WEEK 32

FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Friday, 9 August 2024

Pinnacle Investment: And The Beat Goes On

Rudi's View: First Relief, Then More Selling?

SiteMinder To Thrive On New Product Launches

CONTENTS

FNArena
Financial News, Data & Analysis

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AUSTRALIA

The Market In Numbers - 3 Aug 2024

The Market In Numbers: Look under the bonnet and what do you see?

For most investors, whatever goes on in financial markets is experienced through their own portfolio and personal matters of interest.

The below detailed overview in raw numbers and calculations might assist with assessing trends and currents that might not be apparent from daily volatility and movements.

All index data are ex dividends. Commodities are in USD.

Australia & NZ

Index	03 Aug 2024	Week To Date	Month To Date (Aug)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
NZ50	12453.040	0.84%	0.39%	6.28%	5.80%	6.28%
All Ordinaries	8170.40	0.21%	-1.80%	1.95%	4.35%	1.95%
S&P ASX 200	7943.20	0.28%	-1.84%	2.26%	4.64%	2.26%
S&P ASX 300	7878.90	0.28%	-1.83%	2.21%	4.55%	2.21%
Communication Services	1563.60	2.14%	-1.06%	4.16%	-1.55%	4.16%
Consumer Discretionary	3720.90	0.70%	-2.86%	5.96%	14.84%	5.96%
Consumer Staples	12736.00	0.72%	-0.87%	2.89%	3.46%	2.89%
Energy	9868.90	1.07%	-1.26%	-1.62%	-7.10%	-1.62%
Financials	7896.80	-0.21%	-2.95%	3.13%	17.54%	3.13%
Health Care	45658.50	-0.36%	-1.44%	3.17%	7.84%	3.17%
Industrials	7056.80	0.59%	-1.94%	3.60%	2.78%	3.60%
Info Technology	2318.80	1.93%	-1.18%	-0.97%	26.51%	-0.97%
Materials	16729.00	-0.21%	-0.78%	-0.88%	-14.17%	-0.88%
Real Estate	3751.30	1.60%	-1.25%	5.28%	12.06%	5.28%
Utilities	9069.50	1.30%	0.55%	-2.32%	10.88%	-2.32%
A-REITs	1712.50	1.62%	-1.27%	5.43%	13.98%	5.43%
All Technology Index	3137.70	1.93%	-1.30%	-0.01%	16.47%	-0.01%
Banks	3304.60	-0.74%	-3.39%	3.42%	18.89%	3.42%
Gold Index	8058.20	2.69%	1.05%	9.53%	9.37%	9.53%
Metals & Mining	5450.50	-0.34%	-0.62%	-1.80%	-15.71%	-1.80%

The World

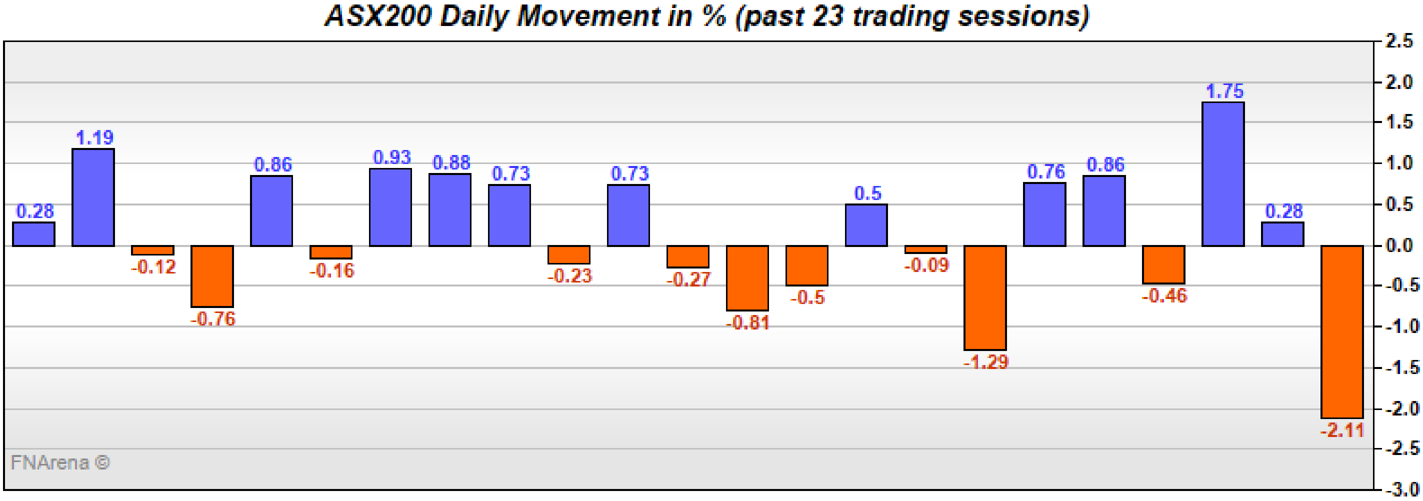
Index	03 Aug 2024	Week To Date	Month To Date (Aug)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
FTSE100	8174.71	-1.34%	-2.31%	0.13%	5.71%	0.13%
DAX30	17661.22	-4.11%	-4.58%	-3.15%	5.43%	-3.15%
Hang Seng	16945.51	-0.45%	-2.30%	-4.36%	-0.60%	-4.36%
Nikkei 225	35909.70	-4.67%	-8.16%	-9.28%	7.31%	-9.28%
DJIA	39737.26	-2.10%	-2.71%	1.58%	5.43%	1.58%
S&P500	5346.56	-2.06%	-3.18%	-2.09%	12.09%	-2.09%
Nasdaq Comp	16776.16	-3.35%	-4.68%	-5.39%	11.76%	-5.39%

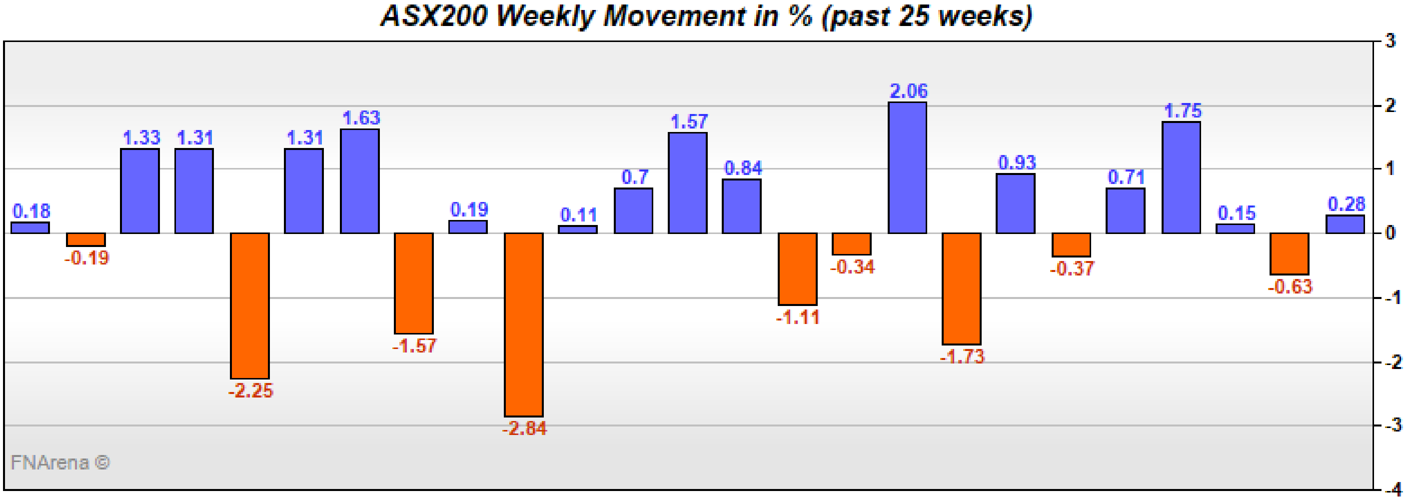
Metals & Minerals

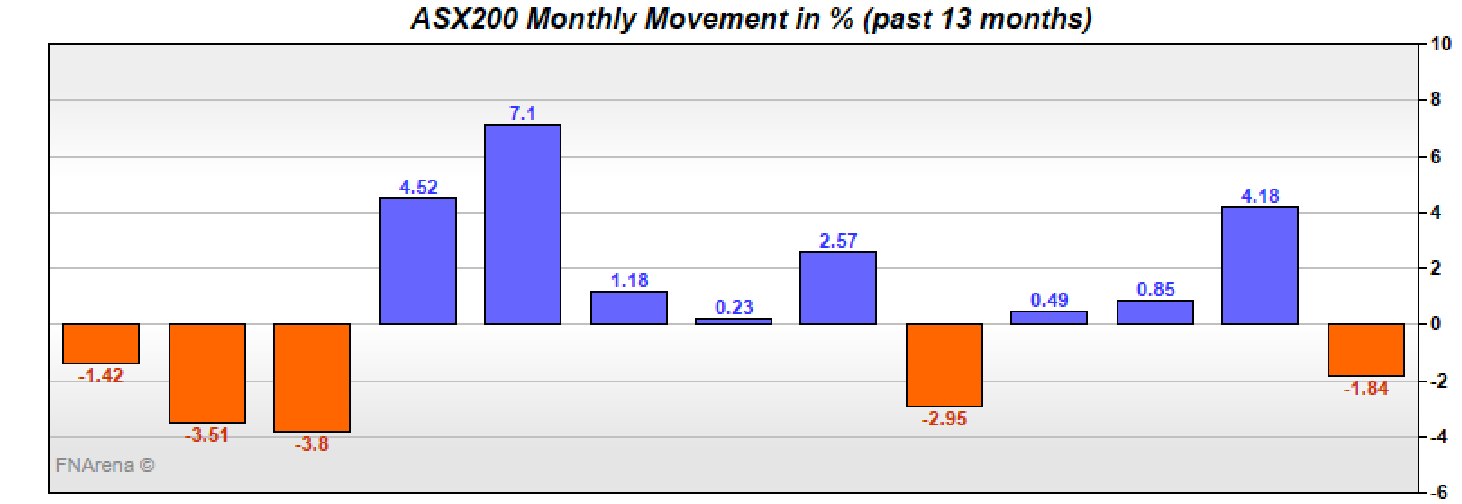
Index	03 Aug 2024	Week To Date	Month To Date (Aug)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
Gold (oz)	2490.90	5.38%	1.42%	6.54%	21.83%	6.54%
Silver (oz)	28.64	2.36%	0.39%	-2.09%	17.47%	-2.09%
Copper (lb)	4.0675	-1.13%	-0.60%	-6.14%	6.81%	-6.14%
Aluminium (lb)	1.0229	-0.13%	1.61%	-9.04%	5.20%	-9.04%
Nickel (lb)	7.4596	4.80%	3.06%	-4.10%	0.30%	-4.10%
Zinc (lb)	1.2083	-0.21%	1.21%	-8.88%	7.44%	-8.88%
Uranium (lb) weekly	82.00	-2.38%	0.00%	-1.50%	-4.65%	-1.50%
Iron Ore (t)	102.83	-4.02%	-3.22%	-3.46%	-25.61%	-3.46%

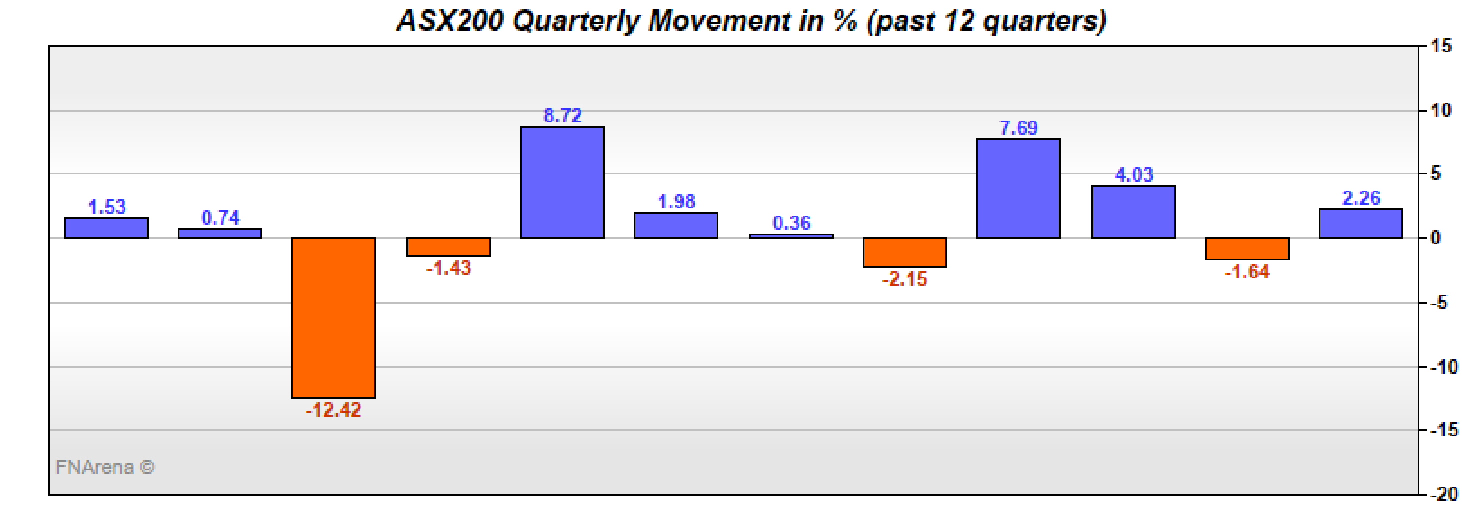
Energy

Index	03 Aug 2024	Week To Date	Month To Date (Aug)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
West Texas Crude	76.93	-1.76%	2.23%	-6.02%	4.23%	-6.02%
Brent Crude	79.99	-1.76%	1.85%	-6.38%	0.92%	-6.38%









The composition of above rankings and calculations is fully automated, based on raw data. Investors are advised to find context, interpretation and background elsewhere.

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AUSTRALIA

July In Review: Banks Beat Small Caps

The ASX200 outperformed overseas indices in July aided by ongoing strength in bank share prices.

-ASX200 gained 4.2% (total return) in July
-Small caps underperformed
-Growth outperformed Value, Resources lag
-Banks account for 40% of the ASX200 rise since October

By Mark Woodruff

July is the best month of the year for ASX returns, and true to form the ASX200 gained 4.2% (including dividends), setting a new high at 8092 and outperforming US equities.

In contrast to the US, where Growth shares (led by the Magnificent Seven) fell and funds were diverted to small caps, Growth outperformed in Australia in July and small caps lagged.

In a broad measure of global equity market performances, the MSCI All Country World Index (ACWI) rose by 1.2% in July. The S&P500 in the US gained 1.22%, while the Nasdaq100 lost -1.6%. In Australia, the All-Technology Index gained 1.3%.

All sectors in Australia reacted positively, following a less-than-expected second quarter CPI print, led by Financials, Consumer Discretionary and the Real Estate sectors, while Utilities, Energy and Materials fell behind.

Industrials were again preferred over Resources in July.

The ASX200 has now climbed by 22.5% from October 2023 lows, highlights Morgan Stanley, with Banks accounting for 40% of that rise.

In terms of index weight, the broker points out Banks now have a 1.1% percentage point lead over Resources, having closed the -7.6% percentage point gap in 2024.

There was broad based strength seen across all sizes of indices in July, though the Small Ordinaries and Emerging Companies (ex-ASX300) trailed large caps by -70bps and-400bps, respectively. Small Caps have greater exposure to Discretionary and Real Estate relative to large cap exposure to Financials, explains Morgan Stanley.

Macquarie attributes the 2.5 percentage point outperformance of Growth over Value in Australia largely to the -1% decline in Resources.

A 12.2% gain for Discretionary Retail was the best sector performance, suggesting to Macquarie investors are positioning for a cut in interest rates and a subsequent improvement in consumer spending. Utilities suffered the largest loss of -2.9%, partially attributed due to a fall in electricity futures.

The CRB Index fell by -4.3% over July, pulled down by falls for iron ore and Brent crude oil of -4.2% and -6.6%, respectively.

The gold price jumped by 5.2% to US2,447.60/oz and the Gold sector rallied 8.4% largely supported by a fall in bond yields in response to an increased probability of rate cuts, explains Macquarie. The sector gain was driven by a 16% gain for Newmont Corp ((NEM)), but there were also strong gains in small cap gold stocks such as Resolute Mining ((RSG)) and Genesis Minerals ((GMD)), which gained 25% and 19%, respectively.

The US dollar Index (DXY) a measure of the value of the US dollar relative to a basket of foreign currencies, fell by -1.7% to 104.10, and the Australian dollar also moved lower by -1.9% to US$0.6550.

Because of weaker shares for the Magnificent Seven, Macquarie's proprietary FOMO meter (which measures equity sentiment) fell to 1.17 by the end of July, having reached 1.48 mid-month.

Still, a FOMO meter reading above 1.0 indicates bullish sentiment based on the market expectation for interest rate cuts in the US, and the hope this will prevent a large rise in unemployment, explains the broker.

ASX cash futures had assigned a 5% likelihood of an interest rate easing by the Reserve Bank in early-August, notes Macquarie, and a slightly better than 1-in-10 chance for a -50bps move in September by the Federal Reserve in the US.

Domestically, Morgan Stanley believes the path for earnings remains challenged and the upcoming corporate reporting season presents ongoing risk.

This broker believes interest rates are now on hold in Australia with the first cut likely in May 2025.

Macquarie cautions August is generally a mixed month and September is typically negative, and the worst month of the year for investment returns from the local share market.

For more on Australian banks, see further below.

ASX100 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
LLC - LENDLEASE GROUP	16.08	S32 - SOUTH32 LIMITED	-16.12
NEM - NEWMONT CORPORATION REGISTERED	16.04	FMG - FORTESCUE LIMITED	-11.86
GPT - GPT GROUP	15.75	DMP - DOMINO'S PIZZA ENTERPRISES LIMITED	-8.69
JHX - JAMES HARDIE INDUSTRIES PLC	15.58	PDN - PALADIN ENERGY LIMITED	-8.57
MGR - MIRVAC GROUP	14.44	ILU - ILUKA RESOURCES LIMITED	-7.48

ASX200 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
IRE - IRESS LIMITED	32.05	STX - STRIKE ENERGY LIMITED	-28.57
CRN - CORONADO GLOBAL RESOURCES INC	21.52	LIC - LIFESTYLE COMMUNITIES LIMITED	-27.59
MFG - MAGELLAN FINANCIAL GROUP LIMITED	21.38	BGL - BELLEVUE GOLD LIMITED	-23.25
IFL - INSIGNIA FINANCIAL LIMITED	20.96	S32 - SOUTH32 LIMITED	-16.12
GMD - GENESIS MINERALS LIMITED	19.09	AWC - ALUMINA LIMITED	-14.45

ASX300 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
IRE - IRESS LIMITED	32.05	MEI - METEORIC RESOURCES NL	-35.48
ZIP - ZIP CO LIMITED	30.82	CXL - CALIX LIMITED	-28.87
RSG - RESOLUTE MINING LIMITED	25.00	STX - STRIKE ENERGY LIMITED	-28.57
VUL - VULCAN ENERGY RESOURCES LIMITED	21.54	LIC - LIFESTYLE COMMUNITIES LIMITED	-27.59
CRN - CORONADO GLOBAL RESOURCES INC	21.52	SYR - SYRAH RESOURCES LIMITED	-26.76

ALL-TECH Best and Worst Performers of the month (in %)

Company	Change	Company	Change
APX - APPEN LIMITED	59.57	BRN - BRAINCHIP HOLDINGS LIMITED	-15.91
IRE - IRESS LIMITED	32.05	WBT - WEEBIT NANO LIMITED	-7.84
NXL - NUIX LIMITED	12.01	4DX - 4DMEDICAL LIMITED	-7.69
TNE - TECHNOLOGY ONE LIMITED	10.65	AD8 - AUDINATE GROUP LIMITED	-6.06
SDR - SITEMINDER LIMITED	10.02	WTC - WISETECH GLOBAL LIMITED	-5.22

All index data are ex dividends. Commodities are in USD.

