WEEK 46

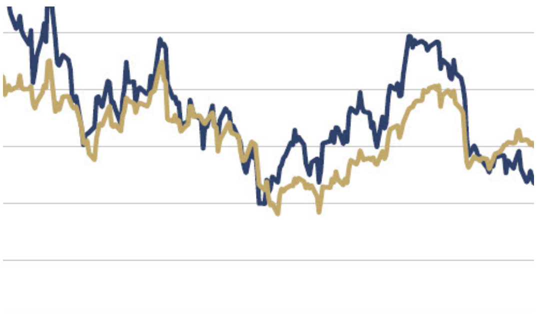
FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Friday, 11 November 2022

Material Matters: Lithium, Copper & Steel

Rudi's View: More Choice For Income Hunters



Treasure Chest: Gold's Come-Back

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FNArena
Financial News, Data & Analysis

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AUSTRALIA

Woolworths Keeps Eyes On The Prize

Despite a difficult first quarter, analysts largely expect normalising consumer trends and ongoing inflation to benefit Woolworths in the coming year.

-Woolworths delivers disappointing like-for-like sales in its first quarter of FY23
-Tough comparables in the previous year weigh on performance
-Inflation rises to 7.3% in the quarter, and remains key to performance in coming quarters

By Danielle Austin

With Woolworths Group's ((WOW)) comparable sales underperforming those of key competitor Coles Group ((COL)), the retailer's latest update largely underwhelmed the market.

As highlighted by Ord Minnett (Lighten, target price $30.00), the retailer reported a like-for-like sales decline of -1.1% in the first quarter, while Coles delivered sales growth of 2.1%. According to the broker, results imply Woolworths has lost some ground to competitors, and it expects the company faces several quarters of market share declines. Thus far, the broker finds Woolworths' reaction to market share loss to be rational, noting the company has avoided price changes to retain customers.

Credit Suisse (Neutral, target price $33.01) expects market assumptions for share retention were too optimistic, particularly given the retailer was cycling off strong market share gains in the previous comparable period. Woolworths made an impressive 60 basis point share gain in the first quarter of FY22 as a result of east coast lockdowns, and now appears to be ceding some ground to peers as consumer trends normalise, according to the broker.

Inflation remains key to retailers outlook

Rising inflation remains a key risk to staple retailers like Woolworths, which reported inflation of 7.3% for its domestic food operations in the first quarter. The retailer aims to remain competitive on price in a bid to retain value-chasing customers.

Macquarie (Neutral, target price $35.50) finds staple retailers a relatively defensive choice for investors amid declining discretionary spend. Although Woolworths reported a -13% decline in items per basket in its latest update, the broker expects this trend to improve.

Similarly, Citi (Buy, target price $39.50) expects a return to more predictable spending patterns to benefit Woolworths, allowing the company to better manage costs. Despite appearing to lose some market share to Coles in the quarter, Citi highlighted that Woolworths remains ahead of its competitor on a four-year stack basis, at 20% sales growth compared to 13%.

Both UBS (Neutral, target price $34.50) and Morgans (Hold, target price $34.10) found the first quarter result weaker than expected, with the former noting the increase in food inflation was insufficient to offset comparable metrics. Morgans noted the retailer's New Zealand food operations reported a -3.3% like-for-like sales decline, and Woolworths has guided to first half earnings of NZ$100-130 for the segment, reflecting a -40% decline on the previous comparable period.

Outside of database coverage, both Jarden (Overweight, target price $35.50) and Goldman Sachs (Buy, target price $41.70) pointed out that despite the quarter being disappointing the company's Big W brand outperformed. Jarden found company commentary upbeat despite negatives, with the company pointing to improving trends in October, on-track cost out initiatives and no major covid costs as positive signifiers. The broker anticipates Woolworths will outperform over the coming year, assisted by rising inflation and share momentum.

[Morgan Stanley has this morning initiated (or re-initiated) coverage of Woolworths, Coles and Endeavour Group, all with Underweight ratings. The supermarket ratings are premised on the impact of a weaker consumer trading down, margin pressure as the industry invests in price and the inflationary pressure on costs. The broker's earnings estimates are below consensus. Morgan Stanley nevertheless prefers Woolworths out of the three. Target price $28.50.]

AUSTRALIA

CSR Excels Amid Housing & Inflation Uncertainty

In the face of housing market and inflation concerns, first half results for CSR revealed the benefits of strong cost control and a proactive pricing strategy.

-First half results for CSR beat consensus forecasts
-Building products and property outperform, aluminium weighs
-Citi feels the current backlog for CSR mitigates downside risks
-No material changes to broker target prices

By Mark Woodruff

Despite rising housing market and inflation concerns, first half results for CSR ((CSR)) beat consensus broker estimates on the back of strong cost control and proactive pricing.

Most of the 11% revenue growth for the core Building Products segment was driven by price and good operational execution, according to Macquarie, during a period of elongating build cycles that are helping to extend the pipeline.

Largely due to price, margins in Building Products expanded by 60 basis points and, looking to the future, Citi notes industry research suggests 7-15% price rises were taken on CSR products across the board in September.

Ord Minnett also points out plasterboard players are looking to 17.5-20% price rises in January 2023. This broker expects a cumulative rolling benefit of annualising price rises will be maintained in the current rational competitive backdrop, helping to maintain margins.

Management guidance for Property was stronger than expected though Macquarie believes this was neutralised by coal-based cost pressure in the Aluminium segment. While 95% of net aluminium exposure is hedged, these coal costs are thought to be materially undermining the division's FY23 outlook.

Coke pricing was one factor in the Aluminium segment underperformance, notes Goldman Sachs, along with greater-than-expected inflationary pressures stemming from labour, transport and warehousing.

Overall, Macquarie feels CSR has done a good job in offsetting cost inflation through price discipline. A new gas contract extends cover to 2027 though still requires double-digit price increases to offset the impost in high energy-intensity products, like bricks. It's felt a struggling customer base could also start undermining this pricing power.

In terms of cost and margin, Jarden notes the company has a rolling 12-month hedge for the electricity price and it recently signed a gas supply contract with Shell to 2027. Management aims to achieve product price changes on a "CPI plus" basis.

Citi backs up its Buy rating on CSR with an interesting analysis that concludes: the time to buy cyclical housing stocks may be closer than the market is expecting.

The broker expects house price falls to last longer and only bottom towards the end of 2023, with a -23% peak to trough fall. Should historical correlations hold, housing-related stocks bottom and start delivering outperformance six to seven months before housing prices.

The analyst reminds investors house prices are separate to housing activity in this cycle and sees stable building volumes over the medium-term from the current backlog, flood repair work and potential government stimulus. It's felt the backlog makes it safer to "go early" on CSR as the risk of mean reversion is materially reduced.

Given this backlog, UBS assigns a 49% weighting to second half earnings, up from the usual 45%, which aligns with management commentary around a strong second half.

CSR management also spoke of an extended cycle stretching into the second half of FY24, which UBS points out will allow CSR to benefit from a recovery in higher-margin multi-family homes as detached volumes finally decline.

Property earnings

Guidance for the Property segment earnings (EBIT) was raised to $68m from $52m and UBS believes management has done well by locking in significant earnings over the medium term.

The broker assigns a $2.32/share valuation to this segment, which broadly lines up with the company's "as is" valuation of $1.5bn ex the operating properties that are expected to be realised in 10-15 years. It's felt longer-term operational changes will unlock further land.

Outlook

Credit Suisse retains its Outperform rating on CSR's attractive valuation and in the belief Building Products' earnings will be more resilient than expected by consensus.

Equal-weight-rated Morgan Stanley feels the company is well positioned to benefit from elevated backlogs, though the market may focus on the medium-term impact of rising interest rates, while Ord Minnett (Hold) sees better relative value within the sector from Buy-rated James Hardie Industries ((JHX)).

Three brokers in the daily-updated FNArena database have a Buy or equivalent rating for CSR, while another three have a Hold or equivalent rating.

The average database target price was $5.53 prior to first half results, and $5.47 after, which suggests 15.2% upside to the latest share price.

Outside of the database, Jarden has an Overweight rating and downgrades its target to $5.50 from $5.65 after first half results. Neutral-rated Goldman Sachs increases its target by 5% to $5.40.

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AUSTRALIA

Eclipx Group Cutting Costs, Looking For Catalysts

Brokers remain upbeat on Eclipx Group following FY22 results in line with consensus forecasts.

-FY22 results for Eclipx Group were in line with consensus expectations
-All three brokers in the FNArena database retain an overweight stance
-Management initiates new cost-out program
-Cash holdings provide a natural hedge against funding costs

By Mark Woodruff

Brokers in the FNArena database find no definitive reason to justify the near -6% fall in share price for Eclipx Group ((ECX)) that accompanied the release of FY22 results on Monday.

The best guess by Credit Suisse is the market's 'acknowledgement' of the good performance of CEO Julian Russell. It was announced he will be replaced in February 2023 by current CFO Damien Berell.

According to media speculation after the results, the company has recently held talks with private equity firms about a buyout. It's believed Russell, a former UBS investment banker who advised Eclipx on previous corporate activity, will work to find a buyer for the business.

Morgan Stanley also attributes the negative share price reaction to the CEO transition and a -$62m headwind for end-of-lease (EOL) income. It's thought the latter may not have been allowed for by consensus. Overall, the FY22 results were considered robust.

While Credit Suisse notes few surprises within the FY22 results that were in line with consensus expectations, maximum cash generation continues via elevated EOL income and new business.

FY22 profit (NPATA) rose by 29% year-on-year, due to elevated yields and EOL income, as vehicle supply remains restricted.

The company is one of Australia's leading providers of fleet management services and also operates in New Zealand. Products include a range of motor vehicle services from acquisitions, leasing, in-life fleet management and remarketing.

Macquarie points out positive jaws were delivered again in FY22, with net operating income (NOI) growing by 4.0% pre-EOL growth, and operating expenses held flat for the third consecutive year despite inflationary pressures.

The NOI growth was supported by a combination of net margin, higher maintenance margins and management fees, observes the broker.

EOL of $92.3m was in line with Macquarie's estimate and rose by 33.4% year-on-year due to average unit profitability.

Management also announced a -$25m capex spend for the new Accelerate project, which will aim to reduce annual operating expenses by -$6m per year from mid-FY25. The three-year program is designed to consolidate multiple operating systems and remove duplication of brands, systems and processes.

Interest rate exposure

Macquarie points out Eclipx Group's cash position provides a natural hedge against funding costs.

The typical on hand cash balance of $230-250m provides an offset against funding costs on the warehouse and corporate debt, explains the analyst.

The company estimates a 25bps move in interest rates would impact FY23 annualised profit (PBT) by around -$500,000.

