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# Stories To Read From FNArena

## Friday, 2 March 2018

FNArena  
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Analysis

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## Unprecedented Demand For NextDC Centres

Brokers hail a record first half and anticipate robust demand for NextDC's data centres will continue.

-Contracted utilisation up strongly, largely related to S2 pre-sold space -Could be an attractive takeover target for large international peer -Rising electricity costs could temper second half margins

By Eva Brocklehurst

Brokers were impressed with the first half results from NextDC ((NXT)) amid signs of robust demand. The result was solid across all areas, featuring strong revenue growth, solid pricing and margin expansion.

The company has upgraded guidance by only 3%, which implies softer second half earnings by Macquarie's calculations, as first half earnings of \$33.6m are, at the mid point, 55% of the full year guided outcome.

Sales records were set in the first half and Morgans suggests it is entirely possible that this could be repeated in the second half. Moreover, even after bringing forward costs associated with growth projects into the second half the company has still been able to upgrade guidance.

Contracted utilisation as of December 2017 was 39.2MW, up 7.7MW. Of this increase, 5.4MW related to pre-sold space in Sydney's second data centre (S2), scheduled for completion in FY19. Customer numbers were up 25% and interconnections rose 36%.

Citi observes the company is not sacrificing price for volume, which bodes well for earnings growth. The broker also points out, while the outlook is most encouraging and constructive, large-scale deployment by clients takes time and patience is still required.

M1, S1 and B1 are effectively full and growth in FY19-20 will be largely driven by M2, Macquarie notes, given the delayed ramp up to operations at S2. Contracted utilisation at M2 the end of the first half was 0.3 MW of the 40 MW planned capacity, which signals no large deals have yet been signed.

In contrast, S2 has already received more pre-sales and only opens in the first half of FY19. Morgans was impressed by the pace at which S2 is being contracted, as already 18% is sold despite the centre not yet being built. The stock is a high-quality growth company but, after a strong rally in the share price, the broker moves to Hold from Add for now.

The stock is a multi-year story about structural change, UBS asserts and, while the share price has had a strong run, the positive upside risk suggests a Buy rating remains warranted. The broker is now more confident around the stability of earnings.

Following the capital raising in September, analysis suggests the company can fund, via debt, the remaining expansion of the M2, B2 and S2. Moreover, UBS does not believe increasing the supply of data centres will result in prices deflating over the next five years.

The broker estimates that less than 20% of the required capacity has shifted to outsourced data centres and the adoption of cloud technology is likely to increase this demand.

CLSA's concerns around pricing pressures were alleviated with the growth in annualised revenue per MW in the half, and this was mainly because of the shift to enterprise from wholesale customers.

Around 53% of the company's customers are enterprises and this is expected to continue because of the increasing adoption of hybrid cloud - where customers deploy their own private cloud in addition to the mainstream public cloud.

Further interconnections should also support higher prices in the medium term. The broker likes the stock, fundamentally, but finds there is insufficient upside to justify a Buy rating. CLSA, not one of the eight stockbrokers monitored daily on the FNArena database, has an Outperform rating and \$7.55 target.

Canaccord Genuity, also not one of the eight, expects solid cash flow will be locked in over the next year and the new data centres that are ramping up should provide the momentum. Accordingly, the broker upgrades to Buy from Hold. Target is \$7.40.

### Target?

Over the long-term, Credit Suisse expects consolidation in the data centre space to accelerate as demand increasingly skews towards large cloud players. NextDC would be an obvious strategic target for a large international operator that is looking to expand its Australian/APAC footprint.

The broker does not believe interest from financial sponsors would be forthcoming, because of the development risk and the negative near-term cash flow.

Macquarie also suspects the potential for corporate activity could provide a floor beneath the share price, noting that the stock is trading at around a 70% premium to international peers on an FY18 and FY19 enterprise value/operating earnings (EBITDA) basis.

### Power

Increased power costs are starting to flow through to larger wholesale customers and Macquarie suspects rising electricity costs and ramping up of the costs for the generation 2 centres will likely temper second half margins. The net impact of rising electricity costs was around 5% of total direct costs in the first half and this is expected to increase in the second half.

FNArena's database shows four Buy ratings and three Hold. The consensus target is \$7.06, suggesting 1.9% upside to the last share price. This compares with \$6.03 ahead of the results.

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## Ardent Leisure Slowly Turning Positive

Brokers are increasingly more positive about Ardent Leisure as the company slowly turns around its business.

-Theme parks discounting expected to end -Increased confidence in Main Event with new CEO at helm -Strong sale price for bowling division a welcome outcome

By Eva Brocklehurst

Ardent Leisure ((AAD)) sustained positive earnings momentum for both Main Event and theme parks in the first half and encouraging trends continue into 2018. So far, brokers welcome the early signs that management is achieving a turnaround.

Credit Suisse points out positive developments such as sales growth at Main Event, a new well-credentialled CEO and improving trends at Dreamworld, as well as a reduction in corporate costs that has been faster than forecast.

By the end of FY18 the company should be in a net cash position. The broker suspects the Main Event business has bottomed and the company is facing consecutive quarters of growth. Importantly, the situation is not getting worse.

Moreover, UBS notes the accounts in the first half were cleaner than at any time in recent memory, as the company reduced the number of recurring "one-offs".

Ord Minnett upgrades to Hold from Lighten, based on valuation. The broker can envisage why investors would be positive about the stock as, potentially, a high valuation can be constructed several years hence, assuming theme parks are restored to previous levels of profitability and Main Event is optimised and returns to growth.

Notwithstanding some necessary expenditure to revive Dreamworld, Credit Suisse observes the market structure is improving. The broker maintains an Outperform rating but notes volatility around news flow.

The stock is not considered in value territory but, given the US macro environment is improving and this has, historically at least, correlated with the performance of Main Event, the outlook should be brighter.

Citi suggests the company has demonstrated an ability to extract significant value when divesting assets, as the bowling division was recently sold at 49% above valuation.

The strong sale price for bowling is also a positive outcome, in Deutsche Bank's view. Top-line growth in Main Event is essential for the business to turn around, the broker asserts, while the theme park recovery may take more time.

### Theme Parks

Theme Park revenue is up 56% from December to February. The company now expects FY18 attendance levels at theme parks to be 74% of FY16 levels, versus prior assumptions of 84%. The company's confirmation of a slower turnaround are in line with Citi's suspicion that previous calls for a two-year turnaround were optimistic.

The company has indicated it intends to invest in its theme parks, noting improved attendance is a function of all rides now being operational after longer-than-usual maintenance programs.

Despite plans to increase investment in theme parks, given Ardent Leisure has historically under invested in comparison with rival Village Roadshow ((VRL)), the company has indicated it does not want to enter a capital expenditure war.

Citi expects discounting at the Gold Coast theme parks to come to an end as Village Roadshow has indicated that there will be no further discounts and its pricing structure is rigid.

UBS suspects that, unless Dreamworld achieves substantial ticket price increases, a meaningful contribution to earnings from theme parks is not likely until FY20. Moreover, the sales process for surplus land is in early stages and unlikely to be realised before 2020.

Ardent Leisure has indicated an interest in targeting inbound tourists and recovering business. The Commonwealth Games could provide an opportunity, but Citi envisages risks from potentially disappointing season pass sales.

### Main Event



Strong sales growth at Main Event appears to have been driven by less discounting while brokers expect new centres in FY18 should outperform.

The company has appointed a new CEO of Main Event, Chris Morris. Brokers believe he has the right experience in rolling out dining brands and turning around businesses, as well as working on entertainment restaurant formats.

Main Event is planning three openings in the second half and the company expects the FY18 cohort to perform significantly better than the FY17 cohort.

FNArena's database shows two Buy ratings, four Hold and one Sell (UBS). The consensus target is \$2.01, suggesting 0.5% upside to the last share price. Targets range from \$1.75 (UBS) to \$2.35 (Citi).

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## BlueScope Steel Outlook Positive

Improved global conditions for steelmakers, and particularly in the US, support the outlook for BlueScope Steel.

-Guidance likely conservative, based on pick up in Australian demand and current US spot spreads -North Star spreads should benefit from trade action seeking to limit steel flow to the US -Strategic review to assess options for the loss-making Asian buildings business

By Eva Brocklehurst

BlueScope Steel ((BSL)) is expected to finish FY18 with a flourish, amid improved global conditions for steel spreads along with US tax reform and Chinese capacity management.

Ord Minnett suspects BlueScope management, whose guidance appeared a little soft, is trying to be careful in what is otherwise regarded as a healthy macro environment for steelmakers, particularly those with US exposure. First half results were ahead of most forecasts and guidance points to full year operating earnings (EBIT) of \$1.12bn.

Deutsche Bank believes guidance is conservative, based on the pick up in demand for Australian high-margin coated steel and current US spot spreads. Nevertheless, the broker retains a Hold rating with a view that earnings are close to peaking.

Reported earnings were boosted by a few one-off benefits, not assumed in the guidance provided in December, Credit Suisse points out. Yet the broker believes current guidance is conservative as spread assumptions for North Star are well below prevailing spot spreads.

In Asia, the building products joint venture is expected to be flat in the second half, reflecting soft project demand and selling prices that are lagging input cost increases. A stronger second half in New Zealand is expected, amid good demand and fixed steelmaking input costs.

### US Outlook

Credit Suisse notes comments around the US Section 232 proposals were necessarily circumspect. Management's general view is that North Star spreads should benefit from any trade action that seeks to limit steel flows into the US, while the US west coast coating business, SteelScape, should be no worse off.

No significant need for project capital was identified in the medium term, suggesting cash could build on the balance sheet and capital returns continue. In this context a further \$150m in buybacks was announced. Consumption of franking credits has meant the end of fully franked dividends until the tax losses at Port Kembla are consumed.

The company also wishes to maintain capacity to contemplate acquisition opportunities and is aware of a need to re-line the blast furnace in 15 years, or potentially exit commodity steelmaking in Australia.

### Australian Steel

Australian steel products were supported by a favourable product mix and price increases for Colorbond but with an adverse impact from continued dumping and strategic pricing to pipe & tube customers.

Citi envisages the Australian business requires additional focus on pricing, service levels and investment in capacity to improve domestic returns.

Australian infrastructure growth underpins strong domestic demand from the engineering sector for the company's products. Moreover, residential activity is performing well and Macquarie notes this supports high-margin Colorbond revenues. The broker points to the company's focus on returns targets and any M&A opportunities will need to clear specific hurdles.

Energy costs are a headwind, although the broker is encouraged by the fact the company was able to offset cost inflation through productivity in the first half. Macquarie believes the current guidance provides potential for upside and a supportive US macro environment should elevate spreads above current forecasts.