Australia & NZ

Index	31 Jul 2024	Month Of Jul	Quarter To Date (Jul-Sep)	Year To Date (2024)
NZ50	12405.270	5.87%	5.87%	5.39%
All Ordinaries	8320.40	3.83%	3.83%	6.27%
S&P ASX 200	8092.30	4.18%	4.18%	6.61%
S&P ASX 300	8026.00	4.12%	4.12%	6.50%
Communication Services	1580.40	5.28%	5.28%	-0.49%
Consumer Discretionary	3830.30	9.08%	9.08%	18.21%

Consumer Staples	12847.70	3.79%	3.79%	4.36%
Energy	9994.40	-0.37%	-0.37%	-5.92%
Financials	8136.80	6.26%	6.26%	21.11%
Health Care	46324.40	4.67%	4.67%	9.41%
Industrials	7196.10	5.65%	5.65%	4.81%
Info Technology	2346.60	0.22%	0.22%	28.03%
Materials	16859.90	-0.11%	-0.11%	-13.50%
Real Estate	3798.80	6.61%	6.61%	13.47%
Utilities	9020.30	-2.85%	-2.85%	10.28%
A-REITs	1734.50	6.78%	6.78%	15.45%
All Technology Index	3179.00	1.31%	1.31%	18.00%
Banks	3420.70	7.06%	7.06%	23.07%
Gold Index	7974.70	8.39%	8.39%	8.24%
Metals & Mining	5484.50	-1.19%	-1.19%	-15.19%

The World

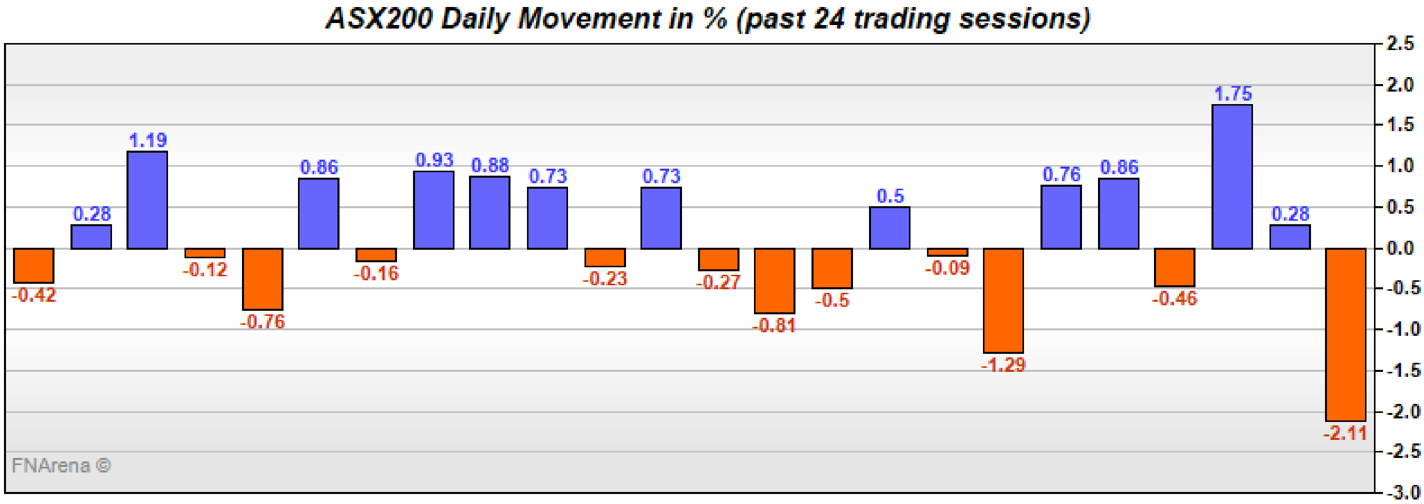
Index	31 Jul 2024	Month Of Jul	Quarter To Date (Jul-Sep)	Year To Date (2024)
FTSE100	8367.98	2.50%	2.50%	8.21%
DAX30	18508.65	1.50%	1.50%	10.49%
Hang Seng	17344.60	-2.11%	-2.11%	1.74%
Nikkei 225	39101.82	-1.22%	-1.22%	16.85%
DJIA	40842.79	4.41%	4.41%	8.37%
S&P500	5522.30	1.13%	1.13%	15.78%
Nasdaq Comp	17599.40	-0.75%	-0.75%	17.24%

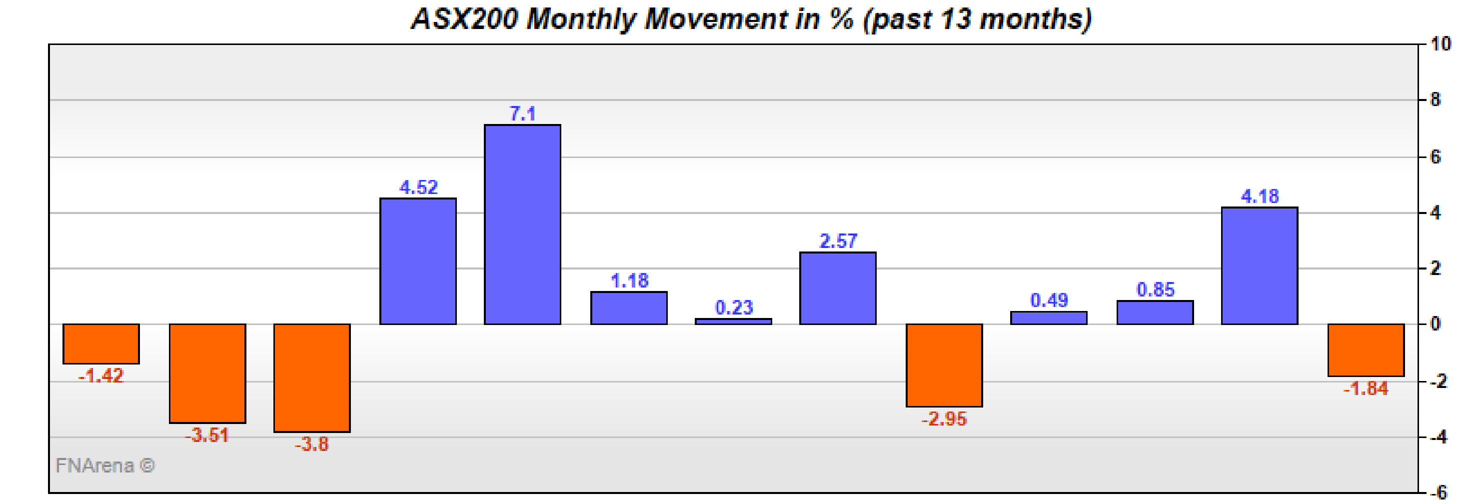
Metals & Minerals

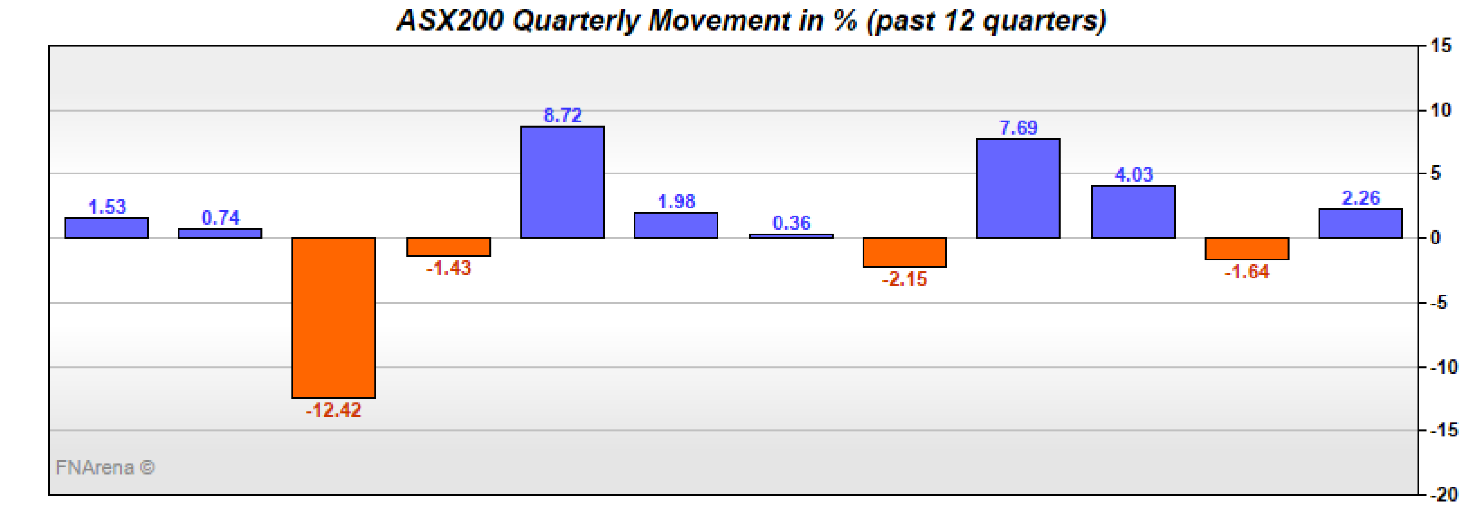
Index	31 Jul 2024	Month Of Jul	Quarter To Date (Jul-Sep)	Year To Date (2024)
Gold (oz)	2456.00	5.05%	5.05%	20.13%
Silver (oz)	28.53	-2.46%	-2.46%	17.02%
Copper (lb)	4.0920	-5.57%	-5.57%	7.46%
Aluminium (lb)	1.0067	-10.48%	-10.48%	3.54%
Nickel (lb)	7.2378	-6.95%	-6.95%	-2.68%
Zinc (lb)	1.1939	-9.97%	-9.97%	6.16%
Uranium (lb) weekly	82.00	-1.50%	-1.50%	-4.65%
Iron Ore (t)	106.25	-0.24%	-0.24%	-23.14%

Energy

Index	31 Jul 2024	Month Of Jul	Quarter To Date (Jul-Sep)	Year To Date (2024)
West Texas Crude	75.25	-8.07%	-8.07%	1.95%
Brent Crude	78.54	-8.08%	-8.08%	-0.91%







Australian Banks

The average major bank total shareholder return of 6.7% in July convincingly beat the 4.2% return from the ASX200 index.

Among the majors, Westpac ((WBC)) was the best performer with a 9.4% return, while ANZ Bank ((ANZ)) gained the least with a 2.9% return. In between, shares in CommBank ((CBA)) and National Australia Bank ((NAB)) gained 7.9% and 6.5%, respectively.

The smaller banks also outperformed with shares in Judo Capital ((JDO)), Bendigo & Adelaide Bank ((BEN)) and Bank of Queensland ((BOQ)) gaining 10.3%, 8.7% and 8.6%, respectively.

Bank share prices already reflect all the benefits of rate cuts, a soft landing and less competition, according to Morgan Stanley. The broker concedes it has underestimated the rally for bank shares so far in 2024.

Despite healthy balance sheets and capital management initiatives, the analysts suggest current trading multiples are not supported by the banks' growth and return profiles.

Morgan Stanley highlights the major banks' average dividend yield of around 4.7% is 0.4% above the bond yield, which compares to the post-2010 average of 2.8% above the bond yield.

New Zealand

In common with the ASX200, nearly every sector in the NZX50 gained in July, boosted by softening inflation and expectations of interest rate cuts domestically.

The NZX50 gained 5.87% for the month bringing the year-to-date gain to 5.39%.

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AUSTRALIA

ResMed's Margin Upside Excites

Sleep treatment leader ResMed has faced a number of headwinds but has surprised analysts with a strong improvement in gross margins.

-ResMed's weaker mask sales offset by stronger device sales
-Gross margin improvement surprises to the upside
-Weight-loss drugs not seen as a major threat
-More capital management ahead

By Greg Peel

At the Margin

If it wasn't enough that investors had been scared away from ResMed ((RMD)) with the explosion of GLP-1 drugs (which treat diabetes but have the added benefit of reducing weight, therefore, in theory, reducing incidences of sleep apnoea), the effective closure of the Red Sea due to Houthi attacks on shipping significantly increased ResMed's freight costs to Europe.

Analysts have a different spin on the GLP-1 effect, which we'll get to shortly, but the highlight of Friday's result was a better than expected increase in gross margins, upon which freight costs are a drag.

A "miss" in device sales (vis a vis analysts' forecasts) was offset by a beat on mask and accessory sales, leading to an earnings result that either matched or exceeded analyst forecasts.

Gross margins lifted in the June quarter to 59.1%, well ahead of consensus, despite the freight headwinds. This was attributed to a range of offsetting margin tailwinds, including (i) manufacturing improvements; (ii) procurement initiatives; (iii) increasing scale benefits, such as overhead recoveries; (iv) manufacturing efficiencies as ResMed transitions to the AirSense11; (v) mix shift, in particular masks versus devices; and (vi) new product launches such as AirFit F40, with other mask launches to come.

In Jarden's view, there is further upside in gross margins as freight normalises, with the potential to move beyond pre-covid margins.

Furthermore, headwinds from elevated component costs incurred in prior periods continue to unwind, underwriting a stable to growing gross margin position for FY25-26.

While the Red Sea issue is not resolved, and freight cost headwinds will continue for now, gross margins are expected to lift in FY24 as mix, price and manufacturing efficiencies continue.

ResMed is guiding to a 59-60% gross margin in FY25, ahead of consensus, providing analysts with confidence.

Moreover, the miss on mask sales was not a great surprise given ResMed was cycling a 30% mask sale increase year on year.

Taking GLP-1s Head On

GLP-1s such as Ozempic have taken the world by storm as the ultimate weight-loss drug, even if that was not the original intention. But they are expensive, and if you stop taking them you put the weight straight back on. That is an impediment to begin with.

Obesity commonly leads to sleep apnoea, hence GLP-1s are seen as undermining ResMed's customer base.

However, the flipside is that increased attention to weight-loss has actually boosted recognition of sleep apnoea as a related problem and the availability of masks and devices to treat it.

While anti-obesity drugs could displace continuous positive airway pressure (CPAP) devices in some patient categories, suggests JPMorgan, the evidence to date continues to point to complimentary usage and higher CPAP adherence.

To that end, Morgans notes ResMed is aspiring to become a leading digital health "sleep concierge" by leveraging its strong data analytics around megatrends in consumer wearables and Big Pharma's focus on weight loss drugs, helping patients better access information on screening, diagnosis and treatment.

"We are confident," says Wilsons, "that system growth in sleep will go up when Big Pharma (including Eli Lilly) win OSA [obstructive sleep apnoea] labels for GLP-1 receptor agonists and start the inevitable *Do You Have Sleep Apnoea?'* campaigns.

Wilsons highlights Eli Lilly, as the Big Pharma company recently released a paper appearing in the New England Journal of Medicine touting its Surmount-OSA drug, which the broker describes as a powerful demonstration of the obvious (that weight loss begets improvement in OSA symptoms) and nothing more.

"We see it as a relatively contrived clinical vignette," Wilsons continues, "which may win a label expansion for Lilly, but says nothing about how the obese OSA patient experiences and manages their disease using CPAP. CPAP will remain standard of care for the foreseeable future".

JPMorgan, in the meantime, remains "confident the growing availability of GLP-1s, including having OSA on label, will be a tailwind for sleep demand for at least the next 12 months".

Capital Management

ResMed's cash generation was "very attractive" in the June quarter, notes Jarden, with working capital releasing cash flow via inventory balances. As a result, the company's cash is achieving a speedy reduction of debt, with ResMed set to emerge debt free in FY25.

More importantly, it opens ResMed up to increasing dividends (up 10% on the March quarter), larger buybacks and M&A. The latest $50m buyback guidance per quarter in FY25 looks a little soft to Jarden and serves only to offset the dilution from staff equity. However, the broker would expect this to become more meaningful once debt has been fully extinguished.

ResMed continues to mention M&A but the focus appears to be on small "tuck-in" acquisitions for the time being.

Positive Views

One other issue hanging over ResMed in past years has been the anticipated re-entry into the market of competitor Philips, after the competitor was forced to recall its devices. The re-entry has taken much longer than originally assumed, but it will happen, eventually.

This has been a particular bugbear of Citi's. ResMed has greatly benefitted from Philips' withdrawal in gaining market share over the period, and cementing itself as the global leader in sleep treatment, which many analysts believe will be hard to undermine. Citi has long forecasted that when it does return, Philips will gradually regain around 20% of device market share, and take 10% of that away from ResMed.

Despite dismissals elsewhere, Citi also assumes GLP-1s are a headwind to demand for CPAP devices over several years.

Citi retains a Neutral rating, lifting its target to $34.00 from $30.00 post the June quarter result.

UBS also retains Neutral, and complicates the issue by setting a price target for the US-listed stock at US$210.

Ord Minnett also acknowledges potential risks to ResMed from weight-loss drugs, but the market's conclusions on the impact of these drugs is too "downbeat" in the broker's view. Ord Minnett also suggests the benefits to ResMed from the Philips recall have also not been fully discounted by the market.

Ord Minnett retains an Accumulate rating, lifting its target to $35.40 from $33.00.

Morgans has an Add rating, and lifts its target to $35.93 from $34.11.

Macquarie (Outperform) continues to see ResMed as attractive at current levels, given solid earnings growth over time, a favourable balance sheet position and valuation appeal at the current multiple. Macquarie raises its target to $36.25 from $35.40.

Morgan Stanley (Overweight) is the other broker monitored daily by FNArena covering ResMed, but has not yet updated on the June quarter result.

The consensus target among the above brokers is $35.06, with four Buy or equivalent ratings and two Hold ratings.

Not monitored daily, Jarden (Overweight) has lifted its target to $33.83 from $32.85, and JPMorgan (Overweight) has lifted to $37.00 from $34.50.

Ahead of the pack, Wilsons' (Overweight) target rises by 12% to $40.25.

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AUSTRALIA

Pinnacle Investment: And The Beat Goes On

Analysts raise 12-month targets for Pinnacle Investment Management after rising equity markets boosted funds under management and performance fees.

-Pinnacle Investment Management FY24 beats forecasts
-Record affiliate FUM, performance fees up strongly
-Margins bouncing back after period of investment
-Current momentum potentially a structural, long-term trend

By Mark Woodruff

While shares in Pinnacle Investment Management ((PNI)) have already climbed by 60% in 2024, one broker forecasts annual returns to shareholders will compound at around 20% over the next few years, and another suggests current momentum may be structural in nature.

Analysts are generally bullish following FY24 results, with the average target price of four covering brokers in the FNArena database rising by 20% to $18.30, suggesting around 12% upside to the latest share price.

Rising equity markets contributed to higher levels for both funds under management (FUM) and performance fees in the second half of FY24. As the exit FUM for the period was 11% above the FY24 average, prospects are also bright for FY25.

Increasing by 35% on the previous corresponding period, FY24 profit of $90.4m beat the consensus forecast by 12%, though UBS highlights this reduces to 3% on an underlying basis when adjusting for large one-offs including principal investment gains.

In a sign of accelerating momentum, second half profit came in 18% ahead of the consensus estimate.

Affiliate profit, performance fees, and a mark-to-market on financial assets all came in higher than forecasts by Ord Minnett.

Business model and Affiliate performance

Investors may gain access to 15 different asset managers through Pinnacle's global network of affiliated investment partners, providing a variety of investment options across asset classes.

Among other revenue streams, Pinnacle holds equity in these affiliate investment management funds, providing seed funding, distribution, office and infrastructure services, and general support to deliver investment services to clients.

The company's largest investment partners by FUM are Hyperion, Plato, Solaris, Resolution, Antipodes, Firetrail, Metrics, and Coolabah. In total, there are 25 strategies that have potential to deliver meaningful performance fees to Pinnacle.

The new global equity affiliate -Life Cycle Investment Partners- brings material optionality, suggests UBS, with every $10bn of FUM equivalent to around $8m net profit for Pinnacle.

According to this broker, Pinnacle has the potential to more than double its share of affiliate profits (pre performance fees). To achieve this, the company would need to convert around 50% of remaining capacity over the next five years in order to double FUM (ex market appreciation).

Affiliate FUM reached a record of $110bn in FY24, increasing by 20% year-on-year aided by $9.9bn of net inflows and $8.3bn of market movements/investment performance, explains Macquarie.

FY24 flows of $9.9bn included contributions from Retail, International and Domestic Institutional of $3.9bn, $7bn and -$1bn, respectively.

Macquarie highlights International distribution and Private market strategies now represent 17% and 21% of

FUM, respectively.

Performance fees

In addition to management fees, Pinnacle also earns performance fees based on the investment performance of affiliated funds.

FY24 performance fees increased by 89% year-on-year to $109.8m in FY23 driven primarily by Coolabah, Hyperion, and Palisade, while FUM subject to performance fees continues to increase and now sits at around $38.6bn, a 14% rise on FY23.

In funds management, the term 'above high watermark' refers to a performance benchmark that must be exceeded before a fund manager can earn performance fees.

Setting the stage for a strong FY25, according to Wilsons, 58% of performance fee FUM is now at or above high watermark.

Affiliate base fee margins increased to 57bps from 55bps in FY24 due to an improved mix of higher-margin retail flows and low-margin institutional flows, higher margin private markets mix in the second half, and realisation of lumpy origination fees, explains UBS.

The board declared a final dividend of 26.4cps (72% franked), well ahead of Ord Minnett's 20.9cps forecast.

Margins and the Horizon 2 investment program

Operating leverage across Pinnacle's platform could see margins exceed the average historical levels of 50%, suggests Macquarie.

A step-up in Horizon 2 investments in the second half of FY22 caused margins to contract in recent periods to as low as 35%.

Horizon 2 affiliates include Hyperion, Plato, Solaris, Palisade, Antipodes, Spheria and Firetrail. Pinnacle also recently brought in a new affiliate called Life-cycle Investment Partners from the UK.

Wilsons believes this new entrant has the potential to be a material earnings driver due to the management team's strong reputation globally and significant FUM capacity.

As these Horizon 2 investments increasingly turn profitable, Macquarie expects margins will track back toward 50%.

Following the drag from the Horizon 2 investment program, (which UBS expects to reduce in the medium-term), there were emerging signs of operating leverage in the second half.

