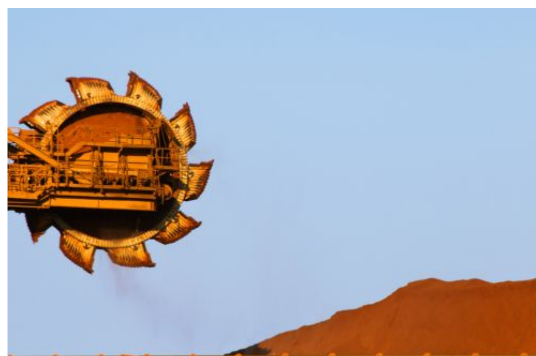
WEEK 37

FNArena
FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Friday, 13 September 2024

NextDC: Building A Generative AI Future



Material Matters: Lithium Enthusiasm Is Back

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Financial News, Data & Analysis

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AUSTRALIA

The Market In Numbers - 7 Sep 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	07 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
NZ50	12615.510	1.35%	1.35%	7.66%	7.18%	7.66%
All Ordinaries	8214.80	-1.23%	-1.23%	2.51%	4.92%	2.51%
S&P ASX 200	8013.40	-0.97%	-0.97%	3.17%	5.57%	3.17%
S&P ASX 300	7942.70	-1.01%	-1.01%	3.04%	5.40%	3.04%
Communication Services	1591.80	-1.53%	-1.53%	6.04%	0.23%	6.04%
Consumer Discretionary	3748.90	-1.64%	-1.64%	6.76%	15.70%	6.76%
Consumer Staples	12629.50	-1.70%	-1.70%	2.03%	2.59%	2.03%
Energy	8476.70	-9.07%	-9.07%	-15.50%	-20.20%	-15.50%
Financials	8438.20	2.59%	2.59%	10.20%	25.60%	10.20%
Health Care	45398.20	-0.93%	-0.93%	2.58%	7.22%	2.58%
Industrials	7436.00	-0.18%	-0.18%	9.17%	8.30%	9.17%
Info Technology	2557.00	1.02%	1.02%	9.20%	39.51%	9.20%
Materials	15538.80	-5.82%	-5.82%	-7.94%	-20.27%	-7.94%
Real Estate	3850.50	1.21%	1.21%	8.06%	15.02%	8.06%
Utilities	8577.90	-3.28%	-3.28%	-7.62%	4.87%	-7.62%
A-REITs	1757.00	1.23%	1.23%	8.17%	16.95%	8.17%
All Technology Index	3331.00	-0.83%	-0.83%	6.15%	23.65%	6.15%
Banks	3591.00	2.93%	2.93%	12.39%	29.20%	12.39%
Gold Index	8083.00	-4.86%	-4.86%	9.86%	9.71%	9.86%
Metals & Mining	5006.30	-6.53%	-6.53%	-9.80%	-22.58%	-9.80%

The World

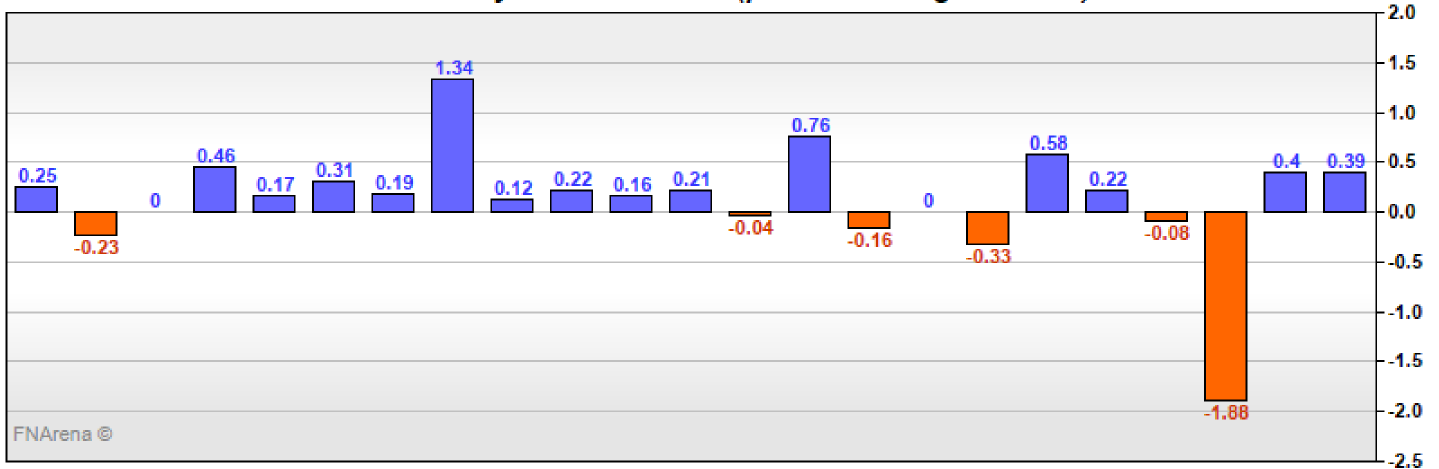
Index	07 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
FTSE100	8181.47	-2.33%	-2.33%	0.21%	5.80%	0.21%
DAX30	18301.90	-3.20%	-3.20%	0.36%	9.25%	0.36%
Hang Seng	17444.30	-3.03%	-3.03%	-1.55%	2.33%	-1.55%
Nikkei 225	36391.47	-5.84%	-5.84%	-8.06%	8.75%	-8.06%
DJIA	40345.41	-2.93%	-2.93%	3.14%	7.05%	3.14%
S&P500	5408.42	-4.25%	-4.25%	-0.95%	13.39%	-0.95%
Nasdaq Comp	16690.83	-5.77%	-5.77%	-5.87%	11.19%	-5.87%

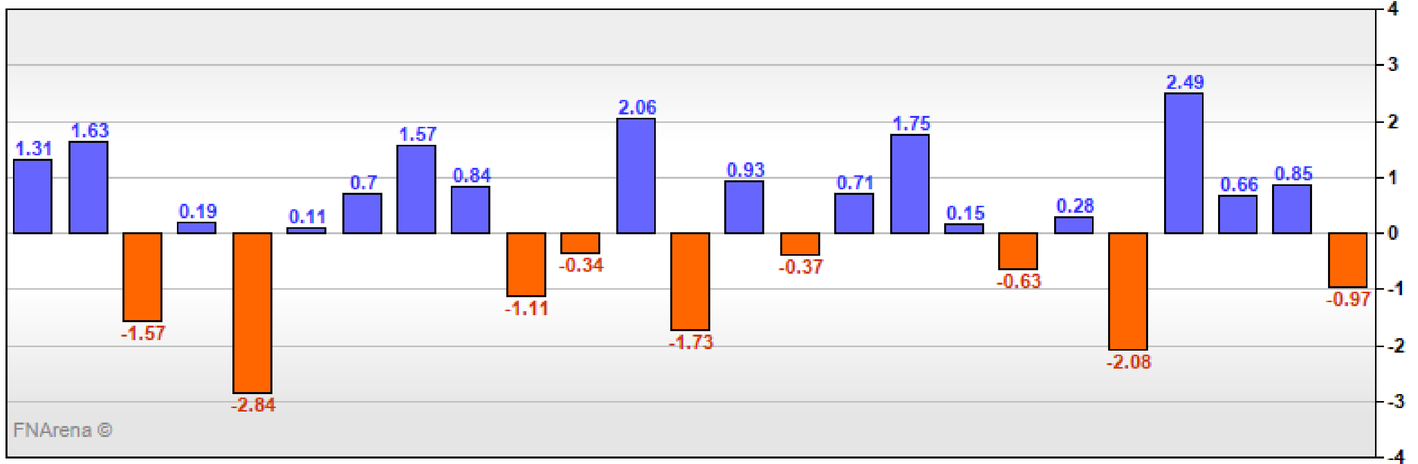
Metals & Minerals

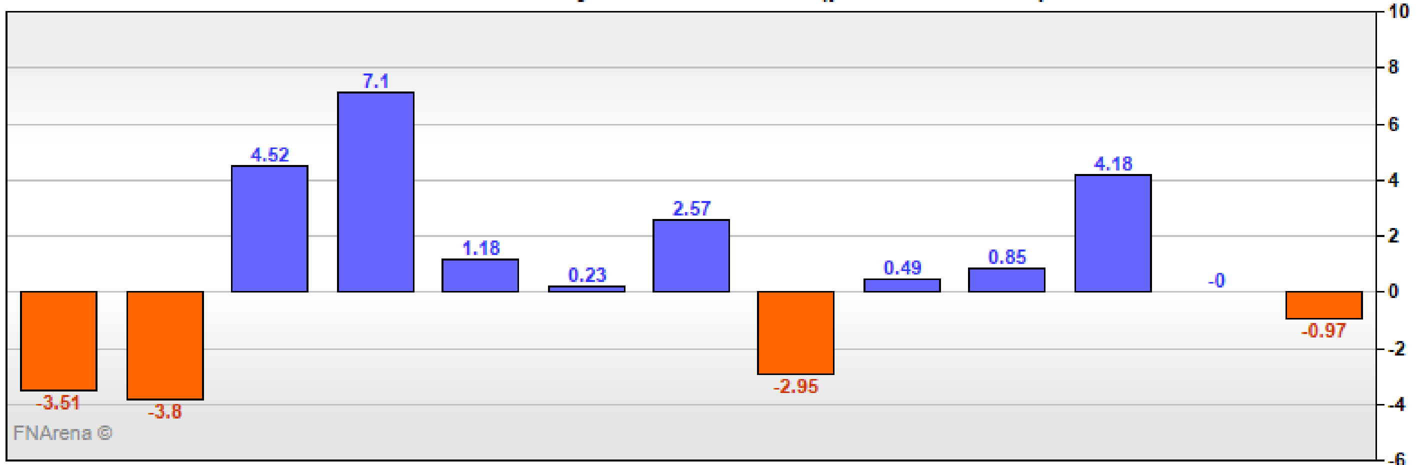
Index	07 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
Gold (oz)	2546.90	-0.29%	-0.29%	8.94%	24.57%	8.94%
Silver (oz)	29.17	-2.21%	-2.21%	-0.27%	19.65%	-0.27%
Copper (lb)	4.1405	-1.64%	-1.64%	-4.45%	8.73%	-4.45%
Aluminium (lb)	1.0715	-3.63%	-3.63%	-4.71%	10.20%	-4.71%
Nickel (lb)	7.2396	-5.49%	-5.49%	-6.92%	-2.65%	-6.92%
Zinc (lb)	1.2298	-5.31%	-5.31%	-7.26%	9.35%	-7.26%
Uranium (lb) weekly	79.	-2.47%	-2.47%	-5.11%	-8.14%	-5.11%
Iron Ore (t)	91.30	-7.43%	-7.43%	-14.28%	-33.95%	-14.28%

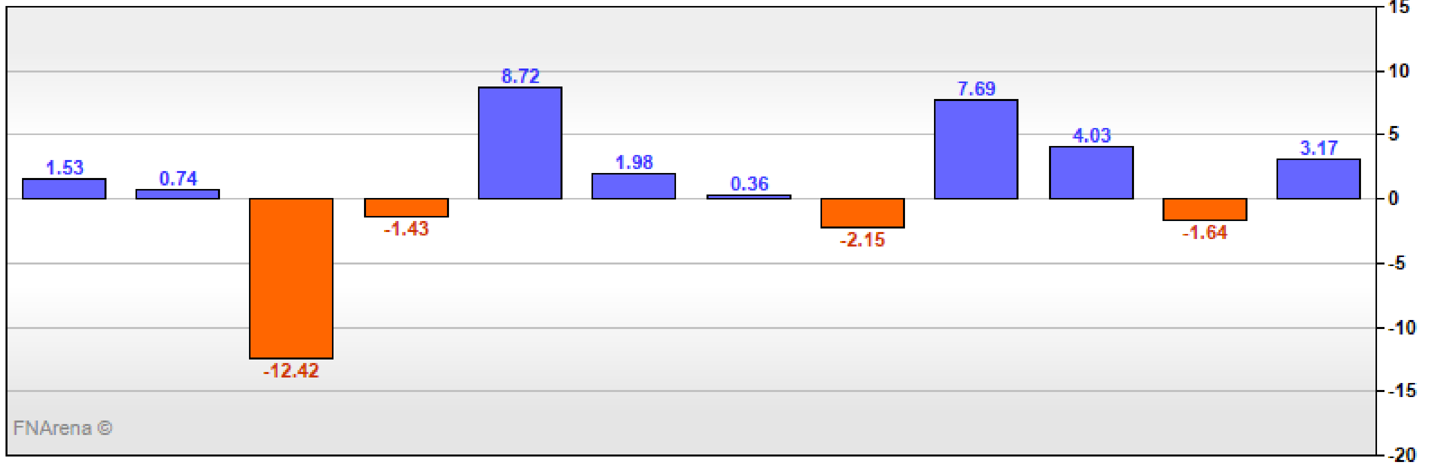
Energy

Index	07 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
West Texas Crude	69.33	-8.81%	-8.81%	-15.31%	-6.07%	-15.31%
Brent Crude	72.83	-7.75%	-7.75%	-14.76%	-8.11%	-14.76%









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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FNArena welcomes comments and suggestions at info@fnarena.com

AUSTRALIA

NextDC: Building A Generative AI Future

Valuing a major infrastructure developer and operator with a growth tilt to generative artificial intelligence has caused some speed, or value humps for investors. What matters when it comes to assessing the case for a burgeoning data centre behemoth.

-Breaking down the NextDC business model
-Why dividends and PE ratios don't matter
-Demand versus supply
-Laying foundations for growth

By Danielle Ecuyer

What is the NextDC business model?

Around 2017 I attended an investor presentation by FNArena's editor where an audience member raised a question along the lines of 'how could anyone buy NextDC ((NXT))?' on the grounds the stock was loss-making, expensive and shareholders don't receive a dividend.

At the time, NextDC's share price traded between three to four dollars, compared to current levels around $16.50 and a recent high of over $18.

Many investors have stumbled over the question of how to value NextDC and what are the driving factors behind the company's performance, when traditional valuation metrics don't cut the mustard.

Equally, unlike capital light software and software-as-service models, NextDC's raison d'etre is based around, as Macquarie formulates it, "build it and they will come".

'It' being the infrastructure - data centres and 'they' are the customers - enterprises, hyperscalers, and information/communication telecommunication companies (ICT).

Wilsons describes NextDC as the builder, operator of independent co-location facilities, which supply power, cooling, security and IT systems to support cloud infrastructure. Earnings revenue is generated from rental on racks and cages located inside the data centres with long term contracts - anything from five years up to 10-15 years for hyperscale customers.

Unlike REITs which depict asset capacity in terms of metres squared, the capacity of NextDC's portfolio of assets is defined by power in terms of Megawatts (MWs).

In the latest research update from Wilsons, the broker sliced up NextDC into five categories to simplify the business for investors, as follows:

-*Total power planned*: total planned power across the entire data centre portfolio

-*Contracted utilisation*: the amount of power that NextDC's customers have agreed to use over time, usually next 5 years, but hyperscalers like Microsoft work on 10-15-year contracts

-*Built capacity*: the amount of power currently available to use in its data centres

-*Billing capacity*: amount of power currently being used by customers and charged for

-*Forward order book*: the difference between what customers have agreed over time (contracted utilisation) less what are already paying for (billing utilisation)

The definitions are applied to the company's business model to add further clarity and context about what is important for investors to focus on.

-Post the FY24 results contracted utilisation stood at 173MWs which is around two times greater than the 86MWs being billed to customers.

-Contracted capacity (173MWs) is above the existing total built capacity of 165MWs.

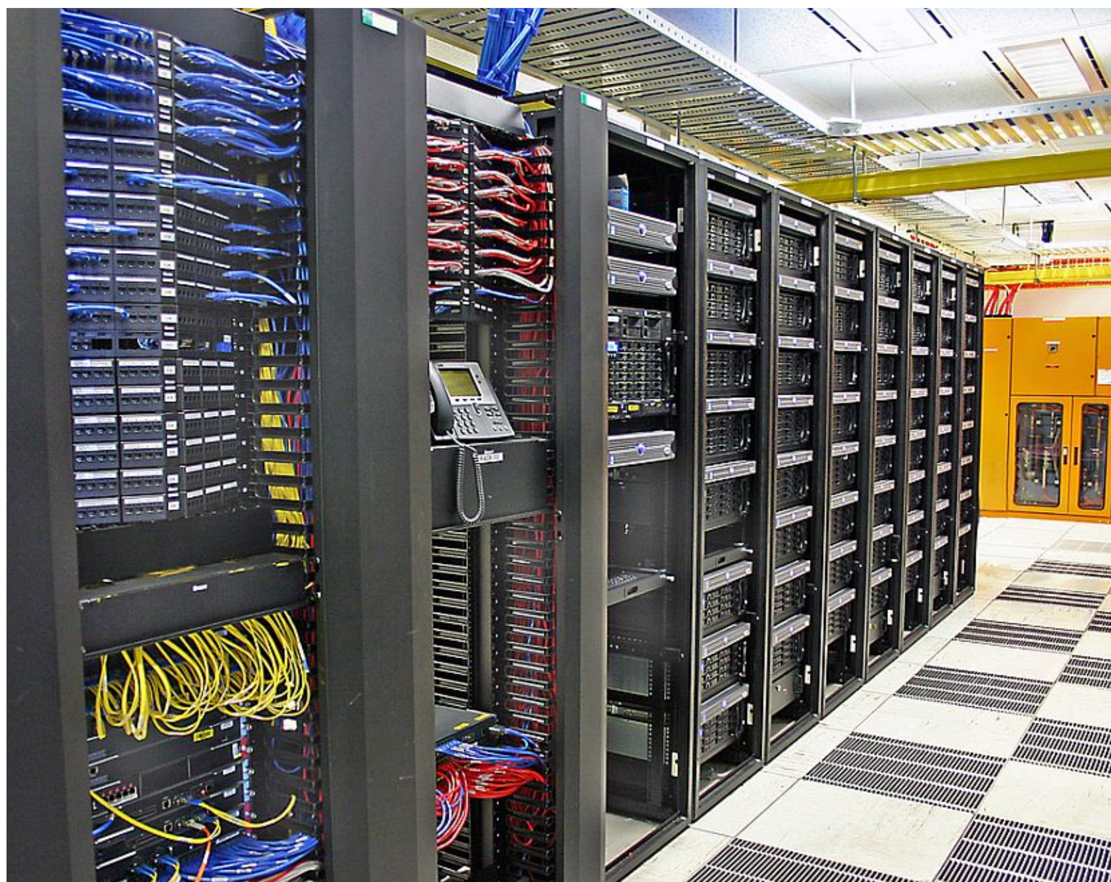
These observations highlight **NextDC has contracted demand which will underwrite a doubling of revenue over time** and more capacity needs to be built to fulfill the contracts.

In other observations, Wilson's points to the ongoing investment spend which allows NextDC to showcase future capacity to customers, particularly for what the analyst refers to as non-linear demand in AI related capacity and services (AI factories).

-NextDC's capital expenditure rose 54% or $700m for FY24 and is forecast to rise a similar amount in FY25 to around $2bn ($1bn in each fiscal year) against a combined spend of $1.3bn for FY22/FY23.