### Buildings Division

The company's buildings earnings more than doubled to \$34m in the first half because of a strong recovery in North America. Yet Credit Suisse believes expanding the buildings division was a strategic error that is progressively being exited to an underlying profitable core, dominated by the US. The broker suggests peripheral business could be readily excised from the portfolio.

Citi agrees an exit of the buildings business would be a good move, given sequential periods of underlying losses generated by the Asian segment. A strategic review has been announced to assess options and Citi envisages, if the company exits these businesses, a -\$15-20m underlying earnings drag would be removed.

The earnings improvement would be welcome but, even more importantly, senior management time and attention would be reclaimed. Although the macro factors are helping the outlook, Citi's long-term thesis is based on the company being properly recognised as a building materials company rather than a pure commodity steel producer.

FNArena's database shows one Hold rating (Deutsche Bank) and five Buy. The consensus target is \$17.43, signalling 6.3% upside to the last share price. This compares with \$16.03 ahead of the report. Targets range from \$15 (Deutsche Bank) to \$19 (Macquarie).

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## Costa Group's Potential Growing Rapidly

Fruit and vegetable producer Costa Group continues to broaden its geographical reach and extend the production window.

-Closer to achieving ultimate goal of a 52-week production window -Positive price momentum underpinned by strong demand from export markets -Material long-term opportunity in a fragmented market

By Eva Brocklehurst

Costa Group ((CGC)) is extending its production season and continues to expand geographically. The company acquired three avocado businesses in the first half, broadening its geographical reach to include northern NSW and adding Queensland acreage.

This extends the production season to February to December versus February to August previously. Total capital investment is \$110m and management intends to more than double farm production over the next five years.

Macquarie believes the company is a step closer to achieve its ultimate goal of a 52-week production window and this will be positive for prices and margins.

The first half result shows significant progress with profitability, driven by citrus and avocados, Ord Minnett notes, while growth options are in berries, avocados, mushrooms and the expansion internationally.

Ord Minnett increases earnings estimates by 16% for FY19 and suggests this could be revised upward as further additions to the business unfold. The broker upgrades to Accumulate from Hold and forecasts 32% net profit growth in FY18, on the back of citrus, avocados and M&A.

Citrus performed strongly in the first half but is likely to sustain a lighter crop in FY19, yet the company expects positive export pricing should reduce the negative effect that comes from citrus being in an "off" year. Positive price momentum should be sustained as there is strong demand from export markets. The company exported 75% of its citrus product in the first half.

Expansion of mushroom capacity is expected to ramp up from November 2019. The time frame has been pushed out to allow for new compost preparation technology and a retrofit of the existing site.

### Risk

As well as what is visibly available to deliver growth, the company is diversifying production and the main risk, in Ord Minnett's view, is pricing. Nevertheless, management envisages supply will tighten for the majority of its products and this means the risks may be to the upside.

UBS also upgrades its rating, to Buy from Neutral. The broker increases produce earnings estimates by 8-13%, to reflect not only the strong first half result but the avocado acquisitions. UBS also flags upside to Chinese pricing as costs are lowered. This will be partly offset by higher net interest.

UBS expects supply from competitors, particularly in berries and tomatoes, will put pressure on realised prices but this will be mitigated by a move towards year-round supply in berries and a mix shift towards higher priced tomatoes.

If the Chinese expansion proves successful and further plantings are announced, UBS suggests international business could move to over 35% of group operating earnings (EBITDA). The broker envisages more than 10% upside to medium-term earnings for avocados, amid further M&A opportunities in a fragmented market.

The stock screens attractively versus its high-growth peers and UBS suggests market growth should accelerate over the next 3-5 years, supported by the focus on healthy eating and retailers providing more "fresh" offerings.

The broker expects the market to grow at around 3% per annum over the next three years and the company's core categories to grow at around 9% per annum, driven by berries and snacking products.

FNArena's database shows three Buy ratings. The consensus target is \$7.54, suggesting 7.0% upside to the last share price. This compares with \$6.74 ahead of the results.

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## Changes Afoot At Caltex

Caltex has outlined significant changes to retail operations, expected to deliver 10-15% growth in earnings within five years.

-Costs related to the transfer of retail operations to corporate from franchisees expected to weigh near term - Unclear how much of the growth target is coming from food or fuel -Value of assets a key uncertainty, any capital return likely to be a driver of the share price

By Eva Brocklehurst

Caltex ((CTX)) has thrown the market a bone, outlining strategic initiatives it hopes to accomplish over the next five years. An asset optimisation review is underway amid several options to drive shareholder returns.

The company will move to ownership of its retail operations and away from franchised sites by the mid 2020's. This will require capital expenditure of \$100-120m over the next three years.

The company calculates the conversions, in addition to the rolling out of Foodary sites and Nashi stores in 2018, should yield a net sustainable uplift of \$120-150m in convenience store operating earnings (EBIT) over the next five years. Earnings contributions are expected to be net positive from 2020.

The optimisation review is designed to determine whether attracting market multiples for the retail and infrastructure assets will be greater than keeping the company together. The review is canvassing all options, including an A-REIT structure, and the outcome is expected by the end of the June quarter.

The first phase of the review has identified cost savings of around \$60m per annum which should go towards offsetting inflationary pressures, Macquarie suggests. Deutsche Bank expects Caltex will be able to deliver the bulk of these savings through 2018.

Morgan Stanley believes the move away from a franchisee model is a sensible strategy but has several questions regarding the near-term earnings impact and how Foodary earnings will grow over time.

The broker would not be surprised if non-fuel income declines over the next couple of years, because of lower rent and franchise income while the strategy for Foodary takes shape.

### Foodary

The sales uplift from new Foodary outlets is now around 35%, with 26 new stores operating under the format. The company intends to launch a further 50-60 sites in 2018. Deutsche Bank suspects the conversion of franchise sites will be erratic, given varied terms across franchisee arrangements.

Credit Suisse questions just how much of the growth target of \$120-150m is coming from Foodary and how much from fuel. Either way, despite a recent re-rating, the broker continues to believe the stock is cheap and there is an opportunity for shareholders. Outperform maintained.

Ord Minnett considers Foodary an attractive long-term opportunity too, provided the execution risks are well managed. In the meantime, costs relating to the transfer to corporate from franchise are expected to weigh on earnings.

The broker downgrades to Hold from Accumulate, expecting earnings declines in the near term, and because the share price performance already incorporates some multiple expansion.

### Asset Divestment

Asset ownership, or otherwise, remains key, as Credit Suisse asserts a break-up scenario offers potential upside that is hard to beat. Nevertheless, the broker accepts that there may be strong reasons that emerge as to why more value is on offer by not selling assets.

UBS envisages capital returns resulting from any asset divestment will be a driver of the share price but the lack of detail regarding the asset book value makes an estimate of how much capital could be unlocked next to impossible. The broker suspects some assets could be put up for sale, with any potential proceeds likely to facilitate growth and further buybacks.

Citi is not convinced the share price will re-rate after the asset optimisation review is completed. If the focus is on delivering long-term shareholder value then the risks centre on reduced competitive advantage, supply cost inflation risk and accounting-related downgrades, and this may make it hard to instigate large-scale changes.

Risks arise around the the Woolworths ((WOW)) wholesale supply contract, if the decision by the ACCC is challenged by BP, or around the conclusion of the asset review after which the broker believes large changes are unlikely.

#### Uncertainties

The prevailing uncertainties cause Citi to downgrade to Neutral from Buy, despite the solid fundamentals in the business. While the outlook is uncertain, disciplined strategy and prudent capital allocation by management has consistently delivered top returns and the broker suspects the market may still be under estimating the outlook for earnings growth in the medium term.

Deutsche Bank adds six months of earnings back into estimates for the second half of 2018, in anticipation of a response from BP regarding the transaction to acquire the Woolworths fuel sites, which failed to materialise because of ACCC opposition.

The positives have offsetting factors, in Macquarie's view, and new initiatives are arguably required to counter the headwinds. Uncertainty continues for the Woolworths fuel volumes and the benefits of a shift in mix to premium fuel are likely to taper off as a driver of margins while some reversion in refining margins is expected.

Morgan Stanley is also concerned about margin degradation in the base business and, while infrastructure and asset sales could be exciting, suggests these are too difficult to forecast.

The broker will look at the first half marketing and supply performance for a clue as to whether there is any more degrading of earnings in this segment. Supply and marketing were down around -10% in the second half of 2017 versus the first half, excluding acquisitions.

The company has outlined higher capital expenditure in 2018 based on spending in the Foodary business and additional capital requirements at Lytton refinery. The broker finds it unclear why the company is moving to smaller annual turnaround at Lytton but suspects this provides greater flexibility in regards to potential changes to Australian fuel standards.

There are two Buy ratings, four Hold and one Sell (Morgan Stanley) on FNArena's database. The consensus target is \$36.84, signalling 4.2% upside to the last share price. Targets range from \$27 (Morgan Stanley) to \$40.80 (Credit Suisse).

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## Softer Growth Outlook For Ramsay

Weaker demand at Australian hospitals has affected Ramsay Health Care and broker opinions diverge on the strength of the outlook.

-Pharmacy and cost management smoothing transition to lower growth in Australian hospitals -Yet sector reform required to improve industry dynamics -Citi assesses valuation as the most attractive in five years

By Eva Brocklehurst

Ramsay Health Care ((RHC)) will need a strong boost to earnings in the second half to achieve guidance although this is expected to come from re-developments and acquisitions in the Australian business.

The company has maintained guidance for FY18 operating earnings growth of 8-10%. On Ord Minnett's estimates, Ramsay will need to boost second half domestic earnings by more than 11% to deliver the bottom end of guidance. Nevertheless, this should be achieved, as pharmacy acquisitions boost revenue and new capacity comes online.

The company expects to open \$147m in brownfields developments in the second half and \$156m in the first half of FY19, which should add significantly to revenue. Citi notes the company's expansion projects have been successful and enabled above-market growth over the past eight years.

Ord Minnett found the results solid, at least relative to domestic peers, although the business was clearly affected by weaker demand. Yet, the broker is increasingly cautious regarding the political risk in the domestic hospital sector, amid further downside risk from moderating demand.

Hence, a downgrade to Hold from Accumulate. CLSA, not one of the eight stockbrokers monitored daily on the FNArena database, expects the company will be able to grow, but at a slower pace in FY19 and has reduced its rating to Outperform from Buy. The target is lowered to \$74.50 from \$81.20.

The low quality of the result disappointed Credit Suisse and despite the Australian hospitals being in a strong position, the broker does not envisage an improvement in industry dynamics until meaningful sector reforms are introduced.

The broker's revised growth estimates of 8.4% sit at the lower end of the management guidance range and the stock is considered fairly valued on a risk-adjusted basis, given the industry headwinds.