Management flagged key Horizon 2 affiliates such as Firetrail, Riparian, Langdon, and Longwave were approaching profitability after making steps toward run-rate profitability during FY24.

<u>Outlook</u>

The FY25 outlook is strong, UBS declares. This broker forecasts 26% reported profit growth.

As investment has peaked, Ord Minnett anticipates a significant improvement in underlying Affiliate profitability, and forecasts annual returns to shareholders will compound at around 20% over the next number of years.

Momentum for Pinnacle now appears a structural, long-term trend, in Wilsons view, given the shift to Private Capital and consistent Retail and International distribution success.

Four brokers covering Pinnacle Investment Management are updated daily in the FNArena database. Morgans, Macquarie and Ord Minnett have Buy ratings (or equivalent) while UBS is Neutral-rated.

Outside of daily coverage, Wilsons has an Overweight rating and target price of $19.70, up from $14.10 post the FY24 result.

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

BOOK REVIEWS

Book Excerpt: Nine Common Investing Myths

It's time to debunk some of your concerns by discussing investing myths so you can feel confident about investing.

One of the best ways to build a life you love is to ensure you have the financial security to do so. That way, you don't have to depend on a pay cheque. This is often referred to as '*financial freedom*'.

Financial freedom is achieved through creating passive income income that you don't have to trade your time for. Investing is one of the most passive ways to make money, in that your money makes money and you don't have to do much in return.

And it's easier to get started than you might think.

Myth #1: Investing in the stock market is gambling

Gambling and investing might seem similar, as both involve a degree of risk and the hope of making money. However, the underlying principles are quite different.

With gambling, money is risked on events with unpredictable outcomes, relying mostly on luck. The odds of winning are low.

Investing in shares is about making informed decisions to invest in companies, typically with the expectation of growth through the increase in value of the share price (capital growth) or by generating income (dividends).

Remember that with investing, you are an owner in a company.

Myth #2: It's safer to have money in a bank account

Inflation eats away at the purchasing power of your money.

For example, at a 3 per-cent annual inflation rate, in 3 years $10,000 would only be worth $9,151.42. This highlights how keeping cash leads to a loss in its real value, due to the steadily rising annual cost of living.

While investing carries a higher risk than holding cash, it has historically had higher returns over the long term.

Myth #3: I could lose all my money

The share market moves up and down constantly, but it's only when you sell your shares that you've concreted the profit or loss.

If you've invested in a diversified, low-cost index portfolio and you've invested across many companies from many sectors, you've reduced some of your risk.

The likelihood of losing everything due to the market crashing to zero is low.

Many remember the impact of the GFC of 2007-2009, and how it affected people worldwide. But what's rarely noted is that if investors didn't have all their eggs in one basket and didn't pull their money out at the bottom of a crash, their money would have grown over the next 10+ years.

Myth #4: Investing is too complicated

Basically, if you can buy shoes online, you can buy shares. It's literally that simple to get started.

Of course, there are nuances when it comes to understanding what to buy and what your optimal strategy is and understanding your risk tolerance and timeline but overall, getting started isn't hard.

The first step is to get confident with the relevant information.

Myth #5: You need to be good at maths

Maths and financial literacy go hand-in-hand and result in some of the best financial outcomes. However, being good at maths isn't essential.

It's like fitness. Do you need to be strong to be fit? It helps, but being fit is more about focusing on eating well and exercising consistently. The longer you stay on the path of having a healthy diet and moving your body, the more likely you are to continue to have a positive journey of wellness.

Similarly, investing is about focusing on having a positive money mindset and ensuring you are consistent and intentional.

Myth #6: Just buy low and sell high

It makes sense: buy low and sell high and you'll be rich. However, in practice it's really hard to do.

You'd need to watch the market very closely and be ready to buy and sell at any time. Do you have time to watch the market all day, every day?

Not only that, even fund managers can't be consistent when it comes to predicting what the markets will do, because no-one can see into the future.

Myth #7: You need a lot of money

You don't need thousands of dollars to start investing. In fact, there are micro-investing options available that enable you to start with as little as $5.

For example, if you invest $20 a month at an average annual return of 7 per cent, in 30 years it would grow to be $22,671, which is way better than not investing at all.

Myth #8: You need a complicated strategy

You can basically invest with one ETF and have a very broad and diversified portfolio.

Putting together an investing strategy can be as simple as determining what to invest in and how often.

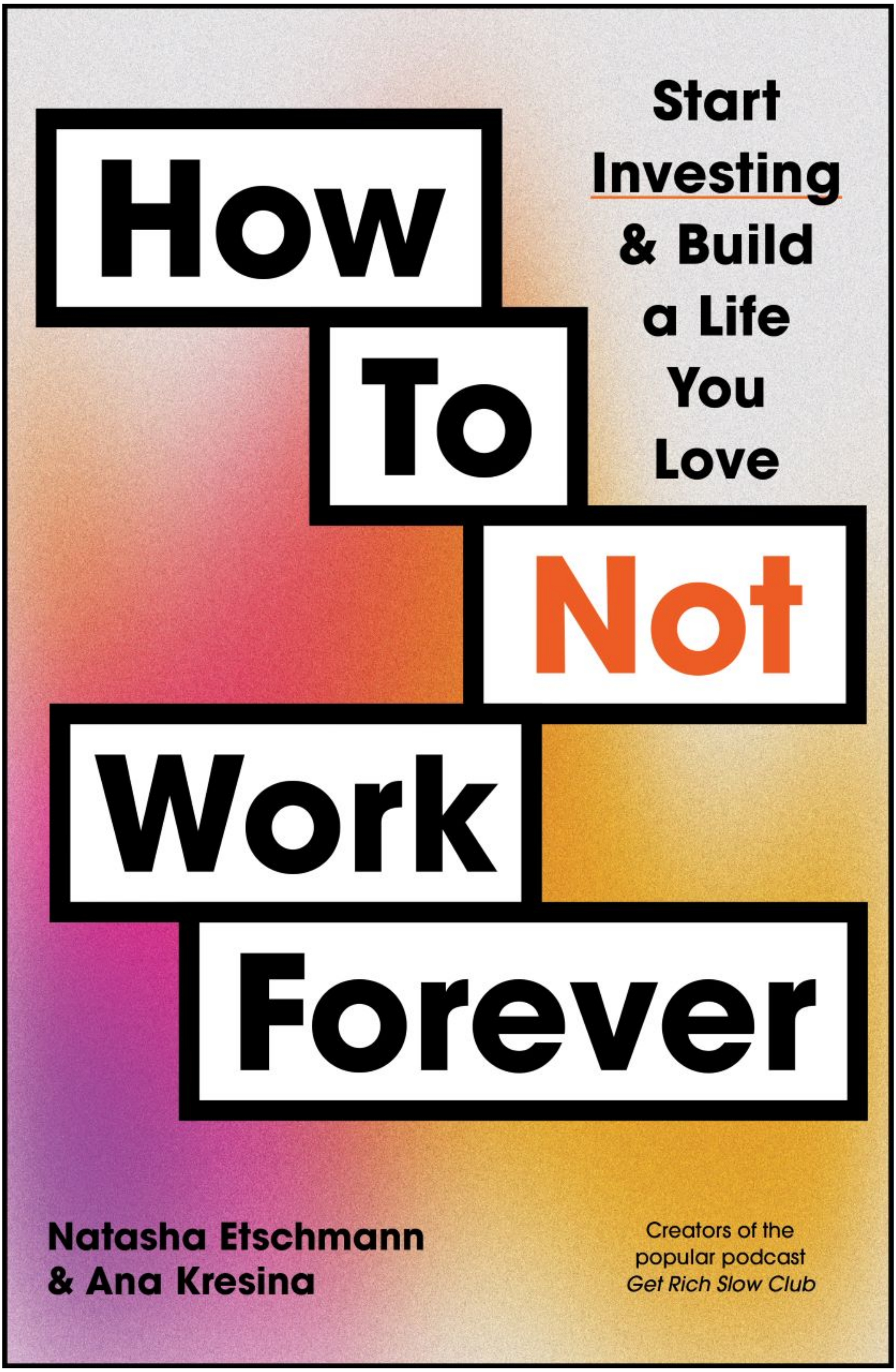
Myth #9: Real estate is the better investment

Some people may be better suited to property, while others are better suited to shares. There's complexity and risk involved in both.

Property markets vary greatly, it's harder to diversify, and there are liquidity risks (it's harder to access cash you can't just sell one bedroom if you need some money). There's also a high entry cost and ongoing maintenance costs and fees that are often forgotten when looking into investment returns.

There are benefits to property, such as being able to leverage your investments (get a loan) more easily than you can with shares. And, of course, shares and property can work together as a long-term investment strategy.

Edited extract from How to not work forever by Natasha Etschmann and Ana Kresina (Wiley $32.95), available 26 June at all leading retailers.



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

COMMODITIES

Opportunity In Beaten-Down Iron Ore Miners?

By Tim Boreham, Editor, The New Criterion

Iron ore has held up stoically in the wake of the well-publicised problems in China's property sector the biggest single source of demand.

Can the metal maintain its Olympian performance?

Even the eerie vision of hundreds of new abandoned Chinese apartment blocks has failed to shock and ore, with the Pilbara iron export material trading around US$107/tonne compared with the decade average of around US$95/t.

One theory goes that the price resilience is partly due to increased global weapons spending, but surely all the projectiles lobbed at Ukraine or the Gaza Strip isn't the key reason.

The (so-called) expert consensus price view for the current financial year is in line with this average: US$96/t. So it's hard to get too excited about the prospects for the world's most abundant and biggest-traded metal, a sobering thought for investors in BHP Group ((BHP)), Rio Tinto ((RIO)) and iron-pure play Fortescue ((FMG)).

Despite India's stunning economic growth, China still accounts for close to half of global steel demand.

Last month's Third Plenum the economic strategy meeting of Beijing's heavy-hitters held only once every five years or so - failed to outline any tangible measures to boost internal consumption.

As always with the Middle Kingdom, there's a few factors at play. While Beijing rushes to support the ailing housing sector, Chinese steel exports have been strong (up 25%, according to Citi).

But it looks like profitless growth because the average Chinese blast furnace currently runs at a loss.

Another dynamic is the nexus between the price of iron ore and scrap steel, which is the primary feedstock for electric arc furnaces and is also used in blast furnaces to convert pig iron to finished steel.

Citi notes when the iron price ran to US$130/t and the price of metallurgical (coking) coal the other crucial blast furnace ingredient hit US$350/t, this created a US$125/t price advantage of scrap over iron.

While scrap prices have since eased on increased supply, producers can't change their production techniques quickly, so a big price differential remains.

Given the structural imbalances in China's property market, the nation's steel demand is unlikely to match historic levels.

The World Steel Association forecasts global steel demand this year to grow by 1.7% in 2024, to 1.793bn tonnes, with further 1.2% growth in 2025 (to 1.815bn tonnes).

But China looked to have achieved "peak steel" in 2020, with flat demand this year and a likely -1% decline in 2025.

No surprises for guessing that India is filling the gap albeit from a much lower base with demand charging along at 8%.

According to broker Wilsons, the iron ore price consistently has found support at US$80-90/t. That's bad news for the 10% of global producers operating at a cash cost of US$86/t.

But BHP can produce the stuff for $US18 a tonne. At its interim results this week, Rio Tinto disclosed operating costs of $US23.20/t, up 9% but still a long way from its average received price of $US105.80/t (down -1%).

"Australia's iron ore miners are some of the highest quality producers in the world, and there are fundamental reasons to remain invested selectively within the sector," Wilsons says.

On the supply side, Canberra's Department of Industry Science and Resources forecasts iron ore exports of 1.451bt for the current year and 1.51bt in 2025 (a 4% increment).

Rio says seaborne supply increased by 3% in the June half, to 770mt. And despite its economic woes, China imported a record 640mt, up 5%

Let's hope China can keep up the pace, because supply can only increase. Both Rio and BHP have aggressive Pilbara expansion plans, while in July Rio finally won approval for its $34bn Simandou iron-ore project in Guinea, with first production slated in a little as 18 months.

The project spans two mines and is expected to produce a combined, dial-moving tally of 120mt of seaboard ore per annum.

For those confident of resilient iron-ore demand in the longer term, better fortunes might lay in some marked-down alternative ASX-listed iron ore exposures.

For example, **Mineral Resources** ((MIN)) is the country's fifth biggest iron ore producer but also owns three lithium mines and ore processing services.

The company last month announced the closure of its high-cost Yilgarn Hub iron ore operation in WA. The company also proposes expanding its Onslow iron ore hub servicing otherwise stranded deposits, from 35mt to 50mt.

Mineral Resources shares are -24% off the pace this year, given the lithium lull and concerns about high gearing.

The company is short of fans in broker land: Jarden, for instance, notes a surprisingly high capex bill for the company's Onslow expansion project, of potentially -$1.3bn.

Despite Andrew Forrest's hydrogen efforts, iron ore companies aren't known for their low-emission credentials.

But quality ore produces lower carbon output than the dodgy stuff, so investors might want to consider **Champion Iron** ((CIA)) and its higher-grade Canadian mines.

Champion's Bloom Lake in Quebec last week temporarily closed because of wildfires, but the company's quarterly report shows record June quarter sales of 3.4m dry metric tonnes, 34% higher year-on-year.

Champion received an average US$125/t for its product, but its cash cost of US$77/t is significantly higher than its Pilbara peers.

Champion shares have fallen around -30% year to date, which is hardly a podium performance.

Another way to tap the iron ore theme is via **Deterra Royalties** ((DRR)), which derives most of its revenue from royalties from BHP's Mining Area C (MAC) in the Pilbara.

With a 30-year mine life, MAC is the world's biggest iron-ore hub accounting for 9% of seaborne supply.

Royalties align investors with volumes produced, rather than the commodity price. So unless BHP gives MAC the knife, an unlikely scenario, royalties should keep flowing in like hangers-on at a Buckingham Palace tea party.

Deterra shares have lost -25% year to date, compared with a -17% decline for the more diversified BHP.

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ESG FOCUS

ESG Focus: The Little Big Things - 06-08-2024

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https://fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

The methane emission challenge for Australian energy companies; July ESG highlights; gender, diversity and inclusion in focus; Martin Currie on the ESG challenges for investors plus energy demand and data centres.

-Australia behind the curve on methane emissions
-The changing landscape of decarbonisation
-Companies dealing with the gender pay gap
-Engaging on ESG ambitions
-Data centres threaten emission targets

By Danielle Ecuyer

Macquarie ESG July updates

Keeping a finger on the pulse **Macquarie** highlights recent changes in the ESG space.

On the corporate front, South32 ((S32)) is appealing against conditions set by the WA EPA on its Worsley Alumina mine on the basis that the conditions exceed reasonable measures for managing environmental risks.

One of the key points of contention is the EPA requirement to ensure the hectares of rehabilitation of areas mined is equivalent or greater than the hectares of clearing of native vegetation for mining.

The Macquarie analyst believes the issue may be resolved, with both a fiscal and time cost to the company.

Foreign Investment Review Board (FIRB) approval was also received for the divestment of Illawarra Met Coal which is viewed as "de-risking" the company via coal divestments, leaving it exposed to aluminum, copper, zinc, nickel and manganese.

The transaction is expected to conclude in 1Q25 with US$1.05bn payable on completion.

Fortescue ((FMG)) received considerable media attention for organisational restructuring which "de-prioritises" the shift to green hydrogen by 2030.

The company has abandoned its green hydrogen goal of production of 15m tonnes by 2030 which includes the possible release of 700 employees.

Fortescue management stressed there is a role for green hydrogen across multiple sectors such as green iron, fertiliser, and shipping fuels, but its near-term focus would be concentrated on lower energy costs and improving the economics of the challenges at hand.

Macquarie's resource analyst reaffirmed the view green hydrogen is a challenging and costly business, while those investors with a strong energy tilt or ETFs with a hydrogen exposure will be the most likely to sell exposure to Fortescue.

Origin announced the stage 2 of the Eraring battery at a cost of -$450m which is lower than stage 1 at a -$600m cost, although stage 1 offers double the capacity. Origin's head of energy supply notes the size and scale of the battery infrastructure will have the capacity to absorb excess solar generation in daylight hours and discharge electricity in the evenings for peak demand periods.

The Macquarie utilities analyst anticipates the NSW battery market will be 3.9GW post stage 2, and up to around 13GW by FY27 at the end of the life of Eraring.

HMC Capital ((HMC)) confirmed its intention to raise $2bn for the Energy Transition Platform in 2H2024. The

Macquarie REIT analyst expects the platform could increase beyond $5bn in funding with offshore espansion.

Regarding nickel, Macquarie highlighted the suspension or closure of several nickel mines,; the BHP Group ((BHP)) operations being the latest announcement, due to low-cost overseas prices impacting on domestic nickel operations.

From an ESG perspective, Macquarie's observations of the cheaper Indonesian nickel supplies highlight a more carbon intensive process due to the lower grades compared to Australian nickel; the Indonesia nickel deposits are in environmentally significant areas, like rainforests, and animal habitats. while health and safety issues are more pronounced.

Although electric vehicle manufacturers want "greener" nickel products for battery supplies, they are currently not prepared to pay the premium pricing.

Macquarie states Nickel Industries ((NIC)), which produces low-cost nickel, may benefit from the Australian closures, but still confronts the ESG challenges.

The Australian government also announced a $65m investment under the Carbon Capture Technologies Program into seven projects involving emerging technologies in the likes of direct air capture.

Calix ((CXL)) was awarded $15m to produce methanol from carbon dioxide in cement production.

In partnership with Orica ((ORI)), MCI Carbon was awarded $14.5m. Its carbon capture operations on Orica's Kooragang Island ammonia facility captures around 1000t of carbon dioxide annually to produce building materials.

Woodside, Beach and Santos all have carbon capture and storage projects.

Some $91m was also allocated from the Federal Government under the Powering the Regions Fund for six clean energy projects designed to remove over -1mt of pollution.

Incitec Pivot ((IPL)) received $28m for a solar and battery storage system at its fertiliser plant at Phosphate Hill.

The Wesfarmers ((WES)) sodium cyanide plant at Kwinana received $7.5m for a low emission waste gas incinerator.

The Geelong Viva Energy ((VEA)) refinery achieved $3m for electrification and $5.4m was given for energy efficiency upgrades at the Rio Tinto ((RIO)), 75% owned Boyne Aluminium Smelter in Gladstone.

Methane emissions on the nose

Jarden rightly points to the "methane challenge" for Australian companies. Methane is reported as 28 times more potent than carbon dioxide in terms of warming intensity and it represents around 29% of Australian greenhouse gas emissions.

Jarden highlights the urgency of the challenge. The natural gas sector contributes some 43% in methane emissions, and the agriculture sector stands at 44%.

In abatement, Australia is lagging the US and Europe as well as legislation on methane emissions, although it has committed to the Global Methane Pledge to reduce emissions by at least -30% below 2020 levels by 2030.

Jarden's assessment of Australian companies

The broker has assessed six companies, Woodside Energy ((WDS)), Santos ((STO)), Origin Energy ((ORG)), Beach Energy ((BPT)), Karoon Energy ((KAR)) and Cooper Energy ((COE)) regarding methane management across ten criteria.

Woodside came in as the leading company. Woodside has reduced its methane emissions to 0.29 tonnes methane/kt of production in 2023 from 0.45 tonnes methane/kt in 2021.

The improvement is highlighted via better compressor seals and remediation of a leak at the Karratha gas plant.

Santos is rated as next with a reduction in emissions from reduced flaring and fugitive emissions or emissions accidentally released through work processes. Santos has lowered its methane by -6% between 2022 and 2023.

Jarden highlights Woodside and Santos are part of some of the global commitments for methane reduction.

Regarding Origin, the emissions are categorised as "venting and leaks" from the company's 27.5% shareholding in APLNG.

In terms of reductions, Origin is looking to equipment and device replacement for improved technologies.

By comparison, Beach, Cooper and Karoon Energy are far less advanced.

Beach has a reduction in methane target and is also considering joining international methane initiatives, Jarden highlights.

Karoon reports its emissions in a carbon dioxide equivalent format, which includes methane emissions, and some 60% orf reported emissions are generated from flaring and fugitive emissions.

Cooper doesn't report emissions and has no targets or alignment with global methane commitments.

On balance, Jarden believes Woodside is leading the methane challenge. There remains a risk the Australian government will become more proactive on methane emissions.

While a methane price, as is the case in the USA, is deemed as unlikely, more specific regulations on reporting could be included as part of the Safeguard Mechanism for the coal, oil and gas industries.

Jarden considers the biggest challenge for government is how residual methane emissions are reduced or abated and whether the use of carbon credits is "appropriate".

Gender in the workplace

Morgan Stanley's annual Diversity, Gender & Inclusion report focuses on female gender diversity because of the long-standing data available.

The report found female participation in the workforce increased to 63% in 2023, a rise of 0.4points on 2022. Participation for the financial sector rose 2.7points to 41%; resources down -1.7points to 26%; defensives up 1point to 38% and cyclicals up 0.8point to 32%.

In terms of the Holistic Equal Representation Score (HERS) Model, Australia tracks female participation across boards, executives, managers and employees for companies covered by Morgan Stanley.

