

Origin had been the best performer in energy markets since February, Goldman Sachs notes, but this downgrade has brought the stock back in line with the rest of the sector. This reinforces the broker's view that FY22 will be a trough year for energy markets and a recovery is likely from 2023.

The rebound in oil prices over the past six months should deliver capital management in FY22 with an improving outlook and Goldman Sachs, not one of the seven stockbrokers monitored daily on the FNArena database, retains a Buy rating with a $6.50 target.

With Beach Energy the winner in this dispute, Citi upgrades FY21-23 earnings estimates by 13-17% but is still unable to reconcile that company's five-year cash flow guidance of $2.1bn compared with its estimate of $1.53bn, suspecting there is risk of a downgrade to guidance from Beach Energy at the August result.

Arbitration Outcome

Based on the disclosure by Beach Energy that the arbitrated gas price is around $9.30/GJ, brokers calculate Origin Energy's assumptions were -$2-3/GJ out of the money for the gas it procures from the Otway portfolio.

Origin has another 8PJ of gas supply from Beach's Cooper Basin portfolio which is under price review and facing a similar risk. The gas supply from both these reviews makes up around 20% of total gas portfolio demand for Origin and pricing outcomes are likely to cut gross profit a further -$30-40m for FY21 and -$60-80m from FY22.

From the Beach perspective this will lead to higher prices for Otway gas for the next three years and the company will be able to sell rising volumes at higher prices after the drilling program.

The Origin contract runs to June 30, 2033, with three-year market re-sets. The contract with AGL Energy ((AGL)) expires in mid FY22 and the Origin Energy contract will become a larger proportion of total Otway sales for Beach Energy.

Upgrading Otway assumptions increases Goldman Sachs' FY21-22 forecasts for Beach by 3.6-5.6% and the rating is upgraded to Neutral from Sell with a $1.90 target. The broker believes **gas pricing has the potential to be negative in 2023** when the contracts are re-set again, as these will be linked to 2021-22 prices, which should drive a decline in the next reset to around $8/gigajoule.

APLNG

One positive Origin announced in the update is that break even for APLNG cash flow in FY21 has been lowered to US$22-25/bbl. This ensues from higher cash distributions that are now expected in FY21, more than $650m.

UBS expects Origin will focus on de-leveraging in FY21 but if oil prices remain above US$60/bbl into FY22 there could be upside from possible buybacks or the sell down of infrastructure within APLNG.

The drop in the share price as a result of the downgrade was excessive, Morgans asserts, given a positive outlook for the APLNG business and the other growth options.

The broker has no doubt the next 12-18 months will be challenging for the company but always anticipated that FY22 would be a low point for the business as electricity futures have been pointing to weaker earnings for some time.

Nevertheless, the company is expecting to offset weaker revenue by cost reductions and its LNG business will reap more of the benefit from higher oil prices in FY22. Origin is also realising cost improvements from investing in the Kraken platform as well as green hydrogen and oil & gas exploration in the Northern Territory and Western Australia.

The database has three Buy ratings and four Hold for Origin Energy and a target of $5.06, suggesting 21.3%

upside to the last share price. The dividend yield on FY21 and FY22 forecasts is 4.8% and 4.7%, respectively. For Beach Energy there are four Buy ratings and two Hold. The consensus target is $2.04, suggesting 14.1% upside to the last share price.

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AUSTRALIA

Banks' Best Turnaround Prospect: Bank Of Queensland

Bank of Queensland is expected to exceed guidance and looks well positioned to deal with industry headwinds

-All three housing lending channels posted positive growth
-Strong pre-provision profit growth of 3% half-on-half
-Reduced impairments forecast
-Earnings upgrades

By Mark Story

Broadly in line with guidance, Bank of Queensland ((BOQ)) managed to deliver an improved first half 2021 result, underpinned by improving economic conditions deposit margin benefits and low impairment charges. While there were few surprises within the heavily pre-guided result, a key positive for this set of results is the housing credit growth in the bank's Blue Brand for the first time since first-half 2016.

The bank reported a first-half FY21 cash net profit of $165m at the midpoint of the guidance range, and an interim dividend of 17c also in line with guidance, with a common equity tier-one (CET1) ratio of 10.0%.

It also delivered strong pre-provision profit growth of 3% half-on-half with support from funding cost tailwinds. However, the result was achieved with very little contribution from stronger lending growth as average loans were flat over the period.

While the first half result delivered few real surprises, it confirmed that for the first time in over five years, all three housing lending channels printed positive growth, delivering overall housing growth of 1.6x system growth. Australian Prudential Regulation Authority (APRA) stats showing improvement towards the back end of the half, and significant funding cost tailwinds which drove 3 basis points of net interest margin (NIM) expansion half-on-half to 1.95%.

Guidance appears conservative

While brokers were not expecting any surprises, with all items in line or close to forecast, some were quick to revise their forecasts based on what they believe to be potential upside yet to be factored into their numbers. As a case in point, Macquarie believes Bank of Queensland's elevated deposit pricing should provide a buffer to ongoing mortgage margin pressures as the bank accelerates its growth agenda.

With Bank of Queensland looking less exposed than peers, Macquarie has also adjusted impairment forecasts, and currently expects benign loss rates of around 6-11bps in FY21-23.

While management continued to target ongoing market share gains, Macquarie believes its implied guidance appears conservative. Flat margins and cost growth of 3% suggest to the broker the bank is targeting revenue growth of 4%.

But assuming non-interest income is broadly flat year-on-year, this guidance implies volume growth of -2% in second half 2021, which Macquarie sees as unlikely. As a result, the broker is currently forecasting revenue growth of around 5% in FY21.

While Macquarie remains restricted on Bank of Queensland, the broker reiterates preference for the regionals ahead of the majors. But having adjusted earnings for improved volumes trends and reduced impairments forecast following improved economic outcomes, Macquarie has changed its earnings per share (EPS) forecasts by 2.9%, 4.4%, and 9.8% in FY21, FY22, and FY23 respectively.

With very little of potential upside factored into its forecasts, Ord Minnett is also estimating 5% revenue growth in FY21 versus 4% implied by guidance. The broker believes Bank of Queensland is the best turnaround prospect of the stocks under its coverage.

Ord Minnett believes this stems from addressing historical weak points such as higher deposit costs than peers, inferior customer-facing digital offering, and clumsy origination processes.

Given that near term funding cost savings from the RBA's Term Funding Facility and deposits costs, and potential for optimisation in both its own deposit book and the funding mix of ME Bank, Ord Minnett believes the bank is well positioned to deal with industry headwinds. The broker also notes bank improvements in broker channel performance and the digital offering to customers.

Meantime, Credit Suisse believes the launch of the Virgin Money digital bank provides a strong platform for Bank of Queensland to increase its efficiency as it transitions its current brands - BOQ and, in future periods ME Bank - onto a single cloud based platform.

The broker maintains an Outperform rating, and following an upgrade to earnings forecasts of 1-2% through the forecast period to reflect higher NIM (partially offset by higher expenses) has increased the target price to $10.00 from $9.50.

Unrealised potential

The as yet unrealised potential Ord Minnett is referring to includes: Improvements in deposit mix, with reduced term deposit (TD) reliance and more transaction accounts, and the delivery of revenue synergies at ME Bank. The Bank of Queensland sees potential to improve the ME Bank NIM, potentially by as much as 20bp.

Then there's an improved offering to customers with its digital roll-out and to brokers by cementing faster approval times.

Ord Minnett's net profit estimates have increased 3% in FY21, 10% in FY22 and 2% in FY23, with a 0–2% increase in pre-provision profit and lower bad and doubtful debts (BDD). As a result, the broker's recommendation on Bank of Queensland has been upgraded to Accumulate from Hold, with the target price increasing to $9.50 from $9.30.

Overall, Citi also expects improved performance and asset quality to continue to drive earnings upgrades. The broker retains a Neutral call, but unlike Ord Minnett thinks much of the absolute upside is priced in.

The bank is trading on a 12.5x FY23E price-to-earnings (P/E) multiple, a 17% discount to both the major banks and its regional peer Bendigo and Adelaide Bank ((BEN)). As a result, Ord Minnett doesn't believe the market is paying for cost benefits from ME Bank. Albeit the broker acknowledges, this will require careful execution, given the already-full transformation/fix agenda.

But despite providing scale benefits and geographic diversification, Morgan Stanley isn't convinced that the acquisition of ME Bank materially improves growth prospects. While the transaction isn't yet factored into Morgan Stanley's model, the broker's revised proforma estimates imply earnings accretion of 4% to 7% in FY23, and FY24 - with meaningful upside if management achieves its above-system growth targets.

But given the supportive operating environment, improving franchise momentum, and excess provisions and capital, potential accretion from the ME Bank acquisition and attractive trading multiples, the broker has upgraded the bank to Overweight. Morgan Stanley has upgraded FY21 and FY22 cash EPS estimates by 2-3%, and increased its target price to $10.00 from $9.60.

Market underestimating momentum

Given that the recent weak share price performance appears at odds with Bank of Queensland's underlying business momentum, Citi suspects the market is underestimating the underlying improvement in the bank's enhanced momentum and profitability.

While the broker believes the bank is fairly valued, it expects improved performance and asset quality to continue to drive earnings upgrades. However, the broker also believes near-term consensus earnings look too conservative, with a 12% effective tax rate presenting one of the more attractive relative returns in the sector.

Citi expects revenue momentum to accelerate in second half 2021, particularly as the loans written in late first half 2021 start to contribute to revenue growth.

As a result, Citi has upgraded cash earnings forecasts by 0.5% in FY21 and 1.5% in FY22, and FY23. To reflect near-term earnings upgrades and improved longer term returns following the improved momentum, Citi's target price increases to $9.50 from $9.00.

AUSTRALIA

Bapcor Steering Earnings Growth Beyond FY21

Bapcor is in the front seat, amid confidence in the company's ability to drive earnings growth beyond the stimulus that underpinned FY21

-Clear opportunity to grow earnings into FY22
-Ability to cycle heightened FY21 earnings a catalyst
-Opportunities include expansion in Asia and private-label

By Eva Brocklehurst

As more Australians take to the roads amid prolonged international travel restrictions, Bapcor ((BAP)) is in the front seat. Its automotive parts business is continuing to perform and the company is considered well-placed to accelerate both organic and operating performance, given the initiatives being undertaken.

Bapcor has noted an increase in second-hand vehicle sales, with commuters continuing to avoid public transport, and more expenditure on domestic holidays, resulting in the greater use of private vehicles.

Burson auto parts and the Autobarn retail operation were the stand-out features of the March quarter update, with like-for-like sales growth of 13% and 35%, respectively.

The rate of sales growth should moderate in the fourth quarter as the company cycles elevated comparables but strong profit growth is still expected over FY21. Moreover, Ord Minnett points out there are few signs as yet that sales are actually moderating.

Earnings growth should be driven by demand in the core Burson business as well as continued expansion of the store network in Australasia and ongoing improvement in margins through higher home-brand sales.

Credit Suisse quips Bapcor is still struggling to shrug off the "covid beneficiary" tag and considers this view unjustified as, unlike many retailers, there is a clear opportunity to grow operating earnings into FY22.

Hence, the current valuation appears attractive relative to both the market and peers. The broker's estimates for operating earnings of $240m represent 2% growth and the ability of Bapcor to cycle FY21 is assessed as the single biggest catalyst for the stock.

The increased number of cars on the road from domestic travel, accelerated store roll-out amid early benefits of the distribution centre consolidation means this could be readily achievable, in the broker's view.

Bapcor has signalled t**he project to consolidate the seven Queensland distribution centres into one centralised location, similar to Victoria, will optimise the supply chain**, although Citi expects both expenditure and savings will be lower than for Victoria.

The store roll-out for Autobarn is also slower than expected, which the broker believes is a function of delays stemming from the pandemic.

This is a top small-cap auto pick for Citi and a Buy rating is reiterated. Favourable conditions are likely to be around longer and the broker highlights the investment in a number of growth strategies such as supply chain optimisation, Asian expansion and private-label.

Fundamentals in the vehicle aftermarket are enduring and the company has the balance-sheet capacity to pursue acquisitions as they arise, Macquarie adds. Opportunities include growing the existing footprint in Australasia and Asia, optimising the supply chain and further investment in technology.

FNArena's database has six Buy ratings and one Hold (Morgans, yet to comment on the update). The consensus target is $9.08, suggesting 11% upside to the last share price.

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AUSTRALIA

Significant Re-pricing Ahead For Industrial Assets

An implied flat 4% capitalisation rate on the $3.8bn bid for Milestone's unlisted Australian industrials portfolio marks an inflection point for the valuation of REITs with industrials assets exposure

-Acquisition of Milestone Logistics at unprecedented flat 4% capitalisation rate to have broad implications
-Value of industrial assets will rise significantly if priced at similar 4% rate
-Banks are re-weighting loan-books to capture logistics tailwinds
-Overweight ratings for three industrial REITs leveraged to industrial dynamics

By Mark Story

A watershed deal purported to be the biggest ever direct real estate transaction in Australia has signaled what some brokers expect to be a tectonic shift in the re-pricing for the industrial asset class.

As first revealed in the AFR on 18th April, one of Asia Pacific's top logistics real estate investors, ESR, has agreed to pay around $3.8bn for Blackstone's Milestone Logistics unlisted Australian industrials portfolio comprising warehouses, distribution centres and business parks. The deal is expected to be completed prior to June 30.

The US fund management giant, Blackstone has opted to sell Milestone to ESR rather than proceed with an IPO on the ASX.

Had Milestone listed, it would have been the largest listed logistics portfolio by size in Australia or New Zealand, with 1.4 million square metres of gross lettable area. Tenants include Australian retail major Woolworths, shipping firm Toll Group and Caterpillar dealer WestTrac, plus Michigan-based Lineage Logistics — the world's largest cold storage firm.

It's understood the bid implied a flat 4% capitalisation rate, which assumes ESR expects to make about 4% a year on the assets. Valuation work was done by Savills. There was no external financial adviser or investment bank involved.

Commenting on the deal, Phil Pearce CEO of ESR Australia told AFR's Street Talk that one of the attractions to Milestone was site coverage on the portfolio which at 38% is really low. "When we build out a warehouse, typically it would take up 50 to 60 per cent of the site," Pearce was quoted.

<u>Re-weighting to logistics</u>

ANZ Banking Group ((ANZ)), Japan's MUFG, Singapore's United Overseas Bank and Asian heavyweight Standard Chartered are expected to stump up north of $2bn to help ESR take control of the logistics sites.

This suggests to brokers that banks (also long retail and office sector buildings) are following big traditional Australian property investors, and re-weighting their loan-books to capture some of the tailwinds behind logistics sites. The most notable of these tailwinds is the continued ascent of e-commerce over the past year as consumers changed shopping habits to get through the covid pandemic.

Adding to the headwinds for the office sector is a substantial reduction in demand for office space in the short term. Reduced expectations over the medium term are expected to see vacancy rates increase above 10% in Sydney/Melbourne over the medium term.

JP Morgan believes this benchmark sale (of Milestone's asset) reflects **exceptional demand for the (industrial) asset class** and a significant re-pricing in Australia's industrial property sector. The broker notes, the average industrial cap REIT for the listed REITs was 5.2% as at December 2020.

Before this transaction, JP Morgan had been assuming a further 20% of upside to Industrial book values. The broker has Overweight rating on the three industrial REITs it believes have the most leveraged exposures to the continued positive industrial dynamics.

These include: Pure play Centuria Industrial REIT ((CIP)) - with $2.6bn portfolio on 5.0% cap rate - listed fund managers Goodman Group ((GMG)) - $17.8bn of Australian industrial assets under management (AUM) - and Charter Hall Group ((CHC)) - $12.2bn in AUM.

Broader implications for industrial property

Morgan Stanley believes an implied flat 4% capitalisation rate on the Milestone bid, coupled with downward pressure on industrial property cap rates are relevant data-points for the stocks with industrials exposure in the broker's universe.