Outlook

Credit Suisse retains its Outperform rating on a compelling valuation and expectation for FY25 growth, though acknowledges a lack of near-term catalysts for a share price re-rate. The broker also maintains its $2.50 target price.

Morgan Stanley cites undemanding current multiples, a strong balance sheet, buybacks and organic opportunities to justify its unchanged Overweight rating and $3.00 target.

Only small changes were made to Macquarie's earnings forecasts, though the target price falls to $2.19 from $2.98 to reflect a movement in small cap multiples since the release of first half FY22 results for Eclipx in May this year.

This broker maintains an Outperform rating on the company's underlying performance and expects vehicle supply will normalise. Opportunities are envisaged for both Small Fleet and Novated Leasing, with both segments only having around 2% market penetration.

The average target price in the FNArena database for these three brokers is $2.56, which suggests 34.2% upside to the latest share price.

AUSTRALIA

Lottery Corp Implements Powerball Pricing Boost

The Lottery Corp reports a volatile year-to-date, with strong results underpinned by jackpot activity, and announces a ticket price increase for Powerball.

-A change to Powerball game pricing should prove beneficial to The Lottery Corp's revenue
-Recent jackpot activity has been key to strong results year-to-date
-Analysts raise concerns over growth excluding jackpot benefits, but largely see long-term value in the stock

By Danielle Austin

The Lottery Corp ((TLC)) has detailed a number of initiatives that look to increase earnings, notably including the first Powerball re-pricing in five years. The company announced it will issue a 9% increase to Powerball subscription pricing from the fourth quarter, lifting the per-ticket price 10 cents. The higher price is expected to boost FY24 revenue by 2%

Group revenue has increased 11% in the four months to the end of October, with Lotteries up 9% and Keno up 33%. This is well ahead of consensus growth expectations of just 1% year-on-year for the full fiscal year.

The recent $160m Powerball jackpot drove a 22% increase in lottery revenue growth in October, and proved a key driver in the sales result year-to-date, but analysts have raised concerns as to the sustainability of sales without further jackpot activity. Based game turnover, excluding jackpot activity, was up a more modest 4% year-on-year.

Jackpot activity key to first half results

The five FNArena database brokers covering Lottery Corp were largely in agreement that recent jackpot activity resurrected results for the first four months of the fiscal year. Despite this, four are equivalent

Buy-rated and one Hold-rated, with a target price between them of $4.87, ranging from $4.10 to $5.40.

Following the recent jackpot, Macquarie (Outperform, target price $4.90) anticipates Lotteries revenue growth of just 3% over the full fiscal year, noting the company faces challenging comparable metrics in its fourth quarter. The broker also anticipates changes to Monday and Wednesday lottery draws will come into effect for FY24, and could add 1% on an annualised basis. Macquarie assumes 4% year-on-year earnings growth in FY23, and a 5% three-year compound earnings growth rate through to FY25. Macquarie feels investors would do well to look through recent volatility to consider the sustainable earnings growth potential of the stock.

With the update to Powerball pricing being implemented toward the end of FY23, Credit Suisse (Neutral, target price $4.10) assumes a two month contribution in the current fiscal year, estimating a 0.5% revenue benefit. On a full-year basis, Credit Suisse assumes Lottery Corp will benefit from positive revenue elasticities, combining the 9% price increase with 6% sales growth.

Ord Minnett (Accumulate, target price $4.95) expects some reversion in revenue growth following the stronger second quarter, anticipating Lottery Corp will slow the jackpot sequence. Estimating 4% growth in the first half, Ord Minnett feels consensus forecasts should be lifted closer to its own assumptions.

Positively, UBS (Buy, target price $5.40) sees no signs of cyclical headwinds for the company, finding base game performance resilient. The broker feels performance to date supports assumptions that Lottery Corp can sustain above historical average long-term lotteries revenue growth. Morgan Stanley also updated with an Overweight rating and a target price of $5.00.

In addition to database coverage, Jarden (Underweight, target price $4.03) and Goldman Sachs (Sell, target price $3.50) noted the recent jackpot reinvigorated sales and underpin the strong outcome year-to-date. While noting there is possibility that a price rise for Powerball tickets could have a marginally negative impact on demand, Jarden feels the increase will likely be net positive given sales skew to large jackpots.

COMMODITIES

Material Matters: Lithium, Copper & Steel

A glance through the latest expert views and predictions about commodities: lithium outlook remains positive, copper set to decline amid surplus, US steel spreads drop.

-Undersupply underpins strong lithium pricing outlook
-Copper prices could plunge in 2023 but green metal demand on the horizon
-Investors look to US steel spread performance for local readthroughs

By Danielle Austin

Lithium

While the lithium industry reported production misses and delays in commissioning fresh projects in the September quarter, both Macquarie and JP Morgan have lifted their price outlook as demand continues to drive up spot pricing.

Amid a persisting undersupply of lithium, auction prices continue to rise. Both brokers don't see the price easing in the near term as output remains constrained.

In an indication of how tight the market is, producers have been able to sell low grade spodumene at minimal discounts to converters, while projects continue to face delays.

Macquarie recommends Pilbara Minerals ((PLS)) and IGO ((IGO)) as its key picks in the sector, noting both offer strong production upside. Forecasts have been lifted for each by 24-152% and 6-103% respectively through FY27.

In addition, forecasts lifted by 6-110% for Allkem ((AKE)) and 14-93% for Mineral Resources ((MIN)).

Marking to market, JP Morgan's pricing forecasts increased by 44% and 66% in 2023 and 2024 to US$6,500 and US$5,700 per tonne respectively. This broker remains Overweight rated on both IGO and Allkem.

Copper

Anticipating a 170,000 tonne refined market surplus to emerge in 2023, the Goldman Sachs commodity team lowered its copper price forecasts for the coming year.

The broker is now assuming average copper prices of US$3.78 per pound in 2023, compared to a previous assumption of US$4.00 per pound. The analysts also downgraded expectations for global demand growth to 3.1% from 4.1%.

Goldman Sachs expects the surplus to be driven by weak Chinese property and European industry demand, following on from an expected deficit of -155,000 tonnes in 2022. According to the broker, visible stocks will be at their lowest level in eighteen years, with deficits reported in five of the last six years.

The team at Goldman Sachs does highlight the world is witnessing the beginning of the global demand surge for green metals, which could go some way in offsetting other headwinds.

BHP Group ((BHP)) and Rio Tinto ((RIO)) remain the broker's pick for domestic copper exposure, with both trading below net asset value.

Steel

A decline in US steel company share prices appears to have spooked domestic investors, observes Jarden, with concern around a potential decline of Bluescope Steel's ((BSL)) spreads driving a share price decline.

The broker highlights there is concern that Bluescope Steel's spreads could decrease to US$300 per tonne, reflecting a -US$30-40 per tonne decline. This comes after the US Midwest CRU Index Futures price dropped -US$33 per tonne, following the latest interest rate hike from the US Federal Reserve.

Jarden anticipates a US steel spread of US$341 for Bluescope Steel at the end of November. The broker remains Overweight rated on the company, while also retaining a Neutral rating on Sims ((SGM)).

The latter effectively issued a profit warning at the AGM yesterday.

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RUDI'S VIEWS

Rudi's View: More Choice For Income Hunters

In this week's Weekly Insights:

-More Choice For Income Hunters
-December Index Review Preview
-Conviction Calls
-AIA Investor Day In Sydney

By Rudi Filapek-Vandyck, Editor FNArena

More Choice For Income Hunters

The year of the Grand Yields Reset, otherwise known as probably the worst bear market for global bonds - ever, is starting to deliver investors genuine alternatives for regular income outside the share market.

This is a major change from recent years when a common phrase used on Wall Street was that of TINA - There Is No Alternative (to equities).

Increasingly, asset allocators and strategists are again warming towards government bonds and even cash deposits as implied returns (through income) have become competitive with stocks, and at a much lower risk profile.

Investors are being reminded that economic recessions, expected in the year ahead, bring along a lot of uncertainty for corporate profits and valuations, which, all else remaining equal, lifts the overall risks for individual companies, and their dividends.

Bonds traditionally benefit from tougher economic conditions, with both inflation and central bank tightening expected to change course over the year ahead.

A recent strategy update by **Wilsons** highlighted several **fixed income alternatives** investors might consider as a lower-risk option for their non-active cash on the sideline, including:

-JCB Active Bond Fund (CHN0005AU)
-Western Asset Australia Bond Fund (SSB0122AU, BNDS)
-iShares Core Composite Bond ETF (IAF)
-Floating rate hybrids

In addition, Wilsons strategists also highlighted the following alternative asset allocation options:

-AMP Capital Core Infrastructure Fund (AMP1179AU)
-BetaShares Gold Bullion $AU hedged ETF (QAU)
-CIPAM Multi-Sector Lending Fund (HOW6713AU)
-Alium Market Neutral Fund (DCA7894AU)
-Yarra Private Capital Discovery Fund

The strategists also did not hesitate to recommend investors use term deposits for any cash not allocated. **Quant analysts at Citi** recently went one giant step further; in their view, cash is back as a genuine asset, alongside all the usual suspects of property, stocks, and fixed income.

Admittedly, the situation for investors in Australia is not quite the same as for peers in the US or New Zealand where government bond yields are currently above 4% (the ten year yield is 4.50% in New Zealand) with the Aussie ten-year yielding circa 3.85%, not too dissimilar to bond yields in Canada and Great Britain.

Plus, of course, income derived from Aussie shares on average is among the highest in the world, today's average dividend yield of 4.8% well exceeding the sub-4% on offer through domestic government bonds (franking not even included).

However, the underlying message remains the same: for those investors looking to diversify and to spread risk, or who feel uncomfortable with the outlook for the share market, alternatives elsewhere are steadily becoming more attractive, and expected to receive a boost when central banks stop hiking rates.

Yield alternatives are equally popping up through Exchange Traded Funds (ETFs) with the **FNArena/Vested Equities All-Weather Model Portfolio** recently adding the **Vanguard Australian Property Securities Index ETF** ((VAP)). This selection of 31 ASX-listed REITs, property owners and developers has been sold off aggressively this year on the back of rising bond yields.

According to indications published by Vanguard on the dedicated website, the implied dividend yield on offer is now 5.1% with individual risks spread across Goodman Group ((GMG)), Scentre Group ((SCG)), Dexus ((DXS)), Stockland ((SGP)), Charter Hall Long WALE REIT ((CLW)), National Storage ((NSR)), Waypoint REIT ((WPR)) and 24 others, of which many are household names among Australian investors.

What about Australian shares?

This year's bear market for bonds has equally thoroughly shaken up the local share market.

Viewed from the top down, the ASX200 is not too far off from where it traded at the start of the calendar year, but underneath a Big Reset in valuations has occurred, reducing the average PE ratio closer to 13x from 17.7x in January and from above 20x in 2020.