UBS agrees the sources of earnings leverage were poor quality, but from a cash flow perspective the result was solid. The broker envisages little change at the industry level in the second half and growth should be augmented by developments and new pharmacies. The broker estimates that excluding procurement savings, Australia's first half earnings growth slowed to 3-4%.

Domestic admissions are above market trends, Morgans notes, despite declining private health insurance memberships, and there are more day admissions versus inpatients. Meanwhile, procurement savings are on track to reach \$80-100m.

Macquarie also expects contributions to come from projects completed in the first half and this will combine with revenue from pharmacy acquisitions to underpin revenue growth in the second half. The broker forecasts 10%.

### Acquisition Opportunities

Acquisition opportunities continue to be assessed across a number of regions and Macquarie calculates there is around \$650m available for potential acquisitions. The broker maintains a positive investment view based on revenue growth in Australian hospitals, operating earnings margin expansion and the balance sheet capacity.

Morgan Stanley is less sure about the outlook but acknowledges support for the stock because of a scarcity of growth in large caps, while the company's propensity to acquire or consolidate hospital assets in growth markets prevents a more bearish view on earnings.

In contrast, Citi upgrades to Buy from Neutral and prefers the stock in the hospital sector. Valuation is considered the most attractive in five years, relative to the historical average. Citi acknowledges the deceleration in the profit growth profile, but expects a positive shift in momentum in the Australian business will outweigh a weak offshore performance.



## Offshore

The declines in operating earnings in France and the UK were attributed to soft volume and price pressure from decreasing tariffs. Tough conditions are expected to persist. While Ord Minnett is confident the management issues in the UK NHS should reverse in time, Credit Suisse expects pressure on NHS volumes will continue as elective waiting lists expand.

Morgans suspects management is attempting to adjust its cost base against soft volumes and pricing headwinds in the rest of the world. In France, a \$62.6m 3-year restructuring is being undertaken to centralise non-core hospital functions and this appears to come with little return on investment.

In the UK, less predictable than France, management has only cited a return to normal volume growth over the short to medium term, which Morgans suggest is a little opaque and may prove optimistic.

FNArena's database shows two Buy and five Hold ratings. The consensus target is \$69.84, signalling 11.5% upside to the last share price. Targets range from \$60.00 (Morgan Stanley) to \$78.50 (Citi).

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## Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

### Guide:

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

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

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

### Summary

Period: Monday February 19 to Friday February 23, 2018 Total Upgrades: 45 Total Downgrades: 23 Net Ratings Breakdown: Buy 42.66%; Hold 41.75%; Sell 15.59%

"Busy" no longer covers it. In the third week of the local February reporting season, ending on Friday, 23rd February 2018, FNArena registered no less than 45 upgrades for individual ASX-listed entities accompanied by 23 downgrades. The combo JPMorgan/Ord Minnett has now joined the three Ms (Macquarie, Morgans and Morgan Stanley) in carrying more Buy ratings for stocks under coverage than either Neutral or Sell ratings.

Among the stand-outs on the positive side are Corporate Travel Management, Domain Holdings, Fairfax Media, Flight Centre, GWA Group, St Barbara, a2 Milk, Village Roadshow and Wesfarmers; all received multiple upgrades after their result releases.

On the flipside, BHP received multiple downgrades, as did Super Retail.

The stark difference between the two groups can serve as an indication as to how the current reporting season is shaping up.

Upgrades to target prices (and thus valuations) have come in plenty and large with a2 Milk commanding top spot for the week, thanks to a gain of (wait for it) 57.5%. Next in line are Seven Group Holdings, Nine Entertainment, ERM Power, Corporate Travel Management and Smartgroup Corp.

A lot less lucky are IPH Ltd whose consensus target lost -23% during the week, followed by Super Retail, Michael Hill, South32 and Blackmores. The underlying positive picture is that target increases are on average much larger than the reductions.

Santos' 86% jump in forward EPS estimates was good for the week's top spot in earnings estimates increases. Santos handsomely beat Infigen Energy (+69%), followed by Oil Search, Smartgroup and Seven Group Holdings.

King of the negative amendments, at least for this week, is Senex Energy, whose forecasts were slashed by -130%, followed by Fletcher Building, Perseus Mining and WiseTech Global.

Local reporting season moves into the final three days this week.

### Upgrade

THE A2 MILK COMPANY LIMITED ((A2M)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 4/1/0

First half results beat expectations across the board. With significant financial capacity and a commitment to further investment in marketing, Credit Suisse expects the company to double its revenue stream in 10 years.

FY18 earnings forecasts are unchanged because of the timing of marketing expenditure but FY19 and FY20 are raised by 9% and 19% respectively. Rating is upgraded to Outperform from Neutral. Target is raised to NZ\$12.75 from NZ\$8.50.

Deutsche Bank was expecting a strong result, but what A2 Milk released was still a "strong beat". Announcing a strategic agreement with Fonterra further lifted overall sentiment.

The analysts believe the agreement unlocks the global brand potential from a supply perspective, among other positives. It all results in a "material" upgrade to the broker's growth profile for the company, which pushes up the price target to NZ\$14 (up 52%).

China brand momentum remains both critical and positive, suggest the analysts. Upgrade to Buy from Hold.

ABACUS PROPERTY GROUP ((ABP)) Upgrade to Neutral from Sell by Citi .B/H/S: 0/2/0

Abacus sharply outpaced the broker after a non-recurring fee and transactional income landed earlier than expected.

Citi believes second-half guidance could be conservative, noting a potential shift to more recurring income, and the flagged move to reinvest cash from residential projects into income producing assets, which could lift the payout ratio. The broker notes risks on the residential apartment planning front, with potential delays on Parramatta projects.

Citi upgrades to Neutral from Sell and lifts the target to \$3.31 from \$3.30, noting its forecasts are already 6.5% above implied guidance.

APN OUTDOOR GROUP LIMITED ((APO)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/3/0

FY17 results were "not great" in the broker's opinion. Of most interest was the second half sales growth of 2% in Roadside against an 11% forecast, a big miss for the company's biggest division.

Credit Suisse lowers EPS forecasts by -7-8%. With turnaround measures either complete or in train the broker expects a better performance in 2018.

The broker upgrades to Outperform from Neutral and raises the target price to \$5.05 from \$4.70.

See also APO downgrade.

ARB CORPORATION LIMITED ((ARB)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/2/0

Macquarie does not suggest whether ARB's "quality" result beat its forecast, but an upgrade to Outperform follows. Domestic conditions remain robust and the outlook is positive, the broker suggests.

Export markets are strengthening and the company's initiatives have improved revenue growth, which should lead to margin expansion. Greater market confidence in the improving growth outlook should prompt a re-rating, the broker believes. Target rises to \$21.00 from \$17.70.

See also ARB downgrade.

BLUESCOPE STEEL LIMITED ((BSL)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 5/1/0

Low risk is expected around the first half result, due out February 26, given guidance was upgraded in December to around \$460m in EBIT. Credit Suisse upgrades US Northstar earnings on the adoption of higher US steel spreads.

The broker upgrades to Outperform from Neutral on the favourable outlook and valuation. Target rises to \$15.90 from \$14.95.

CARDNO LIMITED ((CDD)) Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 1/0/0

Cardno's first-half beat the broker again, thanks to strong cost control. EBITDA came in 6% ahead of forecast, although revenue fell across most operations and geographies by roughly -5% to -9%.

Cardno maintains FY18 guidance and an FY19 growth target of 10%-15%. Deutsche Bank expects bolt-on acquisitions should add incremental growth and lifts FY18 EBITDA by 6% for FY18 and 5% for FY19.

Rating upgraded to Buy from Hold and target price jumps to \$1.80 from \$1.40.

CORPORATE TRAVEL MANAGEMENT LIMITED ((CTD)) Upgrade to Buy from Accumulate by Ord Minnett and Upgrade to Buy from Neutral by UBS .B/H/S: 4/1/0

The interim report was carried by a large increase in EBITDA margins, explains Ord Minnett. The broker sees yet more evidence of the strength on top of the simplicity of Corporate Travel's business model.

The European operations revealed themselves as the star performer for the period, in Ord Minnett's view. The Asian business was heavily impacted by lower airfares but management expects to achieve double digit EBITDA growth in 2H18 vs pc.

Estimates were lifted. Price target moves to \$24.36 from \$21.98. Rating upgraded to Buy from Accumulate with the analysts lauding "the strength of the business model".

First half results were just shy of UBS estimates. ANZ and Europe were the stand-outs while N America and Asia faced challenging conditions.

Management has upgraded to the top end of FY18 EBITDA guidance range of \$120-125m. Recent changes to US tax rates should increase FY19 NPATA by \$4.3m. UBS has increased EPS forecasts for FY18-20 by 4-6%.

UBS upgrades to Buy from Neutral and raises the target to \$25.85 from \$23.25.

CLEANAWAY WASTE MANAGEMENT LIMITED ((CWY)) Upgrade to Add from Hold by Morgans .B/H/S: 3/2/0

First half results were ahead of forecasts. Morgans lifts operating earnings forecasts for FY18-21 by 1-2%.

The company envisages recent changes to the Chinese importation of municipal recycled waste as an opportunity, by assisting local governments to mitigate the issue.

Morgans upgrades to Add from Hold. Target is raised to \$1.68 from \$1.61.

DOMAIN HOLDINGS AUSTRALIA LIMITED ((DHG)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/1/2

First half results were in line with expectations. Credit Suisse believes uncertainty about management in the near term - the CEO has departed - has created an opportunity to buy into the longer-term growth story at an attractive price.

The rating is upgraded to Outperform from Neutral as a result. Target reduced to \$3.50 from \$3.55.

It was a strong debut result for Domain, Macquarie declares, with revenue momentum holding up through the period. Price rises, the adoption of depth products and moderating cost growth all contributed.

The broker sees Domain as well-positioned in the longer term given opportunities in both the developed markets of Syd/Melb and Canberra, and the "emerging markets" of everywhere else, specifically Qld and the commercial space, as well as adjacent businesses.

Upgrade to Outperform. Target unchanged at \$3.50.

ESTIA HEALTH LIMITED ((EHE)) Upgrade to Buy from Neutral by UBS .B/H/S: 1/2/0

The solid first half result was in line with UBS estimates. The 100% dividend pay-out ratio was a surprise to the upside.

FY18 EBITDA guidance was reiterated at mid-single digit percentage growth, with updated UBS forecast now sitting at \$92.1m.

UBS upgrades to Buy from Neutral. Target is raised to \$4.00 from \$3.75.

ERM POWER LIMITED ((EPW)) Upgrade to Add from Hold by Morgans .B/H/S: 2/1/0

While ERM's result beat Morgans, earnings volatility makes a comparison with the previous corresponding period difficult. The highlight was an improved gross margin outlook for domestic retailing, which the broker notes is the largest earnings segment.

