WEEK 29

STORIES TO READ FROM FNArena

Friday, 19 July 2024

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Awaiting The Next Lithium Upswing

Rudi's View: Corporate Earnings, The Best Indicator?

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AUSTRALIA

The Market In Numbers - 13 Jul 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	13 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
NZ50	12134.970	2.88%	3.56%	3.56%	3.10%	3.56%
All Ordinaries	8206.10	1.69%	2.40%	2.40%	4.81%	2.40%
S&P ASX 200	7959.30	1.75%	2.47%	2.47%	4.85%	2.47%
S&P ASX 300	7898.40	1.75%	2.47%	2.47%	4.81%	2.47%
Communication Services	1539.20	2.94%	2.53%	2.53%	-3.09%	2.53%
Consumer Discretionary	3653.10	3.81%	4.03%	4.03%	12.74%	4.03%
Consumer Staples	12534.00	1.33%	1.26%	1.26%	1.81%	1.26%
Energy	10397.80	-0.40%	3.65%	3.65%	-2.12%	3.65%
Financials	7826.60	2.76%	2.21%	2.21%	16.49%	2.21%
Health Care	45255.50	2.32%	2.26%	2.26%	6.88%	2.26%
Industrials	6898.70	1.88%	1.28%	1.28%	0.48%	1.28%
Info Technology	2343.60	1.18%	0.09%	0.09%	27.86%	0.09%
Materials	17337.30	-0.57%	2.72%	2.72%	-11.05%	2.72%
Real Estate	3732.90	3.27%	4.76%	4.76%	11.51%	4.76%
Utilities	9114.10	-0.66%	-1.84%	-1.84%	11.42%	-1.84%
A-REITs	1701.30	3.27%	4.74%	4.74%	13.24%	4.74%
All Technology Index	3122.70	1.35%	-0.48%	-0.48%	15.91%	-0.48%
Banks	3295.20	3.54%	3.13%	3.13%	18.55%	3.13%
Gold Index	8051.80	7.09%	9.44%	9.44%	9.29%	9.44%
Metals & Mining	5710.10	-0.82%	2.88%	2.88%	-11.70%	2.88%

The World

Index	13 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
FTSE100	8252.91	0.60%	1.09%	1.09%	6.72%	1.09%
DAX30	18748.18	1.48%	2.81%	2.81%	11.92%	2.81%
Hang Seng	18293.38	2.77%	3.24%	3.24%	7.31%	3.24%
Nikkei 225	41190.68	0.68%	4.06%	4.06%	23.09%	4.06%
DJIA	40000.90	1.59%	2.25%	2.25%	6.13%	2.25%
S&P500	5615.35	0.87%	2.84%	2.84%	17.73%	2.84%
Nasdaq Comp	18398.45	0.25%	3.75%	3.75%	22.56%	3.75%

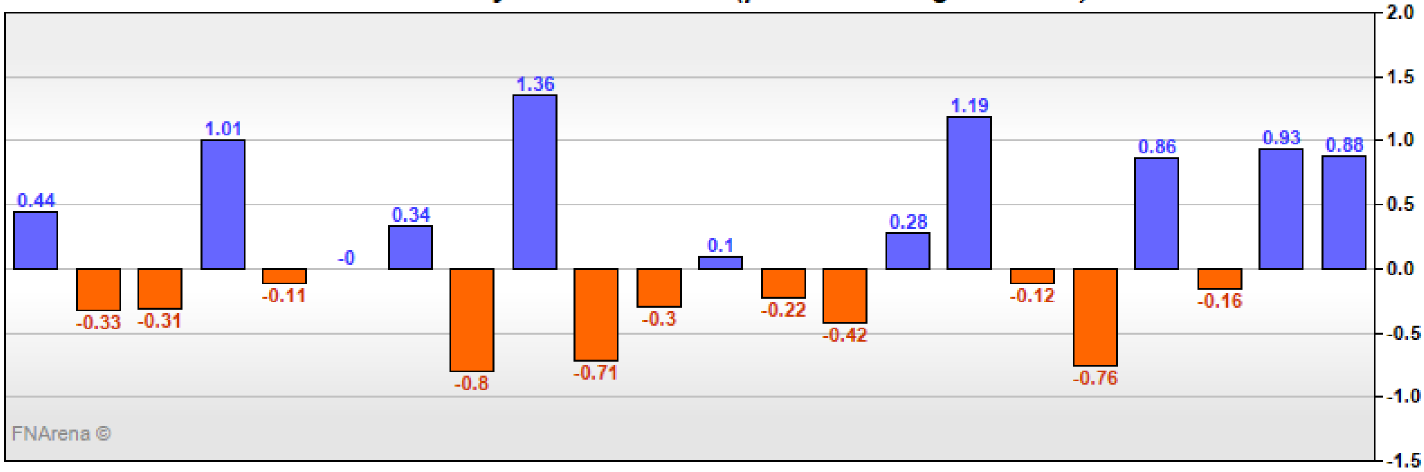
Metals & Minerals

Index	13 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
Gold (oz)	2420.90	2.35%	3.55%	3.55%	18.41%	3.55%
Silver (oz)	31.27	1.92%	6.91%	6.91%	28.26%	6.91%
Copper (lb)	4.5285	-0.82%	4.50%	4.50%	18.92%	4.50%
Aluminium (lb)	1.1142	-2.13%	-0.92%	-0.92%	14.59%	-0.92%
Nickel (lb)	7.5901	-2.40%	-2.42%	-2.42%	2.06%	-2.42%
Zinc (lb)	1.3302	-1.34%	0.31%	0.31%	18.28%	0.31%
Uranium (lb) weekly	85.00	0.00%	2.10%	2.10%	-1.16%	2.10%
Iron Ore (t)	109.58	-3.08%	2.88%	2.88%	-20.73%	2.88%