While Morgan Stanley acknowledges that its calculated impact is a blunt exercise, given no two properties are the same and valuation can be impacted by numerous factors, the broker's data-points suggest **the industry is at the very least heading towards a 4% cap rate.**

Morgan Stanley believes the impact on Net Tangible Impact (NTA) for stocks with industrials exposure (it covers) if those assets were to be valued at 4% cap rate would be:

-Centuria Industrial REIT 34.1% (NTA $4.45/s);
-Charter Hall Long Wale REIT ((CLW)) 11.8% (NTA $5.26/s);
-Stockland ((SGP)) 11.6% (NTA $4.22);
-Dexus ((DXS)) 6.9% (NTA $11.72);
-GPT Group ((GPT)) 5.8% (NTA $5.89);
-and Mirvac Group ((MGR)) 3.1% (NTA $2.66).

The broker has also estimated a change in total AUM if Australia's industrials cap rate at 4%, for listed fund manager Goodman Group 6.8% ($55,300m); and Charter Hall Group 6.2% ($49,291m).

GPT Group rotates into logistics

In light of e-commerce's ascent in a post-covid world, GPT Group also plans to rotate more into logistics. Given GPT's expanding development pipeline and recent track record, UBS is now factoring the REIT to spend $1bn on logistics over the next five years.

While GPT's asset allocation as at December 2020 was in line with strategic weightings of retail 40%/office 40%/logistics 20%, UBS expects this to be reset going forward with logistics up to 33%.

Based on UBS estimates, logistics will reflect 28% of assets in 2025 (versus 16% in 2019).

To help deliver on this outcome, UBS suspects asset sales are likely to remain on GPT's agenda, with potential divestments opportunities including Australia Square (less than 3% FCF yield) together with Sydney Olympic Park ($100m).

Reflecting 12c for logistics development pipeline and lower cap rate on the logistics portfolio, GPT's net asset value (NAV) has increased to $4.80. UBS retains a Neutral rating on the stock, and has increased the price target to $4.80 from $4.55.

UBS notes, despite increasing allocation to logistics, GPT's exposure to retail where leasing spreads declined around 20% in the second half, and office assets (in particular Melbourne) with increased leasing risk in future years overshadows the increasing logistics allocation.

Relative to other diversified property groups, GPT's logistics exposure ranks behind Stockland, but is now ahead of Dexus.

AUSTRALIA

Coronado Beset By Poor Prices, Higher Costs

The outlook for Coronado Global Resources has been stymied by a weak March quarter featuring poor price realisation and higher costs

-Lack of clarity on causes of higher costs
-Improving metallurgical coal prices key to the outlook
-Yet ramp-up in net debt a concern

By Eva Brocklehurst

An apparent inability to take advantage of coal pricing combined with higher costs has clouded the outlook for Coronado Global Resources ((CRN)), raising concerns about debt covenants.

Brokers were disappointed with the miner's price realisation and costs in the March quarter, which imply a first quarter cash burn of more than -$50m. Furthermore, Morgans envisages risks to unchanged cost guidance for 2021 after first quarter costs were 7% above guidance, citing the lack of a clear explanation as to why this occurred.

Credit Suisse was also disappointed with the higher costs and the rise in net debt to US$290m. This comes despite the company collecting US$27m in outstanding receivables from XCoal and another US$24m from the sale and leaseback of mining equipment.

The broker accounts for half the cash burn in terms of inventory build-up and capital expenditure but agrees there must be other impacts that are unclear. Saleable production was in line with expectations at 4.6mt, although sales were a little lower than expected at 4.4mt, resulting in 200,000t in extra inventory.

At the same time mining costs were elevated. Credit Suisse adjusts working capital estimates to account for the elevated cash burn and reduces the estimated premium coal price index to US$120/t for the June quarter.

Coal sales were below Goldman Sachs' estimates, attributed to maintenance issues at Curragh and rail delays in the US yet the broker expects the benchmark metallurgical coal price will improve over 2021 because of stronger steel production and supply-side challenges in Australia.

Issues

Australian production and sales were affected by seasonal conditions and equipment problems while US operations (Buchanan & Logan) fared somewhat better, benefiting from export sales to China, where prices are significantly higher compared with US domestic sales.

Nevertheless, Morgans now suspects the company was not receiving a material premium on Buchanan spot sales to China and, critically, the longer it takes to obtain higher prices the longer the balance sheet is at risk.

The tendency for the current market to rapidly re-price risk indicates the share price may well drop below fundamentals, Morgans asserts, as occurred in late 2020.

The company has reiterated 2021 production guidance of 18-19mt with US$57-59/t in unit costs and $135-155m in capital expenditure. Given guidance is unchanged, Goldman Sachs anticipates coal production should trend higher and costs edge lower over 2021.

Macquarie, too, is positive on the outlook for metallurgical coal because of steel demand and as seaborne prices edge closer to Chinese import prices. Still the broker acknowledges a risk to earnings and the balance sheet at spot prices.

Debt Covenants

Morgans suspects an extension of debt covenant waivers will be required, pointing out **the company stated there would be initiatives to generate further liquidity but provided no specifics,** which is likely to weigh on the shares.

Bell Potter expects the banking syndicate will remain supportive, given the long-life and low-cost metallurgical coal assets. Still, the broker acknowledges that profitability at an operating earnings (EBITDA) level in the first half of the covenant review period was only around US$8m.

Bell Potter concludes 2021 will be a recovery year, enabling the company to de-leverage and contemplate a return to dividend payments. Goldman Sachs points out Coronado Global has previously spoken about the possibility of selling the housing/accommodation at Curragh and the next test of the debt covenants is September 30.

Both Goldman and Bell Potter anticipate a substantial uplift in metallurgical coal prices will underpin profitability in the next two quarters and help reduce net debt. Moreover, Goldman Sachs ascertains free cash flow is compelling on the assumption metallurgical coal will rebound.

Credit Suisse now expects a slower unwinding of net debt, which may still exceed US$200m in 12 months time. The Outperform rating is solely driven by the broker's long-term metallurgical coal price assumptions of US$160/t, materially ahead of the spot price. Morgans is less sure and believes shareholders should treat the stock with caution, advocating the trimming of overweight positions.

Goldman Sachs and Bell Potter, not stockbrokers monitored daily on the FNArena database, rate the stock a Buy with the former holding a $1.30 target and the latter at $1.27. The database has three Buy ratings and one Hold (Morgans). The consensus target is $1.25, suggesting 68.9% upside to the last share price.

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AUSTRALIA

ASX Index Inclusions And Corporate Spin-Offs

Research suggests investors ultimately benefit from demergers but patience is often necessary, while the latest index changes have gone largely unnoticed

-Latest index inclusions, ahead of ASX departure of Coca-Cola Amatil, have gone largely unchanged
-Studies show listed spin-offs typically outperform the parent after 12 months
-Initial underperformance can offer timely entry points
-Telstra spin-off strategy offers 50% bull case upside

By Rudi Filapek-Vandyck & Mark Story

Bye Bye Coca-Cola Amatil

There is plenty of research out there on how inclusions and exclusions from major share market indices can have a noticeable short-term impact on share prices, but let's just say not all index adjustments are equal.

As of today, 22 April 2021, Coca-Cola Amatil ((CCL)) is no longer included in either the S&P/ASX100 or S&P/ASX200 now that the Supreme Court of NSW has approved the scheme of arrangement through which the company shall be acquired by Coca-Cola European Partners, (CCEP).

Index manager Standard and Poor's has chosen Lynas Rare Earths ((LYC)) and Redbubble ((RBL)) to fill in the vacant spots for ASX100 and ASX200, respectively. There's never but one single factor in play when it comes to judging share price movements, but investors would have to call upon quite an unhealthy portion of imaginative price chart reading to find any noticeable impact from the S&P announcement made on April 16th.

Share prices for both fresh index additions have tracked lower over the past week, as the market in general is losing a bit of steam having previously rallied past the 7000 mark with quite some gusto. Lynas has added more momentum to the downside with the release of its quarterly activities report on Thursday, which clearly didn't please everyone.

Investors should also note: Lynas now being included in the ASX100 means the stock will be removed from the Small Ordinaries Index.

As far as Coca-Cola Amatil is concerned, its share price peaked back in 2012, at $15, and nearly nine years later trades are happening at around $13.31 (shareholders stand to receive $13.32 in cash next month, on top of 18c in dividends if they were on the register on April 19).

Once considered the equivalent of a solid Warren Buffett stock on the local exchange, the past near-decade has been characterised by painful vulnerabilities, failures and structural challenges for the local Coke bottler. New management tried hard to right the ship, but never quite succeeded in its quest, as also demonstrated by the fact it is a fellow Coke bottler that is buying the lot, warts and all included.

Which makes one wonder: is any investor truly feeling sad about the pending departure of Coca-Cola Amatil from the local exchange? Not even the prospective yield, on current consensus forecasts, looks particularly attractive. When another household brand name, DuluxGroup, was acquired by Nippon Paint Holdings back in 2019 there was equally an absence of deep national mourning, but Dulux, at least, had much better performance numbers to show since its spin-off from Orica in 2010.

The latest index inclusions might not have inspired many an investor to climb on board the register, but maybe the studies below into corporate spin-offs might.[*] Vale Coca-Cola Amatil. Thou shalt not be missed. (Still sad about losing DuluxGroup though, that was a true, under-appreciated All-Weather performer).

Spin-off spoils go to those willing to wait

While there are many reasons cited by companies when embarking on a break-up strategy, including disruption, ESG issues and hidden value, notes Wilsons, most often companies are responding to a period of sub-optimal returns for shareholders.

Having looked at 16 demergers since 2010, the broker concludes in most cases demergers create value during both the demerger period as well as post-demerger over the following 12 and 24 months.

Wilsons' data reveal the smaller asset or spin-off typically performs better than the parent, and on average outperforms the parent by almost 2x over the following 12 and 24 months.

In the best of these examples, Macquarie Atlas Roads outperformed its parent 144% to 21% in the first 12 months, followed by Orora (65% versus 27%) and Recall (43% versus 15%).

However, based on Macquarie's analysis of 42 demergers in the Australian market dating back to 1995, there's initial weakness in demerged entities, with the child entity typically underperforming the market by up to -10% in the first six months.

Yet in the last five years, Macquarie data suggest the underperformance has been stronger and longer. Macquarie research also suggests the child entity begins to perform more strongly from 12 months after the split.

The broker notes this initial underperformance can offer ASX investors timely entry points for longer-term outperformance. For example, while recent spin-offs United Malt Group ((UMG)) and Deterra Royalties ((DRR)) have both underperformed in line with historical trends, Macquarie's fundamental equities research team has an Outperform rating on both stocks.

From demerger announcement until implementation, Macquarie's data indicate the trend for the combined entity appears to be more negative than positive. But the broker notes there is typically limited detail announced around these transactions, hence creating uncertainty and broad valuations by analysts.

In addition to quite broad analyst valuations, Macquarie suspects that issues around shareholder approval also add to spin-off uncertainty. The broker suspects shareholders not wishing to own the child entity will be reluctant to own too much of the parent stock prior to the split, as they would then be entitled to a larger part of the child.

It is not until around 18 months post-split that Macquarie research observes outperformance from the parent stock.

<u>11 spin-offs in play</u>

Despite empirical evidence that spin-offs, demergers, and asset sales can create significant value, Wilsons concludes for most companies, the focus on growing value is highly correlated with growing in size.

While the (demerger) process -which can consume 12-24 months of work and hefty external legal and advisory fees- can also divert focus away from the day-to-day running of the business, Wilsons believes the value creation opportunity can be significant.

The broker has identified 11 companies within the S&P/ASX 200 that are pursuing a break-up strategy. The Wilsons Australian Equity Focus List currently has 7% of the Focus List in "Asset Valuation Plays" where the broker argues that within each company there is significant hidden value.

A corporate break-up strategy to release value has been well-proven across all markets over many years and Wilsons notes investor preferences for defined, narrow businesses rather than conglomerate structures began in the 1990s.

Wilsons can see clear signs of significant value uplift being created for seven of the 11 companies currently in spin-off mode: IGO Group ((IGO)), Link Administration ((LNK)), News Corp ((NWS)), Seek ((SEK)), Suncorp Group (SUN)), Tabcorp Holdings ((TAH)), and Telstra ((TLS)).

While it's still early days for many of these spin-offs, Wilsons believes companies with the biggest potential upside include News Corp (25%), IGO Group (20%), and Tabcorp 10-20%.

In a bull case the broker believes Telstra implies 50% upside -using offshore multiples of infrastructure asset- from splitting infrastructure and its low multiple retail business. But Wilsons notes this could take five years to execute.

Given Suncorp's sub-scale banking operations puts its core insurance business on a large net tangible asset discount to Insurance group Australia ((IAG)) --1.5x NTA versus 3.0x NTA– Wilsons believes a divestment of the bank assets, and move away from a 'bancassurance' model could see a significant valuation uplift.

On the other hand, the broker believes there are question marks over how much value (if any) spin-offs for AGL Energy ((AGL)), AMP Ltd ((AMP)), Woolworths ((WOW)), and even Westpac ((WBC)) will create.

In the case of AGL Energy, Wilsons believes it's unclear if investors will be willing to re-rate legacy generation assets. Similarly, the broker thinks the inability for investors to value AMP Wealth with any confidence adds to valuation uncertainty for AMP, even under a potential break-up scenario.

While Wilsons believe stocks that can show a quality/growth bias will outperform over the long term, the broker notes such stocks can suffer from periods of underperformance, and cites rotation from growth into value over the last six months.

News Corp

For example, since News Corp -which is splitting the business into a pure-play global online housing portal, and online premium media/content business- adopted its simplification strategy in mid-2019, the stock has outperformed the market by almost 70%.

Wilsons believes a demerger or corporate restructuring would likely see the market re-rate the company materially higher.

But demerger aside, Wilsons' strong conviction on News Corp is also based on the prospect of a very strong post US cyclical recovery; particularly relevant for the REA Group ((REA)) and Move (US online property), a global housing upcycle, and the company's simplification strategy.

The broker notes before the valuation there was a disconnect on various assets. For example, The New York Times trades in earnings (EV/EBITDA) basis of 35x, almost double the News Corp earnings (EBITDA) multiple of 18x.

Wilsons believes the NYT provides a clear valuation reference point for News Corp's Dow Jones and Wall Street Journal assets; both of which are premium content properties with global reach.

Under this scenario Wilsons believes the unwinding of the News Corp conglomerate discount and adoption of pure-play multiples implies a valuation of close to $40 per share.

Adding further to the broker's conviction around the potential for near term restructuring is the end of favourable tax advantages for News Corp.

This follows the sale of News Corp's 21st Century Fox to Disney in 2019 for US$71bn. These restrictions lifted in March 2021, and with Rupert Murdoch turning 90 this year, Wilsons notes rival press reports have already started anticpating a final burst of deal-making before handing over the reins, most likely to son Lachlan.

(*) Always do your own research!

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AUSTRALIA

A2 Milk At A Crossroad In China?

Opinion differs as to whether a2 Milk will be impacted by sharply declining volumes of infant formula sales in China or emerge from the pandemic with its market share protected by a strong brand

-Slowing birth rate may impact infant formula sales soon
-Is a2 Milk reflecting a recovery in sales from the pandemic?
-Consumer distrust of China's domestic brands has moderated

By Eva Brocklehurst

Can a2 Milk ((A2M)) grow its sales of infant formula and market share in China and defy a declining birth trend? The infant formula market is working through an oversupply issue at present and prices have fallen, with excess inventory at all levels.

Moreover, China's largest domestic producer of infant formula, Feihe, has recently downgraded projections for demand by -45%. Credit Suisse asserts the trend in China of declining birth rates will eventually affect infant formula sales and the industry could soon confront its first contraction.

This could be sharp, as the aggregate number of babies of infant formula age will, if the trend persists, be -30% lower in 2025 compared with 2018. Credit Suisse suspects this trend will undermine the growth and increased use of premium formula.

The broker expects net profit in FY25 may approach, but not surpass, the FY20 peak and, as a result, has an Underperform rating on the stock.

On the other hand, Bell Potter upgraded a2 Milk to Buy from Hold recently, believing the downgrade cycle is reversing and **highlights the emergence of stronger Australian exports of finished infant formula to China as a positive sign**.

Credit Suisse cites an ageing Chinese female population and flat to declining fertility rates. Investors have been dimly aware of the slowing birth rate in China for some time but the broker believes it will become more evident, as 2020 was a turning point.

