WEEK 24

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Friday, 10 June 2022

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AUSTRALIA

May In Review: Small Cap Shares Underperform

While still outperforming global peers year-to-date, the ASX200 experienced a -2.6% loss (total return) in May as losses in the real estate and technology sectors outweighed a small gain in the materials sector.

-The ASX200 lost -2.6% (total return) during May
-Value outperformed growth, and large caps outperformed
-The small ordinaries index lost -7%
-Brent crude oil rose by 12.3%, while iron ore lost -4.2%
-Macquarie forecasts a June 2023 cash rate of 2.25%.

Mark Woodruff

The ASX200 closed out May with a total loss of -2.6% (including dividends). Investors reacted to the Reserve Bank raising the cash rate by 25 basis points to 0.35% for the first time since 2010, and the index potentially suffered for its year-to-date outperformance versus global peers.

Australian stocks have gained 0.1% so far this year, compared to a -13% fall for the S&P500 in the US, where the Federal Reserve raised rates in May for the second time this year.

The ASX200 underperformed the Developed Market World's return of -0.2% in local currency terms during May. Meanwhile, the S&P500 in the US gained 0.2%, while Europe (ex the UK) and Emerging Markets both lost -0.1%.

In Australia, **Value outperformed Growth,** helped along by a relative overweight exposure to Materials and underweight exposure to Staples and Discretionary. Value has now outperformed Growth by 13.8% year to date.

All sectors trended lower in May, except for a modest 0.1% rise for Materials, which Macquarie attributed to easing covid restrictions and expectations for more stimulus in China. The Real Estate and Technology sectors were the worst performing, whilst Materials, Utilities and Industrials had the largest relative outperformance versus the ASX200.

Meanwhile, **the large cap index outperformed the mid-and small-cap indices**, with the Small Ordinaries experiencing a -7.0% loss. Small caps have a greater exposure to Real Estate and Discretionary compared to large caps, while the the large cap index is more exposed to Financials.

The outperformance of **large caps now makes Size the best performing factor YTD over Value, Momentum and Quality**, all of which made gains over the month.

Resources outperformed Industrials, with the differential greatest within the mid-caps. Commodity prices displayed mixed trends as supply chain pressures and the European Union’s ban on Russian oil imports lifted the Brent crude oil price, while the iron ore price fell on increasing covid restrictions in China and a slowing of the property cycle.

ASX100 Best and Worst Performers of the month (raw data only, dividends not included - same for the indices below)

Company	Change	Company	Change
AKE - ALLKEM LIMITED	11.92%	TAH - TABCORP HOLDINGS LIMITED	-82.97%
MIN - MINERAL RESOURCES LIMITED	9.07%	NEC - NINE ENTERTAINMENT CO. HOLDINGS LIMITED	-18.22%
AMC - AMCOR PLC	8.46%	CHC - CHARTER HALL GROUP	-15.26%
A2M - A2 MILK COMPANY LIMITED	7.62%	VUK - VIRGIN MONEY UK PLC	-15.26%
WOR - WORLEY LIMITED	5.97%	SEK - SEEK LIMITED	-14.55%

ASX200 Best and Worst Performers of the month

Company	Change	Company	Change
PNV - POLYNOVO LIMITED	30.53%	TAH - TABCORP HOLDINGS LIMITED	-82.97%
AKE - ALLKEM LIMITED	11.92%	CSR - CSR LIMITED	-23.94%
CDA - CODAN LIMITED	10.83%	NVX - NOVONIX LIMITED	-21.80%
MIN - MINERAL RESOURCES LIMITED	9.07%	AVZ - AVZ MINERALS LIMITED	-21.21%
AMC - AMCOR PLC	8.46%	CNI - CENTURIA CAPITAL GROUP	-20.71%

ASX300 Best and Worst Performers of the month

Company	Change	Company	Change
IFM - INFOMEDIA LIMITED	35.71%	TAH - TABCORP HOLDINGS LIMITED	-82.97%
PNV - POLYNOVO LIMITED	30.53%	JLG - JOHNS LYNG GROUP LIMITED	-32.92%
AAC - AUSTRALIAN AGRICULTURAL COMPANY LIMITED	19.77%	SYA - SAYONA MINING LIMITED	-31.25%
BRN - BRAINCHIP HOLDINGS LIMITED	16.33%	BWX - BWX LIMITED	-26.60%
AKE - ALLKEM LIMITED	11.92%	PPK - PPK GROUP LIMITED	-25.45%

ALL-TECH Best and Worst Performers of the month

Company	Change	Company	Change
IFM - INFOMEDIA LIMITED	35.71%	AMS - ATOMOS LIMITED	-61.64%
SPT - SPLITIT PAYMENTS LIMITED	19.23%	IOU - IOUPAY LIMITED	-38.46%
BRN - BRAINCHIP HOLDINGS LIMITED	16.33%	SZL - SEZZLE INC	-36.36%
CDA - CODAN LIMITED	10.83%	DW8 - DW8 LIMITED	-33.33%
CTT - CETTIRE LIMITED	10.61%	CAT - CATAPULT GROUP INTERNATIONAL LIMITED	-28.33%

REITs

For the month of May, REITs underperformed the ASX200 by -6.12%, resulting in a negative total return of -8.73%.

Ord Minnett felt the 0.25% cash rate increase by the RBA, as well as a volatile and rising long bond yield, affected market sentiment in the sector.

Credit Suisse attributed a multiple de-rating, as opposed to earnings outlook concerns, for the big relative underperformance by fund managers, while retail exposed names outperformed.

Irongate Group ((IAP)) gained 1.7%, while defensive REITs with resilient income streams, including Vicinity Centres ((VCX)) 0.8%, BWP Trust ((BWP)) -0.7% and SCA Property Group ((SCP)) -3.3% also outperformed.

Underperformers for the month included Centuria Capital Group ((CNI)) which lost -20.7% and Home Consortium ((HMC)) -17.2%, while REITs in the growth and diversified segment underperformed including Charter Hall Group ((CHC)) and Goodman Group ((GMG)), which lost -15.3% and -14.3%, respectively.

In the short term, Credit Suisse believes exposure to supermarket tenants (that pay turnover-based rent) will be supportive for Neutral-rated Charter Hall Retail REIT ((CQR)) and SCA Property Group.

Otherwise, the broker looks out 12 months and prefers Stockland ((SGP)) for diversification, Goodman Group from among the fund managers and Scentre Group ((SCG)) for regional mall exposure. Meanwhile, Lendlease ((LLC)) is recommended for value-focused investors.

Interest rates

In the US, the 10-year treasury yield fell by -3bpts to 2.85%, which UBS attributes to the assumption of an easing of the Federal Reserve's plan to aggressively hike interest rates after key inflation metrics were reported in line with expectations. Sentiment has since changed on this front, with FOMC members last week shooting down talk of a possible pause in Fed aggression come September.

Meanwhile, in Australia the 10-year bond yield climbed by 7bpts to 3.35% as the Reserve Bank raised the cash rate by 25bps to 0.35%.

Reserve Bank cash rate futures indicate a 76% chance of a hike to 75bps in June 2022, while a cash rate of nearly 3.5% is indicated in 12 months.

Nonetheless, **Macquarie's Macro Strategy team thinks the market is too hawkish and predicts a June 2023 cash rate of 2.25%.**

Commodities

The CRB Commodity Index rose by 2.7% to 317 in May.

Brent crude oil rose by 12.3% to US$122.8/bbl.

Iron ore price fell by -4.2% to $US138.5/t.

The gold price decreased by -3.1% to US$1,837.4/oz.

Hard coking coal prices fell by -13.3%, while thermal coal increased by 30.7% during May.

Foreign exchange

The US dollar Index (DXY), a measure of the value of the US dollar relative to a basket of foreign currencies, fell -1.2% to 101.75.

The Australian dollar rose by 1.6% to close out May at US71.77 cents, as commodity currencies generally strengthened, while the US dollar weakened

AUSTRALIA

Event Hospitality And Entertainment: Geared To Reopening

Research by Jarden suggests an improving hotels and cinema outlook will overcome discretionary spending concerns for Event Hospitality and Entertainment.

-Jarden sees an improved outlook for Event Hospitality and Entertainment
-Earnings margins to improve for the hotels segment
-First half results indicated solid cinema demand
-Promising discretionary spending trends in the US

By Mark Woodruff

Event Hospitality and Entertainment ((EVT)) provides heightened exposure to the reopening theme as all business segments have been impacted by covid lockdowns and restrictions.

The company operates hotels, cinemas, plus one ski resort across Australia, New Zealand and Germany.

The Entertainment division includes cinemas spread across the three countries, while Hospitality incorporates hotels and resorts, though the Leisure division also houses the Australian ski resort Thredbo. Property is rapidly becoming immaterial following the recent sale of most of the investment portfolio.

In FY19, the company's offshore businesses generated around 30% of total group revenue, yet only 10% of group earnings (EBITDA).

Post-2019, the global pandemic has left its scars, but Jarden anticipates a **full recovery to FY19 earnings by FY24**, driven by an improved hotel demand and supply outlook, and a shift in consumer demand towards premium cinema experiences , such as Gold Class and more upmarket food and beverage options.

The Hotel recovery is dependent on international and corporate travel, and the analysts forecast international flight capacity will return to FY19 level by FY24.

The broker also forecasts **an earnings (EBITDA) margin improvement for the Hotels business to around 33% in FY24 from 28% in FY19,** as the company shifts towards a larger portfolio of managed hotels. This comes as demand sentiment towards luxury, CBD and regional hotels improves, following a reduction in overall accommodation supply, which could provide further scope to reprice room rates and return revenue to FY19 levels sooner than FY24.

Management's goal to divest -$250m of non-core property assets remains on-track, observes Citi, with -$194m of properties sold to-date, and proceeds exceeding the company's most recent valuations by 35%.

Although inflationary and cost of living pressures are a concern for consumer discretionary stocks, data from the US suggest to Jarden consumers are willing to spend on travel and leisure, given pent-up demand. The broker, not one of the seven updated daily in the FNArena database, has initiated coverage with an Overweight rating and $17.90 target price.

Inside the database of seven, Buy-rated Citi and Ord Minnett last updated forecasts for Event Hospitality and Entertainment in late February, following the release of what looked like "promising" first half results. The average 12-month target price of $18.54 set by the two brokers suggests circa 27% upside to the current share price.

In the first half, group revenue recovered to 56% of the pre-pandemic (FY19) level, an improvement from 35% in the previous corresponding period.

<u>First half results</u>

Back in February, Citi highlighted $75m in cost savings throughout the first half and suggested an ongoing focus upon costs should benefit earnings margins, and support earnings in the short-to medium term.

The outlook for Cinemas and Hotels was also considered positive, given pent-up demand from a reduction in covid impacts. A&NZ Cinema losses were lower than expected due to blockbuster releases late in the half, and the segment is expected to benefit from a further strong film slate in the second half. Meanwhile, the return of international tourists should buoy Hotels a bit later (in FY23), given the longer booking lead time.

Ord Minnett suggested **demand for the Cinema experience is likely to remain solid** based upon evidence from the first half. Admissions increased by 75%, while average admission prices and average spend per head increased by 15% and 50%, respectively, compared to levels in the first half of FY19.

While the broker noted an improvement in the Hotels division over the half, occupancy levels were very low and earnings for the next year were expected to be impacted by refurbishments and closures.

<u>Promising overseas trends</u>

Less than four months later, Jarden confronts investor concerns around discretionary stocks in general, due to potentially lower customer spend in response to rising interest rates and inflation, as well as cost of living pressures.

Indeed, the analysts have already factored into forecasts a lower spend-per-head for cinemas and lower occupancy and room rate levels for hotels than in FY19. Nonetheless, while reduced discretionary spending presents a risk to the broker's already conservative forecasts, evidence from the US demonstrates **customers are willing to spend on discretionary items such as hotels and cinemas.**

Recent data from Las Vegas hotels show April 2022 visitor volumes were strong and revenue per visitor was above 2019 levels, while Jarden also points to American movie theatre chain AMC Entertainment. First quarter results indicated guests were spending like never before, with revenue-per-patron 34% in advance of pre-pandemic norms.

AUSTRALIA

TechnologyOne's SaaS Transformation 'Complete'

TechnologyOne stands out as a low risk, reliable performer with a proven track record and plenty of growth ahead in today's beaten-down technology sector on the ASX.

-TechnologyOne recently booked 13th year of record half-yearly profits
-SaaS revenue jumped 44% in the first half of FY22
-Profit margins expected to expand with further customer wins
-Analysts overwhelmingly back management’s optimism about future growth

By Nicki Bourlioufas

With 97% of total revenue now coming from Software as a Service (SaaS) and continuing businesses, TechnologyOne ((TNE)) say its transformation is “complete” with strong sales having underpinned another record first half profit.

Analysts at stockbrokers share company management’s optimism and are upbeat on the future, with its shares having outperformed key competitors during a time when technology stocks on the ASX are heavily out-of-favour.

TechnologyOne provides enterprise resource planning (ERP) software. Competition in the sector is high, with main competitors including large multinationals such as Oracle, SAP and Workday.

