WEEK 47

FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Friday, 18 November 2022

Capital Management Options For Aristocrat Leisure

ESG Focus: ASX300, Eye On Energy Revenue

Rudi's View: Re-Opening Opportunities In Healthcare

CONTENTS

AUSTRALIA

ESG FOCUS

RUDI'S VIEWS

SMALL CAPS

TREASURE CHEST

WEEKLY REPORTS

FNArena
Financial News, Data & Analysis

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

Your editor:
Rudi Filapek-Vandyck

Your dedicated team of journos:
Greg Peel, Danielle Austin, Mark Woodruff & Sarah Mills

AUSTRALIA

No Straight Covid-Relief For Ramsay Health Care

Following first quarter results, some brokers anticipate rising margins for Ramsay Health Care though overseas operations are harder to forecast.

-First quarter revenues for Ramsay Health Care rise, profits decline
-Brokers upbeat on an Australian recovery, offshore concerns persist
-Management notes improvement across all geographies
-Goldman Sachs feels margins have bottomed
-Average target price falls

By Mark Woodruff

The share price of private hospital operator Ramsay Health Care ((RHC)) has been on a rollercaster ride in 2022, hitting a high of $84.58 in mid-April and plumbing to a $55.73 low just last month.

In the wake of last week's first quarter results, the share price received a minor fillip after some brokers became more optimistic about the domestic business, though concerns remain for the European operations.

The company operates hospitals and day surgery centres, along with treatment facilities, rehabilitation and psychiatric units and a nursing college across Australia, the UK, France, Indonesia, Malaysia and Italy.

The Australian business contributes around 41% of revenue, while Continental Europe and the UK account for circa 52% and 7%, respectively.

Management noted improvement across all geographies as covid cases decline, with the company well positioned for volume growth over the medium-to-long term.

Revenues increased by 6.7% year-on-year to $3.5bn, while underlying earnings (EBIT) fell by -13% to $172m.

Goldman Sachs believes a recovery is finally on the way with covid-related disruptions and costs appearing to abate and believes the -113bps fall in margin to 5% will represent a nadir. Any margin improvement from here is expected to reintroduce some earnings leverage back into the business.

Profit of $57.4m marked a substantial miss versus the consensus expectation for $210m, largely due to earnings in Europe of $17.7m compared to the $229m forecast. Credit Suisse attributes the miss to lower covid-related cost support, high inflation and staff shortage challenges.

Morgans notes activity is gradually improving and there is an ever-increasing surgical backlog, which should add uplift to forecasts. This greater activity and lower costs are thought to indicate improving momentum. Covid costs are down to less than -$6m in October from -$39m in July.

However, Morgans also points out costs associated with covid, staff shortages, cancellations, and other inflationary pressures are expected to prevent margins returning to pre-covid levels over the near-to-medium term.

Citi agrees with Goldman Sachs the post-covid recovery is underway in Australia, based upon a pick-up in activity during September and October. Surgical admissions per workday rose by more than 10% compared to FY20, while non-surgical increased by 4%.

According to this broker, a recovery in higher-margin non-surgical admissions should result in margin expansion over time.

Staff absenteeism and turnover declined materially in Australia in the first quarter from peaks seen earlier in the year, points out Morgan Stanley. Management also noted supportive rates from the health funds and believes workforce shortages will abate in 2023.

The activity level also continues to improve in the UK, though Citi believes the recovery may be slowed by a rise in covid and flu cases. Profits were severely impacted by the labour shortage, which are expected to improve over time.

Citi analyst finds it difficult to draw any conclusions on France from first quarter results, though suspect any margin recovery will take longer given greater dependence on government funding.

Movements in ratings and average target price

Ord Minnett leaves its forecasts largely unchanged though upgrades its rating to Buy from Accumulate on potential upside from a domestic recovery.

While Wilsons acknowledges a first quarter earnings miss, exit run-rates for volumes and mix were supportive of revenue forecasts and the broker's rating rises to Overweight from Market Weight. The diminishing impact of covid-related costs were also mentioned.

On the flipside, Citi downgrades to Neutral from Buy due to not only lower EPS forecasts but also after factoring-in less near-term likelihood for a large-scale sale and leaseback transaction. This view comes as management dismissed recent press reports about a potential divestment of Ramsay Sante in France. The broker's target price was also lowered to $62 from $73.

Goldman Sachs highlights first quarter earnings for Sante fell by -73% year-on-year, which underlines the distortive impact of previously higher government support measures during covid.

There are six covering brokers in the FNArena database with three Buy (or equivalent) ratings, two Neutral and one Underweight rating.

Following first quarter results, the average target price has fallen to $67.16, down from $68.97, suggesting 9.2% upside to the latest share price.

Outside of the database, the average target price of the Overweight-rated Jarden and Wilsons, along with Goldman Sachs (Neutral), falls to $64.16 from $65.69.

Outlook

Neutral-rated Credit Suisse believes the company has limited deleveraging options outside of improved earnings performance, which may restrict the execution of its brownfield investments. It's felt any significant sale and leaseback is unlikely in the current macro environment.

Ord Minnett points out the company negotiated a lift in its allowable leverage ratio during the quarter, and this broker is comfortable with current debt levels, given operating conditions are on the improve.

This view holds, even if further covid headwinds emerge. The Australian media is reporting a ‘fourth wave’ with covid cases rising sharply in most states. While this is a threat, Ord Minnett remains confident Ramsay Health Care and the community will increasingly learn to manage through this new normal.

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

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

AUSTRALIA

Recession, Destocking Cloud Ansell's Outlook

Ongoing distributor destocking ahead of a potential economic downturn is posing threat to Ansell's earnings assumptions.

-Uncertain global economic outlook and distributor destocking pose risk to Ansell's earnings outlook
-Earnings guidance narrowed to lower half of previous range
-Healthcare business largely expected to remain resilient

By Danielle Austin

Ansell ((ANN)) has warned of downside risk to its full year revenue guidance, given growing concern around the global economic outlook. The company had previously warned around half of its portfolio is sensitive to the economic cycle, and performance appears to have been impacted by suppliers looking to address oversupply in preparation for a potential global economic downturn.

Given destocking and an uncertain outlook, the company anticipates it is more likely it will achieve earnings in the lower half of its previous FY23 guidance range of 115-135 cents per share. Moderating cost inflation and a lower tax rate are expected to partially offset the impact on earnings.

The company believes covid-driven distributor destocking is not yet finished, noting distributors continue to reduce inventories of exam gloves and chemical protection clothing. While expected to be temporary, ongoing destocking is anticipated to impact on near-term earnings and remains a risk to revenue guidance.

The industrial division is expected to account for 44% of full year revenue, comprising a 63% of contribution from its mechanical segment and 37% of its chemical segment.

While industrial activity has largely remained favourable, the market remains cautious on the impact of recessionary risk later in the fiscal year. The company's healthcare division is anticipated to account for 56% of full year revenue, and has continued to benefit from strong growth in its surgical segment.

<u>Uncertain outlook translates to mixed bag from brokers</u>

Brokers are largely uncertain on Ansell's outlook, citing a lack of visibility and factors outside of the company's control. Three of FNArena's database brokers are equivalent Buy rated on Ansell and two are equivalent Hold, with an average target price of $29.15 ranging from $24.14 to $32.00.

Noting end user demand for Ansell's products has remained largely resilient to date, Macquarie (Outperform, target price $28.85) warns recent data could suggest a moderation of this trend.

The broker believes recovery is ahead for the company's industrial segment, and that healthcare can remain resilient. Macquarie considers the medium-term outlook for Ansell to be favourable, with risks largely tied to the macroeconomic outlook.

Ord Minnett and Citi (both Buy, both with a target price of $32.00) both cut forecasts off the back of Ansell's update. Ord Minnett finds the update to highlight challenges facing Ansell that remain out of the company's control, including the threat of a recession, currency headwinds, rising inflation and oversupply.

Citi warns volatility is likely to remain a risk for the coming year. While Citi has cut its earnings per share forecast -3% each year through to FY25, Macqurie has taken larger -6% and -10% cuts to its FY23 and FY24 assumptions.

Despite its Hold rating, Morgans (target price $24.14) highlighted a more favourable cost environment and industrial activity as positives.

According to this broker, management continues to steer the company through slowing demand, ongoing covid disruptions and recessionary fears, but notes a lack of visibility around full recovery.

Similarly rated, Morgan Stanley's (Equal-weight, target price $28.77) earnings assumptions for the current fiscal year are below consensus, and the broker prefers to remain on the sidelines given the uncertain outlook.

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

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

AUSTRALIA

Waggaman Review Delays Incitec Pivot's Split

Buyout interest for the Waggaman operation in the US has delayed Incitec Pivot's demerger plans.

-Incitec Pivot delivered record FY22 performance, but have commodity prices peaked?
-Unsolicited interest for Waggaman has triggered a strategic review for the Louisiana plant
-Plans to separate Dyno Nobel and Fertilisers now on hold for up to 12 months

By Danielle Austin

Board and management at industrial chemicals, explosives and fertiliser business Incitec Pivot ((IPL)) remain convinced splitting the company in two independent units -Dyno Nobel and Fertilisers- remains the right strategy to unlock embedded value for shareholders.

This week, while releasing a record FY22 earnings result, the company nevertheless announced the demerger intentions have been delayed by between six and 12 months. The reason: the company has received unsolicited bids for its Waggaman ammonia plant in the US and intends to thoroughly review its options.

The financial result beat most forecasts. Underlying earnings increased 162% year-on-year to $1,485.2m with net profit lifting 186% to $1,027.1m. The strong result was underpinned by materially higher fertiliser prices. Shareholders were rewarded with a dividend of 17 cents per share, as well as a $400m share buyback.

Fresh buy-out interest for the Waggaman ammonia operation in Louisiana (WALA) should not come as a huge surprise, even though the plant has caused operational headaches for the company in the past.

Waggaman's US location has allowed the operation to be a beneficiary of low-cost gas, and its advantage has only further increased amid recent geopolitical events.

Currently, around 20-30% of Waggaman's offtake is sold internally to Incitec Pivot's Dyno Nobel business, and the company has indicated it will seek to retain this offtake agreement in the case of a sale in a bid to preserve its own access to low cost ammonia supply to maintain its downstream cost advantage.

Near-term outlook splits analysts

Management at Incitec Pivot expects strong strategic and operating momentum to carry the company into the new fiscal year. Many an analyst covering the company agrees operational momentum remains strong.

Of the brokers monitored daily by FNArena's Australian Broker Call Report, three are equivalent Buy rated on the stock, three are equivalent Neutral rated, with one under research restrictions (and thus unable to provide a rating or valuation). The average target price is $4.34, with a range of $3.70 to $5.05.

Describing Incitec Pivot’s plans to undergo a strategic review of Waggaman as the more logical option, Morgan Stanley (Overweight, target price $5.05) expects there is greater potential to create value for shareholders.

The broker expects the demerger delay will be well received, noting the review may present a more accretive option. Morgan Stanley expects a range of valuations might be considered for Waggaman given the current nitrogen cycle.

Macquarie (no rating) agrees the outlook for Incitec Pivot is positive, but this broker's attention is now firmly on the deferred demerger. Macquarie finds the delay of up to twelve month is lengthy, with the company citing complexities of the US regulatory requirement and its desire to retain the Dyno Nobel offtake contract.

UBS (Buy, target price $4.50) highlights Incitec Pivot’s significant leverage to elevated ammonia pricing underpins its rating, with global fertiliser prices remaining supported by tight supply.

Morgans (Add, target price $4.55) has lifted its earnings forecasts 3.9%, 4.3% and 3.8% through to FY25, accounting for higher fertiliser pricing and a lower Australian dollar.

Despite being a record result, Incitec Pivot’s full year net profit still missed Ord Minnett’s forecast by -2.5%. Both Ord Minnett (Hold, target price $4.30) and Credit Suisse (Neutral, target price $3.92) flagged commodity prices are already showing signs of moderating, with the latter expecting commodity pricing to become less of a tailwind throughout the coming year.

As a result, Ord Minnett expects momentum has likely peaked for the stock, but this broker remains positive on a longer-term horizon. Credit Suisse also flagged that while Incitec Pivot stands to recover value from the divestment of Waggaman given the initial low-cost construction of the asset compared to its current valuation, significant value would be lost to tax costs.

More subdued expectations for the years ahead are currently reflected in consensus forecasts that, post FY22 release, indicate Incitec Pivot's EPS is likely to decline by -10% in FY23 and then to decline by a further -37% in FY24.

Forecast dividend yields are respectively 5.8% and 3.7% while the consensus price target suggests more than 10% upside from today's share price.

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

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

AUSTRALIA

Capital Management Options For Aristocrat Leisure

Brokers remain mostly buy-rated on Aristocrat Leisure following first quarter results that largely met consensus expectations.

-First quarter revenue and profit for Aristocrat Leisure meet consensus forecasts
-Americas gaming outperformed, A&NZ Gaming flat
-Macquarie expects higher costs will unwind
-Potential capital management upside?
-iGaming set for US launch in early 2023

By Mark Woodruff

In the immediate aftermath of a -5% share price fall following FY22 results, Morgans suggested investors take advantage and buy Aristocrat Leisure ((ALL)) shares.

Brokers were generally unperturbed by the results as no doubt were long-term investors, who have experienced a tenfold share price increase in just over nine years.

Revenue and profit of $5.6bn and $2.4bn, respectively, were largely in line with consensus, despite cost inflation and a lower-quality result for Pixel United, the digital gaming business.

Group earnings margins rose by 160bps to 28.6% year-on-year though second half margins were materially lower than for the first half on increased supply chain costs, notes Morgan Stanley.

The company designs, develops and distributes gaming content, platforms and systems, and its land-based gaming products include slot machines, blackjack and roulette machines as well as Class II (Native American bingo-based) casino games.

More recently, Aristocrat has developed a leading presence in digital gaming, and, according to Morgans, has some of the best performing social casino, social casual and strategy/role-playing games in the world.

Americas Gaming was the standout division in FY22, achieving strong growth in both gaming operations and outright sales. International Class III also contributed materially to profit growth, while profit from Gaming in A&NZ and Pixel United was broadly flat, the latter due to normalisation (post-covid) for the mobile games market.

While Macquarie acknowledges higher costs impacted land-based and Pixel United forecasts, some of these costs should unwind over the medium term.

The Outperform-rated broker continues to have **a high conviction based on earnings upside, an attractive valuation and dividend yield, along with some capital management optionality.**

Management's forecast for profit growth is a good outcome, according to Jarden, considering the ramp-up in costs required for real money gaming (RMG). It's felt the extent of that growth is dependent on Pixel United and whether gaming spend is impacted by a worsening economic backdrop.