Australian retailing is stronger but US retailing much weaker than expected. Management has targeted a minimum 7c dividend, kept capital aside for growth investment, and initiated a buyback. All this from a company that 18 months ago was forced to cut its dividend, the broker notes.

Morgans "cautiously" upgrades to Add, with the caveat of high risk. Target rises to \$1.93 from \$1.39.

FLIGHT CENTRE LIMITED ((FLT)) Upgrade to Neutral from Sell by Citi and Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 2/4/2

First half results were above the top end of guidance ranges despite the disruption to the core Australian business. Citi notes the results were driven by the US, EMEA and Asia, which have been challenged from a profitability perspective for many years.

The broker believes the earnings risk is weighted to the upside. Initial caution around transformation targets has been allayed by the early progress being made. Rating is upgraded to Neutral from Sell. Target is raised to \$54 from

\$45.

First half results were better than Morgan Stanley expected, driven by acquisitions and cost savings. The broker expects total transaction value growth to accelerate in the second half.

The broker lifts FY18-FY20 EPS forecasts by 8-16% to reflect cost-out execution and growing international performance.

Morgan Stanley upgrades to Equal-weight from Underweight. Target rises to \$54 from \$38 to reflect lower capex and expanding corporate business. Industry view is Cautious.

FAIRFAX MEDIA LIMITED ((FXJ)) Upgrade to Buy from Hold by Deutsche Bank and Upgrade to Buy from Neutral by UBS and Upgrade to Outperform from Neutral by Macquarie .B/H/S: 5/2/0

First half results were well ahead of estimates and Deutsche Bank notes the better earnings in metro media and significantly lower corporate costs.

The result demonstrates a focus on maximising value for the remaining assets in the business, the broker suggests. Rating is upgraded to Buy from Hold. Target rises to \$0.80 from \$0.75.

First half results were better than UBS expected, with the company delivering the second consecutive half of EBITDA growth.

Earnings momentum is improving, the broker notes, and analysts now expect group EBITDA to remain stable over FY18/FY19. This results in a 5% lift to FY18 EPS forecast and a 16% lift to FY19 forecast.

The stock looks cheap to UBS and is upgraded to Buy from Neutral. Target price is \$0.75.

Fairfax posted a solid result, Macquarie suggests, with improved earnings from metro media a highlight in the face of structural decline. Earnings still fell, but were offset by aggressive cost cuts.

The medium term outlook is bolstered by proposed cooperation with rival News Corp ((NWS)) for printing and distribution, and an advertising partnership with Google. While Domain's earlier result indicates it is well-placed for growth, Macquarie notes.

A combination of resilience in media and Domain strength prompts an upgrade to Outperform. Target rises to 79c from 71c.

FLEXIGROUP LIMITED ((FXL)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/3/0

Citi analysts have been biding their time, waiting for that trigger that would allow for the gap between share price and valuation to close. It appears they now think yesterday's interim report release might be that trigger. Upgrade to Buy from Neutral.

The analysts have increased forecasts by 2-7%, with the added suggestion that risk is now skewed to the upside. The stabilisation in Certegy represents an important factor in this view.

Target price rises by 14% to \$2.14. The shares are seen trading on a -64% discount to the Small Industrials.

GWA GROUP LIMITED ((GWA)) Upgrade to Add from Hold by Morgans and Upgrade to Neutral from Sell by Citi and Upgrade to Outperform from Underperform by Credit Suisse .B/H/S: 2/3/1

First half earnings were well ahead of expectations. The result was driven by market share gains, improved product mix and cost control. Morgans increases FY18 earnings estimates by 4%.

Despite some uncertainty surrounding the residential building market, the broker believes the valuation is attractive, given the lightly geared balance sheet and strong returns. Rating is upgraded to Add from Hold. Target rises to \$3.30 from \$3.07.

GWA Group's half-year result impressed the broker, who says it heralds a new era for the company.

The prolonging of its housing cycle and announcement to sell its Door and Access Systems contributed to an upgrade to Neutral. Citi expects the prolonging of the completions cycle should protect earnings from a softening in the housing cycle.

Broker upgrades earnings-per-share forecasts for FY18-FY20 to 9% from 4%.

Target price jumps 18% to \$2.93, the broker citing upside risk. Citi says given the stock is trading at its long-term average price-earnings multiple of 14x, a re-rate is possible pending clarity on divestments.

First half results were ahead of estimates. Credit Suisse observes the early stages of the reinvestment in brand and product has allowed for growth despite the current stagnation of the housing cycle.

The broker suspects the company will be able to grow through a soft housing market. Rating is upgraded to Outperform from Underperform. Target is raised to \$3.40 from \$2.90.

**IRESS MARKET TECHNOLOGY LIMITED ((IRE)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 0/4/0**

2017 results were at the top end of the prior guidance range and ahead of Ord Minnett's forecasts. Given the substantial number of acquisitions over the last couple of years the broker awaits signs of a sustained recovery in profitability before becoming more constructive.

Nevertheless, the drop in the share price since January leads to a raising of the recommendation to Hold from Lighten. Target is \$11.

**MICHAEL HILL INTERNATIONAL LIMITED ((MHJ)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/1/0**

The company had issued a profit warning pre reporting season and yesterday's release came in-line, with Credit Suisse observing no guidance was provided. Uncertainty revolves around the Emma & Roe repositioning in combination with the exit from the USA.

Greater than expected losses have triggered reduced forecasts. In addition, CS analysts have now incorporated lower margins for the Australian operations.

While the price target falls to NZ\$1.45 from NZ\$1.55, the rating has been upgraded to Outperform from Neutral, inspired by the share price fall.

**MOELIS AUSTRALIA LIMITED ((MOE)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 1/0/0**

It was a transformational year for Moelis, state Ord Minnett analysts, but that hasn't prevented them from delivering a financial performance that was well above what the analysts had penciled in (7% better). The broker believes Moelis has an "appealing" business model.

Add a strong balance sheet and plenty of growth options and what's not to like? Rating upgraded to Buy from Hold. Target price lifts to \$6.18 from \$5.72. Earnings estimates have received a boost.

**MEDIBANK PRIVATE LIMITED ((MPL)) Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 1/4/2**

Medibank Private's results impressed the broker. Deutsche Bank noted a \$34m claims provision release boosted the result, but it demonstrates positive momentum on claims management.

The broker notes strong margin momentum resulting from cost control and lower hospital utilisation.

Deutsche Bank upgrades to Buy from Hold, on the basis of stabilising customer numbers and growth potential in Medibank Health.

Target rises to \$3.35 from \$3.20.

**NEWCREST MINING LIMITED ((NCM)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 2/3/3**

Ord Minnett observes the stock has underperformed the US dollar and Australian dollar gold price as well as mid-cap peers. Yet, despite major production disruptions and a shrinking portfolio, the company is considered in better shape than it has been for many years.

The balance sheet has been repaired, gearing is 16% and free cash flow is improving while there are accretive growth options. Ord Minnett upgrades to Accumulate from Hold. Target is raised to \$25.00 from \$22.50.

**NINE ENTERTAINMENT CO. HOLDINGS LIMITED ((NEC)) Upgrade to Neutral from Sell by UBS .B/H/S: 3/2/1**

UBS was impressed by the first half results, which showed revenue share at 13-year highs. This lead to a 20% beat of the broker at EBITDA.

UBS believes FY18 guidance of \$231-261m looks slightly conservative and is factoring FY18 EBITDA of \$262m.

The broker upgrades to Neutral from Sell and raises the target price to \$1.90 from \$1.35.

**NEW HOPE CORPORATION LIMITED ((NHC)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 1/2/0**

The January quarter was soft post the scheduled shut down at the New Acland plant over Christmas. Coal sales rose to 2.3mt.

Credit Suisse adjusts numbers to reflect its new thermal coal price forecasts, which are up 17% for 2018 and 24% for 2019.

Rating is upgraded to Neutral from Underperform. Target is raised to \$2.25 from \$1.85.

NIB HOLDINGS LIMITED ((NHF)) Upgrade to Neutral from Sell by Citi .B/H/S: 0/5/2

Management has upgraded guidance but Citi maintains the risk is to the upside. Their own forecast remains well above increased guidance for this year.

Estimates have been increased by 6-8%. Target price lifts by 50c to \$6.50. Rating upgraded to Neutral from Sell as Citi believes the growth profile looks strong, but so is the valuation.

The financial result itself was a "beat", but the analysts point towards one-offs, while admitting underlying trends remain "strong".

ST BARBARA LIMITED ((SBM)) Upgrade to Neutral from Underperform by Credit Suisse and Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 2/2/1

First half earnings were in line with expectations. The extra guidance for Gwalia, with a materially improved production and cost profile, adds to Credit Suisse's valuation on base case assumptions. Furthermore, these assumptions should be enhanced by infill drilling and increasing the grade profile.

Rating is upgraded to Neutral from Underperform. Target is raised to \$3.85 from \$3.00.

First half operating earnings were below expectations. The main news was the introduction of a new project at Gwalia, which extends the mine life to 14 years from seven years.

Ord Minnett estimates the new mining strategy could add \$400m in value, or \$0.80 a share, over the previous mine plan. Rating is upgraded to Accumulate from Hold. Target is raised to \$4.30 from \$3.80.

SMARTGROUP CORPORATION LTD ((SIQ)) Upgrade to Buy from Neutral by Citi .B/H/S: 5/1/0

The 2017 result itself was in-line, but Citi analysts have been impressed (again) -and that's their way of putting it, literally- by the strong organic growth on display. They upgrade to Buy from Neutral.

Given the strong organic growth achieved, Citi analysts suggest the stock may well trade on higher multiples. Earnings estimates have been increased. Target price jumps by 22% to \$12.22.

To juice investors' appetite further, Citi still sees plenty of opportunities to enhance organic growth further, as well as increase margins.

SANTOS LIMITED ((STO)) Upgrade to Neutral from Sell by UBS .B/H/S: 3/4/1

It was a messy affair, in UBS's assessment, with the underlying FY17 result missing expectations, both at UBS and as far as market consensus is concerned.

The positive take-away is that, after cutting costs, Santos looks to be on track to shrink net debt to below \$2bn by the end of 2019. Not only is this well ahead of schedule, it also allows for the return of shareholder dividends in 2019, points out UBS.

The broker upgrades to Neutral from Sell on a weak share price, noting that the above should also allow for an increase in growth investment. Given the flat production outlook, at best, one can see the importance of it. Target remains \$5.25.

SUPER RETAIL GROUP LIMITED ((SUL)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 3/5/0

The company's first half results were underwhelming for the broker. With operating costs increasing and a number competitive challenges impacting gross margins, the medium term profit outlook looks decidedly poor to Credit Suisse.