-Wilsons expect the company's forward order book to grow 87MWs in 2024 and to 106MWs in FY27, inferring a faster forward order book requires more investment as the gap between contracted and billed capacity declines.

For NextDC it is all about lowering costs and building out the infrastructure with the optimisation of hardware and software for customer needs.



NextDC's case study at FY24 earnings

In its FY24 results presentation, the company offered the Victoria model as a case study.

Starting in 1H13, M1 went live, generating $14.5m in revenue with an EBITDA margin of 48% in FY14.

By FY16, M2 acquired a 40MW site at which point M1 was generating $38.9m in revenue with a 79% EBITDA margin.

M2 went live in FY18, and land was added to 60MW in FY20.

In FY21, M3 saw 150MW acquired land and M2 land was increased to 100MW in FY22 and to 120MW in FY24.

By FY23 when M3 went live, the facilities were generating revenue of $96m and $105.2m in FY24 with an 88% EBITDA margin.

Layering a similar development model across the company's nine Australian state facilities as well as expansion into NZ, Malaysia and Japan, reveals the build out in infrastructure and accompanying growth in revenues.

The future strategic moves for NextDC

Currently NextDC has 1500 enterprise relationships, Morgans notes, with the broker forecasting the Australian

data centre industry to grow from the current 1000MW capacity to 1500MWs by 2030.

While management envisages a long growth runway for enterprises with 70% still on premise, the recently announced certified partnership in the Nvidia DGX-Ready Data Centre program will enable NextDC to support advanced AI infrastructure.

The in-house business model has been reconfigured into the establishment of separate divisions for enterprise, hyperscale and international.

Macquarie observes the partnership with Nvidia and the supply of its GB200 chips in AI factories will increase output for the same power input, compared to Nvidia H100 chips currently used.

NextDC is reported by the broker as employing a new strategy to reduce capex for MW which will in turn enhance the opportunity to secure large hyperscale contracts. Management flagged advanced discussions in over 100MW contract opportunities at the FY24 results.

According to Morgans, the negotiations can take years but the analyst expects some news in the next 12-18 months.

As described in the earnings report case study, M2 Part 3 is a hyperscale site at 120MWs.

Macquarie also assessed in the latest results a structural shift in how NextDC is managing two key areas. As a non-core business activity, physical security is being outsourced, while the data centre legacy IT management OneDC system is moving to cloud based on demand IT systems. The transfer turns a capital cost into an operating cost and leverages third-party software.

Morgans believes these changes are part of managements aim to transition and scale the business while also meeting domestic compliance requirements.

The shift in reporting to net revenue per MW is also believed to be a major positive by the analyst at Macquarie. This metric increases insights into profitability and underlying trends of the business. In other words, the metric wraps a structure around profitability of capacity.

Looking through the updated development spend, Macquarie asserts additional site acquisitions might be likely, particularly with the potential for utilities to implement power restrictions. While land banking costs money and depresses margins in the short term, the broker emphasises the near-term hiccup to earnings "pales into insignificance" compared to the alternative of not securing sites for growth.

Shareholders are now well acquainted with the "drill" the analyst highlights, referring to the potential for a rights issue, even though the company recently bagged $1.32bn in a 1-for-6 issue at $15.40. Since 2020 the company has raised $2bn from shareholders.

While brokers have been cutting earnings forecasts to account for the increased ramp up in development spending, most present a united front on what drives share price performance.

Macquarie states it is contract wins and the "incremental capex dollars spent relative to the weighted average cost of capital."

NextDC is a valued using a discounted cash flow model, not a price to earnings or even price to sales model.

Morgans describes the company as *"laying the foundations for platform growth"* and Wilsons *"FY25 & FY26 the 'Dig', FY27 'the Spike' "* referring to cashflow and earnings generation.

Macquarie is almost poetic **"The Field of Dreams: Build it and they will come"**

The FNArena daily monitored brokers have an average price of $19.975, all Buy equivalents with Macquarie the highest at $21.20. Not part of this group, Wilsons is Overweight with an $18.50 target.

As this wraps, Blackstone was announced as the successful bidder for AirTrunk from a private consortium including Macquarie Asset Management ((MQG)) for $23.5bn with 1000MWs across 11 data centres in Australia, Hong Kong, Japan, Malaysia and Singapore.

For more information on Next DC check out the recent article:

https://fnarena.com/index.php/2024/03/06/nextdc-and-the-ai-boom/

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

AUSTRALIA

The Drinks Are On Orora

Orora is set to divest of its US Packaging Solutions business, allowing the company to focus on beverages packaging while reducing debt and providing for capital management over time.

-Orora to sell its North American packaging business
-Proceeds will slash debt and fund increased investment in cans
-M&A and/or capital management also on the cards
-Takeover appeal remains, maybe

By Greg Peel

Australian-listed Orora ((ORA)) has entered into an agreement to sell its Orora Packaging Solutions (OPS) business in North America to Atlanta-based rival Veritiv Corp for the equivalent of $1.775bn, representing a 9.9x FY24 cash earnings multiple.

While such a transaction had been flagged, it has come sooner than expected and at what brokers agree is a "good" price. Net of tax and costs, Orora will receive $1.687bn.

The deal remains subject to applicable antitrust regulator approvals but brokers are sufficiently convinced of success to go ahead and adjust their earnings forecasts.

Morgans points out the packaging distribution market in North America is highly fragmented; there are thousands of players with the top five commanding only 30% of the market. OPS and Veritiv each represent less than 10% of the market. Competition concerns are thus unlikely.

Down with Debt

Orora management had targeted a net debt to earnings range of 2.0x to 2.5x, but at end FY24 that ratio stood at 2.8x. The proceeds of the OPS sale will be used to reduce debt to 0.2x. Thereafter, the company has plenty of flexibility.

Following the divestment, Orora is set to be a more focused beverage packaging company. Around half of group earnings will come from the Australasian business, UBS notes, which produces both cans and glass bottles for the soft drink, beer and wine markets. The business operates in a duopoly structure, hence there are limited M&A growth opportunities.

With the proceeds from divestment, Orora intends to bring forward ~$135-140m of capital investment to further expand its cans capacity in Rocklea, Queensland, which is expected to come online in FY27. Management confirmed a target return of 15% for cans investments and indicated strong customer backing, Goldman Sachs notes, with cans expansion aligned to customer initiatives.

In combination with recent expansions, the Rocklea factory is expected to increase cans capacity by mor than 30%.

Macquarie notes beverages demand is generally more resilient than broader-based OPS exposure, which is more exposed to economic fluctuations impacting the industrial and manufacturing sectors versus the more consumer-orientated beverages market, notwithstanding the impact of de-stocking.

Orora's Saverglass business, acquired in France in 2023 and to date proven a drag on performance, delivers the other half of earnings, and is leveraged to the premium and ultra-premium spirits and wine markets in the EU and US. Saverglass earnings have been impacted by spirits market de-stocking and weak consumer demand recently, UBS points out.

Production is at around 60% of capacity, thus the business remains well-placed to increase production as the market normalises.

Capital Management

Orora intends to distribute surplus proceeds to shareholders "over time" after reducing debt and investing in the Rocklea expansion. Macquarie notes after the company's 2020 Fibre sale, Orora undertook a capital consolidation and 10% on-market share buyback.

This broker estimates a 10% buyback, at a cost of ~$360m, would be 3% earnings accretive but has not factored this into valuation. Indeed, all brokers are holding fire on what at this stage is a non-specific capital management intention. A buyback is anticipated rather than dividends given the company is low on franking credits.

Orora noted it intends to maintain its investment grade credit profile. Should the company re-lever to the low end of its existing target range at 2x, UBS estimates the company will still have some $900m in balance sheet capacity for either M&A or capital returns.

Takeover Target

As late as last month, Orora rejected a $2.55 per share takeover bid from US private equity firm Lone Star as being too cheap. Ord Minnett expects the share price to be supported from here on the prospect of another takeover offer.

Citi estimates the post-OPS business is of higher quality and sees some 10% upside to current PE multiples. However, the recent re-rating of the stock reduces the attractiveness to potential acquirers. The stock has rallied almost 40% since Lone Star put Orora in play.

A circa 2x debt ratio would equate to a buyback of $600-700m and limited accretion, Citi suggests, which would reduce a potential acquirer's ability to leverage returns.

Citi points out there is still a question regarding near-term earnings prospects given last week's cuts by the broker's US colleagues to US wine and spirit outlooks.

The bottom line is once the prior earnings of OPS are removed from forecasts, the extent of the buyback assumed would not provide sufficient accretion to negate the loss. The interest savings on lower debt are more than offset by divested earnings, Macquarie notes, but with the balance sheet significantly de-geared.

Fair Value

In Morgans' view, Orora is a solid, defensive business with good global market positions in beverages and (soon) with a strong balance sheet that provides capacity for further organic growth investments. This broker sees potential upside from increased takeover interest in the company and downside if a deal fails to materialise.

On balance, Morgans thinks the current share price broadly reflects the range of possible outcomes and maintains a Hold rating pending further updates, increasing its target to $2.60 from $2.50.

Acknowledging the stock's recent re-rating, and a belief there is still some multiple upside, Citi thinks earnings will drive the share price from here. In this regard, this broker believes question marks still remain, hence a Neutral rating and a $2.55 target are retained.

Given current share price levels, Ord Minnett now sees the stock as fairly valued, leading the broker to maintain a Hold recommendation, with a target price increase to $2.60 from $2.30 after incorporating the better-than-expected OPS sale price and an expected earnings recovery from FY26.

UBS similarly retains Neutral and a target of $2.45.

Of the six brokers monitored daily by FNArena covering Orora, four have Hold or equivalent ratings with a tight range of targets averaging to $2.55 the rejected Lone Star offer price.

Macquarie and Morgan Stanley are both providing advise in some manner with regard the divestment, as is Goldman Sachs, hence they are restricted from providing a recommendation or target.

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AUSTRALIA

Gold & Dividends Shine For Northern Star

New broker research on Northern Star Resources highlights production growth from current investment along with a rising dividend profile.

-Northern Star is now the largest solely ASX-listed gold miner
-Analysts positive on growth from the KCGM expansion, plus rising dividends
-Strong balance sheet lends sector-leading M&A capability
-Potential for special dividends, suggests Canaccord Genuity

By Mark Woodruff

Both Bell Potter and Morgans have over the last week initiated research coverage on gold miner Northern Star Resources ((NST)) with Buy (or equivalent) ratings at an average 12-month target price of $17.20.

A higher-than-expected FY24 dividend has generally boosted confidence the company can both fund an exciting growth profile and keep growing dividend payments for loyal shareholders.

Following the removal of Newcrest Mining from the ASX, Northern Star is the largest solely ASX-listed gold mining company and compares well to similar international peers, highlights Bell Potter.

Providing upside potential, **the current $1.5bn KCGM mill expansion is targeting over 900koz of production per year.**

Apart from the benefit of an ongoing strong gold price, Morgans anticipates KCGM will become a globally significant asset once its expansion has been completed.

Mining exclusively in advanced first world economies, the company operates and wholly owns the KCGM, Kalgoorlie and Yandal operations, as well as Pogo in Alaska.

This broker forecasts production in Western Australia and North America will grow to 2m ounces from around 1.6moz by FY26 before increasing to between 2-2.2moz per year following the KCGM expansion.

Gold is produced from three productions centres, with six different operations, thereby lowering the negative impact of any production asset disruptions and diversifying asset risk, highlights Bell Potter.

The main KCGM operations (Kalgoorlie Production Centre) located adjacent to Kalgoorlie in Western Australia accounts for 65% of the broker's $17.50 valuation/target price.

Transitioning from a leading mid-tier producer, Northern Star has registered cumulative two-year growth in earnings, profit and dividend payout of 40%, 225% and 53%, respectively, highlights Morgans.

Certainly, the share price has been strong over that period, doubling from lows of around $7.00, but is still around -7.50% shy of the average target price of seven covering brokers in the FNArena database.

Due to an attractive cost base, operating margins are well leveraged to the rising price of gold, suggests Morgans. Inflationary pressures may have peaked but remain sticky, spurring demand for the inflation hedge, while Central bank purchasing has added to demand.

On top of these factors, the analysts note potential for escalating geopolitical tensions is playing to gold's safe haven status, while upcoming US rate cuts may be a tailwind for the gold price as the US dollar could weaken and funds flow out of bonds into alternative asset classes.

Production remains modestly hedged, suggests Morgans, with 1.8moz at an average price of $3,122/oz.

Growing production and forecast earnings, as well as a low debt position combine to create a **sector-leading M&A capability** for assets that fit management's target criteria, explains Bell Potter.

Importantly, the company's producing assets are supported by a large ore reserve of 431mt at 1.5g/t of gold

containing 20.9m oz of gold. It's noted the mineral resource base of 1bnt at 1.8g/t of gold containing 61.3moz of gold is also very large.

Capital management

Supporting shareholder returns, management targets dividends of between 20-30% of cash-earnings along with the current $300m share buyback program. Given a strong balance sheet, Canaccord Genuity sees scope for not only M&A activity but also special dividends.

Due to the Saracen Minerals takeover, the company doesn't expect to pay tax until sometime in FY26, so dividends will likely be unfranked for at least the next 18 months, Bell Potter suggests.

Northern Star closed FY24 with $358m net cash.

A final dividend of 25 cents was declared following in-line results and unchanged FY25 production guidance, and the total FY24 dividend of 40 cents beat the consensus expectation by 14%.

FY24 cash tax was materially lower-than-expected by Macquarie, providing a boost to 'cash earnings' (driver of the dividend policy) and is the primary reason behind this broker's 10% lift to its FY25 dividend expectations.

The image below relates to Northern Star's Pogo operations in Alaska.

KCGM explained

Macquarie noted from commentary at FY24 results the KCGM mill expansion was tracking to plan.

Processing capacity is currently being expanded to 27mtpa from 13mtpa with completion expected in early FY27, and ramp-up to nameplate production in FY29. This deposit has ore reserves of 13.2moz and mineral resources of 31.6moz.

Bell Potter forecasts increasing free cash flows (FCF) in FY26 and FY27 as the expansion completes and average grades trend back towards ore reserve averages.

Management's expansion capex guidance across FY25-27 is for -$515m, -$540m and -$100m respectively.

In addition to the KCGM processing expansion, around -$575m of other growth capital (largely mining related) is guided for FY25 at KCGM.

The (relative) doubters

Following the release of FY24 results on August 22, Ord Minnett (Hold) acknowledged Northern Star's growth

appeal and the need by investors to own larger, liquid gold equities in the current positive environment for gold.

Valuation remains the sticking point for this broker, as well as subdued FCF during a strong period of re-investment for the company.

After raising depreciation and amortisation expense assumptions to align with management's guidance, Ord Minnett's target rose by 3% to $13.90.

Morgan Stanley retained its $14.35 target and Equal-weight rating, expressing a preference for Evolution Mining ((EVN)) based on a lower hedging profile.

While Jarden recently noted a great portfolio of high-quality assets with embedded growth, valuation metrics are considered unsupportive and the current elevated capex cycle limits material FCF generation until FY28.

Similarly, Goldman Sachs has valuation concerns, but still has a liking for the company's outlook on expanded KCGM operations and other asset growth.

The Outlook

Following FY24 results, UBS continued to like exposure to gold and suggested Northern Star Resources was the logical way to gain exposure.

Canaccord Genuity feels the higher-than-anticipated dividend payment sends a strong message the business remains fundamentally undervalued.

Management is confident Northern Star can comfortably fund its organic growth pipeline, while maintaining a growing dividend profile.

The new targets by Buy-rated Morgans and Bell Potter of respectively $17.50 and $16.90 have boosted the average target of seven covering brokers in the FNArena database to $15.94 from $15.43.

There are now five brokers with Buy or equivalent ratings and two Holds.

Outside of daily coverage, Canaccord Genuity, Goldman Sachs and Jarden have respective ratings of Buy, Neutral and Underweight with an average target of $14.91.

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

COMMODITIES

Material Matters: Lithium Enthusiasm Is Back

Two brokers anticipate a material lithium price rally, and analysts review iron ore and base metals price forecasts.

-Citi and UBS contemplate a material lithium price rally
-A modest late-2024 rebound for metal prices?
-A weaker-than-usual seasonal rally anticipated for iron ore
-Copper resilience from growing decarbonisation demand

By Mark Woodruff

Bounce for lithium prices

Citi, in research released today, reports November Guangzhou Futures Exchange (GFEX) lithium futures rallied by 8% on the back of reports that Chinese battery manufacturer Contemporary Amperex Technology Co Ltd (CATL) has suspended operations at its lepidolite mines in Jiangxi.

These mines account for around 6% of total LCE supply in China, points out the broker.

The analysts now expect the lithium market will run at small deficit over the next two-to-three months as recent closures and some restocking have seen the Chinese lithium market balance up in recent weeks.

Just yesterday, UBS suggested the Chinese lithium price would experience strong support at around US$8,600/t after the GFEX lithium carbonate (Li2CO3) price fell to an equivalent level last week.

This broker noted the spot price of Li2CO3 had been trading below CATL's cash cost level since mid-July and forecast a suspension would lead to an -8% production cut for China's monthly Li2CO3 production helping rebalance supply with demand.

Potential price upside

UBS anticipated upside of between 11-23% for the lithium price over the remainder of the year, though the price rise may be capped at circa US$10,968/t as CATL may resume its lithium operation at around this level.

Citi is even more optimistic in expecting a 20-25% rally in the lithium price as investors cover their short positions and prices rally to US$13,000-14,000k/t on Comex.

The new 6-12 month forecast by Citi is US$13,000/t-$13,200k/t for carbonate and hydroxide and US$950/t for SC6. It's noted subdued ex-China EV sales over the period remains a major headwind for lithium consumption.

Over at RBC, long-term price forecasts for hydroxide, carbonate and spodumene remain at US$17,500/t, US$15,000/t and US$1,250/t, respectively.

In the shorter-term, the bank lowers price forecasts on ongoing demand headwinds and a persistent market surplus this year after relatively tame cuts to supply in the March quarter.

RBC also points to the negative impact of ongoing project ramp-ups, especially by the emerging suppliers, namely Zimbabwe, Argentina and Brazil.

<u>Base metals and iron ore</u>

Global manufacturing sentiment contracted further in August, with Citi highlighting new orders decelerated across China and other major developed countries.

The broker suggests Manufacturing Purchasing Managers' Indices (PMIs) are to remain weak for the next couple of months, ruling out any meaningful short-term metals price rally based on prospects for a recovery in cyclical demand.

Grounded in three decades of seasonality analysis, Citi states the period May through October is typically softer for Chinese steel demand. Similarly, mining equities struggle to perform during the Northern Hemisphere summer and tend to bottom out by late-September/early-October and then rally strongly in the subsequent months.

Citi analysts remain cautious on base metals ahead of the US election in early-November with associated uncertainty likely to keep risk appetite subdued and delay any major incremental Chinese policy support.

In a broad summary for the metals complex, Citi reminds investors metals are leveraged to an eventual rebound in tepid cyclical demand growth. Physical markets are considered largely in balance or in small deficits with clear headwinds to supply growth, especially in the case of **aluminium and zinc.**

Citi's forecasts over 0-3 months for both metals are kept at US$2,500/t and US$2,800/t, respectively.