A key takeaway for Goldman Sachs is expected growth by management for Pixel United, given recent investor concerns regarding the stability of this division. Credit Suisse, on the other hand, remains unconvinced, noting the difficulty of igniting growth from existing games in a challenging market.

Capital management optionality and the iGaming launch

Macquarie points out **Aristocrat continues to execute on its capital management strategy.**

Apart from declaring a 26cps final fully franked dividend, the company has now completed 68% of its $500m on-market share buyback, and in September repaid its US$250m Term Loan B facility.

Depending on leverage and market conditions, management will contemplate further buybacks and will look at ongoing M&A opportunities to support growth in Pixel United and the launch of the online RMG business, now branded Anaxi.

Anaxi will launch iGaming, currently legal and operating in seven US states, in three US jurisdictions by early 2023. Regulatory approval has already been received by Aristocrat for eight games in North America, while approval for its Remote Gaming Server is due by the end of 2022.

Morgans highlights current available liquidity of $3.8bn and suggests the company has **funding capacity for organic investment in online RMG, even after the recent buyback**, while Morgan Stanley also expects future growth will be supplemented via the balance sheet.

Credit Suisse agrees regarding Aristocrat's spare firepower and suggests a mid-size acquisition would boost EPS and create value.

Outlook

Goldman Sachs likes Aristocrat Leisure’s strategic diversification. Not only does the company hold a top-three spot in US slot machine sales, but also a strong digital gaming offering, along with the upcoming launch into the growing iGaming market.

The broker favours the longer-term growth outlook over short-term concerns around the spending required to achieve such growth and lingering supply chain pressures.

A content advantage, according to Morgan Stanley, will help the company become a meaningful player in the fast-growing US i-Gaming market, while Digital will remain a meaningful profit generator, with a portfolio that is more diversified than peers.

Ratings and target price summary

Within the FNArena database there are six Buy (or equivalent) ratings from brokers, while Credit Suisse remains Neutral-rated. The average target price is $42.00, which suggests 16.7% upside to the latest share price.

Following the FY22 result, the average target in the database fell to $42 from $42.53 though Citi and UBS are yet to update their research, and Ord Minnett has only expressed an initial view (though positive) prior to any potential target price change.

Outside of the database, Goldman Sachs (Buy) lifts its target to $42.80 from $42.50 and Overweight-rated Jarden's target increases to $39.29 from $39.13.

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

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

ESG FOCUS

ESG Focus: ASX300, Eye On Energy Revenue

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/

ESG Focus: ASX300, Eye On Energy Revenue (1)

The Ukraine invasion fired a focus on the energy revenue opportunity in the June half, and we examine ESG developments affecting gas and nuclear energy demand for this year and the next decade.

-Gas and nuclear benefit from Ukraine invasion
-Gas clear-cut, nuclear a bit more complicated
-Globally governments jump on board
-Litigation threats for gas and nuclear grows
-Appetite strong for green nuclear-energy bonds

By Sarah Mills

It was all about energy in the ASX300 August reporting season.

The Ukraine invasion and lockdowns conspired to generate energy and supply chain inflation, leaving consumers and businesses to absorb the hit through higher interest rates during the June half.

Energy stocks rallied sharply (including coal companies) in response to Russia's invasion of the Ukraine.

Carbon-free energy sources and renewables were overshadowed by the gas and coal boom but developments ticked along there as well, with $10bn of investment proposals in Australia being logged alone, which we discuss in our second instalment in this series on green energy.

Meanwhile, the Ukraine invasion conveniently gave the European Parliament just the push it needed to get the inclusion of gas and nuclear energy across the line for temporary inclusion in the European green taxonomy.

Gas and nuclear energy will be designated "sustainable" as of January 1, 2023, but risks abound.

Europe specified the inclusion of both in the taxonomy would be for a "limited time" and has set a deadline for construction permits of 2030 for gas and 2045 for nuclear energy plants.

Products produced with gas and nuclear energy will only be considered sustainable if they replace coal generation (gas producers will also need to prove they can switch to low-carbon gases from 2035) and "do no significant harm", which opens the doorway to a bevy of legal challenges.

The fuels can only be used in instances where economically feasible low-carbon alternatives are not available.

Large EU listed non-financial and financial companies must disclose the proportion of their activities linked to natural gas and nuclear energy, paving the way for potential tariffs when deadlines pass (or laws change).

Gas And Nuclear Energy Gain A Short Second Life

Gas and nuclear stocks, while both hardly green, technically count as green for tariff purposes after their inclusion in the green taxonomy, leaving coal as the only global fossil fuel pariah.

Big capital let the funds flow into these sectors in the June half as markets moved to redirect energy shipments to Europe, and capital expenditure plans progressed on the assumption of continued returns.

For now, demand for gas is expected to continue to be supported as the favoured transition fuel over uranium, given Europe placed taxonomy limits on the latter's waste disposal, but this preference will likely be short-lived.

Natural gas is a relatively low-carbon fuel, producing about -60% less carbon emissions than coal. It is the cleanest burning of all fossil fuels, hence its inclusion.

Nuclear energy, while not a carbon-based fuel, produces hazardous waste, and it is likely to experience less support than gas in the short-term pending lobbying and technological developments, (more on that below) and its poor economics.

Gas projects must emit no more than 270grams of CO2 equivalent per kilowatt hour to receive the temporary green label; or annual emissions can't exceed an average of 550kg p/kw over 20 years.

The ruling will affect EU sustainable finance legislation, including its green bond standard, which is expected to include both gas and nuclear energy.

Gas revenues stream in

On the ASX, Woodside Energy's ((WDS)) share price soared in the June half, well ahead of the Ukraine invasion, after the merger with BHP Group's ((BHP)) Petroleum division was announced in November, and as markets possibly punted on gas's inclusion in the taxonomy and the likelihood of an invasion.

Santos ((STO)) fared less well, its share price also rocketing heading into the Ukraine War before beating a hasty retreat as the June half drew to a close.

Santos announced a partnership with SKE&S and others to develop carbon capture technology, a dubious investment but, with sufficient lobbying, it may well attract large government subsidies given Labor has a majority in Parliament.

It was a similar story for Beach Energy ((BPT)), which managed to connect the first two wells of its offshore Otway Basin to the Otway gas plant and started delivering to market. The same for Karoon Energy ((KAR)).

Strike Energy ((STX)) experienced a similar trading pattern (although it recovered) and plans to target the industrial market. The company is interesting from a zero-carbon energy perspective in that it also operates geothermal plants (more on that in our next article on non-gas revenue streams).

Meanwhile, Europe's inclusion of gas for a limited time appears to have been increasingly unnecessary.

The International Energy Agency reports the Ukraine conflict has turbo-charged the green transition, and predicts fossil-fuel use will peak within five years, a date the IEA executive director describes as a "pivotal moment in history".

In its World Energy Outlook 2022, the agency says global energy demand growth to 2030 will 'almost entirely' be met by renewables, suggesting the growth prospects for gas to be diminished post that date.

The Institute for Energy Economics and Financial Analysis reminds investors the recent military intervention behind gas-price rises is unsustainable and advises:

"Market fundamentals for oil and gas are weak because disarray within the industry and competition threatens the industry's growth plans. For investors seeking a steady, stable investment, fossil fuels are unreliable."

IEEFA says the investment case for divestment remains strong as a defensive move to prevent the loss of shareholder value.

Nuclear not so straight forward

According to Reuters, nuclear energy's inclusion in the European taxonomy, while welcome, was accompanied by too many clauses to be useful to long-term nuclear investors and reflects more of a capitulation to France and other lobbyists.

While the 2045 deadline for construction permits appears to be carte-blanche for the fuel, other clauses provided serious industry challenges.

They included the necessity to use Accident Tolerant Fuel (ACT) in existing plants and Generation III new builds by 2025; and each country using nuclear energy must dispose of their low-level waste in their own countries in approved operating facilities and have a plan for high-level waste by 2050 (no rush on the latter it seems).

The former (ACT) is in the testing phase and will not be commercially available, nor certified and approved by 2024, leading observers to opine this makes it impossible for nuclear energy to meet Europe's criteria in the near term.

The latter (own-country waste disposal) is bound to meet grass roots political opposition and could (along with the gas inclusion) dislodge green support for ESG, particularly if environmentalists perceive the net-zero narrative to be merely a whitewash to push through previously untenable green positions on gas and nuclear energy.

To be approved, the new technologies must be much more fuel efficient, designed to make accidents impossible in the event of an earthquake and other externals; must not release radioactive material into the external environment; and must never separate uranium and plutonium (to reduce the potential to create nuclear weapons).

Nuclear activity under the European taxonomy includes research, reactor construction, and life extensions, while mining and milling, which mostly takes place outside of the EU, is excluded.

Globally Governments Up The Nuclear Ante

Britain, meanwhile, displayed great confidence in nuclear energy as a future fuel heading into Europe's approval, co-investing in a GBP450m joint government-private sector venture to develop a Rolls-Royce small-scale nuclear modular reactor last year and asking its nuclear regulator to start approving the reactors. Approval is expected by mid-2024.

Hence, former British Prime Minister Boris Johnson was ready and rearing after the Ukraine invasion to commit to bringing eight new reactors online within eight years so as to end its dependence on foreign energy. The Rolls-Royce-led consortium plans 16 reactors in the UK.

Johnson wanted nuclear to contribute 25% of the country's energy power.

France has plans for 14 new nuclear plants and is restarting plants closed for maintenance.

India has committed to build new reactors in joint ventures with companies (few companies are prepared to brave the poor economics of nuclear energy alone).

Notably, Indian energy giant Adani, which has committed to spend US$70bn within the decade to sustainable energy, has demonstrated little interest in the fuel.

Poland has selected Westinghouse Electric to build the country's first nuclear energy reactor.

Romania is set to buy a modular reactor from the US, which could well be the first in Europe.

China plans to build 150 reactors over 15 years at a cost of US$440bn – suggesting a doubling in demand. In line with EU stipulations, it will enable China to retire its coal-fired power stations and that appears to be the deal.

What type of nuclear reactors will be built remains to be seen. The country is likely to adopt small modular reactors in the near term but has other irons in the fire.

China started its Generation IV reactor in late December 2021.

Criteria for Generation IV reactors are yet to receive regulatory approval. There are six Gen IV technologies in total, four of which (fast-neutron reactors) with closed-fuel cycles are designated for hydrogen production.

In August, the Shanghai Institute of Applied Physics received approval to commission an experimental thorium-powered molten-salt reactor after a three-year plant construction in Wuwei City and, if successful, plans to assert intellectual property rights on the technology.

The Wuwei reactor is the first molten-salt reactor to operate since 1969 and its success would be a triumph for China, given the West was unable (or unwilling) to successfully develop the technology.

China hopes to have its first plant running by 2030.

Under the project, all fuel salt would be discharged after five to eight years and proceed to a continuous recycling of salt, uranium and thorium, working on 20% to 80% thorium fission. If successful, it will not require water for cooling and will be operable in deserts.

Canada's CANDU reactors can run on thorium, and a 2012 report to the United States Secretary of Energy states a molten-salt reactor using thorium has been proposed.

This year, a bill was introduced in the US Senate on May 18 to provide for the preservation and storage of uranium-233 to foster development of thorium molten-salt reactors - the Thorium Energy Security Act.

Thorium is weakly radioactive, abundant, widely available, and its adoption would seriously affect the prospects for uranium. Thorium fission is relatively safe and cheap, and its waste much shorter-lived. Its products also have less chance of being weaponised than those of uranium.

While taking less time to build than large uranium-based reactors, the reactors still take a long time and one assumes blow-outs would be par for the course, so an immediate threat thorium is not, although some existing nuclear reactors can be adapted to run on thorium.

Meanwhile, the Ukraine War has also raised security concerns and is jeopardising critical systems at Ukraine's Zaporizhzhia site that are intended to prevent a radiological release.

This is a first and has led some security experts to suggest countries such as the United States should reconsider selling nuclear reactors to countries that may experience a ground war or to those with a decent chance of being in an air war.

For now, all of these concerns are falling on deaf ears. Perhaps the uranium industry is merely making hay while the geopolitical sun is shining.

To Finance Or Not To Finance Gas and Nuclear Energy

The EU ruling will flow down to the sustainable finance market.

Already, Nomura expects gas companies will use green bonds instead of sustainability-linked debt for their financing, reports Bloomberg.

While some banks, such as the European Investment Bank, are not including nuclear power in their investment policy, overall investors, including banks, appear to be champing at the bit.

The International Capital Markets Association says nuclear energy could account for more than 10% of green energy bonds going forward.

Responsible Investor quotes the CEO of ICMA Nick Pfaff: "Many investors to our knowledge are saying this [the European green taxonomy inclusion] isn't going to change much because they have their own in-house views; they have their own exclusions list."

Pfaff said some other investors also take a conditional view dependent on jurisdictions such as Canada and France, where nuclear energy is considered important.

Canada's Bruce Powers recent CA$500m green bond, backed by nuclear power generation, was six times oversubscribed so at this stage, investor appetite appears solid.

This was followed by 10-year CA$300m green bond from Ontario Power Generation to refinance the refurbishment of the Darlington Power Station.

RI says Sustainalytics views the maintenance and refurbishment of existing nuclear power plants as eligible for transition finance in areas with strong regulation and safety track record, but says new plants are not, given the time and capital intensity of projects, which carry strong opportunity cost.

But financing will be an area investors will need to keep a keen eye to as banks move to manage their own environmental risks.

Meanwhile, the uranium price rallied sharply heading into the Ukraine invasion but retreated sharply in June, partly because of monetary tightening and European speculation, before regaining most of its losses.

Back home in the June half, profitable uranium producers were well received, and August proved an excellent month.

Paladin Energy ((PDN)) jumped sharply in response to the Ukraine invasion and has been volatile since but is trading not too far from its earlier highs.

Macquarie has raised its uranium-price forecasts for 2024 and 2025.

This suggests the sector is faring similarly to the rest of the market in a rising-rate environment. Successful producers are attracting the bulk of capital, poor performers face an unforgiving market, and start-ups and juniors are starving for capital.

For example, a recent IPO for Basin Energy bombed, and Orpheus Minerals, a spin-off from Argonaut Resources ((ARE)), is in the middle of an IPO but Argonaut has faired poorly. Relative newcomer Aurora Energy ((1AE)) also tanked this year. Terra Uranium ((T92)) was an outlier, offering a decent stag.

Unlike flagging battery-metals start-ups, uranium juniors should be less likely to benefit from a second capital tide, when interest rates stabilise.

Legal Issues With Nuclear and Gas

There are other problems with the nuclear and gas inclusion in the European Commission's green taxonomy, which have yet to be resolved.