The integration of Amart was completed with mixed results and there was no mention of the previously targeted \$15m synergy in the update.

The company is guiding to broadly flat EBIT margin in FY18 which the broker views as "challenging".

Rating upgraded to Neutral from Underperform and target falls to \$7.07 from \$7.68.

See also SUL downgrade.

**SYDNEY AIRPORT HOLDINGS LIMITED ((SYD))** Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 5/3/0

Ahead of the results on February 21 Credit Suisse expects dividend guidance of 37.5c per share. The broker expects a positive outlook on growth and a focus on improvements to operations.

Rating is upgraded to Neutral from Underperform because of the recent weakness in the shares. Target is reduced to \$6.75 from \$6.80.

See also SYD downgrade.

**TABCORP HOLDINGS LIMITED ((TAH))** Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 5/0/0

Credit Suisse considers overall earnings growth of 14.2% for FY18 and 28.1% for FY19 to be attractive at the current share price. This growth largely reflects the merger with Tatts.

The broker upgrades to Outperform from Neutral. Target is \$5.20.

**THE REJECT SHOP LIMITED ((TRS))** Upgrade to Buy from Neutral by UBS .B/H/S: 1/1/0

The company is making inroads fixing ailments from the past, while also improving foot traffic and UBS spotted enough evidence in the interim release to anticipate more improvement ahead.

The analysts acknowledge the achieved improvement in financial performance comes off a low base, and risks remain, but at the same time "substantial" opportunities are there for management to capitalise on, in their view.

UBS upgrades to Buy from Neutral, with the price target shifting to \$7.50 from \$6.30. In particular DPS estimates have received a boost.

**VILLAGE ROADSHOW LIMITED ((VRL))** Upgrade to Hold from Lighten by Ord Minnett and Upgrade to Neutral from Underperform by Macquarie and Upgrade to Buy from Neutral by Citi .B/H/S: 1/3/0

First half results were softer than expected, with the main driver being theme parks which delivered a -31% decline in operating earnings. The company stated that theme parks have shown a significant recovery in January, with ticket yield up 30% and admission revenue up 24%.

Ord Minnett welcomes the positive developments but would prefer to wait for an extended recovery, given recent disappointments. The broker upgrades to Hold from Lighten. Target is \$3.25.

Macquarie sees an improving outlook for Village Roadshow post result release. Improvement at Gold Coast theme parks suggests upside risk to earnings and capital structure is more sustainable.

After a weak first half, management sees better content driving improvement in cinema in the second half but the broker notes structural headwinds in the form of video on demand and streaming services.

Risk/reward potential is nevertheless better reflected in the current price, hence Macquarie upgrades to Neutral from Underperform. Target rises to \$3.50 from \$3.30.

A worried Citi has remained on the sideline for a long while, but now the analysts believe the time is right for an upgrade to Buy from Neutral. Improved theme park momentum seems to be the trigger point.

The analysts concede, after five disappointing results releases from the company, investors might need some extra convincing before starting to embrace Village Roadshow as a viable investment again.

Price target has lifted to \$3.90 from \$3.45 with higher forecasts further out supported by the company's cost out ambition.

**WEBJET LIMITED ((WEB))** Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/0/1

First half results were materially better than forecast. Credit Suisse observes the company has successfully de-risked the core flights business through ancillary products. Despite a history of weak first half cash flow worst fears did not materialise, the broker adds.

Credit Suisse believes the short-term overhang on the stock will continue to unwind and upgrades to Outperform from Neutral. Target rises to \$13.65 from \$11.80.



Admittedly, the broker notes there are still some headwinds to navigate as Online Republic is still underperforming and a merger of technology platforms remains possible.

**WESFARMERS LIMITED ((WES)) Upgrade to Hold from Sell by Deutsche Bank and Upgrade to Neutral from Sell by Citi .B/H/S: 1/6/1**

First half earnings were slightly ahead of estimates. Deutsche Bank still envisages risks around the UK operations amid continued large operating losses or the potential for substantial exit costs.

While the bad news around the UK investment should now be well understood and Coles is unlikely to resume meaningful growth for some time, the broker believes there are signs earnings have stabilised.

Meanwhile, Bunnings Australasia and Kmart are well-positioned. The broker believes the risk/reward is now balanced and upgrades to Hold from Sell. Target rises to \$40 from \$37.

For Citi's initial assessment, see yesterday's Broker Call Report. After second consideration, Citi has now upgraded to Neutral from Sell, while bumping up the price target to \$41 from \$39.30.

FY17 results revealed sales momentum has stalled at Coles, but margins are coming in better than expected and this feeding into improved forecasts. The analysts do point out further investment is required to restart momentum at Coles.

The good news, as Citi sees it, is the supermarket operators are seemingly behaving rationally for now. The outlook for the conglomerate as a whole has improved, say the analysts, because of stabilisation in EBIT margin declines for Coles on top of the sustained earnings growth for Bunnings (outside the UK). Woolworths ((WOW)) remains the preferred choice.

#### Downgrade

**APN OUTDOOR GROUP LIMITED ((APO)) Downgrade to Hold from Add by Morgans .B/H/S: 3/3/0**

2017 results were in line with expectations. The new CEO, James Warburton, has outlined a plan to rebuild the company involving a step up in investment in personnel and technology. Morgans suggests this may provide long-term benefits but will make earnings growth almost impossible in 2018.

The broker slashes profit forecasts to reflect higher costs and higher ongoing capital expenditure. Rating is downgraded to Hold from Add. Target is reduced to \$4.44 from \$5.48.

See also APO upgrade.

**ARB CORPORATION LIMITED ((ARB)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/2/0**

Citi believes it is time to take some profits in light of the strong start to FY18 in the first half. Rating is downgraded to Neutral from Buy. The broker increases FY19-20 forecasts by 6-7%.

Citi expects the PE will moderate over the short term. Target is raised to \$22.43 from \$17.85 as the model is rolled forward amid index multiple expansion.

The broker believes the company will further distance itself from its competitors in the second half and gain more scale domestically.

See also ARB upgrade.

**BHP BILLITON LIMITED ((BHP)) Downgrade to Neutral from Buy by Citi and Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 4/4/0**

First half results were weaker than expected. Net debt was higher than expected. Citi expects net debt to fall by the end of FY18, which means capital management could be on the cards at that result.

Productivity gains were also a challenge because of a major shut down at Olympic Dam but were made worse by Queensland metallurgical coal issues, the broker observes. Citi downgrades to Neutral from Buy. Target is \$32.

First half results were below expectations. Deutsche Bank considers the value and returns strategy is priced into the stock.

The company's targets imply no buyback in August, in the broker's view, unless US onshore assets are sold.

Rating is downgraded to Hold from Buy. Target is reduced to \$31.50 from \$34.50.

**BLACKMORES LIMITED ((BKL))** Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 1/2/0

Credit Suisse has downgraded to Neutral from Outperform with a reduced target to \$130 from \$150, suggesting the share price might remain under pressure short term, but also emphasising it remains "optimistic" on the company's growth prospects.

The analysts explicitly do a mea culpa, admitting they got caught up in the growth excitement, putting Blackmores on the same level as, say, Treasury Wine Estates ((TWE)).

Following the interim report, the analysts now suggest Blackmores will still grow, but it won't be at a spectacular rate. They also observe competitor Swisse seems to be performing better.

**BLUE SKY ALTERNATIVE INVESTMENTS LIMITED ((BLA))** Downgrade to Hold from Buy by Ord Minnett .B/H/S: 0/2/0

First half results were strong, with headline net profit up around 60%. Assets under management guidance is upgraded but higher costs mean Ord Minnett reduces FY18 forecasts by -6%.

The broker considers the stock has little valuation support in light of its underlying FY19 PE of 25x. Rating is downgraded to Hold from Buy.

A lack of clarity in scope and source as well as the unpredictability of Cove earnings holds Ord Minnett back from believing the stock should trade on any higher PE. Target is raised to \$12.72 from \$11.00.

**ELANOR INVESTORS GROUP ((ENN))** Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 1/0/0

Removing the impact of the one-off gain from the sale of Ibis Eaglehawk meant underlying earnings were below forecasts. Ord Minnett observes the main culprit was a poor performance from John Cootes Furniture.

Completion of several transactions on the go in the near term is far from certain and the broker suggests performance fees in the second half may be at risk. Rating is downgraded to Accumulate from Buy. Target reduced to \$2.06 from \$2.62.

**HT&E LIMITED ((HT1))** Downgrade to Neutral from Buy by UBS .B/H/S: 4/2/0

2017 results were largely in line with estimates. UBS notes Adshel outperformed the broader market in both Australia and New Zealand while Hong Kong outdoor also improved.

Despite meeting expectations, UBS downgrades to Neutral from Buy, now incorporating a potential liability from the ATO tax dispute. Target is reduced \$1.80 from \$2.25.

**IPH LIMITED ((IPH))** Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/2/0

IPH posted a miss, with a greater than expected forex loss but a softer than expected underlying result nonetheless, Macquarie notes. Management expects reversion to normal patent growth in the second half.

Despite the attractive growth optionality provided by Asian expansion, the broker suggests the stock will trade at a discount until there is evidence of a recovery in patent filings. Downgrade to Neutral from Outperform. Target falls to \$3.85 from \$5.75.

**INVOCARE LIMITED ((IVC))** Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/2/3

InvoCare posted a solid result ahead of Macquarie's forecast. FY guidance nevertheless surprised to the downside, suggesting flat earnings growth due to capital spending on the company's protect & grow strategy.

Protect & grow is in its early stages and is intended ultimately to increase market share in the face of increasing competition, while growing return on invested capital. InvoCare is confident in a return to double-digit earnings growth but the broker highlights forecast in the early stages.

Downgrade to Neutral from Outperform and target falls to \$14.34 from \$15.31.

**LINK ADMINISTRATION HOLDINGS LIMITED ((LNK))** Downgrade to Neutral from Buy by UBS .B/H/S: 4/2/0

First half results were 21% ahead of UBS estimates, largely reflecting a significantly higher first time contribution from the LAS acquisition.

UBS has lifted FY18 EPS forecast by 8.8% and 0.3% in FY19. With the broker's medium term revenue growth outlook already at 3-3.5%, large scale funds admin client wins are required to drive further upside.

Rating is downgraded to Neutral from Buy. Target is raised to \$9.10 from \$8.85.

**LOVISA HOLDINGS LIMITED ((LOV)) Downgrade to Hold from Add by Morgans .B/H/S: 1/2/0**

First half results were in line with recently upgraded guidance. Morgans notes the UK roll-out is building momentum and the first trial store in Paris is now open.

The broker remains attracted to the business model as there is less exposure to Amazon and there is potential for a large-scale global chain.

Rating is downgraded to Hold from Add, given the recent share price re-rating. Target is raised to \$8.08 from \$7.84.