As a result, the average forward-looking **dividend yield for the ASX200 has now risen to 4.8%**. For comparison; the long-term average since 2006 is 4.6% but in the two years preceding that percentage had been fluctuating between 3.5%-4% as banks and other companies had been cutting dividends while average valuations were much higher.

In normal circumstances, insofar they are ever genuinely 'normal' on the Stock Exchange, investors are usually reminded above-average dividend yields also imply above-average risk.

History shows the worst investment experiences usually stem from buying into high-yielding shares before the company announces a reduction or suspension of its dividend payout.

This time around, the Australian share market has a number of unusual set-ups that deserve to be highlighted.

Super Profits Facilitate Super Dividends

Resources companies, because of their extreme leverage to economic and sector-specific momentum, seldom feature highly on investors' radar when it comes to options for sustainable, regular income from shares.

But iron ore companies have proven in recent years that when prices surprise to the upside, and stay higher-for-longer, this generates an absolute cash bonanza for the companies involved, and their shareholders.

As such each of BHP Group ((BHP)), Rio Tinto ((RIO)) and Fortescue Metals ((FMG)) had moved into the Global Top Ten of dividend payers. Though with the price of iron ore pretty much halving since March, those dividends will not be repeated from here onwards.

As illustrated by the -35% fall in the Fortescue share price since July, the temporary benefits during the extraordinary good times can disappear quickly, even without the board announcing a change in payout.

Implied forward-looking yields remain (very) high for each of the large iron ore producers on the ASX, but the trend is now clearly south, unless the outlook for China's property market, and demand for steel and iron ore, makes a turn for the better; post next year's recession, maybe?

Extraordinary conditions for the iron ore producers have now shifted into the coal sector where shares in companies such as New Hope Corp ((NHC)) are trading on forward-looking implied dividend yields of 26.5% and 17% respectively for the two years ahead, while the share price is also supported by the company's on market buyback.

History strongly suggests today's extraordinary market dynamics are but temporary and indeed, the key reason as to why the implied yield is so high is because investors refuse to price-in these extraordinary, mind-blowing conditions in full.

But while they last, and for as long as they do, investor rewards can be huge - as long as one doesn't hang around for too long when the tide turns.

See also Fortescue this year.

A similar cash bonanza has this year been building for Woodside Energy ((WDS)) inside the oil & gas sector, through the fortunate combination of the European energy crisis and the merger with BHP Petroleum.

On current consensus forecasts, Woodside's dividend payout will reduce slightly in 2023, but still yield 9.6% from today's share price of circa $39.

Needless to say, anyone considering resources companies for income needs to have a stomach for volatility, and the ability to leave before the party is over.

Come-Back Banks

Australian banks are definitely back as reliable, solid and trustworthy dividend payers, also because dividends have been steadily rising from reduced payouts in late 2019 and 2020. Add the benefits from rising bond yields and dividends from the sector haven't looked this solid for years.

Here the risk lays with the downturn in property markets and the big reset in fixed interest mortgages next year. But probably fair to say, bad news is more likely to hit share prices, not necessarily impacting on the banks' ability to continue paying out oversized dividends to shareholders.

The Big Four in Australia are currently offering between 4.2% (CBA) and 6.3% (Westpac) but as yet again proven on Monday, the higher yield comes with higher risks attached.

Equally important: the local bond market does not see an economic recession on the horizon for the Australian economy.

FNArena's Sentiment Indicator

Australia may not experience economic contraction next year, there's virtually no one around who doubts economic growth will slow down, and probably very much so.

The overall expectation is that inflation and falling house prices will force households into spending less and on cheaper products, which can have a significant impact on sectors and segments of the local economy.

Elsewhere, economic recessions in the UK and in Europe are pretty much a given, while aggressive tightening by the Federal Reserve is thought to make avoiding economic recession in the US improbable (as also indicated by US Treasuries).

Meanwhile, central bankers are still messaging more rate hikes are forthcoming.

These considerations need to be kept in mind when assessing the pros and cons of today's dividend paying "opportunities" on the ASX.

Outside of selected segments such as financials, and producers of coal and energy, earnings forecasts for next year are sliding downwards, and they might yet prove a precursor to Australian companies having to cut dividends next year.

FNArena's Sentiment Indicator has the ability to rank ASX-listed companies according to forecast dividend yield and today's ranking is both a representation of the Big De-Rating forced upon by the bond market, as well as exceptional conditions for coal and investors' worries about what might lay ahead next year.

I don't check these ratings daily, but I cannot imagine there having been many precedents over the past two decades when the highest yield on offer was 31% from Coronado Global Resources ((CRN)) and 66 places further down the list the yield offered by South32 ((S32)) is still 4.87%, above the 4.80% market average.

Ranked number 100, Reliance Worldwide ((RWC)) is still offering 3.39% (on a prospective cut of -35% in FY23 from FY22).

In between, there's Viva Energy Group ((VEA)) offering 10.44%, Stockland ((SGP)) 7.75%, CSR ((CSR)) 7.31%, Centuria Capital Group ((CNI)) 6.91%, Abacus Property Group ((ABP)) 6.80%, Nine Entertainment ((NEC)) 6.61%, JB Hi-Fi ((JBH)) 5.95%, Insurance Australia Group ((IAG)) 5.07%, and Telstra ((TLS)) on 4.34%.

Unless we are facing a mini-Armageddon for corporate profits and cash flows next year, these numbers seem to suggest there's incredible value on offer in today's share market, in particular with those companies able to lift their performance in the years ahead while share prices are priced for failure.

In the same breath, investors will need to be extra-vigilant in order to avoid the value traps. Magellan Financial ((MFG)), for example, sits high on today's ranking, with an implied forward-looking yield of 9.30%.

Telstra Unlocking Value

Odd as it may sound, a high yield is not by definition the most important factor to consider for income-hungry investors. Often a lower yield with more certainty (less questions) offers better return, or at least: less sleepness nights.

Early in 2021, the **FNArena/Vested Equities All-Weather Model Portfolio** added Telstra on the expectation that spinning off infrastructure assets would unlock value for shareholders. 1.5 years later, asset sales are likely to safeguard the dividend throughout tougher economic times.

Telstra managed to surprise positively this year by lifting its dividend faster than expected. Some analysts believe there could be more increases on the horizon. Meanwhile, the prospect of ongoing asset sales provides protection to the downside for the share price.

It is for those reasons investors might not be fussed about Telstra offering less than half of the yield on offer through Magellan Financial - the odds of Telstra having to cut its dividend are pretty close to zero.

The offset is that even if Telstra manages to further increase its dividend in years to come, it likely won't be spectacular and it won't happen annually or even regularly. For these reasons, I think the inclusion of Telstra in the All-Weather Model Portfolio will be subject to re-assessment, once the asset sales and economic downturn have run their course.

Investment decisions don't always have to be made for eternity; not even when it involves regular income.

FNArena's Dividend Calculator

One of the additional features available through Stock Analysis on the FNArena website is the **Dividend Calculator** which automatically shows the average growth in dividends over the past three years, as well as today's yield on shares purchased three years ago.

The idea behind this feature is to show investors the value of investing in dividend payers that manage to grow their profits and dividends, while not necessarily starting off on an elevated yield.

The Dividend Calculator also projects the average growth into the next five years, which can lead to some spectacular outcomes in case there has been tremendous growth in recent years (which may or may not be repeated).

As per always, context is everything and investors should always mind the details when using such applications. But don't let this stop you from using them.

December Index Review Preview

Equity indices have seen quite a large number of changes this year, but if **Morgan Stanley**'s research can be relied upon, the upcoming December review will be a very quiet affair.

The broker predicts there could be as little as one adjustment only for the ASX200, and none for other indices managed by Standard & Poor's in Australia. The S&P300 is traditionally not reviewed in December.

The one, potential, change could be St Barbara ((SBM)) out and Monadelphous ((MND)) in.

Equally noteworthy, the addition of miners and energy producers -resources stocks- thus far this year has never been as high over the past twelve years, according to Morgan Stanley.

Not surprisingly, for the first time since 2016 Australian indices have experienced more removals than inclusions for technology stocks.

Conviction Calls

Market strategists at Citi have dubbed next year probably the most widely anticipated recession in recent history.

They are, of course, referring to the US economy. On Citi's modeling, the US will experience its Fed-induced economic recession in the first half of 2023.

And while earnings expectations still need a lower reset, Citi also finds the compression in valuations generally because of higher bond yields has largely run its course.

While volatility is expected to remain with us for a while yet, Citi believes US equity markets, overall, will prove more resilient, also because the economic recession will be largely consumer-led, and benign.

Citi's targets set for the S&P500 speak volumes: 4000 for year-end 2022, 3800 by mid-year and 3900 by year-end 2023.

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Morgan Stanley has published a deep-dive into Australia's best known and broadly owned defensive consumer-spending companies; Coles Group ((COL)), Endeavour Group ((EDV)) and Woolworths Group ((WOW)).

And they all start life at the broker with an Underweight rating, share price targets between -12.5%-15.5% below current share prices and EPS forecasts some -10% lower than market consensus.

Morgan Stanley thinks consumers changing their spending habits to cheaper alternatives in combination with margin compression (inflation continues to bite) and a general sector-derating on the back of food product disinflation will weigh on all three stalwarts in 2023.

But there seems to be no hurry to switch out of these stocks just yet, with the broker acknowledging the weeks leading into December/year-end look okay.

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Market dynamics have not been kind for so-called long duration assets, otherwise known as technology companies, acknowledges **Jarden**.

A recent preview of market updates by NZ-based technology companies still exhibits an overwhelming dose of caution as macro concerns continue to linger over the sector.

The broker's sector update mentions two potential positives. Gentrack Group ((GTK)) has the best odds to surprise positively with its upcoming FY22 financial result, scheduled for November 29.

Vista Group International ((VGL)) is the sole stock currently rated Overweight in the sector.

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Portfolio managers at **Wilsons** have increasingly warmed towards data centres operator NextDC ((NXT)) with the ever-cheaper share price of this "quality growth stock" considered a longer-term opportunity.

Wilsons Focus Portfolio increased NextDC's weight to 3% from 1% while reducing exposure to Qantas Airways ((QAN)) by -1% to 3%.

The timing proved a-synchronous with share market momentum in October, with NextDC joining OZ Minerals ((OZL)) as the worst performer in the portfolio for the month, both falling by -6%.

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Strategists at **stockboker Morgans** have used a better-than-forecast banking reporting season in Australia to add both CommBank ((CBA)) and Westpac ((WBC)) to their selection of Best Ideas for the ASX.