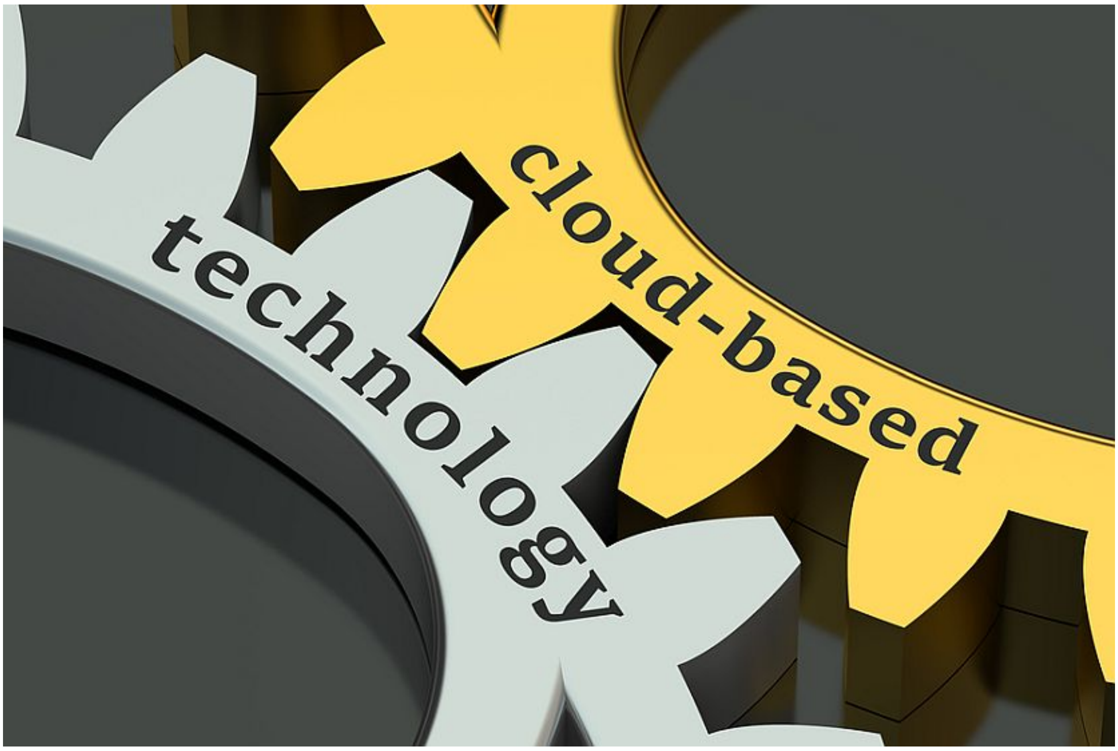
Nevertheless, TechnologyOne enjoyed a jump in fees for the half year ended 31 March 2022 and similar growth is expected in the second half.

Profit after tax rose 18% to $33.2m, its 13th year of record first half profit, underpinned by strong demand for its TechnologyOne global SaaS ERP solution. SaaS annual recurring revenue (ARR) jumped 44% to $225.1m.

TechnologyOne CEO, Edward Chung said the strong half year result validates the strength of the company’s SaaS strategy.

Its purchase of higher education software provider Scientia will drive growth in higher education both in the UK and Australia in addition to strong organic growth.

The company attracted nineteen large scale enterprise customers in the UK, Australia and NZ in the first half. Chung said profit margins will expand as the company wins more SaaS customers globally.



On the negative side, group profit before tax (PBT) margin fell around -1% to 25%, largely driven by the purchase of Scientia, which reported a 6% PBT margin compared to Technology One's 26%.

The company expects its key margins to remain flat in FY22, before expanding in coming years.

TechnologyOne shares are up 24.5% over the year to 6 June 2022, compared to a drop of -13.1% for the Nasdaq Composite Index and falls in the prices of key competitors Oracle (-13.1%), SAP, down -18%, and Workday, down -29%, amidst rising bond yields and interest rates.

This is not to suggest the shares have been immune from the broader sector fall-out. TechnologyOne shares reached an all-time high in November last year, at $13.50.

More gains seen for TechnologyOne

Bell Potter thinks the shares are undervalued. The broker has a Buy recommendation on the stock with a price target of $12.75, a large premium to its market price of around $11.

Bell Potter notes TechnologyOne's annual profit growth target of 10-15%, adding "we believe there is potential for the company to lift this annual target to +15-20% at some stage in the next few years."

Morgans too has an 'Add' on the stock and says its SaaS transformation has been seamless.

Typically, points out the broker, a transformation of this nature comes with a lot of pain but TechnologyOne is believed to have navigated the transition "incredibly well".

With revenue growth expected to accelerate earning per share (EPS) growth, Morgans has a target price on the stock of $11.53.

Goldman Sachs too has lifted FY22-24 revenue estimates by 3 to 5%. However, its price/earnings (P/E) multiple has reduced to 23.5x (versus 25.0x prior), which reduces the price target to $13.30/share from $13.90.

This hasn't stopped Goldman Sachs from reiterating its 'Buy' recommendation. The broker highlights the company has a sticky customer base "with high recurring revenue and expanding margins (post FY22) providing visibility into medium-term earnings growth.

With a potentially challenging macro backdrop on the horizon, the broker sees TechnologyOne offering a resilient earnings profile underpinned by low customer churn, mission critical software and defensive public sector end markets.

Wilsons notes the first-half result highlights both the non-discretionary and a-cyclical nature of the business.

Wilsons retains an overweight rating on the stock, though has lowered FY22-FY24 forecasts by -4% to -5%, reflecting higher costs including depreciation following its acquisition of Scientia. As a result, its target price has reduced by -8% to $11.08.

Shaw and Partners is even more upbeat and suggests the company's low risk profile in combination with the current valuation make TechnologyOne shares look attractive.

Thus, Shaw has reiterated its Buy rating with a price target of $12.10. Shaw points out the company's earnings before interest, taxes, depreciation, and amortisation EBITDA multiple of 32x puts it at the low end of its historical range (32x-42x).

This makes Macquarie a stand-out with only a Neutral call on the stock. Macquarie notes the key downside risk to its target price of $11.00 would stem from TechnologyOne's SaaS business materially missing forecasts.

Bell Potter believes more risk is related to the huge size of competitors such as Oracle, SAP, Infor and WorkDay who all have large marketing and R&D budgets and a huge global presence.

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AUSTRALIA

Is The Worst Now Over For Audinate?

Following a fourth quarter trading update from Audinate Group, brokers remain Buy-rated and positive on the outlook.

-Shaw and Partners suggests the worst is over for Audinate Group
-Trading update shows strong demand and manageable chip supply
-FY22 revenue guidance beats the consensus forecast
-Supply constraints may linger and labour inflation may weigh
-Earnings visibility improved by revenue backlog

By Mark Woodruff

Shares of audio-visual company Audinate Group ((AD8) began falling late last year, and eventually more than halved in value upon reaching around $5.00 in May.

Apart from the general downdraft for technology shares caused by the prospect of rising interest rates, concerns largely centred on supply-chain pressures and chip availability.

Since those May lows, shares have resumed an upward trend, further boosted by a fourth quarter trading update this week that revealed **supply constraints remain at manageable levels and strong demand has continued into the fourth quarter.**

This update follows another in late April, which showed strong trading conditions during March and April, following replenishments of chip supplies in March. At the time, Morgan Stanley became more confident that revenue was reaching a nadir, due to improvements in both the supply of chips and the product mix.

Now, **Shaw and Partners suggests the worst is over**, and expects significant earnings upside over the coming years, while Canaccord Genuity points out **Audinate is one of the few stocks that is seeing incremental revenue upgrades within the ASX technology sector.**

The group develops and sells digital audio visual (AV) networking solutions to end users that include universities, corporates, convention centres, theatres, stadiums, theme parks and recording studios. The company also supplies original equipment manufacturers (OEM) such as Bose, Yamaha, Shure and Sony, who on-sell Pro-AV products (speakers, amplifiers and mixers) to system integrators.

Importantly, as the structural shift to networked AV unfolds, network effects are becoming more relevant, and it becomes harder for users and OEMs to adopt alternatives.

As part of the trading update, **Audinate guided to more than US$30m of FY22 revenue compared to the consensus estimate for US$28.5m**. Morgan Stanley estimates US$8.7m is attributable to the fourth quarter, which was also in excess of the US$7.2m consensus forecast.

Canaccord attributes the better-than-expected trading update to elevated product demand, price rises in March (up 25% for Brooklyn/Broadway) and better inventory sourcing for chips in March.

Providing a note of caution, Buy-rated UBS suggests supply constraints may linger into FY23 and highlights the risk of more meaningful labour inflation. Nonetheless, demand is expected to remain strong and continue for the medium-to long-term, and the broker retains its $9.85 target price.

Revenue backlog

Revenue visibility has improved for Audinate, according to Canaccord. It's estimated the revenue backlog (orders yet to be filled) stood at US$25m in April 2022, which compares to a US$15m balance in October 2021 and US$2.5m prior to the onset of covid-19.

The backlog highlights that with no new sales, the company's revenue run-rate stands at more than US$7m per quarter, and the broker now forecasts US$9.5m per quarter for FY23.

Product investor day

A shift in revenue mix to more software sales over hardware sales, and ongoing investment in new products and features to enhance the company's Dante ecosystem, were key takeaways for Canaccord from last week's technology day held by Audinate.

Software sales now account for 25% of group revenue, up from 16% in FY19, and are growing at a 50% five-year compound annual growth rate (CAGR). This has resulted from new releases of software/cloud products (Dante Cloud, DVS, DDM, Via) and an increasing proportion of software-based implementations.

The benefits of Dante and networked audio have been conveyed via the training of around 15,000 industry personnel by Audinate. In addition, a more valuable ecosystem has been created, explains the broker, via the quantum of new product features, which entices more OEMs to place Dante into their products.

The outlook

There appears to be no problem with product demand, observes Canaccord, and supply issues being experienced will inevitably abate. Meanwhile, there's expected to be a material step-up in revenues as the company's US$25m backlog unwinds, design wins continue and Video revenue ramps up.

Finally, Shaw likes the entrenchment of Dante as the global default standard in AV and believes the company will be a major reopening beneficiary following the covid downturn. In terms of long-term rewards, the analyst concludes Audinate Group is a very attractive stock to own.

Two FNArena database brokers cover the stock and each have Buy (or equivalent) ratings for a consensus target price of $10.17, which suggests 36% upside to the last share price.

For those brokers that are not updated daily in the FNArena database, Canaccord Genuity and Shaw and Partners are Buy-rated and have set target prices of $8.00 and $11.75, respectively.

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AUSTRALIA

Challenges Ahead For Wesfarmers

Rising rates, a slowing economy and falling house prices are creating operational headwinds for Wesfarmers.

-Brokers mixed on strategy day initiatives and impact of OneDigital
-Slowing housing market, higher rates could weigh on Bunnings and retail divisions
-Higher commodity prices to buoy WesCEF

By Nicki Bourlioufas

Slowdown in housing market could hit Bunnings division

Wesfarmers' ((WES)) strategy day has failed to changed some brokers' minds about the difficulties the company faces in light of higher interest rates and a slowdown in the Australian housing market.

The combination of both could strike at the earnings the conglomerate derives from its Bunnings, K-Mart and Target stores.

At its strategy day, Wesfarmers announced it is digitising its stores and enhancing its online operations to reduce costs, convert revenue growth into profit growth and improve its 'best value' positioning.

Wesfarmers also announced capability improvements including supply chain optimisation.

Importantly, Wesfarmers is accelerating its OneDigital rollout and has announced that Catch will join the OneDigital division. Together with the OnePass subscription program and Wesfarmers Advanced Analytics Centre, all will sit under the OneDigital arm.

The company also announced an expansion of WesCEF (shortcut for Wesfarmers Chemicals, Energy & Fertilisers) through the Mt Holland lithium project, plus investment in the growth of its new Health division's recent purchase of Australian Pharmaceutical Industries, which owns the Priceline brand.

Wesfarmers says its strong balance sheet will equip it for a more challenging macro-economic environment ahead, including higher interest rates and inflation.

Morgans is the most upbeat on Wesfarmers' strategy initiatives. The broker likes the OneDigital plans.

Morgans believes OneDigital could become a powerful tool for Wesfarmers given the company's broad sector exposures. Wesfarmers is considered a core long-term portfolio holding "with a strong mix of businesses, highly regarded management team and a healthy balance sheet".

Morgans rates the stock Add (equivalent of Buy).

Given Wesfarmers has strengthened its e-commerce capabilities and extended the benefits of OnePass membership program to Kmart and Target, Ord Minnett says the digital upgrade presents “a significant opportunity”.

OneDigital losses should begin to narrow from FY24 as revenues gradually build up. Ord Minnett has maintained its Hold recommendation, but reduced its target price to $51.80 from $52.40.

Other brokers are demonstrably less sanguine about the short-term challenges ahead.

Goldman Sachs suggests any success of OneDigital and OnePass, as well as API synergies remain yet to be proven.

With OneDigital and Health leadership only freshly appointed and Catch roles still to be filled. Goldman sees better value elsewhere.

The broker finds Wesfarmers’ risk profile in the present context is “elevated” and sees a driver of valuation compression.

Goldman did lift its price target for the shares, but only slightly so: to $40.00 from $39.40, while maintained its Sell rating.

Higher rates could hit retail businesses

A common view among analysts is that higher interest rates could curtail growth for Wesfarmers' retail businesses.

With the RBA raising interest rates by 50 basis points this month, and more rate rises to come, consumers are a significant source of uncertainty for retail spending, with higher inflation and mortgage repayments increasing pressure on household budgets.

Wesfarmers’ core engine Bunnings could be especially challenged by the housing slowdown, some brokers say.

Citi is especially sceptical of the market’s growth expectations for Bunnings, which it says are substantial at around 8% five-year compound annual growth rate (CAGR) for revenues through to FY24.

Bunnings sales are correlated to house prices, highlights Citi. The broker is predicting falling house prices are likely to result in low single digit like-for-like sales growth as opposed to high single digit sales growth when house price growth is strong.

Citi thus sees better value elsewhere in the retail sector and has maintained its Sell rating on Wesfarmers with a price target of $42.00.

Macquarie is equally sceptical. While it thinks Bunnings is one of the best retail assets in Australia, Macquarie shares the concerns around consumer discretionary.

Wesfarmers aims to expand or open 15 to 20 Bunnings stores a year and Macquarie notes the acquisitions of Beaumont Tiles and Tool Kit Depot could help lift commercial sales.

Nevertheless, given higher interest rates, Macquarie has reduced its price target by -13% to $47.50.