Not only do they clash with other taxonomy clauses, they clash with several existing laws in various bloc countries, leaving the commission open to lawsuits.

According to Greenpeace, several governments and organisations are reportedly planning legal challenges.

Given Greenpeace has traded in its ships for lawyers, and given Greenpeace has publicly opposed the European Commission's inclusion of gas and nuclear, at least one litigant already exists.

Greenpeace describes the inclusions as robbery, taking billions of dollars from renewables to be sunk into other fuels.

"This anti-science plan represents the biggest greenwashing exercise of all time," says Greenpeace. "The inclusion of gas and nuclear in the taxonomy is increasingly difficult to explain as anything other than a giveaway to two desperate industries with powerful political friends."

Many climate advocates are particularly chafed over the inclusion of gas (gas is most likely to be Greenpeace's main target), which it says violates existing laws, and believe the gas inclusion was merely a concession to get nuclear energy through.

Nuclear And Gas Risks Remain

Even if nuclear and gas are included in the EU's green taxonomy, it does not mean investors will be let off the hook.

Readership numbers for FNArena's ESG Focus demonstrate a much greater investor interest in stories focusing on risk-management over revenue opportunities (nearly 2:1), suggesting the prospect of new gas and uranium revenue may not appear as enticing as one might expect at the headline level.

Again, investors are focusing heavily on value and risk-aversion over opportunity, thanks to higher interest rates.

Natixis Corporate and Investment Banking reports some investors have dissociated themselves from the delegated act, creating a de facto multi-speed taxonomy.

The investment bank notes there is less common ground between gas inclusions in various global taxonomies, and that nuclear costs remain exorbitant at a time when renewable costs are plummeting.

Director of Climate Energy Finance Tim Buckley describes nuclear energy costs as crippling and says a poor track record on budget and time-blowouts make nuclear uneconomic.

"The cost of nuclear is almost always double whatever anyone estimates," Buckley told the ABC.

“There’s not a nuclear power plant in the world, that I’m aware of, that’s been built without massive government subsidies.”

Even Britain’s smaller modular reactors (which are large by SMR standards) have required the government to stump up more than 50% of capital.

The Economist, which is pro-nuclear energy, recognises this to be the case, even for smaller reactors, and acknowledges the risk of overruns with smaller reactors remains.

Combine this with Europe's determination that gas and nuclear energy can only be used where there are no other economically feasible "green options" and both industries have an intractable problem.

Weak economics represents perhaps the greatest obstacle to nuclear energy, and may make taxonomies largely irrelevant and the longer-term future for nuclear energy in an environment of plummeting renewables prices a moot point.

But until renewables can supply reliable energy, nuclear and gas supply provide energy security and stability to the grid, so whether a disguised subsidy or not, both are likely to gain government support for at least the next five years.

Even Buckley agrees existing nuclear plants should run as long as possible, so the refurbishment market appears alive and well for now - but it is a market of diminishing returns.

Solar costs are plummeting and green hydrogen is just around the corner, all of which we discuss in our next article on ASX green energy prospects.

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/

RUDI'S VIEWS

Rudi's View: Re-Opening Opportunities In Healthcare

In this week's Weekly Insights:

-Re-Opening Opportunities In Healthcare
-Conviction Calls
-Research To Download
-FNArena Talks
-AIA Investor Day In Sydney

By Rudi Filapek-Vandyck, Editor FNArena

Re-Opening Opportunities In Healthcare

US midterms, crypto failures, China re-opening and US CPI have pushed corporate profits into the background recently, but investors would be wise to not let their attention weaken.

Some important signals are there for everyone to see, both locally and internationally.

In the US, the Q3 reporting season, virtually finished, is accumulating into the weakest since Q3 2020; two years ago. The problem, thus far, is not so much with sales and revenues, but with a peak in profit margins.

Aggregate top line growth is still recording 10% growth year-on-year but at the bottom line growth has fallen to no more than 2%. And the outlook, it appears, remains sombre with forecasts for the quarters ahead worse or at best of similar magnitude.

Many forecasters worry the US economy might be in recession by early next year and corporate profits will increasingly start to reflect this downturn challenge.

Wilsons, on Monday, made the following prediction:

"A US downturn (even if it does prove to be a recessionary downturn) is likely to be mild by historical standards, but would likely still send the US earnings cycle into contraction mode."

Locally, the majority of market updates have failed to trigger a positive share price response and quite a number of recent updates has seen share prices weaken noticeably, including for Xero ((XRO)), News Corp ((NWS)), Sims ((SGM)) and James Hardie ((JHX)) - and Elders ((ELD)) on Monday.

Admittedly, the sharp Buy-everything short-covering rally that has ensued post the US CPI release last week has seen these share prices in strong recovery mode since, but that would be to ignore the underlying message that **corporate Australia, yet again, is polarising around profit growth momentum**.

Within this context, Friday's Q1 trading update by private hospital operator Ramsay Health Care ((RHC)) might well prove important on multiple levels:

1. As far as Ramsay's Australian business is concerned, the re-opening momentum is strong and positive

2. The business continues to struggle with multiple headwinds in Europe

Those who've been following Ramsay Health Care know the business has been struggling to keep operational momentum positive since 2016 when, not by coincidence, the share price peaked well above $80.

And while many an expert/stock picker has nominated the shares for a post-covid opportunity, it has been a two steps forward, one step backwards, difficult trajectory for the company over the past two years.

Analysts are quite divided about Ramsay's future return profile: should one emphasise the positives locally or worry about the ongoing headwinds internationally?

Ramsay's market update also yet again highlighted sections of the healthcare sector on the ASX are now beneficiaries of the re-opening of societies - a fact the share market seems to have all but forgotten about when short-term momentum is all about banks, financials, cyclicals and commodities.

If those worries about international recessions next year return front of investor minds, it is likely **All-Weather Performers in the healthcare sector** will quickly return on investor radars - in particular those that enjoy re-opening benefits and recession-proof characteristics.

A brief run through the key constituents of the ASX-listed healthcare sector.

CSL

Plasma and vaccines company CSL ((CSL)) is the Grand Dame of Australian biotech and healthcare, or, if we want to choose a masculine label, the Emperor among Kings.

The share price hasn't progressed for its third year in succession (net), and on that basis, it would be easy to conclude the best years are now in the past, a la Ramsay Health Care. After all, doesn't the share market always know best?

Such assessment ignores the fact the global recovery in plasma collection is solidifying and CSL's R&D pipeline looks poised for a number of positive developments, on top of the recently acquired Vifor.

CSL is without the slightest doubt one of the highest quality operators on the local exchange. Forecasts are for double-digit percentage growth (ex FX) in successive years and the company's track record provides ongoing strong support for guidance provided by management.

Most importantly: history shows this company can achieve guidance and growth irrespective of economic slowdowns on the horizon. FNArena's consensus target is currently $324.80, more than 13% above the share price on Monday.

ResMed

Not dissimilar from the local healthcare Emperor, global sleep apnoea market leader ResMed's ((RMD)) share price is around the same level as in early January - a feat that should not be underestimated for what are, all else remaining equal, high quality growth companies trading on premium PE multiples.

ResMed is expected to reap long-term, sustainable benefits from product problems at competitor Philips. The recent quarterly update revealed momentum in regions such as Europe is not as strong, but the company remains on course for double-digit percentage growth for multiple years to come.

Chip shortages and other supply chain related headwinds are still preventing the company from maximising its growth potential in the short term, but underlying increased market share and margins are preparing for the next future upside surprise.

A visionary ResMed is building a software-as-a-service (SaaS) addition to its medical equipment platform, but time is needed for decisive profit contributions.

Similar to CSL, society re-openings have created strong underlying demand for ResMed's products and services following covid interruptions in the prior two years.

Pro Medicus

Without any doubt, the most exciting success story in Australian healthcare in recent years has been delivered by imaging software company Pro Medicus ((PME)) whose ability to add ever more new customers, predominantly among US hospitals, at an increasing profit margin has defied all sceptics and surprised the many happy fans and well-wishers.

Similar to CSL and ResMed, Pro Medicus is developing global leadership built on technological advantages. The key difference: the global market Pro Medicus is targeting is still in its infancy. Customers, sales, profits, dividends and margins are all on a steep upward trajectory - and they have been for many years now.

Given it takes time to bring new customers on board with the company's leading software solution, forward estimates are relatively predictable, similar to CSL.

For all these reasons, Pro Medicus shares are trading on what looks at face value an eye-watering PE multiple of 113x FY23 consensus EPS forecast, but today's share price is not far off from where it started on January 1st.

Pro Medicus shares will never trade on market-conforming PE multiples, unless its growth story runs into troubles, temporary or otherwise.

Investors will simply have to get comfortable with management's strategy and execution, and grab the opportunity of a weaker share price at a level they feel comfortable with.

Not All Of Healthcare Is A Winner

Now that we highlighted three positive stories, it should be emphasised not every company carrying the healthcare label stands to benefit from re-opening momentum; some companies are looking forward to a much more challenging outlook.

Such challenges are likely to translate into a moribund share price trajectory ahead, with potential downward bias in case of disappointment.

Three major beneficiaries of covid testing are facing much tougher times ahead, even with other sections of their respective businesses now also enjoying recovery momentum; Sonic Healthcare ((SHL)), Healius ((HLS)) and Australian Clinical Labs ((ACL)).

While respective share prices might look "cheap" or "undervalued", this must be weighed up against the prospect of possibly declining EPS profiles, potentially beyond FY23.

Others, such as Fisher & Paykel Healthcare ((FPH)), might prove a big bargain at present share price level, but the market will want to see operational momentum turn for the better.

Similar questions surround the outlook for Cochlear ((COH)), Integral Diagnostics ((IDX)), Nanosonics ((NAN)), as well as Ansell ((ANN)).

The latter company is only "healthcare" by half (50%) but similar issues plague the outlook varying from being a previous covid-beneficiary, to currencies, cost inputs, and the prospect of economic recessions elsewhere in the world.

Ebos Group

One company that has been steadily growing its foot print in Australia is Ebos Group ((EBO)), of New Zealand origin.

Ebos celebrates its centenary existence in 2022, alongside its status of being the largest marketer, wholesaler and distributor of healthcare, medical and pharmaceutical products in Australia. The company has now added animal care brands to its business.

Among local retail outlets, investors might be familiar with the Terry White Chemmart or the Pharmacy Choice brands, as well as the Red Seal and Faulding consumer products. The company also runs Community Pharmacies.

Recent market updates, including at the company's AGM, further re-enforced operational momentum remains strong.

Longer-term, the impact from a resurrection in now Wesfarmers-owned Australian Pharmaceutical Industries remains an open question mark, but the company's track record to date, including acquisitions and their successful integration, is impeccable.

More Potential, More Risk

As with every other sector, there are always opportunities among riskier, small-cap, less developed businesses for investors who want more excitement and the potential for higher, outsized returns.

Companies that currently offer such potential, supported by positive bias from sector analysts include:

-Aroa Biosurgery ((ARX))
-Immutep ((IMM))
-Mach7 Technologies ((M7T))
-Telix Pharmaceuticals ((TLX))

Two healthcare-related names that often appear on analysts' lists of favourites are staff services provider PeopleIN ((PPE)), whose placement services include nurses and healthcare workers, and HealthCo Healthcare & Wellness REIT ((HCW)), whose assets are concentrated around hospitals; aged care; childcare; life sciences & research; and primary care & wellness property assets, as well as other healthcare and wellness property adjacencies.

Conviction Calls

Morgan Stanley has started to communicate its predictions for next year:

"For markets, [2023] presents a very different backdrop. 2022 was marked by resilient growth, high inflation, and hawkish policy. 2023 sees weaker growth, disinflation, and rate hikes end/reverse, all with very different starting valuations.

"It seems reasonable to think that we'll see different outcomes, especially in high grade bonds. We forecast US 10-year Treasury yields to end 2023 lower, the US dollar to decline, and the S&P 500 to tread water (with material swings along the way)."

****

Tactical and various other models at **Longview Economics** are yet again suggesting the rally in global equities is exhausting itself this month.

"While there's a strong chance of a change in the (primary) trend in gold, rates and bond yields, that is less likely in equities. [...]

"we expect this bear market to continue into 2023.

"... the current bear market rally is likely nearing its conclusion."

****

A general sector update on **Australia's technology stocks** has opened up a rather noticeable divide between **JP Morgan** and local retail partner **Ord Minnett**.

Ord Minnett white labels JP Morgan's research, with added opinion and views from a select group of its own in-house analysts, which seldom shows wide divergences from Big Brother's research.

But a five-step tiered rating system, versus only three for JP Morgan, plus some differences in views, quickly creates different dynamics between the two research partners.

The most obvious observation consists of less Buy ratings from Ord Minnett (as many less-positive Accumulate ratings cover JP Morgan's Overweights).

This leads to a smaller section of Buy ratings for Bravura Solutions ((BVS)), Data#3 ((DTL)), Hub24 ((HUB)), NextDC ((NXT)) and Superloop ((SLC)).

Key differences are JP Morgan only rating Hub24 Neutral, while also having Overweight ratings for Altium ((ALU)), Iress ((IRE)), WiseTech Global ((WTC)) and Xero ((XRO)).

****

In local **retail, Citi** continues to have a preference (and Buy rating) for Coles Group ((COL)), Woolworths Group ((WOW)), JB Hi-Fi ((JBH)) and Super Retail ((SUL)).

For exposure to housing market leverage, Citi analysts prefer Harvey Norman ((HVN)) and Nick Scali ((NCK)). In fashion (in the broadest sense possible) current favourites are Lovisa Holdings ((LOV)) and Michael Hill International ((MHJ)).

The preference among retail REITs sides with Scentre Group ((SCP)) and Charter Hall Retail REIT ((CQR)).

Colleagues at **Jarden** stick with youthful consumers that can continue to spend, hence Universal Store Holdings ((UNI)), Accent Group and Premier Investments ((PMV)) are high on the list of favourites, alongside Treasury Wine Estates ((TWE)), The Reject Shop ((TRS)), Domino's Pizza ((DMP)), Woolworths Group, Costa Group ((CGC)), Wesfarmers ((WES)) and Flight Centre ((FLT)).

Jarden remains not keen on JB Hi-Fi, Endeavour Holdings ((EDV)), Nick Scali and Kogan ((KGN)).

****

With private equity suitors commanding headlines in local media on a weekly basis, analysts at **UBS** have dug deeper into the local share market to assess which companies could be high on suitor's lists for a leveraged buy-out.

UBS' conclusion is funds management and retailers stand out as most attractive. This should not surprise given both sectors have been severely de-rated in 2022.