Companies with the largest improvement in HER Score in 2024 against 2022 were (in order of highest to lowest), Seek ((SEK)), IDP Education ((IEL)), Cochlear ((COH)), ASX ((ASX)), Macquarie Group ((MQG)), Iluka Resources ((ILU)), APA Group ((APA)), GPT Group ((GPT)), Whitehaven Coal ((WHC)), National Australia Bank ((NAB)), Origin Energy, QBE Insurance ((QBE)), Domino's Pizza Enterprises ((DMP)), CAR Group ((CAR)), Ansell ((ANN)), Aristocrat Leisure ((ALL)), Cleanaway Waste Management ((CWY)), South32 ((S32)), Beach Energy ((BPT)) and TechnologyOne ((TNE)).

The stocks screened for growth and HERS improvement over the past two years came up as IDP Education, Cochlear, Aristocrat, TechnologyOne, Netwealth Group ((NWL)), James Hardie Industries ((JHX)), Northern Star Resources ((NST)), ARB Corp ((ARB)), Webjet ((WEB)), Paladin Energy ((PDN)), Breville Group ((BRG)), Alumina

Ltd ((AWC)) and Corporate Travel Management ((CTD)).

Turning to the Gender Pay Gap (GPG), it came in at 21.7% for FY23 against 22.8% for FY22 with the construction industry at the highest percentage at 28.3% followed by financial and insurance services at 26.2%.

The UK introduced mandatory GPG reporting in 2017, and Morgan Stanley stresses the median GPG fell to 14.3% in 2023 from 18.4% in 2017.

Interestingly, companies with larger employee numbers have lower GPG against companies with smaller numbers of employees. Many companies, according to Morgan Stanley, attribute the GPG to workforce composition, rather than pay gap disparity.

On balance, the broker believes gender diversity is a long-term investing theme and anticipates more focus on this theme as part of the ESG mandates.

<u>The seven ESG challenges for ASX companies</u>

Martin Currie outlines the challenges for ASX companies with the climate transition coming in as a number one issue. As an investor, Martin Currie will be using the new carbon data sets as part of the government's mandatory climate disclosures for scope I and 2 emissions from major emitters and large organisations (starting July1) to challenge companies on reduction targets; or to push companies to more thorough Science Based Target Initiatives.

Although natural capital might be less in focus, Martin Currie believes companies should focus on the long-term impacts of "de-prioritising biodiversity" using the company's internally developed Natural Capital best practice framework'.

When it comes to workplace safety, the investment manager rates companies more highly when they are more forthcoming on workplace safety. The health and safety of employees is viewed as just as important as business growth and profit generation.

Martin Currie will be seeking improved outcomes for first nations people through a combination of commitments from companies and tangible outcomes for first nation communities.

Gender diversity is also a priority to achieve improved gender balance across workforces. Building a diverse and inclusive culture at all company levels is considered an essential part of long-term business success.

Martin Currie has established those companies which are the most transparent on modern slavery usually invest more in mitigation and have the most positive impact.

Greenwashing remains an issue with sustainability assessed as much more than a marketing tool, it needs commitment and corporate action. Martin Currie will be engaging on issues of sustainability where unsubstantiated claims are made by companies.

<u>Energy hungry data centres</u>

With question marks arising about the durability of investment in Gen.Ai infrastructure, Morgan Stanley's European telco team recently upgraded the forecast growth in data centre to six 6 times or 38GW by 2035 from five times previously.

The broker believes energy and planning constraints in existing large data centre markets are driving growth of secondary data centre markets in Europe, the US and Asia.

The increased data centre capacity equates to an additional circa 270TWh of power demand by 2035 with some 60TWh coming from Ai.

The percentage of data centre power demand is forecast to rise to over 8% of total European power demand from around 1.5% currently and underwrite higher European power prices of Eur5/PWh.

Turning to Asia, Morgan Stanley forecasts power demand from Ai and "traditional" data centres will double by the end of the decade to 50GW.

An estimated 68GW of new power generating capacity will be required as data centre demand grows to 8% of the total.

A forecast circa 26GW of gas and nuclear power will be needed for baseload support.

China has established energy usage targets for data centres, with a decline in average power usage and a 10% increase in renewable energy use.

Notably in the US, the Rhodium Group has pointed to higher power data centre demand as reducing the rate of

US emission declines.

Morgan Stanley also highlights reports of Washington state's clean energy targets being adversely compromised by data centre power demand.

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RUDI'S VIEWS

Rudi's View: August Results; Polarisation & Divergence

In this week's Weekly Insights:

-August Results; Polarisation & Divergence
-Where's Conviction?
-Danielle On Video
-All-Weather Portfolio FY24 Review
-Video: Why FNArena & All-Weather Stocks

By Rudi Filapek-Vandyck, Editor

It's difficult to keep the focus on corporate market updates when panic selling is causing risk assets to suffer heavy retreats in August. This is not about investor exuberance, concentrated market positions or inflated valuations, even though these items combined were responsible for US share market conniptions in late July.

What markets are experiencing since last week is the unwinding of the so-called Yen carry trade. This practice whereby hedge funds and large asset managers borrow money in low-cost Japan and then invest those borrowings in risk assets in high-yielding currencies has been in place for many years.

The Bank of Japan's unexpected rate hike last week upset the apple cart and many of such positions -worth hundreds of billions of dollars- are being unwound in rapid manner. All at once and at the same time, of course. The impact on equities worldwide is there for everyone to see.

So don't beat yourself up if you didn't anticipate this violent change in overall dynamics, very few did. It's a process and it will simply have to run its course.

Other factors that have been contributing to the rather downbeat sentiment overall at the start of August are more signs of slowing for the US economy and increased scepticism among investors about shorter-term benefits from large investments in Gen.Ai by large cap US companies.

Investors have reminded themselves the prospect of lower interest rates (Fed cutting) is only immediately positive if economic growth and corporate profits hold up. If/when the Federal Reserve needs to loosen policy because the world's largest engine is starting to cough and splutter, that becomes a negative and easily explains why commodities and small caps are yet again on the nose this month.

Investing in accordance with the cycle is a lot easier said than done, plus the market can be a very unreliable guide; it changes its mind in less than a heartbeat, leaving many to ponder 'what ifs' and look for answers after the damage is done.

<u>August Results: Polarisation & Divergence</u>

Nothing lasts forever, this too will come to pass, eventually, and corporate results will yet again become important when the dust has settled.

Take ResMed ((RMD)), for example. On Friday, the company's June quarter financial result revealed a much stronger-than-forecast gross margin, with the promise of ongoing improvement in FY25.

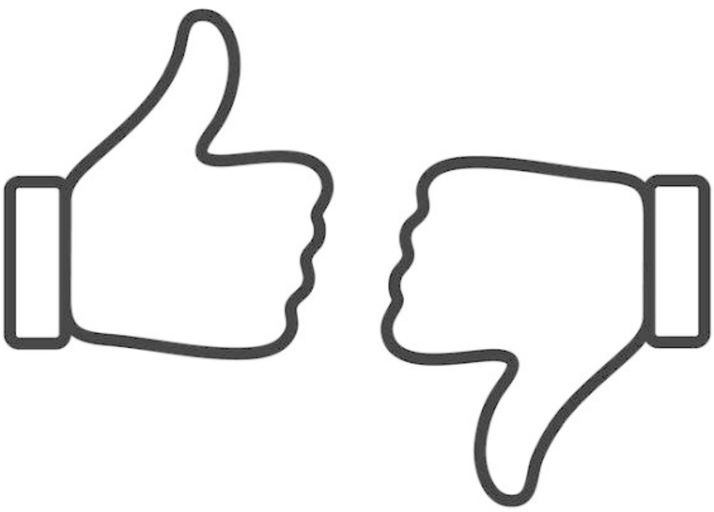
This is important on multiple levels. Firstly, disappointing margins is what put downward pressure on the share price last year (it wasn't all about GLP-1s).

Management did get the message and made sure the next quarterly update in late January included better margins. That was a big tick for share price recovery, but freight costs had spiked higher in the meantime because Israel-Hamas happened and the Houthis in Yemen are forcing shipping routes to divert via the longer route around Africa.

On Friday, ResMed's quarterly wiped those market concerns off the table, including any short-term impacts from GLP-1s, and instead convinced analysts and investors the world's leading CPAP company remains poised for yet another strong year ahead.

Corporate margins are one of the focal points of investors this month, so ResMed's margin surprise might bode well for other companies, including fellow healthcare sector stalwarts Cochlear ((COH)) and CSL ((CSL)). The **revival of quality healthcare companies** is one of the narratives that will be put to the test by investors this month in Australia.

There's no sense of sector uniformity, though, and many expert voices remain cautious, if not negative about the immediate prospects for healthcare companies including Healius ((HLS)), Sonic Healthcare ((SHL)) and Nanosonics ((NAN)).



Ramsay Health Care ((RHC)), suggested by many as a potential disappointer this season (yet again), truly delivered on Monday as the private hospitals operator pre-released a disappointing FY24 update. But amidst the general carnage on the day, Ramsay shares only experienced a minor dip.

Some analysts believe earnings are now at their low and improvement should follow. The share price is well below analysts' price targets, even if estimates have to be reduced further. The last time Ramsay shares traded in the mid-$40s was back in 2014. That's a whole decade ago.

The August results season has only just started and already it is offering up different dilemmas and opportunities for different types of investors. The question whether one feels more comfortable hiding in beaten-down share market laggards or in structural growers with many more years of accumulating wealth ahead is quickly becoming less a question of 'valuation', but more so of what kind of investor are you?

Polarisation and divergence are also expected to dominate **the banks** this time around with sector analysts at Citi predicting the outlook for net interest margins (NIMs) will surprise, but not for all banks equally, and not to the extent that current share prices can be justified.

Consequently, say Citi analysts, "we think the earnings season will be much more important in dictating relative preferences within the sector." Citi's preference resides with Westpac ((WBC)) and CommBank ((CBA)) but, equally important, this is a relative call, not on absolute terms.

A reminder: CommBank and Bendigo and Adelaide Bank ((BEN)) are the only ones to report FY24 financials in August, with the others merely releasing less-detailed quarterly market updates.

The thesis of ongoing divergence in between companies grouped together in the same basket(s) also very much stands out from Citi analysts' preview to August. The broker's highest concentration of positive surprises is expected from Large Diversified Miners, Consumer Discretionary and REITs. Most negative surprises are expected to come from Metals & Mining, Healthcare, and REITs.

The narrative of **ongoing resilient consumer spending** in Australia is one that will be equally put to the test. Any concerns about Gen.Ai beneficiaries are pretty much non-existent at this stage. Australia doesn't have megacaps spending billions on future development, with the likes of Goodman Group ((GMG)) and NextDC ((NXT)) instead among prime beneficiaries of those unprecedented investments.

Goodman Group continues to be singled out for a positive surprise when the company reports.

Where's Conviction?

As this week's global rout in shares reduces any limitations and concerns based on 'valuation', let's focus on where analysts think investors most likely will be positively or negatively surprised.

UBS strategist Richard Schellbach sees lots of potential for upside risks, also because management teams are cutting costs to cushion profit margins from ongoing pressures. In some cases, while sales might be slowing, a better-than-anticipated profit margin a la ResMed could prove the saviour.

Companies singled out include AGL Energy ((AGL)), Brambles ((BXB)), Car Group ((CAR)), Insurance Australia Group ((IAG)), Flight Centre ((FLT)), Suncorp Group ((SUN)), Super Retail ((SUL)), and WiseTech Global ((WTC)). The latter is remarkable as WiseTech is mentioned elsewhere for a potential disappointment a la August last year.

UBS also sees potential for some of the market laggards to surprise, including Lendlease ((LLC)), Perpetual ((PPT)), and Reliance Worldwide ((RWC)).

Have been singled out for a potential negative nasty: ResMed (thesis dismissed last Friday), alongside Origin Energy ((ORG)), JB Hi-Fi ((JBH)), CommBank, Orora ((ORA)), Domain Holdings Australia ((DHG)), Reece ((REH)), Ingenia Communities Group ((INA)), Imdex ((IMD)), Data#3 ((DTL)), Stockland ((SGP)), Adairs ((ADH)), Vulcan Steel ((VSL)), and Ramsay Health Care.

For **Goldman Sachs**, the ruling themes are equally margins and cost reductions, consumer resilience and also companies buying growth through M&A.

Positive candidates identified include a2 Milk ((A2M)), Bendigo and Adelaide Bank, Breville Group ((BRG)), Life 360 ((360)), Telstra ((TLS)), Qantas Airways ((QAN)) and QBE Insurance ((QBE)).

Goldman Sachs has selected two candidates for a potential nasty negative: Reece and WiseTech Global.

Citi has picked Goodman Group, Smartgroup Corp ((SIQ)) and The Lottery Corp ((TLC)) for positive outcomes and Healius, Nanosonics and Netwealth Group ((NWL)) for a negative result. Ramsay Health Care was equally picked for more disappointment, as have been Ansell ((ANN)), Mineral Resources ((MIN)), NextDC, Siteminder ((SDR)), and Sonic Healthcare.

Over at **JP Morgan, strategists Jason Steed and Dylan Adrian** find comfort in reduced risks for a fall-of-the-cliff experience for corporate earnings in Australia. They argue tax cuts, rising real wages and the prospect of RBA rate cuts should bode well for domestic cyclicals. The strategists were previously lamenting the high valuations for segments such as banks and retailers, but that might rapidly become less of a concern.

Commodities will prove the major drag on earnings, JP Morgan predicts, with bank earnings set for another negative year. Only one company has been selected for a clear positive surprise: Woodside Energy ((WDS)).

JP Morgan's basket for negative risk only has four names in it: Sims ((SGM)), South32 ((S32)), Ramsay Health Care, and Region Group ((RGN)).

Ord Minnett suggests healthcare could well become one of the star performers this month, also drawing confidence from ResMed's strong opening act. This broker is less sanguine about general dynamics locally and thus has steered its radar towards foreign earners and pricing power domestically.

The insurance sector fits in the latter category. Companies including BlueScope Steel ((BSL)), Reliance Worldwide and James Hardie ((JHX)) have significant operations in the US and elsewhere.

For positive surprises, Ord Minnett is looking towards AGL Energy, AMP ((AMP)), Bluebet Holdings ((BBT)), GQG Partners ((GQG)), Guzman Y Gomez ((GYG)), Karoon Gas ((KAR)), and Zip Co ((ZIP)), among others.

Have been nominated for potential disappointment: ASX ((ASX)), Computershare ((CPU)), Corporate Travel Management ((CTD)), JB Hi-Fi, Healius, Nick Scali ((NCK)), and REA Group ((REA)).

The August reporting season has started in a relatively positive manner, but we're talking low numbers. The **FNArena Monitor** currently reviews six companies of which three have delivered a positive surprise and only two missed in relatively benign fashion. Equally noteworthy: only two consensus price targets have not risen post result release; both are commodity producers Champion Iron ((CIA)) and Rio Tinto ((RIO)).

Soon the FNArena Monitor will be updated daily: https://fnarena.com/index.php/reporting_season/

See also: https://fnarena.com/index.php/2024/07/31/rudis-view-what-can-august-deliver/

Danielle On Video

FNArena's Danielle Ecuyer participated in an expert panel discussing Droneshield ((DSE)), Zip Co ((ZIP)) and BHP Group ((BHP)).

The video: https://fnarena.com/index.php/fnarena-talks/2024/08/05/droneshield-zip-co-and-bhp/

All-Weather Portfolio FY24 Review

The FY24 review for the All-Weather Model Portfolio has received the green light from compliance at Vested Equities, and can be downloaded here:
https://fnarena.com/index.php/download-article/?n=DE2A4552-E2C7-4DC7-0A896CE5CF68ACD8

Prior years:

FY23: https://fnarena.com/index.php/download-article/?n=DFC11150-CB36-C777-1AA3EDA640E2F5BF

FY22: https://fnarena.com/index.php/download-article/?n=DFE7241B-9CD8-61F1-1602C581A8E539C4

FY21: https://fnarena.com/index.php/download-article/?n=DFF82691-E53E-3CF5-17A2337D72CDB54F

Video: Why FNArena & All-Weather Stocks

I've used my participation to the recent InvestmentMarkets' conference to explain how/why FNArena started & what investors get out of it, including research in All-Weathers and Gen.Ai

The video: https://bit.ly/3A1pLuz

FNARENA VIDEO

Dani and I have put together a video to explain our focus (and enthusiasm as investors) for GenAi, the fourth industrial revolution:

https://fnarena.com/index.php/fnarena-talks/2024/07/15/investing-in-genai-the-fourth-industrial-revolution/

SPECIAL REPORT

Last month, FNArena published a 78 pages Special Report on **GenAi, the fourth industrial revolution** with lots of in-depth insights, forward projections, and useful links to companies for investors in the Australian stock exchange.

This Special Report remains exclusive for paying subscribers. Download your copy via the Special Reports section on the website.

Model Portfolios, Best Buys & Conviction Calls

This section appears from now on every Thursday morning in a separate update on the website. See **Rudi's**

Views for the archive going back to 2006 (not a typo).

<u>**FNArena Subscription**</u>

A subscription to FNArena (6 or 12 months) comes with an archive of Special Reports (21 since 2006); examples below.

(This story was written on Monday, 5th August, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

RUDI'S VIEWS

Rudi's View: First Relief, Then More Selling?

In today's update:

-First Relief, Then More Selling?
-Conviction Calls and Best Buys

By Rudi Filapek-Vandyck, Editor

When equities sell off because of non-fundamental reasons, the best response is probably not to join the selling but instead to start looking for opportunity.

Monday's excessive pull back in the local stock market might well qualify as such a non-fundamental event as, contrary to the many media reports about US recession angst, the real trigger was the yen carry trade turning nasty.

For those not yet aware of what the yen carry trade entails and why it was the trigger to a global rout in risk assets, the following video explains it nicely: https://x.com/i/status/1820319360793149625

A similar approach stands out from share market strategy updates this week. Great minds thinking alike? Below are some of the more interesting updates I have come across.

UBS strategist Richard Schellbach sticks to his year-end target for the ASX200 of 8000.

He sums up today's fundamental proposition as follows:

-Worried about US jobs data (and thus recession)?

UBS remains fairly confident in an overall positive outcome. Locally, the RBA will remain on hold for longer, and this is partially because economic growth is holding up better-than-anticipated.

UBS thinks the local market will continue to move higher as the Fed cuts in the US. The RBA is expected to start loosening in May next year.

-Worried about overvalued Tech and Gen.Ai beneficiaries?

UBS argues any follow-through impact from a sell-off in US technology stocks will remain fairly limited for Australia.

-Worried about further carry trade unwinding?

UBS argues once the Fed starts cutting interest rates, the US dollar should start weakening. Historically, this always has been beneficial for the Australian share market.

-Worried about China's slowdown?

Okay, UBS admits it, this remains a genuine worry. Thus far, resources stocks have lagged the broader market, but UBS also points out the picture painted by local miners hasn't been that pessimistic.

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Bell Potter has been equally confident about weaker share prices opening up great opportunities. Having run its ruler over the ASX100, the following **oversold screen results** were communicated with the broker's clients on Wednesday morning:

-WiseTech Global ((WTC))
-Xero ((XRO))
-Telix Pharmaceuticals ((TLX))
-Paladin Energy ((PDN))
-South32 ((S32))
-Worley ((WOR))
-James Hardie ((JHX))
-Aristocrat Leisure ((ALL))
-Flight Centre ((FLT))
-Reliance Worldwide ((RWC))

****

Wilsons equally is of the view the market sell-off looks overdone. Three stocks Wilsons will be looking at for additional exposure in case of more share price weakness:

-ResMed ((RMD))
-TechnologyOne ((TNE))
-South32

The first two are conviction growth stories, while South32 is considered attractive because of a diversified commodity mix, the company's ongoing pivot towards future facing metals, and a strong balance sheet.

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Equally interesting is that **Citi's** in-house view remains **in favour of a hard landing for the US economy**, but Citi strategists are refusing to give up on the Gen.Ai beneficiaries. While earnings reports for the Mag7 in the US have not all been positively received, Citi thinks it's simply a market reset and investor optimism will stage a come-back.

For this reason, Citi strategist are sticking with an Overweight allocation to US equities, while their allocation is Neutral overall for equities worldwide. In commodities, the portfolio allocation remains long precious metals, short oil.

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The research contribution from **Longview Economics** specifically zooms in on sizable corrections in US equities. Historically, reports Longview, a fall of -10% or more almost always sees **the market retesting the low** put in place during the first wave of selling, but not before there has been a recovery rally first.

Longview has analysed all -10-15% corrections that occurred since 1978. There's a **well-defined pattern** that seems to be occurring every single time:

-Wave of selling hits the market
-Relief rally follows
-Another wave of selling follows which takes the market to the previous intra-day low, possibly lower

On some occasions there is another relief rally, followed by a final wave of selling.

In summary: these market corrections go through three phases of alternating pull backs and rallies, sometimes the process consists of five stages.

Given we are probably only at the beginning of stage two, Longview has a Neutral recommended allocation to equities. The concern is for a repeat of the set-up in late 2018 when markets literally bullied the Federal Reserve into changing its tightening bias, which implies weakness can last a lot longer and take markets a lot deeper, still.