The broker notes falling earnings multiples for Home Depot, Lowes, Target and JB Hi-Fi in Australia. Macquarie has maintained its Neutral rating.

Credit Suisse is also Neutral on Wesfarmers, even cynical about the company's strategy day.

The broker feels challenged by the significant number of new initiatives, which Credit Suisse believes increases overall complexity.

The broker notes an absence of public measurable targets from Wesfarmers. Credit Suisse sees losses from OnePass and Catch "extending into an undefined future" and has lowered its price target to $49.68 from $55.19.

Ord Minnett is slightly more upbeat. It notes "powerful tailwinds" for Wesfarmers' earnings from the chemicals, energy and fertilisers (CEF) division generated by higher gas and ammonia prices.

Ord Minnett also points out Bunnings, Kmart, Target and Officeworks are well placed versus smaller competitors given higher average selling prices and scale advantages.

FNArena's consensus target price for Wesfarmers, based upon six major stockbrokers' targets, currently sits at $50.90, suggesting 13.6% upside to the last closing share price.

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ESG FOCUS

ESG Focus: China - Thucydidean Trap or ESG bid

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

ESG Focus: China: Thucydidean Trap or ESG Pitch

Growing geopolitical tension with China has many investors scratching their heads given Western and Eastern policy responses to the threat of regional conflict align so closely with ESG thematics.

-Preparations for economic war or hot war
-Taiwan could prove a flashpoint
-Domestic discord in China is in the mix
-ESG themes of onshoring and social cohesion align with conflict themes
-S&P Global adopts a sanguine view of China
-Actions speak louder than words

By Sarah Mills

Escalating tension between China and the US, combined with domestic ructions within China arising from lockdowns, are wreaking havoc on global trade.

And both the domestic and global challenges have one common denominator - the green and circular transitions.

Much has been written about the possibility of war with China should Taiwan, the world's largest semiconductor manufacturer, prove a flashpoint (if so, pundits such as Simon Hunt Strategic Services are tipping 2024).

The narrative being promoted by those beating the drums of war is that of the Theucydides Trap – a term used to describe the high probability of war when an emerging power threatens to displace an existing greater power as a regional or international hegemon.

At this point in history, however, two global narratives are running in tandem with the emerging power theme – the green and circular transition; and the fourth industrial revolution.

ESG goals and activities align so closely with those typically used for conflict preparation (such as on-shoring of manufacturing), that many analysts are struggling to determine whether ESG goals are being driven in part by threat of conflict between two major powers; whether talk of conflict is a screen for ESG execution; or whether ESG is being used as a screen for war preparation.

All positions could be well argued and it is also possible that all three elements are in play independently.

Meanwhile, China's economic growth is falling, boding ill for the global economy, another potential historical trigger for global conflict. All the indicators are pointing to a (potential) US recession as well.

Macquarie now estimates a 60% probability of a mild recession in Australia.

Economic War Or Hot War

Economic war is par for the course, and China has certainly been exercising its muscles on this front, issuing tariffs on Australian goods and other countries.

But the question for most of the world is will this escalate into a hot war or can we relax into the promise of global investment in ESG objectives – a bumpy but more palatable option – in which the economic competition/war continues uninterrupted.

It is always possible to kill two birds with one stone. And while there is an uncanny alignment of actions, there is nothing precluding the two running in tandem.

Some observers are taking an Orwellian tack, hoping both governments are just keeping the populations on their toes heading into the Fourth Industrial Revolution (which doesn't preclude conflict either).

Few doubt that the growing tension between the US and China is real, as underscored by the Thucydidean dynamic.

An In-Depth Examination Of The China Subject

This article is the first in a series of five articles.

It examines the political situation: China's positioning on ESG, the challenges this poses to its domestic stability, and to what extent its surprise policy shifts in the past year can be interpreted as a response partly driven by ESG and domestic factors, or disguised global aggression.

It also examines China's campaign to unseat the hegemony of the US dollar by 2025 and the implications this may have for global conflict (it is not surprising then that pundits are tipping 2024 as a potential flashpoint in Taiwan).

Some observers ask whether we are witnessing a race to disengage global economies ahead of such an event?

The second article quickly outlines China's six-point Common Prosperity Plan (which we refer to below) and compares these six points with the United Nations' Sustainable Development Goals (SDGs). It also examines how below-the-headline execution points may diverge from the West's preferred narrative, digging down to the core points of dissent

The third article provides an economic outlook for China and discusses the affect of the Prosperity plan on various industries and sectors.

The fourth is a hats-off to Australia and checks out the implications for the metals and resources sectors.

The fifth looks at industries that are likely to prosper regardless of whether or not conflict emerges between the US and China (rare earths being one example).

China's Common Prosperity Plan – Friend Or Foe

As a quick backgrounder, the Chinese Government announced its Common Prosperity Plan in 2021, which represented a sharp departure from business as usual.

In itself, it aligned quite closely with the UN's SDGs but it was accompanied by a series of actions (and policy actions) that sent global markets reeling in 2021 and 2022 and angered the nation's own east-coast power brokers.

Most notable of these was the bid to bring an "unruly" tech sector back into line (the sector had been operating in, and lobbying for, grey regulatory zones for some time), and its most confronting action involved the arrest of Alibaba Group's Jack Ma, and the halt to Ant Group's initial public offering.

Uber rival Didi fell foul of the government just two days after its listing, and the Chinese government also took aim at online food delivery and private education services.

The Chinese crackdown also included potential changes to tax structures that many in the West (not to mention domestically) considered to be antithetical to capitalist doctrine and detrimental to the advancement of Western interests in China and globally.

Asian shares went into a tailspin lopping trillions off global capital markets.

While some such as Brookings have viewed these policy shifts through a "communist lens", claiming China is pivoting toward greater state control of society and the economy, others are viewing it through an ESG lens, believing the Chinese government is attempting to raise its "social" quotient in a bid to better compete in an ESG world.

The government's policy to end the 996 working-hour system – 9am to 9pm six days a week – is one example of this.

It is completely within the spirit of ESG, and yet this was one of the most strongly criticised policies, particularly domestically.

Domestic Politics Also In the Mix

The Common Prosperity Plan has also generated significant domestic angst and this is also entangled in the plot.

Much of the Chinese Government's actions can be viewed from the lens of domestic policy as President Xi seeks re-election as China's leader for a third five-year term later this year.

On the one hand, the theme of Common Prosperity appeals to a disenchanted populace that has been largely disenfranchised through an unequal distribution of wealth.

While the government announced it had eliminated extreme poverty in 2021, nearly 600m people still live on less than US$154 a month, according to Brookings.

The policy is a commitment to build a middle class capable of driving domestic consumption (in line with ESG imprimaturs) and reducing reliance on debt-fuelled housing development, which is impacting housing affordability (and the industry is riddled with corruption through local government kickbacks, which in turn has been weakening the central party).

The Common Prosperity plan is as much about reducing corruption and bolstering the weakened power structures of Chinese Communist Party as any other imprimatur.

Another key bone of contention is President Xi's plan to switch some growth to the poorer west from the wealthy coast.

Brookings notes that six coastal cities account for 49% of GDP, while the 15 poorer ones account for just 21%. (It is also common for countries to shift industrial bases into more defendable areas when preparing for war, as Stalin did prior to Hitler's invasion. The West is also onshoring manufacturing.)

President Xi's Common Prosperity policy is understood to have the support of the Peoples Liberation Army, the security forces and nearly all 540m rural population and 290m ex-rurals who have left for urban areas.

It is considered an important step in raising living standards (not to mention better defend the country), but steps to address the wealth imbalance have angered the country's wealthy east-coast power brokers, particularly in the port city of Shanghai.

This casts the recent covid lockdowns in Shanghai in a new light. Brookings reports President Xi sent Beijing troops into Shanghai to secure the lockdown rather than rely on the Shanghai police, which tends to support the agendas of local power brokers and business interests.

Still, the power brokers appear to have had some sway, aided by a sharp slowdown in the Chinese economy in response to the crackdown.

China recently publicly abandoned the Common Prosperity plan, and President Xi's rhetoric shifted from "Prosperity" to "Stability", in a bid to placate domestic business interests and assure international investors it is open to business.

The government has said it is wishes to expand the pie and divide the pie, rather than adopt a Robin Hood approach to wealth redistribution.

But most observers consider this to be more of a tactical retreat.

S&P Global, for one, believes that while the prosperity campaign has been wound down, the imprimatur remains intact.

This is not surprising. If China is to compete as an economic power in a post-ESG world, it needs to raise the living standards of its workers: prosper or perish.

It also highlights the complexity of the Chinese situation: to what extent are ESG imprimaturs driving domestic discord in China?

And to what extent do the covid lockdowns reflect domestic concerns (there are rumours the CCP is fracturing), or are they a form of disguised economic aggression?

Coinciding as they do with rising oil prices and the Ukraine war, the rest of the world has found itself in the economic crossfire, underscoring China's growing economic might.

"Prosperity" a soft rhetoric for ESG; or Theucydidean Trap

The ESG and fourth-industrial revolution pitch

President Xi has been warning of changes unseen in a century, most likely referring to the green transition, technology and geopolitical tension; and as a result, the central government wishes to exert greater control over the allocation of resources.

Brookings says the government wants to enhance China's competitive position in key strategic sectors such as high-end manufacturing, green technology, semiconductor production, electric vehicles and other national priorities identified in the Made In China Initiative and the 14th five-year plan.

Many of the events of the past two years can be viewed through this lens, and the lens of domestic discord, rather than international aggression.

S&P Global conducted a webinar last week: **What Last Year's China Policy Surprises Mean For The Future.**

Panelists at the webinar took a sanguine approach to China's recent policy shifts, attributing them largely to domestic issues rather than global geopolitical concerns.

FNArena asked the panel to what degree ESG considerations were affecting domestic policy and whether they were being used as an economic lever.

"Certainly we do see ESG issues in these policies," said S&P Global.

"In China's internet sector, all ESG credit indicators score at a very minimum a 3 (only one company scored a 4) … hence the push behind social regulations."

S&P said that as the government builds more positives ESG scores, its "S" score could progress to an S2.

Responding to another question asking whether Western economies were migrating their supply chains away from China, S&P was again relatively sanguine.

The agency says it has not witnessed a sharp shift as yet (which is what you would expect if conflict were brewing).

The panel said the degree of migration differs by industry and is generally “not happening in a major way, and not quickly”.

Such a shift, says S&P, is challenging for manufacturers given China is well entrenched into supply chains, and the agency believes the process of leaving China will take the West decades.

That gives President Xi plenty of time to build the nation’s “S” manufacturing scores to a competitive level.

But geopolitics cannot be discounted.

The Thucydidean Trap

A quick Google search reveals the prospect of a Theucydidean Trap gains far more interest than the role of ESG in explaining China’s domestic policy initiatives, although this could easily reflect the human proclivity to focus on threats.

The Theucydidean Trap refers to the severe structural stress caused when a rising power threatens to unseat a ruling power, which heightens the probability of war and the chances of even ordinary flashpoints sparking a major conflict.

China is rising. According to Statista, China accounted for 18.62% of global GDP in 2021, compared with the US’s 15.86%.

The hawks in the West are looking beyond the soft ESG rhetoric of the Common Prosperity theme to the government’s strong-arm actions.

Asia Society says the Common Prosperity policy “aims to promote the rhetorical, moral, material and institutional advantages of the Chinese socialist authoritarian system over that of Western liberal-democratic capitalism, with the ambition to disseminate the “China Model” worldwide as a tool to further China’s superiority in Global politics”.

Simon Hunt Strategic Services (SHSS) notes a key bone of contention is Russian and Chinese efforts to create a new trade and currency platform to end the 77-year hegemony of the US dollar.

The platform is already quite advanced, as evidenced by the attempt to impose economic sanctions in the Ukraine. Over the past decade, the two countries have been switching US$ denominated trade to that denominated in yuan and roubles, and such trade now stands at roughly 30%.

SHSS expects the currency platform is scheduled for lift off in 2025, which may be why 2024 is being mooted as the most likely year for a potential flashpoint with Taiwan.

The research service says that China and Russia are not alone in this endeavour and that global policy is “pivoting from the West to those who share China’s view of a multilateral world, free of one-country domination”.

Many countries have been liquidating asset and portfolio investments in Western alliance countries.

“Exports will focus on BRICS and Eurasian Economic Union which includes establishing Iran as a new manufacturing and export hub for Chinese goods made in Iran,” says SHSS.

China has 40,000 kilo-tonnes of gold for reserves to back its currency, suggesting a return to a gold standard, and SHSS expects the country to launch a digital currency within two years.

Meanwhile, President Xi has stated publicly that: “China is tightening international production chains’ dependence on China to form a powerful countermeasure, and a deterrent capability against foreigners who would artificially cut off supply to China.”

Recent lockdowns are timely reminders to the West of their dependency on China.

SHSS reports that China has also been stockpiling critical imports – agricultural, commodities and technology imports. But again, this can also be explained away through the ESG imperative.

It has also been sourcing imports from Asia, South America, Argentina, Brazil, Chile and Peru.

S&P Global Says It’s About Moving Up the Value Chain

S&P Global had a few more points to make at its China policy webinar.

The agency says much of policy shifts of the past year have been aimed at moving China up the value chain and driving supportive growth.

Viewed from this angle, the Chinese government continues to support industries higher up the value chain such as high-tech, despite the recent crackdown on certain companies.

Observers say this reflects the country's desire to upgrade its manufacturing base to be competitive for the fourth industrial revolution.

It involves the integration of information technology to improve productivity, increase the local content of higher end technology products, reduce reliance on foreign inputs, and become technologically more self-sufficient.

Dual Circulation Strategy Reinforces This View

Last year, the Asia Society notes, the NPC endorsed a new "Dual Circulation" strategy comprising domestic circulation and international circulation, which, if successful should "have profound implications for global economics and geopolitics".