**OOH!MEDIA LIMITED ((OML)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 4/1/0**

2017 gross profit was ahead of expectations. Credit Suisse believes the risk/reward profile warrants a more circumspect view. Most of the business is performing well but there are areas that require caution.

The company continues to press on with an elevated capital expenditure program despite industry growth declining to mid-low single digits, the broker notes. Rating is downgraded to Neutral from Outperform. Target is raised to \$4.95 from \$4.75.

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

First half results beat estimates. Credit Suisse suggests, given continued outflows and risks that come with a new CEO, the stock is back to fair value.

Rating is downgraded to Neutral from Outperform. Target is \$56.

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

It was another solid result from Seek, Macquarie notes, highlighting strengthening fundamentals. Heavy reinvestment to drive longer term growth remains a key theme but underscores management's confidence.

Early stage ventures are showing revenue improvement but visibility remains limited, although Macquarie remains supportive of Seek's strategy and the longer term outlook.

However recent share price strength has stretched valuation, hence a downgrade to Neutral from Outperform. Target rises to \$20.35 from \$18.70.

**SIMS METAL MANAGEMENT LIMITED ((SGM)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 1/3/2**

First half results were in line with expectations. Credit Suisse upgrades second half estimates on confirmed volumes.

The broker recognises that consensus earnings may be upgraded on the result and this could support the share price for a while.

However, Credit Suisse downgrades to Underperform from Neutral on the basis of share price strength. Target is raised to \$14.50 from \$14.00.

**THE STAR ENTERTAINMENT GROUP LIMITED ((SGR)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 7/1/0**

First half earnings were mixed. Net debt was higher than Credit Suisse modelled while Gold Coast earnings surpassed the broker's forecasts.

While the first half was costly, the broker believes good growth remains intact. Costs are the main reason the broker downgrades forecasts for earnings per share by -6%.

Hence, rating is downgraded to Neutral from Outperform although the growth prospects are considered attractive. Target is reduced to \$5.90 from \$6.25.

**SIRTEX MEDICAL LIMITED ((SRX)) Downgrade to Neutral from Buy by UBS .B/H/S: 0/3/0**

First half results were in line with UBS estimates. A soft top line was more than offset by sales force and R&D cost out.

As previously announced, Sirtex has entered into a binding agreement with Varian Medical Systems for the company to acquire all of Sirtex's shares for \$28 cash.

UBS downgrades the stock to Neutral from Buy and moves the price target into line with the offer price of \$28.00.

**SUPER RETAIL GROUP LIMITED ((SUL))** Downgrade to Equal-weight from Overweight by Morgan Stanley and Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 3/5/0

First half earnings were disappointing to the broker. Morgan Stanley believes the company's capital allocation has been poor in recent years, and the Macpac acquisition is the catalyst for a downgrade to Equal-weight from Overweight.

The broker believes the company should be allocating capital to its stronger divisions, especially Auto, where it has a proven track record and a strong franchise. Retailers moving into brand ownership are rarely successful in the broker's view.

Morgan Stanley has lowered FY18 to FY20 EPS forecasts by -10-20%. Target reduced to \$7 from \$10.00. Industry View: Cautious.

First half earnings were below expectations. Deutsche Bank is surprised by the acquisition of Macpac, given the problems the company has had with the category.

The broker would have preferred to see the focus on internal initiatives, rather than a risky acquisition. Rating is downgraded to Hold from Buy. Target is reduced to \$9.50 from \$11.00.

See also SUL upgrade.

**SYDNEY AIRPORT HOLDINGS LIMITED ((SYD))** Downgrade to Neutral from Outperform by Macquarie .B/H/S: 5/3/0

Sydney Airport's result met Macquarie's expectation. The 2018 outlook remains strong, with international traffic growing at 5.3%, but of concern is an ever increasing capex budget. The broker assumes this will be recovered in the next pricing agreement.

The company continues to perform at the operational level. The broker's downgrade to Neutral from Outperform reflects a forecast increase for the ten-year bond rate to 4.25% from 3.25%. Target falls to \$6.40 from \$7.46.

See also SYD upgrade.

**VIRTUS HEALTH LIMITED ((VRT))** Downgrade to Hold from Add by Morgans .B/H/S: 1/2/0

First half results were ahead of forecasts. Upside risk, Morgans believes, involves a further stabilisation of cycle volumes to reinforce the view that the market is returning to its long-term growth rates of 2-3%. Heightened competition presents downside risk.

The broker downgrades to Hold from Add given recent share price strength. Target is raised to \$5.47 from \$5.46.

**WESTPAC BANKING CORPORATION ((WBC))** Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 4/4/0

Morgan Stanley as downgraded Westpac to Equal-weight and lowered its target to \$30.00 from \$32.10. The broker has a negative stance on the major banks but provides six reasons for its Westpac downgrade.

The margin sweet spot has ended, the capital intensity of retail banking is increasing, there is growing scrutiny of conduct and competition, little scope for a cost surprise, no institutional tailwind this year and the stock is fully valued.

The broker prefers ANZ Bank ((ANZ)), also Equal-weight, and has Underweight ratings on the other two. Industry view: In Line.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ABACUS PROPERTY GROUP Neutral Sell Citi 2 APN OUTDOOR GROUP LIMITED Buy Neutral Credit Suisse 3 ARB CORPORATION LIMITED Buy Neutral Macquarie 4 BLUESCOPE STEEL LIMITED Buy Buy Credit Suisse 5 CARDNO LIMITED Buy Neutral Deutsche Bank 6 CLEANAWAY WASTE MANAGEMENT LIMITED Buy Buy Morgans 7 CORPORATE TRAVEL MANAGEMENT LIMITED Buy Neutral UBS 8 CORPORATE TRAVEL MANAGEMENT LIMITED Buy Buy Ord Minnett 9 DOMAIN HOLDINGS AUSTRALIA LIMITED Buy Neutral Macquarie 10 DOMAIN HOLDINGS AUSTRALIA LIMITED Buy Neutral Credit Suisse 11 ERM POWER LIMITED Buy Neutral Morgans 12 ESTIA HEALTH LIMITED Buy Neutral UBS 13 FAIRFAX MEDIA LIMITED Buy Neutral Macquarie 14 FAIRFAX MEDIA LIMITED Buy Neutral UBS 15 FAIRFAX MEDIA LIMITED Buy Neutral Deutsche Bank 16 FLEXIGROUP LIMITED Buy Neutral Citi 17 FLIGHT CENTRE LIMITED Neutral Sell Citi 18 FLIGHT CENTRE LIMITED Neutral Sell Morgan Stanley 19 GWA GROUP LIMITED Buy Neutral Morgans 20 GWA GROUP LIMITED Neutral Sell Citi 21 GWA GROUP LIMITED Buy Sell Credit Suisse