Yet GrainCorp ((GNC)) and Vulcan Steel ((VSL)) seem to rank the highest in the research, beating many other attractive looking candidates (sitting ducks?) including Super Retail, Adairs ((ADH)) and Accent Group ((AX1)), as well as Magellan Financial Group ((MFG)), Platinum Asset Management ((PTM)) and GQG partners ((GQG)).

****

Credit Suisse's Model Portfolio guardians have highlighted three high-conviction calls from the broker's small-cap research team; Webjet ((WEB)), GUD Holdings ((GUD)) and McMillan Shakespeare ((MMS)).

Credit Suisse's all-cap Model Portfolio recently switched out of Harvey Norman into Brambles ((BXB)) to become more defensive and reduce exposure to consumer discretionary.

****

On Thursday, FNArena reported how **Morgan Stanley** was making the case for adding **gold exposure** to portfolios.

Morgan Stanley liked Evolution Mining ((EVN)) and Newcrest Mining ((NCM)) the most, but downgraded Northern Star ((NST)) to Equal-weight and kept Regis Resources ((RRL)) on Underweight.

Colleagues at **UBS** had similar ideas, with their list of favourites consisting of Northern Star, SSR Mining ((SSR)), Evolution Mining, Gold Road Resources ((GOR)) and De Grey Mining ((DEG)) with both Newcrest Mining and Regis Resources rated Neutral.

Analysts at **Macquarie**, however, have a differing view. They believe as inflation will start trending down, and this creates an automatic headwind for gold and gold producers. Macquarie is thus of the view last week's sector rally offers an opportunity to sell into.

Macquarie's Top Picks for the sector are Norther Star, Gold Road Resources and, among smaller-cap names, Bellevue Gold ((BGL)) and De Grey Mining.

Research To Download

Research as a Service (RaaS) on:

-Betmakers Technology Group ((BET))
https://www.fnarena.com/index.php/download-article/?n=7C863347-92CD-4F44-D5AA3FA70E6BE0A8

-Metarock ((MYE))
https://www.fnarena.com/index.php/download-article/?n=7C981AEC-ECB2-13F0-C6EB98205E7F15B9

-Pointerra ((3DP))
https://www.fnarena.com/index.php/download-article/?n=7C9C2836-943D-1B67-BAD0F1CAA5B4AEF4

-Spenda ((SPX))
https://www.fnarena.com/index.php/download-article/?n=7CA3606B-94E3-9E60-F729A1697CE92A53

FNArena Talks

My latest interview by Peter Switzer includes a funny editing oversight (or two) but I'm on after circa 15 minutes, talking equity markets, inflation, interest rates, central banks and corporate profits.

Among those names receiving a mention are the Vanguard Australian Property Securities Index ETF ((VAP)), gold, Xero ((XRO)), Amcor ((AMC)), CSL, ResMed, Audinate Group ((AD8)), IDP Education ((IEL)), and WiseTech Global.

Total duration is circa 30 minutes: https://www.youtube.com/watch?v=mJ-HIHCKxUg

AIA Investor Day In Sydney

I won't be presenting this time around, but I might make a surprise attendance at the Australian Investors Association's (AIA) Investor Day in Sydney later this month.

Those interested in attending, use coupon RUDIpromo for a super early-bird ticket price of $59 only - includes lunch, morning and afternoon tea and networking drinks at the end of the day.

Sydney, on November 25:

https://www.eventbrite.com.au/e/aia-investor-day-2022-sydney-tickets-438541508457

(This story was written on Monday, 7 November, 2022. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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

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

****

<u>BONUS PUBLICATIONS FOR FNARENA SUBSCRIBERS</u>

Paid subscribers to FNArena (6 and 12 mnths) receive several bonus publications, at no extra cost, including:

- The AUD and the Australian Share Market (which stocks benefit from a weaker AUD, and which ones don't?)
- Make Risk Your Friend. Finding All-Weather Performers, January 2013 (The rationale behind investing in stocks that perform irrespective of the overall investment climate)
- Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection)
- Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow.
- Who's Afraid Of The Big Bad Bear? eBook and Book (print) available through Amazon and other channels. Your chance to relive 2016, and become a wiser investor along the way.

Subscriptions cost $480 (incl GST) for twelve months or $265 for six and can be purchased here (a subscription to FNArena might be tax deductible):

https://www.fnarena.com/index.php/sign-up/

SMALL CAPS

Dr Boreham's Crucible: Mach7 Technologies

Medical imaging is back in demand in the post-covid world and Mach7 Technologies seems an undervalued player

By Tim Boreham

Observers of the medical imaging space - your columnist included - have delighted in highlighting the yawning gap between Mach7 Technologies' ((M7T)) $126 million market valuation and the $5.5 billion worth of similarly US-focused ASX-listed 'cousin' Pro Medicus ((PME)).

In reality, there are key differences in their business models, but the companies share the common trait of being moulded via pivotal acquisitions.

In an extraordinary deal, Pro Medicus acquired the ailing California-based Visage Imaging at the height of the global financial crisis, for $5 million. Visage's research arm subsequently was divested for $15 million and today the Visage products are central to the Pro Medicus business.

In the case of Mach7, in June 2020 the company completed the $40.9 million purchase of Canada's Client Outlook, despite the pandemic preventing Mach7's Burlington, Vermont-based management from ducking over the border to check out the business.

Mach7 chief Michael Lampron dubs the purchase as "transformational" because it expanded the company's repertoire from the 'back end' - the archiving of images and other data - to image viewing.

Previously, Mach7 competed in a sub-section of the enterprise (hospital) imaging market; now it can offer products covering image archiving, viewing and workflows.

Buying Client Outlook wasn't quite the 'Alan Bond' moment for Mach7 in the same way as Pro Medicus's Visage steal was, but it sure bolstered Mach7's revenue pipeline.

"We are seeing that growth and opportunity because we broadened our products," Mr Lampron says.

Catering to the ‘ologies’

Mach7 provides diagnostic and imaging tools to all the “ologists”; radiologists, oncologists, cardiologists, pathologists, ophthalmologists, etcetera.

Mach7 provides picture archive communications system, or PACS, the diagnostic tool used by clinicians. But it also provides vendor-neutral archives, or VNAs, which allow any provider’s imaging tools to be integrated on the platform.

In effect, the company takes images, videos and documents and consolidates them on the one platform. The data can then be managed and accessed via phones, devices or web browsers.

The company has surfed the move to digital records, which allows hospitals and clinics to aggregate an individual’s medical history for easier consumption by the medicos (and hopefully not by hackers, as well).

The company also strives to present data in a clinically meaningful way that also consolidates supply chains and reduces costs.

In the beginning…

Mach7 was founded in 2007 by image workflow expert Ravi Krishnan, who has held roles at GE Healthcare and Agfa Healthcare (Mr Krishnan remains the company’s Asia-Pacific head).

Mach7 launched its first product in 2012. In March 2016, the company merged with the ASX-listed diagnosis house 3D Medical - a reseller of Mach7’s products - in a share deal.

But both sides of the merged business were bleeding money and a year later, Mr Lampron was brought in as chief operating officer to “professionalize” the management team.

A former US air force medic, Mr Lampron took over the top job from former GE Healthcare bigwig Mike Jackman in February 2019.

“My focus was on right-sizing the business; we couldn’t keep burning cash.”

Mr Lampron also had roles at GE as well as with IBM and tele-radiology group Imaging on Call.

Notably, chair David Chambers was formerly CEO of Pro Medicus.

It’s a small(er) world…

In the Mike Lampron era, Mach7 also has abandoned its pursuit of Latin America and European markets, in favor of focusing on North America, Asia Pacific and the Middle East.

Mach7 sells in 15 countries, including Australia, but about 87 percent of revenue derives from the US.

Customers include Advocate Aurora Healthcare, Adventist Health Tulare, Penn Medicine, Massachusetts General Hospital, University of Virginia Health System, Broward Health (a top 10 hospital owner) and Maine Health (a state-wide healthcare provider).

In 2018, the company won a $15 million deal with the Hospital Authority of Hong Kong, which manages 43 public hospitals. The most important non-US client, the Hospital Authority of Hong Kong uses Mach7 for enterprise viewing and VNA, but continues to use other vendors for PACS.

Mr Lampron sees especially good opportunities in the Middle East, which has recovered more rapidly from covid than the Asia Pacific.

In Qatar, Mach7 has signed up Hamad Medical Centre for the VNA product.

In China, Mach7 resells its Eunity product via a distributor, but is not exactly enthused about the Middle Kingdom. It’s more excited about markets such as Hong Kong, Singapore, Malaysia and Thailand - exemplified by the fact that Ravi Krishnan is now general manager for the region.

Mach7 has a rota of 27 partner organizations, some of which are re-sellers of Mach7’s products or offer artificial intelligence add-ons.

In January this year the company appointed a full-time manager to wrangle these partners, many of which were inherited from Client Outlook.

Business as usual is not usual

Post pandemic, hospitals have started to buy software and equipment again and the resounding message is 'business as usual'.

Or is it? Mr Lampron says there's been a subtle but important market shift, by which patients are avoiding germy hospitals in favor of outpatient locations perceived as safer and more pleasant.

"Because hospitals have staff issues as well, they are also pushing more and more images to that outpatient market to be read diagnostically."

He estimates 40 percent of images are currently being read and analyzed in outpatient settings, compared with 60 percent by the acute care market (in other words, hospitals).

He expects that over the next five years, this ratio will reverse.

"That's important to us because we can play in both the acute care and ambulatory markets," he says. "Not everyone can do that, because of either their price points or their offerings.

"It not just about having all the right advanced tools for the radiologists, it's more about how to integrate the health centres and enable the consumer to manage their own electronic health records."

Finances and performance

In the September 2022 quarter, the company accrued contracted annual recurring revenue of $17.9 million, compared with $17.3 million as of June 30, 2022.

Sales orders of $3.4 million were well down on the $17.4 million chalked up in the September 2021 quarter, but the latter included the benefit of some hefty contract expansions.

In the year to June 2022, Mach7 reported a 42 percent rise in revenue to $27.1 million. Sales orders surged 30 percent to $33.2 million, with just over half relating to subscription (software-as-a-service) requests.

The reported full-year bottom line loss narrowed to $4.2 million, from a $9.3 million deficit previously.

While the company recorded 2021-22 operating cash flow of $6.3 million, the September quarter showed a less flattering $5 million of outflows (implying a cash runway of only four quarters).

This deficit related to "salary actions" and short-term incentive plan payments in the context of a tight labor market.

Staff costs account for 75 percent of total expenses.

"Because of working from home, we were competing nationally for talent," Mr Lampron says. "But we could also recruit nationally, so it was a double-edged sword."

The company says that "notwithstanding the historic pattern of negative first quarter cash flows [it] expects to remain operating cash flow positive for 2022-23, as it has for the preceding three financial years."

Over the last 12 months, Mach7 shares have traded between a record high of $1.01 (mid-October last year) and 45 cents (mid-June this year). In June 2017, the stock plumbed as low as 11 cents.

Despite the current subdued valuation, Mr Lampron says Mach7 is "really happy" to be listed on the ASX. "US investors would struggle to understand a company our size, which rarely would be listed," he says.

Almost all of the share register is Australian-based and includes institutional names such as Australian Ethical, Clime Investment Management and Thorney Investments.

"There's plenty of money - and investors - in Australia," he says.

Compare and contrast

Mach7's global rivals include the rebirthed film companies Carestream (Kodak), Agfa, Fujifilm and medical equipment suppliers such a GE Healthcare, Siemens and Philips.

Pro Medicus is more of a friend than a foe, having more of a focus on imaging (PACS) for radiologists at traditional academic medical centres.

The Mach7 business is more about delivering to what the Americans term "integrated delivery networks" or IDNs: a formal grouping healthcare and health insurers provided in a defined US geography.

"We don't generally compete with Pro Medicus but will often work in concert with them," Mr Lampron says.

"For example, a radiology group might choose Visage (the Pro Medicus visualization tool) but we might become the back-end to manage and store data."

Similarly, under a 'best of breed' approach, radiologists might use Agfa or Fuji for imaging and Mach7 for storage and electronic records.

Dr Boreham's diagnosis:

The total addressable enterprise imaging market is estimated at $2.4 billion, but Mr Lampron says the company should be measured on its ability to perpetuate steady sales growth.

We can't argue with that.

Given the company's 20 percent organic year-on-year revenue growth, Mach7 is not in a hurry to make another acquisition, but the slide rule hasn't been altogether discarded.

"We don't want to acquire just to fill a product gap, it would need to add value to the company and shareholders and we are probably a year and a half to two years away from that," Mr Lampron says.

Despite its strong progress and prospects, Mach7 is hardly rewarding investors share price-wise.

"We feel we are undervalued at current prices but the whole market is a bit shifty now," Mr Lampron says.

"But if we continue to sell our product the revenue will come and if we continue to be able to recognize revenue the cash is going to come."

Can't argue with that, either …

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. But he is not shifty at all, and his images are picture perfect.

SMALL CAPS

Elders' Confidence Relies On Acquisition

Elders closes the year on a strong note, but heavy rainfall dampens the outlook for coming harvests.

-Elders reported 39% increase in FY22 earnings year-on-year
-Wet weather poses risk to FY23 outlook, but 5-10% growth target remains
-Acquisition(s) part of controllable mix to achieve FY23 growth guidance

By Danielle Austin

Heavy rainfall already looks to weigh on harvests over the coming year, and coupled with declining trading conditions Elders ((ELD)) anticipates a challenging twelve months ahead. The company delivered a strong final result from the last fiscal year, reporting 39.4% earnings growth to $232m, a beat to growth guidance of 30-40%.

The solid result was reflective of positive conditions that saw a large summer crop and a historic winter crop, record livestock prices, a buoyant real estate market plus market share wins.

Recent wet weather events on the east coast poses risk to Elders' production over the coming year, with impacts to some cropping regions that could weigh on both summer and winter crop harvests.

Elders remains confident in favourable trading conditions persisting over the first half, with demand for agricultural commodities not abating.

The company reiterated a 5-10% growth target for the coming year, but did acknowledge the year ahead would be a challenging one. Management expects further acquisition(s) coupled with organic growth and backward integration can see it achieve growth targets.

Controllable factors key to achieving targets

Commentary from both Macquarie and Morgans post the FY22 update is upbeat, focused on the factors within Elders' control that will help the company meet its targets over the next year despite the challenging conditions ahead. The two brokers have an average target price of $12.91.

Macquarie (Outperform, $14.35) expects Elders will rely on controllable factors to do the heavy lifting in FY23, noting management at the company anticipates growth will be supported by a pipeline of bolt-on acquisitions and ongoing organic growth given the company currently holds only 18-19% market share.