The selection now consists of 45 companies, including well-known large caps BHP Group, Macquarie Group ((MQG)), Wesfarmers ((WES)), Seek ((SEK)) and Santos ((STO)), as well as lesser-familiar minnows Dalrymple Bay Infrastructure ((DBI)), GQG Partners ((GQG)), Mach7 Technologies ((M7T)) and PeopleIN ((PPE)).

For more insights on who's in and who's not:

https://www.fnarena.com/index.php/2022/09/15/rudis-view-bega-cheese-computershare-nextdc-playside-studios-treasury-wine-and-qantas/

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Technology sector analysts at **Goldman Sachs** recently initiated coverage on three newcomers, but only one starts off with a Buy rating; Data#3 ((DTL)).

Both Dicker Data ((DDR)) and Macquarie Telecom ((MAQ)) received a Neutral rating, as the broker attempts to balance quality business models and long-term favourable trends with near-term cyclical risks.

The Data#3 first price target was set at $8.95, suggesting some 30% potential upside. Targets for Dicker Data and Macquarie Telecom were set at $12.25 and $64.60 respectively.

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Resources sector analysts at Citi have laid out likely market dynamics under different recession scenarios for 2023.

Assuming economic recessions will remain mild and brief, Citi argues both miners and the energy sector look attractive under such a scenario, which is also the broker's base case assumption.

Considered most attractive are Rio Tinto, South32, Santos, Mineral Resources ((MIN)) and Allkem ((AKE)). Least attractive are Whitehaven Coal ((WHC)), New Hope Corp and Pilbara Minerals ((PLS)).

If it turns out the recession is deeper and it lasts longer (ie 'hard landing scenario'), then oil & gas producers stand to benefit most with Santos and Woodside Energy considered most attractive. Least attractive are now South32, Fortescue Metals, 29Metals ((29M)) and Sandfire Resources ((SFR)).

In case of a 'soft landing', otherwise known as it was all a scare, but nothing untoward is going to happen, more upside will present itself among miners with lower margins and higher operating leverage, explain the analysts.

The latter scenario favours companies including South32, Fortescue Metals, 29Metals, Newcrest Mining ((NCM)) and Mineral Resources. Least preferred under this scenario are Santos and Woodside Energy.

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).

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SMALL CAPS

Dr Boreham’s Crucible: Qbiotics Group

Having brought a canine cancer treatment to market, Qbiotic’s focus has returned to treating two-legged cancers including melanoma and other difficult-to-treat cancers

By Tim Boreham

Chief executive officer: Dr Victoria Gordon

Qbiotics is a public unlisted company

Shares on issue: 488m

Share price: $1.27 **(**Based on the average of the last 10 trades through the company’s facility, between August 25, 2022 and September 20, 2022)

Nominal valuation: $619m

Financials (12 months to June 2022): revenue $1.54m (down -19%), government grants $6.38m (up 8%), loss of $18m (previously a -$14.3m loss), cash on hand $84m (down -16%)

Board: Rick Holliday Smith (chair), Dr Victoria Gordon, Dr Paul Reddell (executive director), Andrew Denver, Dr Steve Ogbourne, Neville Mitchell, Dr Susan Foden, Nicholas Moore, Prof Bruce Robinson, Hamish Corlett (TDM representative)

Major shareholders: TDM Growth Partners 11.4%, Dr Gordon 6.73%, Dr Reddell 6.14%.

This column first appeared in Biotech Daily *biotechdaily.com.au*

What Australian biotech is valued at more than $600m and has an approved veterinary product, as well as an active human clinical program in oncology and wound healing?

Privately owned but heading for a listing in the near future, the Brisbane-based Qbiotics is unlikely to come to mind. But based on thin off-market trading the company is ascribed a nominal worth easily over half a billion bucks and boasts a retinue of big-name directors and shareholders.

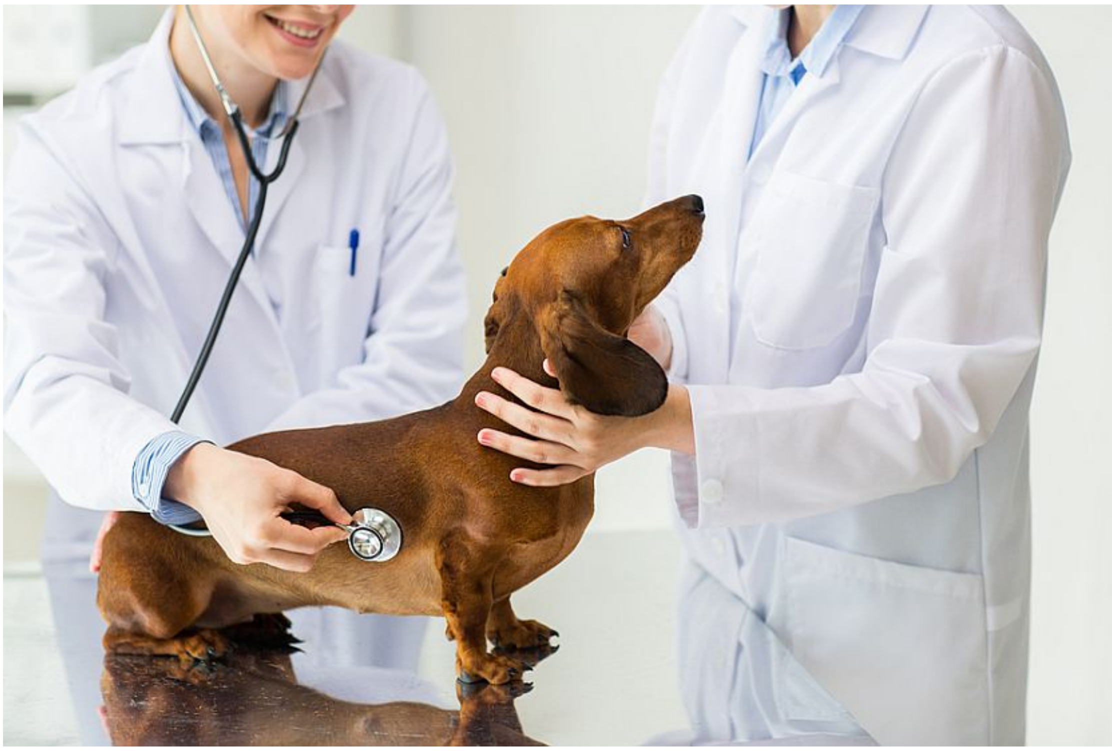
Co-founded by research scientist Dr Victoria Gordon and husband and forest ecologist Dr Paul Reddell, Qbiotics is furthering key compounds based on biologic material from the Daintree rainforest (a.k.a. nature’s pharmacy).

Having brought a canine cancer treatment to market, Qbiotic’s focus has returned to treating two-legged cancers including melanoma and the difficult-to-treat head and neck squamous cell carcinoma (HNSCC).

“There is good stuff happening [with the animal drug, Stelfonta] but the focus at the moment is our oncology human clinical trials,” Dr Gordon says.

Four human trials are in progress (see below).

“Things are certainly moving forward pretty positively,” Dr Gordon says. “Like everyone else, we have been hit by slow patient recruitment on our clinical trials but you just keep doing what you’re doing.”



The story to date

Both founders were employed by the CSIRO, but in 2000 Dr Gordon quit her day job to form Ecobiotics and the duo then formed Qbiotics - into which Ecobiotics was merged - in 2004.

Qbiotics' work revolves around a substance called tigilanol tiglate which Dr Gordon and Dr Reddell stumbled upon when fossicking in rainforest in the Atherton Tablelands of Far North Queensland.

They observed that animals spat out the seed of the blushwood tree - or Fontainea picrosperma to the Latin scholars among us - pointing to a non-toxic deterrent preventing the critters from eating and thus destroying the seed.

In a long discovery process, they isolated tigilanol tiglate - known EBC-46 - and tested it on a range of animals. The semi-synthetic molecule proved safe, but also active against tumors.

The compound was selected from more than 100 potential assets on the company's drug discovery platform, Eco Logic, after a long weeding-out process.

"We push our drugs to fail, because if you fail early, you fail cheaply," Dr Gordon says.

A talented lot

Dr Gordon has been a director of Biopharmaceuticals Australia, a member of the Queensland Government's Biotechnology Advisory Council and chair of the Australian Rainforest Foundation.

"My background is as a research scientist, but I really love the business side of the company," she says.

The Qbiotics board includes former ASX and Cochlear chair Rich Holiday-Smith and - more recently - Nicholas Moore, who ran Macquarie Bank for ten years and knows something about following the money.

Prof Bruce Robinson chairs the National Health and Medical Research Council. Neville Mitchell was Cochlear's chief finance officer, while Andrew Denver is the former executive chair of Universal Biosensors.

Animal magic…

A new way of tackling cancer, tigilanol tiglate works largely through specific protein kinase C (PKC) activation.

Or as Dr Gordon explains: "It locally stimulates the immune system resulting in destruction of the tumor mass and the tumor's blood supply, followed by rapid healing of the site with minimal scarring."

Branded as Stelfonta, the substance was approved by the European Medicines Agency in May 2020, followed by the US Food and Drug Administration in November 2020 and the Australian Pesticides and Veterinary Medicines Authority in July 2021.

Stelfonta is indicated for all grades of canine mast cell tumors, the most common form of canine cancer. These days one in four dogs will die from cancer, partly because they are living longer.

Stelfonta is administered by injection directly into the tumor mass.

The current standard of care is surgery - but anaesthesia is dangerous for older dogs and for brachycephalic breeds (short snouted ones such as bulldogs, boxers, pugs and shih tzus).

The May 2020 EMA approval was supported by a pivotal study of 123 hounds with mast cell tumors which account for one-fifth of all canine cancers.

Twenty-eight days after a single injection of the drug, 75 percent of the dogs had a complete response. The randomized and blinded trial involved an untreated control group that received rescue therapy after the 28 days. The trials were held at 11 clinics.

Stelfonta is distributed by the French group Virbac, on a profit-sharing basis.

Dulled by slow sales…

While 10,000 vials of Stelfonta have been sold to date, Dr Gordon admits sales have been "a little slower than forecast" and more education for veterinarians is needed.

"Virbac are doing a really good job in a tough environment," she says. "We launched the drug in the middle of covid [in Germany].

"The drug uptake has been a little bit slower than we forecast but it definitely entails a paradigm shift, as an alternative for surgery."

Dr Gordon is pleased by the repeat use, such as by a canine oncologist in the US who has treated more than 50 hounds over 12 months.

It certainly worked on one of the oncologist's patients, an American cocker-spaniel named Treasure, who was bounding around 48 hours after treatment for a mast cell tumor between his toes.

Two-legged trials

In summary, Qbiotics has four human trials on the go - or rearing to go.

The trials follow "some very nice immunological systemic potential in our preclinical mouse studies, as well as a couple of abscopal effects in phase I".