UBS points out competitor Danone has indicated that recent Chinese infant formula retail value growth is positive, despite lower birth rates and, in a contrary view, expects a meaningful recovery in indirect infant formula sales over the next two years.

Furthermore, there could be substantial market share gains for a2 Milk in China through the roll-out of in-store product and expansion of the free trade zone.

The broker believes the stock is not reflecting the recovery, although acknowledges **short-term earnings risk amid reduced visibility in daigou (stock bought in Australia for sale in China) sales and conflicting messages from peers in the March quarter.**

Danone experienced a steep decline in the quarter in its infant formula sales into China with a -45% drop in the cross-border channel. UBS interprets this as a rebound from the front loading of pantries during 2020 amid the pandemic. The broker assesses cross-border infant formula sales of Danone have bottomed while the headwinds from the pandemic have peaked.

Competition

Credit Suisse is positive regarding the potential for a2 Milk to gain some share of a smaller market. The broker models volume share at 4.3% in 2025, from 2.6% in 2021. Premium brands now account for more than 55% of the market and this should underpin a2 Milk.

While consumers remain distrustful of domestic brands this has moderated in the 2020s from the height of distrust in the 2010s and local brands are gaining share. Credit Suisse is impressed with the rise of Feihe as its infant formula sales rose 41% in 2020 in a flat market.

Along with China's success in containing coronavirus and improving domestic quality, the broker notes Feihe gained share in 2020, although it is unclear whether all domestic operators benefitted. While milk formula is expanding to both toddlers and adults, the broker suggests downgrades to infant formula volumes would overwhelm these much smaller segments.

Feihe has caught Citi's attention too, with its revenue growth targets and expansion plans. The broker agrees competition is building for foreign infant formula operators, noting Feihe expects to grow its sales at a 3-year compound rate of 23% to 2023 and then 15% to 2028.

As foreign formula providers such as a2 Milk and Bubs Australia ((BUB)) are already facing headwinds from daigou disruption, Feihe's plan to launch a “super premium” product in August and a goat milk formula in January 2022 is of concern to Citi, particularly in the case of Bubs with the latter product.

Inventory

The company has previously indicated an excess of stock and to combat this scaled back its Australian deliveries. Yet inventory infill appears to have materially contracted and Bell Potter notes two sequential monthly gains for exports to China since the December lows.

This has occurred at a time when it would not typically be expected. When viewed in conjunction with reduced infill this could imply inventory levels are beginning to subside. Looking at similar de-stocking events from the past the broker assesses the company is around 6-9 months into a 9-12 month de-stocking event.

Bell Potter, not one of the seven stockbrokers monitored daily on the FNArena database, has a $9.50 target and the database has two Buy ratings, one Hold (Macquarie) and three Sell. The consensus target is $8.43, suggesting 9.5% in upside to the last share price. Targets range from $7.15 (Credit Suisse, Citi) to $10.40 (Morgans).

ESG FOCUS

ESG Focus: Heads Up For Biden’s Climate Summit

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World leaders are gathering for World Earth Day this week and major announcements are expected; US Climate Envoy John Kerry claiming the day will change the way in which global capital is allocated.

ESG Focus: Heads Up For Biden’s Climate Summit

-Global capital markets eye off World Earth Day
-Coal, gas, auto and agriculture industries in the spotlight
-Methane considered low-hanging fruit
-Eyes on AUD

By Sarah Mills

All eyes will be peeled to Biden's climate summit on World Earth Day this Thursday (April 22) to which 40 of the world’s leaders, including China’s Xi Jinping and Russia’s Vladmir Putin, have been invited.

Markets are expecting major announcements to emerge from the summit after former Obama Secretary of State and now recently appointed Climate Envoy, John Kerry, said that the day would herald a change in the way in which global capital is allocated.

President Biden is expected to unveil an aggressive plan to cut US gas emissions by up to -50% by 2030.

The Administration is aiming for carbon neutrality by 2035 as opposed to former plans for 2050.

Kerry is touring Asia next week prior to the two-day virtual Earth Day summit to no doubt shore up support from major carbon emitters and finalise details.

Despite rising tensions with China, climate is one area in which the interests of the two nations overlap given China’s dominance as an electro-state.

China has not yet confirmed its attendance to the summit, but Kerry is reported to be meeting his Chinese counterpart Special Climate Envoy Xie Zhenhua.

It is unlikely China would like to be trumped by the US, so it is likely China will either abstain or have a few announcements of its own to make.

Kerry is also visiting India.

Australia’s coal industry will be keeping a keen eye on any commitments from China and India, as will the government, given the impact on the Balance of Payments and the Australian dollar.

The Biden move is touted as the most important thing the US can do to convince other polluting countries to cut their emissions, given the expense of transitioning.

Biden has already promised a clean government vehicle fleet, has paused new oil and gas leasing on public lands, promised to increase conservation, and is pushing for a clean energy infrastructure bill.

New commitments are likely to include US$60bn for green transit projects, US$46bn for climate-related research and development, and the installation of electric vehicle charging stations across the country, according to *The Washington Post*. It will be interesting to see if Australia adopts a view on charging stations.

All US federal agencies are now looking for ways to curb emissions, and Australian state governments are on the same path, as is the Reserve Bank of Australia.

Of particular interest to Australia and the gas industry will be US determinations on methane. Given methane is a powerful but short-lived pollutant compared with carbon dioxide, it is considered low hanging fruit and an easy target.

Given the environmental and social impact of coal seam gas and shale gas development, relatively low upfront costs and dubious long-term economies, they are likely to be targeted prior to LNG.

The other industry likely to be impacted by upcoming announcements will be the automobile industry.

At a minimum, vehicle markets are expected to be subject to regulation on tailpipe emissions, and this should have implications for new and second-hand markets over the next five years.

Agriculture and logging are other industries also in the spotlight given the push to lock carbon in the soil and create carbon sinks and to provide a carbon offset opportunity during the transition.

Construction and property refits are also likely to get attention but there hasn't been much signalling on that front.

Biden has also declared his intention to end the War in Afghanistan, consistent with the declining relevance of petro-states. The war cost the US nearly -US$1trn in 2020, funds that could well be redirected to transition priorities and security in the Pacific.

Meanwhile, ComprarAcciones.com predicts global spending on renewable energy will rise 8.5% in 2021 to US$243bn in 2021, just -22% less than forecast oil and gas spending, which is forecast to grow by 1.6%.

Earth Day will provide markets with the first major insights on the direction of the transition.

The tide has already turned, the only question now is the pace.

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ESG FOCUS

ESG Focus: Premium Hunters Eye Additionality

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ESG Focus: Premium Hunters Eye Additionality

Not all green investments are created equal and, as predators line up for the ESG ball, investors seeking a sustainability premium are sticking to the rule of additionality.

-Expect an explosion in sustainable finance in 2021
-Beware working capital funding disguised as green investments
-Who to trust?
-Uneven playing field in indices

By Sarah Mills

Following President Biden's announced green stimulus plans on World Earth Day (yesterday), it is timely to take a quick look at the green bond and sustainability linked bond market.

This year, 2021, will be the year of green and sustainable financing.

Green bond issuance hit US$269.5bn in 2020 (US$1trn total market according to Bloomberg) – representing an average annual growth rate of 60% since 2015.

Issuance is set to rise another US$1trn this year based on German issuance alone. Biden’s announcement will clarify how many more trillions will also be issued in 2021.

Green bonds now represent 47% of the ESG bond market; the combined issuance of green, social and sustainability-linked loans and bonds topping US$2trn last year.

And this year is particularly likely to see the rise of the sustainability-linked bonds – bonds with less binding terms than use-of-proceeds bonds.

ANZ Bank’s Director Sustainable Finance, Tessa Dann notes that the market has grown exponentially from US$4bn in 2017 to US$140bn in 2020 and she expects the market will rocket in the second half of 2021.

A cautionary tale

A recent article in IEEFA, picked up from *Responsible Investor*, stands as a cautionary tale to investors to beware of greenwashing, in what is shaping up as whirlwind of investment activity.

It points to an example of working capital funding being provided through green finance, simultaneously “credentialing” the debt-laden recipient as an appropriate destination for green funds in future.

The article is an excellent case study in the application (or lack thereof) of the rule of "additionality" (which we will discuss in the second article in this series) to green investments, not to mention a timely reminder that often the authorities investors rely on for guidance may have their own agendas.

Trillions of dollars are flowing into the green transition and predators have bought advance tickets to the ball.

The securitisation fraud of the noughties remains fresh in the memory for many, and a reminder that credit rating agencies were party to this fraud, assigning triple-A ratings to junk securities.

Investors no longer blindly accept the advice of financial advisers and ratings agencies, and according to IEEFA, the World Bank and affiliated organisations should be no exception.

Working capital funding disguised as green investment

As the IEEFA article states:

“Sometime bankers can be too clever for their own good. This is especially true when the market is distracted by misleading statements about sustainable development impact and investors fail to read the fine print.”

The topic of the IEEFA article is the recent US$550m sustainable loan from a consortium of global banks including Citibank, DBS, JPMorgan, Standard Chartered, and SMBC, to one of their customers, Indonesia’s state-owned, debt-laden power company PT Perusahaan Listrik Negara.

Its purpose was to fund short-term working capital expenses for renewable projects. Most investors understand the risks associated with working capital shortages.

The loan was guaranteed by the World Bank Group’s Multilateral Investment Guarantee Agency (MIGA)

“On the face of it, this was a tailored loan that looked like a welcome solution to PLN’s urgent cash needs,” says the article.

“The loan was also pitched as a good way for PLN to begin establishing credentials with the green and sustainable finance market.”

In other words: the same green markets in which you and Australia’s super fund industry might be seeking credentialed investments, and who might be seeking an imprimatur from the likes of MIGA.

The article goes on to note that PLN has been under serious financial pressures to address their situation and so it understandable that they were on the hunt for affordable funding.

Running close to the edge of self dealing

“What’s more puzzling is MIGA’s cynicism,” says the article.

“An analysis of this green loan makes it hard to shake the impression that this was an opportunistic green-box ticking exercise.

“That’s because the indirect beneficiaries of the proceeds are the six sponsors of operating renewable projects that have already been funded, in part, by the World Bank and two fellow development finance institutions, the Asian Development Bank (ADB) and the Japan Bank for International Cooperation (JBIC).”

“MIGA’s documentation for their board states that this guarantee is “consistent with MIGA’s US$6bn COVID-19 response package” which is intended to “assist member countries in addressing the global pandemic and its impacts” … and support “sustainable energy and universal access in Indonesia”.

“This is nothing more or less than a credit-enhanced working capital facility designed to cover PLN’s “operational expenses” related to six projects that have already been fully funded,” says the article

“In other words, the funding will cover tariff and power purchase agreements for renewables projects that have already been completed and are presumably already part of PLN’s operating budget.

“That means that the loan fails the test of additionality. The funding does nothing to provide new incentives to PLN to accelerate energy transition – or to address any of its existing operational challenges.

“It merely means that PLN will benefit from an injection of cheap working capital to stay current with its IPP payments—the clean and the dirty. … It merely plugs a cash hole.”

The article notes that the project comes uncomfortably close to self-dealing on behalf of MIGA and its parent (the World Bank) and other DFI institutions, given the proceeds will fund projects already funded in part by its parent the World Bank.

The loan reduces the chances of PLN missing tariff payments.

While impact investment is a thorny area, and some definitions and approaches might consider the PLN deal compliant, this type of investment is unlikely to provide the social or environmental outcomes that will yield the coveted sustainability premium that investors are targeting.

Investors in green bonds and sustainability-linked bonds take note

This example is particularly relevant to investors in the green bond market given green bonds are mostly used for refinancing.

According to environmental-finance.com Nordea’s head of sustainable bonds Jacob Michaelson advises in an article that investors in green bonds need to examine the fine print and structure.

“The format is critical,” says Michaelson. “… transparency, strategic alignment of the issuer with broader sustainability goals and the impact of the proceeds” all need to be addressed.

“Assuming that, at the time of an investment, the enterprise can productively absorb more capital, the investment has impact if it provides more capital, or capital at lower cost, than the enterprise would get without it.”

Issuers should disclose the use of proceeds, strategic alignment and impact for all public bond market issues. Use of proceeds bonds gives investors some transparency and view into the strategic alignment of corporate investments

This will be of import to investors this year as Biden’s stimulus package drives activity in green issuance and sustainability-linked finance.

As noted above, sustainability-linked bonds are particularly expected to take off this year, and boards of not-for-profits and other investors will need to stay alert.

Unlike green bonds, sustainability-linked bond proceeds are not ring-fenced: to be applied towards green or sustainable purposes.

The issuer is committed to improvements in the sustainability outcomes of its business within a pre-agreed timeline. They create room for more creative and competitive approaches to sustainability and also greater risk.

The bonds require voluntary commitments and have interim milestones but unlike green bonds, failing to meet these milestones might not be considered a breach of covenant, in the same way as failing to deploy proceeds to a specific use.

However, failure might result in an increase in a coupon.

The lack of defined repercussions is an added risk for shareholders of companies that issue sustainability-linked bonds, keeping in mind that companies do not have to reveal the terms of loans to the market for commercial reasons.

Sound vague? Sound systemic? Sound fraught?

It has yet to be seen what further financial engineering and packaging may emerge in the issuance markets.

Who to trust – legal suits ballooning

So, if investors can't trust ratings agencies, MIGA "credentialing", the World Bank and DFIs, who can they trust?

Certainly not all major banks; and nor it would seem EU Climate Benchmark regulation.

German banking heavyweight DekaBank is being sued for allegedly misleading retail investors over the social and environmental impacts of one of its funds.

Consumer groups Verbraucherzentral Baden-Württemberg (VBW), a German consumer protection agency has filed a law suit for overstating the positive effects of its impact equity fund.

DekaBank is challenging the lawsuit.

VBW has taken a tack that may be useful to many investors by matching DekaBank's Deka-Sustainability Impact Aktien fund's website claims about sustainability criteria against the fine print, which claims:

"That the promised figures for the positive ecological impact are only based on an estimate and that not all companies in the fund were taken into account."

"Self reports from companies are not a reliable source of information. And statements about the sustainability of an investment should only be advertised by those who can actually prove the effect."

If the consumer agency wins, it will definitely throw the cat amongst the pigeons, and raise a new standard for those issuing, co-ordinating and trading in green bonds.

Corporate issuance on the rise

And investors certainly cannot blindly trust companies seeking green funds.

Eight brands were called out for greenwashing in 2020, according to eco-business.com.

Italian oil company Eni was the first in the country to be prosecuted for greenwashing.

The company was sued for EUR5m for claiming that its palm oil-based diesel was "green".

For those of you who don't know, palm oil is sourced by razing Indonesian rainforests and replacing them with palm forests.

This not only destroys a carbon sink but bio-diversity, which is soon to become a major investment issue, as FNArena reported in a previous article.

Singapore's Energy Market Authority also received a media flogging for an advertisement using children to promote natural gas as green.

SC Johnson's Windex Vinegar Ocean Plastic bottle made from 100% ocean plastic came under fire because it was actually sourced from "oceanbound" plastic from Haiti's plastic banks, not from ocean plastics.

Semantics to some perhaps, but those semantics can prove costly.

The company is also being sued for marketing the product as non-toxic, a class action claiming they contain ingredients harmful to people, animals and the environment; pointing to broader liability risks for companies making such statements.

Even Ikea has been hit for being linked with illegal logging in the Ukraine and for greenwashing on a recycling initiative; and building its 'most sustainable store' yet in London after demolishing another sustainable store after just 17 years of use.

Eco-fraud proves new frontier for perpetrators chasing the money

Greenwashing litigation "can best be described as eco-fraud litigation", advises Alston & Bird.

Reflecting this, activists such as Greenpeace have traded in their boats for lawyers; and Greenpeace has shifted its frontier from the oceans to greenwashing litigation.

Corporate misrepresentation has already proved costly to shareholders, and was the basis for a class action brought against Volkswagen in the UK relating to the "dieselgate" scandal.

The problem for investors is that anti-greenwashing legislation appears weaker in application to the finance markets than in consumer markets.

Misrepresentation has often been prosecuted under false and misleading commercial practices but that may be about to change as the regulatory environment catches up with the rollout of ESG priorities.