Personally, I find this a rather awkward view given market consensus already sees the first Fed rate cut in September, and bond markets are priced as such (and it's not like Powell & Co are refusing to play to that script).

The good news is Longview does not believe we are at the early stages of a new prolonged bear market. Such precedents have been omitted from the research. And while the likelihood that this week's lows will be revisited is considered "high", history also shows such lows are seldom broken, and only in a small manner if it does happen.

And oh yes, outside of recessions and bear markets, this process rarely unfolds in five stages. Three is the standard in the absence of recession.

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Note on Audinate Group ((AD8)); I did receive questions regarding the outlook for Audinate Group post this week's profit warning. I am literally running out of time (yesterday's website outage didn't help either) but intend to follow-up in Weekly Insights on Monday.

Model Portfolios, Best Ideas & Conviction Calls

Jarden's select list of Best Ideas among small cap stocks in Australia (ex-ASX100) -freshly updated- now contains the following 19 stocks:

-AUB Group ((AUB))
-Champion Iron ((CIA))
-Dicker Data ((DDR))
-Domain Holdings Australia ((DHG))
-EVT Ltd ((EVT))
-Ingenia Communities Group ((INA))
-Inghams Group ((ING))
-IPH Ltd ((IPH))
-Karoon Gas ((KAR))
-Light & Wonder ((LNW))
-Lovisa Holdings ((LOV))
-Nick Scali ((NCK))
-NRW Holdings ((NWH))
-National Storage ((NSR))
-Pointsbet Holdings ((PBH))
-Pepper Money ((PPM))
-Telix Pharmaceuticals ((TLX))
-Temple & Webster ((TPW))
-Universal Store Holdings ((UNI))

Has disappeared since the previous update:

-Siteminder ((SDR))

Have since been added:

-AUB Group
-EVT Ltd
-IPH Ltd
-Pointsbet Holdings

****

Ord Minnett's Buy-rated stocks in the local technology sector are currently: Cosol ((COS)), Dropsuite ((DSE)), Hansen Technologies ((HSN)), Life360 ((360)), Qoria ((QOR)), Seek ((SEK)), Siteminder ((SDR)), and Xero ((XRO)).

The list contains one lonely Sell rating, which is reserved for Pro Medicus ((PME)).

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Market strategists at **Evans and Partners** bemoan the fact higher for longer inflation numbers in Australia are preventing the RBA from lowering the burden of high interest rates. This, argue the strategists, effectively places a ceiling over the economy and the share market, limiting upside potential.

The key risk for the quarters ahead, argues Evans and Partners, is that high inflation with low growth becomes the consensus view locally. The strategists thus implore investors to be cautious and selective, "scrutinising those businesses and industries facing cyclical headwinds and instead focussing on companies with more diverse earnings drivers."

Evans and Partners' key focus has turned to offshore earners, "as well as businesses with strong industry positions benefiting from structural thematics such as digitalization and decarbonisation".

Selected names:

-Aristocrat Leisure ((ALL))
-Brambles ((BXB))
-Flight Centre ((FLT))
-Macquarie Group ((MQG))
-Treasury Wine Estates ((TWE))
-James Hardie Industries ((JHX))
-Block Inc ((SQ2))

As well as:

-BHP Group ((BHP))
-Rio Tinto ((RIO))
-Monadelphous Group ((MND))
-APA Group ((APA))
-NextDC ((NXT))
-Macquarie Technology Group ((MAQ))

Also worth mentioning, Evans and Partners' preferred yield ideas are:

-APA Group ((APA))
-Arena REIT ((ARF))
-Qantas Airways ((QAN))
-Telstra ((TLS))

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Key Stock Picks for the year-ahead nominated by analysts at **Bell Potter**:

-Among listed investment companies (LICs); Australian Foundation Investment Company ((AFI)), Metrics Master Income Trust ((MXT)), and MFF Capital Investments ((MFF))

-Agriculture & fast moving consumer goods; Bega Cheese ((BGA)), Rural Funds Group ((RFF)), and Elders ((ELD))

-Technology; TechnologyOne ((TNE)), Gentrack ((GTK)), and REA Group ((REA))

-Diversified Financials; Perpetual ((PPT)), Regal Partners ((RPL)), and McMillan Shakespeare ((MMS))

-Real Estate; Dexus Convenience Retail REIT ((DXS)), HealthCo Healthcare & Wellness REIT ((HCW)), and GDI Property Group ((GDI))

-Retailers; Premier Investments ((PMV)), Universal Store Holdings ((UNI)), and Propel Funeral Partners ((PFP))

-Aerospace & Defence; Electro Optic Systems ((EOS)) and Austal ((ASB))

-Industrials; Brickworks ((BKW)), IPD Group ((IPG)), and Cleanaway Waste Management ((CWY))

-Healthcare; Telix Pharmaceuticals ((TLX)), Cyclopharm ((CYC)), Aroa Bioscience ((ARX)), MedAdvisor ((MDR)), and Neuren Pharmaceuticals ((NEU))

-Gold sector; Capricorn Metals ((CMM)) and Santana Minerals ((SMI))

-Base metals; Aeris Resources ((AIS)), Nickel Industries ((NIC)), and Mineral Resources ((MIN))

-Strategic Minerals; Alpha HPA ((A4N)), IperionX ((IPX)), and Liontown Resources ((LTR))

-Energy sector; Boss Energy ((BOE)) and Paladin Energy ((PDN))

-Mining services; Seven Group Holdings ((SVW)), Mader Group ((MAD)), and SRG Global ((SRG))

****

Barrenjoey Chief Equity Strategist Damien Boey has been among the first to declare it's time to pivot the investment portfolio in favour of a more defensive positioning (not that the market has been paying any attention).

Barrenjoey's Bucket List of conviction calls includes the following selection:

-Woolworths Group ((WOW))
-Viva Energy Group ((VEA))
-TechnologyOne ((TNE))
-Medibank Private ((MPL))
-Steadfast Group ((SDF))
-Aussie Broadband ((ABB))
-QBE Insurance ((QBE))
-Santos ((STO))
-Northern Star ((NST))
-Ampol ((ALD))
-Insurance Australia Group ((IAG))
-Ventia Services Group ((VNT))
-AUB Group ((AUB))
-Aristocrat Leisure ((ALL))
-Brambles ((BXB))
-Origin Energy ((ORG))
-Cochlear ((COH))
-Car Group ((CAR))
-Metcash ((MTS))
-Aurizon Holdings ((AZJ))
-Cleanaway Waste Management ((CWY))
-ResMed ((RMD))
-Orora ((ORA))
-Telstra ((TLS))
-CSL ((CSL))

Boey's reasoning for a more defensive portfolio positioning is because global risk appetite is currently much higher than the economic outlook deserves it to be. Even with the prospect of central bank rate cuts underpinning positive sentiment, Boey thinks it's more likely risk appetite will, at some point, pull back.

Potential triggers include the Bank of Japan diverging away from its global peers, and devaluations of JPY and/or the Chinese Yuan.

In Australia, the Barrenjoey strategist worries about the RBA raising rates further in response to stubbornly high inflation. With excess savings depleting rapidly among Australians, consumer spending remains at risk of slowing further, with negative flow on effects for the labour market.

Barrenjoey is thus **underweight banks and domestic rate-sensitive cyclicals** and believes Insurance, Staples, Telcos, Healthcare and Utilities are defensive in this environment.

****

JP Morgan's last update on **Emerging Companies** ("small caps") showed Superloop ((SLC)) is the Top Pick and Dicker Data ((DDR)) is the broker's Bottom Pick.

The first is lauded for its strong operational momentum on still an undemanding valuation, while the market is seen as too optimistic for Dicker Data's outlook which includes slowing top line growth.

****

The full list of UBS's **Least Preferred stocks** now includes:

-Aurizon Holdings ((AZJ))
-ASX ((ASX))
-Bank of Queensland ((BOQ))
-CommBank ((CBA))
-Cochlear ((COH))
-Domain Holdings ((DHG))
-Pilbara Minerals ((PLS))
-Reece ((REH))
-Scentre Group ((SCG))

UBS's full list of **Most Preferred stocks**:

-AGL Energy ((AGL))
-BlueScope Steel ((BSL))
-Orica ((ORI))
-Origin Energy ((ORG))
-Rio Tinto ((RIO))
-Santos ((STO))

-AUB Group ((AUB))
-Computershare ((CPU))
-nib Holdings ((NHF))
-QBE Insurance ((QBE))
-Suncorp Group ((SUN))

-Brambles ((BXB))
-Coles Group ((COL))
-CSL ((CSL))
-James Hardie ((JHX))
-NextDC ((NXT))
-Super Retail ((SUL))
-Telstra ((TLS))
-Treasury Wine ((TWE))
-Universal Store ((UNI))
-Worley ((WOR))
-Xero ((XRO))

****

Ord Minnett analysts' **Conviction List** consists of the following:

-Alliance Aviation Services ((AQZ))
-ARB Corp ((ARB))
-Cosol ((COS))
-EQT Holdings ((EQT))
-Lindsay Australia ((LAU))
-Pinnacle Investment Management ((PNI))
-Red 5 ((RED))
-Regis Healthcare ((REG))
-Select Harvests ((SHV))
-SRG Globval ((SRG))
-Waypoint REIT ((WPR))
-Webjet ((WEB))
-Whitehaven Coal ((WHC))

****

Goldman Sachs's High Conviction calls for the Asia-Pacific region includes only four ASX-listed companies:

-Lynas Rare Earths ((LYC))
-Woolworths Group ((WOW))
-Qantas Airways ((QAN))
-Xero ((XRO))

****

Morningstar's Best Equity Ideas for ASX-listed stocks contains 14 inclusions, with Brambles, Dexus and Endeavour Group joining in and a2 Milk, Ventia Services and Lendlease no longer included. Morningstar's approach is traditionally centred around 'cheap value', or in Morningstar's own words:

"monthly Best Stock Ideas highlights high-quality Australian and New Zealand companies, which are currently trading at discounts to our assessed fair values."

-Brambles ((BXB))
-Dexus ((DXS))
-Endeavour Group ((EDV))
-TPG Telecom ((TPG))
-Domino's Pizza ((DMP))
-Bapcor ((BAP))
-Santos ((STO))
-AUB Group ((AUB))
-ASX Ltd ((ASX))
-Aurizon Holdings ((AZJ))
-Pexa Group ((PXA))

As well as Fineos Corp ((FCL)), ResMed and Newmont Corp among international ideas.

****

Morgan Stanley's Australia Macro+ Focus List contains the following 10 stocks:

-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-CSL ((CSL))
-Macquarie Group ((MQG))
-Origin Energy ((ORG))
-Paladin Energy ((PDN))
-QBE Insurance ((QBE))
-Suncorp Group ((SUN))
-Treasury Wine Estates ((TWE))
-Woodside Energy ((WDS))

****

Morgan Stanley's Macro+ Model Portfolio consists of the following 32 constituents:

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-Macquarie Group ((MQG))
-QBE Insurance ((QBE))
-Suncorp Group ((SUN))
-Goodman Group ((GMG))
-Scentre Group ((SCG))
-Stockland ((SGP))
-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-James Hardie ((JHX))
-Orica ((ORI))
-Coles Group ((COL))
-Treasury Wine Estates ((TWE))
-CSL ((CSL))
-ResMed ((RMD))

-AGL Energy ((AGL))
-Origin Energy ((ORG))
-Telstra ((TLS))
-Transurban Group ((TCL))
-BHP Group ((BHP))
-Newmont Corp ((NEM))
-Rio Tinto ((RIO))
-South32 ((S32))
-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy ((WDS))

****

Wilsons' list of **Highest Conviction Investment Ideas:** TechnologyOne, Worley ((WOR)), Woodside Energy, Aristocrat Leisure, and Collins Foods ((CKF)).

More ideas come with "long term growth" profiles:

-Ridley Corp ((RIC))
-Universal Stores ((UNI))
-ARB Corp ((ARB))
-Neuren Pharmaceuticals ((NEU))
-Pinnacle Investment Management ((PNI))

Among Resources stocks, there are two favoured ideas:

-Beach Energy ((BPT))
-Liontown Resources ((LTR))

And there's a Speculative basket too:

-Immutep ((IMM))

****

Wilsons' Focus Portfolio's largest overweight remains towards growth companies, including a large overweight to the healthcare sector. The largest underweight allocation remains for local banks. The Portfolio also holds a slight overweight allocation to resources, but this is due to "active positioning" in green metals and energy (underweight iron ore).

The Focus Portfolio encompasses the following:

Consumer Discretionary
Aristocrat Leisure ((ALL)), Lottery Corp ((TLC)), Collins Foods ((CKF)), Breville Group ((BRG)), Webjet ((WEB))

Energy
-Woodside Energy ((WDS))

Financials
-ANZ Bank ((ANZ)), National Australia Bank ((NAB)), Westpac ((WBC)), Macquarie Group ((MQG)), Insurance Australia Group ((IAG)), Netwealth Group ((NWL)), Steadfast Group ((SDF))

Healthcare
-CSL ((CSL)), ResMed ((RMD)), Telix Pharmaceuticals ((TLX))

Industrials
-Worley ((WOR))

Information Technology
-TechnologyOne ((TNE)), Xero ((XRO))

Materials
-BHP Group ((BHP)), Amcor ((AMC)), Evolution Mining ((EVN)), Mineral Resources ((MIN)), Arcadium Lithium ((LTM)), Sandfire Resources ((SFR)), South32 ((S32))

Real Estate
-Goodman Group ((GMG)), HealthCo Healthcare & Wellness REIT ((HCW))

****

Macquarie Wealth's recommended **Growth Portfolio**:

-Goodman Group ((GMG))
-Seek ((SEK))
-Aristocrat leisure ((ALL))
-Northern Star ((NST))
-CSL ((CSL))
-Computershare ((CPU))
-NextDC ((NXT))
-Flight Centre ((FLT))
-Mineral Resources ((MIN))
-Cleanaway Waste Management ((CWY))
-Steadfast Group ((SDF))
-Arcadium Lithium ((LTM))
-ResMed ((RMD))
-Pexa Group ((PXA))
-Treasury Wine Estates ((TWE))
-Viva Energy ((VEA))
-Xero ((XRO))

Macquarie Wealth's recommended **Income Portfolio:**

-Suncorp Group ((SUN))
-Telstra ((TLS))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-ANZ Bank ((ANZ))
-BHP Group ((BHP))
-CommBank ((CBA))
-Premier Investments ((PMV))
-Coles Group ((COL))
-Viva Energy ((VEA))
-Atlas Arteria ((ALX))
-Aurizon Holdings ((AZJ))
-APA Group ((APA))
-GPT Group ((GPT))
-Deterra Royalties ((DRR))
-Metcash ((MTS))
-Amotiv ((AOV))
-Charter Hall Retail REIT ((CQR))
-Amcor ((AMC))

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Shaw and Partners Research Monitor for the June quarter shows the broker's ASX100 Large Caps Model Portfolio consists of the following ten members:

-Aristocrat Leisure ((ALL))
-Domino's Pizza ((DMP))
-Evolution Mining ((EVN))
-James Hardie Industries ((JHX))
-Pilbara Minerals ((PLS))
-Qantas Airways ((QAN))

-ResMed ((RMD))
-Suncorp Group ((SUN))
-Treasury Wine Estates ((TWE))
-Xero ((XRO))

Preferred exposures among 'emerging companies' (smaller caps) are:

-Abacus Storage King ((ASK))
-Bannerman Energy ((BMN))
-Black Cat Syndicate ((BC8))
-Global Lithium Resources ((GL1))
-Helloworld ((HLO))
-Metro Mining ((MMI))
-Retail Food Group ((RFG))
-Vista Group ((VGL))
-Tyro Payments ((TYR))
-Webjet ((WEB))

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Stockbroker Morgans' list of **Best Ideas** currently consists of the following 32 ASX-listed companies:

Among Large Caps:
-Coles Group ((COL))
-CSL ((CSL))
-QBE Insurance ((QBE))
-Woodside Energy ((WDS))

Cyclicals:
-GQG Partners ((GQG))
-WH Soul Pattinson ((SOL))
-ALS Ltd ((ALQ))
-Beacon Lighting ((BLX))
-GUD Holdings ((GUD))
-Universal Store Holdings ((UNI))
-Elders ((ELD))
-Acrow ((ACF))
-Maas Group ((MGH))
-Dalrymple Bay Infrastructure ((DBI))
-Karoon Energy ((KAR))

Structural Growth:
-ResMed ((RMD))
-NextDC ((NXT))
-TechnologyOne ((TNE))
-Mach7 Technologies ((M7T))
-Camplify Holdings ((CHL))
-Superloop ((SLC))

Tactical Ideas:
-Treasury Wine Estates ((TWE))
-ClearView Wealth ((CVW))
-Inghams Group ((ING))
-Avita Medical ((AVH))
-Flight Centre Travel ((FLT))

Preferred Resources:
-South32 ((S32))
-Stanmore Resources ((SMR))

A-REITs:
-Cedar Woods Properties ((CWP))

-Dexus Industria REIT ((DXI))
-HomeCo Daily Needs REIT ((HDN))
-Qualitas ((QAL))

****

In December, **Shaw and Partners** released its **10 Best Ideas** to benefit from the anticipated small caps' revival in 2024.

The selected ten:

-AIC Mines ((A1M))
-Austin Engineering ((ANG))
-FireFly Metals ((FFM)), previously AuTeco (AUT)
-Chrysos ((C79))
-Gentrack Group ((GTK))
-Metro Mining ((MMI))
-MMA Offshore ((MRM))
-Peninsula Energy ((PEN))
-ReadyTech Holdings ((RDY))
-Silex Energy ((SLX))

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Macquarie's ASX Quality Compounders

The **highest quality 'compounders'** as identified by **Macquarie quant** research inside the ASX300:

-James Hardie ((JHX))
-Cochlear ((COH))
-REA Group ((REA))
-TechnologyOne ((TNE))
-ResMed ((RMD))
-Data#3 ((DTL))
-Pro Medicus ((PME))
-Jumbo Interactive ((JIN))
-PWR Holdings ((PWH))
-Netwealth Group ((NWL))
-Aristocrat Leisure ((ALL))
-Spark New Zealand ((SPK))
-Codan ((CDA))
-Clinuvel Pharmacauticals ((CUV))
-Redox ((RDX))

Given Macquarie's research strong leaning on the past five years, with high barriers to match, the following 11 companies fell just outside the above list:

-Fisher & Paykel Healthcare ((FPH))
-Medibank Private ((MPL))
-Coles Group ((COL))
-The Lottery Corp ((TLC))
-Lovisa Holdings ((LOV))
-CSL ((CSL))
-IDP Education ((IEL))
-Pinnacle Investment Management ((PNI))
-ARB Corp ((ARB))
-Breville Group ((BRG))
-Johns Lyng ((JLG))

My research and All-Weather stock selections are 24/7 available for paying subscribers: https://fnarena.com/index.php/analysis-data/all-weather-stocks/

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and

calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions.)

P.S. I - All paying members at FNArena are being reminded they can set an email alert for my Rudi's View stories. Go to My Alerts (top bar of the website) and tick the box in front of 'Rudi's View'. You will receive an email alert every time a new Rudi's View story has been published on the website.

P.S. II - *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.

FNARENA VIDEO

Dani and I have put together a video to explain our focus (and enthusiasm as investors) for GenAi, the fourth industrial revolution:

https://fnarena.com/index.php/fnarena-talks/2024/07/15/investing-in-genai-the-fourth-industrial-revolution/

SPECIAL REPORT

Earlier this month, FNArena published a 78 pages Special Report on **GenAi, the fourth industrial revolution** with lots of in-depth insights, forward projections, and useful links to companies for investors in the Australian stock exchange.

This Special Report remains exclusive for paying subscribers. Download your copy via the Special Reports section on the website.

FNArena Subscription

A subscription to FNArena (6 or 12 months) comes with an archive of Special Reports (21 since 2006); examples below.

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

SMALL CAPS

SiteMinder To Thrive On New Product Launches

Analysts overlooked a softer revenue performance from SiteMinder to espouse the virtues of the company's new, market-leading products.

-SiteMinder's June quarter revenues slightly missed expectations
-Announced new products take centre stage
-Innovation puts SiteMinder ahead of the field
-Analysts excited about FY25

SiteMinder ((SDR)) is a Software-as-a-Service company that develops, markets, and sells online guest acquisition platform and commerce solutions for accommodation providers in Australia and internationally.

The global hotel industry has been dominated by legacy technology and slow adoption of digitisation given the prevalence of independent hotels, Ord Minnett suggests, which control 70% of global rooms. At the same time, Business-to-consumer (B2C) selling agents are swarming the segment in unprecedented numbers given the downward pressure on airline remuneration.

Further, hotel revenue per available room (RevPAR) is moderating as conditions normalise post covid. This suggests the timing of SiteMinder's new products could be perfect with a runway of three to five years before competitors catch up.

While SiteMinder's June quarter results showed a slight shortfall on revenue expectations, the company's new product announcements were sufficient for analysts to hail a positive update.

<u>All the World's a Stage</u>

SiteMinder's June quarter revenues were up 26% year on year at $53m but fell a little short of consensus forecasts. This was largely due to short-term promotional activity, being -50% discounts for six months to target larger properties.