22 IRESS MARKET TECHNOLOGY LIMITED Neutral Sell Ord Minnett 23 MEDIBANK PRIVATE LIMITED Buy Neutral Deutsche Bank 24 MICHAEL HILL INTERNATIONAL LIMITED Buy Neutral Credit Suisse 25 MOELIS AUSTRALIA LIMITED Buy Neutral Ord Minnett 26 NEW HOPE CORPORATION LIMITED Neutral Sell Credit Suisse 27 NEWCREST MINING LIMITED Buy Neutral Ord Minnett 28 NIB HOLDINGS LIMITED Neutral Sell Citi 29 NINE ENTERTAINMENT CO. HOLDINGS LIMITED Neutral Sell UBS 30 SANTOS LIMITED Neutral Sell UBS 31 SMARTGROUP CORPORATION LTD Buy Neutral Citi 32 ST BARBARA LIMITED Neutral Sell Credit Suisse 33 ST BARBARA LIMITED Buy Neutral Ord Minnett 34 SUPER RETAIL GROUP LIMITED Neutral Sell Credit Suisse 35 SYDNEY AIRPORT HOLDINGS LIMITED Neutral Sell Credit Suisse 36 TABCORP HOLDINGS LIMITED Buy Neutral Credit Suisse 37 THE A2 MILK COMPANY LIMITED Buy Neutral Credit Suisse 38 THE A2 MILK COMPANY LIMITED Buy Neutral Deutsche Bank 39 THE REJECT SHOP LIMITED Buy Neutral UBS 40 VILLAGE ROADSHOW LIMITED Neutral Sell Macquarie 41 VILLAGE ROADSHOW LIMITED Buy Neutral Citi 42 VILLAGE ROADSHOW LIMITED Neutral Sell Ord Minnett 43 WEBJET LIMITED Buy Neutral Credit Suisse 44 WESFARMERS LIMITED Neutral Sell Citi 45 WESFARMERS LIMITED Neutral Sell Deutsche Bank Downgrade 46 APN OUTDOOR GROUP LIMITED Neutral Buy Morgans 47 ARB CORPORATION LIMITED Neutral Buy Citi 48 BHP BILLITON LIMITED Neutral Buy Citi 49 BHP BILLITON LIMITED Neutral Buy Deutsche Bank 50 BLACKMORES LIMITED Neutral Buy Credit Suisse 51 BLUE SKY ALTERNATIVE INVESTMENTS LIMITED Neutral Buy Ord Minnett 52 ELANOR INVESTORS GROUP Buy Buy Ord Minnett 53 HT&E LIMITED Neutral Buy UBS 54 INVOCARE LIMITED Neutral Buy Macquarie 55 IPH LIMITED Neutral Buy Macquarie 56 LINK ADMINISTRATION HOLDINGS LIMITED Neutral Buy UBS 57 LOVISA HOLDINGS LIMITED Neutral Buy Morgans 58 OOH!MEDIA LIMITED Neutral Buy Credit Suisse 59 PERPETUAL LIMITED Neutral Buy Credit Suisse 60 SEEK LIMITED Neutral Buy Macquarie 61 SIMS METAL MANAGEMENT LIMITED Sell Neutral Credit Suisse 62 SIRTEX MEDICAL LIMITED Neutral Buy UBS 63 SUPER RETAIL GROUP LIMITED Neutral Buy Deutsche Bank 64 SUPER RETAIL GROUP LIMITED Neutral Buy Morgan Stanley 65 SYDNEY AIRPORT HOLDINGS LIMITED Neutral Buy Macquarie 66 THE STAR ENTERTAINMENT GROUP LIMITED Neutral Buy Credit Suisse 67 VIRTUS HEALTH LIMITED Neutral Buy Morgans 68 WESTPAC BANKING CORPORATION Neutral Buy Morgan Stanley Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 GWA GWA GROUP LIMITED 17.0% -50.0% 67.0% 6 2 VRL VILLAGE ROADSHOW LIMITED 25.0% -38.0% 63.0% 4 3 FXJ FAIRFAX MEDIA LIMITED 64.0% 21.0% 43.0% 7 4 A2M THE A2 MILK COMPANY LIMITED 80.0% 40.0% 40.0% 5 5 EPW ERM POWER LIMITED 67.0% 33.0% 34.0% 3 6 VCX VICINITY CENTRES 42.0% 8.0% 34.0% 6 7 SBM ST BARBARA LIMITED 10.0% -20.0% 30.0% 5 8 CTD CORPORATE TRAVEL MANAGEMENT LIMITED 80.0% 50.0% 30.0% 5 9 SGP STOCKLAND 50.0% 21.0% 29.0% 7 10 WFD WESTFIELD CORPORATION 60.0% 33.0% 27.0% 5 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SGM SIMS METAL MANAGEMENT LIMITED -17.0% 20.0% -37.0% 6 2 VRT VIRTUS HEALTH LIMITED 33.0% 67.0% -34.0% 3 3 LOV LOVISA HOLDINGS LIMITED 33.0% 67.0% -34.0% 3 4 IPH IPH LIMITED 33.0% 67.0% -34.0% 3 5 BKL BLACKMORES LIMITED 17.0% 50.0% -33.0% 3 6 S32 SOUTH32 LIMITED -50.0% -25.0% -25.0% 8 7 BHP BHP BILLITON LIMITED 50.0% 75.0% -25.0% 8 8 OML OOH!MEDIA LIMITED 70.0% 90.0% -20.0% 5 9 FBU FLETCHER BUILDING LIMITED 33.0% 50.0% -17.0% 6 10 LNK LINK ADMINISTRATION HOLDINGS LIMITED 67.0% 83.0% -16.0% 6 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 A2M THE A2 MILK COMPANY LIMITED 13.500 8.570 57.53% 5 2 SVW SEVEN GROUP HOLDINGS LIMITED 16.800 13.725 22.40% 3 3 NEC NINE ENTERTAINMENT CO. HOLDINGS LIMITED 1.767 1.533 15.26% 6 4 EPW ERM POWER LIMITED 1.697 1.490 13.89% 3 5 CTD CORPORATE TRAVEL MANAGEMENT LIMITED 25.162 22.526 11.70% 5 6 SIQ SMARTGROUP CORPORATION LTD 11.800 10.658 10.71% 6 7 SBM ST BARBARA LIMITED 3.930 3.600 9.17% 5 8 WEB WEBJET LIMITED 13.180 12.130 8.66% 5 9 SGM SIMS METAL MANAGEMENT LIMITED 16.242 15.000 8.28% 6 10 GWA GWA GROUP LIMITED 3.008 2.808 7.12% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 IPH IPH LIMITED 4.357 5.660 -23.02% 3 2 SUL SUPER RETAIL GROUP LIMITED 8.176 9.433 -13.33% 8 3 MHJ MICHAEL HILL INTERNATIONAL LIMITED 1.350 1.433 -5.79% 4 4 S32 SOUTH32 LIMITED 3.290 3.491 -5.76% 8 5 BKL BLACKMORES LIMITED 127.500 134.167 -4.97% 3 6 HT1 HT&E LIMITED 2.278 2.395 -4.89% 6 7 SWM SEVEN WEST MEDIA LIMITED 0.622 0.653 -4.75% 6 8 IVC INVOCARE LIMITED 13.841 14.486 -4.45% 7 9 SGP STOCKLAND 4.593 4.759 -3.49% 7 10 SYD SYDNEY AIRPORT HOLDINGS LIMITED 7.265 7.447 -2.44% 8 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 STO SANTOS LIMITED 29.741 15.970 86.23% 8 2 IFN INFINITI ENERGY 1.867 1.100 69.73% 3 3 OSH OIL SEARCH LIMITED 35.187 24.761 42.11% 8 4 SIQ SMARTGROUP CORPORATION LTD 61.402 47.733 28.64% 6 5 SVW SEVEN GROUP HOLDINGS LIMITED 88.200 74.295 18.72% 3 6 3PL 3P LEARNING LIMITED 5.533 4.767 16.07% 3 7 SYD SYDNEY AIRPORT HOLDINGS LIMITED 18.033 15.950 13.06% 8 8 SGM SIMS METAL MANAGEMENT LIMITED 97.763 86.792 12.64% 6 9 A2M THE A2 MILK COMPANY LIMITED 24.514 21.772 12.59% 5 10 OML OOH!MEDIA LIMITED 26.998 24.040 12.30% 5 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 SXY SENEX ENERGY LIMITED -1.443 4.757 -130.33% 7 2 FBU FLETCHER BUILDING LIMITED 0.710 13.377 -94.69% 6 3 PRU PERSEUS MINING LIMITED 0.075 0.884 -91.52% 5 4 WTC WISETECH GLOBAL LIMITED 14.703 24.408 -39.76% 4 5 GNC GRAINCORP LIMITED 25.654 33.084 -22.46% 5 6 EPW ERM POWER LIMITED 3.300 4.250 -22.35% 3 7 IPH IPH LIMITED 26.467 30.700 -13.79% 3 8 HT1 HT&E LIMITED 16.890 19.345 -12.69% 6 9 OGC OCEANAGOLD CORPORATION 28.762 32.215 -10.72% 6 10 SUN SUNCORP GROUP LIMITED 79.563 88.700 -10.30% 8 Technical limitations

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

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## Uranium Week: Stalemate

The buyers are lined up in the uranium spot market but are not prepared to meet prices on offer.

-Utility demand driving off sellers -Buyers not paying up -US uncertainty continues

By Greg Peel

Last week there were two non-US utilities awaiting offers in the uranium market, industry consultant TradeTech reports. Of note is one utility seeking a total of 1.02mlbs U3O8 to be delivered in three tranches across April, September and December, with offers due by March 19.

This significant near-term demand has spot market sellers trying to milk their offers, resulting in price-sensitive buyers showing no interest.

This stalemate, and market stasis driven by uncertainty regarding US uranium export policy under review (see previous Uranium Weeks), ensured spot market activity was again relatively quiet last week. TradeTech reports five transactions totalling 500,000lbs U3O8 equivalent.

TradeTech's weekly spot price indicator has leapt US5c to US\$21.95/lb.

Three transactions were reported in term markets - two for moderate mid-term volumes and one for 1mlbs to be delivered over four years. TradeTech's term price indicators remain unchanged at US\$26.00/lb (mid) and \$30.00/lb (long).

Not Investing Enough

The head of the International Energy Agency noted last week that while China will triple its nuclear power capacity over the next twenty years, Europe and US are not investing enough.

The issue in the US continues to be one of nuclear power being rendered uneconomic at wholesale power prices driven by cheap natural gas generation.

To that end, the government of New Jersey last week advanced a bill that would provide a US\$300m taxpayer rescue package for the state's Hope Creek and Salem nuclear plants that are no longer financially viable without government assistance.

On the other side of coin, and the world, Poland's state-owned power producer is looking for partners to build the country's first nuclear reactor, in order to move away from coal-fired generation.

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## The Short Report

### Guide:

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

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

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

### Summary:

Week ending February 22, 2018

Last week saw the ASX200 rally steadily to the 5950 level. Over the same period, Wall Street struggled but held its ground, providing the local market with sufficient confidence to focus on the earnings result season.

Strength in the index over the period is almost entirely due to a positive results season, the busiest week of which was last week, with the beat/miss ratio running near the top end of the range over the last five years. Resultant broker upgrades have also well exceed downgrades, and the combination of the two is rare.

A slew of strong results nevertheless did little to spark short traders into action. A glance at the table below shows short position increases/decreases were very few and far between. Only two stocks are worth highlighting.

Myer ((MYR)) did not report earnings but provided a trading update nonetheless, which suggests either something must change soon or the department store chain is not long for this world. Shorts in Myer only increased slightly, but it was enough to put the stock back into its very familiar 10%+ shorted position.

Those recalling the David Jones takeover of some years ago might assume the same could happen to Myer, and indeed there is an anchor position in the stock by virtue of Solly Lew's Premier Investments ((PMV)), which has a 10.8% stake and a very irate chairman.

The difference between David Jones and Myer, however, is that DJs owned its stores and Myer rents, meaning DJs always had a base property valuation and Myer doesn't.

The other short position move of note last week came from toiletries and cosmetics company BWX Ltd ((BWX)), which saw its share price plunge -20% on its result release. BWX has been on a bit of an acquisition spree in the US, and clearly it is struggling to bed those down.

But the stock had rallied 74% over twelve months on sheer investor exuberance, taking it to a PE multiple suggesting excessive over-valuation. Either way, BWX has jumped into the table below at 6.3% shorted from below 5% shorted prior.

That about sums it up so no Movers & Shakers this week.

Weekly short positions as a percentage of market cap:

10%+

SYR 21.8 IGO 17.1 DMP 15.9 JBH 15.8 HSO 14.2 RFG 13.7 GXY 13.1 HT1 11.7 VOC 11.4 MYX 10.8 FLT 10.8 MYR 10.2

In: MYR

9.0-9.9

AAD, AAC, HVN Out: MYR, APO

8.0-8.9%

APO, NWS, MTS, PLS, GXL, TGR

In: APO, NWS

7.0-7.9%

BAP, NXT, GMA, BEN, NAN, TPM

Out: NWS

6.0-6.9%

WEB, ORE, SHV, GTY, AHG, BWX, KAR

In: BWX Out: WSA, RIO

5.0-5.9%

WSA, RIO, QUB, SUL, IMF, SEK, ISD, CCP, APT, NSR, WOW, BGA, CSR, JHC

In: WSA, RIO, SUL

Movers & Shakers

See above.

ASX20 Short Positions (%)

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

#### IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

Aside from all the above reasons as to why it would be a potential misconception to draw simply conclusions on short percentages, there are even wider issues to consider. ASIC itself will admit that short position data is not an



exact science given the onus on market participants to declare to their broker when positions truly are "short". Without any suggestion of deceit, there are always participants who are ignorant of the regulations. Discrepancies can also arise when short positions are held by a large investment banking operation offering multiple stock market services as well as proprietary trading activities. Such activity can introduce the possibility of either non-counting or double-counting when custodians are involved and beneficial ownership issues become unclear.

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

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

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## The Wrap: Currency, Rates, Banks & Lithium

Weekly Broker Wrap: currencies & interest rates; banks; and lithium.

-Slow progress on employment suggests official rate hikes could be delayed -AUD likely at a peak and to ease by the end of the year -Mortgage growth slows, bank valuations remain attractive -Expansion of low-cost lithium supply likely to end the market surplus

By Eva Brocklehurst

### Currencies & Interest Rates

National Australia Bank analysts suspect that weak wages growth and slow progress in reducing unemployment mean it is becoming less likely that their previous call for two increases to official interest rates in 2018 will be realised.