Regulations need to tighten

In an article titled 'ESG and the SEC: A Regulatory Sea Change', Morgan Stanley notes that the US Securities and Exchange Commission (SEC) has done an about-face under the Biden and has undertaken at least eight actions to improve the quality and the oversight of ESG and Climate Disclosures.

In particular, the SEC will "review the proxy voting practices of some sustainability funds to ensure voting aligns with investors' expectation and funds' state sustainable investing strategies," says Morgan Stanley.

"It will also seek to identify funds using false or misleading advertising of ESG features.

"… The SEC is determining the extent to which guidance regarding shareholder rights needs to be adapted and updated to address ESG issues."

Given the amount of activity afoot, it would not be surprising if an example were to be made in the not-too-distant future.

Also, it has been argued that greenwashing by companies with a large market share, could be tackled as an abuse of dominant position contrary to competition laws.

As mentioned in previous articles, disclosure nets are tightening and companies globally will have to report on social and environmental performances in their tax filings.

It is expected that the IFRS Sustainability Board will become the global standard for global corporate sustainability reporting.

The horse has already bolted

But it might all be a bit too late for these first rounds of stimulus, which are expected to flow within the next few months.

After all, who will be watching and regulating on these issues?

At a Bloomberg presentation on sustainable finance this week, Australian banks identified one of the major risks for their organisations was simply a lack of skilled staff in sustainable finance.

Global regulators and other corporates will face similar issues.

It really is a matter of buyer beware and the markets are shaping up more like a game than a well-organised, well-regulated destination for funds.

But, much like the *Hunger Games*, corporations will be forced to play or be deprived of capital and the tax advantages that also often accrue from financing.

Uneven playing field in indexes concern for passive investors

Meanwhile, *EFT Stream* reports that asset manager Scientific Beta says even sustainability indices are flawed.

The manager believes this particularly poses a threat for passive investors – particularly in exchange traded funds (ETFs), which have been the recipients of billions of dollars in recent years.

The asset manager calls out construction methodologies; the EU Technical Expert Group on Sustainable Finance's choice of decarbonisation metrics; and "primitive approach" to sectoral issues in a report entitled *A Critical Appraisal of Recent EU Regulatory Developments Pertaining to Climate Indices and Sustainability Disclosures for Passive Investment*.

Scientific Beta stressed that a lack of public data used in benchmarks created “an uneven playing field” that was harming competition in the index provider space.

The main criticism was that the benchmarks promoted the outright divestment of high-carbon intensity assets crucial to the transition but does little to encourage transition leadership.

Scientific Beta also criticises as “counterproductive” the TFCD’s calculation that is based on enterprise value including cash “EVIC”, which attributes greenhouse gas emissions to a company’s enterprise value rather than its revenue, which will skew the investors’ views to carbon intensity between growth companies and value companies, a core objective for ESG investors.

As a result, EVIC, “encouraged greenwashing” as it introduced equity market volatility into measurement and incentivised index construction on unreliable data, says the company.

That said, there is very little to replace the existing benchmarks.

Investors are advised to conduct due diligence on index methodologies to avoid greenwashing.

The agency also notes that self-reports from companies should not be considered a reliable source of information (no surprises there).

The battle for funding

Some of this debate boils down to a battle over funding between pure impact investors and ‘transition investors’ for want of a better term.

Pure impact investors focus heavily on additionality: yielding a change that would not otherwise have occurred were it not for the investment. They would argue that transitioning would have occurred regardless.

But its strictest interpretation can be extreme, prohibiting investment in any existing markets.

Transition investors prefer a loser prescription, claiming that transition is in itself an impact.

This is the crux of the ‘additionality’ debate, which we will explore in more detail in the second article of this series, as it is argued that the level of additionality and genuine impact is what will yield the sustainability premium (the wheat) in the decades to come.

The chaff is likely just the funds directed to corporations to refit and redirect existing businesses into a new energy model, which in itself is unlikely to yield a long-term advantage given the whole world is doing the same thing. However, those that excel in this area will out-compete their peers.

Meanwhile, Biden is launching the US’s stimulus program, and the EU taxonomy was agreed yesterday and is due to be formally adopted at the end of May.

Let the games begin.

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

FEATURE STORIES

Investment Strategies For A Global Revival

As several economies regain pre-covid levels of activity and the world transitions to stimulus from support, this time may be different due to a more enlightened attitude towards fiscal and monetary policy.

-A globally coordinated economic upswing in 2021
-Equity preferences by sector, style and individual stocks
-Technology/Innovation investment opportunities

By Mark Woodruff.

A revival is essentially already underway on a global basis. World GDP has grown each quarter since the middle of 2020 and several economies will regain pre-covid levels of activity this year, including the US, while others should pass that mark early in 2022.

In the US, the federal government is providing a boost to economic growth via the passage of a $1.9 trillion support package to stimulate the economy and further plans for a huge infrastructure package.

Elsewhere, government support in the UK, the EU, Japan and China is also significant and will likely persist into the expansion phase in an attempt to avoid the austerity measures implemented in the wake of the GFC.

Simultaneously, central banks have made it clear that they won't be raining on the cyclical recovery parade, given their commitment to achieve, or even temporarily overshoot, inflation targets. They now have a wider agenda which includes engineering employment gains that permeate through all parts of society.

This pro-cyclical shift of both fiscal and monetary policy has implications for the interplay between asset classes.

Before looking at how portfolio managers worldwide are adjusting their asset class exposures, let's first examine expectations for world growth and inflation.

Global growth

The manufacturing sector has rebounded rapidly and has continued to steadily expand through the more recent lockdowns. As a result, industrial production is already nearly back to pre-pandemic levels in many major economies. Also, spending on retail goods is well ahead of pre-pandemic levels in countries such as the US, where income support has been greatest.

Previously, Aviva Investors had an above consensus growth outlook for the world economy. In its latest assessment, the level of global activity at the end of the first quarter 2021 is roughly in-line with those prior expectations as weakness in Europe is offset by strength in the US and China.

As the investment manager looks further into 2021 and 2022, a somewhat faster pace of recovery is expected than previously. It's now forecast that **global activity will reach the pre-covid trend by the end of 2021** and growth will be around 7% in 2021 and 4.5% in 2022, with risks to the upside.

The key to delivering this rapid pace of recovery is both the success of vaccine roll-out and subsequent reopening of economies, alongside continued fiscal and monetary support.

Global inflation

Morgan Stanley sees inflation only modestly overshooting key central bank target levels. Also, rising inflation and interest rates are considered normal at this point in the economic cycle. Nonetheless, there is caution against a disorderly or rapid increase in interest rates caused by an inflation shock.

The output gap is an economic measure of the difference between the actual output of an economy and its potential output. A negative gap means that there is spare capacity, or slack, in the economy due to weak demand.

While spare capacity remains in most economies, underlying inflationary pressures are expected to be muted. However, Aviva Investors expects spare capacity to be eliminated much more quickly than in the recovery from the global financial crisis of 2008.

In the US it's expected the output gap will turn positive by the end of 2021, with the eurozone to follow around a year later. That could put upward pressure on underlying inflation in 2022 and beyond, something that the investment manager thinks would be welcomed by central banks, so long as it is not excessive.

Thus, even with an economic recovery and upward pressure on inflation, Aviva expects monetary and fiscal policy to remain supportive. Central banks are expected to delay any tightening in policy until inflation has moved above 2% for a period. And looking beyond the pandemic, many governments are planning to increase spending on public infrastructure, as well as in other areas, to stimulate future growth.

Is it different this time?

The nature of the covid crisis has had a seismic effect on the way politicians and policymakers see their role in society, explains Aviva. The Washington Consensus that emerged in the 1990s has largely given way to **highly interventionist demand management policies that have the potential to persist far beyond the crisis itself. If that turns out to be the case, then this time really is different.**

The need for much of the direct fiscal support should diminish automatically. However, countries are using the covid reset, alongside the more enlightened attitudes towards fiscal policy, to rewrite the policy agenda. The US, for example, after passing the recent stimulus program, is quickly refocusing on a potentially huge and ambitious public spending package.

Everywhere traditional parameters and targets of fiscal policy are changing. In general, we seem to be evolving from support to stimulus. Some moves are reasonably conventional though overlooked for several decades. Infrastructure expenditure is an example, but even here there are important changes such as increased emphasis on the green agenda and the digital revolution.

However, some fiscal policy has an entirely new slant, notes Aviva. Countries are adopting or considering fiscal initiatives in new arenas, reflecting novel societal objectives in areas such as climate, diversity and inequality.

In general, fiscal tools seem to be reasserting themselves as key policy weapons, having been stuck in the doldrums for several decades.

Financial markets are starting to query the exact timing of an exit from the current extreme stimulus policy stance though have largely accepted that there will be minimal changes in the short run. The timing (and eventual degree) of any decisions that are made in coming years will also be fundamentally influenced by the adoption of a new monetary policy regime in many key geographies.

The Federal Reserve in the US has been at the forefront of these changes, unambiguously adopting an average inflation targeting (AIT) policy. Essentially, this will allow the Fed to balance inflation undershoots with intentional inflation overshoots. Other central banks have not yet been as bold, but are clearly moving in a similar direction.

This represents a major transformation in the way in which monetary policy is conducted, points out Aviva. It is perhaps the most important change since inflation targeting became the norm in the 1990s. While not yet certain, it could change the inflation and policy landscape fundamentally.

Equity allocations across styles and sectors

Given the above growth outlook, Aviva Investors prefers to be overweight global equities. There is a further leaning towards the both the US and UK markets, where domestic growth differentials, strong policy support and strengthening global trade should be supportive.

The most positive environment for equities, characterised by rising breakeven yields but falling real yields, is arguably behind us. **Equity returns should slow from here but remain positive** as real rate pressures on valuations are balanced by a bright outlook for earnings.

Having correctly predicted three months ago that value and cyclical stocks would outperform high-growth stocks, the asset manager expects that trend to continue. Steeper yield curves, in combination with a positive cyclical outlook, also leads to the maintenance of cyclical equity exposure to the Energy and Industrials sectors.

Brandywine Global are in full agreement with Aviva regarding value stocks. The US-based investment manager points out that while there has been a rally in recent months, the relative multiples of value stocks are still near all-time lows.

Higher interest rates are expected to help sectors with large exposure to value, like Financials, and hurt the high-flying momentum stocks where multiples have gone to extremes. There is also some evidence that “value” is becoming the “momentum” trade as well, which creates a powerful combination. Bank stocks, in particular, do well historically when short rates are stable and longer rates are rising.

Active management is as crucial as ever given many of the fastest growing/highest multiple stocks may be more challenged than in the recent past. According to Franklin Templeton, these companies now need to deliver on the promises implied by their rich valuations, and many simply won’t.

Despite this, there are still opportunities across many high-growth companies and the global investment firm believes the discounted cash flow methodology is the best way to determine a company’s intrinsic value, as it differs from standard multiples that do not incorporate growth.

Morgan Stanley reminds us that the Equity Risk Premium is at a decade low which, along with record high multiples, means **the key driver for equity market returns from here will be corporate profits.**

The investment bank believes sectors that should benefit from higher economic growth, inflation and interest rates are Materials, Financials and cyclical technologies like semiconductors and industrials. This rotation comes at the expense of interest-rate sensitive equities like those in defensive sectors (utilities and infrastructure) and large-cap secular growth names.

Looking even further out, while simultaneously calling upon the lessons of history, MFS expects that as policy normalises, investors will pivot back to cross-cycle earnings-compounders that make up many a portfolios’ core holdings. Cyclicals will have had their day, as they often do in the early phases of a market cycle and secular trends will win out in the long run, explains the American investment bank. This will reward patient investors as the cycle matures.

United States

There has been stronger-than-anticipated activity during the fourth quarter 2020 and the start of 2021. In addition, the US has had a rapid vaccine roll-out and the passage of another very large fiscal support package. Consequently, Aviva Investors revises up growth expectations for 2021 to 6.5%, with risks tilted to the upside. This is with the conservative assumption that only around 15% of household excess savings are drawn down in 2021, with the possibility this could be materially higher.

The investment manager also revises the inflation outlook modestly higher, reflecting a more rapid elimination of spare capacity and a more positive outlook for the housing market. Despite these changes, it’s not expected the Federal Reserve will raise interest rates before 2023.

Australia

The Australian economy continues to be supported by high excess household savings which has supported consumption. Morgan Stanley estimates Australian households have around $200bn in excess saving which is equivalent to around 10% of Australia's GDP. This has also been helped by a very strong labour market recovery, with **employment returning to pre-covid levels in February 2021.**

Housing related activities (construction and sales) remains bifurcated with detached houses leading activity. Apartment activity, on the other hand, continues to suffer from closed borders, which limits overseas student and tourist arrivals.

Policymakers remain growth-focused, with more government stimulus expected in the May Budget, and the Reserve Bank of Australia (RBA) committed to keeping interest rates at current low levels for several years.

Over the March quarter, Morgan Stanley has increased the allocation to growth assets based on expectations of higher equity markets in a year's time. Specifically, the investment bank continued **a preference for International Equities over Australian Equities** on expected stronger cyclical upside and better relative policy support.

Within the International Equity allocation the overall hedged position was increased and a **preference was expressed towards Japan and also to the Value style.** Within the Australian Equity allocation the lean towards Value was maintained via Resources and a tilt toward Financials was introduced.

Westpac Bank expects the Australian economy to expand by a well-above-trend 4.5% in 2021 and increase by 3% in 2022. This will be a recovery from the covid-related -1.1% contraction during 2020.

Even on these upbeat forecasts, output at the end of 2021 will still be -1.5% below that expected in the absence of covid. The key dynamics shaping the outlook are a spending catch-up (the pent-up demand created by the temporary covid restrictions) and a strong tailwind from policy stimulus, which has led to a booming housing market.

The upcoming May 11 Federal budget will likely see another round of stimulus, suggests Westpac. With the 2020/21 Federal budget deficit tracking well ahead of forecast, there is believed to be flexibility for new measures.

Europe

Europe's economic recovery has spluttered over the first three months of the year. The underwhelming vaccine rollout, an alarming third wave and an extension of lockdowns have combined to quash demand in the first quarter. This places Europe on the cusp of a second technical recession, according to strategists at Westpac Bank.

The most significant constraint upon demand has been lockdowns for the first three months of the year, which has delayed the reopening rebound that was set to follow the -0.7% contraction in the fourth quarter. Compounding this, Europe's vaccine rollout has been lacklustre, crimped by supply constraints, a slow authorisation process and vaccine suspensions on health concerns. With little capacity to spend or invest since the start of the year, the Euro Area is poised for another contraction in the first quarter.

However, the activity outlook for the second half remains upbeat with Europe expecting a significant increase in vaccine deliveries in the June quarter. With furlough schemes and fiscal support continuing to cushion the consumer, a softer profile early in the year will be met by a brisk rebound in the second half. Westpac is looking for year-average growth of 4.2% in 2021 to be followed by 3.9% in 2022.

Fiscal and monetary policy is expected to remain supportive while underlying inflation is forecast to stay contained.

Aviva Investors largely agrees on the rebounding outlook. Despite lockdowns and slow progress on vaccination, encouragement can be taken from the experience in the fourth quarter when restrictions on activity did not have as large an impact on output and demand as had been feared.

United Kingdom

The renewed national lockdown imposed in early January is likely to result in a small fall in GDP in the first quarter. However, the outstanding progress on vaccinations since December has boosted sentiment and should allow for reopening of the economy as scheduled and usher in a convincing rebound in activity in the second quarter and beyond.

The UK is now set to regain its pre-covid level of output a year from now and should grow strongly this year and next, as long as control of the virus is maintained.

One concern for the future, cautions Aviva Investors, is the potentially overzealous plans of the British government to tighten fiscal policy in future years. Their position stands out by comparison to almost everywhere else in the developed world, where more relaxed approaches are being adopted.

Westpac believes the UK is making visible progress towards full economic reopening. With a more developed and orderly rollout, accompanied by a sharp fall in new cases, PM Johnson is on track to reach his objective of removing all legal limits on social contact in June.

Japan

Japan should attain pre-crisis GDP levels by the end of 2021, with growth close to 3%. This is yet another upgrade compared to the last quarter and comes with further upside risks, asesses Aviva. This is due to public consumption, thanks to fiscal spending, which will remain supportive of growth even as the deficit shrinks.