While the threat of significant new/higher trade tariffs from a potential Trump presidency remains a key risk for metals markets, the analysts see a more constructive period late in the fourth quarter of 2024 and into early-2025. Federal Reserve interest rate cuts are anticipated, along with further policy easing out of China, on top of a potential upturn in global manufacturing sentiment.

In broad agreement, RBC Capital believes commodity prices have generally overshot on the downside and the stage is set for modest rebounds by the end of 2024.

Normalising inflation and easing monetary policy will be key themes for most major economies (ex-China), which RBC expects will be supportive for growth.

Citi points out share prices are languishing for big sector heavyweights like BHP Group ((BHP)) and Rio Tinto ((RIO)) with significant iron ore and copper exposures.

Unsurprisingly, the **iron ore** price has been weak given the soft China property data and worsening infrastructure outlook, but Citi suggests bottom-up indicators don't look that bad and a seasonal rally may ensue - though the rally into the year-end will likely be much more muted than in previous years.

RBC expects fourth quarter 2024 demand for iron ore will be supported by seasonal construction demand, government funded infrastructure projects, and seasonal re-stocking, and forecasts prices will recover to

around US$110/t by year's end.

On the **copper** front, Citi highlights robust decarbonisation-related demand growth (which rose by 1.6% year-on-year in July) continues to underpin global copper consumption resilience.

This broker maintains its 0-3-month price forecast for copper at US$9,500/t.

Global **gold** equities have broadly caught up with the gold price performance year-to-date, notes Citi, and incremental upside depends on a further rally in the gold price.

RBC raises its near-term gold prices forecasts by between 1-4% and in the long-term by 10% to US$2,200/oz citing higher operating costs, cost inflation, increasing discount rates, heightened political volatility and higher investment demand.

Across RBC's research coverage, unchanged key picks are BHP Group, Sandfire Resources ((SFR)), Pilbara Minerals ((PLS)), Northern Star Resources ((NST)), Bellevue Gold ((BGL)), Westgold Resources ((WGX)), Regis Resources ((RRL)), South32 ((S32)) and Mineral Resources ((MIN)).

While bulks could outperform near-term, RBC has a relative preference for gold/base-metal exposure. The largest earnings forecast increases are reserved for RBC's gold equity coverage, resulting in 5-6% higher 12-month price targets.

The analysts highlight Regis Resources, Ramelius Resources ((RMS)) and Westgold Resources for their high near-term free cash flow (FCF) yields.

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INTERNATIONAL

Gen.Ai Update: Bubble-licious Or Not?

Contrary to the naysayers and Gen AI "bubble" doomsters, major research houses remain upbeat, pragmatic and forward thinking on the megatrend, keeping an eye on the details for investors about what matters and where to find the winners.

Part One: All Systems Go

-Bubbles, there have been a few
-Why this time is different
-Industries set to reap the Gen AI impacts

By Danielle Ecuyer

Gen.Ai sparks investing debates

Generative AI has catalysed the long-standing debate around investing in mega cycles and at what cost. The enormity of Gen.Ai on businesses and society remains an open question and much like previous life-changing technologies --electricity, vehicles, telephony, mobile and the internet-- only through the passage of time will the full extent of the impacts including winners and losers be unveiled.

RBC Capital Market's research remains unapologetic in its conclusion re Gen.Ai:

"while we think this will take several years to play out, the proliferation of GenAI is likely to re-shape the generations ahead similar to the way the PC, internet, mobile phones, cloud computing and social media has impacted us today".

Simplistic narratives often congregate around share price performance, choosing not to examine the full context of what is driving those share prices.

Goldman Sachs confronts these big topics in its latest research in an aptly titled doorstop tome **"AI: To buy, or not to buy, that is the question".**

The performance of AI stocks has drawn comparisons to previous major stock bubbles, from the Nifty Fifty in the 70's, to Japanese equities in the late 80's, early 90's and the most quoted TMT bubble in the early 2000's.

Equally, the same concerns around concentration risk, pull forward of earnings from the future into the present, excessive valuations, competition emerging, as well as over-investment are all part of the colourful spectrum of investing risks in the Gen.Ai megatrend.

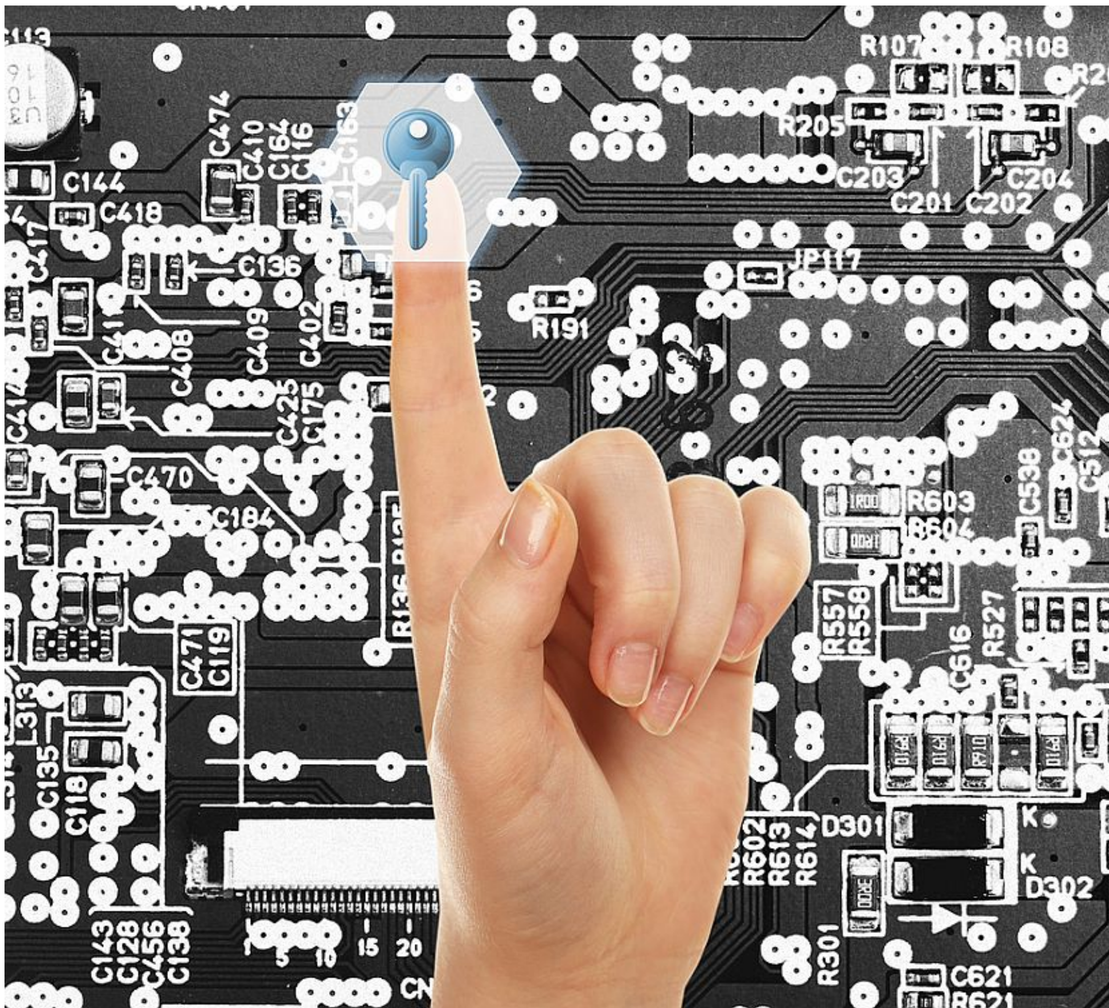
Part of the explanation for the bubble narrative lays in the fact that at this initial stage of Gen.Ai, technology companies are at the front of the performance queue at a time when technology stocks have significantly outperformed other market sectors and driven most of the equity returns globally since the GFC.

Goldman Sachs refers to the phenomenon as **"tech's rational exuberance",** built quite simply on the fact earnings per share have "surged" at the expense of all other industries which have largely "stagnated".

While unpalatable to the more value orientated investors, technology has been the winning trade and has been turbo charged with Gen.Ai.

This is the crux of the question for investors, how do they value the potential gains and identify the correct winners and losers?

Anyone who follows Nvidia would appreciate such questions are the most debated around the durability of the world's leading chip/CPU maker for Gen.Ai with an 80% market share in data centres.



History often rhymes

Goldman Sachs breaks down history to make comparisons and concludes AI is still not a bubble across valuations. The broker's analysis suggests this is the one factor that separates this cycle from previous ones like the internet mania boom and bust.

The average valuation of the seven largest technology companies stands at about half that of the major seven in the 2000 tech bubble.

More importantly, the financial structure of today's tech giants far exceeds the previous bubble.

Taking the Mag7 versus the Tech bubble leaders (2000), net debt to equity on average is around 30% now versus circa 46% back then; return on equity at 46% exceeds the 28% in 2000 and net income margins of 28% against 16% also shine.

Financially, today's companies are sounder, even if they represent a higher market concentration risk at 31% of the market versus 19% then.

The striking difference shows up in the capital intensity. AI is underpinning a major capex boom which poses a risk to the high rates of return the technology capital light models of the noughties brought forth through cloud and software, at a time when funding costs were repressed in a low-interest rate regime.

Given the huge spend in AI systems across data centres, PCs and other hardware, this refresh cycle is prompting many commentators and investors to request "show me the money" i.e. when will the tangible returns for stakeholders emerge in terms of return on AI investment?

Currently the hyper-scalers, such as Microsoft, Alphabet, Amazon, represent 23% of the total capex and R&D spend of the S&P500.

To answer the question, Goldman Sachs' analysts draw on the Microsoft example from 2013-2016 when the company was spending up big on the Azure (cloud) infrastructure.

Margins were negative for a while, but Azure is now a growth engine for Microsoft. This cycle the analysts argue the company's AI's revenues of US$5bn-US$6bn have scaled more rapidly than the seven years it took for

Azure.

While defending the Mag7 as part of the Gen.Ai trade, Goldmans stresses the importance of diversification for investors.

Just how many industries will benefit?

The broker shines a light on the ancillary industries which stand to benefit from the technology. Healthcare and biotech are highlighted as major winners, with the scaling of genome sequencing and data processing for the development of vaccines as two examples.

Healthcare analysts believe AI has the potential to accelerate data generation for drug development and diagnostics.

Banks and financial services could see benefits from multiple AI related services. An estimated increase in return on equity of around 200 basis points from AI adoption has been calculated.

Citi has run a similar ruler over the impact of AI adoption on banks' profitability and estimates **Gen.Ai could add US$170bn or 9% to the global bank sector profit pool by 2028.**

This broker sees improved productivity gains from automation of routine tasks, streamlining operations as well as content and information management, coding and software.

RBC Capital Markets takes the Gen.Ai potential even further, quoting Bloomberg projections of 42% compound average growth rate in Gen.Ai revenue growth through to 2032 over US$1.3trn. Within that, over US$280bn stems from software expanding at 69%.

In highlighting sectors which will be impacted, it would be easier to list those that aren't, the potential effects of the technology are so wide reaching. RBC points to healthcare; financial; aerospace and defense; industrials; software; internet; payments, processors and IT services; information and commercial services; global autos and auto parts; consumer; metals and mining and real estate.

This broker's deep dive reveals those stocks which the analysts' believe will be major beneficiaries: Accenture, Adobe, American Electric Power, AES, Amazon, California Resources, Crowdstrike (pre major outage); DigitalBridge, Eaton Corp, GoDaddy, Hubspot, Meta Platforms, Microsoft, Moody's, nVent, ServiceNow, Shopify, Thomson Reuters, Verisk and Vistra Group.

In Australia, Infratil ((IFT), Macquarie Technology ((MAQ)), and NextDC ((NXT)) are highlighted.

Goldman Sach's list of Ex-Tech Compounders' includes Aristocrat Leisure ((ALL), ResMed ((RMD)), Cochlear ((COH)) and CSL((CSL)).

Part Two will look at the adjacent investment sectors of data centres, power generation and the clean energy challenge for GenAi.

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

RUDI'S VIEWS

Rudi's View: Asking The Important Questions

In this week's Weekly Insights:

-Asking The Important Questions
-All-Weather Model Portfolio
-Gen.Ai - A New Section On The Website

By Rudi Filapek-Vandyck, Editor

Asking The Important Questions

Two-and-a-half years ago the Federal Reserve started what became one of its steepest tightening cycles in history. Two-and-a-half years and we are still debating whether the US economy, and possibly the global economy in extension, might be heading into economic recession.

Weak manufacturing and a deteriorating US jobs market are weighing on investor sentiment at the same time as record new highs for equity indices and the seasonally treacherous September-October period combine. It's almost a guarantee for a spike in day-to-day volatility.

Can this get ugly? Of course, it can. Short-term market movements are equally determined by market specific characteristics such as concentration in popular stocks and technical trading. Investor sentiment under most circumstances is closely linked to how share prices and markets are performing.

By definition this also implies any bump in the road leads to sharper price moves, given many shares are trading on high multiples, and sharper price moves tend to impact on sentiment broadly. In simple market parlance: more selling begets more selling begets more selling. Before we truly understand what is happening we might be witnessing a new trend in the opposite direction.

As investors, how we prepare and respond to this risk depends on a few crucial factors:

-what kind of investor are we?
-what's our specific strategy and horizon?
-what kind of assets do we own?

Almost thirty years of actively covering and monitoring financial markets have taught me more than a few invaluable lessons. One of such lessons is: there's no such thing as a one-size-fits-all approach for investing in the share market. If we eliminate the level of experience everyone brings to the table, then those three key ingredients should guide us through the rest of the calendar year, and beyond.

But first of all, let's start with that all-important question that is weighing on general sentiment: economic recession, yes or no?

US Recession: Waiting For Godot?

Negative reads emanating from global manufacturing, US labour market surveys and the dis-inversion of the US bond market have put the possibility of a US recession yet again front and centre of financial markets' focus. But the debate remains far from conclusive because so many other signals and indicators are not pointing in the same direction.

Macquarie's lateral thinker **Viktor Shvets** summarises the current set-up as follows:

The private sector is in good shape and despite robust multi-year tightening, investors have not witnessed a jump in bankruptcies, bad debts or widening of spreads. This is due to higher government spending. However, even more importantly, it is illustrative of benefits of massive excess capital that cushions real economies.

My own view in this matter has fundamentally changed too. Two-and-a-half years ago I thought there's simply no chance today's economies can withstand such a big change in central bank policing, but hey, they have all this time and I have gradually come to accept things are sufficiently different from what they were in the past to make economic recession not the default outcome from the bond yield normalisation process that has taken place.

The best way to illustrate what I am talking about is happening close to home, in Australia. My anecdotal observations are that mortgage holders are suffering, many more households are under serious duress, while numbers of small businesses are forced to pull up stumps, in hospitality in particular.

These are all characteristics of an economy that is heading for recession. If it wasn't for immigration, Australia most likely would have already printed negative GDP numbers at least once. But it hasn't. And it is not simply a matter of allowing enough fresh consumers into the country.

There are swathes of people in today's society who have absolutely no idea what all the fuss about inflation, interest rates and budget pains is about. House prices have not gone down (quite the opposite) and the same applies to equities. The end outcome is an extremely bifurcated society with lots of pain and limitations on

one hand but undeterred spending in the opposite corner.

It's not any different for ASX-listed corporate Australia. As yet again highlighted during reporting season in August, the squeeze is on and it remains on for large groups of Australian businesses, while others are enjoying the most favourable conditions in their corporate lifetime to date.

The same bifurcation is on display in North America too.

The sum total for all of the above can still become a negative GDP reading for a given quarter, who knows? But if that actually matters is really dependent on what's in the portfolio. Strong, healthy companies carried by megatrends and sustainable margins can, of course, become too popular and over-priced, but the odds remain in favour of them enjoying the same supportive characteristics irrespective of the GDP prints to follow.

Different Horses For Different Courses

So, what kind of investor are you?

If you are a true believer in the narrative that everything is determined by 'price' or by 'value' -and there are many of your type around- you might have to prepare to be patient and deeply frustrated for longer. The US and the world at large might not be at risk of suffering a severe economic contraction, but this will not by definition prevent markets from contemplating the possibility.

This process has already well and truly begun.

Take a look at where the price of copper is trading at. And crude oil. Even iron ore. Small caps in August revealed more weakness than strength. It had been two years since we last witnessed BHP Group ((BHP)) shares trading below $40, and while that looks 'cheap' and 'attractive' in isolation, if the market continues to fear the worst possible outcomes for China, the US and the rest of the world, that share price remains poised for lower levels.

In the opposite corner we find companies like Hub24 ((HUB)), WiseTech Global ((WTC)) and Goodman Group ((GMG)); high quality performers with a proven track record that can be relied upon. Similar as in the US, such share prices are by no means cheaply priced, but investors will be reluctant to abandon these perennial winners unless things genuinely turn very ugly.

Even then, I'd still argue any outsized or prolonged weakness for such share prices remains a longer-term entry point for those not yet on board. Unless you are a true value investor, in which case these companies can never be priced cheaply enough to change your mind.

And that is fine, as long as you are fine with it.

My personal experience with the **FNArena/Vested Equities All-Weather Model Portfolio** (approaching ten years in January) is that owning **Quality Growth companies** is the gift that simply keeps giving. In most cases, temporary set-backs are just that; a temporary pause in a long elongated trend upwards.

Even though I readily admit, some of these share prices might have run too far too fast, for the time being, the All-Weather Portfolio won't be selling out and might instead add more exposure in case of severe share price weakness. I say this because I have experienced the agony of selling out and then missing out through failing to get back on board again.

Sometimes securing a small profit in the here and now is not the best decision one can make. It can cost you dearly. Within this context I was reminded recently of a **survey conducted by Fidelity** between 2003-2013 that found dead people had achieved the highest investment return over that period.

How come? Dead people make no changes, no matter what happens in markets.

As investors, we all go through our own cycles of gaining confidence and experience, and I can truly understand taking some risk off the table, just in case. But don't go overboard, unless you're owning higher risk, vulnerable small caps that are seriously under threat of tanking - or your horizon is short term, or your stomach simply cannot take it (you'll have to train it, though).

Post-August Best Ideas

In terms of where to put fresh money, I cannot help but think this year's weakness in **uranium companies** equates to short-term traders throwing out the baby with the bathwater. Shares in Paladin Energy ((PDN)), probably the least-risky option locally, have halved since May.

Yes, I do understand the reluctance in trying to catch a falling knife. Besides, I am by no means that type of investor. Cue my proprietary research into All-Weathers, which also defines the mandate that rests with the earlier mentioned Model Portfolio.

From that portfolio, the one idea that springs to mind is **Dicker Data** ((DDR)), distributor of all things technical with a firm focus on smaller sized businesses across Australia. Dicker Data's FY24 performance disappointed in August, because of too high operational costs, but underlying lays solid growth.

I regard Dicker Data as part of the Gen.Ai exposure inside the Model Portfolio, as the impact from the next tech revolution won't stay limited to data centres and related beneficiaries; at some point, laptops, PCs and other devices will be sold with Gen.Ai embedded, and that will reinvigorate momentum for companies also including Officeworks ((WES)), JB Hi-Fi ((JBH)), Harvey Norman ((HVN)) and Data#3 ((DTL)).