The broker remains somewhat conservative on Elders' outlook at this point.

Morgans (Hold, target price $11.46) anticipates Elders will find its growth target difficult to meet as operating conditions begin to normalise. Accounting for higher corporate costs and lower earnings, this broker lowered its earnings forecasts -1.8%, -2.1% and -2.3% through to FY25.

Morgans maintains Elders offers one of safest exposures to the agricultural industry given a diversified business model and strong management.

Elsewhere, both Shaw and Partners (target price $15.10) and Goldman Sachs (target price $18.40) are Buy rated, and highlight the announcement of the departure of the Managing Director may have impacted on market sentiment, with Elders shares falling heavily on the day.

Shaw highlights the company has been prepared to survive and thrive in his absence, and is a well-run company that can deliver strong results under varied market conditions. The subsequent -23% share price decline is labeled "overdone".

Less positive are Wilsons (Underweight, $8.72) and Bell Potter (Hold, target price $11.00). Wilsons anticipates price deflation to weigh on sales and gross profit through the coming year, while Bell Potter finds consensus forecasts have failed to account for the negative operating leverage Elders faces from a normalisation of tailwinds.

The latter broker does find risk reflected in the recent share price decline.

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

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

TREASURE CHEST

Treasure Chest: Fisher & Paykel Healthcare

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts.

By Greg Peel

Whose Idea Is It?

Morgan Stanley

The subject:

Fisher & Paykel Healthcare ((FPH))

More info:

Morgan Stanley has initiated coverage of Fisher & Paykel Healthcare with an Overweight rating and a $21.00 target. The shares are currently trading a smidgen above $18 on the ASX.

Fisher & Paykel Healthcare ((FPH)) is a New Zealand-based, dual-listed medical device company specialising in respiratory care in the hospital or home. The company is distinguished by its Nasal High Flow therapy, leading to sales across the globe.

Fisher & Paykel Healthcare was a clear covid winner in the healthcare space as a manufacturer of respirators. The share price hit a peak of $34.27 in August 2020.

As has been the case with healthcare companies providing covid testing, the covid impact has since waned and, combined with 2022’s general bear market, the share price closed yesterday at $18.14.

However, as we are being increasingly warned by frustrated healthcare experts, covid has not gone away. It’s just we’re all sick of hearing about it. New omicron strains have appeared and in Australia a supposed “fourth wave” is upon us.

Covid cases are also on the rise in the US, as are, as the northern hemisphere heads into winter, flu cases. What's more, the US is experiencing a strong resurgence in respiratory syncytial virus (RSV).

As Credit Suisse (Neutral; target A$19.50) noted last week, it's all good news for Fisher & Paykel Healthcare.

Last month, Macquarie (Neutral; target NZ$20.15) pointed out that in Australia, flu cases and hospitalisations during the 2022 winter were four times above the five-year average. Case numbers were suppressed in the prior two years due to restrictions imposed to ward off covid working just the same on the flu.

As a result, the broker anticipates the widely mooted customer destocking could be delayed from the first half of 2023 to the first half of 2024. While positive for revenues, input cost inflation will likely still weigh on earnings margins.

Despite investor attention turning away from Fisher & Paykel in the "post-covid" world, Morgan Stanley notes the pandemic has accelerated hospital acceptance of Nasal High Flow therapy and expanded the installed base, leading to greater consumable sales. As a result, the broker's revenue forecasts are 2% above consensus in FY23, rising to 13% above in FY27.

The increased penetration of NHF therapy in hospitals has also provided a tailwind for adoption in the home, Morgan Stanley believes. The broker's bull case scenario implies a 25-30% increase in current homecare sales forecasts.

Morgan Stanley notes the stock is trading at a similar valuation to that of 2019. In the meantime, the company has increased its installed base, providing better growth in consumables, plus the broker's analysis suggests further upside in homecare sales.

The company reports interim earnings on November 29.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 11-11-22

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday November 7 to Friday November 11, 2022
Total Upgrades: 14
Total Downgrades: 12
Net Ratings Breakdown: Buy 56.09%; Hold 36.51%; Sell 7.40%

For the week ending Friday November 11 there were fourteen upgrades and twelve downgrades to ASX-listed companies covered by brokers in the FNArena database.

Westpac, National Australia Bank and Orica appear among the top four in the table below for largest percentage increase in forecast earnings last week.

These three companies reported full-year results last week and their earnings “upgrades” should not be taken at face value as earnings received a boost when lower FY22 forecasts rolled-off broker financial models.

This boost occurred even if existing (sunnier) forecasts for FY23 and beyond were downgraded due to changed reporting season results/outlooks.

To demonstrate the point, the average Westpac target price set by brokers in the FNArena database fell to $25.87 from $26.00, despite the bank being atop the earnings upgrade table.

Morgans assessed the bank’s result met or exceeded expectations and the 64cps fully franked second half dividend was a beat by 3cps. However, management’s cost target increased to $8.6bn from $8bn due to higher inflation, a later timing of business exits and longer phasing of regulatory costs.

This broker lowered its FY23-25 cash EPS forecasts by around -2-8%, while dividend forecasts suffered larger percentage falls on a lower assumed payout ratio due to the economic backdrop.

NAB received a rating downgrade to Neutral by two separate brokers. Macquarie felt there is limited scope for a further re-rating for both the sector and NAB, while Citi noted FY22 results delivered few surprises.

Accumulate-rated Ord Minnett noted NAB’s net interest margin result failed to deliver upside, while FY22 margins for Westpac and ANZ Bank exceeded expectations.

For Orica, Citi noted FY22 results exceeded the consensus forecast by 6%.

Given the macroeconomic conditions, the broker considered management's FY23 outlook commentary was surprisingly constructive, with FY23 earnings expected to be ahead of FY22 on growth in global commodities demand.

Management stated inflation pressures, particularly from energy, are an ongoing challenge and cost-reduction initiatives will be introduced. The average target price for Orica in the database only increased to $16.18 from $15.96, following the full year results.

Block came second behind Westpac on the earnings upgrade table after September-quarter results outpaced Credit Suisse's gross profit forecasts and demonstrated improved compound annual growth rate trends.

Macquarie noted cash app deposits experienced a record September quarter and Square is seeing some success in the large seller cohort, although Afterpay remains uncertain.

As Block's shares had previously de-rated and operating leverage is beginning to flow through, this broker upgrades its rating to Outperform from Neutral.

It was also a positive week for broker earnings forecasts for Pilbara Minerals after Ord Minnett raised spodumene forecasts to US$6,500/t for 2023 and US$5,700/t for 2024, increases of 44% and 66%, respectively. As a result, the broker's rating was upgraded to Hold from Lighten and the target increased to $5.10 from $4.20.

Also, Macquarie made material upgrades to its earnings forecasts for lithium miners and developers under its coverage, despite near-term headwinds from economic slowdowns and covid lockdowns in China.

The broker maintained an Outperform rating and increased it target price to $7.50 from $5.60 for Pilbara Minerals, the preferred Lithium sector exposure (along with IGO) on the ASX.

Pilbara Minerals and Block also came second and third on the table for the largest percentage increase in average target price, while Origin Energy received the largest increase.

Ord Minnett increased its target for Origin Energy to $9.00 from $6.00 and upgraded its rating to Buy from Hold following a $9.00/share non-binding takeover bid from a consortium. It's felt the full bid price will likely rule out bids by other players.

Regulatory issues may hinder the bid as the Federal government may not desire privatisation in light of ongoing scrutiny around elevated energy prices, suggested the broker. On the flipside, a $20bn commitment by the consortium to expand the company's renewable power generation may appeal to the government.

Baby Bunting received the only materially negative adjustment to average target price last week following first quarter results. Citi (unchanged $3.32 target) noted margin headwinds are likely to continue into the second quarter due to pressures from its loyalty program and increased input costs (diesel prices and currency).

This margin pressure prompted Macquarie to lower its rating to Neutral from Outperform and slash its target to $2.80 from $4.95. Also, the Playgear category is considered a key concern, being high margin discretionary. Sales expectations were nevertheless unchanged, and the analyst remained positive on revenue growth execution.

In terms of earnings, Appen received the highest percentage downgrade after Macquarie waited a month to react to latest guidance by management, which showed global services revenue is being impacted by large market-share loss from its major customers.

Appen's de-rating may have now largely played out, according to the broker, but a material recovery is not forecast until 2025 at the earliest. On limited further downside, the rating was upgraded to Neutral from Underperform, while the target fell to $2.70 from $3.30.

Pendal Group was next on the table for earnings downgrades after releasing FY22 results, though as explained above, the roll-off of FY22 forecasts from broker financial models has the capacity to distort.

While the results outpaced consensus estimates by 3%, Credit Suisse pointed to ongoing flows pressure for the group, partly exacerbated by a disappointing performance from the International Select strategy, while inflation also weighed on costs. Pendal's average target price in the database fell to $4.79 from $5.01.

Morgans observed the short-term outlook depends upon the outcome of the merger with Perpetual and management expects shareholder support for the union. Should the merger fail, the share price is expected to initially fall by around -12-28%.

Brokers' earnings forecasts for Zero were lowered after September-half earnings fell -12% short of consensus. While subscriber growth was slower than Morgans forecast, pricing power was evident, and a weaker New Zealand dollar assisted. Revenue grew by 30% year-on-year in constant currency terms.

Morgan Stanley (Overweight) lowered its target to $95 from $130, though felt the company has a meaningful opportunity to create value should it pivot to profitability by reducing its expense base and/or capex levels.

The distorting impact from the roll-off of forecasts from broker financial models after FY22 results was shown by the appearance of Eclipx Group on the earnings downgrade table. For a more accurate summary of broker forecasts and views for Eclipx please refer to https://www.fnarena.com/index.php/2022/11/09/eclipx-group-cutting-costs-looking-for-catalysts/

Total Buy recommendations comprise 56.09% of the total, versus 36.51% on Neutral/Hold, while Sell ratings account for the remaining 7.40%.

Upgrade

APPEN LIMITED ((APX)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 0/1/3

Macquarie has lowered FY22-24 underlying earnings estimates for Appen by -56-61%, adjusting for the latest company guidance.

Guidance is being driven by weakness in the company's global services revenue, in the broker's view, which in turn is being
impacted by large market-share loss from its major customers.

Appen's de-rating may have largely now played out, but a material recovery is not forecast until 2025 the earliest. On limited further downside, Macquarie upgrades to Neutral from Underperform. Target falls to $2.70 from $3.30.

CITY CHIC COLLECTIVE LIMITED ((CCX)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/1/0

While acknowledging the current consumer environment is likely to challenge City Chic Collective's top line and margin results, Citi remains positive on the company's long-term international growth prospects.

According to the broker, City Chic Collective has "significant room to expand" in the global plus size women's clothing market, which it estimates to have a worth of US$180bn.

The rating is upgraded to Buy from Neutral and the target price decreases to $1.74 from $2.09.

COMPUTERSHARE LIMITED ((CPU)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 7/0/0

Credit Suisse raises its forecasts for Computershare as trends in aggregate for cash rates, FX movements and activity will be positive for US dollar earnings, and even more so for Australian dollar earnings.

The analyst feels the current share price neglects the up to $6/share of excess capital available courtesy of future debt headroom and proceeds from the potential exit from mortgage servicing in the US and UK. It's thought funds may be used for buybacks/M&A.

The rating is upgraded to Outperform from Neutral and the broker's target rises to $29 from $25.

CHARTER HALL RETAIL REIT ((CQR)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/2/1

Upgrading on Charter Hall Retail REIT, Citi has indicated a preference for defensive convenience retail exposures over discretionary retail at this stage in the consumer cycle.

The broker remains relatively constructive on underlying demand for consumption, but expects rising rates will start to play a larger role in consumer spending. Citi found commentary from Charter Hall Retail REIT to present a relatively stable outlook.

The rating is upgraded to Buy from Neutral and the target price of $4.30 is retained.

CSL LIMITED ((CSL)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 6/0/0

Credit Suisse examines the September-quarter results for CSL's offshore comps and finds Seqirus and Behring to have improved marginally but Vifor remains weak.

The broker upgrades CSL's EPS forecasts 1% to 2% accordingly.

Target price rises to $310 from $305.

Rating upgraded to Outperform from Neutral, the broker expecting the market will focus in on Behring's strong growth in plasma collections.

DEXUS INDUSTRIA REIT ((DXI)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/0/0

Dexus Industria REIT has divested of its Rhodes business park at a -15% discount to book value. Macquarie estimates this is -9% dilutive to earnings going forward.

However, the balance sheet has been strengthened, and additional capacity can now be used to fund the development pipeline, the broker notes. The REIT is now some 88% industrial.

Dexus Industria is currently implying a -20% fall in asset values, which in Macquarie's view is overly aggressive in light of the strong rental growth being achieved in industrial.

Meanwhile, Macquarie downgrades its outlook for Australian Real Estate Investment Trusts, expecting the rising cost of capital could combine with a recession-induced fall in bond yields, to pressure weaker balance sheets.

The broker says most covenants appear safe but investors will need to keep a keen eye to weaker players.

Falling asset valuations means balance sheet capacity is likely to moderate notes the broker, the upshot being development pipelines will need to be reduced or funded through asset sales (not an easy task in a rising rate environment).

Macquarie considers the balance sheet to be among the less attractive among peers but after the Rhodes divestment considers the position to be more positive.

Rating upgraded to Outperform from Neutral. Target price falls to $2.89 from $3.08 to reflect the dilution.

EVOLUTION MINING LIMITED ((EVN)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 4/3/0

Morgan Stanley believes execution risks for Evolution Mining are easing at Red Lake and upgrades its rating to Overweight from Equal-weight. The target is increased to $3.10 from $2.55. Industry View: Attractive.

The company is now Morgan Stanley's preferred sector exposure from among stocks under its research coverage.

The broker sees potential at Red Lake for more throughput and higher reserve grades, which could lift group production by around 9%.

Potential mine life extension at Ernest Henry also supports the analyst's investment thesis

Separately, Morgan Stanley sees upside for the gold price from a potential slowing in rate hikes and a peaking of the US dollar index (DXY). Undemanding valuations are noted in the Gold sector and multiples for stocks are expected to increase.

INVOCARE LIMITED ((IVC)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 1/5/0

Looking to US and UK data, Macquarie finds year to date death rates remain elevated despite both countries recording materially elevated deaths in 2020 and 2021, primarily due to covid. This suggests Australian deaths may remain elevated longer than prior expectations.

Industry volumes should be stronger over 2023 than previously thought, Macquarie notes, creating upside risk for InvoCare earnings if management successfully executes its expansion strategy.