(The abscopal effect is when untreated tumors shrink alongside treated ones).

Two melanoma trials are taking place at multiple Australian hospitals, one of them a dose escalation trial (with pembrolizumab, marketed as Keytruda) and the other a monotherapy.

With the sites pretty much closed for 12 months during the pandemic, wrangling patients has been slow but recruitment has started.

Meanwhile, a phase II trial will start recruiting patients with head and neck squamous cell carcinoma in several UK sites, overseen by a 'key opinion leader'. Australian sites are also planned, with a total up to eight to be opened by the end of 2023.

The company recently obtained investigation new drug approval from the US Food and Drug Administration to carry out a 10-patient phase II soft tissue sarcoma trial and "we will be recruiting patients for that trial hopefully by the end of the year."

Dr Gordon says the rare soft cell sarcoma is interesting because there are 70 different tumor types: "If we can get a general response that would be significant."

She says while the studies target externally accessible tumors, the drug has the potential to be internally injected for breast and prostate cancers.

"It's not a fussy drug, it's easy to use and has stability on the bench for a week or more," she says. "It usually is administered via a single injection with no general anaesthetic required, which is beneficial for compromised or aged patients."

Dr Gordon adds the company will look to find a partner at the phase II stage: "there's a lot of potential with this drug and it deserves to get into the hands of a company with significant capabilities."

Finances and performance

Qbiotics generated $1.54m of revenue in the year to June 30, 2022, -19% lower than the previous year. Of this, revenue from the veterinary drug contributed just over $915,000.

Dr Gordon says this income "is a poor reflection of the potential of the drug" and expects sales to improve post-pandemic.

As a guide to this potential, Qbiotics initially forecast a US$200m to US$300m total addressable market for Stelfonta, now whittled back to a more conservative US$100m.

In early 2021, the company raised a hefty $85m, with investment firm TDM Growth Partners accounting for $50m (existing holders took up the rest).

As a result, TDM co-founder Hamish Corlett joined the Qbiotics board.

At the end of August 2022, Qbiotics had $84m in the bank, including long-term investments. "At the moment our burn rate is sitting at around -$7m [a quarter], so we are fairly comfortable," Dr Gordon says.

The company cites accumulated losses of -$80m, which in effect is the sunk cost of developing the drugs to date.

<u>It's time to heal all wounds</u>

While Qbiotics is focused on oncology, Dr Gordon is just as excited about a variant product (a semi-synthetic analogue) being developed for wound healing.

"It's a drug rather than a device, which is rare in the wound healing space," she says.

An easy-to-use gel, the compound has anti-microbial effects and promotes infill healing to prevent scarring and wound closure.

The company has been working with tissue repair specialists at Cardiff University for the last eight years.

Dr Gordon says the UK regulator, the Medicines and Health Products Regulatory Agency, supports the proposed structure of a clinical trial, which is likely to target venous ulcers and is due to kick off by October 2023.

"There's been a lot of excitement among key opinion leaders because of its mode of action," she says.

The disadvantage is that drugs are harder to get through, but regulators are positive at early stage.

<u>Dr Boreham's diagnosis:</u>

Given that even the most loyal investors desire a so-called liquidity event, the question on the lips of Qbiotics 2,500 shareholders is when - rather than if - the company plans to list (presumably on the ASX).

"We have been planning [a listing] for a long time," Dr Gordon says. "Our corporate finances and our governance is very good and the company is very well managed."

But she says a listing is likely to occur after - rather than before - positive human clinical results to get the best valuation possible.

"I don't want to just cope when we list, I want to flourish," she says.

Dr Gordon stresses while the revenue from the veterinary side is only trickling through, it will improve. After all, Treasure the pooch's miracle recovery should attest to that.

Ultimately, the make-or-break event for the company is getting a blockbuster human drug to market. As with next Tuesday's crowd at Flemington, it's a case of being off to the races for Qbiotic holders at that juncture.

Disclosure: Dr Boreham is not a qualified medical practitioner or veterinarian and does not possess a doctorate of any sort. He is not Latin scholar but knows a clump of *fontainea picrosperma* whenever he sees one.

TREASURE CHEST

Treasure Chest: Gold's Come-Back

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

By Rudi Filapek-Vandyck

Whose Idea Is It?

Analysts at Morgan Stanley

The subject:

The performance of gold bullion, and in extension shares in gold producers listed on the ASX, have been one Great Disappointment for many traders and investors who'd taken up on the old narrative about the precious metal offering protecting against inflation.

Not so when the US Treasury market has to reset from exceptionally low yields during the preceding two years.

But could gold (and gold producers) finally be released from the iron grip imposed by US Treasuries?

Before we attempt to answer that question, first have a look at the chart below.

This chart, which also featured in my presentation at the Australian Gold Conference earlier this year (link to video below) clearly shows the direct relationship between bullion and gold producers throughout different periods of outperformance and underperformance.

In simple terms: when gold is in fashion, shares in gold producers surge to a relative premium, and when gold is not in fashion, shares in gold producers sink to a noticeable discount.

This simple observation easily explains why picking the timing right for the sector can be important: it's the switch from discount to premium that generates outsized returns (and vice versa).

The opposite holds true as well: simply holding gold (through an ETF or otherwise) limits one's losses during the not so great times, but it also won't generate the same magnitude of gains when the investment community looks favourably upon bullion again.

This morning, analysts at Morgan Stanley are advocating the positive thesis for owning gold and gold producers again, on the general forecast the Federal Reserve will slow its pace of monetary tightening, which should also translate into the US dollar Index peaking, then subsiding.

In the words of the analysts, the above could "propel the gold price and allow multiples for gold stocks to expand after a prolonged decline".

More info:

One look at yesterday's price action on the ASX strongly suggests Morgan Stanley's idea has already been leaked to at least some parts of the local investment community.

Take a look at the snapshot of the daily Winners and Losers as published on the FNArena website yesterday. On the left (day's winners) it's obvious the buy gold trade was very much in fashion on the day. If a company is mentioned in the left hand column, there most likely is a link to gold.

COMPANY	PRICE	CHANGE	COMPANY	PRICE	CHANGE
SBM – ST. BARBARA LIMITED	0.565	13.00%	NWS – NEWS CORPORATION	23.040	-11.15%
RRL – REGIS RESOURCES LIMITED	1.780	12.66%	TPW – TEMPLE & WEBSTER GROUP LIMITED	4.750	-10.38%
BGL – BELLEVUE GOLD LIMITED	0.845	11.18%	WHC – WHITEHAVEN COAL LIMITED	8.610	-8.50%
WGX – WESTGOLD RESOURCES LIMITED	0.870	10.83%	IHL – INCANNEX HEALTHCARE LIMITED	0.225	-8.16%
SSR – SSR MINING INC	21.760	9.73%	NHC – NEW HOPE CORPORATION LIMITED	5.570	-6.39%
DEG – DE GREY MINING LIMITED	1.220	9.42%	AX1 – ACCENT GROUP LIMITED	1.520	-5.88%
RED – RED 5 LIMITED	0.175	9.38%	BVS – BRAVURA SOLUTIONS LIMITED	0.740	-5.73%
EVN – EVOLUTION MINING LIMITED	2.350	9.30%	CSR – CSR LIMITED	4.410	-5.36%
PRU – PERSEUS MINING LIMITED	2.050	9.04%	DHG – DOMAIN HOLDINGS AUSTRALIA LIMITED	3.030	-5.31%
CMM – CAPRICORN METALS LIMITED	4.170	8.88%	APM – APM HUMAN SERVICES INTERNATIONAL LIMITED	3.120	-5.17%
WAF – WEST AFRICAN RESOURCES LIMITED	1.145	8.02%	AMI – AURELIA METALS LIMITED	0.100	-4.76%
GOR – GOLD ROAD RESOURCES LIMITED	1.530	7.75%	SEK – SEEK LIMITED	20.810	-4.54%
ORI – ORICA LIMITED	15.070	6.96%	SDR – SITEMINDER LIMITED	2.860	-4.35%
NCM – NEWCREST MINING LIMITED	19.410	6.88%	REA – REA GROUP LIMITED	114.110	-4.27%
NST – NORTHERN STAR RESOURCES LIMITED	10.040	6.81%	NCK – NICK SCALI LIMITED	9.450	-3.87%
JHG – JANUS HENDERSON GROUP PLC	35.810	6.23%	VNT – VENTIA SERVICES GROUP LIMITED	2.460	-3.53%
RMS – RAMELIUS RESOURCES LIMITED	0.870	6.10%	KGN – KOGAN.COM LIMITED	3.280	-3.53%
CHN – CHALICE MINING LIMITED	4.580	6.02%	MYX – MAYNE PHARMA GROUP LIMITED	0.280	-3.45%
MCR – MINCOR RESOURCES NL	1.620	5.88%	PDL – PENDAL GROUP LIMITED	4.390	-3.30%
BGA – BEGA CHEESE LIMITED	3.340	5.70%	LLL – LEO LITHIUM LIMITED	0.620	-3.13%

If, however, Morgan Stanley's timing proves accurate, the sector's PE multiple re-rating will have a lot further to run.

Morgan Stanley itself has offered the suggestion to play the sector's resurgence through Evolution Mining ((EVN)) -hereby promoted to Preferred Choice on the ASX. The local Big Brother in the sector, Newcrest Mining ((NCM)) is equally rated Overweight (i.e. the equivalent of a Buy elsewhere).

Interestingly, having outperformed the sector up to yesterday, Northern Star ((NST)) has been downgraded to Equal-weight. No mercy is shown for perennial underperformer Regis Resources ((RRL)). Morgan Stanley sticks with its Underweight rating.

Price targets offered are respectively $3.10 for Evolution Mining, $23 for Newcrest Mining, $10.80 for Northern Star and $1.70 for Regis Resources.

Video of my presentation at the Australian Gold Conference earlier in 2022: https://www.youtube.com/watch?v=J7IzgE5eQ0k&t=5s

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

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 04-11-22

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 October 31 to Friday November 4, 2022
Total Upgrades: 10
Total Downgrades: 6
Net Ratings Breakdown: Buy 56.28%; Hold 36.38%; Sell 7.35%

For the week ending Friday November 4 there were ten upgrades and six downgrades to ASX-listed companies covered by brokers in the FNArena database.

Despite first quarter results showing a downward trend for traffic and lead volumes, Carsales received an upgraded rating from UBS and Ord Minnett due to recent share price weakness.

Before becoming more upbeat than a Hold rating (up from Lighten) Ord Minnett would like to see improving indicators for both consumer confidence and dealership trends.

More positively, UBS noted the least cyclical of the online classifieds categories is automotive and Carsales' current trading conditions indicate momentum across its businesses. The broker raised its rating to Buy from Neutral.