Operationally, the company delivered solid net additions in the second half, with a strong contribution from Europe/Middle East/Africa and the Americas (70%-plus growth in rooms sold given the skew to larger hotels).

But for analysts, the June quarter was not the story.

SiteMinder represents a prime example of a company about to enter Stage Three of the classic McKinsey three stages of growth model, Ord Minnett suggests. Before you ask:

Stage one represents those core businesses most readily identified with the company name and those that provide the greatest profits and cash flow. Here the focus is on improving performance to maximise the remaining value.

Stage Two encompasses emerging opportunities, including rising entrepreneurial ventures likely to generate substantial profits in the future but that could require considerable investment.

Stage Three contains ideas for profitable growth down the road -- for instance, small ventures such as research projects, pilot programs, or minority stakes in new businesses.

In Stage Three, SiteMinder's current management team is set to launch two new products -- Dynamic Revenue Plus (DRP) and Channels Plus (CP) -- which explore entirely new and disruptive innovations that could reshape the organisation's future. Ord Minnett's extensive industry analysis suggests the CP product, and to a lesser extent DRP, fit these criteria and could drive material incremental revenue of $389m by FY30, increasing to $864m in FY35.

But the "third pillar of the growth strategy" announced last week is the Smart Distribution Program (SDP), a product to better connect SiteMinder's hotel customers with global distribution partners. The SDP has large global online travel agents (OTA) paying the company in exchange for improved set-up and configuration of hotels and ongoing improvement and optimisation of the connectivity solution.

Citi sees the SDP as essentially adding a second monetisation stream for the core Channel Manager offering, with OTAs paying a fixed fee per gross property added and a variable performance fee based on volumes on the platform.

The launch of SDP de-risks FY25, in Citi's view, and also reduces execution risk in the near-term, as ostensibly an extension of the core Channel Manager.

Looking Ahead

Citi has increased its FY25 revenue forecast slightly to 26% year on year growth, which assumes 22% underlying growth and a 4% contribution from SDP and CP. With annual recurring revenue currently growing at 21% year on year, the broker assumes first half revenue growth of 21% before accelerating to 31% the second half.

This will be driven by $5m in revenue from SDP, a $3m revenue contribution from CP, the rollout of payment terminals and expansion of SiteMinder Pay to new regions, plus increased penetration for DRP, driven by Google ending commission bidding as well as the launch of an Enterprise version.

The SDP should contribute mid-high single digit millions in revenue in the second half at better than 70% gross profit margins, Goldman Sachs estimates, ahead of any potential benefit from DRP and CP. The former is planned for a first quarter release, but the revenue impact will be limited in the first six months until launched globally in March. CP is planned for launch in the second quarter.

This supports SiteMinder's expectations for annual recurring revenue growth to accelerate towards the high 20s to 30% in FY25, albeit second half-weighted, in-line with management's reiterated medium-term aspirations of 30%-plus revenue growth.

Positively, says Goldman, SiteMinder has shown strong progress on its "Rule of 40" performance*, improving to 21% in the second half, with the free cash flow margin expected to remain in the single digits as the group focuses on driving revenue acceleration in the near to mid-term instead.

*The Rule of 40 is a principle that states a SaaS company's combined revenue growth rate and profit margin should equal or exceed 40%. SaaS companies above 40% are generating profit at a sustainable rate, whereas companies below 40% may face cash flow or liquidity issues.

Product enhancements should underpin strong transaction growth momentum in the medium term, UBS believes, particularly in pay terminals and geographic expansion. Accelerating new subscriptions momentum is solid, and the broker expects the skew towards larger properties to increase revenue quality by lowering churn and increasing monetisation.

The trajectory towards the Rule of 40 is positive, UBS suggests, however management indicated this will increasingly be underpinned by revenue growth as opposed to free cash flow margin expansion.

Not a Doddle

The key driver of share price strength in response to SiteMinder's update, suggests Morgan Stanley, was reiteration of product timelines and confidence on incremental revenue in FY25.

The SDP will be meaningful from FY25 as a new initiative to link hotel customer inventory more effectively into global distribution partners, reinforcing Morgan Stanley's view gross payment volume and take-rate will come more sharply into focus.

CP confirmed increase in participating hotels and channels and general availability in the second half of FY25, the broker notes. The DRP pilot is now live in Australia and New Zealand and globally by March 2025 with an integration with revenue management vendor IdeaS. As for Payments, the rollout in Asia and terminal rollout provide more longevity to the story.

Yet, Morgan Stanley notes key concerns.

The broker expects greater reinvestment to limit operating leverage, increasing sales but lowering earnings. Morgan Stanley expects this to be well-received as long as SiteMinder can deliver the sales re-acceleration.

With DRP, some investors clearly felt the change in recognition to the time of booking from time of checkout inflated the sales performance. Meanwhile, a change in revenue recognition, new partnerships, new products and promotional discounting was a lot to digest, especially in the absence of how new products will be included in segmentals.

Ord Minnett's enterprise value to revenue scenario analysis suggests the old business could be worth around $8.00 per share and the new products (excluding SDP, which the broker is yet to incorporate) could add a further $6.00 per share.

While things rarely move a straight line, warns Ord Minnett, material upside to the share price is expected for the coming years.

Ord Minnett, Morgan Stanley, Citi and UBS all have Buy or equivalent ratings on SiteMinder, and are all monitored daily by FNArena. Their consensus target price is $6.90, but while the latter three are cluttered around the $6.70 mark, Ord Minnett stands out with $7.55.

Not monitored daily, a more circumspect Goldman Sachs has a Neutral rating and $5.70 target.

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

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

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 02-08-24

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

By Mark Woodruff

Guide:

The FNArena database tabulates the views of eight major Australian and international stockbrokers: Citi, Bell Potter, Macquarie, Morgan Stanley, Morgans, Ord Minnett, Shaw and Partners 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 July 29 to Friday August 2, 2024
Total Upgrades: 3
Total Downgrades: 8
Net Ratings Breakdown: Buy 58.60%; Hold 32.68%; Sell 8.72%

FNArena recorded three ratings upgrades and eight downgrades for ASX-listed companies by brokers monitored daily in the week ending Friday August 2, 2024, which marked the very early stages of the August reporting season.

The size of downgrades to average earnings forecasts slightly exceeded upgrades with nine of the top ten downgrades relating to mining companies. Overall, falls in average target prices were also larger than rises.

Meeting the low end of management guidance for FY24, with a promise of better momentum in FY25, Credit Corp topped the list of earnings upgrades. The company received the largest (66%) increase to average earnings forecast in the table below.

Execution in the US for Credit Corp is pivotal in FY25, suggested Add-rated Morgans, which noted some incremental evidence of such in the fourth quarter of FY24, along with a solid purchasing pipeline and more positive management commentary.

Regarding the improved operational performance in the US, Macquarie highlighted record quarterly collections in the fourth quarter and noted productivity had improved by 14% year-on-year despite lower purchased debt ledger (PDL) purchases.

This broker also suggested improved Consumer Lending growth will drive earnings forward. The rating was downgraded to Neutral from Outperform on valuation.

Pinnacle Investment Management placed second on the earnings upgrade table and received the only material increase in average target price from brokers.

While the asset manager released FY24 results on Thursday, with a general briefing scheduled for the next day, only Macquarie from among four covering brokers in the FNArena database had updated research by week's end.

Underlying profit beat the analyst's expectations by 5%, as Affiliate revenue growth delivered operating leverage. Record Affiliate funds under management of $110bn (a 20% year-on-year increase) was supported by $9.9bn of net inflows and $8.3bn in market movements/investment performance.

Macquarie's target increased to $18.18 from $14.52 to reflect increased earnings forecasts and an extension of the broker's forecast period to better capture Pinnacle's earnings growth capability.

Regis Resources and Ramelius Resources featured next on the earnings upgrade table while (as mentioned) nine of the ten earnings downgrades involved resource companies.

After cross referencing with the target price tables and ignoring exaggerated percentage changes (due to small forecast numbers) the most newsworthy from among this group of earnings upgrades/downgrades are Regis and Ramelius along with earnings downgrades for Syrah Resources and Sandfire Resources.

Regis appears fourth on the negative change to target price table which more accurately reflects broker views on the company's June quarter operational report.

While fourth quarter gold production beat forecasts by Morgan Stanley and consensus by 10% and 7%, respectively, management's FY25 guidance was for lower-than-expected production and higher costs.

Costs at both Duketon A and Tropicana exceeded consensus forecasts, prompting this broker to reduce its target to $1.90 from $2.10.

As Bell Potter had predicted an overall decrease in operating and capital costs (in absolute dollar terms) would drive increased free cash flow in FY25, this analysts' target was also reduced to $2.15 from $2.70.

For Ramelius, Shaw and Partners highlighted FY24 gold production of 293koz was better than forecast and all-in-sustaining costs were lower than expected, post the release of the company's fourth quarter production report.

Both Shaw and Macquarie retained Buy (or equivalent) ratings for Ramelius with unchanged respective targets of $2.73 and $2.10.

In the wake of second quarter results for Syrah Resources, Morgan Stanley lowered its FY24 graphite production forecast on a slower ramp-up at the Balama Graphite Operation. The target was reduced to 25 cents from 40 cents and the Equal-weight rating was retained.

The broker's lower production forecasts were a result of both weaker-than-expected market demand, and a slower ramp-up at the company's downstream processing at the Vidalia Active Anode Material (AAM) Facility.

Vidalia's ramp-up has been slowed as customers appear to prefer Chinese supply for now, explained the analysts, and these customers are delaying purchases from Vidalia.

Uncertainty has reigned, noted Morgan Stanley, since the deadline was extended by the US Government around the requirement to source/not source graphite AAM from non-Foreign entities of Concern (that'll be China to you and me).

Towards the end of the prior week, Sandfire Resources released its June quarterly report (showing copper production in line with the consensus forecast) and issued "mixed" FY25 guidance, according to Macquarie.

While lead and silver guidance was better-than-expected by the broker, copper and zinc guidance fell short of consensus forecasts. After allowing for guidance changes and higher costs at both the Motheo and Matsa operations, the analyst reduced FY24 and FY25 EPS estimates by -6% and -17%, respectively.

Citi also recently moderated its bullish copper price forecast to US$10,250t, which is now in line with consensus forecasts, resulting in an $8.70 target for Sandfire, down from $8.80.

PolyNovo was the only non-miner on the earnings downgrades table below. However, this was a misrepresentation due to the very small forecast numbers involved and Bell Potter's positive appraisal of unaudited FY24 trading results.

The company recorded strong revenue growth in the second half, noted the broker, making for a revenue compound growth rate in excess of 50% over the last two years. For FY24, US revenue from product sales increased by 49% on the previous corresponding period.

Hold-rated Bell Potter now expects a maiden profit in FY24, along with positive cash flow from operations and positive free cash flow, and its target for PolyNovo rose to $2.52 from $2.05.

Readers may keep abreast of reporting season results by referring to FNArena's calendar of upcoming results and summaries once they are released at https://fnarena.com/index.php/reporting_season/

Total Buy ratings in the database comprise 58.60 % of the total, versus 32.68% on Neutral/Hold, while Sell ratings account for the remaining 8.72%.

Upgrade

AERIS RESOURCES LIMITED ((AIS)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/1/0

Macquarie points to better-than-expected FY25 guidance from Aeris Resources at the 4Q24 trading update.

The broker highlights FY25 copper production guidance of 27-32kt and cost guidance are above prior forecasts.

Macquarie adjusts the EPS forecasts for FY24 and FY25 by 11% and 33% respectively due to the guidance update.

The stock rating is upgraded to Outperform from Neutral due to the attractive valuation and recent share price weakness.

Target price unchanged at 26c.

CHALLENGER LIMITED ((CGF)) Upgrade to Neutral from Sell by Citi .B/H/S: 3/3/0

Citi upgrades Challenger to Neutral from Sell and raises the target price to $6.95 from $6.65 with the broker anticipating the company can achieve its target return on equity sooner rather expected.

Cost savings from its new Accenture contract and better Life margins as duration lengthens should also assist according to the analyst's outlook, although a greater than -$100m property valuation write-down may place pressure on capital.

Adjusting for mark-to-market changes, Citi lowers the FY24 EPS forecast by -27%. Risks over short-term fixed income defaults have abated, the broker highlights.

FORTESCUE LIMITED ((FMG)) Upgrade to Add from Hold by Morgans .B/H/S: 1/2/4

Morgans upgrades its rating for Fortescue to Add from Hold after a material share price selloff following media speculation a discounted $1.9bn institutional block trade could be related to shareholder The Capital Group.

The broker suggests participating institutions in the block trade may have moved to lock in a short-term gain, leading to the -10% share price decline yesterday.

Conviction by the analysts in the upgrade is not absolute, however, as caution and patience is advised for less risk-tolerant investors as any downturn in iron prices could see an ongoing share price decline.

The $23 target is retained.

Downgrade

ANZ GROUP HOLDINGS LIMITED ((ANZ)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 0/3/3

Morgan Stanley revisits the large four banks and envisages an opportunity for a re-pricing of deposits if the RBA cuts rates in 2025 which could offer some upside to margins.

The analyst stresses the 4 point price-to-earnings re-rating since last 2023 suggests the positive impacts of rate cuts are already discounted in the share prices, as well as a "soft-landing" and reduced competition.

The order of preference for the banks is National Australia Bank, Westpac, ANZ Bank, and CommBank.

Morgan Stanley revises EPS and dividend forecasts to account for the potential deposit re-pricing.

ANZ Bank is downgraded to Underweight from Equal-weight and the target revised to $26.20 from $27.80. Industry view: In-Line.

CREDIT CORP GROUP LIMITED ((CCP)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/2/0

Macquarie views the FY24 earnings results for Credit Corp as coming in at the low-end of guidance, down -11%, year-on-year.

The broker highlights the A&NZ debt buying market remains "subdued"; US debt buying reported record quarterly collections up 6%, year-on year and the consumer lending book grew 24%.

For FY25, management is guiding to 17% growth driven primarily by consumer lending, with the US purchase debt ledger also contributing to growth.

Credit Corp has extended the amortisation period to 8 years from 6 for the ledger, affecting FY24 figures but not materially impacting future forecasts.

Macquarie has adjusted EPS forecasts for FY25 and FY26 by -7.3% and -6.2%.

The rating is downgraded to Neutral from Outperform and the target price revised to $18.01 from $18.32.

JB HI-FI LIMITED ((JBH)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/1/3

Post a sizeable rally in the shares, UBS has decided to downgrade JB Hi-Fi to Sell from Neutral, arguing the PE multiple expansion has gone too far.

The broker "blames" (so to speak) investor optimism regarding revenue growth acceleration in computer & telco products due to AI capabilities.

As a result, the broker observes the shares are trading well above historical levels and average premiums to key discretionary peers.

UBS's EPS estimates sit -4%/-3% below consensus for FY24/25 respectively. Target price has gained $1 to $60. Also remarkable: current EPS trajectory in UBS forecasts implies nil growth in FY25 vis a vis FY24.

MIRVAC GROUP ((MGR)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/2/0

Citi believes APRA's position on leaving the mortgage serviceability buffer at current rates, and higher-for-longer interest rates, means the sales environment for residential and land lease developers will remain challenging.

The broker lowers the near term settlement forecasts and downgrades Mirvac Group to a Neutral rating from Buy and the analyst continues to prefer Stockland ((SGP)).

The $2.10 target for Mirvac Group is unchanged.

NEWS CORPORATION ((NWS)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/2/0

UBS analysts have used a general media sector preview to the August reporting season to downgrade News Corp to Neutral from Buy. Price target of $46.30 is a little below the $46.70 in May.

The broker cites recent strength in the share price in combination with incremental reinvestment risks into FY25 at Move, Dow Jones, and Subscription Services. There's also the potential entry of HBO Max in Australia.

ORORA LIMITED ((ORA)) Downgrade to Neutral from Buy by Citi .B/H/S: 2/3/0

Citi downgrades the rating on Orora to Neutral from Buy, which the broker attributes to a challenging outlook for the company's end markets, particularly glass and wine exports are still in decline.

The geared balance sheet and additional capex requirements are also causing more concerns for the analyst.

Despite some strength in cans and tequila, the broker believes earnings growth for FY25 could be under pressure, potentially necessitating dividend cuts over the next two halves.

Citi reduces earnings before interest and tax forecasts by -5% for FY25 to FY26. Target price revised to $2.30 from $2.86.

PERPETUAL LIMITED ((PPT)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 3/3/0

Morgan Stanley sees few growth options within its coverage of asset managers on the ASX and downgrades Perpetual to Equal-weight from Overweight. The price target is reduced by -$2.00 to $22.40. Industry view is In-Line.

The 4Q investment performance worsened compared to Q3 and the broker lowers its earnings forecasts, anticipating a prolonged recovery for inflows in Investments.

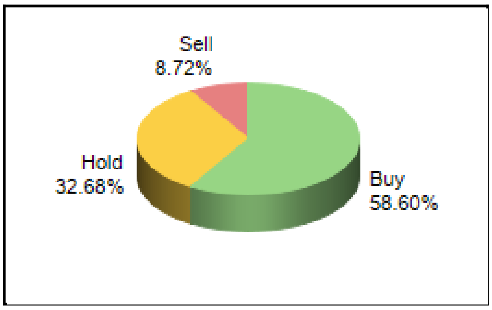
Following a figure of -8.5% of FY24 net outflows as a percentage of funds under management (FUM), and -13% annualised in H2, the analysts now see almost -10% of outflows in FY25.

SEVEN WEST MEDIA LIMITED ((SWM)) Downgrade to Sell from Neutral by UBS .B/H/S: 1/1/2

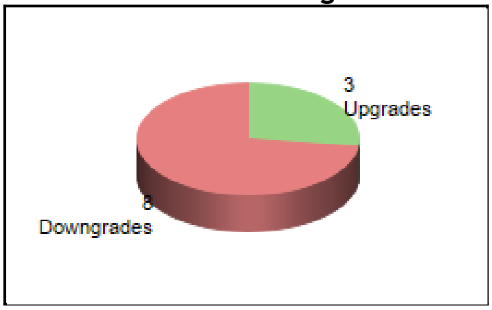
A general sector preview to the August reporting season sees UBS downgrading Seven West Media to Sell from Neutral with its price target tanking by -39% to 16c.

Reasons mentioned include anticipation of a weaker metro FTA recovery in FY25, the expected removal of the dividend in FY25 (gearing likely elevated at 1.7x FY25e net debt to EBITDA), and a downgrade to the broker's projected long-term EBITDA margins to 5% from 10% in reflection of ongoing weakness in metro FTA ad markets.