One expression from legendary investor **Peter Lynch** comes to my mind regularly in 2024: *you have to know what you own, and why you own it*. Selling shares today that should be trading a lot higher over the next 12-14 months, but might be cheaper over the next month or so, is not what suits my style of investing.

One other idea was put forward by **Morgan Stanley** this morning (on Monday): **Accent Group** ((AX1)). It's the broker's number one small cap idea that has come out of the August results season.

Macquarie has selected **16 Quality small- to mid-cap companies** now considered best ideas post robust performances in August:

-AUB Group ((AUB))
-Breville Group ((BRG))
-Flight Centre ((FLT))
-Fisher & Paykel Healthcare ((FPH))
-GQG Partners ((GQG))
-Integral Diagnostics ((IDX))
-JB Hi-Fi
-Lovisa Holdings ((LOV))
-Nick Scali ((NCK))
-Monash IVF ((MVF))
-Propel Funeral Partners ((PFP))
-Pinnacle Investment Management ((PNI))
-REA Group ((REA))
-Reliance Worldwide ((RWC))
-TechnologyOne ((TNE))
-Seven Group Holdings ((SVW))

More in Rudi's Views' Conviction Calls and Best Ideas on Thursday.

<u>All-Weather Model Portfolio</u>

If anyone wondered, the below is what a relatively passively managed portfolio looks like, in investment return pre-fees.

No resources. No true cyclicals. No cheap-looking low quality stragglers. No over-allocation to small caps, and no Australian banks.

Instead, there's a little bit of gold, a few sturdy and trustworthy dividend yielders, and a strong emphasis on quality and sustainable growth, including plenty of exposure to Gen.Ai.

Hence, on the positive side we find the likes of ResMed ((RMD)), Hub24 ((HUB)), Goodman Group ((GMG)), NextDC ((NXT)) and TechnologyOne ((TNE)) and on the not so positive side the portfolio owns shares in Audinate Group ((AD8)) and IDP Education ((IEL)).

Period Ending 31/08/2024

Name	Code	Type	1 mth	3 mths	6 mths	1 year	3 years
All Weather Portfolio	M00701	Capital	1.97%	9.73%	9.25%	22.38%	8.51%
All Weather Portfolio	M00701	Income	0.22%	0.35%	0.86%	1.94%	1.70%
All Weather Portfolio	M00701	TR	2.19%	10.09%	10.12%	24.31%	10.20%

Gen.Ai - A New Section On The Website

To illustrate our ongoing confidence in the multi-years lasting impact Gen.Ai will have on life as we know it, and on the share market and financial markets in the broadest sense imaginable, FNArena has created and added a dedicated section on the website to the emerging fourth industrial revolution.

This is your newest destination for updates on data centres operators, and related beneficiaries, but also on PC retailers and every other related story we publish on the theme.

The quickest way to get there runs via the drop down menu on the black ribbon that runs across the website. Start from FNArena NEWS.

Our newest section has also been added near the bottom of the website front, squeezed in between two other sections that might deserve your attention: FNArena WINDOWS and Feature Stories.

FNARENA WINDOWS

Window on REITS
Australian Listed Real Estate Tables – 09-09-2024
FNArena provides a weekly update of Australian listed real estate trusts (REIT) and property developers, current pricing, yield and valuation data
11:00 AM

Window on CLOUD SERVICES
NextDC: Building A Generative AI Future
Valuing a major infrastructure developer and operator with a growth tilt to generative artificial intelligence has caused some speed, or value humps for investors. What matters when it comes to assessing the case for a burgeoning data centre behemoth
10:30 AM

Window on INDUSTRIAL SECTOR CONTRACTORS & ENGINEERS
IPD Group's Future Remains Electrifying
IPD Group's FY24 earnings beat management guidance and analysts anticipate upside from organic growth and further M&A activity
Sep 06 2024

GEN AI

NextDC: Building A Generative AI Future
Valuing a major infrastructure developer and operator with a growth tilt to generative artificial intelligence has caused some speed, or value humps for investors. What matters when it comes to assessing the case for a burgeoning data centre behemoth
10:30 AM

IPD Group's Future Remains Electrifying
Sep 06 2024

Macquarie Technology: Just A Flesh Wound
Sep 05 2024

How Big The AI Boost For Harvey Norman?
Sep 03 2024

In Brief: Gen.Ai & Star Stocks Shine This Week
Aug 16 2024

Treasure Chest: JB Hi-Fi
Jul 23 2024

FEATURE STORIES

Awaiting The Next Lithium Upswing
Lithium prices remain weak, but there is a growing expectation a turnaround is on the cards. It's just a matter of when
Jul 17 2024

Pros & Cons Of Discounted A-REITs
Jul 16 2024

Australian Banks Post First Half Results: Sugar Hit
May 23 2024

Might Crude Oil Hit US$100/bbl Again?
May 22 2024

Part Three: Generative AI, Investing in the 21st Century Megatrend
May 14 2024

Part Two: Generative AI, Investing in the 21st Century Megatrend
May 09 2024

More reading:

https://fnarena.com/index.php/2024/09/05/rudis-view-august-results-fail-to-inspire/

https://fnarena.com/index.php/2024/08/28/rudis-view-august-trends-have-darkened/

https://fnarena.com/index.php/2024/08/21/rudis-view-august-paints-a-bifurcated-picture/

https://fnarena.com/index.php/2024/08/14/rudis-view-august-results-early-beginnings/

https://fnarena.com/index.php/2024/08/07/rudis-view-august-results-polarisation-divergence/

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

All-Weather Portfolio FY24 Review

The FY24 review for the All-Weather Model Portfolio 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

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

FNArena has 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).

FNArena Subscription

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, 9th September, 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: Key Picks, Best Buys & Conviction Calls

By Rudi Filapek-Vandyck, Editor

Global economic growth is slowing and, if forward-looking indicators can be relied upon, momentum remains poised for further weakness, possibly into the final quarter of 2024 and beyond.

How is an investor best to respond?

One strategy update that attracted a lot of attention this week stems from **UBS advocating Australian banks over resources stocks**. Are bank shares expensive? Yes, they are. Are resources share prices 'cheap'? Yes, they have underperformed a lot this year. But UBS clearly takes the view economic growth is not ready yet to bounce back and thus more weakness may well be in store for BHP Group ((BHP)) and its peers.

The **strategy modeling at Citi,** oriented more globally than UBS's ASX-centric view, draws a different conclusion which may also be guided by the fact Citi's in-house conviction remains for an economic recession to announce itself later this year in the land of Harris versus Trump.

Reduce your exposure to risk assets is conclusion number one from the Citi modeling, which translates into reduced exposure to equities and to credit. Underneath those recommendations, however, things become a lot less straightforward, or so it seems. For starters, Citi's model advocates portfolios should move Overweight commodities, but not energy, through oversized positions in precious metals and base metals.

In terms of equities, US and UK markets are preferred, while Citi shuns Emerging Markets. There's no specific mentioning of Australia, but one can probably safely assume the ASX sits in the same basket as Hong Kong, Singapore, et cetera.

In case that economic recession does arrive, alongside rate cuts from central banks, an Overweight exposure to government bonds seems but appropriate, Citi's modeling shows. It goes without saying, share markets are priced for a soft landing, and will receive some kind of a shock if/when Citi's forecast for economic recession proves correct.

As I wrote myself earlier this week: plenty of expert voices around that believe Citi's prediction will not materialise.

As it happens, the FNArena inbox received a missive from **Ninety One** this morning stating the above mentioned risk has already well and truly been priced in for Emerging Markets assets and with the Federal Reserve about to embark on loosening US monetary policy, the USD should start weakening and this, historically, tends to bode well for Emerging Market equities.

No doubt, Citi would counter-argue economic recession is likely to strengthen the greenback (reduced risk appetite favours safe havens) so maybe the best conclusion to draw is this debate remains unresolved still, just like the US presidential election.

Ninety One also argues Emerging Markets enjoy structural tailwinds, robust earnings growth, compelling valuations and the USD is currently trading near a twenty-year high.

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Strategists at Morgan Stanley see too many contradictions in today's markets, and this almost guarantees a big

pick-up in volatility as sometime, somehow those contradictions need to be brought back in line.

The current set-up is US bond markets are positioned for many more rate cuts than is feasible under a soft landing scenario, i.e. the bond market agrees with Citi there is likely an economic recession on the horizon.

US equities, on the other hand, are carried by analysts forecasting 13% profit growth over the next six quarters; twice the normal rate.

Economic growth is slowing, Morgan Stanley points out, let's have no doubt about that, and the US labour market is cooling. Assuming the bond market is too cautious and slow economic growth remains the most likely outcome, not negative economic growth, this still leaves the strategists with the incling that current growth forecasts seem too high.

Their advice: balance portfolios between defensives and cyclicals, growth and value, large caps and small caps, and apply maximum diversification. Share market momentum is anticipated to move away from the Mag7.

Taking a global view, Morgan Stanley's Best Ideas for portfolios are US financials, energy, healthcare, Japan, real assets and infrastructure investments. The strategists are ultra-cautious on small caps with rates still high, economic momentum weakening and US consumers being squeezed.

Peers at **UBS** highlight the conundrum as follows: when the bond yield curve dis-inverts this benefits small cap companies as they mostly bear floating debt, but then worsening economic conditions present themselves as a serious headwind.

Morgan Stanley sees the S&P500 range-trading between 4700-6100 with a June-2025 target of 5400. Similar as at Citi, fixed income is the most preferred exposure. Goldman Sachs is more optimistic, targeting 5400 for the S&P500 in three months, 5600 in six months and 5700 this time next year.

For Australia, Morgan Stanley's forecast is for slight improvement in economic momentum, but still below-trend, and nothing spectacular. Morgan Stanley's mid-2025 target for the ASX200 is set at 8100, with a bull case scenario of 8701 and a bear case alternative of 5631.

Prime problem for the local bourse is hardly a pulse in terms of earnings growth while the forward-multiple is 17.3x, well above the long term average of 14.7x and the 10-year average of 15.9x. Equity valuations are also deemed "expensive" relative to the historical relationship with bond yields.

The average dividend yield for the ASX200 is circa 3.6% versus the historical average of 4.5% since 2000. It is Morgan Stanley's view local share prices have disconnected from underlying forward earnings.

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In line with the observations above, **strategists at Macquarie** note bond markets and commodities are both signalling much worse conditions ahead than is currently assumed by equities. Macquarie is not quite sure whether economic recession is unavoidable, pointing out the signals available remain still quite diverse and leave plenty of room for debate on the matter.

Macquarie's model portfolio remains Overweight equities with a preference for 'Quality' and US markets. Australia is expected to lag.

Another preference is for non-correlated assets that can hedge against downside risks, such as infrastructure and hedge funds.

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For those investors allocating beyond ASX-listed equities, **Morgan Stanley** has released its short list of **Vintage Values 2025**; mid- to large cap US listed companies that can be held for 12 months for superior investment return:

Amazon.com
Apple
Bank of America
Boston Scientific

Constellation Energy
Eli Lilly
GE Vernova
General Dynamics
Lineage
Live Nation Entertainment
M&T Bank Corp
Nvidia
ServiceNow
Visa
Walmart

In a world wherein just about everyone's average holding period is constantly in decline (or so surveys show us) I find it quite refreshing to see a researched attempt to select 15 companies that can be bought and not looked at for the next year (if not longer).

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Coming out of the August results season, **Citi's team of REITs analysts** highlights the signs are there for many AREITs to be experiencing a peak in finance costs. This signals a turn-around might be approaching and indeed a case can be made this is already starting to show up in share prices.

Citi remains of the view some segments are better positioned than others, and the preference lays with sub-sectors that enjoy favourable supply and demand conditions, such as Industrial and Alternatives (land lease and self-storage), while any recovery should benefit residential and fund managers in the sector.

Highlighted **Top Picks** include Scentre Group ((SCG)), Stockland ((SGP)), Goodman Group ((GMG)), National Storage ((NSR)) and Ingenia Communities Group ((INA)).

While conditions for Office markets are improving, Citi still won't go there. (Play the theme through diversified REITs, say the analysts).

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As has become tradition, **Morgan Stanley** analysts have communicated their **Key Picks among ASX-listed small and mid-cap companies** post the August results season. Have thus far been chosen:

-Accent Group ((AX1))
-Jumbo Interactive ((JIN))
-ARB Corp ((ARB))
-SiteMinder ((SDR))

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Stockbroker **Morgans** saw investors warming towards a **better outlook for consumer spending** ahead in August, with companies highlighting better conditions towards the final days of FY24, but financial results undershot against the broker's forecasts nevertheless.

Morgans' Key Picks post August are Beacon Lighting ((BLX)), Super Retail Group ((SUL)) and Universal Store ((UNI)).

Peers at **Jarden** continue to favour companies with long share runways, expansion plans and improving return on invested capital (ROIC). Companies that fit the mould include Flight Centre ((FLT)), Webjet ((WEB)), Temple & Webster ((TPW)), Universal Store, Woolworths Group ((WOW)), Treasury Wine Estates ((TWE)) and Domino's Pizza ((DMP)).

Jarden remains more cautious on more mature businesses facing increased competition.

Morgan Stanley retains a preference for staples as the valuation gap with discretionary retailers has widened too far. Morgan Stanley has Overweight ratings for Woolworths Group and Endeavour Group ((EDV) and Underweight ratings for Wesfarmers ((WES)), JB Hi-Fi ((JBH)), Harvey Norman ((HVN)) and Super Retail.

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Citi's two favourite exposures to the local **healthcare sector** are now Australian Clinical Labs ((ACL)) and CSL ((CSL)).

The five least liked exposures are (from the bottom up) Pro Medicus ((PRO)), Nanosonics ((NAN)), Cochlear ((COH)), Fisher & Paykel Healthcare ((FPH)) and Healius ((HLS)).

Macquarie's local healthcare favourites are CSL, ResMed ((RMD)), Regis Healthcare ((REG)) and Intregral Diagnostics ((IDX)). Least preferred are Cochlear and Sonic Healthcare ((SHL)).

For online retailers, Citi's favourite is Temple & Webster ((TPW)) with Kogan ((KGN)) Sell-rated and least preferred.

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Macquarie's Quant team has identified those defensive names on the ASX most likely to benefit from falling interest rates, including:

-Aristocrat Leisure ((ALL))
-Codan ((CDA))
-Coles Group ((COL))
-Fisher & Paykel Healthcare
-GWA Group ((GWA))
-Harvey Norman ((HVN))
-Netwealth Group ((NWL))
-Pro Medicus
-REA Group ((REA))
-ResMed
-TechnologyOne ((TNE))
-Ventia Services ((VNT))
-WiseTech Global ((WTC))

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Barrenjoey has updated its **Top Picks**:

-Insurance Australia Group ((IAG)) among financials, as well as GQG partners ((GQG)) and Westpac ((WBC))
-Xero ((XRO)), Pexa Group ((PXA)) and Dicker Data ((DDR)) in the technology sector
-Vicinity Centres ((VCX)) and Abacus Storage King ((ASK)) among REITs
-South32 ((S32)), Lynas Rare Earths ((LYC)) and Perseus Mining ((PRU)) among miners and Strike Energy ((STX)) in the oil&gas sector
-ResMed
-Metcash ((MTS))
-Aristocrat Leisure
-Reliance Worldwide ((RWC))
-Brambles ((BXB))
-Seven Group ((SVW))

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Jarden's Best Ideas among emerging companies (small and mid-cap) has ballooned to 20 inclusions:

-IPH Ltd ((IPH))
-Temple & Webster
-EVT Ltd ((EVT))
-Dicker Data
-Universal Store
-Nick Scali ((NCK))
-AUB Group ((AUB))
-Webjet
-Integral Diagnostics ((IDX))

-Capricorn Metals ((CMM))
-Michael Hill ((MHJ))
-NRW Holdings ((NWH))
-Light & Wonder ((LNW))
-Pointsbet ((PBH))
-National Storage
-Ingenia Communities
-Karoon Gas ((KAR))
-Domain Holdings Australia ((DHG))
-Pepper Money ((PPM))
-Telix Pharmaceuticals ((TLX))

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As promised in Weekly Insights on Monday, the full list of stockbroker **Morgans' Best Ideas**, freshly updated post the August results season:

-The Lottery Corp ((TLC))
-CSL
-QBE Insurance ((QBE))
-Woodside Energy ((WDS))
-GQG Partners
-WH Soul Pattinson ((SOL))
-ALS Ltd ((ALQ))
-Reliance Worlwide
-Beacon Lighting
-Amotiv ((AOV))
-Universal Store Holdings
-Elders ((ELD))
-Acrow ((ACF))
-Maas Group ((MGH))
-Karoon Energy
-ResMed
-NextDC ((NXT))
-Mach7 Technologies ((M7T))
-Camplify Holdings ((CHL))
-Superloop ((SLC))
-Treasury Wine Estates
-ClearView Wealth ((CVW))
-PolyNovo ((PNV))
-Flight Centre
-BHP Group
-Rio Tinto ((RIO))
-South32
-Dalrymple Bay Infrastructure ((DBI))
-Cedar Woods Properties ((CWP))
-Dexus Industria REIT ((DXI))
-HomeCo Daily Needs REIT ((HDN))
-Qualitas ((QAL))

Have been removed from the pre-August selection: Coles Group ((COL)), Inghams Group ((ING)) and Avita Medical ((AVH)).

Recent additions are The Lottery Corp, Reliance Worldwide and PolyNovo.

This week's Weekly
Insights: https://fnarena.com/index.php/2024/09/11/rudis-view-asking-the-important-questions/

(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.)

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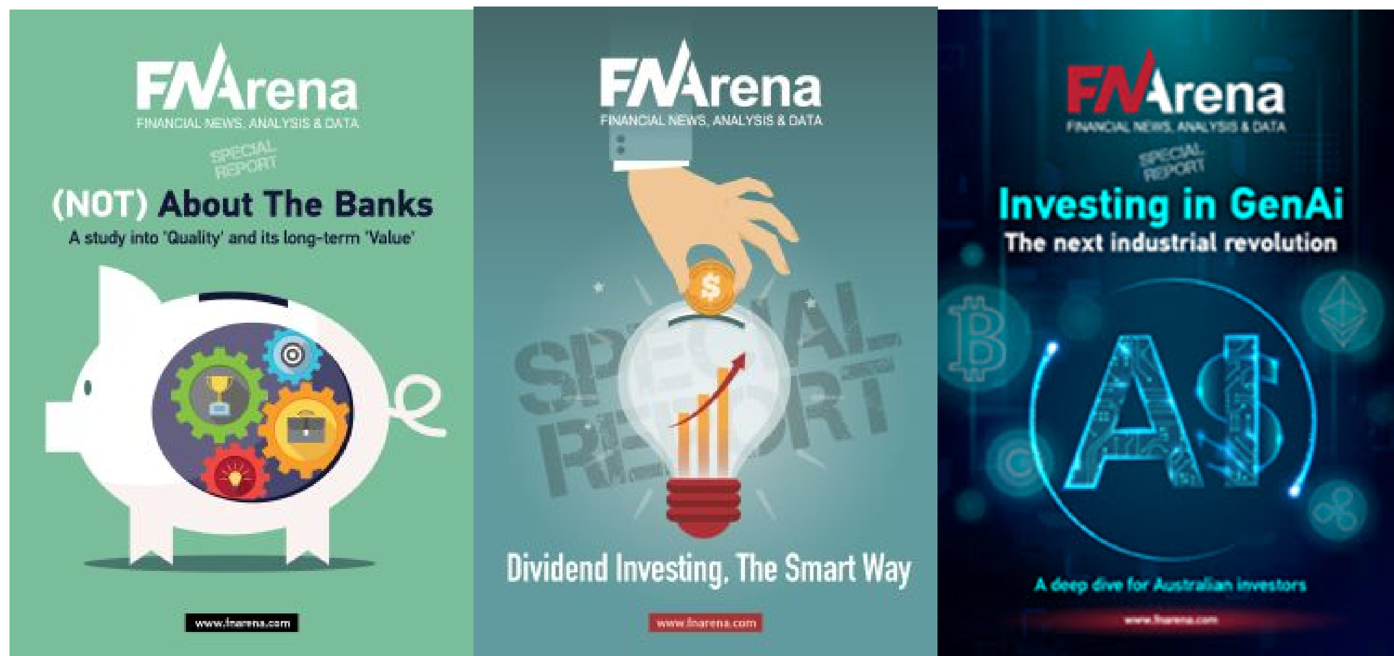

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SMALL CAPS

Accent Group: Ac-Cent-Tchu-Ate The Positive

Accent Group is a tale of recovery and conservative guidance combined with multiple levers to generate upside potential in earnings growth.