Private consumption and finally investment will rebound in upcoming quarters, but gradually. The state of emergency will enable lockdown restrictions to ebb in the second quarter.

The Bank of Japan has recently tweaked its intervention policies though the song remains the same, including monetising the fiscal expenditure and not doing anything much about very low inflation, which should remain close to zero.

“Suganomics” includes administrative reform, regulatory improvements and digitisation though the relatively new PM is dogged by recent scandals. He may seek a fresh mandate in snap elections, which would be positive in removing uncertainty and helping both domestic investment and foreign direct investment .

Emerging Markets

Aviva Investors prefers to be slightly underweight emerging markets given they offer too little valuation cushion, due to the increased risks of rising US bond yields, weaker local currencies and tighter domestic monetary policy.

In contrast, Franklin Templeton believes there’s significant opportunity in emerging markets today, particularly in Asia, though geopolitical risks bear watching. Their conviction in the growing structural advantages of emerging markets, led by key Asian economies, has only strengthened as the evidence has accumulated. Emerging markets have remained relatively resilient, having successfully adapted to, or suppressed, the virus.

The covid-led divide in relative country performance has reinforced that **China** is now on track to become the world’s largest economy before the end of the decade. Franklin Templeton believes this trend will lead to allocations toward emerging markets, led by China, for years to come.

In China, biotechnology firms are developing innovative treatments for cancer and other major diseases and have won the confidence of global pharmaceutical groups in licensing these new drugs.

In macroeconomic terms, China’s economy is growing at a 6% annual pace in 2021, which is expected to lift annual GDP to nearly 10% above 2020’s depressed level.

Aviva believes low inflation should keep the People’s Bank of China (PBoC) stance loose, with a bias to move to neutral if needed to contain leverage or financial speculation.

Strategists at Westpac highlight **GDP lost during the pandemic in China was recovered within three months** and the economy gained a further 6.5% to the end of 2020. A year on from February 2020’s nadir, total fixed asset investment is up 35%. State-owned enterprise spending and private investment have been broadly in sync, gaining 33% and 36% respectively. Clearly this recovery has not stemmed from government largesse. Instead, it has been broad-based and focused on the long-term, explains the bank.

Taiwanese and South Korean semiconductor firms dominate the global industry with their strong manufacturing capabilities, especially in cutting-edge semiconductor chips. Moreover, their clout has generated the cash for them to ramp up investments and widen their competitive advantages amid booming demand for chips from high-performance computing, bitcoin, auto and other businesses. By comparison, western semiconductor firms have struggled to keep up, whether in innovation or capital expenditure, points out Aviva.

South Korean companies have also spearheaded the development of electric vehicle batteries, which have achieved greater penetration worldwide on the back of policy support and technology advancements.

India’s internet space, which has been under-represented in stock markets, also offers huge potential, in Franklin Templeton’s view.

Technology/Innovation Investment Opportunities

Franklin Templeton believes innovative businesses should continue to outperform over the medium to long term. Covid-19 uncovered the susceptibility of businesses that have failed to innovate and embrace digitalisation.

The majority of the beneficiaries of work-from-home and e-commerce trends were already digitally savvy and continue to disrupt their target markets by enhancing the products and services they deliver (eg e-signature and telemedicine providers).

Other innovative areas of technology have been held back by delays in implementation and adoption due to covid-19, which is no longer an issue. This gives Franklin Templeton confidence in a number of software names that support digital transformation, technology enablers of electric vehicles and solar energy as well as online dating platforms.

The genomics space continues to be a key area of innovation advancement. Genomics and gene sequencing were major contributors to finding therapies and vaccines for this virus. Now, the world has not only fast-tracked therapies, but has also built distribution and manufacturing capabilities that could make genomic advancements easier to implement in the economy in the future.

Looking ahead, it's difficult for Franklin Templeton to see how these trends in innovation will slow down. However, impacts driven by individual country regulation or delays in new advancements due to technical requirements are possible.

Shaw and Partners highlights valuations being currently applied to small and mid-cap ASX software stocks, are now back at their pre-covid levels. This is despite fundamentals that remain strong and have rarely looked better. Fineos Corp ((FCL)) is one stock that is leveraged to a global recovery and has been sold off too hard, in the investment manager's opinion. The digital transformation of the life insurance industry is a multi-year (even decade) story that benefits the company.

In a similar vein, Nitro Software ((NTO)) and Whispir ((WSP)) have software products that are directly leveraged to where businesses are now spending. Specifically this is both digital document workflow and intelligent communication tools.

According to Shaw, longer term investors should use the sell-off in growth stocks caused by rising long-term interest rates to add technology, healthcare, electrical vehicle, renewable energy and other growth industry exposures to their portfolios.

During the pandemic the consumer has accelerated into an increasingly digital and interconnected world. In this environment mobile, trusted e-commerce and digital solutions have risen to the fore and delivered significant growth and alpha.

One of those beneficiaries is the Buy Now Pay Later (BNPL) sector globally. BNPL companies in the past 12 months have added a combined US$40bn in value as companies have gone public, re-rated, raised capital and delivered exceptional organic growth.

Shaw estimates that the US is adopting BNPL faster than Australia by up to 40%. This accelerated dynamic is likely to see sector-wide valuations grow materially.

Against this dynamic, the key sector pick by Shaw is Zip Co ((Z1P)), one of the leading ASX BNPL companies with global operations. A significant pipeline of large merchants is expected to be converted. In the US the business will continue to accelerate and further geographic and product launches will occur. The investment manager highlights that Zip Co currently trades at the lowest multiple by comparison to peers and owns the fastest growing US BNPL brand.

Bonds and Credit

With manufacturing PMIs in the high 50s and prospects that services will join the party soon, as they already have begun to in the US, Aviva Investors maintains bearishness on longer-dated bonds. Shorter maturity yields are expected to remain low as, outside of emerging markets, most central banks will refrain from hiking for a while and live up to amended objectives (as per the Federal Reserve).

Further rises in yields are starting to result in **higher real rates**, reflecting a mix of rate hike expectations and rebuilding of term premiums. This is a marked change in the financial environment.

Franklin Templeton believes **bank loan instruments and high yield** potentially offer lower sensitivity to rising interest rates. High yield should be positive, given continued improving fundamentals and valuations that have further room to run.

The US high-yield new-issue market has remained very active and Franklin Templeton has generally found new issue concessions to be an attractive way to pick up yield and spread.

To protect against volatile interest rates and inflation **a portion of fixed income could be allocated to alternative asset investments such as hedge funds and commercial real estate.** Hedge funds have the opportunity to go long the potential beneficiaries of higher financing costs and short those areas hurt by them.

Within the Morgan Stanley International fixed income portfolio, the duration has been reduced. Overall, the **trend towards more variable rate corporate debt** continues in order to improve portfolio yield and lessen corporate default risk, which is low based on the current position in the economic cycle. The bank prefers sub-investment grade and variable rate securities within corporate debt to enhance the yield of portfolios.

During March, the RBA stated "The Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3% target range. For this to occur, wages growth will have to be materially higher than it is currently". This will require significant gains in employment and a return to a tight labour market. The board does not expect these conditions to be met until 2024 at the earliest. So, **based on the RBA outlook, rates will stay low for some time to come**.

With interest rates still at historical lows and looking like remaining so until wages growth and inflation pick up, there is still high investor demand for income and yield based securities, notes Shaw.

In Australia, performances of Floating Rate strategies have outperformed Fixed Rate strategies, as long Aussie bond yields rose even more aggressively than yields in the US over the last six months.

Higher Yield Floating Rate Securities have outperformed Investment Grade Floating Rate Securities, driven by investors searching for viable income alternatives. The capital price for Higher Yield Securities is influenced by credit spreads rather than interest rates, and will benefit the most from better company earnings and GDP growth inferred by the very reflation and higher long bond yields that have hurt fixed rate bonds.

Westpac Bank has brought forward the timing by which the Australian 10 year bond rate rises above 2% to December 2021 from March 2022. This reflects a slightly faster pace of increase in the bond rate than envisaged on February 19 when the bank raised the target for the end 2021 bond rate from 1.5% to 1.9%. This is a near term timing adjustment and the target of**2.5% for the 10 year rate by end 2022** remains intact.

Real Estate

Looking forward, Franklin Templeton is quite optimistic about real estate's growth prospects in 2021–2022 because of the fast US vaccination rollout, additional fiscal stimulus and robust consumer demand.

Real estate is considered a derivative of economic expansion and all property sectors are likely to benefit from the pent-up demand and forthcoming jobs boom.

Given a reflationary environment, income with growth should be an important part of portfolio allocation strategy. Historically, real estate as an asset class has shown to be able to hedge, at least partially, against inflation and rising interest rates largely because landlords generally can raise rents under improved economic conditions.

Higher interest rates often link to better economic growth, which should lead to stronger demand for commercial space and higher income growth. This will likely offset the potential negative impact on financing costs, explains the global investment firm.

ESG

Franklin Templeton feels environmental, social and governance (ESG) awareness is increasingly vital for risk-management and for potentially better expected returns.

Stocks with strong environmental sustainability profiles generally performed well in 2020 as a result of a variety of trends. Franklin Templeton considers some of these to be secular trends that should support ESG sustainability-focused investments for the longer term. Examples include fighting climate change by lowering carbon emissions or overcoming resource scarcity through use of recycled materials. The investment manager believes that all investing will eventually be ESG investing and that one day it will no longer be considered a separate discipline.

Sustainability winners over the next market cycle could include discretionary names that are improving the sustainability of food sourcing and packaging. Also, Financials that are prioritising diversity and inclusion, and companies enabling energy efficiency and the use of electric vehicles are likely beneficiaries.

Currencies

Westpac Bank notes that lately the US dollar has continued to receive support from developments offshore. In particular, in Europe the vaccine roll-out continues to disappoint, covid-19 new cases are proving very difficult to rein in and near-term growth prospects are suffering as a result. Japan is also struggling for traction in its health and economic response to the pandemic, leading investors to seek a better return elsewhere.

However, despite widespread support there has actually been only a marginal rise in the US dollar, despite peak economic momentum and a nadir in European pessimism. In addition, the market's expectation of US rate hikes in 2023 could easily be disappointed given the degree of historical underperformance for inflation, the substantial labour market slack that remains in place and the Fed's clear intention to set policy reactively.

As a result, Westpac forecasts **a sustained downtrend in the US dollar to the end of 2022.**

Aviva Investors is neutral on currencies, with the previous view of a broad-based weakening in the US dollar now more nuanced given the more rapid growth trajectory expected in the US compared to other regions.

Reflecting the erosion of the growth gap between the Euro Area and the US as the year progresses, Westpac expects the euro will appreciate from US1.2 at June to US1.23 by year-end, followed by a further push to US1.26 by June 2022.

Asia's ongoing economic development, efficient production chains and the authorities' focus on productive investment and efficiency feeds into Westpac's currency forecasts. It's considered there is every reason to believe the region's currencies will outperform the US dollar trend to the end of the bank's forecast horizon, and likely beyond.

Westpac sees the recent US dollar rise as temporary and continue to expect the **Australian dollar to lift to US85 cents in the first half of 2022,** supported by elevated commodity prices and by gathering momentum for the global recovery.

<u>Commodities and related equities</u>

Westpac Bank doesn't believe we are in the midst of a new commodity super cycle. However, a combination of conservative investment strategies by the major miners, plus robust demand as the world recovers from the covid lockdowns, means **the price of most commodities will remain higher for longer.**

Strategists at the bank see an inflection point sometime soon for the **iron ore** market, which should start to move the market towards being in surplus in late 2021 or early 2022. It's expected this shift will see iron ore prices ease to US$150/t by the end of 2021 and US$110/t by the end 2022.

Westpac also forecasts an end of 2021 price of US$132/t for **metallurgical coal**, US$93/t for **thermal coal** and US$67/bbl for **Brent crude oil**.

In Shaw and Partners view, investors should gain quality exposure to equities that produce copper, nickel, cobalt and lithium, to gain exposure to the low-carbon future.

Up to five times existing demand will be required as the energy transition takes place, whether that be across a range of technologies (e.g. copper for generation, storage and electric vehicles) or are concentrated in specific technologies (e.g. lithium and cobalt for batteries).

If electric vehicles follow the typical new technology adoption 'S' curve, the world is about to see exponential growth in penetration and **exponential growth in demand for battery raw materials**, predicts the wealth manager.

<u>Gold and related equities</u>

Global money supply has been growing at the highest rates for over 60 years, explains Shaw. Post-pandemic money supply in the US alone has grown by nearly 20% over the past year. The gold price correlates well to the long-term growth in money supply suggesting that not only will the price be well supported in the near term, but also the**medium to long term expectations could be re-based higher, potentially in the US$1,500-1,600/oz range.**

Gold price performance is well correlated with falling interest rates, specifically real interest rates. Higher inflation over time combined with a tempering of nominal rates will likely see the direction of real interest rates move lower and stay lower for a while yet. This would see gold price stay at or well above current levels.

Gold equities are now the cheapest in Shaw's coverage universe and one standout selection is Northern Star Resources ((NST)) on valuation and medium-term growth upside. Another is Newcrest Mining ((NCM)) on valuation and unpriced growth options that should become more transparent in the quarters ahead.

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

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 16-04-21

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday April 12 to Friday April 16, 2021
Total Upgrades: 12
Total Downgrades: 7
Net Ratings Breakdown: Buy 54.70%; Hold 38.30%; Sell 7.00%

By Mark Woodruff

For the week ending Friday 16 April, there were twelve upgrades and seven downgrades to ASX-listed companies by brokers in the FNArena database.

Mainstream Group received two downgrades from separate brokers. Both Ord Minnett and Morgans downgraded the company to a Hold rating in the belief the $2 bid for the company by SS&C Technologies was both fully valued and likely to be final. This has proven to be correct as the deadline of Friday 16 April has passed without a matching offer or more favourable terms from prior bidder Vistra.

The adjectives hefty and expensive were applied by two brokers to the price paid by Regis Resources for a 30% stake in the Tropicana gold mine. As a result, the company headed the table for the largest percentage decrease in target price by brokers last week. Nonetheless, the term transformational was also applied to the transaction and an increase in both scale and diversity were seen as positive attributes for the 'new' company.

Galaxy Resources had the largest percentage increase in forecast target price by brokers in the FNArena database last week. This was a reaction to preliminary production at Mount Cattlin and an updated development plan for Sal de Vida. For the latter, Macquarie estimates the plan has delivered production rates 28% higher than expected.

Galaxy Resources also had the largest percentage increase in forecast earnings by brokers in the FNArena database last week.

A technical glitch has put Crown Resorts atop the table for earnings downgrades, so best to ignore.

The effective clubhouse leader was Whitehaven Coal after universal disappointment from the five brokers in the FNArena database that updated earnings forecasts last week. Production and sales were weaker than expected in the third quarter, impacted by floods in NSW, port damage and geological issues at the Narrabri mine.

Finally, it was no surprise to see Regis Resources feature in earnings downgrades after the downgrades to estimated target prices noted.

Total Buy recommendations take up 54.7% of the total, versus 38.30% on Neutral/Hold, while Sell ratings account for the remaining 7%.

Upgrade

ABACUS PROPERTY GROUP ((ABP)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/1/0

The acquisition of ezStorage by Public Storage in the US highlights for Ord Minnett the material difference in implied capitalisation rates between large US and UK listed self storage entities and Australia's Abacus Property and National Storage ((NSR)).

Both the Australian companies remain industry consolidators and the broker believes Australian self storage assets are undervalued. Abacus Property is upgraded to Accumulate from Hold. Target is steady at $3.10.

BANK OF QUEENSLAND LIMITED ((BOQ)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 4/2/0

Bank of Queensland's first-half net profit of $165m was broadly in line with Ord Minnett's forecast of $166m. An interim dividend of 17c was declared, in line with the broker's forecast. The result was pre-guided with hardly any surprises.

Ord Minnett observes the bank delivered strong pre-provision profit growth of 3% half-on-half with support from funding cost tailwinds and improved execution in its mortgage business.

The broker argues the bank is the best turnaround prospect in the sector, with potential upside from improvements in deposit mix and the delivery of revenue synergies at ME Bank.

Ord Minnett upgrades to Accumulate from Hold with the target rising to $9.50 from $9.30.