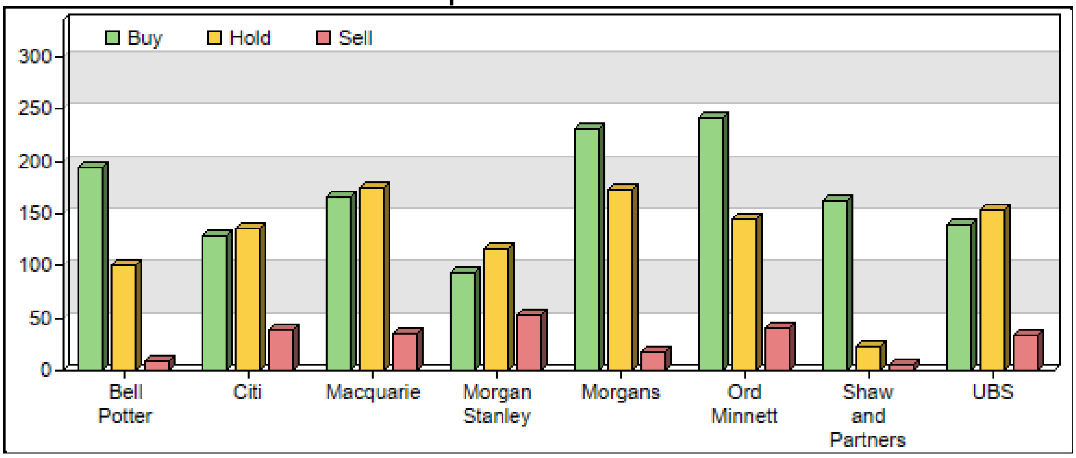
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	AERIS RESOURCES LIMITED	Buy	Neutral	Macquarie
2	CHALLENGER LIMITED	Neutral	Sell	Citi
3	FORTESCUE LIMITED	Buy	Neutral	Morgans
Downgrade				
4	ANZ GROUP HOLDINGS LIMITED	Sell	Neutral	Morgan Stanley
5	CREDIT CORP GROUP LIMITED	Neutral	Buy	Macquarie
6	JB HI-FI LIMITED	Sell	Neutral	UBS
7	MIRVAC GROUP	Neutral	Buy	Citi
8	NEWS CORPORATION	Neutral	Buy	UBS
9	ORORA LIMITED	Neutral	Buy	Citi
10	PERPETUAL LIMITED	Neutral	Buy	Morgan Stanley
11	SEVEN WEST MEDIA LIMITED	Sell	Neutral	UBS

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	PNI	PINNACLE INVESTMENT MANAGEMENT GROUP LIMITED	16.170	14.330	12.84%	4
2	NEM	NEWMONT CORPORATION REGISTERED	81.750	76.250	7.21%	4
3	GQG	GQG PARTNERS INC	3.280	3.100	5.81%	5
4	PNV	POLYNOVO LIMITED	2.193	2.075	5.69%	4
5	AMP	AMP LIMITED	1.186	1.130	4.96%	5
6	SDR	SITEMINDER LIMITED	6.770	6.494	4.25%	5
7	LLC	LENDLEASE GROUP	6.360	6.160	3.25%	4
8	TNE	TECHNOLOGY ONE LIMITED	18.971	18.443	2.86%	7
9	ALQ	ALS LIMITED	14.438	14.200	1.68%	4
10	MFG	MAGELLAN FINANCIAL GROUP LIMITED	9.148	8.998	1.67%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	SWM	SEVEN WEST MEDIA LIMITED	0.255	0.280	-8.93%	4
2	A1N	ARN MEDIA LIMITED	0.823	0.897	-8.25%	3
3	ORA	ORORA LIMITED	2.382	2.574	-7.46%	5
4	RRL	REGIS RESOURCES LIMITED	1.975	2.133	-7.41%	6
5	SXL	SOUTHERN CROSS MEDIA GROUP LIMITED	0.893	0.963	-7.27%	4
6	LIC	LIFESTYLE COMMUNITIES LIMITED	11.525	12.383	-6.93%	4
7	PTM	PLATINUM ASSET MANAGEMENT LIMITED	1.010	1.084	-6.83%	5
8	SYR	SYRAH RESOURCES LIMITED	0.663	0.700	-5.29%	4
9	IGO	IGO LIMITED	6.050	6.350	-4.72%	6
10	MIN	MINERAL RESOURCES LIMITED	67.143	69.929	-3.98%	7

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CCP	CREDIT CORP GROUP LIMITED	126.600	76.167	66.21%	3
2	PNI	PINNACLE INVESTMENT MANAGEMENT GROUP LIMITED	51.925	39.800	30.46%	4
3	RRL	REGIS RESOURCES LIMITED	12.300	10.420	18.04%	6
4	RMS	RAMELIUS RESOURCES LIMITED	19.500	17.400	12.07%	3
5	PRU	PERSEUS MINING LIMITED	29.986	28.070	6.83%	3
6	NEC	NINE ENTERTAINMENT CO. HOLDINGS LIMITED	12.900	12.175	5.95%	4
7	NWS	NEWS CORPORATION	103.741	98.767	5.04%	4
8	SWM	SEVEN WEST MEDIA LIMITED	6.167	5.875	4.97%	4
9	IFL	INSIGNIA FINANCIAL LIMITED	32.300	31.200	3.53%	4
10	A1N	ARN MEDIA LIMITED	9.870	9.580	3.03%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	AIS	AERIS RESOURCES LIMITED	-0.767	-0.167	-359.28%	3
2	STX	STRIKE ENERGY LIMITED	0.500	0.650	-23.08%	3
3	NIC	NICKEL INDUSTRIES LIMITED	5.236	6.520	-19.69%	5
4	PNV	POLYNOVO LIMITED	0.700	0.850	-17.65%	4
5	SYR	SYRAH RESOURCES LIMITED	-12.768	-11.086	-15.17%	4
6	NEM	NEWMONT CORPORATION REGISTERED	368.378	428.587	-14.05%	4
7	SFR	SANDFIRE RESOURCES LIMITED	-5.707	-5.034	-13.37%	6
8	VEA	VIVA ENERGY GROUP LIMITED	24.400	27.950	-12.70%	4
9	MIN	MINERAL RESOURCES LIMITED	62.467	67.517	-7.48%	7
10	GOR	GOLD ROAD RESOURCES LIMITED	11.000	11.750	-6.38%	4

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Price Lower For (A Little) Longer?

Cameco and Kazatomprom create short term U308 spot price volatility, continued price weakness for H2 and Australian producers wrestle with cost rises.

-Trading volumes up at month's end
-More uranium price weakness for H2
-Mine restarts impacted by inflation

By Danielle Ecuyer

Supply concerns prompt spot price volatility

The U308 spot price market ended the month of July with a welcome flurry of activity and price strength as 800,000lbs of transactions were completed, compared to only eight transactions in the preceding July 31 from June 30 period.

Industry consultant TradeTech points to the second quarter earnings call for **Cameco** as the catalyst. Concerns over supply problems from Kazatomprom elicited the momentum of sales at month's end and a spot price move to US$86.50lb, before buyers retreated.

Concerns were at least temporarily ameliorated at the **Kazatomprom** August 1 trading update, which didn't disappoint the market. By August 2, the end of last week, the U308 spot price had reversed the month's end gains and finished flat on the week at US$82lb.

Thus far in 2024, the weekly spot price has reversed by -11%, but movements have been characterised by bouts of notable volatility. The 5.5% price moves over the last week of July are viewed by TradeTech as exemplifying the sensitivity of the market conditions.

Year on year the U308 spot price remains up 44% although TradeTech points to the weekly volatility indicator which is down -25% in contrast to the end of July.

Utilities continued to focus on the Russian waivers with import bans scheduled for August 11. Thus far, TradeTech states, Centrus Energy has been given a partial waiver from the Department of Energy.

The industry consultants allude to an uncertain market with some utilities awaiting news on the waiver applications or concentrating on preparing applications.

On July 31, the TradeTech spot price rose US$1.50lb to US$86.50lb from the June 30 value. The Long-Term U308 price increased US$2 to US$82lb over the month of July and the Mid-Term U308 price declined -US$3 to US$90lb.

Last week, the U308 price ended unchanged at US$82/lb.

What the brokers are saying

UBS and TradeTech checked in on the June quarter results from the world's second largest uranium producer, Cameco.

The company's uranium production reached a record 7.1mlbs over 2Q, from 4.4mlbs in Q2 2023, with sales achieved of 6.2mlbs, up 13% on the same quarter in 2023.

UBS spoke with management and highlighted the company remained "bullish" on the uranium outlook.

Demand drivers include the need for decarbonised and secure baseload electricity, and the diversification away from Russian supplies.

Management also pointed to the strength in contracting prices at what is perceived **still an early stage of the**

cycle. The recent weakness in the uranium spot price has been explained through low volumes.

Cameco also highlighted the demand outlook can remain strong even with the aging nuclear generation fleet due to a rising rate of refurbishments and restarts.

On this point TradeTech noted NextEra Energy was evaluating the restarting of a nuclear plant in Iowa, and Michigan committed another US$150m to the Palisades Nuclear Power Plant.

Morgan Stanley referred to the **potential restart of the Three Mile Island Plant**. The Nuclear Co has planned to develop a few nuclear US plants on sites with pre-existing regulatory approval.

Japan is looking at two life extensions at Kansai Electric Power Company's Ohi 3 and 4 units with Unit 2 of the Tsuraga plant not meeting regulatory conditions.

Concerns around sulphuric acid supplies in Kazakhstan remain in focus for both Cameco and the market generally.

Morgan Stanley's latest uranium update noted the Inkai mine production is down -20% year-on-year. The JV operator of inkai is 40% owned by Cameco and 60% owned by Kazatomprom.

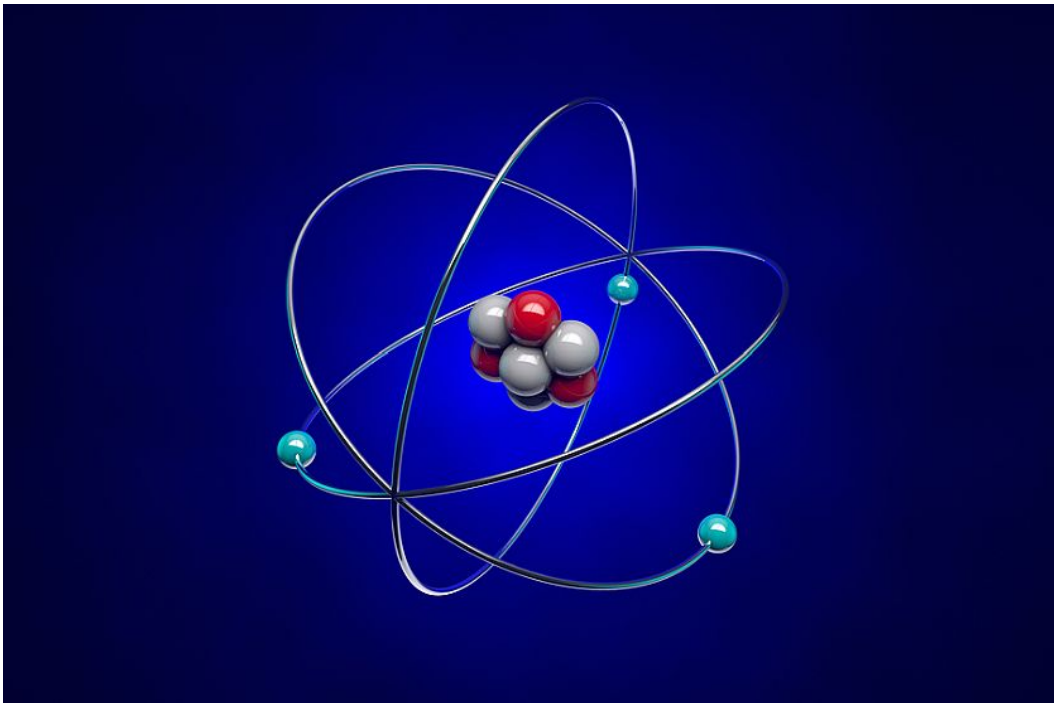
At the August 1 earnings report Kazatomprom stated it has secured sulphuric acid supplies and raised its 2024 guidance by some 6%, as highlighted by UBS, to re-establish inventory levels. The market now awaits the 2025 guidance which Morgan Stanley expects on August 23 to provide improved insights into sulphuric acid potential impacts.

The longer-term drivers for uranium are acknowledged by Morgan Stanley, and the broker believes the market can be "tight" over 2024 and 2025 with supply issues in Niger alongside Kazatomprom's challenges.

But new mine starts, and ongoing Russian waiver approvals are expected to result in a softer second half of 2024 pricing outlook. **Morgan Stanley forecasts a U308 price of US$79lb price by the fourth quarter**, some -4% below last week's US$82lb price.

"If the world starts doing more nuclear, you're talking 20 years down the road before you really get to consumption", stated Rio Tinto ((RIO)) at its 2Q results.

Morgan Stanley referred to this quote regarding the long build out times for new nuclear generation capacity.



Australian companies in focus

Shaw and Partners retains a positive view on **Lotus Resources** ((LOT)) post the announced finalisation of the mine development agreement with the Malawi Government for the Kayelekera uranium mine.

The signing of the agreement allows Lotus to develop its offtake discussions and financing options, under the 5% royalty rate and a 30% corporate tax rate.

Shaw and Partners has a Buy rating (High Risk) with a 72c target price.

Peninsula Energy ((PEN)) was also in focus with an update on construction at the Wyoming Lance Uranium Project in the US.

The company stated it is on schedule for first production in late 2024 and remains within the budget. Production in the first year is expected between 700-900klbs, which is below the original plan of 1,100klbs.

Shaw and Partners rates the stock as Buy (High risk) with a 26c target price.

NexGen Energy ((NXG)) has also revised capex and operating expenses for the Rook uranium project, which is not unexpected according to Shaw and Partners, as the last estimates were provided in the 2021 feasibility study.

Although the broker had assumed a 30% rise in costs, management's revised capex is up 60% with operating costs up 83%.

Shaw and Partners has a Buy rating with a revised target price of $16.20, down from $17.50 due to the revision in expenses.

<u>Uranium companies listed on the ASX:</u>

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	02/08/2024	0.0600	0.00%	$0.19	$0.06			
AGE	02/08/2024	0.0400	▼-14.89%	$0.08	$0.03			
BKY	02/08/2024	0.3100	▼-10.00%	$0.46	$0.26			
BMN	02/08/2024	2.4000	▼- 8.45%	$4.87	$1.62		$7.400	▲208.3%
BOE	02/08/2024	2.9800	▼- 8.36%	$6.12	$2.95	31.2	$5.013	▲68.2%
DYL	02/08/2024	0.9800	▼-13.93%	$1.83	$0.76	-70.7	$1.770	▲80.6%
EL8	02/08/2024	0.2900	▼- 6.06%	$0.68	$0.28			
ERA	02/08/2024	0.0200	▼-54.29%	$0.08	$0.01			
LOT	02/08/2024	0.2200	▼- 7.69%	$0.49	$0.20		$0.685	▲211.4%
NXG	02/08/2024	8.5000	▼- 9.27%	$13.66	$7.17		$16.200	▲90.6%
PDN	02/08/2024	9.7600	▼- 6.98%	$17.98	$7.25	-77.6	$16.287	▲66.9%
PEN	02/08/2024	0.0900	▼-14.55%	$0.15	$0.08	30.0	$0.260	▲188.9%
SLX	02/08/2024	4.2500	▼- 3.70%	$6.74	$2.92		$7.600	▲78.8%

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WEEKLY REPORTS

The Short Report - 08 Aug 2024

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

Summary:

Week Ending August 1st, 2024 (most recent data available through ASIC).

10%+

PLS 21.76
IEL 12.74
WGX 12.29
LTR 11.58
CHN 11.13
SYR 10.60
LYC 10.48

In: WGX Out: FLT

9.0-9.9%

FLT
SYA
STX

In: FLT Out: WGX

8.0-8.9%

WBT
GMD

In: GMD

7.0-7.9%
SFR
BOE
HLS
ARU
DYL

In: DYL, SFR Out: GMD

6.0-6.9%

MIN
OBL
WEB

5.0-5.9%

CXO
IFL
SEK
CUV
PDN
NAN
RIO

BGL
BOQ
VUL
DXS

Out: DYL, LIC, NUF

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.4	0.4	NAB	0.6	0.6
ANZ	0.5	0.4	QBE	0.6	0.6
BHP	0.5	0.5	RIO	5.6	5.4
CBA	1.5	1.5	STO	1.1	1.0
COL	0.6	0.5	TCL	0.7	0.7
CSL	0.3	0.4	TLS	0.4	0.5
FMG	0.6	1.2	WBC	0.8	0.8
GMG	0.8	0.9	WDS	0.9	0.9
JHX	1.1	1.1	WES	1.1	1.0
MQG	0.7	0.7	WOW	0.4	0.5

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

In Brief: WiseTech, Xero, Treasury Wine, Superloop & More

Weekly Broker Wrap: Wisetech versus Xero; Treasury Wine marches more up-market; REITs in the earnings spotlight; an 'Origin'al boost for Superloop plus a golden nugget in waiting.

-Is a WiseTech hiccup on the cards?
-Premium Penfolds powers earnings
-Hits and misses in REIT land
-Superloop goes super growth
-Horizon Minerals an emerging mid-tier goldie

By Danielle Ecuyer

Quote of the week from Stephen Koukoulas.

"And I've seen it before. And I'll see it again."

"Yes, I've seen it before. Just little bits of history repeating."

These are the lyrics from the iconic Shirley Bassey song, History Repeating.

Take your own personal pick of which part of financial markets this may apply to!

The short and the long of Wisetech and Xero

JPMorgan has an interesting take on comparable risks going into reporting season on two technology favourites, **Wisetech Global** ((WTC)) and **Xero** ((XRO)).

The broker has placed Wisetech on a **"negative catalyst watch"** in advance of its earnings report on August 21, believing the market's expectations are far too high.

Industry investigations suggest Wisetech has put through price increases in the mid-single digit range, the analyst highlights.

In combination with a lack of transparency on new product launches plus a slowdown in Cargowise revenue growth to 19% the stock could be setting up for disappointment on realised FY24 revenue growth and the FY25 outlook.

JPMorgan views consensus revenue expansion of 30%-plus in FY24 and 24%-plus in FY25 as potentially too high, with its estimates at 28% and 23%, respectively.

Last year, Wisetech's lower than expected FY24 guidance at the FY23 results sent the stock price lower by -20%, which is a scenario envisaged yet again as a real risk for shareholders given the premium valuation which investors ascribe to the stock.

Depending on where you sit in the Wisetch debate, you could be afforded a lower entry point. One extra factor to take into account: the share price was well above $90 when that report was released.

Other brokers, including Bell Potter and UBS from the FNArena daily monitor, propose the transition to new markets via Landslide logistics and Customers and compliance are under-appreciated and have the potential to supersede the existing earnings engine of freight forwarding.

JPMorgan adopts a Neutral rating and stresses despite the short-term risks, it believes there is a "strong long-term growth" outlook from new customers in logistics and additional products in supply chain management software systems.

Conversely, Xero is in the driver's seat or not as the case will be as it reports out of cycle (March year-end), which equates to no earnings announcement in August.

The analyst also views the FY25 consensus revenue estimate of 21% is a low benchmark to achieve given the company ended FY24 with average monthly recurring revenue growth at 26%-plus.

Adjusting for the recent price tier changes, conservative revenue growth and subscriber additions, the analyst swiftly concludes there are upside risks to Xero's FY25 revenue growth.

JPMorgan retains an Overweight rating and $145 target price.

Goldman Sach recently upgraded the target price to $180 from $164 with a very upbeat view of the company's refreshed strategy and positive feedback from Xerocon.

Morgan Stanley, one of the daily monitored brokers, believes consensus forecasts are too conservative, and recent price rises and new plans underpin the broker's earnings forecasts. Overweight with a $180 target price.

Treasury Wine: The only way is UP!

Evans and Partners delves into the ongoing "**premiumisation**" strategy at Treasury Wine Estates ((TWE)).

The company announced its aim to sell off the commercial brand portfolio which will result in a -$290m post tax asset impairment within the Treasury Premium Brands division.

Divestment will lift luxury and premium wines to over 90% of revenues in FY25 from 69% currently. The broker estimates poor demand for commercial wines will result in the division being ascribed an inventory valuation of some $100m.

Management also served up FY24 earnings before interest and tax guidance at $658m which was in line with the Evans and Partner's forecast.

The analyst retains a "Positive" rating on the company with a valuation of $14.79, as no price target is offered. The company is considered offering a robust EPS outlook, driven by Penfolds and the US luxury business.

FNArena daily monitored brokers have an average target price of $13.763.

Goodman Group the king of the REIT castle

Daily monitored broker Citi and JPMorgan homed in on the A-REIT sector for an earnings season preview.

Citi sees the macro-outlook in an improving trend with rate cuts priced in the US and Australia, but earnings are expected to remain fundamentally challenged from high debt costs.

The broker likes those REITs with earnings growth, including **Goodman Group** ((GMG)), **National Storage** ((NSR)), **Ingenia Communities** ((INA)) and **Scentre Group** ((SCG)), with upside "surprise" from **Charter Hall** ((CHC)).

In the case of Charter Hall, even a flat earnings result could be deemed positive due to the negative disposition of investors, suggests the broker.

Goodman Group is anticipated to continue to highlight the demand for data centres with stronger sales growth assisting Scentre.

JPMorgan observes investors have been buying REITs, lifting portfolio weightings for a third consecutive month, while the average fund is positioned around -240 basis points underweight.

REITs have generated a 6.8% return on average in July, above the ASX200 at 4.2%.

Interestingly, the shorts in **Dexus** ((DXS)) have been increasing and decreasing in Goodman post its inclusion in the EPRA/NAREIT Global Real Estate Index in mid-March.

After Dexus, Charter Hall and **Centuria Industrial** ((CIP)) are the most shorted.

Goodman is the top pick for funds with the 50 tracked by JPMorgan holding the REIT either in the top 5 or top 10 positions, a rise of 4% in July on the previous month.

The top three REITS in the ASX200 REIT index are Goodman at 40% (down from 43% in June), Scentre Group and Stockland ((SGP)) which represent 57.6%, above the historical average at 47.3%.

Citi believes the downside surprises this reporting season will be coming from Dexus, **Growthpoint Properties** ((GOZ)), **GPT Group** ((GPT)) and **Mirvac Group** ((MGR)).

Mirvac reported FY24 earnings which were in line with Citi's expectation, but management offered lower than expected FY25 guidance. The stock traded down -8% on the day.

<u>Staying connected: Origin assists Superloop's growth</u>

Wilsons takes on the meaty subject of **Origin Energy**'s ((ORG)) white label NBN offering for providers **Aussie Broadband** ((ABB) and **Superloop** ((SLC)).

The Origin white labeling of the Aussie Broadband NBN service started in April 2021, and users expanded to 125k by the end of May this year from circa 25k when Origin started marketing the white label product.

In March, Origin announced the contract with Aussie Broadband had been terminated and Superloop was signed up instead for an exclusive six-year contract.

The migration of existing customers started on July 1 and is expected to finish by the end of October with new Superloop network sales commencing July 2.

Wilsons explores the impact of Origin on the network providers. Over the previous three half-years the broker emphasises Aussie Broadband would have added less customers than Superloop once the Origin contribution was backed out.

Looking ahead, Origin is targeting 600k accounts versus the 150k at May end by FY26. This would require a circa 100% growth rate for the next two years, compared to the 70% growth rate since June 2021. Wilsons flatly contests the aim as "unachievable"; but Origin is still forecast to generate robust growth which will boost Superloop.