Upgrade to Neutral from Underperform. Target rises to $11.40 from $10.75.

NUFARM LIMITED ((NUF)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/3/0

Credit Suisse expects Nufarm should be able to deliver a result towards the top end of consensus, underpinned by strong crop fundamentals improvement to costs and margins.

The broker continues to consider Nufarm a compelling long-term growth story, driven by expansion of its omega-3 canola oil, carinata and convention seeds businesses. In particular, Credit Suisse finds fundamentals for canola to be increasingly attractive.

The rating is upgraded to Outperform from Neutral and the target price decreases to $6.85 from $6.96.

ORIGIN ENERGY LIMITED ((ORG)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 3/3/0

Ord Minnett increases its target for Origin Energy to $9.00 from $6.00 following a non-binding takeover bid from a consortium. It's felt the full price will likely rule out bids by other players. The rating is upgraded to Buy from Hold.

The broker suggests regulatory issues may hinder the bid as the Federal government may not desire privatisation in light of ongoing scrutiny around elevated energy prices.

On the flipside, the government may like the $20bn commitment by the consortium to expand the company's renewable power generation, explains the analyst.

Ord Minnett sees positive implications for AGL Energy as the Origin bid implies an equity value of $13-14/share.

PILBARA MINERALS LIMITED ((PLS)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 1/1/3

Ord Minnett has upgraded spodumene forecasts to US$6,500/t for 2023 and US$5,700/t for 2024, increases of 44% and 66%, respectively. The broker's FY24 net profit forecasts are, on average, circa 90% above consensus for the producers.

Pilbara Minerals upgraded to Hold from Lighten, target rises to $5.10 from $4.20.

BLOCK INC ((SQ2)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/1/0

Macquarie notes Block's cash app deposits had a record September quarter and Square is seeing some success in the large seller cohort, although Afterpay remains uncertain.

The shares have fallen -20% since the broker downgraded to Neutral in July on market and earnings risk.

With Block shares now de-rated and operating leverage flowing through, Macquarie upgrades to Outperform on improved upside/downside positioning across shares and fundamentals.

Target rises to $145 from $130.

SUNCORP GROUP LIMITED ((SUN)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 5/1/0

Higher investment yields and ongoing price increases, which should cover rising input costs, prompt Morgan Stanley to upgrade Suncorp Group's rating to Equal-weight from Underweight. Capital is on the improve while CAT costs are being held at bay.

The broker also raises its target to $11.30 from $10.20. Industry View: In-Line. Ongoing elevated inflation and rising reinsurance rates are allowed for in forecasts.

The analyst points out the recent business interruption court decision aides capital flexibility and notes better margin prospects for the bank.

Overweight-rated QBE Insurance is preferred by Morgan Stanley in the space.

WHITEHAVEN COAL LIMITED ((WHC)) Upgrade to Neutral from Sell by Citi .B/H/S: 6/1/0

Despite downgraded guidance by Whitehaven Coal for open cut mine production, Citi notes the value on offer now that shares have fallen by around -15% this week, and upgrades to a Neutral rating from Sell. The target slips to $8.00 from $8.50.

The lower run-of-mine (ROM) Coal production guidance falls to 19.0-20.4mt from 20.0-22.0mt, due to current and forecast weather impacts and ongoing labour constraints, explains the analyst. Also, guidance for unit costs of coal rises to $95-102/t from $89-96/t.

Downgrade

ABACUS PROPERTY GROUP ((ABP)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/3/0

Macquarie has reviewed the broader REIT sector, and sees downside risk to demand in self storage and office. Abacus Property has a 51% exposure to self storage and 37% to office, with both asset classes particularly sensitive to changes in the macro-economy.

In self storage, typical lease terms of 6 weeks mean reduced income certainty, the broker notes, with peer updates showing occupancy has started to moderate. Macquarie remains attracted to self storage longer term, but near term the cycle is slowing.

Macquarie also downgrades its outlook for Australian Real Estate Investment Trusts to reflect its rising deck for bank bill swap rates, expecting the rising cost of capital could combine with a recession-induced fall in bond yields, to pressure weaker balance sheets.

The broker says most covenants appear safe but investors will need to keep a close eye on weaker players.

Falling asset valuations means balance sheet capacity is likely to moderate notes the broker, the upshot being development pipelines will need to be reduced or funded through asset sales (not an easy task in a rising rate environment).

Macquarie observes fundamentals are shifting for Abacus Property, which has benefited from strong consumer sentiment in recent years, and that gearing appears toppy.

EPS forecasts ease -0.8% for FY23; -1.3% for FY24; and -3.1% for FY25.

Rating downgraded to Neutral from Outperform. Target price falls -25% to $2.64 from $3.53 as the broker shifts to a net asset value assessment from a discounted cash flow valuation.

The stock still offers an attractive forward yield of 6.8%, the broker notes.

ARISTOCRAT LEISURE LIMITED ((ALL)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 6/1/0

Aristocrat Leisure's September-quarter results suggest a strong close for the company according to the Eilers survey but Credit Suisse's survey of Aristocrat's revenue sources suggest October digital trends softened.

EPS forecasts rise 0.5% to 9% across FY22 to FY25, thanks to expansion of US revenue share installed base, currency windfalls; likely improved margins in digital and the $500m share buyback. Credit Suisse sits below consensus by 1% to 3%.

Rating downgraded to Neutral from Outperform to reflect recent share-price strength but the broker continues to consider the company to be a core holding.

Target price rises to $37.20 from $36.00.

BABY BUNTING GROUP LIMITED ((BBN)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/2/0

Following Baby Bunting’s AGM trading update, Macquarie has reduced its gross margin assumptions by -200bps in FY23. Upon further
review, the broker expects FX rates to provide more substantial headwinds than previously anticipated.

The Playgear category is also a key concern, being high margin discretionary. Sales expectations are nevertheless unchanged, and Macquarie remains positive on the ability to deliver revenue growth.

But on margin compression, downgrade to Neutral from Outperform. Target falls to $2.80 from $4.95.

CENTURIA INDUSTRIAL REIT ((CIP)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/3/0

Macquarie has reviewed the broader REIT sector, and sees strong direct market fundamentals for Centuria Industrial REIT offset by interest costs.

Solid rent growth industrial and execution of the development pipeline provides for stronger revenues, but a low level of interest rate hedging will lead to a subdued earnings growth outlook.

Property devaluations may also result in more limited funding capacity, the broker notes.

Macquarie downgrades its outlook for Australian Real Estate Investment Trusts to reflect its rising deck for bank bill swap rates, expecting the rising cost of capital could combine with a recession-induced fall in bond yields, to pressure weaker balance sheets.

The broker says most covenants appear safe but investors will need to keep a keen eye to weaker players.

Falling asset valuations means balance sheet capacity is likely to moderate notes the broker, the upshot being development pipelines will need to be reduced or funded through asset sales (not an easy task in a rising rate environment).

Teh broker notes Centuria Industrial REIT's gearing is looking toppy and applies a -2% discount to net asset value.

Downgrade to Neutral from Outperform to reflect rising rates and the affect of falling asset values on the group's funding capacity. Target price falls to $3.02 from $3.69.

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

Macquarie downgrades Lendlease Group to Neutral from Outperform after the company advised returns would fall at the lower end of divisional targets for FY23.

Macquarie says the lower end of FY24 return forecasts are not de-risked and will rely on good commencements and leasing outcomes.

The broker notes the company is leaning towards more third-party capital for developments but expects this might be a tough ask in the current environment.

Meanwhile, Macquarie downgrades its outlook for Australian Real Estate Investment Trusts, expecting the rising cost of capital could combine with a recession-induced fall in bond yields, to pressure weaker balance sheets.

The broker says most covenants appear safe but investors will need to keep a keen eye to weaker players.

Falling asset valuations means balance sheet capacity is likely to moderate notes the broker, the upshot being development pipelines will need to be reduced or funded through asset sales (not an easy task in a rising rate environment).

Target price falls to $8.74 from $13.33.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Downgrade to Neutral from Outperform by Macquarie and Downgrade to Neutral from Buy by Citi.B/H/S: 1/6/0

National Australia Bank delivered another good result, Macquarie suggests, underpinned by solid performances in the Business Bank and NZ franchise. Interest rate leverage started to come through in the second half, albeit below expectations.

It was also below that delivered by peers, the broker notes, reducing the potential upside risk to margins in the first half FY23.

With limited upside risk to FY23 earnings and likely downside risk to consensus in FY24, coupled with NAB trading significant premiums to peers bar Commonwealth Bank ((CBA)), Macquarie sees limited scope for further re-rating for both the sector and NAB.

Downgrade to Neutral from Outperform. Target unchanged at $32.25.

As the National Australia Bank share price has rallied since Citi upgraded to a Buy rating in September, the rating now falls back to Neutral, following yesterday's FY22 result that delivered few surprises. The $32.75 target is unchanged.

In yesterday's research, Citi noted cash earnings of $7,104m were in line with it's own forecast and that of consensus. The 2H22 net interest margin (NIM) of 1.67% was also considered in line.

The analyst felt material cost revisions by the market are unlikely, as consensus is already factoring in around -5% cost worsening in FY23.

The broker pointed out business lending has been a key point of differentiation for National Australia Bank versus peers, but macro forecasts indicate a sharp slowdown. So, despite a strong result, it's felt this factor may be uppermost in investor's minds.

Citi placed the FY22 result in context, by suggesting it lands between Westpac ((WBC)) (targeting cost reductions) and ANZ Bank ((ANZ)) (accelerating investment spend) for FY23.

NATIONAL STORAGE REIT ((NSR)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 1/1/2

Macquarie downgrades its outlook for Australian Real Estate Investment Trusts to reflect its rising deck for bank bill swap rates, expecting the rising cost of capital could combine with a recession-induced fall in bond yields, to pressure weaker balance sheets.

The broker says most covenants appear safe but investors will need to keep a close eye on weaker players.

Falling asset valuations means balance sheet capacity is likely to moderate notes the broker, the upshot being development pipelines will need to be reduced or funded through asset sales (not an easy task in a rising rate environment).

EPS forecasts for National Storage REIT fall -1.2% in FY23; rise 1.7% in FY24; and rise 2.6% in FY25.

Macquarie observes the REIT has benefited from strong consumer sentiment and high house turnovers in recent years but expects these trends to moderate.

Rating downgraded to Underperform from Neutral, the broker anticipating a downturn in self-storage fundamentals as weaker demand hits higher supply and observes the group is still trading at a premium to peers.

Target price falls -17.3% to reflect the broker's switch from a discounted-cash-flow valuation to a net-asset-value calculation (which results in an expansion to the cap rate).

NORTHERN STAR RESOURCES LIMITED ((NST)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 5/1/0

Morgan Stanley sees upside for the gold price from a potential slowing in rate hikes and a peaking of the US dollar index (DXY). Undemanding valuations are noted in the Gold sector and multiples for stocks are expected to increase.

While the target for Northern Star Resources rises to 10.80 from $9.25, the broker downgrades its rating to Equal-weight from Overweight on valuation after outperforming peers year-to-date.

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

Macquarie downgrades its outlook for Australian Real Estate Investment Trusts, expecting the rising cost of capital could combine with a recession-induced fall in bond yields, to pressure weaker balance sheets.

The broker says most covenants appear safe but investors will need to keep a keen eye to weaker players.

Falling asset valuations means balance sheet capacity is likely to moderate notes the broker, the upshot being development pipelines will need to be reduced or funded through asset sales (not an easy task in a rising rate environment).

Macquarie considers Scentre Group to be one of the more vulnerable REITs, expecting expanded cap rates will raise leverage to 48%, which the broker considers to be unsustainable given the company's future capital expenditure bill. This is likely to leave Scentre Group in a position where it needs to sell assets or raise capital (unlikely says the broker), to return leverage to 35%, explains Macquarie.

Rating downgraded to Underperform from Neutral. Target price falls to $2.54 from $2.79.

SIMS LIMITED ((SGM)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/5/1

Credit Suisse slashes its target price for Sims to $12.20 from $19.40 and downgrades its rating to Neutral from Outperform.

These changes follow an AGM trading update where management revealed maiden 1H FY23 earnings (EBIT) guidance of $65-75m compared to the $168m expected by consensus and the $182m forecast by the broker.

The company noted slower economic activity has led to lower scrap volumes, while gross margins fell as competitors bid for feed to maintain volumes to cover fixed costs. Also, cost initiatives only partially offset inflationary pressure.

Of greatest concern to the analyst is the gross margin decrease from the 2H of FY22 to 18.5% from a consistent five-year range of 21-22%. It's felt weak industry scrap volumes will persist for over two years.

TEMPLE & WEBSTER GROUP LIMITED ((TPW)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 1/2/1

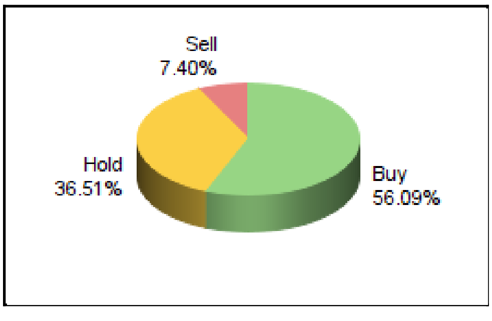
While current market data suggests consumer spending is holding above pre-covid levels, Macquarie anticipates macroeconomic conditions to continue to put pressure on consumer spending.

Increasing interest rates and slowing housing turnover do not bode well for consumer product companies that have benefitted from a covid-induced pull-forward of demand, and are therefore cycling tough comparables, the broker warns.

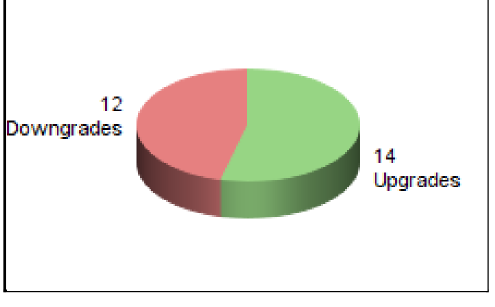
Online sales have rapidly declined, reverting to pre-pandemic trend.

Temple & Webster's target falls to $4.00 from $5.80, downgrade to Underperform from Neutral as an online pure-play.