The analysts now envisage the RBA will raise rates only once, late this year. November is considered the most likely start date for a gradual hiking of official rates.

By late 2018 growth should be near 3% and the unemployment rate approaching 5%. Together with increasing tightness in the labour market this may mean private sector wages start to edge up. Still, the analysts concede it is not impossible for the central bank to stay on hold for 2018 and raise rates in 2019.

ANZ FX researchers suggest a top has formed in both the Australian and New Zealand dollars. Domestically the environment is benign but globally it is continuing to deteriorate for both currencies. Rising yields will add volatility to markets and undermine more cyclical deficit currencies such as this pair.

Beyond a rise in yields, broader liquidity is also looking more vulnerable and the positive growth story appears close to being fully discounted. The analysts suggest global growth has reached a point where expectations look extended and caution is warranted.

Westpac analysts suggest the Australian dollar is likely to fall to US\$0.74 by the end of the year. Underpinning the view is an expected fall in commodity prices through 2018 and 2019 and a sharp widening in the AUD/USD interest-rate differential.

Westpac expects a considerable widening in the US/Australian interest-rate differential as the US Federal Reserve raises rates while the RBA remains on hold.

Markets are currently pricing in a yield differential between US and Australian overnight rates of -45 basis points by the end of 2018 whereas Westpac expects -63 basis points. Markets are pricing in a differential of -42 basis points versus Westpac's forecast of -112 basis points by the end of 2019.

### Banks

Macquarie continues to view bank valuations as attractive at current levels. Earnings growth is subdued and the credit environment remains favourable. The broker expects banks to return capital to shareholders via special dividends and buybacks.

The sector continues to trade at a deep discount to the market, which the broker currently calculates at -31% versus the industrials and there is relative value at current levels. The major bank should continue to benefit from improved deposit pricing.

Morgan Stanley calculates that mortgage growth has slowed to around 6%, the sharpest slowdown since July 2013, and expects 4% growth in 2018. The broker notes APRA's 30% cap on new interest-only loans and tighter policy terms are having an impact on the mix of housing lending. Housing growth at the banks is tracking below the broker's first half forecasts, besides ANZ Bank ((ANZ)).

Meanwhile, household deposit growth remains at its lowest levels since 2005 and the broker suggests this signals the end of margin tailwinds from lower deposit pricing. It could also indicate the Australian consumer is struggling to save.

Over the year to January 2018, total credit provided to the private sector increased by 4.9%, of which housing credit stood at 62% and rose by 6.2% over the year, while business credit at around 33% rose 3.4% over the year. System

credit growth continues to run in line with the broker's projections in FY18.

Mortgage brokers have come under the spotlight in the lead up to the Royal Commission on banking as the Productivity Commission has singled out potential conflicts and high fee structures.

Credit Suisse believes, if the Royal Commission finds sufficient misconduct in the mortgage broking industry, it could mean the government acts to increase transparency on fees and regulate to improve scrutiny and the standards of aggregators.

If the government acts on fees, a removal of upfront commissions is seen benefiting banks, as it would reduce the cost of originating loans. Alternatively the government could force disintermediation and here, Commonwealth Bank ((CBA)), as the owner of Aussie Home Loans, would be most negatively affected.

If underwriting standards are further regulated, Credit Suisse suggests, for the banks, this would likely lead to improved credit outcomes.

## Lithium

Morgan Stanley suggests increased electric vehicle penetration will be insufficient to offset the new low-cost supply of lithium from Chile. A number of projects and expansions threaten to add around 500,000 tpa to global supply by 2025.

This includes increase production by low-cost Chilean brine operators SQM and Albemarle. This will challenge higher-cost operators in China and Australia that are also expanding.

Supply additions are expected to swamp forecast demand growth and Morgan Stanley expects 2018 to be the last year of a global lithium deficit, with significant surpluses emerging from 2019. The broker reduces earnings estimates across its lithium coverage by an average of -26% in 2020 and downgrades Galaxy Resources ((GXY)) to Equal-weight from Overweight.

Ord Minnett, too, observes global lithium stocks have underperformed other materials over the past week because of increased speculation that price declines over the medium-term are imminent. This remains consistent with the broker's recent analysis.

However, the incentive price, which Ord Minnett calculates at US\$10,000/t of lithium carbonate equivalent, is likely to remain supportive. Given the rapid increase in both supply and demand, higher-cost upstream assets with no vertical integration are expected to be the most exposed to price volatility.

Ord Minnett retains a preference for producers over developers and battery grade exposure over hard rock exposure. Stock preferences include Galaxy Resources, Orocobre ((ORE)) and Kidman Resources ((KDR)).

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## Buying Opportunity In Nanosonics?

Has a buying opportunity presented in Nanosonics after the first half fell short of expectations?

-Earnings hit reflects inventory timing and likely to be temporary -Trophon forecasts centre on expanding the installed base -High expectations for new products to be launched in FY19/20

By Eva Brocklehurst

Nanosonics ((NAN)), a producer of high-level disinfection solutions for medical devices, disappointed the market with a first half result that was well behind forecasts. Sales fell -4%, reflecting a reduction in consumables and accessories provided to distributor GE Health.

Revenue took a hit, despite 86% growth in UK units and sales in the German and Middle Eastern markets, because of a stock order by GE that affected reported sales. GE installed new units from its inventory rather than purchase from Nanosonics.

This is primarily a timing issue, Canaccord Genuity contends, as the main metrics for investors centre on expanding the installed base, which should drive long-term growth in consumables.

In the UK the installed base is expected to grow by 100% in FY18. The company has also reached a new agreement, effective July 2019, which is expected to provide a material increase in revenue and margin from the sale of consumables to the existing GE Health base.

Management is pursuing growth options in Europe amid several new product campaigns and this makes FY18 an intensive year for investment. At the same time, the company is making it easier for clinics to obtain its key product, Trophon.

In some cases this is at the expense of upfront revenue as the company seeks to grow the installed base. Shareholders, Wilsons suggests, should enjoy a major pay-off from the annuity profit base growing at double-digit rates.

Canaccord Genuity agrees the key for the Trophon business is about expanding the base. This could ultimately make it the standard of care, as well as drive annuity revenue from the sales of high-margin consumables.

The US has achieved around a 35% market adoption and Australasia around 70%. The broker also expects an uptick from July 2019 when GE moves to re-seller arrangement that puts Nanosonics in charge of all US consumables sales.

The main risk to forecasts, Morgans believes, is a slower ramping up of sales in the US. The Trophon installed base in the US increased by 1700 units to 14,100.

### Buying Opportunity

Morgans believes the reaction in the share price to the results means a buying opportunity is presented. The broker expects further investment in new products will drive growth and maintains an Add rating. Target is \$3.22.

Wilsons reduces FY18 net profit estimates by around -\$5m to reflect lower sales and an increase in R&D expense. This broker also believes investors should take advantage of the share price weakness and maintains a Buy rating and \$3.34 target.

Canaccord Genuity downgrades to Hold from Buy, expecting the stock to come under near-term pressure until the growth drivers kick in. Target is \$2.55.

Bell Potter believes the stock remains expensive, although FY18 was always going to be a year of investment. The broker continues to expect stronger earnings growth in FY19 as the US base expands and Trophon gains traction in Europe. The broker has a Hold rating and \$2.48 target.

### Further Product Development

Management has held back on releasing other products in the R&D pipeline for competitive and IP protection reasons, Wilsons notes. These should be launched over FY19-20 and improve the existing sales in infection control mechanisms.

Canaccord Genuity expects the new products in the pipeline, including a second-generation Trophon that is expected to have a higher price point, could all be launched in the next 18-24 months and target the same customers through the channels that have been developed for Trophon.

In the past, product development candidates have included high-level disinfection solutions for trans-oesophageal echocardiogram probes and endoscopes. In both instances this would represent market opportunities at least on par with Trophon, Wilsons believes.

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## Expanding Footprint Drives Growth At AMA

Automotive accessories and accident repair chain, AMA Group, is starting to see the benefit from acquisitions and greenfield developments.

-Well-positioned to lead consolidation in the accident repair industry -Growth is likely to be driven by revenue, as flat margins expected -Management's target for former Automotive Solutions earnings could be optimistic

By Eva Brocklehurst

AMA Group ((AMA)) is building up its chain of panel shops and aftermarket automotive services and accessories. This takes time, although the company is starting to see the benefit of activity during the last 6-12 months.

The company owns and operates a number of different businesses and brands and is the largest accident repair chain in Australia. AMA also manufactures automotive components including re-manufactured transmissions and torque converters.

Acquisitions are well ahead of UBS estimates, with \$10m spent in the first half and seven large shops acquired since the end of the period. The broker observes the opportunities are large and the business is in its infancy.

The company is tracking ahead of the broker's expectations on both acquisitions and greenfield sites. UBS considers the valuation appealing, maintaining a Buy rating and \$1.30 target.

The company has not changed prior guidance for FY18 earnings at over \$48m, excluding start-up losses. First half operating earnings (EBITDA) were up 18% on a revenue increase of 27%, while margins declined to 10.5% from 11.3% in the prior corresponding half. Margins were affected by the start-up losses in relation to new rapid repair locations.

Four new rapid repair sites commenced taking vehicles in the first half and another two have commenced in the second half. Total site numbers within the panel operations have increased to 106, which includes 17 acquired sites that are expected to deliver annualised revenue of around \$60m.

There was no update on the Blackstone Private Equity bid proposal, which currently values the panel operations at \$530m on a cash-free, debt-free basis.

While AMA is the largest accident repair group in Australia it still has a relatively small market share, less than 5%. Hence, in a very fragmented industry, Bell Potter believes it is well positioned to lead consolidation, with a track record of successfully integrating acquisitions.

The broker forecasts growth of 23%, 17% and 20% for earnings in FY18, FY19 and FY20 respectively. This will mostly be driven by revenue, as Bell Potter expects relatively flat margins.

### Automotive Solutions

The company now owns formerly-listed Automotive Solutions, with the transaction completed during the half year period. The business will be subject to a material process to turn it around after delivering a net loss of -\$4.4m. Canaccord Genuity understands the cost base has already been significantly reduced and corporate overheads quickly removed.

AMA is progressing with consolidation of the various operations across its non-panel facilities and the broker expects this division will break even in the second half. Canaccord Genuity has a Buy rating and \$1.30 target.

UBS also envisages an opportunity to take out costs and reap synergies in the Automotive Solutions business but considers management's annualised target of around \$6m in operating earnings for the second half optimistic.

Bell Potter downgrades FY18 forecasts for earnings per share by -11%, driven by equity accounting losses from Automotive Solutions as well as higher one-off costs. There is negligible change in the broker's FY19 and FY20 forecasts, which already assume consolidation of Automotive Solutions. Bell Potter has a Buy rating and \$1.35 target.

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