On the flipside, UBS and Credit Suisse downgraded IGO to Neutral from Buy on valuation. However, after six covering brokers in the FNArena database adjusted forecasts following September quarter results for IGO, the new average target price of $15.05 was barely changed.

While Citi noted Greenbushes (lithium) more than doubled underlying earnings from the June quarter, a larger than forecast capital expenditure bill at Cosmos (nickel) disappointed brokers.

Coronado Global Resources had the largest percentage fall in target price last week, after third quarter production and sales missed consensus forecasts.

Full year coal production guidance was downgraded to 16.9-17.1m tonnes from 18.0-19.0m, while cost guidance lifted to US$81-83/tonne from US$79-81 on weather and inflationary impacts.

Despite these near-term negatives, brokers generally remained positive and increased earnings forecasts. An out-of-season special dividend of US13.4cps was declared and Credit Suisse expects the dividend bonanza to continue.

Domino's Pizza Enterprises had the second-largest percentage fall in target price and the second-largest percentage fall in earnings forecasts last week.

While first quarter results disappointed, both Ord Minnett and Morgans agreed October signalled an inflection point for Domino's sales. Citi also noted the company's scale should see it outperform smaller competitors in what remains a challenging operational environment.

Citi is further enthused that Domino's remains one of the best long-duration growth companies under its research coverage though still downgraded its rating to Neutral from Buy.

The largest percentage fall in broker forecast earnings went to Boral after AGM commentary indicated price rises and operational leverage may be unable to deliver the margin expansion perviously anticipated, amid ongoing and significant inflation.

Credit Suisse pointed out management had previously flagged new initiatives would more than offset inflationary impacts. As a result, the broker lowered its earnings and profit expectations and felt consensus forecasts were also too optimistic.

Earnings forecasts also fell for Lendlease after a downgrade to FY23 profit guidance. All targets for return on invested capital (ROIC) and margin were pushed to the lower-end of ranges provided in August, driven by a combination of the macro environment and asset-specific delays, according to Macquarie.

In addition, the payout ratio for dividends will be lowered to 30-50% from 40-60%, which confirmed Morgan Stanley's previous commentary regarding a tight balance sheet position. More positively, it's thought FY24 is on-track to meet return targets for each of the three company segments.

AUB Group featured atop the table for the largest percentage increase in forecast earnings last week.

The group lifted its net profit guidance to $90-92.0m from $86.5-91m, or $107.5-115m if one includes initial guidance for the Tysers acquisition. Ord Minnett raised its forecasts to allow for higher interest rates and the earlier close of that acquisition.

Regarding Tysers, Credit Suisse noted a well thought out cost synergy plan and felt the majority of savings will derive from removing back-office and rental cost duplication, which can be realised in less than two years.

Nanosonics was next on the table after Morgans increased its FY23 revenue forecast to allow for a lower Australian dollar. After also taking into account recent share price weakness, the rating was raised to Add from Hold.

The broker's channel checks suggest much of the operating environment in the hospital networks is returning to pre-covid levels

While Coronado Global Resources received the largest percentage fall in target price last week for the reasons explained above, brokers remained positive.

Morgans even raised its target after lifting 2022 and 2023 hard coking coal price assumptions. It's felt shares are too cheap on current valuation multiples and the Add rating was retained.

Credit Suisse also maintained its Outperform rating for Coranado with potential upside from an ongoing met coal price recovery, a strong balance sheet and a strong US domestic contract in 2023.

Judo Capital also received earnings upgrades by brokers last week after first quarter profit of $23m came in ahead of Credit Suisse's $17m estimate. Management guidance for FY23 also beat consensus forecasts, particularly around the underlying net interest margin.

According to Ord Minnett, the loan book is currently showing few signs of stress in the current macroeconomic environment and the businesses is on a sound financial footing.

Total Buy recommendations comprise 56.28% of the total, versus 36.38% on Neutral/Hold, while Sell ratings account for the remaining 7.35%.

Upgrade

CARSALES.COM LIMITED ((CAR)) Upgrade to Buy from Neutral by UBS and Upgrade to Hold from Lighten by Ord Minnett.B/H/S: 4/2/0

UBS believes two key concerns have weighed on Carsales's recent share price performance, being macroeconomic concerns and execution risks associated with the Trader Interactive acquisition.

Yet current trading conditions indicate positive momentum across the company's businesses, and the broker notes Automotive is typically the least cyclical of the online classifieds categories.

UBS does acknowledge execution risk for Trader Interactive but on share price weakness upgrades to Buy from

Neutral. Target unchanged at $24.60.

A 1Q trading update by Carsales confirmed a downward trend for traffic and lead volumes and Ord Minnett notes the environment for dealers is likely to become more challenging.

The broker increases its rating to Hold from Lighten following a share price fall since August results. To become more constructive the analyst would like to see positive indicators for both consumer confidence and dealership trends. The $20 target is maintained.

Management retains FY23 guidance and expects good growth in adjusted revenue and adjusted operating earnings.

DOWNER EDI LIMITED ((DOW)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 5/0/0

Downer EDI reiterated FY23 guidance for 10-20% growth in net profit at its AGM with "strategies to realise value for shareholders"
also to be articulated in 2023. Ord Minnett notes a 2H outlook will be provided at February's interim results.

On valuation grounds, the broker upgrades its rating to Buy from Accumulate and trims its target to $5.90 from $6.10 after reducing its FY23 profit growth forecast to 15% from 23% year-on-year. The latter change results from softer assumptions for Transport and Utilities.

Ord Minnett remains positive on Downer's longer-term prospects.

EBOS GROUP LIMITED ((EBO)) Upgrade to Add from Hold by Morgans .B/H/S: 4/1/0

Morgans raises its rating to Add from Hold after a 1Q trading update by Ebos Group which revealed strong performances for both the Healthcare and Animal Care segments.

The group continues to achieve double-digit revenue growth on FY22 and the broker now has confidence in the short-term outlook.

The analyst increases revenue forecasts by 2.4% across the forecast period though slightly lowers margins in a cautious stance to allow recent acquistions to be fully integrated. The target rises to $36.84 from $36.81.

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

Iluka Resources' September quarter was largely in line with Credit Suisse's expectations, with production 11% higher than the broker had estimated. Despite the strong quarter, rutile production year to date is only 60% of full year guidance, and the broker raised concerns around the company's ability to meet its target.

The broker lifts its zircon pricing over the coming six months to US$2000 per tonne, from US$1730 per tonne, but does maintain expectations of a downturn ahead.

Given a busy catalyst schedule, the rating is upgraded to Outperform from Neutral and the target price of $10.00 is retained.

See also ILU downgrade.

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

After increasing its FY23 revenue forecast to allow for a lower Australian dollar, Morgans lifts its rating for Nanosonics to Add from Hold after also taking into account recent share price weakness. The target is increased to $4.91 from $4.87.

The broker's channel checks suggest much of the operating environment in the hospital networks is returning to pre-covid levels.

ORICA LIMITED ((ORI)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/4/0

UBS believes Orica's upcoming FY22 result has been de-risked by a previous trading update. The broker upgrades its rating to Buy from Neutral on valuation and after raising FY23 and FY24 EPS forecasts by 4% and 11%, respectively.

The analyst points out global ammonium nitrate prices have increased significantly over the past 12 months and looks forward to evidence of increasing contract prices during the company's upcoming earnings update.

The target rises to $18.00 from $17.00.

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

Qube Holdings' trading update suggested high volume and margin improvement across most parts of the business. Credit Suisse likes the advantage offered by Qube Holdings' integrated logistics offering, and that new customer wins and expansion of services offers growth potential.

Previous guidance was confirmed, and Credit Suisse retains its forecasts. The rating is upgraded to Outperform from Neutral and the target price increases to $2.90 from $2.80.

UNITED MALT GROUP LIMITED ((UMG)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/1/0

UBS has upgraded United Malt to Buy from Neutral ahead of its FY22 results, expecting an in line result, unchanged FY23 guidance, and no further 'bad news' to be a positive catalyst for the share price.

The stock has been under pressure since the guidance downgrade in August. But data points suggest to the broker supply-side/cost headwinds should be easing into year-end and beer demand appears to be largely holding up.

Uncertainties still remain over FY23-24, UBS acknowledges, but also opportunities. Target unchanged at $3.50.

WOOLWORTHS GROUP LIMITED ((WOW)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 1/4/0

Woolworths Group delivered below-market sales growth in the first quarter, with Credit Suisse acknowledging the market was too optimistic on market share retention.

The broker notes Woolworths Group appears to have ceded the 60 basis point share gain from the first quarter lockdown of FY22 as market share normalised.

The broker also found profit guidance for New Zealand operations of NZ$100-130m to be lower than anticipated, and expects the profit reset to have some permanence.

A less demanding share price to valuation sees the broker increase its rating to Neutral from Underperform and the target price increases to $33.01 from $32.84.

Downgrade

BRAVURA SOLUTIONS LIMITED ((BVS)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

Bravura Solutions issued FY23 guidance significantly below Macquarie's expectations due mostly to far higher costs. The broker's revised forecasts for cost inflation materially reduce outer year earnings.

Client inactivity has been an issue since covid and given the economic outlook, the risk is the issue continues, Macquarie suggests. The balance sheet is not at risk at this point, but the broker will monitor.

Switching to a price/earnings valuation from discounted cash flow, target falls to 66c from $2.00. Downgrade to Neutral from Outperform.

DOMINO'S PIZZA ENTERPRISES LIMITED ((DMP)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/3/0

Ahead of the AGM, Citi had already warned Domino's Pizza's European operations are likely to be weighed down by cost pressures. Next thing, the company confirmed the operational challenges in front of shareholders.

The broker has, in response, lowered its forecasts while anticipating consensus forecasts might have to reset in double digit percentage.

Citi continues to be of the view Domino's Pizza Enterprises remains one of the best long duration growth companies in its coverage and the company's scale should see it outperform smaller competitors in what remains a challenging operational environment.

While acknowledging it looks rather like a late move, Citi has nevertheless downgraded to Neutral from Buy. Target price drops by -21% to $66.60.

IGO LIMITED ((IGO)) Downgrade to Neutral from Buy by UBS and Downgrade to Neutral from Buy by Citi .B/H/S: 2/2/1

IGO's September-quarter update met UBS forecasts, strong pricing for quality spodumene and low costs offsetting lower mining rates. Nickel production was in line. The dividend disappointed as did a heftier than forecast capital expenditure bill at Cosmos.

Management reiterated guidance.

UBS observes the company's share price is approaching the broker's target price, and the broker believes spodumene prices may have peaked.

Rating downgraded to Neutral from Buy. Target price moves to $15.70 from the last entry in the FNArena database on October 5 of $16.15.