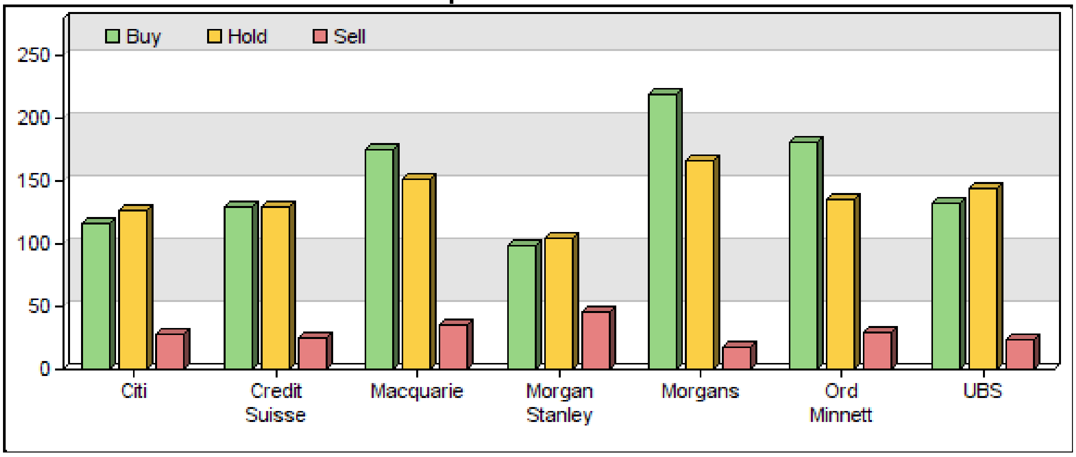
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	APPEN LIMITED	Neutral	Sell	Macquarie
2	BLOCK INC	Buy	Neutral	Macquarie
3	CHARTER HALL RETAIL REIT	Buy	Neutral	Citi
4	CITY CHIC COLLECTIVE LIMITED	Buy	Neutral	Citi
5	COMPUTERSHARE LIMITED	Buy	Neutral	Credit Suisse
6	CSL LIMITED	Buy	Neutral	Credit Suisse
7	DEXUS INDUSTRIA REIT	Buy	Neutral	Macquarie
8	EVOLUTION MINING LIMITED	Buy	Neutral	Morgan Stanley
9	INVOCARE LIMITED	Neutral	Sell	Macquarie
10	NUFARM LIMITED	Buy	Neutral	Credit Suisse
11	ORIGIN ENERGY LIMITED	Buy	Neutral	Ord Minnett
12	PILBARA MINERALS LIMITED	Neutral	Sell	Ord Minnett
13	SUNCORP GROUP LIMITED	Neutral	Sell	Morgan Stanley
14	WHITEHAVEN COAL LIMITED	Neutral	Sell	Citi
Downgrade				
15	ABACUS PROPERTY GROUP	Neutral	Buy	Macquarie
16	ARISTOCRAT LEISURE LIMITED	Neutral	Buy	Credit Suisse
17	BABY BUNTING GROUP LIMITED	Neutral	Buy	Macquarie
18	CENTURIA INDUSTRIAL REIT	Neutral	Buy	Macquarie
19	LENDLEASE GROUP	Neutral	Buy	Macquarie
20	NATIONAL AUSTRALIA BANK LIMITED	Neutral	Buy	Macquarie
21	NATIONAL AUSTRALIA BANK LIMITED	Neutral	Buy	Citi
22	NATIONAL STORAGE REIT	Sell	Neutral	Macquarie
23	NORTHERN STAR RESOURCES LIMITED	Neutral	Buy	Morgan Stanley
24	SCENTRE GROUP	Sell	Neutral	Macquarie
25	SIMS LIMITED	Neutral	Buy	Credit Suisse
26	TEMPLE & WEBSTER GROUP LIMITED	Sell	Neutral	Macquarie

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	ORG	ORIGIN ENERGY LIMITED	7.632	6.477	17.83%	6
2	PLS	PILBARA MINERALS LIMITED	4.610	4.070	13.27%	5
3	SQ2	BLOCK INC	145.000	130.000	11.54%	4
4	CPU	COMPUTERSHARE LIMITED	31.896	29.199	9.24%	7
5	EVN	EVOLUTION MINING LIMITED	2.629	2.550	3.10%	7
6	NST	NORTHERN STAR RESOURCES LIMITED	10.192	9.933	2.61%	6
7	SUN	SUNCORP GROUP LIMITED	13.442	13.142	2.28%	6
8	ALL	ARISTOCRAT LEISURE LIMITED	42.529	42.357	0.41%	7

9	NAB	NATIONAL AUSTRALIA BANK LIMITED	32.119	32.000	0.37%	7
10	CSL	CSL LIMITED	324.783	323.950	0.26%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	BBN	BABY BUNTING GROUP LIMITED	3.814	4.244	-10.13%	5
2	ABP	ABACUS PROPERTY GROUP	3.023	3.245	-6.84%	4
3	APX	APPEN LIMITED	2.875	3.025	-4.96%	4
4	PDL	PENDAL GROUP LIMITED	4.790	5.010	-4.39%	5
5	CIP	CENTURIA INDUSTRIAL REIT	3.358	3.492	-3.84%	5
6	COL	COLES GROUP LIMITED	17.339	17.945	-3.38%	7
7	CCX	CITY CHIC COLLECTIVE LIMITED	2.448	2.518	-2.78%	5
8	WHC	WHITEHAVEN COAL LIMITED	11.136	11.436	-2.62%	7
9	WOW	WOOLWORTHS GROUP LIMITED	33.587	34.435	-2.46%	7
10	LLC	LENDLEASE GROUP	11.432	11.647	-1.85%	6

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	WBC	WESTPAC BANKING CORPORATION	209.086	145.133	44.07%	6
2	SQ2	BLOCK INC	148.125	121.262	22.15%	4
3	NAB	NATIONAL AUSTRALIA BANK LIMITED	250.400	214.429	16.78%	7
4	ORI	ORICA LIMITED	78.510	71.017	10.55%	7
5	PLS	PILBARA MINERALS LIMITED	70.202	63.502	10.55%	5
6	CPU	COMPUTERSHARE LIMITED	140.230	130.714	7.28%	7
7	AKE	ALLKEM LIMITED	131.807	123.099	7.07%	7
8	GOZ	GROWTHPOINT PROPERTIES AUSTRALIA	22.300	20.900	6.70%	3
9	QAN	QANTAS AIRWAYS LIMITED	78.848	75.382	4.60%	6
10	SGP	STOCKLAND	33.533	32.450	3.34%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	APX	APPEN LIMITED	-9.667	-4.800	-101.40%	4
2	PDL	PENDAL GROUP LIMITED	32.467	46.720	-30.51%	5
3	XRO	XERO LIMITED	23.967	30.871	-22.36%	6
4	ECX	ECLIPX GROUP LIMITED	26.167	32.567	-19.65%	3
5	CWY	CLEANAWAY WASTE MANAGEMENT LIMITED	6.457	7.810	-17.32%	7
6	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	10.170	11.613	-12.43%	6
7	JHX	JAMES HARDIE INDUSTRIES PLC	214.072	233.423	-8.29%	6
8	SUN	SUNCORP GROUP LIMITED	86.400	91.886	-5.97%	6
9	REA	REA GROUP LIMITED	316.943	336.317	-5.76%	7
10	HMC	HOME CONSORTIUM LIMITED	22.450	23.675	-5.17%	6

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.

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

WEEKLY REPORTS

Uranium Week: The Uranium Sprott Market

The Sprott Physical Uranium Trust reappeared in the market last week, before and after the US CPI result.

-The SPUT is back
-Nuclear talked up in Egypt
-Adelaide hosts global participants
-Utilities look to 2023

By Greg Peel

The spot uranium market was again quiet last week, likely awaiting the US October CPI result, given the market is now highly correlated to general financial market volatility. Only three transactions were reported, but two of them featured buying from the Sprott Physical Uranium Trust.

After being almost solely responsible for pushing the spot uranium price up from the depths this past couple of years, the SPUT has been quiet in 2022 as it has suffered through financial market volatility. The trust still manages to find new investors with each fresh release of units, but for the bulk of the year to date has traded on the Toronto exchange at a discount to net asset value.

Net asset value is pretty unequivocal – U3O8 is the only asset.

SPUT reappeared in the market last week to buy 100,000lbs U3O8 ahead of the US CPI result, and came back for another 100,000lbs after the result, industry consultant TradeTech reports. On CPI excitement, SPUT has now swung to a premium to net asset value.

The CPI also drove the sharpest fall in the US dollar index since 2009, which provided a boost for all commodities. Yet, despite the inflation relief evident in stock and bond markets, TradeTech's weekly uranium spot market indicator rose only US25c to US$50.00/lb.

The 2022 price average is 42% above the 2021 average.

Cop That

The long-term operation of existing nuclear power plants is the "unsung hero of the fight against global warming," one delegate told those gathered for COP27 in Egypt last week.

But it's what we might expect the International Atomic Energy Agency Director General to say.

Raphael Grossi and other industry members stressed the important role nuclear must play in efforts to cut carbon emissions and to tackle climate change. He noted the fact there was a pavilion at COP27 for nuclear was "a first and a reflection of how things are changing."

Meanwhile, uranium industry members also gathered in Adelaide, Australia this week for the Global Uranium Conference 2022. South Australia's Minister for Energy & Mining, Infrastructure & Transport opened the conference with comments regarding the state's long-term commitment to mining and more recent support for nuclear power.

While Australia has no nuclear power facilities today, the nation's notable reliance on coal and any future carbon constraints on electricity generation make it a possibility, the minister suggested.

A very, very slim possibility. Australia remains the world's third largest producer of uranium, which is exported for foreign global nuclear power programs. Uranium exploration continues across the country, with many companies working to develop new mines that are in various stages of development and permitting.

Slight hurdle: uranium mining is banned in all states bar South Australia and the Northern Territory. One exception is Western Australia, where four mines already under development were exempted from the ban reimposed by a new state government.

Not Spot, Not Term

The war in Ukraine and subsequent shift away from Russian uranium has prompted energy utilities to secure supply out to longer delivery dates, due to geopolitical uncertainty. Hence the long-term market has proven busier this year than the mid-term market.

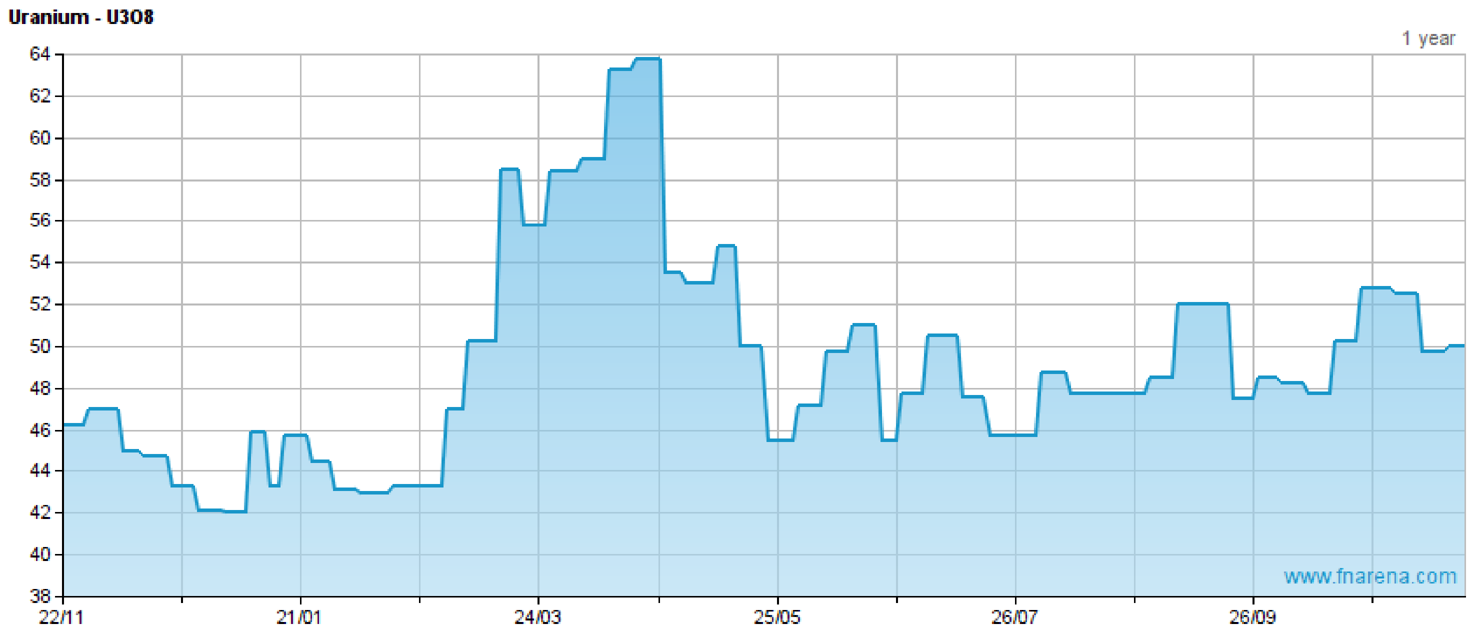
But so keen to stay out of the volatile and unrepresentative spot market of 2022 are utilities, they have taken to sourcing supply for 2023, as well as longer term out to a decade.

Not quite spot, but as good as.

TradeTech's term market price indicators remain at US$53.00/lb for both the mid and long-term.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
AGE	14/11/2022	0.0500	▼- 1.96%	$0.12	$0.04			
BKY	14/11/2022	0.2900	▲ 9.43%	$0.64	$0.14			
BMN	14/11/2022	2.1900	▲ 9.50%	$2.49	$0.15			
BOE	14/11/2022	2.6000	▲ 1.96%	$3.10	$0.31		$3.300	▲26.9%
DYL	14/11/2022	0.8200	▲ 9.93%	$1.25	$0.55			
ERA	14/11/2022	0.2100	▼- 4.76%	$0.42	$0.16			
LOT	14/11/2022	0.2400	▲ 4.35%	$0.46	$0.19			
NXG	14/11/2022	6.6500	▲ 7.43%	$8.99	$0.00			
PDN	14/11/2022	0.8800	▲ 4.14%	$1.02	$0.53	-150.9	$1.100	▲25.0%
PEN	14/11/2022	0.1800	▼- 2.70%	$0.28	$0.14			
SLX	14/11/2022	3.0000	▲ 6.01%	$4.14	$0.99			



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

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

WEEKLY REPORTS

The Short Report - 17 Nov 2022

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

Summary:

By Greg Peel

Week Ending November 10, 2022.

Last week saw a grinding rally of 150 points for the ASX200 before coming to a stop at the 7000 wall. Our week ended Thursday, and it was on Friday the index jumped 2% on the US CPI result.

Hence not a lot was going on in Short Land. No stock changed position by one percentage point or more.

A couple of weeks ago I pointed around one third of all stocks shorted by 5% or more were miners. This remains the case, but as we head towards Christmas we note another particular cohort is standing out.