BLUESCOPE STEEL LIMITED ((BSL)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 3/3/0

Ord Minnett upgrades its rating on BlueScope Steel to Buy from Accumulate with a target price of $26 from $23.

Ord Minnett has marked to market its forward-curve-based commodity and currency forecasts and increases its steel price estimates. The broker notes BlueScope Steel's spreads continue to grow and expects another guidance upgrade.

GALAXY RESOURCES LIMITED ((GXY)) Upgrade to Outperform from Underperform by Macquarie .B/H/S: 3/1/2

Macquarie believes the earnings outlook has been transformed by material upgrades to the outlook for lithium and spodumene prices. Earnings estimates have been more than doubled for the next five years and the increased cash flow is expected to reduce debt funding requirements.

The broker's previous forecast of a cumulative loss of -US$68m over 2021-23 has swung to a cumulative profit of US$154m. Forecasts for 2024 and 2025 earnings rise 64% and 26%, respectively.

This drives an upgrade to Outperform from Underperform and the target is lifted to $4.20 from $1.60. The broker also remodels production assumptions for Mount Cattlin after the site tour in March and for James Bay and Sal de Vida following recent updates.

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

Following the recent decision by ANZ Bank ((ANZ)) to terminate its current agreement with Netwealth ((NWL)) for interest paid on pooled cash accounts, Macquarie reviews cash spreads for the platforms.

While there may be some further downward pressure on deposit rates in the short term, the broker envisages scope for competition to re-emerge later in 2021. Margin expansion for the platforms should occur as cash rates begin to increase again.

Macquarie forecasts rates to start increasing from the first quarter of 2023. The broker upgrades to Outperform from Neutral, also noting the short-term outlook for flows is encouraging given the ongoing disruption to larger incumbents. Target edges down to $24.00 from $24.25.

NEWCREST MINING LIMITED ((NCM)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 7/0/0

Ord Minnett upgrades its rating on Newcrest Mining to Buy from Accumulate with a target price of $36.50.

Ord Minnett has marked to market its forward-curve-based commodity and currency forecasts and maintains its price estimate of gold. The broker concedes its US$1,700 near-term and US$1,600/oz long-term price forecasts are not overly optimistic.

Some key stock preferences are Northern Star Holdings ((NST)), Gold Road Resources ((GOR)) and Newcrest Mining.

NETWEALTH GROUP LIMITED ((NWL)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/3/0

Following the recent decision by ANZ Bank ((ANZ)) to terminate its current agreement with Netwealth for interest paid on pooled cash accounts, Macquarie reviews cash spreads for the platforms.

While there may be some further downward pressure on deposit rates in the short term, the broker envisages scope for competition to re-emerge later in 2021. Margin expansion for the platforms should occur as cash rates begin to increase again.

Macquarie forecasts rates to start increasing from the first quarter of 2023. The broker upgrades to Outperform from Neutral, also noting the short-term outlook for flows is encouraging given the ongoing disruption to larger incumbents. Target is reduced to $16.50 from $17.75.

OROCOBRE LIMITED ((ORE)) Upgrade to Outperform from Underperform by Macquarie .B/H/S: 3/3/1

Macquarie finds the medium-term outlook significantly improved because of upgrades to lithium price forecasts. In the shorter term earnings are largely unaffected as lithium carbonate prices have been locked in at US$5500/t for the second half of FY21.

Nevertheless, the improved earnings outlook eases funding concerns for the Olaroz and Naraha expansions and the broker upgrades to Outperform from Underperform. Target is raised to $7.10 from $2.90.

See also ORE downgrade.

ST BARBARA LIMITED ((SBM)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 3/2/0

Ord Minnett upgrades its rating on St Barbara to Buy from Accumulate with the target price rising to $3 from $2.90.

Ord Minnett has marked to market its forward-curve-based commodity and currency forecasts and maintains its price estimate of gold. The broker concedes its US$1,700 near-term and US$1,600/oz long-term price forecasts are not overly optimistic.

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

Credit Suisse upgrades lottery earnings estimates by around 5% as revenue momentum throughout March has signalled growth is substantial. The broker also reflects the prospect of a de-merger in its valuation after the company announced a strategic review.

A de-merger of the lottery business, with no change in the control of wagering, would avoid the requirement for industry approvals and likely one-off payments to separate the two.

The broker also assumes Tabcorp exits gaming services, effectively divesting 10,000 slot machines back to venue operators or third parties. Rating is upgraded to Outperform from Neutral and the target increased to $5.70 from $4.60.

WESFARMERS LIMITED ((WES)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 1/5/1

Having reviewed the financial performance of the Wesfarmers retail businesses, Ord Minnett acknowledges its previous Lighten recommendation was the wrong call as the company has allocated capital in a firm manner and benefited from the pandemic.

The broker finds Bunnings is well-positioned in most trading environments and increased home investment is a positive aspect that will allow it to cycle tough comparables.

Catch Group is also proving to be a prescient acquisition with strong growth expected in coming years although operating earnings are likely to remain modest. Hence, Ord Minnett upgrades to Hold and raises the target to $53 from $50.

ZIP CO LIMITED ((Z1P)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/0/2

While Citi had expected strong customer growth from Quadpay, the key highlight from Zip Co's third-quarter update was stronger than expected volume growth.

The growth was led by Quadpay's total transaction value, up 31% ahead of Citi's forecast and up 14% over the last quarter on a seasonally strong December quarter. With Quadpay continuing to beat expectations, Citi upgrades to Buy from Neutral.

The target drops to $11.30 from $11.35.

<u>Downgrade</u>

MAINSTREAM GROUP HOLDINGS LTD ((MAI)) Downgrade to Hold from Buy by Ord Minnett and Downgrade to Hold from Add by Morgans.B/H/S: 0/2/0

The company has received a new takeover offer from SS&C Technologies for $2.00 cash, exceeding the previous proposal of $1.20 from Vistra. Target is raised to $2.00 from $1.20.

There is risk of further interest from existing or other parties, yet Ord Minnett believes the current proposal represents maximum value and to reflect this downgrades to Hold from Buy. Vistra has until April 16 to match or better the offer.

Morgans lowers the rating to Hold from Add for Mainstream Group. The target price is increased to $2 from $1.20 to match a bid of $2 per share from SS&C to acquire the company. This is a 67% premium to the previous Vistra bid of $1.20 per share.

The broker views this proposal as a likely knockout bid, given the substantial premium to Vistra's proposal and because the 'go shop' period would have likely drawn out any other potential acquirers.

The analyst believes this is a fantastic outcome for shareholders and provides the substantial premium for control thought to be lacking in the Vistra proposal. Vistra has until Friday, 16th of April 2021, to match or offer more favourable terms

NATIONAL STORAGE REIT ((NSR)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/3/1

The acquisition of ezStorage by Public Storage in the US highlights for Ord Minnett the material difference in implied capitalisation rates between large US and UK listed self storage entities and Australia's Abacus Property ((ABP)) and National Storage.

Both the Australian companies remain industry consolidators and the broker believes Australian self storage assets are undervalued.

Yet Ord Minnett downgrades National Storage to Hold from Accumulate based on valuation. Target is $2.05.

OROCOBRE LIMITED ((ORE)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 3/3/1

Led by the recent strong run in the share price, Ord Minnett downgrades its rating on Orocobre to Hold from Buy with a target of $5.50.

The broker's lithium chemical price forecasts remain unchanged, although spodumene price forecasts have been increased by 5-10%. Further, with demand for electric vehicles (EV) taking off, supply has tightened quickly.

See also ORE upgrade.

PLATINUM ASSET MANAGEMENT LIMITED ((PTM)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 0/2/3

Funds under management of $24.5 bn in March, were down -1.4% amid both net outflows and negative market movements. The International fund continues to experience outflows with around -$65m of outflows in the month.

The stand-out fund for inflows was International Healthcare. Credit Suisse does not believe this is enough to encourage an inflection in flows and suspects disruption/switching in the platform industry could have a significant impact on Platinum Asset Management.

The broker downgrades to Underperform from Neutral following 20% outperformance over the last three months, raising the target to $4.65 from $4.50.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 4/3/0

Regis Resources will buy a 30% stake in the Tropicana gold mine from IGO Ltd, to be funded with debt and equity. Ord Minnett observes the deal is dilutive on most valuation metrics and was disappointed there was no updated guidance for the asset.

Still, the acquisition should improve asset quality and increase the mine life for the company. Rating is downgraded to Hold from Buy. Target is reduced to $3.40 from $4.20.

WHITEHAVEN COAL LIMITED ((WHC)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 5/2/0

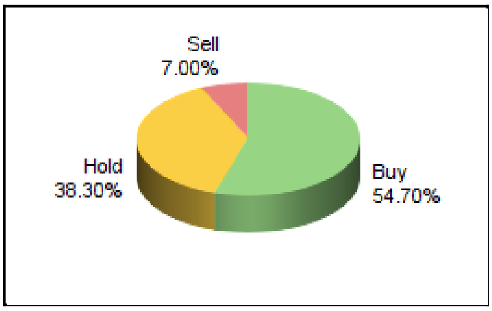
Whitehaven Coal's March quarter performance disappointed Credit Suisse with solid output at the open-cut mines undone by problems at Narrabri mine that led to outages for four weeks in the half.

The miner has cut its FY21 production and sales estimates yet again by -0.6-0.8mt for Narrabri. Also, the issues there eliminated cash generation in the quarter with no reduction in the net debt to date.

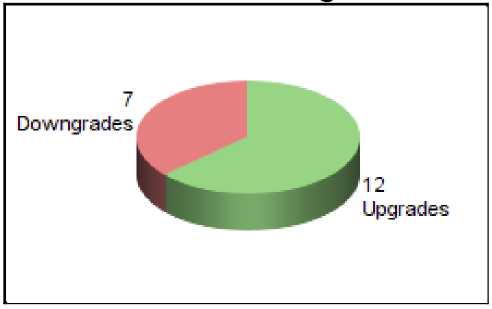
The broker expected net debt to halve by the end of FY22 but sees that delayed by over two years now.

Credit Suisse downgrades to Neutral from Outperform with the target price dropping to $1.55 from $1.95.

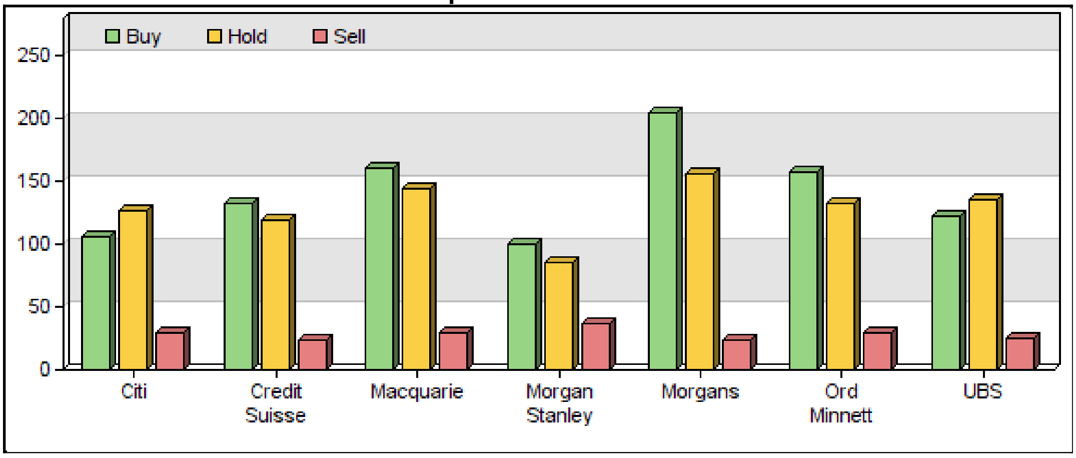
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ABACUS PROPERTY GROUP	Buy	Neutral	Ord Minnett
2	BANK OF QUEENSLAND LIMITED	Buy	Neutral	Ord Minnett
3	BLUESCOPE STEEL LIMITED	Buy	Buy	Ord Minnett
4	GALAXY RESOURCES LIMITED	Buy	Sell	Macquarie
5	HUB24 LIMITED	Buy	Neutral	Macquarie
6	NETWEALTH GROUP LIMITED	Buy	Neutral	Macquarie
7	NEWCREST MINING LIMITED	Buy	Buy	Ord Minnett
8	OROCOBRE LIMITED	Buy	Sell	Macquarie
9	ST BARBARA LIMITED	Buy	Buy	Ord Minnett
10	TABCORP HOLDINGS LIMITED	Buy	Neutral	Credit Suisse
11	WESFARMERS LIMITED	Neutral	Sell	Ord Minnett
12	ZIP CO LIMITED	Buy	Neutral	Citi
Downgrade				
13	MAINSTREAM GROUP HOLDINGS LTD	Neutral	Buy	Morgans
14	MAINSTREAM GROUP HOLDINGS LTD	Neutral	Buy	Ord Minnett
15	NATIONAL STORAGE REIT	Neutral	Buy	Ord Minnett
16	OROCOBRE LIMITED	Neutral	Buy	Ord Minnett
17	PLATINUM ASSET MANAGEMENT LIMITED	Sell	Neutral	Credit Suisse
18	REGIS RESOURCES LIMITED	Neutral	Buy	Ord Minnett
19	WHITEHAVEN COAL LIMITED	Neutral	Buy	Credit Suisse

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	GXY	GALAXY RESOURCES LIMITED	17.0%	-17.0%	34.0%	6
2	NWL	NETWEALTH GROUP LIMITED	40.0%	20.0%	20.0%	5
3	Z1P	ZIP CO LIMITED	10.0%	-10.0%	20.0%	5
4	HUB	HUB24 LIMITED	80.0%	60.0%	20.0%	5
5	TYR	TYRO PAYMENTS LIMITED	50.0%	33.0%	17.0%	4
6	WTC	WISETECH GLOBAL LIMITED	50.0%	33.0%	17.0%	4
7	TAH	TABCORP HOLDINGS LIMITED	40.0%	25.0%	15.0%	5
8	ORE	OROCOBRE LIMITED	29.0%	14.0%	15.0%	7
9	MIN	MINERAL RESOURCES LIMITED	40.0%	25.0%	15.0%	5
10	ABP	ABACUS PROPERTY GROUP	63.0%	50.0%	13.0%	4

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	PTM	PLATINUM ASSET MANAGEMENT LIMITED	-60.0%	-40.0%	-20.0%	5
2	WHC	WHITEHAVEN COAL LIMITED	64.0%	79.0%	-15.0%	7
3	RRL	REGIS RESOURCES LIMITED	57.0%	71.0%	-14.0%	7
4	NSR	NATIONAL STORAGE REIT	-25.0%	-13.0%	-12.0%	4
5	CWN	CROWN RESORTS LIMITED	40.0%	50.0%	-10.0%	5

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	GXY	GALAXY RESOURCES LIMITED	3.350	2.600	28.85%	6
2	ORE	OROCOBRE LIMITED	5.793	5.157	12.33%	7
3	MIN	MINERAL RESOURCES LIMITED	45.440	42.175	7.74%	5
4	BOQ	BANK OF QUEENSLAND LIMITED	9.600	9.150	4.92%	6
5	BSL	BLUESCOPE STEEL LIMITED	21.340	20.532	3.94%	6
6	SGR	THE STAR ENTERTAINMENT GROUP LIMITED	4.165	4.027	3.43%	6
7	TYR	TYRO PAYMENTS LIMITED	3.875	3.750	3.33%	4
8	WTC	WISETECH GLOBAL LIMITED	32.000	31.000	3.23%	4
9	CWN	CROWN RESORTS LIMITED	11.320	11.183	1.23%	5
10	PTM	PLATINUM ASSET MANAGEMENT LIMITED	4.050	4.020	0.75%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	RRL	REGIS RESOURCES LIMITED	3.866	4.313	-10.36%	7
2	WHC	WHITEHAVEN COAL LIMITED	1.969	2.097	-6.10%	7
3	Z1P	ZIP CO LIMITED	9.078	9.310	-2.49%	5
4	SBM	ST BARBARA LIMITED	2.830	2.890	-2.08%	5
5	NWL	NETWEALTH GROUP LIMITED	15.140	15.390	-1.62%	5
6	HUB	HUB24 LIMITED	25.458	25.508	-0.20%	5

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	GXY	GALAXY RESOURCES LIMITED	3.001	1.372	118.73%	6
2	TCL	TRANSURBAN GROUP	-1.590	-1.757	9.50%	6
3	WEB	WEBJET LIMITED	-23.994	-25.874	7.27%	5
4	TYR	TYRO PAYMENTS LIMITED	-3.450	-3.633	5.04%	4
5	JHG	JANUS HENDERSON GROUP PLC.	453.166	431.620	4.99%	4
6	SKI	SPARK INFRASTRUCTURE GROUP	4.548	4.348	4.60%	7
7	PDL	PENDAL GROUP LIMITED	46.367	44.383	4.47%	6
8	ALD	AMPOL	122.917	118.283	3.92%	6

9	SIG	SIGMA HEALTHCARE LIMITED	3.693	3.554	3.91%	4
10	QAN	QANTAS AIRWAYS LIMITED	-65.917	-68.533	3.82%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CWN	CROWN RESORTS LIMITED	-3.274	1.438	-327.68%	5
2	WHC	WHITEHAVEN COAL LIMITED	-8.349	-4.154	-100.99%	7
3	WSA	WESTERN AREAS NL	-1.096	-0.753	-45.55%	7
4	RRL	REGIS RESOURCES LIMITED	28.396	34.296	-17.20%	7
5	ORE	OROCOBRE LIMITED	-5.730	-5.056	-13.33%	7
6	NWS	NEWS CORPORATION	68.161	73.382	-7.11%	4
7	NIC	NICKEL MINES LIMITED	10.006	10.697	-6.46%	3
8	SBM	ST BARBARA LIMITED	19.756	20.356	-2.95%	5
9	NST	NORTHERN STAR RESOURCES LTD	56.193	57.527	-2.32%	6
10	NUF	NUFARM LIMITED	13.236	13.521	-2.11%	7

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: ESG Considerations For Nuclear

As the uranium price slides for a second week, the World Nuclear Association weighs the relevance of ESG principles to investment in the sector.