The Superloop package also has advantageous pricing which is expected to facilitate more competitive price plans and/or marketing spend from Origin.

Aussie Broadband has in turn announced the new offering Buddy Telco to compete in the digital first/value segment of the market.

Wilsons observes the set-up timing and costs for Buddy are likely to prove more onerous for Aussie Broadband which detracts from the near-term attractiveness of the stock.

The broker likes it for the longer term and poses the question of when, not if the story will become compelling?

Regarding Superloop, Wilsons acknowledges the higher valuation compared to sector peers, but the analyst believes the premium is justified and doesn't reflect the potential 38% compound growth rate in EBITDA over the next three years. This exceeds the average 4% growth rate from sector peers.

As of July 4, Wilsons had an Overweight rating and $1.61 target price on Superloop with a Market weight and $3.32 target price on Aussie Broadband.

A potential hidden gem for the golden punters

EastCoast Research came sprinting out of the gates with a positive outlook on **Horizon Minerals** ((HRZ)) - market cap less than $47m.

The broker initiated coverage with a 10c target price, compared to the 3.9c share price.

Horizon owns several gold projects in the Goldfields area of Western Australia with an estimated resource of 1.8Moz at 1.84g/t.

The company's long-term goal is for the development of its two major assets Boorara and Burbanks.

In the interim, the broker states management will generate cash from gold deposit ore sales and has an agreement with Paddington Gold to treat 1.4mt of Horizon ore from the Boorara open pit, starting September.

Horizon also has a toll milling agreement with FMR Investments to treat 200kt of ore from Cannon or another deposit starting in December.

The plan is to minimise dilutive equity raisings by generating cashflow from these agreements to develop the assets and become a mid-tier WA gold producer over time.

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 09-08-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

CAPRICORN METALS LIMITED ((CMM)) Upgrade to Buy from Overweight by Jarden.B/H/S: 0/0/0

Jarden raises its target for Capricorn Metals to $6.28 from $5.80 and upgrades to Buy from Overweight.

The broker sees a clearer pathway to material, low-risk but strong margin growth, and believes the expansion will proceed at Karlawinda.

A supportive macroeconomic backdrop for the gold price further strengthens the ananlyst's view.

GOLD ROAD RESOURCES LIMITED ((GOR)) Upgrade to Buy from Hold by Moelis.B/H/S: 0/0/0

Moelis upgrades Gold Road Resources to Buy from Hold and raises the target price to $2.10 due to what is viewed as the "strategic" value of Gruyere and circa 17.3% stake in Dug Technology ((DUG)).

The company reported lower-than-expected 2Q24 gold production and management also decreased the FY25 guidance, the broker highlights.

Problems incurred from wet weather in the March quarter continued to impact into the June quarter and the analyst revises EPS estimates by -56.2% for FY24 and -4.25% for FY25.

Buy rated. $2.10 target.

NICKEL INDUSTRIES LIMITED ((NIC)) Buy by Canaccord Genuity.B/H/S: 0/0/0

Nickel Industries reported 4Q24 results which met the Canaccord Genuity's analyst's expectations but came in better than the market forecasts.

Higher than average rainfall impacted on RKEF resulting in the company using lower grade stockpiles, creating higher than anticipated cash costs.

Cash depletion was also higher than the broker expected.

Buy rating with 95c target maintained.

ORORA LIMITED ((ORA)) Buy by Jarden.B/H/S: 0/0/0

Jarden is looking for any FY25 guidance changes for Saverglass and North America in the upcoming Orora FY24 results on August 15.

The Buy rating is retained with a change in the target price to $2.50 from $2.55.

POINTSBET HOLDINGS LIMITED ((PBH)) Upgrade to Buy from Overweight by Jarden.B/H/S: 0/0/0

Following 4Q results, Jarden upgrades its rating for PointsBet Holdings to Buy from Overweight on signs of stronger profitability going
forward. PointsBet remains the broker's preferred wagering exposure under coverage on the ASX.

Momentum continues in Australia, note the analysts, while in Canada an impressive net win growth in sports betting was offset by lower-than-expected iGaming net win growth.

The 85c target price is maintained after the broker's earnings forecast downgrades are matched by the positive impact of a valuation roll-forward.

Downgrade

EMECO HOLDINGS LIMITED ((EHL)) Downgrade to Overweight from Buy by Jarden.B/H/S: 0/0/0

Jarden downgrades Emeco Holdings to Overweight from Buy ahead of its FY24 result in response to the recent share price rally.

The broker says all eyes will be peeled to evidence of sustainability of strong pricing, following a robust earnings performance, and expects prudent capital expenditure guidance.

While all looks rosy, the broker remains cautious on Pit'n'Portal for now.

Target price falls to 90c from 95c.

LIFESTYLE COMMUNITIES LIMITED ((LIC)) Downgrade to Overweight from Buy by Jarden.B/H/S: 0/0/0

Reacting to events several weeks ago, Jarden lowers its target for Lifestyle Communities to $11.70 from $15.00 and downgrades to Overweight from Buy.

The analysts anticipate near-term sales and settlements will remain under pressure until the courts offer a view on the current contract structure, which has attracted negative media coverage.

The broker feels share price weakness is overdone and still sees attractive medium-term growth from underlying demand plus a growing pipeline.

MACMAHON HOLDINGS LIMITED ((MAH)) Downgrade to Overweight from Buy by Jarden.B/H/S: 0/0/0

Jarden downgrades Macmahon to Overweight from Buy following a 45% rally for the shares in the past year.

The broker remains upbeat for FY25 expecting it to be a "transformative year". Jarden observes an easing WA labour market and appreciates the low capital intensity of recent transaction, which reduces stranded-asset risk

EPS forecasts are steady for FY25; rise 3% for FY25; and 3% for FY26. Target price rises to 28c from 26c.

NRW HOLDINGS LIMITED ((NWH)) Downgrade to Overweight from Buy by Jarden.B/H/S: 0/0/0

Jarden downgrades NRW Holdings to Overweight from Buy given the company's recent share price run. Target price eases to $3.20 from $3.25.

Heading into the company's FY24 result, the broker expects an in-line result given it has largely been pre-guided.

Hence, eyes will turn to FY25 guidance - the broker perceives the risk to be to the upside.

SITEMINDER LIMITED ((SDR)) Downgrade to Overweight from Buy by Jarden.B/H/S: 0/0/0

In the wake of 4Q results for SiteMinder, Jarden lowers its target to $5.85 from $6.02 and downgrades to Overweight from Buy. It's thought the market will require evidence of new product traction before rewarding investments in growth.

Regardless, the broker believes it is a strategically sound decision by management to reinvest free cash flow (FCF) in revenue growth, having attained free cash flow breakeven in Q4, while also maintaining a reasonable revenue growth rate.

Management reiterated its focus on achieving the 30% organic revenue growth target in the medium-term, which implies to the analysts increased opex investment.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	CAPRICORN METALS LIMITED	Buy	Buy	Jarden
2	GOLD ROAD RESOURCES LIMITED	Buy	Neutral	Moelis
3	NICKEL INDUSTRIES LIMITED	Buy	Sell	Canaccord Genuity
4	ORORA LIMITED	Buy	Buy	Jarden
5	POINTSBET HOLDINGS LIMITED	Buy	Buy	Jarden

Downgrade

6	EMECO HOLDINGS LIMITED	Buy	Buy	Jarden
7	LIFESTYLE COMMUNITIES LIMITED	Buy	Buy	Jarden
8	MACMAHON HOLDINGS LIMITED	Buy	Buy	Jarden
9	NRW HOLDINGS LIMITED	Buy	Buy	Jarden
10	SITEMINDER LIMITED	Buy	Buy	Jarden

Price Target Changes (Post Thursday Last Week)

Company		Last Price	Broker	New Target	Old Target	Change
ANZ	ANZ Bank	$27.65	Goldman Sachs	29.10	28.15	3.37%
ASB	Austal	$2.35	Petra Capital	3.33	3.14	6.05%
BEN	Bendigo & Adelaide Bank	$11.88	Goldman Sachs	11.41	10.51	8.56%
BGL	Bellevue Gold	$1.25	Canaccord Genuity	1.95	2.20	-11.36%
BMN	Bannerman Energy	$2.39	Canaccord Genuity	4.33	4.65	-6.88%
BMT	Beamtree Holdings	$0.27	Petra Capital	0.54	0.61	-11.48%
BSA	BSA	$1.08	Canaccord Genuity	1.40	1.25	12.00%
BVS	Bravura Solutions	$1.09	Wilsons	N/A	1.43	-100.00%
CBA	CommBank	$129.11	Goldman Sachs	91.75	82.61	11.06%
			Jarden	105.00	102.00	2.94%
CCP	Credit Corp	$15.21	Canaccord Genuity	20.70	20.90	-0.96%
CCR	Credit Clear	$0.28	Petra Capital	0.53	0.51	3.92%
CCX	City Chic Collective	$0.10	Canaccord Genuity	0.25	1.00	-75.00%
CIA	Champion Iron	$5.77	Goldman Sachs	7.60	8.00	-5.00%
			Jarden	7.47	7.58	-1.45%
CMM	Capricorn Metals	$5.58	Jarden	6.28	5.31	18.27%
CRD	Conrad Asia Energy	$0.84	Canaccord Genuity	1.92	2.68	-28.36%
			Wilsons	1.92	1.93	-0.52%
CSC	Capstone Copper	$8.64	Moelis	14.00	14.50	-3.45%
CU6	Clarity Pharmaceuticals	$5.74	Wilsons	8.48	4.50	88.44%
EHL	Emeco Holdings	$0.81	Jarden	0.90	0.95	-5.26%
EXP	Experience Co	$0.14	Canaccord Genuity	0.25	0.33	-24.24%
FCL	Fineos Corp	$1.54	Goldman Sachs	1.90	1.95	-2.56%
FPH	Fisher & Paykel Healthcare	$30.13	Wilsons	35.00	30.00	16.67%
GOR	Gold Road Resources	$1.63	Canaccord Genuity	2.05	2.15	-4.65%
			Goldman Sachs	2.05	2.10	-2.38%
			Moelis	2.10	1.70	23.53%
HGO	Hillgrove Resources	$0.06	Canaccord Genuity	0.10	0.09	11.11%
HVN	Harvey Norman	$4.52	Goldman Sachs	4.60	4.30	6.98%
IAG	Insurance Australia Group	$6.99	Goldman Sachs	7.30	6.72	8.63%
IGO	IGO	$5.09	Canaccord Genuity	4.80	5.00	-4.00%
			Goldman Sachs	6.75	7.15	-5.59%
IMD	Imdex	$2.14	Jarden	2.30	2.10	9.52%
INA	Ingenia Communities	$4.95	Goldman Sachs	4.60	4.40	4.55%
IPD	ImpediMed	$0.06	Wilsons	0.18	0.20	-10.00%
JBH	JB Hi-Fi	$66.41	Goldman Sachs	52.90	50.00	5.80%
JLG	Johns Lyng	$5.45	Canaccord Genuity	8.75	8.65	1.16%
LIC	Lifestyle Communities	$8.92	Goldman Sachs	12.00	18.45	-34.96%
			Jarden	11.70	15.00	-22.00%
LRK	Lark Distilling Co	$0.89	Canaccord Genuity	1.20	1.60	-25.00%
			Moelis	1.00	1.42	-29.58%
MAH	Macmahon	$0.28	Jarden	0.28	0.26	7.69%
MIN	Mineral Resources	$50.92	Jarden	44.70	47.20	-5.30%
MND	Monadelphous Group	$11.53	Jarden	13.80	14.45	-4.50%
MPL	Medibank Private	$3.81	Goldman Sachs	3.88	3.70	4.86%
NAN	Nanosonics	$3.00	Wilsons	4.00	3.45	15.94%
NEU	Neuren Pharmaceuticals	$17.09	Wilsons	N/A	30.00	-100.00%

NIC	Nickel Industries	$0.76	Canaccord Genuity	0.95	0.85	11.76%
NST	Northern Star Resources	$13.80	Canaccord Genuity	18.65	19.15	-2.61%
			Jarden	13.20	13.50	-2.22%
NWH	NRW Holdings	$3.10	Jarden	3.20	3.25	-1.54%
NXS	Next Science	$0.24	Wilsons	0.27	0.34	-20.59%
NXT	NextDC	$15.38	Canaccord Genuity	18.50	14.65	26.28%
			Wilsons	19.41	20.07	-3.29%
ORA	Orora	$1.89	Goldman Sachs	2.70	3.00	-10.00%
ORG	Origin Energy	$10.40	Jarden	10.70	11.00	-2.73%
PEN	Peninsula Energy	$0.09	Canaccord Genuity	0.20	0.22	-9.09%
PMT	Patriot Battery Metals	$0.44	Canaccord Genuity	1.40	1.70	-17.65%
PMV	Premier Investments	$30.47	Goldman Sachs	26.00	25.10	3.59%
PNI	Pinnacle Investment Management	$16.42	Wilsons	19.70	14.10	39.72%
QPM	Queensland Pacific Metals	$0.03	Petra Capital	0.10	0.11	-9.09%
RED	Red 5	$0.35	Moelis	0.58	0.50	16.00%
			Petra Capital	0.45	0.46	-2.17%
RIO	Rio Tinto	$114.16	Goldman Sachs	136.00	136.10	-0.07%
RMD	ResMed	$32.52	Jarden	33.83	32.85	2.98%
			Wilsons	40.25	36.00	11.81%
RMS	Ramelius Resources	$1.82	Canaccord Genuity	2.80	2.70	3.70%
RRL	Regis Resources	$1.56	Canaccord Genuity	2.30	2.50	-8.00%
SDR	SiteMinder	$5.09	Goldman Sachs	5.50	5.70	-3.51%
			Jarden	5.85	6.02	-2.82%
			Wilsons	7.20	6.50	10.77%
SFR	Sandfire Resources	$7.81	Canaccord Genuity	11.00	10.25	7.32%
			Goldman Sachs	8.50	8.70	-2.30%
			Jarden	9.10	9.00	1.11%
SUN	Suncorp Group	$16.25	Goldman Sachs	18.50	17.54	5.47%
SVR	Solvar	$1.10	Canaccord Genuity	1.50	1.55	-3.23%
SVW	Seven Group	$36.81	Goldman Sachs	41.80	42.10	-0.71%
SYR	Syrah Resources	$0.23	Jarden	0.66	0.71	-7.04%
TLX	Telix Pharmaceuticals	$17.48	Jarden	22.55	22.49	0.27%
			Wilsons	22.00	20.00	10.00%
TNE	TechnologyOne	$20.82	Wilsons	22.28	19.31	15.38%
VGL	Vista International	$2.37	Canaccord Genuity	3.00	2.40	25.00%
VR8	Vanadium Resources	$0.05	Petra Capital	0.16	0.21	-23.81%
WDS	Woodside Energy	$24.93	Goldman Sachs	33.00	31.30	5.43%
WES	Wesfarmers	$71.44	Goldman Sachs	69.20	68.80	0.58%
WGX	Westgold Resources	$2.66	Petra Capital	2.79	2.98	-6.38%
WTC	WiseTech Global	$87.19	Jarden	83.00	79.00	5.06%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

ASB AUSTAL LIMITED

Commercial Services & Supplies Overnight Price: $2.37

Petra Capital rates ((ASB)) as Buy (1)

Petra Capital forecasts incremental revenue of $84m and an opportunity to enhance profit margins, after Austal announced a contract modification for the US Navy's more LandingCraft Utility (LCU) program.

The number of units on order has increased to five from three. Austal has an option to build a total of 12 LCUs for the US Navy, with the overall value of this contract (including all options) set at US$379.7m, explains the broker.

The Buy rating is maintained and the target is increased to $3.33 from $3.14.

This report was published on August 6, 2024.

Target price is **$3.33** Current Price is **$2.37** Difference: **$0.96**
If **ASB** meets the Petra Capital target it will return approximately **41%** (excluding dividends, fees and charges).
Current consensus price target is **$2.83**, suggesting upside of **20.1%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **7.50** cents and EPS of **12.30** cents.
At the last closing share price the estimated dividend yield is **3.16%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **19.27**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **4.7**, implying annual growth of **N/A**.
Current consensus DPS estimate is **4.0**, implying a prospective dividend yield of **1.7%**.
Current consensus EPS estimate suggests the PER is **50.2**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **8.50** cents and EPS of **11.90** cents.
At the last closing share price the estimated dividend yield is **3.59%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **19.92**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **12.3**, implying annual growth of **161.7%**.
Current consensus DPS estimate is **3.3**, implying a prospective dividend yield of **1.4%**.
Current consensus EPS estimate suggests the PER is **19.2**.

Market Sentiment: **0.7**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

BMT BEAMTREE HOLDINGS LIMITED

Healthcare services Overnight Price: $0.23

Petra Capital rates ((BMT)) as Buy (1)

Beamtree Holdings has released unaudited FY24 results. High points for Petra Capital include achieving a positive operating profit and
an impressive performance from the international business.

This was offset by weaker growth in recurring revenue as the company invested resources in the consulting business to establish a large pipeline of downstream subscription licence revenue opportunities.

This should set Beamtree up for FY25, when Petra expects to see the pipe convert into higher recurring revenues and earnings. The broker remains supportive of the company with its IP holding universal appeal in a globally significant market.

Target falls to 54c from 61c, Buy retained.

This report was published on August 8, 2024.

Target price is **$0.54** Current Price is **$0.23** Difference: **$0.305**
If **BMT** meets the Petra Capital target it will return approximately **130%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.40** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 58.75**.

Forecast for FY26:

> Petra Capital forecasts a full year **FY26** dividend of **0.00** cents and EPS of **1.60** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **14.69**.

Market Sentiment: **1.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

BSA BSA LIMITED

Industrial Sector Contractors & Engineers Overnight Price: $0.95

Canaccord Genuity rates ((BSA)) as Buy (1)

Due to a favourable mix of work in the Telecommunications segment, explains Canaccord Genuity, BSA delivered a 4Q earnings (EBITDA) margin of 9.2%, up from 8.8% in the prior quarter.

FY24 underlying earnings of $22.2m beat the broker's forecast of $20.4m. Litigation settlements have now been fully paid and management is targeting double-digit earnings margins in the medium-term.

Management also announced two new contracts: a renewal with Foxtel; and additional work with the NSW Telco Authority.

Canaccord raises its target to $1.40 from $1.25. Buy.

This report was published on July 31, 2024.

Target price is **$1.40** Current Price is **$0.95** Difference: **$0.45**
If **BSA** meets the Canaccord Genuity target it will return approximately **47%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

> Canaccord Genuity forecasts a full year **FY24** dividend of **0.00** cents and EPS of **16.50** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **5.76**.

Forecast for FY25:

> Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **17.90** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **5.31**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

CCP CREDIT CORP GROUP LIMITED

Business & Consumer Credit Overnight Price: $14.98

Canaccord Genuity rates ((CCP)) as Buy (1)

Canaccord Genuity acknowledges the challenging year Credit Corp experienced in FY24 including the change in amortisation policy to 8 from 6 years for the public debt ledger.

FY25 looks to be off to an improved start, the broker believes, with over 70% of the US purchases secured and FY25 net profit guidance of 11%-23% growth.

Some minor adjustments are made by Canaccord Genuity to EPS forecasts. Unchanged Buy rating and a tweak in the target price to $20.70 from $20.90.

This report was published on July 31, 2024.

Target price is **$20.70** Current Price is **$14.98** Difference: **$5.72**
If **CCP** meets the Canaccord Genuity target it will return approximately **38%** (excluding dividends, fees and charges).
Current consensus price target is **$18.10**, suggesting upside of **16.9%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **70.00** cents and EPS of **138.00** cents.
At the last closing share price the estimated dividend yield is **4.67%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.86**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **126.6**, implying annual growth of **69.9%**.
Current consensus DPS estimate is **64.7**, implying a prospective dividend yield of **4.2%**.
Current consensus EPS estimate suggests the PER is **12.2**.

Forecast for FY26:

Canaccord Genuity forecasts a full year **FY26** dividend of **77.00** cents and EPS of **152.00** cents.
At the last closing share price the estimated dividend yield is **5.14%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **9.86**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **161.5**, implying annual growth of **27.6%**.
Current consensus DPS estimate is **80.5**, implying a prospective dividend yield of **5.2%**.
Current consensus EPS estimate suggests the PER is **9.6**.

Market Sentiment: **0.3**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

CCR CREDIT CLEAR LIMITED

Diversified Financials Overnight Price: $0.28

Petra Capital rates ((CCR)) as Buy (1)

Credit Clear provided FY24 guidance which Petra Capital believes the company generated a "strong finish" to the year, including five quarters of positive cash flow generation.

The broker likes the larger customer acquisition strategy which is beginning to produce revenues for the company.

Petra Capital increases FY24 forecasts to meet guidance and upgrades EPS forecasts for FY25 on the back of an improved growth outlook.

The target price lifts to 53c from 51c. Buy rating unchanged.

This report was published on August 5, 2024.

Target price is **$0.53** Current Price is **$0.28** Difference: **$0.245**
If **CCR** meets the Petra Capital target it will return approximately **86%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 0.90** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 31.67**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.10** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 285.00**.

Market Sentiment: **1.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

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