Discretionary retailers are rather well represented.

We begin with Domino's Pizza ((DMP)) on 11.5%, although the Yanks would call this a staple.

Over 9% shorted are Breville Group ((BRG)) and Temple & Webster ((TPW)).

Zip Co ((ZIP)) is a financial, but discretionary by association, and is over 8% shorted.

Over 6% shorted are Kogan ((KGN)) and Citi Chic Collective ((CCX)).

Over 5% are Webjet ((WEB)), which incidentally has reported earnings this morning and is up around 10%, JB Hi-FI ((JBH)), where shorters go to die, ARB Corp ((ARB)) and Adairs ((ADH)).

If miners make up one third above 5% shorted, discretionary is around one quarter.

Weekly short positions as a percentage of market cap:

10%+

BET	15.9
FLT	14.5
SQ2	12.4
DMP	11.5
MP1	11.5
PPT	11.1

No changes

9.0-9.9

BRG, TPW

In: TPW

8.0-8.9%

SYA, NAN, LKE, ZIP, SBM

Out: TPW

7.0-7.9%

MFG

Out: BRN

6.0-6.9%

AWC, BRN, KGN, CCX, VUL, PNV, IEL, NXT, CUV, BGL, PBH

In: BRN, PBH

5.0-5.9%

ASM, BOQ, WEB, EVN, JBH, BLD, ARB, PNI, ADH, CGC, CHN, PDN, JHG, DEG, GOR, ING

In: JHG, DEG, GOR, ING   Out: PBH, PME, GUD, CXO

Movers & Shakers

Nothing this week.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.6	0.9	NAB	1.0	1.0
ANZ	1.0	1.1	NCM	0.6	0.6
BHP	0.4	0.4	RIO	1.0	0.8
CBA	1.7	1.8	STO	0.4	0.4
COL	0.5	0.4	TCL	1.0	0.9
CSL	0.6	0.6	TLS	0.4	0.4
FMG	2.7	2.8	WBC	1.8	1.5
GMG	1.0	0.9	WDS	1.9	1.7
JHX	1.5	1.3	WES	1.9	1.8
MQG	0.8	0.7	WOW	0.7	0.5

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.

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

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

WEEKLY REPORTS

In Brief: Inflation, Cyber Security, Dividends

Weekly broker wrap: inflation slowing ahead, cyber security cost, slow dividend growth.

-Inflation looks to slow in the coming year as supply-side issues unwind
-Cost of cyber security breaches may be longer-term than expected
-Lack of diversification in mining sector drives poor dividend growth in Australia

By Danielle Austin

Supply-side movements expected to be a driver of inflation decline

Oxford Economics is anticipating a rapid decline in food and energy inflation, given recent movement in commodity pricing, but uncertainty remains around how quickly inflation will decline over the coming year.

It expects supply-side development will drive down core inflation, with factors including easing bottlenecks, inventory unwinds and lower commodity prices all working to reduce pipeline price pressures.

Despite this, the Oxford Economics analysts do not expect supply-side problems to completely resolve in the coming year, with geopolitical uncertainty in China and Russia remaining a risk. Further, geographies where demand-side factors have played a larger role in inflation, such as in the US, are likely to experience a more gradual easing of core inflation.

On analysis of other global economic downturns, Oxford Economics expects the peak to trough fall in global growth to be substantially smaller than that experienced in the 2008 Global Financial Crisis. But core inflation is markedly higher than it was in 2008, and would need to fall more sharply for headline inflation to decline substantially below target. It's still far from clear what rate of inflation policymakers will need to see before they are prepared to pivot on policy.

Cyber security breaches pose risk to companies and investors

Recent data breaches at Optus and Medibank Private ((MPL)) have put a spotlight on the risk inadequate cyber security poses to companies and investors.

If a company is a victim of a data breach, Jarden reports costs stretch as far as resolution with customers, the cost of ransoms and regulator fines, and customer attrition through market share losses.

Further, impacts are not only near-term. According to Jarden, while companies typically take an initial -1-4% short-term price hit following cyber incidents, data suggests a longer-term -6% price hit impact to be evident one year later, particularly in the case of large-scale data breaches.

With cyber security risk increasing, the broker posits sectors collecting large amounts of sensitive data are most exposed to data breach related cyber security risk. Jarden names airlines, banks, general insurers, healthcare, health insurers, telcos and utility companies as most at risk. The broker warns all companies should invest in strong data management to mitigate risk.

Despite market concerns that the security spending cycle has passed its peak, Morgan Stanley expects tailwinds to sustain security spending growth for a number of years. Among these tailwinds, increasing compliance and regulatory mandates, including from insurance requirements and newly imposed legislation, ensures industry commitment to security spend.

Morgan Stanley also expects an expanding attack surface area driven by increasing digital connectivity and the rising cost of data breaches keeping security at the forefront for companies to sustain growth. The broker expects these tailwinds to see security spend exceed current IT budgets.

Australian dividends underperform as mining sector takes a hit

Janus Henderson has found Australian dividends have underperformed global peers, falling to US$28.6m in the third quarter of 2022 from US$36.3m in the second quarter. This represents a -13% decline in underlying payouts in the quarter, and a -21.3% decline in total payments year-on-year.

According to the broker a global decline in mining dividends was a major contributor to the domestic decline, with an underlying lack of diversification driving weaker results. Fortescue Metals ((FMG)) was the biggest single driver, given its significant exposure to lower metal prices.

More positively, Australian dividends did benefit from improving trading conditions for the banking sector amid ongoing rate rises. The banking sector made the biggest contribution to dividend growth as payouts grew 5.8% on an underlying basis.

Globally, an encouraging third quarter has seen Janus Henderson lift its headline dividend growth assumption to 8.2% for the year ,with underlying growth of 8.9%. The broker noted the quarter highlighted “the impact of heightened volatility and the commodity cycle across global markets.”

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

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

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

These Terms and Conditions of Use, and Disclaimers constitutes your agreement with FNArena Ltd with respect to your use of its FNArena website, its weekday news periodical, Australian Broker Call, as well as any other publications (including articles) FNArena may publish on its website, or anywhere else, from time to time.

Please read the contents of this page carefully as it contains important legal information and disclaimers. By entering and perusing the website, reading the Australian Broker Call, or, if you are subscriber, by entering the password protected part of the website, you acknowledge that you have read, understood and accept this agreement.

By accepting this agreement you acknowledge, understand and accept the following:

1. Reference to “FN Arena” and “FNArena” means reference to FNArena Ltd, its journalists, directors, other employees, affiliates, agents, associates and subsidiaries.

2. FNArena Ltd is the owner of the FN Arena website and brand name.

3. Reference to “we” or “us” is reference to FNArena.

4. Reference to “this website” or the “FNArena website” means reference to www.fnarena.com, and includes reference to FNArena’s weekday news periodical, Australian Broker Call, as well as any other publications (including articles) FNArena may publish on this website, or anywhere else, from time to time.

5. Reference to “news periodicals” means reference to FNArena’s weekday periodical, Australian Broker Call, as well as any other periodicals FNArena may publish from time to time on this website, or anywhere else, from time to time.

6. Reference to “publications” in this agreement means any material, including articles, published or put in print on the FNArena website, or anywhere else, whatsoever, and includes FNArena’s weekday periodical, Australian Broker Call, and any other periodicals FNArena may publish from time to time.

7. Reference to a “visitor” means, you, a visitor to this website, and includes a subscriber to Australian Broker Call as well as any other publications or periodicals FNArena may, from time to time, publish through its website.

8. FNArena is a media company which employs financial journalists to report financial news. FNArena’s journalists perform the required research and collect the information that is, ultimately, each day, published on this website and in FNArena’s news periodicals. As is obvious, the process by which the information is collected and delivered to you is a purely journalistic one and, therefore, the comments, opinions and recommendations FNArena reports on this website are not the opinions of FNArena or any of its journalist or other employees. FNArena is ONLY and specifically a

matter-of-fact reporter of industry signals suggesting price direction probability of some shares. FNArena simply delivers the information – it does not create it.

9. Although FNArena obtains the information published herein from sources deemed to be reliable, and given and received in good faith, it cannot and does not guarantee its accuracy. FNArena does not take any responsibility either for the financial soundness or for the correctness of statement made or opinion expressed in the data or content reported by FNArena, and cannot and does not guarantee the reliability and accuracy of the opinions of the brokers whose opinions, recommendations and forecasts it reports.

10. FNArena publishes this website, all publications and its periodicals strictly for convenient personal, non-commercial, educational and informational purposes of its subscribers only. Our goal is to provide the subscribers with a convenient starting point of potentially useful, but not comprehensive, content that can educate or otherwise enhance a visitor's knowledge base and frame of reference.

11. FNArena is NOT a stock broker or financial or trading advisor, nor is it an advisory service of any kind, and no advice or recommendations on investments or trading are made nor implied on this website. Nothing contained in this website is intended to be, nor shall it be construed as, advice or recommendation. Any investment or other decisions made by you must be based solely on your own evaluation of the targeted subject for investment, and your financial circumstances and investment objectives, and FNArena will not be held liable for any such investments and decisions.

12. It is distinctly understood and accepted that the shares referred to in the FNArena website, FNArena's publications and/or periodicals have not been recommended by FNArena. The content and or any comments found of this website, including the content and/or comments published in any publication and/or periodicals published by FNArena, do not constitute a recommendation or endorsement by FNArena with respect to any company, security, share or investment or any financial or investment product.

13. This website makes no representations, and, to the extent allowed by the law, specifically disclaims all warranties, express, implied or statutory, regarding the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any material contained in the website.

14. Before making an investment decision, you must do your own research and rely on your own examination of the share, and the risk involved, and not on what you read on the FNArena website, or in any publication or periodical. The content of this website is provided strictly for convenient personal, non-commercial educational and informational purposes only and FNArena shall not be held liable for any investment decisions, sales or purchase decisions, which you may have made based on what you have read on this website or in the periodicals published by FNArena from time to time, or in any other publications FNArena may publish on its website, or anywhere else, from time to time. Anyone who makes investment decisions based on what they read on this website does so at their own risk, and agrees that they cannot hold FNArena responsible and/or liable for any loss whatsoever.

15. It is your responsibility to evaluate the completeness, accuracy and usefulness of any content made available on this website. If you are unsure, or in doubt about the meaning of any information, you should consult your financial advisor.

16. FNArena does not guarantee any returns on investments made in any share mentioned on this website by the visitors. As any investor well knows, any investment opportunity, strategy or concept involves a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. FNArena strongly suggests that you consult your own financial advisors regarding the soundness of any intended investments, strategies or concepts, and discuss with such advisor your individual investment needs and goals. You may also wish to consult the broker who expressed the opinion we have reported on in the news periodicals we publish.

17. FNArena shall not be held liable to any visitor of the FN Arena website, or any reader of its periodicals and/or publications, or anyone else who may have relied on this website, directly or indirectly, for any inaccuracies in the printed material found on the FN Arena website, in the periodicals and/or other publications, any typing errors, omissions, interruptions, timeliness, completeness, deletions, defects, failure of performance, computer virus, communication line failures, alterations of, or use of any content herein, regardless of cause, for any loss or damage resulting therefrom.

18. Under no circumstances, including, but not limited to negligence, shall FNArena be liable for any direct, indirect, incidental, special or consequential damages that result from the use of, or the inability to use, the FNArena website, and any or the FNArena's publications and/or periodicals.

19. As a condition of use of the FNArena Website, FNArena's publications and periodicals, you agree to indemnify FNArena and all those affiliated with it from and against any and all liabilities, expenses (including legal costs) and damages arising out of claims resulting from your use of the FNArena website, FNArena's publications and periodicals. If you are uncertain about this agreement or the contents of the FNArena's website, or are dissatisfied in any shape or from, with the content of the FNArena website, or any of the publications or periodicals, or you do not agree with these terms and conditions, your sole and exclusive remedy is to discontinue using the FNArena website, FNArena's publications and periodicals.

20. FNArena may, from time to time, publish advice, opinions and statements of various third parties, other than the ten stock brokers, and various other information and content providers. FNArena does not represent or endorse the accuracy or reliability of any advice, opinion, statement or other information provided by these third parties. Reliance upon any such opinion, advice, statement, or other information is at your own risk.

21. The FNArena website may contain links and pointers to websites maintained by third parties. FNArena does not operate or control in any respect any information, products or services on such third-party websites. Third party links are included solely for the convenience of visitors, and do not constitute any endorsement by FNArena of any products or services provided by the third party link owners or operators. FNArena has no control over any websites that we might link to and does not

take responsibility for their quality, content or suitability.

22. FNArena is not responsible for claims made by advertisers on the FN Arena website or in any of its periodicals. Such advertisements are included solely for the convenience of visitors, and do not constitute any endorsement by FNArena of any products or services advertised. FNArena does not check the accuracy of the statements made by the advertisers. You assume sole responsibility for the access and use of third party links and pointers from the FN Arena website, as well as any purchases you may make from those third parties (including advertisers).

23. All the content, information and material made available on this website are provided to you "as is" and without warranty of any kind from FNArena whether express or implied, including, but not limited to, implied warranties of merchantability and fitness for a particular purpose, title, non-infringement, security or accuracy, nor does FNArena endorse or take any responsibility for the accuracy or reliability of any opinion, advise or statement made through the FN Arena website, its periodicals, or for making good all or part of any loss and/or damage that may have been caused by the visitor's reliance on any information, advise, product or service obtained from a linked website.

24. FNArena is not liable for any copyright infringements incurred by any outside content or information contributors, or by third parties who have links to this website, or advertise on this website.

25. FNArena reserves the right to make any and all changes to the FN Arena website, including the publications and periodicals, at its sole discretion without notice to you. FNArena reserves the right to deny access to this website or its information to anyone at any time.

26. This agreement shall be deemed to include all other notices, policies, disclaimers, and other terms contained in the FNArena website, provided, however, that in the event of a conflict between such other terms and the terms of this agreement, the terms of this agreement shall prevail.

27. FNArena shall have the right, at its discretion, to change, modify, add or remove terms of this agreement at any time. Changes shall be effective immediately. Notification of any such changes shall be made herein, therefore, you are strongly advised to read these terms each time you wish to access the FN Arena website or any periodical.

28. No permission is granted to copy, distribute, modify, post or frame any text, graphics, video, audio, software code, or viewer interface design or logos. The entire FNArena website, including the publications and periodicals, is subject to copyright with all rights
reserved. The information contained in the website, including the publications and periodicals, shall not be published, rewritten for broadcast or publication or redistributed in any medium, or for any other reason whatsoever, without prior written permission from FNArena.

29. All original content is the copyrighted property of FNArena.