-Perspectives on ESG for the nuclear fuel cycle
-Potential nuclear energy roadmap for South Australia
-The weekly spot uranium price falls -2.6%

By Mark Woodruff

The nuclear power industry and its supply chain is said to already conform with the environment, social and governance (ESG) principles being discussed by investors.

However, speakers at the World Nuclear Fuel Cycle virtual conference on April 14 agreed industry needed to be more vocal in getting this message across. A panel discussion dedicated to the application of ESG to the nuclear fuel cycle delivered perspectives from the industry's key thought-leaders.

Riaz Rizvi, former Chief Commercial Officer of Kazatomprom, moderated the panel which brought together an array of industry experts from the uranium sector.

Partner at Segra Capital Management, Arthur Hyde, noted that for most investors much of the considerations that are driving ESG integration have been part of the investment process for a long time. Those processes, he said, have become more formalised over the past two years. "The non-financial considerations of an investment have risen to a point where they are now viewed on par with the financial considerations."

The Panel noted that uranium companies have operated under elevated scrutiny for many years, which has encouraged adherence to best practice environment and social considerations. "Every uranium company should be investing a sizeable amount of its budget in those areas," noted presenter of Brandon Munro from Bannerman Resources ((BMN)). This investment has paid off enormously, and over time increases the strategic value of a company. A strong sense of shared social licence with host community makes things easier in future. When done properly and authentically, ESG is a very good investment."

A "nuclear energy road map" should be developed for South Australia, says the South Australian Chamber of Mines and Energy (SACOME). In its recent pre-budget submission to the government, the resources lobby group stated that nuclear, as well as renewables, natural gas and hydrogen, should be on the table as a long-term energy source for the state.

SACOME chief executive Rebecca Knol said the state needed a comprehensive energy plan as the economy moved towards being carbon neutral over coming decades. "We're seeing the energy future as being one which needs to be agnostic about the energy type,'' she said. "If we are having meaningful conversations about net-zero by 2050, we need to be looking at all types of energy, not just at hydrogen or just renewables.''

Ms Knol said there was a lot of regulatory groundwork which needed to be laid before a nuclear industry could develop and it will likely be centred around small, modular reactors. "The technology for nuclear is changing. It's probably not commercially available until about 2028, but even when it is commercially available, our regulatory settings won't enable it to be utilised.''

<u>Country News</u>

China has approved plans to build five nuclear power units totalling 4.9GW of added installed capacity as Beijing pursues plans to reduce its dependence on fossil fuels.

The five units include four Russian-designed VVER-1200 reactors and one 125 MW small module reactor (SMR) demonstration project. The five projects will be developed by **China National Nuclear Corp (CNNC)**, one of the two major nuclear power companies in the country.

China has 50GW of installed nuclear power capacity, the majority of which are pressurised water reactors

(PWR) plants. In addition, 17 units are under construction, approximately 40 units have been granted site approval, and 60 more units are planned in the long term.

Company News

On April 15, uranium explorer **92 Energy ((92E))** became the first uranium developer to float shares on the Australian share market in ten years.

The company's initial public offering generated $7m by issuing 35m shares at $0.20 per share.

Chairman Richard Pearce believes it is a unique proposition for investors as it is the only ASX-listed exploration company focused solely on the resource-rich Athabasca Basin in Canada.

Uranium pricing

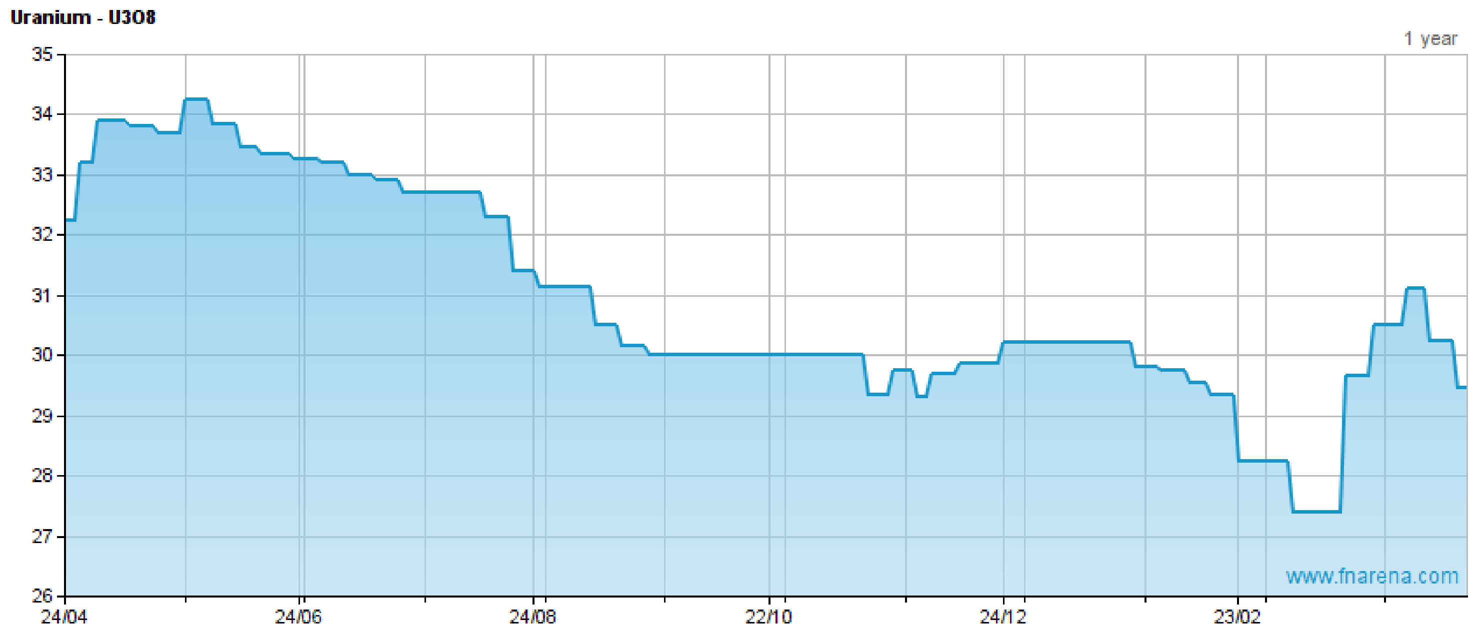
TradeTech's Weekly **Spot Price** Indicator is U$29.45/lb, down -US$0.80 from last week.

The number of active buyers in the spot market has declined since last month when buying momentum, led by emerging producers, resulted in significant transaction volumes, explains TradeTech. Three transactions totaling approximately 300,000lbs U3O8 were reported in the spot market this week.

The Weekly Spot Price Indicator is down -3% in 2021 and has declined in concert with slowing transaction activity in recent weeks. After rising 13% on increased transaction volumes, the indicator has declined over -5% in the last two weeks.

The average weekly uranium spot price in 2021 is US$29.45/lb, US$0.26 below the 2020 average.

TradeTech's **term price** indicators are US$33/lb (mid) and US$35/lb (long.



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

WEEKLY REPORTS

The Short Report - 22 Apr 2021

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

Summary:

Week Ending April 15, 2021.

Last week saw the ASX200 initially trading sideways before finally breaking out above the 7000 level, thanks to some extent to the Trans-Tasman bubble. But this week the index is back battling with 7000 again.

We may have broken a record last week in terms of lack of movement in short positions. Only two stocks saw bracket changes, both short increases, and only two saw movements of one percentage point or more.

In the latter case, the Trans-Tasman bubble helped Webjet ((WEB)) rally and short positions fall to 10.3% from a prior 12.2%, which was down from 14.0% the week before.

Could we be set to see no stocks shorted over 10% for the first time in history (of this Report?).

On the flipside, Zip Co ((Z1P)) jumped up to 7.1% shorted from less than 5% but that's all about the company's capital raising and subsequent arbitrage opportunity, not a reflection on the company itself.

I highlighted Resolute Mining ((RSG)) last week which had moved to 8.7% shorted from 7.8% shorted on the loss of its lease in Ghana, which was then restored. But the restoration came with the caveat of not being able to sell Resolute's Bibiani mine to the Chinese, which would have unlocked value for the miner.

Shorts in Resolute rose to 9.6% from 8.7% last week.

No Movers & Shakers this week.

Weekly short positions as a percentage of market cap:

10%+
WEB 10.3

No changes

9.0-9.9

TGR, RSG

In: RSG

8.0-8.9%

FLT, ING

Out: RSG

7.0-7.9%

MTS, Z1P

In: Z1P

6.0-6.9%

MP1, TPW, IVC

No changes

5.0-5.9%

A2M, ALK, JBH, BGL, MSB, EOS, BVS PNV

No changes

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.1	0.1	MQG	0.4	0.5
ANZ	1.0	1.0	NAB	1.1	1.1
APT	2.4	2.1	NCM	0.6	0.5
BHP	3.9	3.9	RIO	0.2	0.4
BXB	0.3	0.4	TCL	0.7	0.6
CBA	0.6	0.6	TLS	0.3	0.2
COL	0.3	0.3	WBC	0.9	1.0
CSL	0.2	0.2	WES	0.4	0.4
FMG	0.5	0.5	WOW	0.3	0.3
GMG	0.2	0.2	WPL	0.8	0.7

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

The Wrap: CBA & BNPL, Online Retail And Post-Covid Trends

Weekly Broker Wrap: CBA and BNPL; online grocery eases; property fixates on home-office; auto, workplace, employment

-CBA enters BNPL to protect market share
-New vehicle sales up 22% in March
-Online marketplaces ripe for consolidation
-Employers with hybrid work strategies could have 20-25% remote employees

By Mark Story

CBA's BNPL entry

Having taken a stake in the buy now pay later (BNPL) firm Klarna in 2019, Commonwealth Bank ((CBA)) is launching its own BNPL product to the bank's consumers, which can be used anywhere Mastercard is accepted.

Morgan Stanley believes Commonwealth Bank's decision to launch a BNPL offering was in part driven by desire to protect its market share with younger customers. The broker notes, CBA has around a 45% market share with 18-24 year olds, which is also a key market for the BNPL sector. Morgan Stanley also suspects by having its own BNPL offering, CBA can protect its customer spending data from being shared with other financial providers.

Then there's CBA expectation that its BNPL product will appeal to SME merchants rather than larger merchants, which Morgan Stanley suspects could enhance its SME relationships and data. However, unlike Afterpay ((APT)), CBA is a pure payment service and the broker doesn't think it will have individual marketing agreements with merchants.

Does CBA's BNPL product stack up financially? While CBA's merchant fee is well below Afterpay's, Morgan Stanley expects it to have lower credit and payment processing costs. The broker estimates CBA's BNPL product will have a net transaction margin (NTM) of around 55bp, which is below Afterpay's Australian NTM of around 225bp.

However, Morgan Stanley notes Afterpay is above CBA's NTM on credit card transactors (those who don't pay any interest) due in part to BNPL customers receiving no loyalty fees. It is also due in part, adds the broker to this running on the new Mastercard BNPL interchange tier of around 88bp in Australia, which is above circa 50bp credit card interchange.

Online retail: Time to capitalise on consolidation opportunities

SimilarWeb online traffic data growth slowed in March to 23% year-on-year (March quarter up 29%), with grocery slowing the most, down around 13% year-on-year as panic buying is cycled. Jarden believes moderation reflects a return to stores, with ShopperTrak reporting a 54% week-for-week lift in traffic for week ending April 11th.

Having undertaken a deep dive into Australian marketplaces, the broker believes the key impediments in Australia remain range, price and value proposition, and notes the market is crowded and seems ripe for consolidation.

Jarden believes FY22 could finally see marketplaces in Australia (eBay, Amazon etc.) capitalise on the opportunity to consolidate, with listed investment strategies accelerating operational expenditure (opex) and capital expenditure (capex) on supply chain, online and data, plus increased focus on potential M&A.

Jarden expects the battle for a greater share of the Australian consumers' wallet to increase over the next 12 months. Due to an emerging 'winner takes all' strategy globally, the brokers believes there are clear signs of companies wanting to capitalise on accelerated structural changes post-covid, including online, data and brand trust.

Jarden believe Amazon's new 200,000sqm automated data centre in NSW will be the catalyst, likely coupled with existing entrants like Woolworths ((WOW)) and Wesfarmers ((WES)) expanding further in the endless aisle space.

Based on its estimates of pure-play marketplace capacity in Australia moving to $20b-plus in revenue over the next three years, Jarden expects to see a step-up in online penetration. The broker also expects brands to capitalise on higher trust, focusing on 'right to play' categories (i.e. like Bunnings' 'MarketLink'; Warehouse Group's 'The market') and investment in supply chain by retailers and landlords.

What's also likely is consolidation of stores and increased focus on value (price, service, and personalisation). The broker believes the gap between winners and losers will increase resulting in margin pressure for some retailers.

Jarden believes companies should be re-rated for reassessing and accelerating investment in data supply chain and new channels/categories. Companies with largest spheres of consumer spend are best positioned, namely Coles ((COL)), Wesfarmers and Woolworths, plus Kogan.com ((KGN)).

While category-killers could potentially become attractive M&A targets, Jarden sees retailers with less sophisticated online, commoditised offers as more at risk, including JB Hi-Fi ((JBH)) and Harvey Norman ((HVN)). While supply chain focused REITs should benefit, like Goodman Group ((GMG)) and Charter Hall Group ((CHC)), the broker sees risk to retail-based landlords, like Vicinity Centres ((VCX)) and Scentre Group ((SCG)).

Jarden is Underweight Coles, JB Hi-Fi, and Harvey Norman, and Overweight Wesfarmers, Woolworths, Kogan, and Temple and Webster Group Limited ((TPW)).

Residential property: Home office a number one priority

Within National Australia Bank's ((NAB)) recently released Residential Property Report, nine out of ten property experts believe having a study or designated work area is the now most important factor for home buyers, particularly for those in NSW and Victoria. Access to good local shopping, restaurants and other amenities was the next most important property consideration, especially for those in Victoria.

Based on the responses from 330 property professionals Australia wide, the bank's report notes covid-related work flexibility has also precipitated a change in perceptions around buying in regional areas, with around 85% of property professionals identifying this as a key consideration for homebuyers (43% NSW to a low of 12% in WA).

This has been reflected in pricing data with some regional areas (notably popular coastal areas) outperforming the broader market.