Li Keqiang declared in his work report to the NPC:

"*We will give priority to domestic circulation, and work to build a strong domestic market and turn China into a trader of quality. We will leverage the flows of the domestic economy to make China a major magnet for global production factors and resources, thereby promoting positive interplay between domestic circulation and international circulation*."

The policy aims to establish China as the main source of critical technologies and industrial outputs of the future, across the value chain in high priority sectors such as as robotics, high-speed rail, Internet of Things, biopharma and new materials.

This sounds more like the government is preparing for economic war rather than conventional war, although again the self-sufficiency theme remains a typical conflict theme.

Asia Society says the implications of the Common Prosperity policy are enormous, and could enable China to break through the "middle income trap" which has stymied the advance of emerging economies in the past (and again is a critical ESG requirement).

The society says the policy is particularly designed to avoid the threats of decoupling of economies driven by deteriorating US-Chinese relations.

Like the US, China is highly dependent on foreign technologies and market-access and is likely to build more onshore semiconductor foundries.

Again, such actions appear designed to sidestep economic aggression from the United States, and to buttress its economy, while simultaneously building self-sufficiency in the event of conflict.

Actions Speak Louder Than Words

ESG pitch or Thucydidean trap – only time will tell.

At least publicly, China appears committed to the current global economic culture, and says it will "unswervingly promote high-level opening up, protect property and intellectual property rights, and enhance policy transparency and predictability" (Russia's recent abolition of IP rights is a salutary lesson to the West of what might happen in the event of a hot war).

In the meantime, a slowdown in global business activity as the world shifts to an ESG era and into the fourth industrial revolution will hurt exports, worsen geopolitical tensions and potentially trigger an asset crash (not to mention the affects of the covid-debt trap).

Most commentators expect China's stellar GDP will slow to 3% in 2022, and peg 2%-4% as the outside parameters.

But it is fair to say that neither the US, China or Russia are prepared for War, with China and the West still deeply co-dependent.

SHSS notes food is a particular problem for China, the country suffering from a lack of arable land compared to its population. This puts the Ukraine invasion into a whole new light.

It expects Chinese agricultural production to rise threefold by 2030 to US$3.27trn, which SHSS says will have significant affect on the global agricultural market.

All up, untangling the soft rhetoric of ESG and hawkish commentary of power plays is tough.

The US Administration has labelled China “America’s No.1 enemy”.

To my mind, them’s fighting words.

The West will be keeping a very close eye peeled to China’s actions, not words.

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

FEATURE STORIES

Why Not To Invest In Bitcoin

Recent volatility in bitcoin and other cryptocurrencies has led the mainstream investment community to question the value of crypto as an alternative investment.

-Bitcoin has endured wild volatility since covid hit
-Crypto stablecoins prove to be not so stable
-Inflation hedge and safe haven arguments shot down
-Central banks have their own plans

By Greg Peel

Last month the value of crypto “stablecoin” TerraUSD crashed to US30c. Being linked to the US dollar, terra was supposed to always be worth one US dollar. The value in such a stablecoin lies in providing to investors and traders an option to store their assets in a cryptocurrency without the risk and volatility associated with typical cryptos, which are effectively conjured up out of thin air.

But terra was not directly linked to the US dollar. The terra currency was not backed by US dollar-denominated assets, rather it was redeemable for one dollar’s worth of another cryptocurrency, luna. A computer algorithm creates and destroys both terra and luna to bring the price back into equilibrium. This worked reasonably well in practice from inception until the recent crypto market plunge, when the downward pressure on terra was too much for the algorithm to keep up.

In early November, 2021, the price of bitcoin – the benchmark cryptocurrency – hit US$65,000. By mid-January this year it was back at US$36,000. Bitcoin wasn’t the only crypto to crash in value.

In September 2020 bitcoin was trading at US$11,000, so it took a little over a year to hit US$65,000. It was a classic speculative bubble, fuelled, it is suggested, mostly by bored millennials in lockdown.

The same scenario played out in early 2021 when said millennials turned their attention to the stock market for the first time. Spurred on by social media chat rooms and new zero-brokerage online platforms, young retail investors poured into the likes of US companies GameStop and AMC Entertainment, which at the time were both heavily shorted by hedge funds.

GameStop sells new and used video games and equipment, and was struggling in the face of streaming. AMC owns cinemas, and was struggling in the face of lockdowns (and streaming). GameStop was trading at US$17.25 at the beginning of January. By the end of January it was trading at US$500. As February opened the stock plunged to US$101.

Aside from being in bubbles that simply had to burst, bitcoin and the so-called “meme” stocks turned around sharply as Wall Street plunged on Fed rate hike fears, leading ultimately to popular speculative growth stocks crashing by up to -80%. Recent data suggested some 60% of bitcoin holders are “underwater”, that is sitting on bitcoin they bought at a higher level.

It is unlikely young retail traders will tempt such a fate once more, at least in the short term. But bitcoin lives on. While cryptocurrencies still boast a loyal band of followers, the mainstream investment community – which also decided at one point that if you can’t beat ‘em, join ‘em – is once again having its doubts.

What is the value of crypto? The exit has been swift.

Get Me Out

ETFGI, a leading independent research and consultancy firm covering trends in the global exchange-traded fund (ETF) ecosystem, reported late last month that crypto ETFs listed globally saw net outflows of -US$556m during April, bringing year to date net inflows to US$303m, down from US$2.69bn one year ago.

Total assets invested in crypto ETFs decreased by -18.8% from US$16.28bn at the end of March 2022 to US$13.21bn.

Bitcoin, the crypto pioneer, was born of the GFC, which saw over-leveraged banks send the global financial system into chaos and forced central banks into a race to devalue their currencies. Bitcoin offered a seamless, unregulated and anonymous means of domestic and cross-border transaction, and was seen as a store of value – the “new gold”, if you will.

From September 2020, bitcoin has traded at [all US$] 11,000, 59,000, 35,000, 65,000, and currently 30,000. In the same period, gold has traded in a range from US$1700 to US$2000/oz.

Over time, gold has proven to be a reliable hedge against inflation and a safe haven in times of market turmoil. On the former, nevertheless, once might ask why the gold price is not through the roof amidst the highest global inflation numbers seen since the seventies.

The reason is that gold does not provide a return, such as a dividend or coupon. Thus the value of gold as an investment is undermined when bond yields rise. However, as the reasonably tight range gold has traded in over the past couple of years suggests, it is still a sufficient store of value.

The same is evident during the market turmoil of 2022, in which the gold price has remained relatively stable.

It’s a little different for cryptos.

Cryptonite

The latest crypto collapse -- in large part driven by the poor design of the aforementioned “stablecoin” -- highlights just one of the many reasons why cryptocurrency is a poor choice for long-term investors, according to global fund manager PGIM, which boasts US$1.4trn under management.

In PGIM’s latest Megatrends paper, dozens of investment professionals from across the fund manager’s fixed income, equity, real estate, private debt and alternatives businesses dissect the most common pro-cryptocurrency arguments and find that direct investment in cryptocurrencies offers little benefit to an institutional investor-- while adding considerable volatility and risk.

“As long-term investors and fiduciaries on behalf of our clients, three things need to be true for us to add an asset class into a portfolio: the asset needs a clear regulatory framework, it needs to be an effective store of value, and it needs to have a predictable correlation with other asset classes,” says PGIM CEO David Hunt.

"Cryptocurrency currently meets none of these three criteria. It's much more of a speculation than an investment."

"Cryptocurrency may be a heroic quest to build a viable, decentralized peer-to-peer payment system, but its pricing is based on speculative behaviour, rather than a fundamental thesis around its value or utility," says PGIM Head of Thematic Research Shehriyar Antia. "Furthermore, with little evidence to support it as an effective inflation hedge or safe-haven asset, we see no reason for cryptocurrencies to be a part of institutional portfolios."

PGIM goes on to "bust" the three main cryptocurrency "myths".

Firstly, when the global inflation scare became very apparent in 2021, beginning from March, bitcoin fell from US$59,000 to US$35,000 by June. Fans might argue this is true, but it then rallied to US$65,000 by March 2021, as the inflation scare turned into a full-blown catastrophe.

But it has since fallen back to US$30,000. Where's the hedge?

Secondly, see above – from US$65,000 to US$30,000 at the time the fear of Fed rate hikes has turned stock markets into bear markets and bond prices down sharply (rising yields). Safe haven?

The third argument is in regards to crypto's ESG credentials, or lack thereof.

Last year a young analyst from "new world" investment specialist ARK Innovation had eyes rolling when he laughably suggested crypto mining was actually good for the environment, because it incentivised investment in renewable energy capacity.

PGIM pointed out in its recent report that one single transaction on the bitcoin blockchain is equivalent to two million transactions on the Visa network, or roughly the same energy needed to power the average American home for over two months. Last year China banned crypto mining altogether, given its draw on an already undersupplied Chinese energy market.

What the young lad from ARK failed to acknowledge was that the world is already in dire need of increased renewable energy capacity and that capacity takes time to build. If crypto mining sucks up any new capacity, even if it that capacity is incentivised by crypto mining (which is a ridiculous argument anyway), where does that leave a climate change-beset world?

It leaves a handful of computer nerds with an asset that could be worth either a fortune or very little in a short space of time.

The other ESG issue relates to the G, being governance. As PGIM notes, the anonymity and difficulty in tracing the identity of crypto owners makes it a preferred medium of exchange in illicit activity – and most recently offers the potential for skirting sanctions in the wake of Russia's invasion of Ukraine.

Baby and Bathwater

While cryptocurrencies might be scorned and dismissed by many, there is little disagreement in the value of the underlying blockchain technology that provides for their existence. Blockchain does not exist simply to support cryptocurrencies.

"Cryptocurrency gets all the breathless hype, but it's the underlying technology where we find the most interesting investment opportunities," says Taimur Hyat, chief operating officer for PGIM. "Firms that enable real-world blockchain applications like clearing and settling transactions, preventing fraud, and tokenizing real assets offer significantly greater creation of value over the next decade. The old axiom applies -- when there's a gold rush, invest in shovels and pickaxes."

Distributed ledger technology (blockchain) and smart contracts can revolutionise elements of financial services, logistics, and supply chain management, as they eliminate the need for counterparty and trade verification as well as transaction and record reconciliation, says PGIM.

The tokenisation of real estate and infrastructure assets could substantially reduce costs from transactions and servicing, increase liquidity, simplify transactions, enhance price transparency, and allow more granular portfolio construction.

Blockchain also supports the Ether platform, which focuses on decentralised finance (de-fi). The related cryptocurrency, ether, is the second most popular after bitcoin.

The platform is (supposedly) in the process of switching from a proof-of-work verification model (mining via algorithms) to a proof-of-stake model (in which verification, and thus coin creation, requires the verifier to put their holding of ether up as collateral), which would alleviate the need for excessive energy consumption.

Blockchain technology is being embraced, developed and implemented by everyone from corporations to central banks. The latter development is another warning bell for crypto.

CBDCs

While China's excuse for banning crypto mining was deemed environmental, the other reason is China's central bank has developed and is currently trialling its own digital currency on a blockchain platform. The assumption is Beijing wants to crush a currency alternative that is out of its own control.

Central banks across the globe, including in the US, Europe and Australia, are also exploring the introduction of their own digital currencies. They might argue such a move makes sense in today's fintech world, but presumably there is an underlying goal of backdoor-regulating digital currency by squeezing out cryptos.

The concept of a central bank digital currency is anathema to the reason cryptos exist in the first place – to bypass the omniscient control of financial markets by central banks. But given the clash, the jury is out on whether CBDCs will signal the death of bitcoin and its crypto peers.

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For an extensive explanation of cryptocurrencies, blockchain, stablecoins, de-fi, CBDCs and more, go to FNArena's Special Report section (https://www.fnarena.com/index.php/analysis-data/special-reports/) to find *Bitcoin And Cryptos, An Introduction* in PDF format.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 03-06-22

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 May 30 to Friday June 3, 2022
Total Upgrades: 5
Total Downgrades: 9
Net Ratings Breakdown: Buy 59.96%; Hold 33.45%; Sell 6.59%

For the week ending Friday June 3 there were five upgrades and nine downgrades to ASX-listed companies covered by brokers in the FNArena database.

As was the case in the prior week, Tabcorp headed the tables for the largest percentage reduction in target price, and the largest percentage fall in forecast earnings last week. Brokers continued to amend financial models to allow for the demerger of the company's Lotteries & Keno business.

Morgans cautioned investors around impending licence renewals and the amount of competition weighing on the remaining Wagering & Media and Gaming Services businesses. The broker downgraded its rating to Hold from Add and reduced its target price to $0.95 from $6.12.

The Equal-weighted Morgan Stanley also 'initiated' coverage on the 'new' Tabcorp and arrived at the same target price of $0.95. While the retail wagering licences in Australia are a monopoly, the analyst cautioned investors over online competition from corporate bookmakers, who have a lower cost structure, and in some cases, global scale.

Seven West Media was second on the table for the largest percentage reduction in target price. Morgan Stanley, after a long hiatus, resumed coverage of the company last week and set a $0.50 target, which had the effect of lowering the average 12-month target price of (now) five brokers in the FNArena database to $0.75. An Underweight rating was set, due to the company's ongoing cyclical and structural challenges from a reliance upon television advertising, which is in decline over the medium-to long-term.

Meanwhile, Macquarie lowered its target price to $0.66 from $0.95 and downgraded its rating to Neutral from Outperform. This followed an overall downgrade by the broker's macro strategy team to its Media sector outlook, due to a 60% probability for a mild recession in Australia. It's felt Media multiples tend to be the canary in the earnings coalmine, and right now they are pointing to a -20% reduction in sector earnings.

Speaking of lower forecast earnings, Macquarie lowered its estimates for Block Inc last week. This left the company effectively second on the table for forecast earnings downgrades, after a data glitch was responsible for Beach Energy's initial second placing.