-UK retailing giant buys Accent Group equity stake
-Market seen jumping at FY24 shadows
-Margin improvements can drive a stock re-rating

By Danielle Ecuyer

Strategic opportunities on the menu

Apparently markets are forward looking, inferring through the doom and gloom of the current high interest rates regime, at some point cyclical discretionary stocks should experience the updraft of improved sentiment as the probability of lower interest rates increases.

Accent Group ((AX1)) is one such retailer that has captured the interest of brokers and of a major UK retail group, Fraser Group plc.

From what the company describes as "humble beginnings" in 1988 as a New Zealand-based wholesale distributor, the group today runs over 800 stores, 24 brands and more than 35 online platforms. A quick scan over the company's website and a who's who of the global footwear brands are on display, including the fast growing new "IT" trainer on the block, Hoka.

Fraser Group recently popped onto the share register with the acquisition of BBRC's 14.65% stake in the company. BBRC's initial stake of 11.82% was purchased at 95c per share in 2017. BBRC is legendary local retailing investor Brett Blundy's investment vehicle.

Citi highlights the Fraser Group investment brings forth several options for the company, including the possibility of Accent to run Sports Direct (the UK's largest sports good retailer) in Australia. Frasers also recently announced a joint venture with MAP Active to run Sports Direct in Indonesia and expand into Malaysia.

The broker observes the potential for Accent to export its "high margin vertical brands" into Europe; achieve better supply terms from major brands and a cross sharing of intellectual property.

On balance, Citi alludes to the newcomer on the register as offering potential strategic significance for the company.

Margin expansion generates earnings leverage

Operationally, the market at first response poo-pooed the FY24 results and trading update on a gross profit margins miss, sending the shares down -15% on the day which Jarden believed was an "overreaction".

The recovery in the share price with the benefit of hindsight, suggests the broker's interpretation was on the mark. Accent has multiple earnings drivers in FY25 and beyond.

Jarden points to the buyback of The Athlete's Foot franchises, closing unprofitable stores and increased cost outs as positive earnings drivers.

The market also took the same-store-sales 3.5% growth in the FY25 trading update as a downer compared to the 4.1% growth rate for 2H24. Petra Capital digs a little deeper and emphasises the group was cycling weaker comps in May/June versus July (the start of FY25). On a two-year basis there was no slowing with footwear also performing more strongly than apparel.

Petra Capital believes the key ingredient for a share price re-rating is the ability to decrease the cost-of-doing-business. Inflation cost pressures from wages growth and rental leases are being offset by cost savings from Glue store closures, re-negotiated leases and other measures.

Morgan Stanley leans into the expectation of improved margins for Accent over FY25. This broker expects the earnings before interest/tax to reach 9.1% and although below the FY21 level of 12.8%, the trend is rising from the low in FY22 at 6.3%.

Inputting the FY19 10.4% margin would imply a 14% upgrade to FY25 earnings against the broker's forecast.

Conservative guidance lends a hand

There are also upside risks to sales growth estimates which sit a 2.5% for FY25/FY26. Lower tax rates could provide a tailwind to the discretionary spend of the hard-hit younger demographic, particularly with the likes of Platypus, Morgan Stanley suggests.

Equally the store roll-out forecast of around 50 p.a. across FY25/FY26 is viewed by the analyst as a "conservative" projection with the five-year average at 83 p.a. up to FY24. Newer formats should also attract growth, including Nude Lucy, Stylerunner and Hoka.

Jarden points to gross store guidance, a minimum of 50 from management which implies at least nil net store openings in FY25, including an expectation new stores will be more profitable than "exited" stores.

Accent Group is the number one small cap stock pick for Morgan Stanley.

Across the eight covered brokers, including those not daily monitored, all have a Buy rating or equivalent. Morgan Stanley's target price of $2.75 is the highest with UBS at the opposite end at $2.20.

The average target price derived from those brokers monitored daily is $2.484.

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Premier Investments: More Details Required

Premier Investments' pre-announced FY24 sales numbers are below consensus, but brokers await further detail at the full result, along with an update on the company's strategic review.

-Premier Investments' FY24 sales fall short of expectations
-No detail, leading to plenty of speculation
-Not too bad a result considering
-De-merger and merger plans key to FY25

By Greg Peel

Premier Investments ((PMV)) is for the most part a discretionary apparel retailer, owning familiar brands Just Jeans, Jay Jays, Portmans, Dotti and Jacqui E, some of which have been around since time immemorial.

Premier also owns Peter Alexander, which sells pyjamas and related wear, and Smiggle, which sells stationary and other accessories (such as backpacks) to school kids. While brands such as Just Jeans will sell to international customers online, Peter Alexander and Smiggle have offshore store exposure.

Despite their more specific categories, Peter Alexander and Smiggle are considered Premier Investments' "core brands", representing 52% of sales at higher margins than the "non-core" stable of other brands, which are gathered under the label "Apparel Brands".

Premier Investments also owns 28.06% of Breville Group ((BRG)), while Premier's chairman Solomon Lew, through his private company, has built a substantial stake in Myer ((MYR)), while also being Premier Investments' largest shareholder.

It is not thus overly surprising there are plans afoot to de-merge the more vibrant Peter Alexander and Smiggle Brands, while Myer will take over the more staid Apparel Brands stable.

But meanwhile, Premier Investments has provided initial FY24 sales guidance in a trading update, ahead of its full FY24 result due on September 25. For brokers, the update has raised more questions than answers.

The trading update was not expected, but as UBS notes, it follows an article in *The Australian* regarding the performance of the Apparel Brands within Premier Retail.

Below Consensus

Premier Investments' FY24 group sales of $1.6bn fell around -2% short of broker expectations. Earnings also fell short, on margins also seen as below consensus (albeit beating Macquarie's forecast).

Sales were down -2.6% year on year, Macquarie notes. Given first half sales were down -2.8%, this implies second half sales fell -2.4%.

Note that Premier's fiscal year ends in July.

Brokers do not see this as a disappointing performance nonetheless. The external environment for Premier Retail has been challenged, with the consumer in Australia and New Zealand facing cost of living pressures. Those consumers have been trading down across categories, UBS notes, including for apparel.

Macquarie's High Frequency Consumer Data indicate shopping spend performed well in August, with clothing volume and spending largely in line with the same month a year ago. Overall discretionary spend shrunk to 53% of the consumer's wallet in FY25 year to date from 54% in the prior year, with slightly higher essential spend.

Awaiting the Detail

Management did not provide any brand breakdown in the update, leading brokers to merely speculate on what led to the sales and margin miss.

The more optimistic scenario, suggests Morgan Stanley, is the miss was driven by lower-rated Apparel Brands while the higher-rated Smiggle and Peter Alexander beat.

Bell Potter estimates a wide performance gap between core and non-core brands driving positive comparables at Smiggle and Peter Alexander in the second half.

Citi offers it's not clear whether the margin miss was at the gross profit level, cost of doing business level or due to sales mix. Citi thinks it is likely heavier discounting going into June led to gross profit margin missing, based on industry feedback.

Other reasons could include less efficient rostering and some unfavourable rental outcomes, though the broker suggests this is less likely. Peter Alexander and Smiggle under-performing apparel brands could offer another explanation, Citi posits, but this would be at odds with the assumptions of other brokers.

If heavier discounting was the reason for the miss, then a follow-up question for Citi would be whether inventory has been refreshed going into FY25. If costs or sales mix were explanations, then there could be longer-term earnings margin implications.

Citi would like to obtain further clarification from management, as would everyone else.

The decline in sales in FY24 is modest, UBS suggests, reflecting the breadth of brands, including higher growth brands Peter Alexander and Smiggle. In recent years Premier Retail has been able to reset its operating cost base, this broker notes, notably occupancy costs, as well as manage labour well despite rising wages, with this expected to have continued in FY24, as earnings margins have fallen only to 20.4% from 21.7% a year ago.

A slight fly in the ointment is the announcement Smiggle's managing director will leave immediately following claims he had engaged in "serious misconduct". He is due to start as CEO of Lovisa Holdings ((LOV)) next June.

Strategic Review

While brokers look forward to more detail on sales at the upcoming result release, perhaps more important is an update on the company's strategic review, which relates to the aforementioned consideration of de-merging Peter Alexander and Smiggle and selling Apparel Brands to Myer.

No comments were made at the update.

Bell Potter bases its Premier Investments' valuation on a sum-of-the-parts model, with an unchanged 13x PE multiple for core brands, a lower 4.5x multiple for Apparel Brands, down from 5x, and a current market valuation for Myer and Breville Group. With the performance gap between core and non-core brands expanding, the broker lowers its margin assumptions for Apparel Brands within the valuation while rebasing earnings expectations.

This leads to a target price increase to $37.00 from $35.00, with upside from the potential de-merger of Premier's two key brands, Smiggle and Peter Alexander, which are highly profitable and global roll-out worthy, as well as the potential Apparel Brands/Myer merger.

Bell Potter sees catalysts related to first half FY25 trading trends at the FY24 result and de-merger updates, and thereby views Premier's PE multiple of 16x on FY26 forecasts as attractive, hence a Buy rating.

Premier Investments is Morgan Stanley's key pick in Retail, where it continues to see de-merger catalysts, earnings upside from growth levers and cyclical tailwinds plus an attractive risk/reward balance. Morgan Stanley has an Overweight rating and a $33.90 target.

UBS retains Neutral, noting as while Premier Retail's sales have fallen in FY24 year on year, growth is forecast in future periods led by Peter Alexander and Smiggle, while costs have been well managed in a challenged environment.

UBS agrees these factors make the risk/reward balanced following a period of share price outperformance. UBS has a $33.00 target.

Macquarie has a target of $33.50, and leaves its Neutral rating unchanged as it awaits further detail at the FY24 result.

The key focus near term should be the FY24 result, Jarden suggests, where the broker would hope to get more disclosure on the potential apparel sale to Myer and management updates.

That said, an improving medium-term return on invested capital, catalysts in potential de-mergers and a relatively undemanding multiple and strong capital position leave Jarden Neutral-rated with a positive bias, albeit a low-end target price of $29.80.

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SMALL CAPS

ARB Corp's Making America Great(er)

Analysts approve of ARB Corp's two US acquisitions which are expected to build brand awareness and provide medium-term upside.

-ARB Corp announces US distribution and brand acquisitions
-Purchase of 4 Wheel Parts includes 42 retail aftermarket stores
-Canaccord Genuity sees no financial benefit until FY27
-The company's Jeep product will be boosted by Poison Spyder

By Mark Woodruff

Analysts seem pleased by ARB Corp's ((ARB)) latest effort to widen distribution of 4WD accessories into the US, and, in a separate deal, pick-up a local US brand with more potential appeal to the US consumer than its own legacy brand.

Providing scale to the store network of the company's US-based associate Off-Road Warehouse (ORW), the latter has entered a conditional agreement to acquire 4 Wheel Parts from private equity owned Hoonigan (formerly Wheel Pros) for -US$30m, subject to court approval.

4 Wheel Parts currently operates 42 retail aftermarket stores and associated e-commerce sites, selling 4x4 accessories across the US.

Ord Minnett believes ARB will invest between -$25-30m as part of the transaction and points out the company's export sales will also benefit from increased investment in the Off-the Road Warehouse/4 Wheel Parts store network.

The company also has third-party distribution agreements in the US, Australia and numerous other export markets.

Apart from expanded distribution, Wilsons notes earnings drivers for ARB include the ongoing structural shift to SUVs, new vehicle model releases, and new product launches including in collaboration with original equipment manufacturers (OEMs).

More broadly, ARB develops, manufactures, distributes, and retails four-wheel drive vehicle accessories, necessitating manufacturing and warehousing facilities in Australia and Thailand, and an ARB-branded retail store network in Australia.

Retail is an important channel to market for ARB in the US market, explains Wilsons, in terms of sales generation and building brand awareness.

Already, ARB's investment in Off-Road Warehouse provides access to a well-credentialed specialist retailer, note the analysts, and on favourable terms in relation to ARB brand representation.

Currently generating strong like-for-like sales growth, as highlighted by Wilsons, Off-Road Warehouse has recently opened an eleventh store.

Picking up on the point made by Wilsons on the importance of brand awareness, Citi suggests the expanded store presence and more prominent in-store ranging will be a significant benefit to ARB.

This broker also highlights ARB's recent investments in its US distribution assets should assist with the likely scale-up in revenue. The Texas distribution centre has more than doubled in size and the company has also leased an additional distribution centre in California.

Easing concern over business familiarity and continuity, Wilsons highlights several former 4 Wheel Parts executives hold senior roles in both Off-Road Warehouse and ARB.

Canaccord points out Off-Road Warehouse's primary owner Greg Adler had worked in 4 Wheel Parts from 1992 and was President and CEO until April 2018.

While expecting a positive share price reaction to the 4 Wheel Parts deal, Canaccord cautions the business has been in decline since its sale to Polaris Inc in 2016, and that decline has accelerated since it has been owned by Hoonigan.

Despite excitement over the increased store count for ARB, the analyst suggests it may take some time to turn this transaction into earnings, making a positive change to the broker's FY25 forecast number unlikely.

On the other hand, Canaccord points out the purchase price for 4 Wheel Parts is less than the cost of setting up 42 stores, thereby providing Off-Road Warehouse with a significant buffer to make the deal work.

Should the acquisition be successful, Off-Road Warehouse will settle the purchase of the 4 Wheel Parts assets using additional funding provided by its shareholders, resulting in ARB increasing its shareholding in Off-Road Warehouse to 50% from 30%.

Effectively, the increase in ownership is a function of ARB providing greater contribution to the funding of the transaction than its current shareholding requires, explains Canaccord Genuity, noting it's unclear at this stage how much of the US$30m ARB will contribute as part of the transaction.

A separate deal

In a strategically sound move, according to Canaccord Genuity, ARB will also buy the Poison Spyder brand from Hoonigan for ~US$1m. The brand offers Jeep armor products to provide one's Jeep with the necessary 'armor' to tackle any terrain.

In the US, ARB has been underweight Jeep product in the product portfolio, which hasn't been an issue in Australia where Jeep is more of a niche brand.

Viewing this transaction in a similar light as the recently acquired 49%-stake in Nacho Offroad Technology (offering a range of innovative off-road lighting products), Citi notes **management strategy is to acquire local US brands which resonate more with US consumers than legacy brands in Australia.**

The move on Poison Spyder follows hard on the heels of ARB's investment into a new US based R&D facility to support the development of localised products, points out Morgan Stanley.

Potential upside from ARB's Off-Road Warehouse investment

Wilsons believes ARB is currently generating annualised revenue of between $5-7m from product sales into Off-Road Warehouse.

When the broker assumes similar store metrics and terms for the acquired 4 Wheel Parts stores, a further $25m of revenue could flow to ARB.

While a strong strategic transaction, Canaccord sees no material financial benefits until FY27.

Gaining control of Off-Road Warehouse would provide a significant medium-term tailwind for ARB Corp in Morgan Stanley's view, via the opportunity to improve store performance and rollout potential.

This broker raises its target to $46 from $40.50 and upgrades the rating to Overweight from Equal-weight. ARB also makes Morgan Stanley's list of key small/mid cap ideas post the August results season.

Not only is US distribution falling into place, but also OEM collaborations are taking shape, highlight the analysts. ARB is brand partner with Toyota on Trailhunter program launches (Tacoma and 4Runner), with another program coming up in FY25.

The arrangements with Toyota -and another with Ford- assist both distribution and brand position, explains Morgan Stanley.

This broker suggests the fruits of ARB's strategic investments (in Australia but particularly in the US) will become more obvious in earnings numbers in FY25 and FY26.

Within the FNArena database where brokers are monitored daily, there are three Buy or equivalent ratings, two Holds and one Sell rating (Ord Minnett).

The average 12-month target price of these six brokers rises to $42.80 from $41.25 (though two are yet to refresh research post acquisitions) which is only -1% short of the ARB Corp share price at the close of trade on September 10.

Outside of daily monitoring, Wilsons and Canaccord Genuity are on Overweight and Hold, respectively, with an average target of $43.08.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 06-09-24

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 September 2 to Friday September 6, 2024
Total Upgrades: 7
Total Downgrades: 11
Net Ratings Breakdown: Buy 58.76%; Hold 32.57%; Sell 8.67%

For the week ending Friday September 6, 2024, FNArena recorded seven ratings upgrades and eleven downgrades for ASX-listed companies by brokers monitored daily.

Overall, positive percentage changes to average earnings forecasts materially outpaced negative changes while falls for average target prices far outweighed positive changes, as may be seen in the tables below.

The top four names in the earnings downgrade table were miners due to weak FY25 outlooks for Mineral Resources and Whitehaven Coal, while FY24 results for De Grey Mining were in line and Coronado Global Resources issued a FY24 guidance downgrade.

FY24 results for Mineral Resources and Whitehaven Coal respectively beat and met expectations, but in both cases FY25 guidance disappointed.

For a further explanation around tough times being experienced by Mineral Resources in both the lithium and iron ore markets please refer to
https://fnarena.com/index.php/2024/09/06/in-brief-dicker-data-mineral-resources-red-5/

De Grey Mining's FY24 result was in line with Macquarie's expectations, but minor downgrades to very small average forecast numbers in the FNAarena database had an exaggerated negative impact.

For Coronado Global Resources, which operates the Curragh complex in the Bowen Basin in Central Queensland, management had already released first half results in early-August but issued lower 2024 guidance last week.

Due to an outage at Curragh's overland conveyor and ongoing inclement Queensland weather, management cut 2024 production estimates by -7% with cost guidance also -11% worse.

Site-wide impacts to coal and strip movement resulted in unutilised processing plant capacity, explained Macquarie, which lowered its target price by -14% to $1.80.