IGO's Sep Q highlight was Greenbushes more than doubling underlying earnings from the June Q, Citi suggests. Net debt reduced by -$137m to $396m.

The broker expects nickel prices to move lower and lithium to track more or less sideways in the near-term.

Target rises to $15.20 from $14.00. With IGO now trading on an FY24 enterprise multiple of 6x, Citi downgrades to Neutral from Buy.

ILUKA RESOURCES LIMITED ((ILU)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/3/0

Citi expects September zircon, rutile and synthetic rutile pricing to be a peak for the current cycle, anticipating demand for both zircon and pigments to decline ahead with the Chinese ceramic market and real estate markets softening.

The broker expects this demand and pricing drag to keep investors on the sideline, but continues to see value in the stock. Having already assumed a price peak, earnings per share forecasts changes are modest.

The rating is downgraded to Neutral from Buy and the target price decreases to $9.50 from $12.20.

See also ILU upgrade.

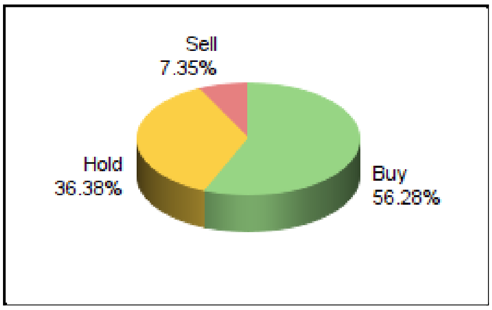
RESMED INC ((RMD)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/3/0

While supply chain impacts improve and the competitive dynamic remains in ResMed's favour, Citi anticipates a more gradual gross margin recovery and has updated its forecasts accordingly.

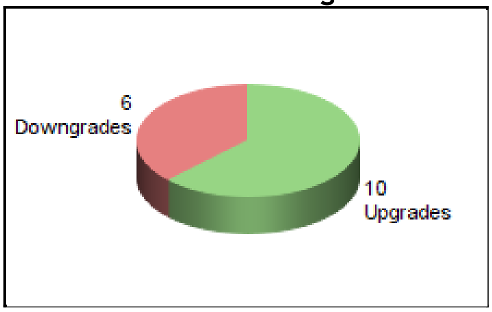
A decision between competitor Philips and the US Department of Justice could either see Philips return to the market and negatively impact ResMed's earnings, or remain out of the market and allow ResMed to continue to benefit from a quiet competitive environment.

The rating is downgraded to Neutral from Buy and the target price decreases to $37.50 from $38.50.

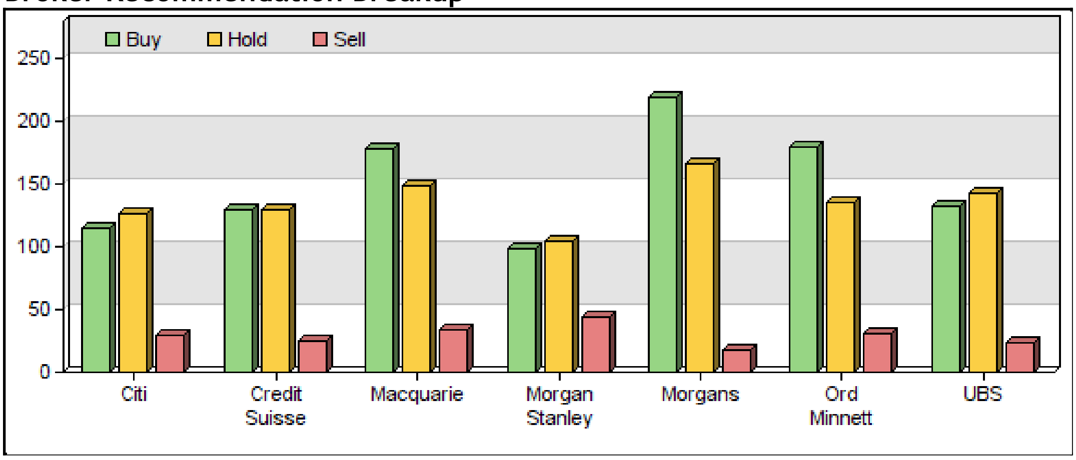
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	CARSALES.COM LIMITED	Neutral	Sell	Ord Minnett

2	CARSALES.COM LIMITED	Buy	Neutral	UBS
3	DOWNER EDI LIMITED	Buy	Neutral	Ord Minnett
4	EBOS GROUP LIMITED	Buy	Neutral	Morgans
5	ILUKA RESOURCES LIMITED	Buy	Neutral	Credit Suisse
6	NANOSONICS LIMITED	Buy	Neutral	Morgans
7	ORICA LIMITED	Buy	Neutral	UBS
8	QUBE HOLDINGS LIMITED	Buy	Neutral	Credit Suisse
9	UNITED MALT GROUP LIMITED	Buy	Neutral	UBS
10	WOOLWORTHS GROUP LIMITED	Neutral	Sell	Credit Suisse
Downgrade				
11	BRAVURA SOLUTIONS LIMITED	Neutral	Buy	Macquarie
12	DOMINO'S PIZZA ENTERPRISES LIMITED	Neutral	Buy	Citi
13	IGO LIMITED	Neutral	Buy	UBS
14	IGO LIMITED	Neutral	Buy	Citi
15	ILUKA RESOURCES LIMITED	Neutral	Buy	Citi
16	RESMED INC	Neutral	Neutral	Citi

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	ORI	ORICA LIMITED	16.260	16.117	0.89%	7
2	QUB	QUBE HOLDINGS LIMITED	3.170	3.153	0.54%	6
3	NAN	NANOSONICS LIMITED	4.120	4.107	0.32%	3
4	CAR	CARSALES.COM LIMITED	23.833	23.825	0.03%	6
5	EBO	EBOS GROUP LIMITED	38.447	38.437	0.03%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	CRN	CORONADO GLOBAL RESOURCES INC	2.475	2.713	-8.77%	4
2	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	75.501	82.380	-8.35%	7
3	ILU	ILUKA RESOURCES LIMITED	10.767	11.233	-4.15%	6
4	WOW	WOOLWORTHS GROUP LIMITED	34.435	35.687	-3.51%	6
5	DOW	DOWNER EDI LIMITED	5.992	6.032	-0.66%	5
6	IGO	IGO LIMITED	15.058	15.117	-0.39%	6

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	AUB	AUB GROUP LIMITED	112.133	74.800	49.91%	3
2	NAN	NANOSONICS LIMITED	1.733	1.300	33.31%	3
3	CRN	CORONADO GLOBAL RESOURCES INC	79.974	68.979	15.94%	4
4	JDO	JUDO CAPITAL HOLDINGS LIMITED	4.625	4.125	12.12%	4
5	NIC	NICKEL INDUSTRIES LIMITED	8.627	8.134	6.06%	3
6	PMV	PREMIER INVESTMENTS LIMITED	143.333	139.333	2.87%	6
7	WOW	WOOLWORTHS GROUP LIMITED	135.083	131.467	2.75%	6
8	WDS	WOODSIDE ENERGY GROUP LIMITED	533.764	519.506	2.74%	7
9	MQG	MACQUARIE GROUP LIMITED	1111.900	1086.350	2.35%	6
10	IGO	IGO LIMITED	197.967	194.250	1.91%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	BLD	BORAL LIMITED	8.358	10.954	-23.70%	6
2	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	187.850	207.300	-9.38%	7
3	LLC	LENDLEASE GROUP	49.797	54.782	-9.10%	6
4	ORG	ORIGIN ENERGY LIMITED	31.517	34.400	-8.38%	6
5	ARB	ARB CORPORATION LIMITED	134.400	141.700	-5.15%	5
6	FMG	FORTESCUE METALS GROUP LIMITED	191.878	200.312	-4.21%	7
7	RMD	RESMED INC	92.565	95.545	-3.12%	6

8	AMC	AMCOR PLC	112.389	115.627	-2.80%	6
9	IFL	INSIGNIA FINANCIAL LIMITED	30.375	31.125	-2.41%	4
10	JBH	JB HI-FI LIMITED	386.483	394.483	-2.03%	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.

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WEEKLY REPORTS

Uranium Week: Ignore Spot Uranium

While the uranium spot price falls due to buyers scared of Fed policy, utility demand continues to drive term prices higher.

-Global benefits of nuclear power
-Spot uranium market impacted by Fed
-Term market demand powers on

By Greg Peel

Coinciding with the high fossil fuel prices associated with the Russia-Ukraine conflict and the urgency of finding a safe, resilient substitute for fossil fuel power, nuclear energy appears to be on the verge of a potential renaissance globally, Citi noted in its recent *Energy Transition* report, especially in Europe.

Citi also suggests nuclear is unlikely to be a quick fix given long lead times, even in countries like the UK that have made nuclear options a high priority.

Even small-scale nuclear power seems a decade away from making a meaningful contribution to energy security. But such energy could potentially play a major role in the energy security and Energy Transition shift over the next few decades.

Nuclear technology is well suited for export, Citi notes, given its relative national resource independence. However, the market will remain confined to the developed world in the 2030s given the high political, regulatory, economic, and defence standards that importing countries will need to meet.

Citi goes on to observe:

Nuclear energy solves the intermittency problem posed by wind and solar generation and requires 31x less land than solar facilities and 173x less than wind farms. Furthermore, nuclear power can be sited much closer to end-markets given its natural resource independence and the transportability of nuclear fuel.

Compared with a capacity factor greater than 90% -- three times higher than renewables, with wind and solar capacity factors at around 35% and 25% respectively -- nuclear power is well suited to augment renewables deployment in land- or resource-constrained environments.

There are few in the market who don't believe nuclear power will be a necessary part of the global energy transition away from fossil fuels, and as such longer term uranium price views remain firmly to the upside.

Economic Headwinds

Coming back to today's reality, the weak financial market reaction to last week's Fed rate hike and ongoing hawkish rhetoric again played out in the spot uranium market – not so much in selling but in lack of buying. This week will end with the US October CPI result so more volatility may be afoot.

Only one deal was reported in the spot market last week. But with sellers lined up, industry consultant TradeTech's weekly spot price indicator fell -US$2.75 to US$49.75/lb.

The spot market is no reflection on term uranium markets, which continue to see new buyers emerge.