Despite the earnings downgrades following attendance at Block's investor day, the broker highlighted some hidden alpha that comes with owning the company's shares. This included decentralised identity, which is considered one of the bigger opportunities as the company increasingly owns consumer relationships and credit information around SME lending and BNPL.

The analyst also highlighted the key opportunity for international expansion and untapped value via future market launches and new products/innovations. Management noted that markets outside the US currently only comprised 9% of gross profit in 2021.

Total Buy recommendations take up 59.96% of the total, versus 33.45% on Neutral/Hold, while Sell ratings account for the remaining 6.59%.

Upgrade

CARSALES.COM LIMITED ((CAR)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/1/0

Macquarie downgrades its view on the media sector to Underweight from Neutral, noting multiples are already pointing to a cyclical easing post monetary-policy tightening, and the broker cuts sector earnings assumptions.

Macquarie's macro strategy team now forecasts a 60% probability of a mild recession and notes that media multiples tend to be the canary in the earnings coalmine, and right now they are pointing to -20% reductions in sector earnings.

The broker notes that Carsales is generally more resilient, gaining higher listings in the face of reduced demand, and is a preferred sector pick.

Rating upgraded to Outperform from Neutral. Target price falls to $20 from $23.

COOPER ENERGY LIMITED ((COE)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 1/3/1

Macquarie notes Cooper Energy has materially underperformed peers recently, even as Orbost processing rates have improved. Orbost is almost at nameplate capacity, increasing exposure to current elevated spot prices.

With the stock now trading in line with net asset valuation, the broker upgrades to Neutral from Underperform, but warns establishing balance sheet capacity for pending commitments remains key.

Target rises to 28c from 26c.

COMPUTERSHARE LIMITED ((CPU)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 4/2/1

Ord Minnett increases its earnings forecasts for Computershare in recognition of the company's leverage to sharp rises in cash interest rates over the last two months.

The broker raises its rating to Hold from Lighten and lifts its target price to $25.00 from $23.67.

PLEXURE GROUP LIMITED ((PX1)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 1/0/0

Plexure Group has delivered an FY result reflecting the completion of a major restructuring of the NZ business to prepare for near-term and more probable growth opportunities, Ord Minnett notes. The workforce is right-sized to facilitate global growth in key customer McDonalds and capitalise on the synergies from merging TASK with Plexure.

Combining Plexure's loyalty and customer management technology with TASKS's enterprise planning and management platform has yielded early cross-selling results with Pita Pit and TANK. The broker sees a much wider opportunity in FY23.

Plexure trades at a material discount to peers. The broker believes the return/risk equation has shifted positively and upgrades to Speculative Buy from Hold. Target falls to 36c from 50c.

SILVER LAKE RESOURCES LIMITED ((SLR)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/0/0

Macquarie incorporates Silver Lake Resources' Sugar Zone mine into its base case after the latter's strong and steady turnaround.

EPS forecasts rise 2% in FY23; 4% in FY24, 14% in FY25 and 19% in FY26. Rating upgraded to Outperform from Neutral. Target price rises to $2.10 from $2.

Downgrade

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

Suppliers have responded faster than anticipated to spiking lithium prices, and in opposition of previous deficit forecasts, Credit Suisse now expects lithium supply will meet demand in a balanced market in 2023-24, before supply exceeds demand creating surplus in 2025.

With macro conditions, including inflation, war and lockdowns, slowing the demand outlook, the broker notes lithium prices may peak in coming months, and has downgraded its FY23 spot lithium carbonate forecasts -12%.

Credit Suisse notes while upside may be limited for Allkem if elevated lithium pricing cannot be sustained, it prefers Allkem to Pilbara Minerals ((PLS)), with the company less exposed to margin compression from downstream risk.

The rating is downgraded to Neutral from Outperform and the target price decreases to $14.70 from $16.40.

ANSELL LIMITED ((ANN)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 3/2/1

With little protection from material price increases, Credit Suisse anticipates raw material costs to become a headwind for Ansell. With raw materials accounting for around 55% of Ansell's cost of goods sold, the broker lowers earnings -5% through to FY24.

The rating is downgraded to Underperform from Neutral and the target price decreases to $24.00 from $25.00.

HT&E LIMITED ((HT1)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/1/0

Macquarie downgrades its view on the media sector to Underweight from Neutral, noting multiples are already pointing to a cyclical easing post monetary-policy tightening, and the broker cuts sector earnings assumptions.

Macquarie's macro strategy team now forecasts a 60% probability of a mild recession, and notes that media multiples tend to be the canary in the earnings coalmine, and right now they are pointing to -20% reductions in sector earnings.

EPS forecasts for HT&E fall -4% iin FY22; -31% in FY23; and -25% in FY24.

Rating downgraded to Neutral from Outperform. Target price falls to $1.70 from $2.40.

PILBARA MINERALS LIMITED ((PLS)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 3/1/0

Suppliers have responded faster than anticipated to spiking lithium prices, and in opposition of previous deficit forecasts, Credit Suisse now expects lithium supply will meet demand in a balanced market in 2023-24, before supply exceeds demand creating surplus in 2025.

With macro conditions, including inflation, war and lockdowns, slowing the demand outlook, the broker notes lithium prices may peak in coming months, and has downgraded its FY23 spot lithium carbonate forecasts -12%.

Within its coverage, Credit Suisse notes Pilbara Minerals is most exposed to macro weakness, and limited vertical integration leaves the company at greater risk of margin compression.

The rating is downgraded to Neutral from Outperform and the target price decreases to $3.00 from $3.70.

REA GROUP LIMITED ((REA)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 5/1/1

Macquarie downgrades its view on the media sector to Underweight from Neutral, noting multiples are already pointing to a cyclical easing post monetary tightening and the broker cuts sector earnings assumptions.

Macquarie's macro strategy team now forecasts a 60% probability of a mild recession and that media multiples tend to be the canary in the earnings coalmine, and right now they are pointing to -20% reductions in sector earnings.

The broker says apart from monetary tightening, REA Group also faces real-estate industry-specific headwinds. EPS and dividend forecasts appear stable.

Rating downgraded to Underperform from Neutral. Target price falls to $90 from $130.

SEEK LIMITED ((SEK)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 3/2/1

Macquarie downgrades its view on the media sector to Underweight from Neutral, noting multiples are already pointing to a cyclical easing post monetary tightening and the broker cuts sector earnings assumptions.

Macquarie's macro strategy team now forecasts a 60% probability of a mild recession and that media multiples tend to be the canary in the earnings coalmine, and right now they are pointing to -20% reductions in sector earnings.

The broker says Seek is the most cyclically exposed. EPS forecasts rise 6% in FY22 and fall -3% in FY23 and -4% in FY24.

Rating downgraded to Underperform from Neutral. Target price falls to $19 from $32.

SEVEN WEST MEDIA LIMITED ((SWM)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/1/1

Macquarie downgrades its view on the media sector to Underweight from Neutral, noting multiples are already pointing to a cyclical easing post monetary-policy tightening, and the broker cuts sector earnings assumptions.

Macquarie's macro strategy team now forecasts a 60% probability of a mild recession, and notes that media multiples tend to be the canary in the earnings coalmine, and right now they are pointing to -20% reductions in sector earnings.

EPS forecasts for Seven West Media fall -0% in FY22; -16% in FY23; and -22% in FY24.

Rating downgraded to Neutral from Outperform. Target price falls to 66c from 95c.

SOUTHERN CROSS MEDIA GROUP LIMITED ((SXL)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

Macquarie downgrades its view on the media sector to Underweight from Neutral, noting multiples are already pointing to a cyclical easing post monetary-policy tightening, and the broker cuts sector earnings assumptions.

Macquarie's macro strategy team now forecasts a 60% probability of a mild recession, and notes that media multiples tend to be the canary in the earnings coalmine, and right now they are pointing to -20% reductions in sector earnings.

EPS forecasts for Southern Cross Media fall -36% in FY23 and -70% in FY24.

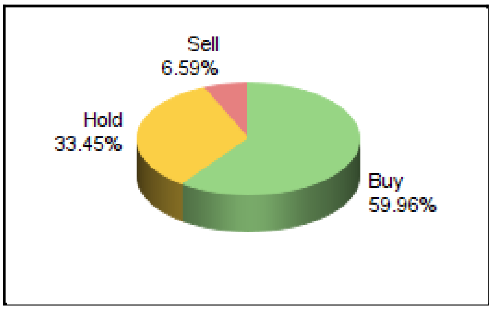
Rating downgraded to Neutral from Outperform. Target price falls to $1.50 from $1.90

TABCORP HOLDINGS LIMITED ((TAH)) Downgrade to Hold from Add by Morgans .B/H/S: 1/4/0

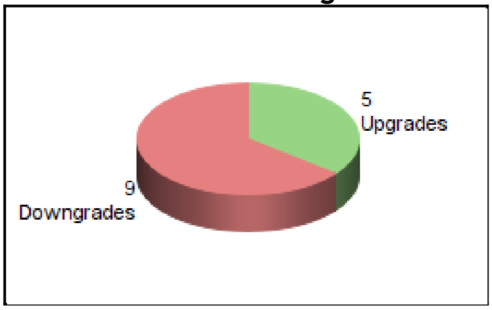
Morgans lowers its rating for Tabcorp to Hold from Add. This comes after allowing for the demerger of the Lotteries and Keno business and cautioning investors around impending licence renewals and competition for the Wagering & Media and Gaming Services businesses.

As a result of these adjustments, the broker's FY23 earnings (EBITDA) forecast falls by -64%, and the target price falls to $0.95 from $6.12. The removal of a source of largely predictable cash flows is expected to result in more volatile earnings.

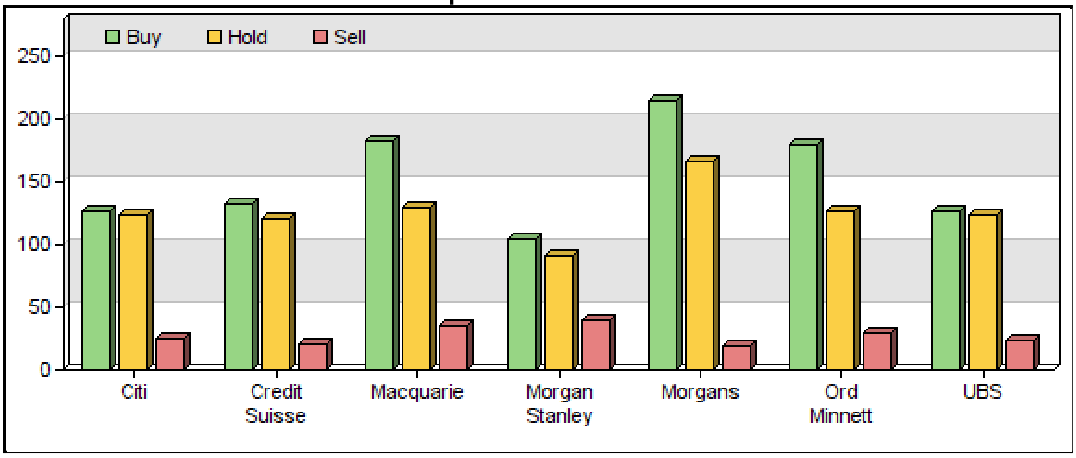
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	CARSALES.COM LIMITED	Buy	Neutral	Macquarie
2	COMPUTERSHARE LIMITED	Neutral	Sell	Ord Minnett
3	COOPER ENERGY LIMITED	Neutral	Sell	Macquarie
4	PLEXURE GROUP LIMITED	Buy	Neutral	Ord Minnett
5	SILVER LAKE RESOURCES LIMITED	Buy	Neutral	Macquarie
Downgrade				
6	ALLKEM LIMITED	Neutral	Buy	Credit Suisse
7	ANSELL LIMITED	Sell	Neutral	Credit Suisse
8	HT&E LIMITED	Neutral	Buy	Macquarie
9	PILBARA MINERALS LIMITED	Neutral	Buy	Credit Suisse
10	REA GROUP LIMITED	Sell	Neutral	Macquarie
11	SEEK LIMITED	Sell	Neutral	Macquarie
12	SEVEN WEST MEDIA LIMITED	Neutral	Buy	Macquarie
13	SOUTHERN CROSS MEDIA GROUP LIMITED	Neutral	Buy	Macquarie
14	TABCORP HOLDINGS LIMITED	Neutral	Buy	Morgans

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	CPU	COMPUTERSHARE LIMITED	26.139	25.949	0.73%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	TAH	TABCORP HOLDINGS LIMITED	1.050	2.368	-55.66%	5
2	SWM	SEVEN WEST MEDIA LIMITED	0.752	0.888	-15.32%	5
3	HT1	HT&E LIMITED	2.233	2.500	-10.68%	3
4	SEK	SEEK LIMITED	32.138	34.305	-6.32%	6
5	REA	REA GROUP LIMITED	133.429	140.671	-5.15%	7
6	BHP	BHP GROUP LIMITED	48.050	50.460	-4.78%	6
7	PLS	PILBARA MINERALS LIMITED	3.713	3.888	-4.50%	4
8	MGR	MIRVAC GROUP	2.756	2.848	-3.23%	5
9	CAR	CARSALES.COM LIMITED	23.353	24.003	-2.71%	6
10	ABP	ABACUS PROPERTY GROUP	3.525	3.603	-2.16%	4

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	12.167	10.950	11.11%	6
2	ELD	ELDERS LIMITED	96.475	93.475	3.21%	4
3	QAN	QANTAS AIRWAYS LIMITED	-66.142	-68.175	2.98%	6
4	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	9.834	9.654	1.86%	6
5	ABP	ABACUS PROPERTY GROUP	18.425	18.100	1.80%	4
6	HLS	HEALIUS LIMITED	60.665	59.598	1.79%	6
7	APE	EAGERS AUTOMOTIVE LIMITED	105.253	103.420	1.77%	6
8	VCX	VICINITY CENTRES	11.880	11.680	1.71%	5
9	NAB	NATIONAL AUSTRALIA BANK LIMITED	211.243	207.814	1.65%	7
10	AKE	ALLKEM LIMITED	57.268	56.448	1.45%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	TAH	TABCORP HOLDINGS LIMITED	4.880	9.350	-47.81%	5
2	BPT	BEACH ENERGY LIMITED	23.449	30.534	-23.20%	7
3	SQ2	BLOCK INC	146.419	186.039	-21.30%	4

4	ORG	ORIGIN ENERGY LIMITED	31.293	33.722	-7.20%	6
5	OML	OOH!MEDIA LIMITED	8.323	8.957	-7.08%	3
6	TLC	LOTTERY CORPORATION LIMITED	16.153	16.900	-4.42%	3
7	AGL	AGL ENERGY LIMITED	38.438	40.122	-4.20%	5
8	NHC	NEW HOPE CORPORATION LIMITED	105.775	110.400	-4.19%	4
9	GOR	GOLD ROAD RESOURCES LIMITED	10.167	10.533	-3.47%	3
10	WGN	WAGNERS HOLDING CO. LIMITED	5.477	5.637	-2.84%	3

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: Mid-Term Price Pullback

The uranium spot price continued to bounce last week as the mid-term price fell back and cost pressures are rising.