This revised guidance appeared fairly conservative to UBS. On a 12-month view, this analyst is still positive on the stock and suggested the lower guidance, in combination with metallurgical coal prices falling below

US$200/t, creates a buying opportunity for investors.

Despite releasing FY24 results back on August 21, Healius appears fifth on the earnings downgrade table and tops the table for negative change to target.

These outcomes were entirely due to new in-house research issued by Ord Minnett, which had formerly whitelabeled more optimistic research from Morningstar.

Last week, this broker investigated the 50% rally in the company's shares since May, suggesting management's plans to sell the Lumus diagnostic imaging division were largely responsible.

Given the hurdles to improved performance in the overall Healius business, the currently elevated valuation multiples cannot be justified, in the analyst's opinion, as they require a major improvement in the Pathology division's performance.

The next three largest falls in average target prices in the FNArena database last week were due to underperformance against broker expectations during the reporting season by DGL Group, Mineral Resources and Bellevue Gold.

On the flipside, average target prices rose materially for Austal, Downer EDI (FY24 beat) and Capricorn Metals.

While two other database brokers were lukewarm on Austal's FY24 result given a profit miss and revenue falling short of management's own guidance, Citi raised its target by 34% to $4.14.

This broker feels the market is not fully appreciating Austal's medium-to longer-term revenue upside, underpinned by a record order backlog.

The order book sits at $12.7bn, which is more than $10bn higher compared to two years ago, explained the analysts.

Further, Citi highlighted the strategic importance of Austal's shipbuilding capabilities to the Australian government. Recent orders for two additional Guardian-class patrol boats and two additional Cape class patrol boats are considered an enabler for the company to maintain its workforce and supply chain ahead of larger programs ramping-up.

All three covering brokers in the database raised target prices for Capricorn Metals, with Macquarie also upgrading its rating to Outperform from Neutral after focusing on growth projects rather than the -16% profit miss for FY24.

Macquarie incorporated into its forecasts a mill expansion at the Karlawinda gold project in the Pilbara and a notional underground scenario at the Mt Gibson gold project in the Murchison region of Western Australia.

Management has commenced a process plant expansion study at Karlawinda exploring the potential to increase process capacity by circa 50% to 6.5-7mt per year, explained Macquarie.

Adding to the overall positive investment thesis, Bell Potter noted Capricorn Metals remains one of the lowest cost producers in the gold sector.

Regarding the earnings upgrade table, here Aeris Resources came in ahead of both Austal and Capricorn Metals despite lower forecasts by the only broker (Bell Potter) to refresh research.

Aeris benefited as FY24 forecasts rolled off the broker's financial model to be replaced by a better outlook for FY25 and beyond.

For a summary of earnings beats and misses as they relate to the tables below and for other companies that reported last week, please refer to https://fnarena.com/index.php/reporting_season/

Total Buy ratings in the database comprise 58.76% of the total, versus 32.57% on Neutral/Hold, while Sell ratings account for the remaining 8.67%.

Upgrade

ARISTOCRAT LEISURE LIMITED ((ALL)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 6/0/0

Ord Minnett has yet again reviewed prospects and outlook for Aristocrat Leisure and the exercise has concluded with an upgrade to forecasts to the tune of 2-3% for this financial year and next.

The broker also believes the shares should trade on a 20% premium versus its Industrials peers listed on the ASX. With the company about to revert back to its core (selling off non-core), Ord Minnett anticipates the shares will revert back to their previous premium.

The company's buybacks are expected to continue at a rate of $1.5bn per annum.

Ord Minnett's valuation has risen to $59 from $52. Accumulate (up from Hold).

BELLEVUE GOLD LIMITED ((BGL)) Upgrade to Hold from Sell by Ord Minnett .B/H/S: 2/1/0

Bellevue Gold's FY24 operating earnings missed consensus forecasts by some margin, albeit largely due to the accounting treatment of expensed versus capitalised costs in the accounts, Ord Minnett notes.

The important issue from the second half was its eponymous mine in Western Australia entering production at a commercial scale. FY25 production and cost guidance was reiterated.

Target unchanged at $1.25 but Ord Minnett upgrades to Hold from Sell, with the more than -9% fall in the share price after the result
bringing the risk-reward closer to being in balance.

CAPRICORN METALS LIMITED ((CMM)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/0/0

While FY24 results for Capricorn Metals didn't alter EPS forecasts by Macquarie, the broker now incorporates a mill expansion at Karlawinda and a notional underground scenario at Mt Gibson.

These two forecast inclusions result in EPS upgrades of 9% in FY26 and an average of 24% over FY27-FY30. The target rises by 19% to $6.30, and the rating is upgraded to Outperform from Neutral.

For Karlawinda, management has commenced a process plant expansion study exploring the potential to increase process
capacity by circa 50% to 6.5-7mtpa.

DICKER DATA LIMITED ((DDR)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/1/0

UBS has upgraded its rating for Dicker Data to Buy from Neutral with a price target of $10, up from $9.65 previously.

The broker notes increased headcount investment to support major new vendor wins plus a circa -$2m higher provision expense caused the H1 profit before tax to miss its forecast by -9% but the broker's confidence in the top-line growth trajectory into 2H24/FY25 has improved.

EPS forecasts have been cut by some -3% (higher costs) and the broker finds the share price "defendable", while suggesting the fall post results release looks too much of an exaggeration.

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED ((FPH)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/2/0

Macquarie reviews its earnings model and outlook for Fisher & Paykel Healthcare on the back of positive momentum in FY24 results.

Homecare delivered 18% revenue growth in FY24 with good uptake of the Evora mask. The analyst forecasts 14% growth in FY25 including new product launches and robust demand.

Industry feedback, the broker highlights, points to a rise in new patient demand with the potential FDA approval of Zepbound (GLP-1 RA).

Macquarie expects revenue growth of around 13% p.a. over FY24-FY27 with 27% EPS growth from better margin recovery and operating leverage.

New apps revenue growth is also expected from nasal high flow and an opportunity in anaesthesia over the next decade.

EPS forecasts are lifted by 3% in FY25 and 5% in FY26 with an upgrade to Outperform from Neutral.

Target rises to NZ$39.20 from NZ$27.85.

GPT GROUP ((GPT)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 5/0/0

Morgan Stanley raises its target for preferred Office exposure GPT Group to $5.60 from $4.80 and upgrades to Overweight from Equal-weight. Industry view: In Line. The REIT is considered an ideal play for investors seeking low risk exposure to the Real Estate sector.

The broker expects rent-paying office occupancy will trend upwards from less than 87%, and notes the REIT has limited committed capex, meaning it is not encumbered by major projects at a time when cost of funds is elevated.

Additionally, GPT has taken the most cap rate expansion, and harshest asset devaluations, across Office, Retail, and Industrial compared to other large cap REITs since June 2022, explains Morgan Stanley.

NRW HOLDINGS LIMITED ((NWH)) Initiation of Coverage with Add by Morgans .B/H/S: 3/1/0

NRW Holdings is a large civil contractor, contract miner and engineering & construction contractor to the resources and public infrastructure sectors in Australia.

Since the execution of this diversified growth strategy, NRW Holdings has delivered consistently strong earnings growth, Morgans notes.

The stock is trading towards the upper end of its valuation range but in the broker's view there's still capacity to re-rate further, particularly if upgrades continue.

A premium to its history is justified given earnings momentum, diversification, balance sheet optionality and a robust outlook, Morgans argues.

Morgans initiates coverage with an Add rating and $3.85 target.

Downgrade

ALCIDION GROUP LIMITED ((ALC)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 0/1/0

Alcidion Group delivered FY24 earnings that were at the lower end of guidance. Bell Potter assesses the result reflects a challenging year as persistent tender delays in the NHS resulted in UK revenue declining -10% and Australasian sales declining -7%.

Contracted and renewal revenue for FY25 as of August is $28m, below the comparable amount for FY24. The broker decreases near-term revenue forecasts and also revises down FY26-27 estimates, given a lower base for FY25.

Target is reduced to 7c from 8c and the rating is downgraded to Hold from Buy.

EMERALD RESOURCES NL ((EMR)) Downgrade to Sell from Hold by Ord Minnett .B/H/S: 0/0/1

Emerald Resources posted FY24 operating earnings largely matching Ord Minnett's forecasts once hedging revaluations and increased
write-offs related to exploration were incorporated into the numbers.

The company plans to expand its gold output to more than 300,000ozpa within five years, as its Dingo/Bullseye project in WA and the Mernot mine in Cambodia start production.

Emerald Resources possesses a strong balance sheet and a solid track record of operational performance, the broker notes, along with growth options, but at current valuation levels the stock is overvalued, leading Ord Minnett to downgrade to Sell from Hold.

Target unchanged at $3.40.

GRAINCORP LIMITED ((GNC)) Downgrade to Hold from Add by Morgans .B/H/S: 4/1/0

Providing a boost for GrainCorp's FY25 earnings, notes Morgans, ABARES has upgraded its 2024/25 winter crop forecast. It is the fourth largest crop on record and around 50% above an average year, explain the analysts.

While upgrading forecasts, the broker explains below average grain trading margins and weak crush margins result in materially smaller upgrades than for past big crop years.

The target rises to $9.45 from $9.38 but the rating is downgraded to Hold from Add as the share price is approaching Morgans' valuation.

GUZMAN Y GOMEZ LIMITED ((GYG)) Downgrade to Sell from Neutral by UBS .B/H/S: 1/1/1

While FY24 results for Guzman y Gomez on August 27 came in above prospectus forecasts due to same store sales growth and proforma EBITDA/network sales expansion, UBS downgrades to Sell from Neutral on valuation.

The target rises to $35 from $31 on the broker's higher earnings forecasts.

Shares have risen by 67% since the June 20 IPO compared to the 2% rise for the ASX200, making the current risk-reward balance unattractive, in the analyst's view.

IGO LIMITED ((IGO)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/1/3

Another deep dive into sector dynamics for global lithium has further soured price forecasts at UBS. Having

reduced price forecasts recently, UBS has now further cut by -3-26% across 2025-28.

UBS is now convinced there will be more supply coming out of Africa.

The rating for IGO Ltd is hereby lowered to Sell from Neutral. Price target falls to $4.95 from $5.40 on reduced forecasts.

LIONTOWN RESOURCES LIMITED ((LTR)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/3/1

Another deep dive into sector dynamics for global lithium has further soured price forecasts at UBS. Having reduced price forecasts recently, UBS has now further cut by -3-26% across 2025-28.

UBS is now convinced there will be more supply coming out of Africa.

The rating for Liontown Resources is hereby lowered to Sell from Neutral. Price target falls to $0.70 on reduced forecasts.

MINERAL RESOURCES LIMITED ((MIN)) Downgrade to Hold from Add by Morgans .B/H/S: 4/2/1

Following FY24 results, Morgans lowers its target for Mineral Resources to $39 from $53 and downgrades its rating to Hold from Add on a higher assessment of near-term balance sheet and commodity risk.

The analysts' risk assessment is balanced against existing debt levels and upcoming capex commitments.

The broker also highlights further mine closures or production cuts across the lithium and iron ore businesses will reduce internal Mining Services volumes, which will further negatively impact earnings and cash flows.

PLATINUM ASSET MANAGEMENT LIMITED ((PTM)) Downgrade to Sell from Neutral by UBS .B/H/S: 1/1/2

UBS is disappointed by ongoing revenue "leakage" for Platinum Asset Management and now believes cost outs will be "chasing" declining funds under management. Some $20m in costs were back out in FY24, the broker notes.

Management is repositioning its investment team as poor performance drags on its flagship product, with implementation to be phased in over the next six months.

UBS revises EPS forecasts by -8% in FY25 and 1% for FY26 with double-digit percentage outflows of funds under management likely in the near term.

Target price cut to 91c, and stock downgraded to Sell from Neutral.

RAMSAY HEALTH CARE LIMITED ((RHC)) Downgrade to Hold from Add by Morgans .B/H/S: 0/6/0

Ramsay Health Care's FY24 underlying results were above the top end of updated guidance, driven by low single digit admissions growth across key geographies, tariff and indexation gains, but supported by lower tax and minority interest as operating profit was soft, Morgans notes.

While ongoing activity is encouraging, it is slowing, the broker warns, and when coupled with the lack of any noticeable progress on the strategic review and 2H weakness on additional headwinds and uncertainties, a near-term earnings recovery looks challenging.

Morgans has materially reduced FY25-26 earnings forecasts and cut its target to $44.77 from $56.54. Downgrade to Hold from Add.

WOODSIDE ENERGY GROUP LIMITED ((WDS)) Downgrade to Sell from Neutral by Citi .B/H/S: 2/3/1

Citi reviews the earnings outlook for Woodside Energy, leading the broker to downgrade the stock to Sell from Neutral.

The analyst depicts multiple headwinds the company is facing, including a deterioration in the outlook for dividends and possible M&A activity, overlaid with a deteriorating macro picture working against oil prices.

Citi's analysis reveals a P&L which is heavily exposed to much higher depreciation charges (considerably above consensus), leading to DPS forecasts which sit respectively -26% and -47% below consensus in 2025/2026.

Consensus earnings are expected to be downgraded over the next six months. Target price is lowered to $24.50, down -2%.

XERO LIMITED ((XRO)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 5/1/0

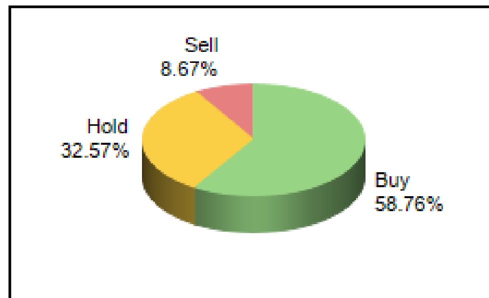
Ord Minnett has returned from the Xerocon event in Nashville in mid-August with increased optimism regarding Xero's plans and prospects in the key US market.

Several shortfalls vis a vis key incumbent Quickbooks are being addressed and the broker reports general commentary from US accountants is positive.

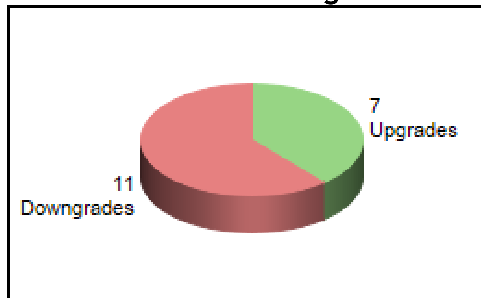
Xero currently has a 4% market share in the US with Intuit's share 80% but only 20-25% of the 35m SMB's in the country are currently using cloud accounting.

Ord Minnett believes the US could grow into Xero's third largest market by FY30, and with forecasts below management's ambition, the price target is lifted to $160 from $150. Following recent share price appreciation, the rating is pulled back to Accumulate from Buy.

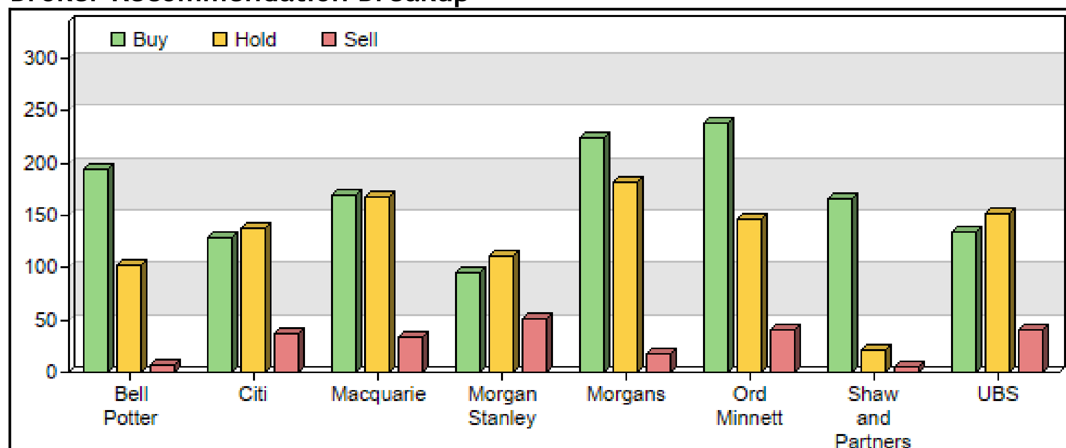
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ARISTOCRAT LEISURE LIMITED	Buy	Neutral	Ord Minnett
2	BELLEVUE GOLD LIMITED	Neutral	Buy	Ord Minnett
3	CAPRICORN METALS LIMITED	Buy	Neutral	Macquarie
4	DICKER DATA LIMITED	Buy	Neutral	UBS
5	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	Buy	Neutral	Macquarie
6	GPT GROUP	Buy	Neutral	Morgan Stanley
7	NRW HOLDINGS LIMITED	Buy	Neutral	Morgans
Downgrade				
8	ALCIDION GROUP LIMITED	Neutral	Neutral	Bell Potter
9	EMERALD RESOURCES NL	Sell	Neutral	Ord Minnett
10	GRAINCORP LIMITED	Neutral	Buy	Morgans
11	GUZMAN Y GOMEZ LIMITED	Sell	Neutral	UBS
12	IGO LIMITED	Sell	Neutral	UBS
13	LIONTOWN RESOURCES LIMITED	Sell	Neutral	UBS
14	MINERAL RESOURCES LIMITED	Neutral	Buy	Morgans
15	PLATINUM ASSET MANAGEMENT LIMITED	Sell	Neutral	UBS
16	RAMSAY HEALTH CARE LIMITED	Neutral	Buy	Morgans
17	WOODSIDE ENERGY GROUP LIMITED	Sell	Neutral	Citi
18	XERO LIMITED	Buy	Buy	Ord Minnett

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	ASB	AUSTAL LIMITED	3.130	2.833	10.48%	3
2	DOW	DOWNER EDI LIMITED	5.623	5.120	9.82%	3
3	CMM	CAPRICORN METALS LIMITED	6.297	5.793	8.70%	3
4	GPT	GPT GROUP	4.990	4.810	3.74%	5
5	GYG	GUZMAN Y GOMEZ LIMITED	37.067	35.733	3.73%	3
6	LOV	LOVISA HOLDINGS LIMITED	33.287	32.359	2.87%	7
7	NST	NORTHERN STAR RESOURCES LIMITED	15.775	15.430	2.24%	6
8	WPR	WAYPOINT REIT LIMITED	2.647	2.590	2.20%	3
9	TPG	TPG TELECOM LIMITED	5.290	5.180	2.12%	5
10	ALL	ARISTOCRAT LEISURE LIMITED	56.217	55.050	2.12%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	HLS	HEALIUS LIMITED	1.310	1.636	-19.93%	5
2	DGL	DGL GROUP LIMITED	0.563	0.683	-17.57%	3
3	MIN	MINERAL RESOURCES LIMITED	52.943	60.000	-11.76%	7
4	BGL	BELLEVUE GOLD LIMITED	1.733	1.933	-10.35%	3
5	SXL	SOUTHERN CROSS MEDIA GROUP LIMITED	0.703	0.780	-9.87%	4
6	RHC	RAMSAY HEALTH CARE LIMITED	48.487	52.740	-8.06%	6
7	LTM	ARCADIUM LITHIUM PLC	6.560	7.088	-7.45%	5
8	PMT	PATRIOT BATTERY METALS INC	1.000	1.070	-6.54%	5
9	CRN	CORONADO GLOBAL RESOURCES INC	1.750	1.860	-5.91%	5
10	LTR	LIONTOWN RESOURCES LIMITED	1.092	1.142	-4.38%	6

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	AIS	AERIS RESOURCES LIMITED	6.167	-0.967	737.75%	3
2	ASB	AUSTAL LIMITED	13.350	4.667	186.05%	3
3	CMM	CAPRICORN METALS LIMITED	32.800	19.950	64.41%	3
4	BGL	BELLEVUE GOLD LIMITED	9.867	6.700	47.27%	3
5	DOW	DOWNER EDI LIMITED	38.550	27.000	42.78%	3
6	GYG	GUZMAN Y GOMEZ LIMITED	11.800	8.467	39.36%	3
7	RHC	RAMSAY HEALTH CARE LIMITED	168.500	127.620	32.03%	6
8	PMT	PATRIOT BATTERY METALS INC	-14.384	-17.989	20.04%	5
9	RMC	RESIMAC GROUP LIMITED	12.167	10.400	16.99%	3
10	GMD	GENESIS MINERALS LIMITED	15.400	13.625	13.03%	4

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	MIN	MINERAL RESOURCES LIMITED	-7.014	18.267	-138.40%	7
2	DEG	DE GREY MINING LIMITED	-1.200	-0.700	-71.43%	4
3	CRN	CORONADO GLOBAL RESOURCES INC	7.838	11.428	-31.41%	5
4	WHC	WHITEHAVEN COAL LIMITED	69.200	90.029	-23.14%	6
5	HLS	HEALIUS LIMITED	3.300	3.940	-16.24%	5
6	NIC	NICKEL INDUSTRIES LIMITED	3.854	4.557	-15.43%	5
7	ORA	ORORA LIMITED	15.200	17.025	-10.72%	4
8	DGL	DGL GROUP LIMITED	5.600	6.200	-9.68%	3
9	HVN	HARVEY NORMAN HOLDINGS LIMITED	33.367	35.975	-7.25%	5
10	GNC	GRAINCORP LIMITED	29.960	31.300	-4.28%	5

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: Momentum Is Building

Will the market increasingly look to the disconnect between U308 spot versus contract term prices as a buy signal for sold down uranium equities?