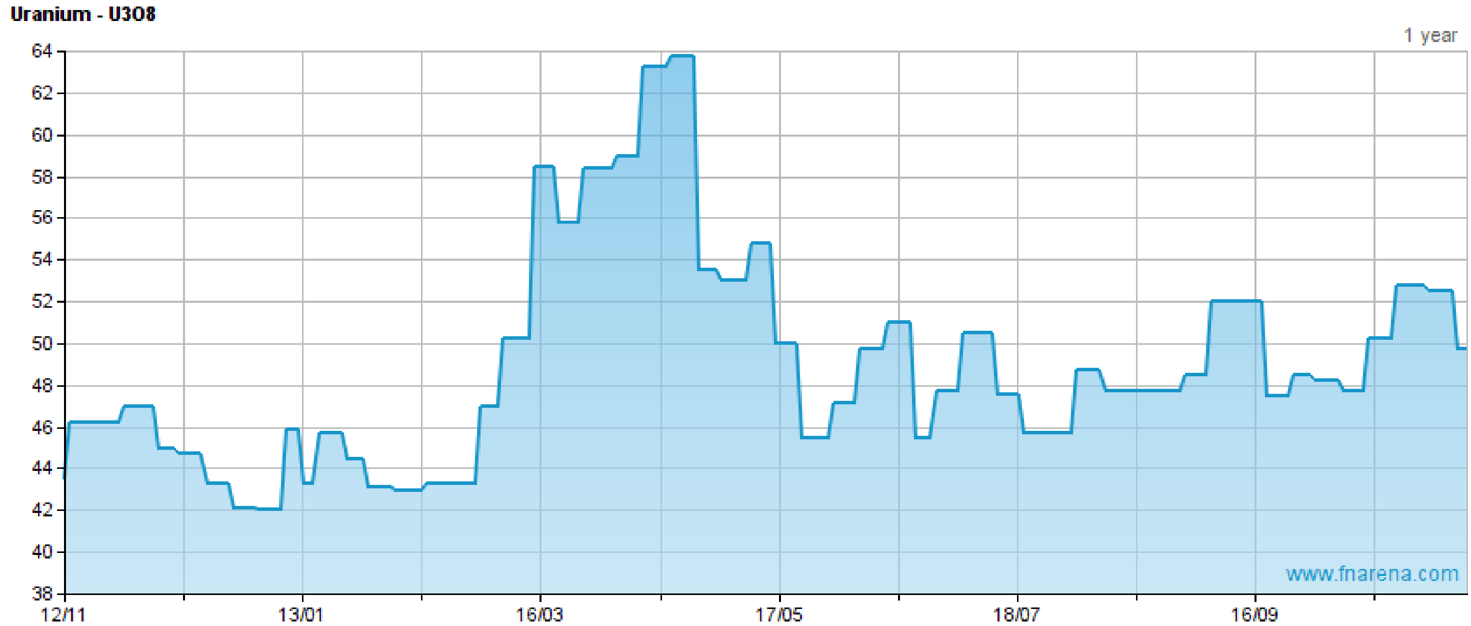
TradeTech reports 15 transactions in the month of October, involving approximately 15.2mlbs U3O8 equivalent to be delivered over the 2023-2030 period.

In addition, a number of utilities, US and non-US, are expected to issue Request for Proposals or seek off-market offers for term uranium in the coming weeks.

October trade has led TradeTech to increase its mid-term price indicator to US$53.00/lb from US$50.50/lb at end-September, matching an unchanged US$53.00/lb long-term price indicator.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
AGE	07/11/2022	0.0510	▼- 5.66%	$0.12	$0.04			
BKY	07/11/2022	0.2650	▼- 1.85%	$0.64	$0.14			
BMN	07/11/2022	2.0600	▼- 6.54%	$2.49	$0.15			
BOE	07/11/2022	2.5800	▼- 4.51%	$3.10	$0.31		$3.300	▲27.9%
DYL	07/11/2022	0.7650	▼- 2.60%	$1.25	$0.55			
ERA	07/11/2022	0.2250	▲ 7.32%	$0.44	$0.16			
LOT	07/11/2022	0.2300	▼- 4.26%	$0.46	$0.19			
NXG	07/11/2022	6.4200	0.00%	$8.99	$0.00			
PDN	07/11/2022	0.8400	▼- 2.33%	$1.03	$0.53	-147.6	$1.100	▲31.0%
PEN	07/11/2022	0.1800	▲ 2.86%	$0.30	$0.14			
SLX	07/11/2022	2.8800	▼- 0.34%	$4.14	$0.99			



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

WEEKLY REPORTS

The Short Report - 10 Nov 2022

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

Summary:

By Greg Peel

Week Ending November 3, 2022.

Last week the ASX200 shot up and shot back down on a mixture of speculation the Fed was ready to pause, and on only a 25 point hike from the RBA, followed by the Fed again debunking any notion of a pause.

The net result was little changed. The ups and downs continued this week.

The king is dead. For countless months, Flight Centre ((FLT)) has been the most shorted stock on the ASX. Last week it was usurped by Betmakers Technology ((BET)). There was no actual change to the 10%-shorted club however.

Shorters continue to target Block ((SQ2)), Megaport ((MP1)), and Domino's Pizza ((DMP)). Perpetual ((PPT)) is there as well, but possibly as the short-side of a long-short trade with takeover target Pendal Group ((PDL)) on the other side.

Discretionary retail star Breville Group ((BRG)) has ticked up to 9.2% shorted from 8.8%.

It was not that long ago Inghams Group ((ING)) was in the 10%-plus bracket. The stock did fall -24% from mid-August to late-September on cost inflation (profit warning) but has since recovered 11%. Last week Inghams shorts dropped below 5%.

Another retailer popular with brokers is auto parts dealer GUD Holdings. Last week the company provided a strong September quarter update. GUD has now appeared on the table at 5.0%.

Going the other way, dropping off the table, were AI company Appen ((APX)), from 6.5% the week before, and uranium prospector 92 Energy ((92E)), from 7.0%. Morgan Stanley initiated coverage of Appen last week with an Underweight rating and the stock is down -15% since October 19.

92 Energy has fallen in line with a weaker uranium spot price of late but there has been no other news.

Weekly short positions as a percentage of market cap:

10%+
BET 15.6
FLT 14.8
SQ2 12.3
MP1 11.7
PPT 11.5
DMP 11.4

No changes

9.0-9.9

BRG

In: BRG

8.0-8.9%

SYA, LKE, NAN, TPW, SBM, ZIP

In: SYA, SBM Out: BRG

7.0-7.9%

MFG, BRN

In: BRN Out: SYA, SBM, VUL, NXT, 92E

6.0-6.9%

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

In: VUL, NXT Out: BRN, ASM, APX, PBH

5.0-5.9%

EVN, ASM, PBH, JBH, BOQ, WEB, BLD, ARB, PDN, PNI, CHN, ADH, CGC, PME, GUD, CXO

In: ASM, PBH, ARB, PME, GUD, CXO Out: 29M, DEG, GOR, ING

Movers & Shakers

Nothing this week.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.9	0.9	NAB	1.0	1.0
ANZ	1.1	1.0	NCM	0.6	1.0
BHP	0.4	0.5	RIO	0.8	0.7
CBA	1.8	1.7	STO	0.4	0.5
COL	0.4	0.6	TCL	0.9	0.7
CSL	0.6	0.6	TLS	0.4	0.1
FMG	2.8	2.7	WBC	1.5	1.6
GMG	0.9	0.9	WDS	1.7	1.7
JHX	1.3	1.4	WES	1.8	1.6
MQG	0.7	0.6	WOW	0.5	0.6

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

WEEKLY REPORTS

In Brief: SMSF, Insurers, Grocers, Retailers

Weekly broker wrap: self managed super funds, general insurers, grocery outlook, retail traffic decline

-Growth slows for self managed super funds
-Inflation and costs remain key headwinds for general insurers
-Analysts split over growth outlook for grocery segment amid ongoing inflation
-Retailers look to Black Friday performance

By Danielle Austin

Self managed super funds no longer the premier super segment

Growth of self managed super funds (SMSFs) appears to have slowed significantly over the last five years. According to data gathered by Rainmaker Information, total SMSF assets grew only 5.4% per annum in the five years to March 2022, while not-for-profit super funds grew at 10.1% per annum.

SMSFs continue to hold $894bn for members and remain a significant source of capital for fund managers able to attract it, according to the information service. The Australian Taxation Office estimates that one in every five dollars, or $168bnm, held in an SMSF is pooled in a managed fund, life insurance policy or collective trust.

General insurers benefit from improved investment yields

Higher investment yields appear to be a tailwind for Suncorp Group ((SUN)) and Insurance Australia Group ((IAG)). This, coupled with ongoing price increases issued by both which should cover rising input costs, has driven Morgan Stanley to upgrade its earnings outlooks for both insurers.

The broker sees ongoing inflation and rising reinsurance rates as pressing issues for these insurers. Morgan Stanley's net underlying margin growth forecasts remain more modest than consensus, with the broker assuming a net underlying margin increase of 20 basis points in FY23 and 40 basis in FY24, accounting for headwinds.

The broker remains Underweight rated on IAG, but upgrades its rating on Suncorp to Equal-weight from Underweight given improving capital flexibility and better market share. Morgan Stanley's industry preference remains QBE Insurance Group ((QBE)).

Conflicting outlook for supermarket sector

Analysts remain split over the outlook for the grocery sector. While Jarden is anticipating more than 5% growth for the sector in 2023, Morgan Stanley expects growth of only 2-3% as consumers tighten their spending.

The latter highlights pressures continue to mount on consumers, and while consumer resilience to rising food inflation and cost of living pressures has surprised to the upside, the broker anticipates the consumer environment to become further challenged in the coming year. With this risk in mind, Morgan Stanley is Underweight-rated on Woolworths ((WOW)), Coles ((COL)) and Endeavour Group ((EDV)).

Jarden notes its above-consensus growth forecast is underpinned by a return to eating at home, ongoing inflation, and an expectation of population re-acceleration in the second half of the year, all of which it expects to benefit grocery retailers.

The broker anticipates Metcash ((MTS)) to be most exposed to upside, followed by Woolworths and then Coles. Jarden is Overweight-rated on both Metcash and Woolworths, and Neutral-rated on Coles.

Retailer declines ahead of key trading periods

Jarden's retail tracker recorded a -14% year-on-year decline in online retail traffic in October.

Notably, only the travel and soft goods segments demonstrated growth, up 147% and 4% respectively. The broker feels inflation is masking a slowing in base growth given a moderation in both web traffic and in store foot traffic over the month

While trading updates remain strong, the broker highlights an increasingly uncertain outlook for retail moving into key retail days. Jarden expects approaching Black Friday sales to be a key test, and an indicator of performance for the Christmas retail period.

The broker favours retailers with exposure to: consumers with discretionary cash and particularly younger demographics, including Universal Store Holdings ((UNI)), Accent Group ((AX1)), Premier Investments ((PMV)), Treasury Wine Estates ((TWE)), Reject Shop ((TRS)) and Domino's Pizza Enterprises ((DMP)); retailers with defensive pricing power, including Woolworths, Costa Group ((CGC)) and Wesfarmers ((WES)); and retailers with growing return on invested capital, including Flight Centre ((FLT)).

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