-U3O8 spot market anticipating SPUT purchases
-Mid-term price adjustment reflects other buyer demands
-Cost of uranium production still steadily rising

By Greg Peel

The bounce in the spot uranium price following general financial market lows continued last week, with industry consultant TradeTech's weekly spot price indicator rising another US$2.60 to US$47.75/lb.

May ended mid-week, at which point the indicator was at US$48.50/lb, down -US$4.50 from end-April.

The two-week bounce began the week before when global equity and other markets staged a solid comeback rally off the most recent lows, and also on news the Sprott Physical Uranium Trust had successfully issued new capital, and was thus cash-positive.

Given SPUT's sole purpose in life is to purchase uranium as a financial investment, the market is assuming the trust will soon be in buying more material. As of last week it hadn't yet, but this has not deterred the speculators.

Term Pressure

I have highlighted in recent reports the extensive contango gap between spot prices trading in the forties per pound compared to TradeTech's mid-term contract price indicator at US$61.00/lb. Well, that reverted at the end of May. TradeTech has cut its mid-term price to US$51.00/lb.

The move seems contradictory, given the war has only served to engender urgency among end-user utilities to secure inventories amidst the turmoil and uncertainty Russia has created. However, as might often be said in other situations, price isn't everything. Notes TradeTech:

"Utilities recognize that prices must be higher to encourage new supply to come forward, but their focus clearly is targeted at remaining competitive in the future energy landscape. As a result, utilities are vetting any potential supplier to ensure that they will be able to meet future commitments.

"This involves an evaluation based not only on price, but on the evaluated price that includes factors that weigh past delivery performance, jurisdictional risk, ESG compliance, and their ability to deliver material on time, along with terms and conditions related to escalation and quantity flexibility."

Four transactions were concluded in the term market in May involving more than 11mlbs U3O8 equivalent for delivery over a variety of years, TradeTech reports, from 2023 to beyond 2030. In addition, a number of utilities continue to pursue other means to hedge their portfolios against potential supply interruption of deliveries from Russia, including exercising options and upward quantity flexibility.

While nuclear-related exports are yet to be included in any sanctions placed on Russia, most of Russia's former customers are acting as if this were already the case by turning to other sources, while still forced to make good on pre-war contracts.

TradeTech's long-term price indicator remains at US$52.00/lb.

Cost Pressures

As of last week, all three of TradeTech's price indicators sit below the consultant's production cost indicator, which climbed to US$52.40/lb in May from $52.00/lb in April, marking a 12-month run of either flat or consecutive increases to the indicator without decline.

This "cost creep" means the end-May PCI represents the highest value since the indicator's inception in April

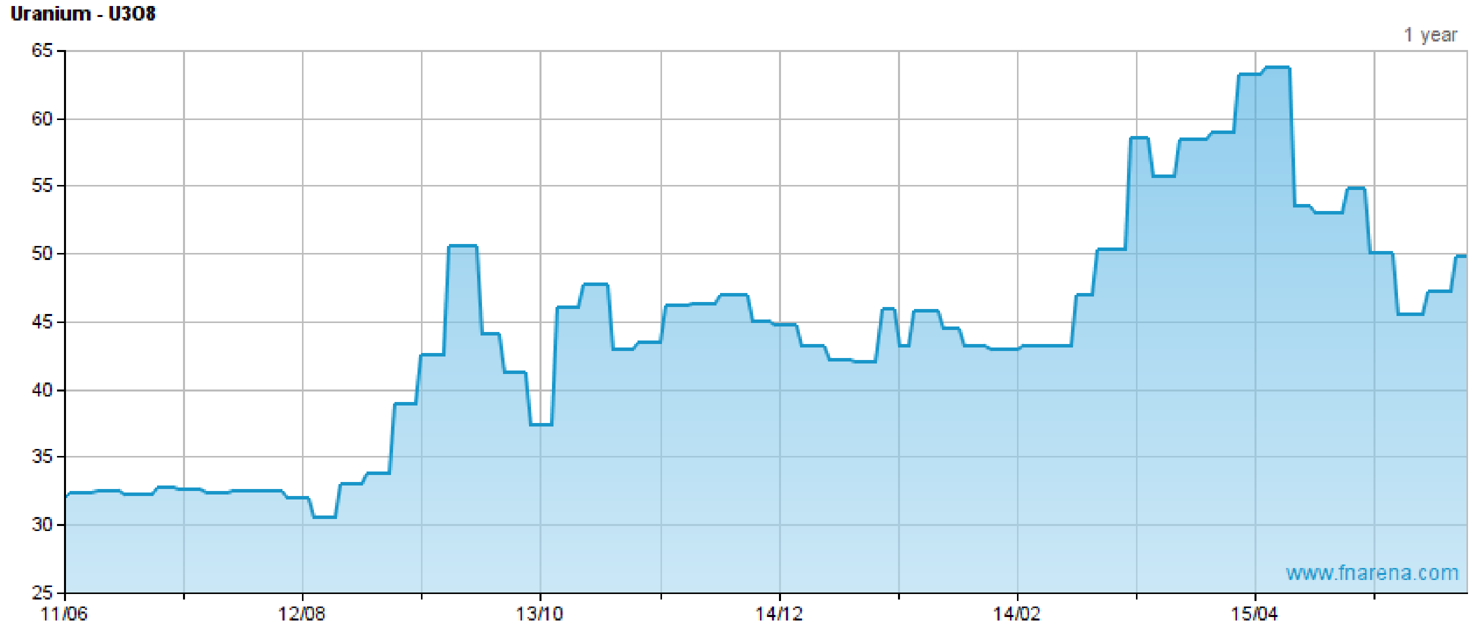
2020, and 23% (US$9.70) higher than last year's equivalent at US$42.70/lb in May 2021.

The monthly increase in the PCI, which captures TradeTech's proprietary judgment of the life-of-mine full cost (C3) necessary to incentivise and support new primary uranium production, captures a combination of circumstances affecting the future supply/demand dynamic.

As for why costs are rising, it's for the same reasons the cost of everything is rising, and transports costs are a fundamental expense.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
BKY	06/06/2022	0.3500	▼- 5.41%	$0.64	$0.14			
BMN	06/06/2022	0.2200	▼- 4.35%	$0.44	$0.12			
BOE	06/06/2022	2.2300	▼- 7.00%	$3.10	$0.14		$3.200	▲43.5%
ERA	06/06/2022	0.2900	▲ 7.14%	$0.58	$0.25			
PDN	06/06/2022	0.7400	▼- 6.25%	$1.12	$0.41	-78.3	$1.000	▲35.1%
PEN	06/06/2022	0.1800	▲ 5.56%	$0.35	$0.12			
VMY	06/06/2022	0.2000	▼- 5.00%	$0.33	$0.09			



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WEEKLY REPORTS

The Short Report - 09 Jun 2022

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

Summary:

By Greg Peel

Week Ending June 2, 2022.

Last week the ups and downs of the ASX200 continued, as the index began the week at 7105, hit 7286, and closed the week at 7175.

Volatility over the week largely tracked Wall Street, and for tech stocks in particular, the Nasdaq.

I highlight tech stocks because the only change in short position of note last week was that of Dubber Corp ((DUB)), which fell out of the 5%-plus table from 6.5% the week before.

Outside of Dubber, movements shown below are mostly of stocks bouncing around between brackets.

Dubber operates an international cloud-based unified call recording and audio asset management platform. There had been no recent news out of the company before this week and the only FNArena database broker to cover the stocks – UBS – has been silent since March. Yet the share price jumped up to a peak in May of $1.10, and as at the end of our week in question was at $0.72.

Dubber has since issued a trading update, highlighting third quarter revenue growth of 40%, or 83% inclusive of acquisitions. However, these numbers are lower than stockbroker Sequoia had forecast, and the broker also noted costs are rising a lot faster than anticipated. To that end Sequoia has cut its revenue forecasts, lowered its target price to $1.05 from $4.50 -- yes, $4.50 -- and downgraded its rating to Hold (High Risk) from Buy.

As a company still in its development phase, and thus still in a cash burn phase, Dubber has been whipped around with the rest of the volatile tech growth stock brigade, which is currently under pressure from Fed policy aggression, and as of this week, RBA aggression.

It appears the shorters took some profits last week.

Weekly short positions as a percentage of market cap:

10%+
FLT 17.1
BET 13.8
NAN 12.2
PNV 11.4

No changes

9.0-9.9

WEB, APX

Out: KGN, AMA

8.0-8.9%

KGN, SQ2, RRL, EML, ING, AMA, MSB, ZIP

In: KGN, AMA

7.0-7.9%

PBH, OBL, CUV

No changes

6.0-6.9%

PDN, VUL, MP1, NEA, NHC, TYR

In: NHC Out: DUB

5.0-5.9%

IEL, MFG, IMU, CCX, TPW, PNI, ANN, ASM, PME, A2M, BOQ, BGL

In: BGL Out: NHC, ADH, DEG, CHN

Movers & Shakers

Nothing further this week.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.2	0.3	NAB	0.4	0.7
ANZ	0.5	0.6	NCM	0.6	0.8
BHP	0.3	0.2	RIO	0.5	0.6
CBA	0.5	0.6	STO	0.2	0.2
COL	0.5	0.5	TCL	0.8	0.9
CSL	0.2	0.2	TLS	0.2	0.2
FMG	1.1	1.4	WBC	1.2	1.5
GMG	0.9	0.5	WDS	1.6	3.8
JHX	0.2	0.4	WES	0.4	0.5
MQG	0.6	0.4	WOW	0.4	0.3

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

In Brief: Retail Stocks, Supermarkets, Platform Providers, BNPL & The Australian Economy

Weekly Broker Wrap: preferred retail stocks, the favoured supermarket, platform providers, new BNPL entrant & the Australian economy.

-Retail stocks for a higher cost environment
-Time to buy Woolworths?
-Term deposit rates lift cash margins for platform providers
-Apple's move into BNPL
-Impact of rising interest rates on the Australian economy

By Mark Woodruff

Retail stocks for a higher cost environment

Following discussions with a leading freight forwarder, **Jarden extends its timeline for ongoing supply chain pressures into 2024.**

Furthermore, the broker assesses upside risk to its peak Australian inflation rate forecast of 6% year-on-year. Having originally anticipated a decline back toward 3% over 2023, higher-for-longer inflation is now anticipated.

The next three to four months will be challenging, suggest the analysts, as impacts on global shipping from backlogs caused by China's covid-zero policy and lockdowns are digested.

While supply chain challenges are unlikely to ease, at least global shipping freight costs have stabilised, notes the broker. However, surging energy costs have resulted in higher fuel surcharges for both ocean cargo and road freight.

As a result of higher transportation costs going forward, Jarden suggests importers will have to adjust margins where possible. Thus, **retail companies with either defensive characteristics or pricing power are preferred** including Coles Group ((COL)), Metcash ((MTS)), Woolworths Group ((WOW)), Endeavour Group ((EDV)), Costa Group ((CGC)) and Treasury Wine Estates ((TWE)).

The broker also likes Qube Holdings ((QUB)) within its Transport sector coverage, as the protracted demand environment is likely to be supportive for freight and container volumes. Additionally, the company's near-term earnings margins are expected to be insulated by a variety of covid-19 and cost-related surcharges.

Time to buy Woolworths?

Industry-wide checks by Goldman Sachs reveal that recent price hikes have not caused any drop-off in supermarket volumes, and only a limited shift to value by consumers.

This solid undertone adds to **the allure of Woolworths, after a recent share price fall, suggests the broker. This at a time when the group has its lowest valuation premium versus Coles since the latter was spun out from Wesfarmers ((WES)) in 2018.**

Key suppliers and industry participants generally agree Woolworths is the superior operator by a sizeable margin, and Goldman Sachs notes the company is also a stand-out in the online channel in terms of market share.

The broker feels several years will elapse before Coles even has the capabilities to compete online, especially where the volume of its consumer data and advancement in data analytics are concerned. Woolworths and Wesfarmers have jumped ahead in this regard by setting up Woolies X and OneDigital, respectively, as central digital divisions.

Nonetheless, consumers have a greater value perception of Coles, according to the analysts, which may insulate the company's growth should consumers trade down.

Goldman Sachs has a Buy rating for Woolworths, with material potential upside to its $41.70 target price, while Coles is Neutral-rated with a $17.20 target.

Term deposit rates lift cash margins for platform providers

Citi expects **increased earnings from higher cash rates for the platform deposits of Netwealth ((NWL)) and Hub24 ((HUB)) will trump any downside from ongoing flow weakness** related to current market volatility. This comes as term deposit rates have increased by around 50 basis points in recent months.

However, both companies utilise ANZ Bank ((ANZ)) to manage their cash, and the major banks have only increased rates by 10bps in the term deposit market, due to excess balance sheet funding. This compares to 60-90bps for regional and branchless banks.