-Utilities active in the term uranium market
-World Nuclear Symposium attracts record attendees
-Petra beats the uranium stock drum (again)

By Danielle Ecuyer

Spot market not telling the whole picture

Petra Capital homes in on the prominent divergence between the term price for U308 which the broker notes rose in August, again, bringing the year-to-date increase to 19% against the Sprott Uranium Miners ETF, (URNM:NYSE) which is down -16% since May.

The analyst highlights contract volumes around 42mlbs, which are relatively low alongside the 19% term price increase.

By comparison, TradeTech's U308 spot price indicator rose US$1.50 to US$80.50 last week, with the price up 30% since 2024 but down -13% since the start of the year.

A casual observer might assess uranium equities are following the U308 spot price down, and the market has turned a blind eye to the more resilient and robust term price.

Industry consultant TradeTech also notes increased interest in the term uranium market with utilities "mirroring" the buying activity of previous weeks as they seek to capitalise on the lower "forward price curve" due to the recent spot price falls.

Expectations of lower interest rates have raised the possibility of the 'carry trade'. TradeTech states it was employed extensively in the 2010s when the spot market was oversupplied and interest rates were at historic lows.

Utilities were most active in the midterm market, picking up one-off' deals. TradeTech's Mid-Term U308 price indicator stood at US$86/lb and the Long-Term U308 price indicator at US$82lb.

Nuclear energy knowledge in demand

Petra Capital expects contract volumes to increase into the end of 2024 as longer-term demand and supply dynamics were reinforced at last week's World Nuclear Symposium in London.

Notably, TradeTech reports there were a record number of attendees (800 delegates) at the symposium including new participants from the financial community and energy end users, as well as representatives from the data and Gen AI industries.

The conference theme says it all **"Turning Momentum into Energy"** with the nuclear industry at a crossroads of translating policy momentum into nuclear energy production.

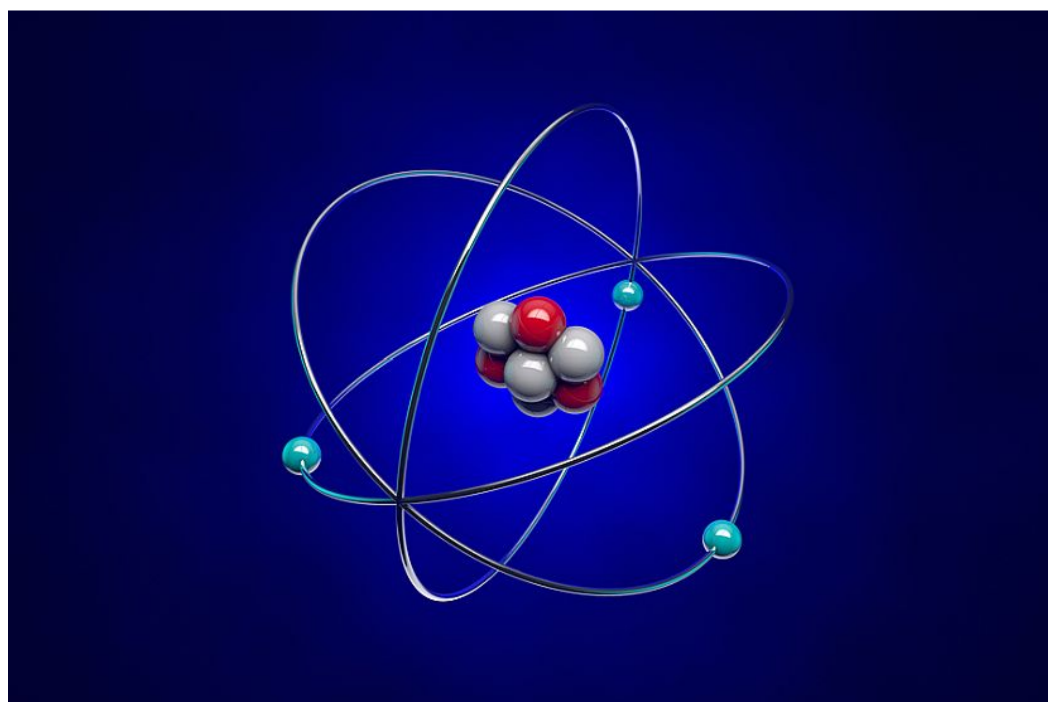
Al Hammadi, Chairman of the World Nuclear Association, which hosted the event, stated at his opening speech *"The demand is serious, it's huge, and coming very, very fast"* in relation to the demand for electricity generation, particularly from data centres and AI.

To capitalise on the opportunities, Al Hammadi added *"build bridges to enable lawyers, the banks, the technology players, the utilities, and the politicians to understand this narrative of what we can do"*.

The conference touched on many aspects of the industry, including geopolitical tensions as well as the advancement of new technologies to support both large-scale and small modular reactors.

Interestingly, the inclusion of nuclear in the clean energy/ESG community has opened a new audience. UBS

Global Head of ESG and Sustainability Research stated, **"The quality of one unit of nuclear versus one unit of anything else is far superior."**



Lotus Resources moves forward

Petra Capital continues to beat the drum for uranium stocks which the broker believes are offering a very attractive risk/reward investment proposition due to high levels of short interest combined with the inability for incumbent producers to increase supply quickly and easily.

The evidence of contract pricing was reflected in the Lotus Resources ((LOT)) announcement last week. The company secured a first of two expected multiple off-take agreements. Curzon Uranium has a 0.700mlb binding agreement with a further 0.2mlb based on the long-term contract price (US$80lb) with an escalation from first delivery (around 3% p.a. forecast over four years). A US$15m debt facility was also offered.

North American utility PSEG nuclear has agreed to a non-binding term sheet for 0.8mlb of uranium, conditional on the execution of a full-form document in the next four months with the decision to restart Kayelekera.

Petra estimates the 1.5mlb of contracted supply equates to around 20% of estimated production between 2026-2029.

Four broker including non-daily monitored ones Petra Capital and Canaccord Genuity have a Buy equivalent rating on Lotus Resources post the market update. The highest price target at 70c comes from Bell Potter with Petra offering the lowest at 37c.

Petra's preferred exposure in the uranium sector, all Buy rated, are Bannerman Energy ((BMN)), $4.51 target price; Aura Energy ((AEE), target price 45c; Alligator Energy ((AGE)), target price $10c as well as Devex Resources ((DEV)).

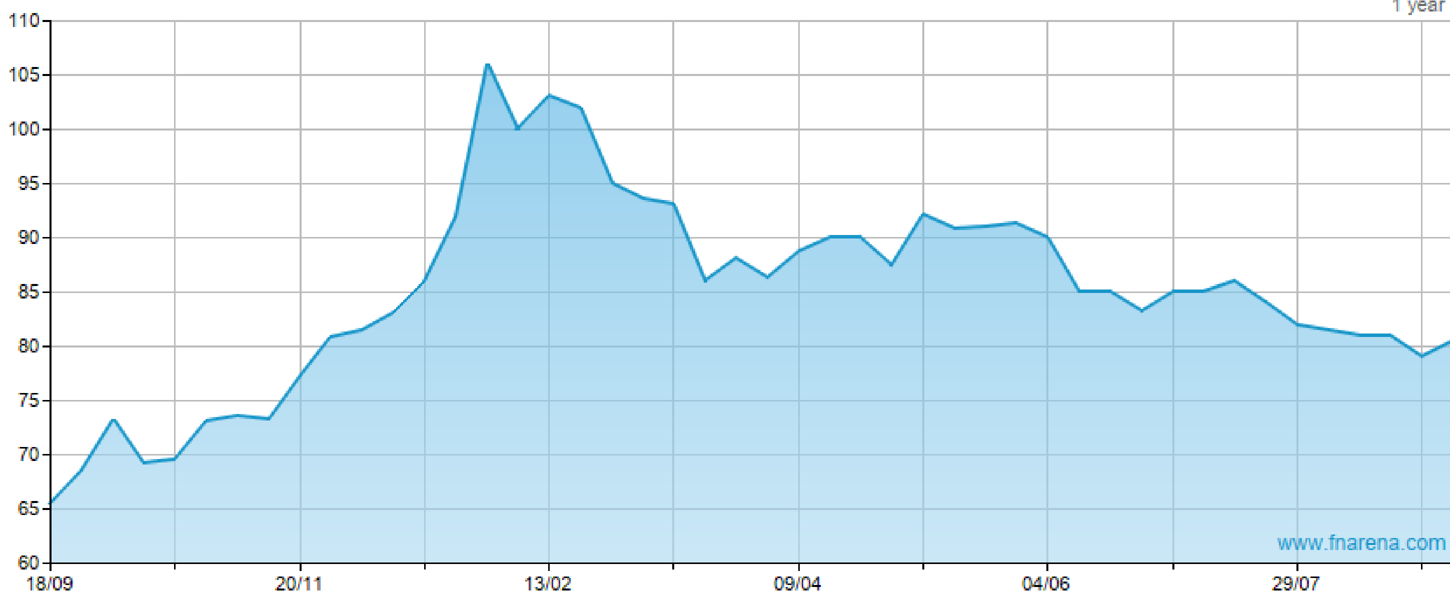
Short interests reported in the FNArena Short Report as of Sept 2 are 9.5% for Boss Energy ((BOE)); 8.36% for Deep Yellow ((DYL)); 7.17% for Lotus Resources ((LOT)) and 7.84% for Paladin Energy ((PDN)).

FNArena's The Short Report: https://fnarena.com/index.php/analysis-data/the-short-report/

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	06/09/2024	0.0400	▼-20.00%	$0.19	$0.04			
AEE	06/09/2024	0.1100	▼-11.54%	$0.36	$0.11			
AGE	06/09/2024	0.0400	▼- 7.14%	$0.08	$0.03		$0.100	▲150.0%
AKN	06/09/2024	0.0100	0.00%	$0.07	$0.01			
ASN	06/09/2024	0.0900	▼- 5.10%	$0.20	$0.07			

BKY	06/09/2024	0.3550	0.00%	$0.45	$0.26			
BMN	06/09/2024	1.9500	▼-13.17%	$4.87	$1.90		$7.400	▲279.5%
BOE	06/09/2024	2.4400	▼-10.26%	$6.12	$2.38	20.2	$4.863	▲99.3%
BSN	06/09/2024	0.0300	▼- 3.13%	$0.21	$0.02			
C29	06/09/2024	0.0700	0.00%	$0.12	$0.06			
CXO	06/09/2024	0.0800	▼- 9.78%	$0.45	$0.08		$0.093	▲16.7%
CXU	06/09/2024	0.0100	0.00%	$0.06	$0.01			
DEV	06/09/2024	0.1400	▼-23.08%	$0.45	$0.14			
DYL	06/09/2024	0.9400	▼-13.36%	$1.83	$0.91	-66.4	$1.770	▲88.3%
EL8	06/09/2024	0.2800	▼-11.11%	$0.68	$0.26			
ERA	06/09/2024	0.0100	▲20.00%	$0.08	$0.00			
GLA	06/09/2024	0.0100	0.00%	$0.04	$0.01			
GTR	06/09/2024	0.0030	▲33.33%	$0.02	$0.00			
GUE	06/09/2024	0.0500	▼-16.67%	$0.18	$0.05			
HAR	06/09/2024	0.0400	▼-20.00%	$0.28	$0.03			
I88	06/09/2024	0.4500	▼-14.29%	$1.03	$0.14			
KOB	06/09/2024	0.1300	0.00%	$0.18	$0.06			
LAM	06/09/2024	0.7400	▲ 5.71%	$1.04	$0.56			
LOT	06/09/2024	0.2100	▼- 8.70%	$0.49	$0.20		$0.710	▲238.1%
MEU	06/09/2024	0.0400	▼- 7.50%	$0.06	$0.03			
NXG	06/09/2024	7.9300	▼- 8.92%	$13.66	$7.89		$16.200	▲104.3%
ORP	06/09/2024	0.0700	▲40.00%	$0.12	$0.04			
PDN	06/09/2024	8.3700	▼-13.23%	$17.98	$8.15	13.9	$16.088	▲92.2%
PEN	06/09/2024	0.0700	▼-10.26%	$0.15	$0.07	23.3	$0.260	▲271.4%
PNX	06/09/2024	0.0040	▼-25.00%	$0.01	$0.00			
SLX	06/09/2024	3.5400	▼- 8.29%	$6.74	$2.93		$7.200	▲103.4%
TOE	06/09/2024	0.2000	0.00%	$0.70	$0.01			
WCN	06/09/2024	0.0200	▲33.33%	$0.02	$0.01			



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WEEKLY REPORTS

The Short Report - 12 Sep 2024

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

Summary:

Week Ending September 5th, 2024 (most recent data available through ASIC).

10%+

PLS 20.37
IEL 13.96
SYR 12.87
LTR 10.68
LYC 10.68
CHN 10.36
CTT 10.91
PDN 10.12
STX 10.09

In: PDN

9.0-9.9%

SYA
BOE

8.0-8.9%

DYL
MIN

7.0-7.9%

LOT
ACL
SEK

In: ACL Out: ADT, GMD, PDN, WBT

6.0-6.9%

GMD
ADT
SFR
FLT
NUF
KAR
OBL
CXO
LIC

In: ADT, GMD, CXO, KAR Out: ACL, BGL

5.0-5.9%

WBT
BGL
HLS

CUV
DXS
IMU
NAN
CTD
RIO
NVX
WEB
IFL
BOQ
VUL
IDX
A2M
DMP
AX1

In: AX1, BGL, DMP, DXS, IMU, WBT Out: CXO, KAR

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.7	0.6	NAB	0.7	0.7
ANZ	0.6	0.5	QBE	0.4	0.3
BHP	0.5	0.5	RIO	5.3	5.3
CBA	1.5	1.5	STO	1.0	1.1
COL	0.8	0.7	TCL	0.8	0.8
CSL	0.3	0.4	TLS	0.3	0.4
FMG	1.5	1.0	WBC	0.8	0.7
GMG	0.8	0.9	WDS	1.7	1.3
JHX	1.0	1.2	WES	1.0	1.1
MQG	0.7	0.6	WOW	0.4	0.4

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: Banks vs Miners, MinRes, Paladin & Steadfast

Volatility is proving to be the name of the game in September with this week proving to be no exception.

-Insurance brokers down but not out
-Banks on a roll
-Mineral Resources grabs debt by the horns
-Paladin Energy set to be a global giant

By Danielle Ecuyer

Quote of the week comes from UBS Group AG CEO, Sergio Ermotti regarding inflation:

"There is a lot of stickiness in part of the inflation, but consumers are holding up pretty well"

"I would say for the time being the outlook is pretty consistent with a soft landing, and so we remain somehow positive on the situation".

Four Corners, A storm in a teacup?

This week's Four Corners delved into the world of strata management in Australia's most beloved of sectors, residential property.

The report put forward several allegations which placed Steadfast Group ((SDF)) in the cross hairs of alleged misconduct in the industry, including cosy relationships between strata managers, builders, repairers, insurance brokers and the company's alleged market dominance.

Jarden came out all guns blazing, well metaphorically at least, to wash down some of the allegations that were made in the program.

Notably, the analyst contested the claim that Steadfast has a dominant market position of 40% for brokers and 55% for agencies, as asserted by Four Corners.

The analyst estimates Steadfast's EBITDA exposure to strata at 5% for broking and 13% for agencies. In contrast, Jarden estimates AUB Group ((AUB)) has 18% of the strata market share for agencies with broking less than 1%, or EBIT exposure of 8% for agencies.

ACCC Chair Cass-Gottlieb not only pointed to claims on Steadfast's market dominance as surprising, but called for commissions paid to strata managers from brokers to be banned.

Jarden points to banning of commissions as a net positive for the end consumer as commissions result in higher revenue to strata managers and higher premiums to the strata property owners. Unwinding them would be a net neutral to Steadfast and AUB's broking and agency business with the consumer being the beneficiary.

Regarding increased disclosure laws, the broker believes Steadfast's small bolt-on acquisitions would not fall under the M&A disclosure requirements to come into effect in January 2026. The analyst also asserts a broad review of broker commissions is unlikely given the results from the Quality of Advice Review (Fed 2023) and the Hayne Royal Commission in Feb 2019 which found the structure to benefit both the client and insurer.

Steadfast has retained its FY25 net profit guidance. Jarden has an Overweight rating with a $5.32 target price. AUB is also equivalent Buy rated with a $29.92 target. PSC Insurance Group ((PSI)), which is about to be gobbled up, is Neutral rated, with a $6.10 target price.

Who do you love, Banks or Miners?

UBS takes on a BIG topic for investors, where to turn when the optics for over 50% of the ASX200 market capitalisation is beset by either valuation concerns or an adverse macro environment.

While smaller investors don't need to construct a portfolio around the index, larger fund managers don't have that pleasure, and as our esteemed Editor likes to say careers are made and broken on bets around the two largest sectors, banks and miners.

How do you choose when "both sectors are unappealing"?

The UBS strategist points out bank shares have under-performed miners on a 10-year basis, so the 30% rally this year compares to a fall in miners down -20% might be a change of a leadership trend which historically tend to last for five years.