Buying a house rather than an apartment has also become more important, (according to 63% of respondents), which the bank suspects reflects out-performance of detached house prices relative to apartments, plus changing lifestyle preferences. Covid has also seen a re-evaluation of the home and apartment sizes, plus land for homebuyers, with bigger increasingly viewed as better.

Despite a significant increase in people working remotely due to covid, just over one in two property experts still believed having good public transport was important for homebuyers: with 23% saying it was 'much more importan't, and 28% saying it was 'moderately more important'.

Auto parts: More Aussies doing road trips

Citi's analysis of the March 2021 new vehicle sales data (up in March 2021 by 22%) and industry feedback suggests ARB Corp ((ARB)) is well placed to benefit from strong demand for SUVs, 4x4s and off-road accessories.

Citi's proprietary ARB sales index increased by 24% in March 2021 (February 21: 12%), making it the fifth consecutive month of double-digit growth driven by strong growth in upper large SUVs (up 53%), large SUVs (up 28%) and 4x4s (up 24%).

The broker notes, 4x4 sales benefited from the strong demand for Toyota Hilux (up 45%), Mitshubishi Triton (up 41%) and Ford Ranger (up 26%). Relative to March 2019, the ARB sales index was up 6%.

Citi also expects elevated demand for car services prior to Easter 2021 to benefit Bapcor ((BAP)) and GUD Holdings ((GUD)). Bapcor's CEO recently indicated in a public interview that elevated demand for car services has been driven by customers both servicing their vehicles prior to road trips and customising their new/existing vehicles.

Citi believes increased demand for used cars – with Moody's Analytics Used Vehicle Price index peaking 40%

higher in March 2021 - as positive for Bapcor and GUD. Both companies target cars that are five-plus years old, and older cars more likely to be serviced at independent workshops.

Despite stronger trading conditions over CY21, Citi thinks the market may under-appreciate ARB's longer-term growth potential, noting export sales should be supported by the company's recent acquisition of Truckman in the UK, and that the company has reduced its dividend payout to invest in future growth.

Citi maintains a Buy rating on ARB and FY22 to FY23 earnings per share (EPS) reduces by -1%, each accounting for the increase in shares following the underwriting of interim dividend. The target price increases to $45.95 from $45.15.

Given that Bapcor continues to have a number of longer-term growth strategies such as international expansion, procurement efficiencies and private label, Citi opens a positive Catalyst Watch on the company. The broker believes Bapcor is the top pick in the small-cap auto sector, and maintains a Buy rating (target price $9.35).

While covid-induced consumer mobility changes and acquisitions are likely to mask key challenges, Citi also maintains a Buy rating and target price of $14.90 on GUD Holdings.

<u>Hybrid work environments: Three key beneficiaries</u>

While over 60% of CIOs haven't yet figured out post-covid return-to-work layouts, Morgan Stanley's US AlphaWise IT survey suggests there are significant tails winds in store for those companies that are accelerating multi-year IT investments supporting hybrid work environments.

Key takeaways from Morgan Stanley's US Insight note on a new workplace suggest employers adopting hybrid work strategy could have between 20-25% office employees working from home (pre-covid around 5%). When asked about tech investments to "future proof" offices, 56% of CIOs favoured more video conferencing rooms for collaboration and increased investment in wireless access and client devices, while 70% expected less printing, (by 5% average).

While this is a US survey, Morgan Stanley believes the insights apply globally, and favours three ASX-listed stocks Audinate Group ((AD8)), Nitro Software ((NTO)), and Bigtincan Holdings ((BTH)) for that global exposure.

Audinate delivered record second quarter 2021 revenues on the back of corporate and higher education, and in Morgan Stanley's view the company is a clear beneficiary of a multi-year corporate conferencing investment cycle.

While Morgan Stanley expects Audinate's medium-term growth trajectory to continue to be supported by technology upgrades - to enable whatever a new normal looks like - the broker sees some opportunity cost, as Dante still lacks widespread video adoption and product in market.

Morgan Stanley is Overweight Audinate and has a price target of $10.00 (25% upside).

Meantime, Morgan Stanley expects the digitisation of paper processes to persist for Nitro Software. The broker sees Nitro's proposition as supported by remote working, less office space, productivity, and sustainability efforts.

Morgan Stanley's annual recurring revenue (ARR) forecasts of a 40% (CY20-23) compound annual growth rate (CAGR) for Nitro Software reflect the broker's conviction that PDF productivity (US$5.5bn) and eSigning (US$28bn) are very large total addressable markets (TAMs) and still early in the adoption curve.

The broker also notes Nitro Software operates in a rational competitive environment versus market leaders, with limited sensitivity to challenger offerings. Morgan Stanley is also Overweight Nitro Software and has a price target of $3.70 (30% upside).

Morgan Stanley believes a focus on better enabling remote work should at least be incrementally positive for Bigtincan Holdings, especially as high-cost sales teams are changing the way they work. With investors having pushed back on how wide Bigtincan competitive moat is - and hence implications for longer-term growth – the broker's channel checks indicate that the company is a leader in a fast-growing TAM with access to capital to scale.

In short, Morgan Stanley thinks Bigtincan can sustain elevated growth rates as sales teams become more distributed, and is Overweight, with $1.50 price target (44% upside).

<u>Employment: Part-time outpaces full-time</u>

Beating all expectations, Westpac's ((WBC)) latest Labour Force survey reveals employment level in March was back above where it was pre-covid. Total employment rose 70,700 in March, firmly above Westpac's estimate of 32,000. This strong jobs gain was enough to push the unemployment rate down to 5.6%, despite participation rising 0.2ppts to a record 66.3%, driving a 34,600 lift in the labour force.

Westpac data reveals job gains were concentrated exclusively in part-time employment, which advanced 91,500 and more than offset a 20,800 fall in full-time jobs. This drove part-time employment up almost 77,000 (up 1.9% for year) compared to a year ago, while full time is 2,500 (no change) below March 2020.

Despite a record high in participation in March, female unemployment is lower than male unemployment. Westpac notes, the outperformance in female employment (both full-time and part-time) is not explained by growth in industries that have a higher share of female employment, but rather a broader underperformance in male employment (in particular full-time employment).

Some of the fall in full-time, and rise in part-time, would be associated with employees moving between full-time and part-time classification as their hours worked changed. However, Westpac notes this does not change the overall picture that the recovery in part-time employment continues to outpace the recovery in full-time employment.

The employment recovery in NSW and Victoria has lagged the recovery seen across the rest of the nation, which suggests to Westpac there may be more scope for catch-up across these two states.

While better than expected employment data doesn't mean that there will be no job losses due to the ending of JobKeeper, Westpac believes the strong recovery in hours worked suggests the labour market is in a much more robust position than the bank thought even just a month ago. However, Westpac suspects there will be pockets of stress in some sectors.

RUDI'S VIEWS

Rudi's View: More Upgrades, More Potential For Aussie Shares

More Upgrades, More Potential For Aussie Shares

By Rudi Filapek-Vandyck, Editor FNArena

Back in early 2011, something odd was happening in the Australian share market. Equity strategists at investment banks and stockbrokerages domestically were predicting strong gains ahead for the Australian share market, at that time eyeing the 5000 level, but instead the index dropped towards 4000.

What caught my attention in early 2011 was that the bullishness expressed through strategist projections and forecasts was not supported by forecasts made by analysts who covered sectors and individual companies.

As it was, those forecasts were a lot less optimistic and as things developed, the lack of further upside as expressed through individual, bottom-up valuations and price targets proved more accurate.

The ASX200 didn't break above 5000 until early 2013; a mere two years later.

I wrote a detailed analysis about it on 4 April 2011, titled How Much Upside Is There?

The reason why I am bringing this up again today is because the local share market is once again characterised by a similar large gap, only this time the roles have reversed. Many voices are reassuring investors the share market is over-heating and poised for a retreat, but this is not what is being reflected in analysts' forecasts and valuations.

Time for a deeper dive into the finer details.

The Banks Market Sentiment Indicator

...but first, let's catch up on my personal market sentiment indicator; the gap between share prices of Australia's Big Four banks and consensus price targets as set by the seven stockbrokers monitored daily by FNArena.

On March 15, I dedicated Weekly Insights to the fact Australian banks shares were trading at or near consensus targets and, assuming my old indicator is back and can be relied upon, this should act as a warning signal; maybe market sentiment is running too hot in the short term?

In a market that is as polarised as most of us have ever witnessed, the ultimate question remains whether this market indicator still applies for the share market in general terms, or whether it now reflects this year's Value and reflation trade? Or maybe nowadays it simply applies specifically to the local banking sector?

The same questions need to be asked for all indicators that can be used to gauge over-excitement and bullish exuberance. Today's is not our grandfather's share market and many calls for a sharp retreat in equity prices have remained unanswered in recent times, often to the detriment of those who got scared off and retreated to the sidelines.

Since mid-March, the ASX200 has added approximately 300 points, pushing the index above 7000 but equally important, the banks are still trading around the same 'peak' levels as they were about one month ago, with exception of the sector laggard. Westpac ((WBC)) shares had temporarily peaked just under $25 in March and they have used the subsequent pullback and recovery to rally above $25.

This is typical behaviour for a sector that is pushing against a valuation ceiling. The Big Question, of course, remains whether the upcoming results season for the banks will deliver increased forecasts and higher valuations.

Regional lender Bank of Queensland ((BOQ)) has already reported and if its performance can be relied upon for three of the Majors -ANZ Bank ((ANZ)), National Australia Bank ((NAB)) and Westpac- then the banks are cum further upgrades once interim performances have been released and dividend forecasts have been adjusted further upwards.

The consensus price target for Bank of Queensland lifted to $9.82 from $9.23 following the interim release, up 6.4%, but the shares are still trading below the near-$9.50 level from late February. Given I am hardly inventing the wheel here, it's probably fair to assume investors are anticipating more positive news from the local banks, and this is reflected in today's share prices.

Savvy investors know forecasts and valuations (price targets) should never be treated as set in stone. One positive announcement might be enough to revive upward momentum. Of course, the same goes for a disappointing market update in the opposite direction.

Irrespectively, the observation stands that the Australian share market has made further gains over the month past and banks have not been the key contributor. Consider, for example, REA Group ((REA)) shares rallied from circa $133 to just below $160 for a gain of 20% during that time. Shares in Xero ((XRO)) bottomed around $105 and they are now trading above $146; a difference of 39%!

But it has not been solely about the come-back of Quality and structural growth. BHP Group ((BHP)) shares sold off early in March after having finally conquered the $50 mark; they subsequently bottomed at $44.50 and are now back at $47.50. Rio Tinto ((RIO)) shares sold off from $128.50, reversed direction at $107 and are now trading around $120.

It is my personal view that equity markets have not experienced a serious pullback because a heavily bifurcated market allowed the pendulum of short term momentum to swing from Value and cyclicals into Growth and Quality, and back and forth on multiple occasions. Now that bond markets are laying low, at least for the time being, stocks including Aristocrat Leisure ((ALL)), Bapcor ((BAP)), NextDC ((NXT)), Hub24 ((HUB)), and many others are steadfastly narrowing the gap with consensus targets.

This might indicate that while the Banks Market Sentiment Indicator was previously mostly a reflection of the sector and this year's Value trade broadly, it might yet become a weather vane for the broader market. Maybe once we're past the interim results?

(Assuming the market doesn't segregate itself again and starts swinging the pendulum instead).

Consensus Price Targets: The Market's Second Opinion

Whereas the banks indicator fails to provide us with a conclusive outcome, most share price targets for ASX-listed stocks are still above today's share prices, in some cases up to 60% and more; although stocks like Perenti Global ((PRN)), Elmo Software ((ELO)), Salt Lake Potash ((SO4)) and Aerometrex ((AMX)) can never be treated as a proxy for the broader market overall (their heavy discounts might indicate serious problems ahead).

The FNArena stockbroker research universe of ASX listed companies consists presently of 420 entities. Of those, only 104 are trading above target, including Mayne Pharma ((MYX)), Estia Health ((EHE)), Domino's Pizza ((DMP)) and Dexus Property ((DXS)). In other words: more than 300 share prices under coverage -three quarters of the total- still have a gap to fill.

But maybe any conclusions drawn from this observation risk being too simplistic? In Australia, the ASX20 makes up more than half of the share market in terms of index weightings, and thus more consideration needs to be given to the specific context surrounding CSL ((CSL)), CommBank ((CBA)), BHP, et al.

Spoiler alert: the numbers for the Top20 in Australia look a lot less promising. FNArena's website shows all major local indices, including price targets for index constituents. Check out the ASX20 here: https://www.fnarena.com/index/ASX20/

It is easy to establish the Top20 of Australia's large cap market leaders is split in two with half of the stocks above or very near the target, while the other half contains market laggards such as Brambles ((BXB)), Coles ((COL)), and CSL for which market enthusiasm is lacking to push share prices a lot higher in the short term.

Admittedly, Rio Tinto and Westpac are still trading below target, as are Goodman Group ((GMG)), Newcrest Mining ((NCM)), Telstra ((TLS)), Woolworths ((WOW)) and Woodside Petroleum ((WPL)) but in many cases one or two days of further gains can push the majority of the still-below half over to the opposite side.

So there certainly seems to be a case to be made in that the Australian share market is flirting with a lot of optimism and positive projections, with share prices of market leaders largely reflecting such positivism, but it's far from an excessive bubble, as some critics would label it.

Investors should not dismiss the fact that forecasts can still increase, which would push up valuations and price targets too. And did I mention dividends? Many an expert remains convinced current dividend forecasts remain too low, which would only add more fuel to the anticipation of additional valuation-upside ahead.

The Australian share market has been supported by rising forecasts for seven consecutive months, but market strategists at Macquarie, among others, still predict more upgrades lay ahead. On their estimates, forecast earnings have risen 23% from the low in August last year. Macquarie thinks earnings estimates can potentially rise another 15-20% over the year ahead.

It would make the current upgrade cycle for the Australian share market the strongest in many decades; much stronger than at any time during the Supercycle Commodity Boom. And it's not already priced in, say the strategists. They single out Woodside Petroleum, Nine Entertainment ((NEC)), South32 ((S32)), Reliance Worldwide ((RWC)) and Woolworths as Top100 companies for which market forecasts appear too conservative.

Equally important: if Macquarie's positive projections for the economic recovery ahead prove accurate, there remains potential for further hefty increases to current market forecasts for companies outside the Top100, in particular for the cyclical parts of the market, as well as for those sectors that have been negatively impacted by the pandemic, including the banks, energy companies and insurers.

In conclusion: while the Australian share market is by no means "cheap", there is ongoing expectation that current forecasts and projections are under-estimating the economic recovery that lays ahead for the second half of 2021, and into next year. This implies the share market is not yet priced for perfection and should have more upside left. Of course, it goes without saying that were the trajectory of this economic recovery to change for the worse, this can potentially have a major impact on share prices priced for ongoing potential.

In the short term, the local Top20 can potentially run into valuation constraints, but a lot depends on the upcoming financial results from the banks. Anticipation is building. On the other hand, with no less than 220 stocks (of the 420) still trading at least -5% below consensus target, and more than 200 stocks -8% below and more, it should surprise no one if investor attention increasingly shifts to smaller cap opportunities.

In terms of the indicators mentioned, I believe both the banks and consensus price targets in a broad sense are signalling a lot of optimism has been priced in, but share prices remain supported by anticipation of further upgrades, which might well prove crucial for the trajectory of equities over the remainder of the year, with varying degrees of polarisation included.

The big difference between 2011 and today is that market forecasts are in support of ongoing optimism, though further upgrades will be required to keep the momentum positive.

FNArena has freshly uploaded the latest update for the Australian Super Stock Report, which includes the ability to compare share prices against consensus targets:

https://www.fnarena.com/index.php/analysis-data/super-stock-report/

Further research that can be downloaded without the required access to the website:

-IIR's biotech newsletter for March:
https://www.fnarena.com/downloadfile.php?p=w&n=192A8D37-B758-4FB3-12A9A9371B8B2E3E

-IIR's biotech newsletter for April:
https://www.fnarena.com/downloadfile.php?p=w&n=192608A5-D3F6-1280-44313D2B2F20F96D

(This story was written on Monday 19th April, 2021. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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