Moreover, ANZ currently offers the lowest term deposit rates in the market. A higher rate for platform cash deposits could be achieved, note the analysts, should the companies entertain interest from other banks.

In the meantime, an increase in bank funding costs suggests upside to the broker's cash margin assumptions, with a 10bps increase for Buy-rated Netwealth and Neutral-rated Hub24 estimated to lift profit by 4% and 7%, respectively.

Apple's move into BNPL

Morgan Stanley believes the primary market for BNPL providers is consumers with more limited access to traditional credit options. The aim is to offer a full suite of banking services, once the consumers mature into more fully established customers.

Based on this view, the analysts believe **the impact of Apple's newly announced Apple Pay Later (BNPL service for US customers) is limited by Apple's customer demographic.** It's felt customers have a higher income and are better banked than those that have gravitated to US-based Affirm and the Afterpay offering from Block ((SQ2)).

The new service will be available everywhere Apple Pay is accepted in the US (both online or in-app). In offering four equal instalments without incurring interest or late fees, the service most closely resembles Afterpay, suggests the broker.

The service will only bring incremental competition to the industry, according to the analysts, who maintain a preference for the wider offering from Affirm.

Separately, Apple stated its Tap to Pay feature for merchants will be available starting this month.

Counterintuitively, Morgan Stanley predicts this will benefit Block's seller business called Square, as merchants using this tap to pay feature will still require a merchant account to accept payments.

Impact of rising interest rates on the Australian economy

In research released just prior to this week's 50 basis point RBA rate hike, **JP Morgan pointed to a reduced risk that rising interest rates in Australia will prove too restrictive, as labour costs remain benign and fiscal capacity is underpinned by surging terms of trade.**

Nonetheless, an important caveat to the broker's view is significantly higher wholesale electricity and gas prices, which are yet to be recognised in household bills. When this occurs, there's considered potential for a more cautious consumer and/or a higher reset for inflationary expectations.

Household utility costs are one of the largest contributors to inflation, and the transmission of these costs to the CPI readout has the furthest left to run, according to the broker.

More positively, the analysts note unit labour costs have fallen -6% since the start of the pandemic. It's estimated wages growth of greater than 3% (currently 2.4%) would be required to create significant labour-cost frictions, as productivity is running at nearly triple its usual pace.

By starting the rate hike cycle, the RBA inverted its own wage-based framework, explained JP Morgan, as it's now assumed labour costs will reach certain targets and inflation is expected to drive higher wages, as opposed to the opposite. Thus, stronger productivity growth becomes a reason to expect more elevated wage growth in the future.

The same forces driving rising interest rates also insulate a commodity producing economy, according to the broker. Hence, the impact of rising interest rates has been reduced by the potential upside to government revenues from Australia's terms of trade.

In short, the longer iron ore and coal prices hold around current levels, the greater the likelihood of further fiscal easing, concludes JP Morgan.

SMSFUNDAMENTALS

SMSFundamentals: SMAs Hot, Retail Funds Not

The financial services landscape in Australia is changing with recent research showing a swing toward not-for-profit funds, while the popularity of managed accounts continues to rise.

-Australia experiences swing toward not-for-profit funds
-Ongoing rapid growth for managed accounts
-The importance of choosing an investment style

By Mark Woodruff

The swing toward not-for-profit funds

The retirement superannuation market in Australia has seen a major shift toward not-for-profit (NFP) funds, away from retail funds.

Analysis by Rainmaker International, a provider of research and information about the Australian financial services industry, shows NFP funds held 57% of all retiree funds under management (FUM) as at June 2021, while retail funds held 43%, down from 66% in 2015.

Attractions of the NFP funds include traditionally lower fees and simpler products, as well as significant performance benefits (which have evened out more recently), explains Alex Dunnin from Rainmaker.

The research company defines retirees as super fund members aged 65 or older. While retirees hold just one in ten member accounts, high superannuation balances explain how so few accounts comprise around one-quarter of the total money managed by super funds.

As two-thirds of all fees paid by fund members through their entire superannuation life will be spent after retirement, the retiree segment is the most lucrative for wealth management services providers that operate superannuation funds.

The ten largest funds in terms of retiree FUM account for two thirds of the market. The five largest funds for retirement superannuation are:

Fund	Retiree FUM ($b)	Retiree FUM (%)	Sector
Colonial First State	46.96	43.7	Retail
AustralianSuper	45.39	19.6%	NFP
Aware Super	40.59	27.7%	NFP
Australian Retirement Trust	39.79	18.7%	NFP
Commonwealth Superannuation Scheme	39.12	63.5%	NFP

Managed accounts platforms within Australia's platform market

Following an analysis of data released by the Institute of Managed Account Professionals (IMAP) industry association, Rainmaker notes **managed account platforms have continued their rapid growth.**

Funds under administration (FUA) have increased by almost 50% per year in the last three years alone. In 2021, there was an 81% increase in FUA, fueled by strong market returns, inflows and platforms restructuring to include managed accounts functionality, reports the researcher.

Were it not for managed accounts, FUA on financial platforms would be growing at only half the current rate, with Rainmaker research showing the entire platform market in Australia is now holding $876bn, up from $721bn at 31 December, 2021.

While the share of managed accounts in the wrap platform segment had ballooned to 85% from 10% between December 2017 and 2021, Rainmaker notes a large part of the managed account growth was due to the migration of the BT Wrap platform onto BT Panorama in 2021.

Drilling down into the managed accounts market at the end of 2021, Rainmaker notes **separately managed accounts (SMA's), an investment option also known as model portfolios**, had a 52% market share.

These SMA's are exhibiting double the growth of **managed discretionary accounts (MDA's),** which are bespoke managed accounts assembled for exclusive use by financial planning groups and their private clients.

Rainmaker's Dunnin explains, "SMAs are taking over from MDAs because they are easier for financial advisers to offer to their clients, requiring less complex regulation".

MDA's had a 40% market share, while the 8% balance related to investor-directed portfolio services (IDPS) wrap investment schemes.

The importance of style, when choosing your superfund

As measured by the MSCI World style indices, the first two months of 2022 combined exhibited the largest historical outperformance of the Value style of investing over the Growth style.

After conditions conducive to Growth over the last number of years, Rainmaker Information attributes the swing toward Value to inflationary concerns combined with the Russia/Ukraine conflict.

Following analysis of results earned by international equities options in super funds, John Dyall, Rainmaker's head of investment research, points out that **"leaning into one investment style over another has real world consequences for super fund members, particularly when market investment styles change direction."**

Rainmaker defines Value investing as a style adopted by portfolio managers who prefer to carefully pick and choose the stocks into which they invest based on detailed company specific analysis. This contrasts with Growth investing that is reliant upon market momentum for companies with fast rising share prices in an upbeat expanding economy.

Dyall suggests "Super funds that persevere with the wrong investment style, or that are too slow to adapt to changing investment style market conditions, could be costing the superannuation funds, and their fund members many millions of dollars in foregone investment returns."

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

TREASURE CHEST

Treasure Chest: Woodside, One Of The Best?

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. Morgan Stanley believes the new Woodside Energy is one of the world's best plays on gas.

Whose Idea Is It?

Morgan Stanley

The subject:

Woodside Energy ((WDS))

The Argument:

In June of 2014, Brent crude oil was trading at US$114/bbl. By January 2016 it was down to US$28/bbl. One of the biggest oil price collapses in history resulted from a global oversupply, driven by a technology-led rise in fracking which unlocked an abundance of shale oil.

Many a marginal oil producer did not survive the collapse. Investment in oil production dried up. By 2018 the price was back at US$84/bbl but had fallen to US$70/bbl as the world entered 2020, and then locked down. In March Brent dropped below US$20/bbl.

The rebound was swift. As covid restrictions began to ease, demand met supply that was further limited by an ESG groundswell that led investors to shy away from the sector, and exacerbated by OPEC production cuts implemented to drive prices higher. Brent had recovered to US$92/bbl when Russia invaded Ukraine.

Throughout the ups and downs, Woodside Petroleum was Australia’s biggest pure energy company by a margin, with the focus in Australia squarely on LNG production. LNG prices are linked to oil prices. When Santos ((STO)) merged will Oil Search, Australia had two very large global oil companies. When Woodside merged with BHP Group’s ((BHP)) Petroleum division, the newly named Woodside Energy became bigger still.

Russia’s invasion has driven Europe to seek alternative sources of energy, particularly gas, which conveniently crosses the continent from Russia through pipelines. Russia had been supplying some 40% of Europe’s gas consumption. Even if the war were to end tomorrow, Europe’s push to diversify its energy supply to the point of cutting off Russia altogether will continue until it is complete.

To achieve this Europe must look to alternative/renewable energy sources, but that transition will take time. Right now, Europe needs seaborne LNG. As there is not enough LNG being produced in the world to fill the hole, cargoes will need to be diverted from the current dominant buyer – Asia. Gas prices will thus remain higher for longer.

To that end, Morgan Stanley believes Woodside is in the box seat. The broker suggests the market is underestimating the cash flows the new Woodside Energy will generate, and then distribute to shareholders.

Woodside has underperformed its global peers on a year to date, one year and two year basis. There have been two issues holding investors back – a weak balance sheet, and concerns over insufficient returns from the company's significant Scarborough LNG project. But with the merger complete, the balance sheet is now reset (BHP shareholders received Woodside scrip), and given the current LNG price profile, as well as cost cutting at the project, Scarborough returns are no longer an issue.

Moreover, Scarborough still has some 50% of its volumes to sell. And Woodside has also for years been sitting on another huge but as yet untapped gas field, being Browse.

Given Woodside's leverage to rising oil and gas prices is on par with the best in the global sector, Morgan Stanley believes Woodside is one of the best global plays on gas.

Morgan Stanley had been advising on the merger but this week resumed coverage of the stock, with an Overweight rating and $40 price target. The highest target among FNArena database brokers was previously $34.37 from Credit Suisse (Outperform).

Macquarie also updated its views this week following the merger completion. Macquarie is more sanguine, suggesting the stronger balance sheet *should* provide growth impetus in the traditional as well as the clean energy sector (in which Woodside also has aspirations), but believes the company must guard its balance sheet in order to preserve funding for deepwater growth projects in the Americas.

If oil price strength persists over the next 6-12 months then Woodside is expected to be in a better position to *assess* whether surplus capital exists. Macquarie retains a Neutral rating and $29 target.

By contrast, Morgan Stanley believes Woodside could generate US$40bn in free cash flow – more than its market cap – by 2030 based on forward energy prices, rising to US$75bn if current spot price levels persist. That includes US$5bn to be spent on new energy transition opportunities. The broker forecasts US$20bn will be paid out in dividends over the coming decade, leaving US$20bn for reinvestment in growth and energy diversity, and to pursue further capital management.

Morgan Stanley forecasts a dividend yield of 10-12% over the next few years, assuming energy prices remain elevated.

Morgans (Add) suggests, at least, that its expectations for Woodside dividends have improved with a stronger balance sheet.

UBS expects the company will continue to offer an attractive dividend over the next two years but maintains a Neutral rating.

With Ord Minnett also on restriction, and yet to resume coverage, the FNArena database shows three Buy or equivalent and three Hold ratings, for a consensus price target of $32.90 which, as it happens, is right where the share price is at the time of writing.

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

RUDI'S VIEWS

Rudi's View: Woodside, Webjet, Lendlease, Goodman Group & The Lottery Corp

In this week's Weekly Insights:

-Recession? The Other Type
-Here Endeth The Housing Bull Market
-Dividends For Mum?
-Conviction Calls
-FNArena Talks
-Behind The Curve On Climate

By Rudi Filapek-Vandyck, Editor FNArena

Recession? The Other Type

Market strategists at Morgan Stanley remain of the view that equities in the US will end up at lower levels before investors can comfortably assume a bottom has been established in this cycle of unwinding and de-rating after years of central bank largesse and exceptionally low bond yields.

And while lots of debates are being held about whether economies in the US, China and elsewhere might be heading towards an economic recession, Morgan Stanley makes the point there is that other type of recession -in corporate earnings- that might prove more important for equity markets in the weeks/months ahead.

"*...we need to distinguish a potential profits recession from an economic one. Regarding the former, odds are growing that sequential profit growth has peaked and will turn negative at least for a few quarters, as inventory levels normalize and costs stabilize from all-time high margins*".

Viewed from an Australian point of view, I certainly sympathise with that approach. Unless we are now underestimating the true pain among Australian households, and what is yet to come through on the back of RBA tightening, the Australian economy should not face an economic recession this year or next.

But corporate earnings are what ultimately decides which stocks are cheap and which ones are still expensive, and that cycle is definitely turning in 2022. See also 'more to read' further below.

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Recent research by **JP Morgan** focused on the ability of corporate Australia to maintain margins throughout a time of cost pressures and rising funding costs. One of the conclusions drawn is the key grocery names on the ASX -- Coles ((COL)), Metcash ((MTS)) and Woolworths ((WOW)) -- should be able to maintain the margins enjoyed during the pandemic era.

But there are several companies that enjoyed a margin windfall that is now coming under closer scrutiny. Question marks are rising for Ansell ((ANN)), Carsales ((CAR)), Premier Investments ((PMV)) and Super Retail ((SUL)).

On a more positive note, JP Morgan's analysis also suggests multiple so-called covid-winners should be able to at least maintain their margin, if not increase margin post-pandemic.

These companies include CSL ((CSL)), Healius ((HLS)), JB Hi-Fi ((JBH)), James Hardie ((JHX)), Nine Entertainment ((NEC)), Steadfast Group ((SDF)), and Seek ((SEK)).

And when it comes to identifying covid-losers who should see a margin recovery, the research points at Corporate Travel Management ((CTD)), Crown Resorts ((CWN)), Flight Centre ((FLT)), Monadelphous ((MND)), and Qantas Airways ((QAN)).