The question of bank valuations is also under the microscope. UBS highlights "stretched" valuations are not only applicable to Australian banks and when compared to non-financial, non-resource stocks on the market, the bank valuations align with the years of 2013-2016. Excluding CommBank ((CBA)) from the index, the remaining banks are trading around mid-cycle valuations.

Turning to miners, UBS states it's a "prerequisite" that commodity prices should be rising for miners to outperform and there is no reason to suggest this time is different. From a macro standpoint, the outlook for the Chinese economy remains downbeat, with UBS economists revising down forecasts for property sales, consumption and GDP.

A somber backdrop and lack of momentum appears to be holding back large miners. Against this, UBS emphasises it will be difficult for miners' share prices to "detach".

Most interestingly, the UBS quant analysts reveal investors have only recently removed their "long positions" in miners and remain "crowded" short banks.

The word 'ouch' springs to mind.

As for valuations, UBS is not the first commentator to remind investors that valuation is a poor market timing measure. In this case, bank valuations can stay relatively higher compared to miners for longer than most of us would remain solvent.

Mineral Resources shakes its thang

Who said markets don't move to the extreme?

In the case of Mineral Resources ((MIN)), Foreign Investment Review Board approval for the sale of a 49% stake in the Onslow iron haul road to Morgan Stanley Infrastructure Partners alongside the deferral of $180m in capex and cut in opex of $120m couldn't come soon enough for weary shareholders.

CFO Mark Wilson in a sell side round table also conducted a hand holding exercise to literally exorcise the debt demons from the analysts' narratives.

Wilson reaffirmed Mineral Resources still has levers at hand to increase liquidity; US bonds are covenant light and the $800m revolving debt facility is the only one with security over $10bn in assets. Onslow ramp up is progressing well and the 2H25 will see a return to positive cashflow after a challenging 1H25 negative cashflow period.

Management also highlighted mining services continue to perform well and the growth outlook for both internal and external works is robust.

Barrenjoey remains Buy equivalent rated with a price target of $56.50. FNArena's daily monitored brokers have an average target price of $52.929 with Morgan Stanley at $70 alongside a Buy equivalent rating.

Fission Uranium makes Paladin's day

Paladin Energy ((PDN)) was highlighted this week by Canaccord Genuity as Fission Uranium Corp shareholders approved the proposed takeover by Paladin.

The broker believes this is a very positive development for the company which will enable Paladin to expand its scale and underwrite medium-term production growth.

Post acquisition, Paladin will become the third-largest listed uranium resource owner globally at 544mlbs.

Management is aiming for 6mlb p.a. from Langer Heinrich with full production in FY26 and 9.1mlbp.a. from Patterson Lake South, ramping in FY29. Fission expects construction at Patterson to commence un 2027 at a cost of CA$1.16bn with a debt/equity funding mix, the broker believes.

Canaccord is Buy rated with a $16.50 target price. FNArena daily monitored brokers have an average target price of $14.925 with four Buy equivalent ratings.

If you haven't caught up with FNArena's Uranium Weekly, there has been extensive coverage on the outlook for uranium companies including Paladin.

https://fnarena.com/index.php/2024/09/10/uranium-week-momentum-is-building/

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 13-09-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

DOMAIN HOLDINGS AUSTRALIA LIMITED ((DHG)) Upgrade to Buy from Overweight by Jarden.B/H/S: 0/0/0

Following the reporting season, Jarden highlights consensus EPS revisions across FY25-27 were downwards to varying degrees for the four main online classifieds companies. On the other hand, valuation multiples have risen for all except Domain Holdings Australia.

Rather than volumes, the broker suggests an ability to grow yield is the key driver of long-term value for online classifieds businesses, noting yield growth was strong across FY24 for all four, and well ahead of inflation.

The analysts expect yields will continue to grow well above the rate of inflation for REA Group, CAR Group, Seek and Domain, demonstrating the pricing power across these exposures.

Jarden lowers its target for Domain Holdings Australia to $3.35 from $3.40, but upgrades to Buy from Overweight following recent share price underperformance.

GOODMAN GROUP ((GMG)) Upgrade to Buy from Neutral by Jarden.B/H/S: 0/0/0

Jarden raises its target for Goodman Group to $40 from $37.60 and upgrades to Buy from Neutral after the share price underperformed the REIT sector by -10% over the last three months.

This equity price decline contrasts with growing visibility of both duration and magnitude of earnings, suggests the broker, driven by the group's $85bn Data Centre development pipeline.

On the topic of potential execution risk, the analysts point to Goodman's history of managing risk through pre-commitments, strong capital partnerships and a prudent approach to capital management and project selection.

PLATINUM ASSET MANAGEMENT LIMITED ((PTM)) Upgrade to Neutral from Underweight by Jarden.B/H/S: 0/0/0

Jarden observes Platinum Asset Management reported weaker than forecast FY24 earnings because of softer revenue and one-off costs.

Although ongoing funds outflows are anticipated, the analyst believes Platinum Asset Management has done a commendable job in right sizing the business, including -$25m in cost outs planned for FY25.

The broker revises EPS forecasts by 5% for FY25 and -9% for FY26. Upgraded to Neutral from underweight. Target price $1 from $1.05.

Downgrade

CHARTER HALL GROUP ((CHC)) Downgrade to Hold from Buy by Moelis.B/H/S: 0/0/0

Charter Hall, on behalf of Charter Hall Retail REIT ((CQR)) and a trust managed on behalf of Hostplus (50:50 basis), has lodged an on-market takeover bid to acquire 100% of Hotel Property Investments ((HPI)) for

$3.65/share.

According to the target's board, the bid represents a -10% discount to net tangible assets (NTA) and should be rejected by shareholders.

Following the recent share price rally, Moelis downgrades its rating for Charter Hall to Hold from Buy. The unchanged target is $3.89.

CARNARVON ENERGY LIMITED ((CVN)) Downgrade to Overweight from Buy by Jarden.B/H/S: 0/0/0

Jarden adjusts the outlook for Carnarvon Energy on the back of recent commentary from Santos ((STO)) on Dorado.

The analyst points at frustration around the fact the operator of the company's key asset is flagging a challenging environment, including the decision to lower the risk weighting on Dorado to 75% from 100%.

Jarden maintains its forecasts for the final investment decision date in 2026 and first production in 2030.

Rating downgraded to Overweight from Buy. Target price moves to 21c from 24c.

IMPEDIMED LIMITED ((IPD)) Downgrade to Speculative Buy from Buy by Canaccord Genuity.B/H/S: 0/0/0

Upon further reflection on FY24 results, Canaccord Genuity lowers its target for ImpediMed to 9c from 14c and downgrades to Speculative Buy from Buy.

The analyst adopts a more conservative approach to the cadence of installed base growth, and on management's ability to drive SaaS pricing increases. Unfortunately, payor wins have not been sufficient to drive Sozo unit sales, explains Canaccord.

Over the last year, the analyst suggests material disruption at both management and board level may have negatively impacted the sales/strategy planning and execution.

The broker's initial take on FY24 results is summarised below.

FY24 results for ImpediMed were in line with quarterly reporting in July. However, Canaccord Genuity suggests share price pressure reflects a level of impatience as investors await sales execution, with a material uplift in new installed Sozo units remaining elusive.

Management highlighted actions to manage cash burn including a FY25 operating cash spend -10% lower than the FY24 level.

The broker suggests management's aim to be breakeven by July 2025 is very optimistic, and the analyst's forecasts assume a capital injection.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	DOMAIN HOLDINGS AUSTRALIA LIMITED	Buy	Buy	Jarden
2	GOODMAN GROUP	Buy	Neutral	Jarden
3	PLATINUM ASSET MANAGEMENT LIMITED	Neutral	Sell	Jarden
Downgrade				
4	CARNARVON ENERGY LIMITED	Buy	Buy	Jarden
5	CHARTER HALL GROUP	Neutral	N/A	Moelis
6	IMPEDIMED LIMITED	Buy	Buy	Canaccord Genuity

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
AND	Ansarada Group	$2.49	Canaccord Genuity	N/A	2.20	-100.00%
APE	Eagers Automotive	$10.11	Canaccord Genuity	11.00	11.70	-5.98%
ARB	ARB Corp	$43.65	Canaccord Genuity	38.30	35.60	7.58%
			Wilsons	47.85	47.52	0.69%
ASB	Austal	$2.17	Petra Capital	3.21	3.33	-3.60%
ASX	ASX	$64.50	Jarden	59.75	61.25	-2.45%
BKT	Black Rock Mining	$0.05	Petra Capital	0.21	0.20	5.00%

CAR	CAR Group	$37.30	Jarden	31.25	28.00	11.61%
CMM	Capricorn Metals	$5.69	Canaccord Genuity	6.50	6.65	-2.26%
			Goldman Sachs	5.55	5.25	5.71%
			Jarden	6.29	6.28	0.16%
CVN	Carnarvon Energy	$0.15	Jarden	0.21	0.24	-12.50%
DDR	Dicker Data	$9.04	Petra Capital	10.71	11.29	-5.14%
DGL	DGL Group	$0.49	Canaccord Genuity	0.51	0.60	-15.00%
DHG	Domain Holdings Australia	$2.84	Jarden	3.35	3.40	-1.47%
DOW	Downer EDI	$5.66	Goldman Sachs	5.50	4.80	14.58%
FCL	Fineos Corp	$1.41	Goldman Sachs	1.65	1.90	-13.16%
FEX	Fenix Resources	$0.26	Petra Capital	0.44	0.48	-8.33%
FFM	FireFly Metals	$0.88	Moelis	1.15	1.00	15.00%
FSG	Field Solutions	$0.02	Canaccord Genuity	0.07	0.11	-36.36%
GDG	Generation Development	$2.84	Petra Capital	2.95	2.78	6.12%
GMG	Goodman Group	$34.54	Jarden	40.00	37.60	6.38%
HVN	Harvey Norman	$4.71	Jarden	4.60	4.80	-4.17%
IPD	ImpediMed	$0.05	Canaccord Genuity	0.09	0.14	-35.71%
JBH	JB Hi-Fi	$82.31	Jarden	64.80	50.50	28.32%
KED	Keypath Education International	$0.87	Canaccord Genuity	N/A	1.10	-100.00%
LOT	Lotus Resources	$0.27	Petra Capital	0.37	0.41	-9.76%
MTO	Motorcycle Holdings	$1.67	Moelis	2.37	1.97	20.30%
MYE	Metarock Group	$0.19	Petra Capital	0.36	0.35	2.86%
NXT	NextDC	$17.03	Canaccord Genuity	18.85	18.50	1.89%
			Goldman Sachs	18.50	19.00	-2.63%
OBM	Ora Banda Mining	$0.57	Canaccord Genuity	0.65	0.51	27.45%
PMV	Premier Investments	$33.92	Jarden	29.80	30.80	-3.25%
PTM	Platinum Asset Management	$0.97	Jarden	1.00	1.05	-4.76%
QBE	QBE Insurance	$16.55	Goldman Sachs	20.00	21.00	-4.76%
REA	REA Group	$199.36	Jarden	164.00	161.00	1.86%
			Jarden	170.00	161.00	5.59%
RHC	Ramsay Health Care	$40.20	Jarden	48.22	64.30	-25.01%
SFR	Sandfire Resources	$8.89	Goldman Sachs	8.20	8.50	-3.53%
SMR	Stanmore Resources	$2.67	Petra Capital	5.32	5.46	-2.56%
SVW	Seven Group	$41.18	Goldman Sachs	45.90	43.90	4.56%
SYA	Sayona Mining	$0.03	Petra Capital	0.14	0.15	-6.67%
WES	Wesfarmers	$70.38	Jarden	61.20	60.70	0.82%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

ASB AUSTAL LIMITED

Commercial Services & Supplies Overnight Price: $2.13

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

Petra Capital assesses Austal's underlying FY24 performance was positive and points out the EBIT margin is already trending higher. Support division revenues and margin were higher, while US shipbuilding delivered a 2.9% margin on lower revenue.

A 424bps EBIT margin gain to 3.9% more than offset lower revenue and higher D&A and interest expenses, explains the broker.

Petra Capital reiterates a Buy rating and the target slips to $3.21 from $3.33.

This report was published on September 2, 2024.

Target price is **$3.21** Current Price is **$2.13** Difference: **$1.08**
If **ASB** meets the Petra Capital target it will return approximately **51%** (excluding dividends, fees and charges).

Current consensus price target is **$3.13**, suggesting upside of **49.0%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

> Petra Capital forecasts a full year **FY25** dividend of **3.00** cents and EPS of **11.60** cents.
> At the last closing share price the estimated dividend yield is **1.41%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **18.36**.
>
> How do these forecasts compare to market consensus projections?
>
> Current consensus EPS estimate is **13.4**, implying annual growth of **226.8%**.
> Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
> Current consensus EPS estimate suggests the PER is **15.7**.

Forecast for FY26:

> Petra Capital forecasts a full year **FY26** dividend of **14.50** cents and EPS of **28.70** cents.
> At the last closing share price the estimated dividend yield is **6.81%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **7.42**.
>
> How do these forecasts compare to market consensus projections?
>
> Current consensus EPS estimate is **18.0**, implying annual growth of **34.3%**.
> Current consensus DPS estimate is **2.0**, implying a prospective dividend yield of **1.0%**.
> Current consensus EPS estimate suggests the PER is **11.7**.

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

DDR DICKER DATA LIMITED

Hardware & Equipment Overnight Price: $8.90

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

Overall, the 1H performance by Dicker Data was positive and should continue to improve over the next 18 months, according to Petra Capital.

The broker highlights a 2Q growth rate of 8.3% reflected increasing demand across several product categories and further market share gains.

For H2, management expects both revenue and profits will return to growth, driven by the much-anticipated PC refresh, suggests the broker.

Buy retained, and target rises to $10.71 from $10.41.

This report was published on September 2, 2024.

Target price is **$10.71** Current Price is **$8.90** Difference: **$1.81**
If **DDR** meets the Petra Capital target it will return approximately **20%** (excluding dividends, fees and charges).
Current consensus price target is **$10.57**, suggesting upside of **19.5%**(ex-dividends)
The company's fiscal year ends in December.

Forecast for FY24:

> Petra Capital forecasts a full year **FY24** dividend of **45.50** cents and EPS of **45.40** cents.
> At the last closing share price the estimated dividend yield is **5.11%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **19.60**.
>
> How do these forecasts compare to market consensus projections?
>
> Current consensus EPS estimate is **45.2**, implying annual growth of **-0.9%**.
> Current consensus DPS estimate is **43.6**, implying a prospective dividend yield of **4.9%**.
> Current consensus EPS estimate suggests the PER is **19.6**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **57.50** cents and EPS of **57.70** cents.
At the last closing share price the estimated dividend yield is **6.46%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **15.42**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **51.2**, implying annual growth of **13.3%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **17.3**.

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

MTO MOTORCYCLE HOLDINGS LIMITED

Automobiles & Components Overnight Price: $1.66

Moelis rates ((MTO)) as Buy (1)

Motorcycle Holdings reported FY24 results which came in at the upper end of guidance.

Moelis observes revenue met expectations while gross profit margins were slightly lower than anticipated at 26%, against 27% in FY23.

The broker highlights what appears to be some demand recovery post a prolonged period of weakness from Nov 2023 to April 2024, which infers the market might be bottoming.

Management is looking to cost out initiatives for FY25 as well as an improvement in margins.

The analyst lifts EPS forecasts by 20% in FY25 and 30% in FY26. Buy rating unchanged. Target price $2.37.

This report was published on September 2, 2024.

Target price is **$2.37** Current Price is **$1.66** Difference: **$0.715**
If **MTO** meets the Moelis target it will return approximately **43%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

Moelis forecasts a full year **FY25** dividend of **10.40** cents and EPS of **18.90** cents.
At the last closing share price the estimated dividend yield is **6.28%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **8.76**.

Forecast for FY26:

Moelis forecasts a full year **FY26** dividend of **11.20** cents and EPS of **19.90** cents.
At the last closing share price the estimated dividend yield is **6.77%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **8.32**.

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

NXG NEXGEN ENERGY LIMITED

Uranium Overnight Price: $8.01

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

Petra Capital believes NexGen Energy's Rook 1 project is the best underdeveloped uranium project globally, however the company does not have permits which means production is unlikely until FY30, the analyst states.

Management has guided to FY28 production with recent drilling results pointing to another deposit with equivalent ultra high-grade core.

The broker attaches a 30% premium to the net present value and target price, as it is not believed the asset will stay under control of a junior developer.

Buy rated. Target price $12.15.

This report was published on September 6, 2024.

Target price is **$12.15** Current Price is **$8.01** Difference: **$4.14**
If **NXG** meets the Petra Capital target it will return approximately **52%** (excluding dividends, fees and charges).

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

PDN PALADIN ENERGY LIMITED

Uranium Overnight Price: $9.79

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

In a highly positive development for Paladin Energy, suggests Canaccord Genuity, Fission Uranium shareholders have approved the proposed acquisition by Paladin. The company now becomes the third-largest listed uranium resource owner globally with 544mlbs.

The transaction not only builds scale and provides medium-term production growth, highlights the broker, but also will likely result in bringing Paladin down the cost curve.

Buy rating and $16.50 target.

This report was published on September 10, 2024.

Target price is **$16.50** Current Price is **$9.79** Difference: **$6.71**
If **PDN** meets the Canaccord Genuity target it will return approximately **69%** (excluding dividends, fees and charges).
Current consensus price target is **$14.93**, suggesting upside of **52.5%**(ex-dividends)

Forecast for FY25:

Current consensus EPS estimate is **50.3**, implying annual growth of **N/A**.
Current consensus DPS estimate is **2.2**, implying a prospective dividend yield of **0.2%**.
Current consensus EPS estimate suggests the PER is **19.5**.

Forecast for FY26:

Current consensus EPS estimate is **107.5**, implying annual growth of **113.7%**.
Current consensus DPS estimate is **35.8**, implying a prospective dividend yield of **3.7%**.
Current consensus EPS estimate suggests the PER is **9.1**.

This company reports in **USD**. All estimates have been converted into AUD by FNArena at present FX values.
Market Sentiment: **1.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

SGLLV RICEGROWERS LIMITED

Food, Beverages & Tobacco Overnight Price: $8.55

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

A highlight from the Ricegrowers AGM, according to Canaccord Genuity, was the $3bn aspirational target for 2030 revenue, which
suggests an 8% compound annual growth rate (CAGR).

"Following a strong year of growth in FY24, the SunRice Group will seek to repeat the exceptional performance at both the top and bottom line in FY25", noted management.

The broker rates Ricegrowers as Buy with an unchanged $10 target.

This report was published on September 6, 2024.

Target price is **$10.00** Current Price is **$8.55** Difference: **$1.45**
If **SGLLV** meets the Canaccord Genuity target it will return approximately **17%** (excluding dividends, fees and charges).
The company's fiscal year ends in April.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **55.00** cents and EPS of **104.00** cents.
At the last closing share price the estimated dividend yield is **6.43%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **8.22**.

Forecast for FY26:

Canaccord Genuity forecasts a full year **FY26** dividend of **57.00** cents and EPS of **105.00** cents.
At the last closing share price the estimated dividend yield is **6.67%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **8.14**.

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

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