Back to Morgan Stanley where positive expectations are warming up for the final quarter of the running calendar year (don't say all is lost too early!):

"*We sense not only are we passing "peak Fed" but that more positive catalysts will arrive by the fourth quarter as inflation decelerates, China stimulus accelerates and the US midterm election campaigns heat up.*"

More Reading:

-Quo Vadis, Corporate Profits?
https://www.fnarena.com/index.php/2022/06/02/rudis-view-quo-vadis-corporate-profits/

-Don't Fight The Fed: https://www.fnarena.com/index.php/2022/05/26/rudis-view-dont-fight-the-fed/

-Trend Is Turning For Corporate Profits:
https://www.fnarena.com/index.php/2022/05/12/trend-is-turning-for-corporate-profits/

-A Bear Market Anomaly That Confuses:
https://www.fnarena.com/index.php/2022/05/05/rudis-view-a-bear-market-anomaly-that-confuses/

-Peter's Portfolio Reviewed:
https://www.fnarena.com/index.php/2022/04/13/rudis-view-peters-portfolio-reviewed/

-2022, The Big Adjustment:
https://www.fnarena.com/index.php/2022/02/17/rudis-view-2022-the-big-adjustment/

Here Endeth The Housing Bull Market

As the saying goes, life has a few certainties we can all rely upon. We will all die, at some point, and pay tax - even though we may wish otherwise.

And as the RBA, in line with other central banks, hikes interest rates and effectively makes borrowing and the price of money more expensive, the up-trend in domestic property prices comes to an end, with follow-though impact for household spending and the broader economy in general.

What might feel uncomfortable to some is the fact the RBA has only just started and Sydney house prices have already clocked off on four months of declining prices, with Melbourne now showing three months of declines. Market analysts at **Wilsons**, however, are not too worried about it.

They label the early impact "as expected".

Wilsons sees a 12-18 months process unfolding during which the general debate will concentrate on how high the RBA can/will be able to move in this tightening cycle.

Wilsons' base case scenario is for a -10% fall in housing values, possibly -15%, with the bulk of the decline showing up in 2023. As these cycle corrections seldom develop as planned, there is a chance of a greater price fall, say -20%, but the analysts add the RBA would not want to see any more weakness beyond this point lest it causes a deep recession for the Australian economy.

What makes this cycle different from the past is that household debt-to-income and house price-to-income ratios are significantly higher than in the past. While mortgages are theoretically stress tested by the banks for a rise of between 2.5% to (more recently) 3%, Wilsons is of the view Australain households cannot cope with this level of financial stress.

The key question then becomes: at what level can/should the RBA stop tightening?

Wilsons thinks today's neutral rate is around 2%, which is higher than some other expert voices who believe it could now be as low as 1.5%, but certainly not as high as indicated by the local bond market where forward indications through the futures market are signalling a cash rate of 3.5% next year.

Among the proponents of 'tell them they're dreaming, the local cash rate is unlikely to move past 1.50%' is the local team of fixed interest specialists responsible for managing the Absolute Return Bond Fund at Franklin Templeton. In a press release last week, the team warned that

"*The monetary action being taken right now will manifest itself in significantly weaker growth over the coming 12 months. The extent of monetary policy will be a determining factor*."

Even if its own 1.5% cut-off proves too low, there remains plenty of conviction at Franklin Templeton RBA tightening won't be nearly as aggressive as implied by Australian government bonds.

Whatever the case, Wilsons believes the secular decline in mortgage rates is now *kaput*, *finito*, over and done - with major consequences for the pricing of properties.

While the projected house price decline will not go on indefinitely, Wilsons still maintains property investors should expect a much more benign outlook once the current tigthening cycle has run its course.

Dividends For Mum?

A suggestion via email that would make a lot of sense most times and under most circumstances:

"*My Mum is a pensioner and she has about $100,000 in the bank. She has no debt and owns her own home. I suggested to her that if she puts some money, say $50,000, in shares, say a bank share, she would get better income and also get some franking credits if she lodged a tax return*."

What do I think? Don't do it.

The last thing you want to be doing is having to explain to your mum why that fabulous idea of yours has shrunk her capital. While I sympathise with the underlying premise, and I would agree under most scenarios and circumstances, (still) mounting risks in 2022 mean the preferred option here should be for your mum to wait and see what exactly will transpire over the months ahead.

Maybe revisit your idea by early next year and see whether the share market by then carries less risks. Money lost is just that, and your mum is not in a position to make up for it otherwise.

When the overall risk has receded, I suggest pick an ETF with high yield, and franking on top. No need to leave your mum's hard earned money exposed to single-company risk.

Things will become better (less risky), but it won't happen overnight, or next week, or even next month. Be patient.

Conviction Calls

A deep dive into ASX-listed REITs amidst rising bond yields (RBA is in hiking mode) and slowing economic growth has led **Macquarie** analysts to the conclusion that investors should not treat this sector with a one-size-fits-all approach.

Slowing economic growth is likely to create more vacancies for Offices, for example, while pressure on household budgets should translate into headwinds for Retail assets. Meanwhile, long WALE assets have been highly priced, argues Macquarie, and this represents its own type of risk.

Rising bond yields on the back of tightening central banks do pose serious headwinds for the sector, as it is one of the most obvious bond-proxies on the ASX, but Macquarie points out most listed REITs are already trading at a serious discount to Net Tangible Assets (NTA) valuation, and there are lots of offsetting features, sometimes REIT-specific.

Were balance sheet weakness to become an issue, Macquarie points at Scentre Group ((SCG)) and Unibail-Rodamco-Westfield ((URW)) as most at risk. It'll become more difficult for funds managers, such as Goodman Group ((GMG)) and Charter Hall ((CHC)) to outperform market expectations from here onwards, and margins for your typical developers are most likely at risk; think Lendlease ((LLC)) and Mirvac Group ((MGR)), among others.

On the positive side, Macquarie reports five REITs screen positively while also carrying an Outperform rating from the broker; Abacus Property Group ((ABP)), Centuria Industrial REIT ((CIP)), HealthCo Healthcare & Wellness REIT ((HCW)), Dexus ((DXS)), and GPT Group ((GPT)).

P.S. WALE = weighted average lease expiry and your typical representative on the ASX would be Charter Hall long WALE REIT ((CLW)).

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Emerging Companies analysts at JP Morgan, a fancy way of saying we focus our attention on small cap companies, have nominated Iress ((IRE)) as their current Top Pick.

Least preferred, or Bottom Pick, is Flight Centre ((FLT)).

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JP Morgan's Model Portfolio has sold out of AGL Energy ((AGL)) and replaced Dexus ((DXS)) with Lendlease ((LLC)), while adjusting relative exposures to Woodside Energy ((WDS)) and BHP Group ((BHP)) following the spin-off of the latter's Petroleum division into the former.

An Overweight exposure to financials has led the portfolio to underperform in May.

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The duo of software enthusiasts -"passionate" on their own account- at **Shaw and Partners** remains of the view investors are too bearish on local software companies.

Their Top Picks for the sector in Australia remain Whispir ((WSP)), Gentrack Group ((GTK)), Keypath Education International ((KED)), Elmo Software ((ELO)), and Readytech Holdings ((RDY)).

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Citi analysts responsible for researching **consumer-oriented stocks in Australia** believe the no love approach from investors thus far this year has gone way too far.

One of the central conclusions that underpins that view is Citi's conviction that Australian households have plenty of scope to reduce their rate of saving in response to cost of living and interest rate pressures.

On that basis, Buy ratings remain in place for discretionary retailers Bapcor ((BAP)), Super Retail Group, Premier Investments, Baby Bunting ((BBN)), and Harvey Norman ((HVN)).

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A most interesting research update has been released by the **precious metals team at UBS**, which has decided to pull back gold price forecasts on increased competition from quality credit, positive US real rates and market sentiment overall improving.

UBS recommends "investors who hold gold as a long-term hedge not to add or build up exposure, but we also advise adding some downside protection for 2H".

As far as forecasts go, UBS has now penciled in US$1,800/oz for end-September, from US$1,850 previously, and US$1,700/oz for end-2022, from US$1,800, while the forecast is for a gold price of US$1,700/oz by the end of June 2023.

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When the facts change, I change my mind. What do you do, Sir? This iconic quote from John Maynard Keynes would have been on the mind of market strategists Andrew Tang and Tom Sartor at stockbroker Morgans when they last reviewed their list of Best Ideas for investors in Australian equities.

Having added Aristocrat Leisure ((ALL)) and Domino's Pizza ((DMP)), the duo decided it's time to cull their list. The general risk-off sentiment among investors is likely to translate into weaker share prices for longer, while changes in analyst coverage equally had an impact.

Companies that lost their inclusion: Atlas Arteria ((ALX)), Atomos ((AMS)), Cochlear ((COH)), HealthCo Healthcare & Wellness REIT, Hub24 ((HUB)), Namoi Cotton ((NAM)), Universal Store Holdings ((UNI)), Volpara Health Technologies ((VHT)), Waypoint REIT ((WPR)), and Woodside Energy.

Bank of Queensland ((BOQ)), Panoramic Resources ((PAN)), Ramelius Resources ((RMS)) and Red 5 ((RED)) have been removed due to a change in analyst coverage.

Still on the selection are 35 **Best Ideas**, including Wesfarmers ((WES)), Macquarie Group ((MQG)), ResMed ((RMD)), BHP Group, South32 ((S32)), Santos ((STO)), Seek, IDP Education ((IEL)), NextDC ((NXT)), Nufarm ((NUF)), Lovisa Holdings ((LOV)), Pro Medicus ((PME)), Whitehaven Coal ((WHC)), Karoon Energy ((KAR)), HomeCo Daily Needs ((HDN)), TechnologyOne ((TNE)), Corporate Travel Management, and Webjet ((WEB)).

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Macquarie's Model Portfolio continues to seek solace in a barbell strategy combining overweight positions in **Resources** and in **Defensives**.

The first group includes BHP Group, South32, Woodside Energy, Newcrest Mining ((NCM)), Northern Star ((NST)), Pilbara Minerals ((PLS)), ALS Ltd ((ALQ)) and Seven Group Holdings ((SVW)).

The second group consists of Coles, Woolworths, CSL, Ramsay Health Care ((RHC)), Healius ((HLS)), Goodman Group, GPT Group, Steadfast Group ((SDF)), and The Lottery Corp ((TLC)).

The broker suggests high dividend paying resources companies will remain supported as we approach the August reporting season.

Separately, market strategists at **Wilsons** recently also made the case for adding more **Quality Defensives** to investment portfolios.

In line with this view, investors are being guided towards CSL, APA Group ((APA)), Transurban Group ((TCL)), Insurance Australia Group (IAG)), Medibank Private ((MPL)), Suncorp Group ((SUN)), Brambles ((BXB)), Goodman Group, Amcor ((AMC)), Orora ((ORA)), Coles Group, Metcash, Woolworths, and Telstra ((TLS)).

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Barrenjoey equity strategist Damien Boey remains convinced markets are approaching peak inflation angst, which should translate into moderating discomfort and a peak in bond yields too.

As the Federal Reserve continues to hike by 50 basis points at each upcoming meeting, calls for the central bank still operating behind the curve will find less and less acceptance, the strategist surmises.

Boey suggests investors should position for peak rates volatility and slowing growth. His personal favourite quant exposures are **Quality** and **anti-momentum**.

FNArena Talks

Peter Switzer decided it was "the greatest interview with Rudi on the big issues around investing". It lasted around 26 minutes and the video is available via Youtube:

https://www.youtube.com/watch?v=RyH_Fny55HI&t=2015s

In addition, I will be presenting at the upcoming Australian Gold Conference in Sydney, June 14 &15. I am scheduled for the Wednesday afternoon:

https://www.goldevents.com.au/

Behind The Curve On Climate

Last week, I had the privilege of attending an off the cuff, frank and no-holds-barred meeting with **abrdn chief economist Jeremy Lawson**, who in previous roles served the RBA, the OECD and then-prime minister Kevin Rudd.

Lawson made no bones about it: the world is well past the point whereby the general increase in temperature can still be limited to 1.5 degrees Celsius. Despite all the political rhetoric, the ESG trend and general mood-shifts in the electorate, it will not get better from here onwards.

It is his view Australia can serve as an example of why the global energy transition cannot progress rapidly enough as governments, at all levels, grapple with how to migrate away from fossil fuels without leaving dependent local communities in the lurch.

So what should we then prepare for? Should we still prepare for anything?

Lawson has developed a habit of asking the room of attendees what they think the ultimate increase in temperatue might look like. Answers usually vary between three to four degrees Celsius. Note: the audience usually consists of professional investors and asset allocators.

Oddly enough, it is this pessimism that feeds into Lawson's optimism the world will eventually find a way to prevent such an outcome, which would be disastrous for the climate as we know it today.

Lawson is a non-believer in carbon capture and storage (CCS) but he does see plenty of potential in newly developed and developing technologies. Ultimately, any success will be dependent on governments' willingness, and ability, to cut through short-term political cycles, is his view.

For investment firms such as abrdn, the challenge comes down to deciphering which of the traditional, 'old economy' companies are genuinely embarking on strategies to reduce carbon emissions and which ones are merely delivering lip service. Lots of selling porkies, smoke-and-mirrors tactics and hoping for the best going on at the moment, as one would expect.

When asked the question back, Lawson stated he was hopeful the world can manage to limit the global temperature increase to 2.25C.

(This story was written on Monday 6th June, 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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- Make Risk Your Friend. Finding All-Weather Performers, January 2013 (The rationale behind investing in stocks that perform irrespective of the overall investment climate)
- Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection)
- Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow.
- Who's Afraid Of The Big Bad Bear? eBook and Book (print) available through Amazon and other channels. Your chance to relive 2016, and become a wiser investor along the way.

Subscriptions cost $450 (incl GST) for twelve months or $250 for six and can be purchased here (depending on your status, a subscription to FNArena might be tax deductible):
https://www.fnarena.com/index.php/sign-up/

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