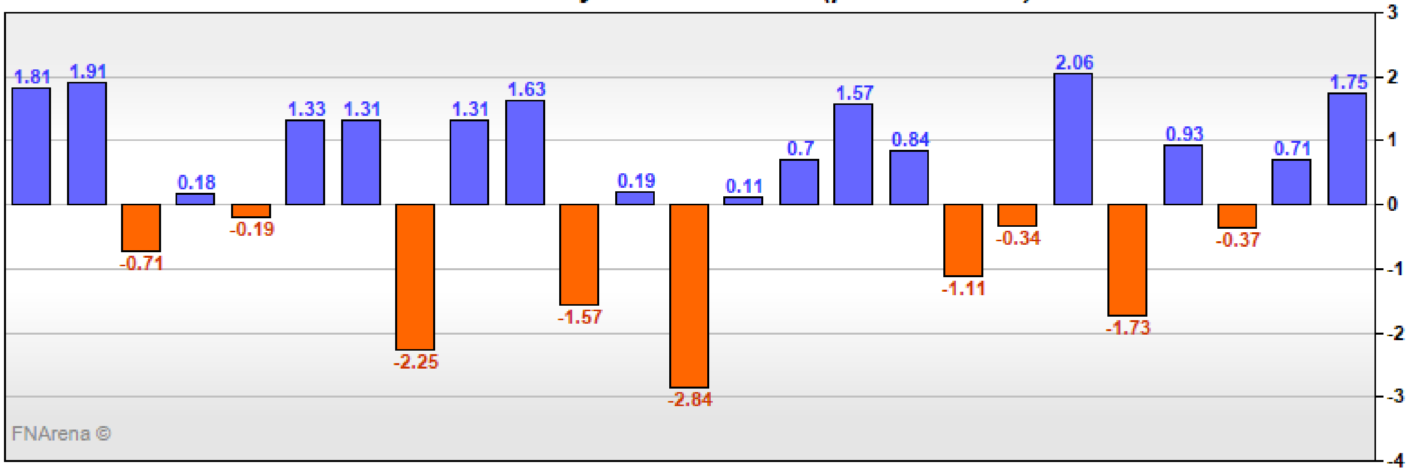
Energy

Index	13 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
West Texas Crude	82.94	-1.33%	1.32%	1.32%	12.37%	1.32%
Brent Crude	85.53	-2.32%	0.11%	0.11%	7.91%	0.11%

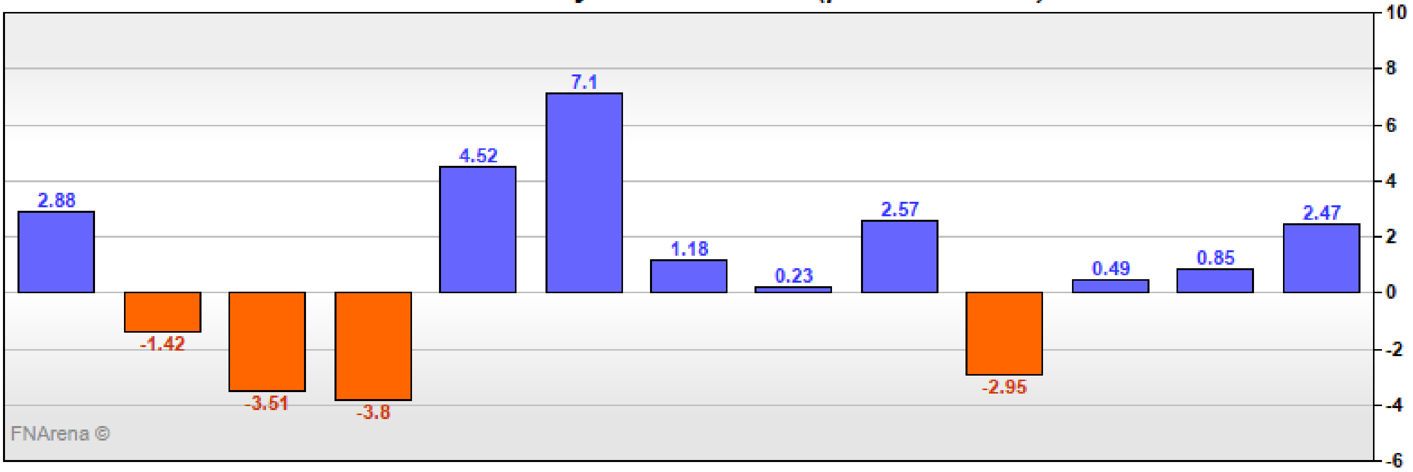
ASX200 Daily Movement in % (past 22 trading sessions)



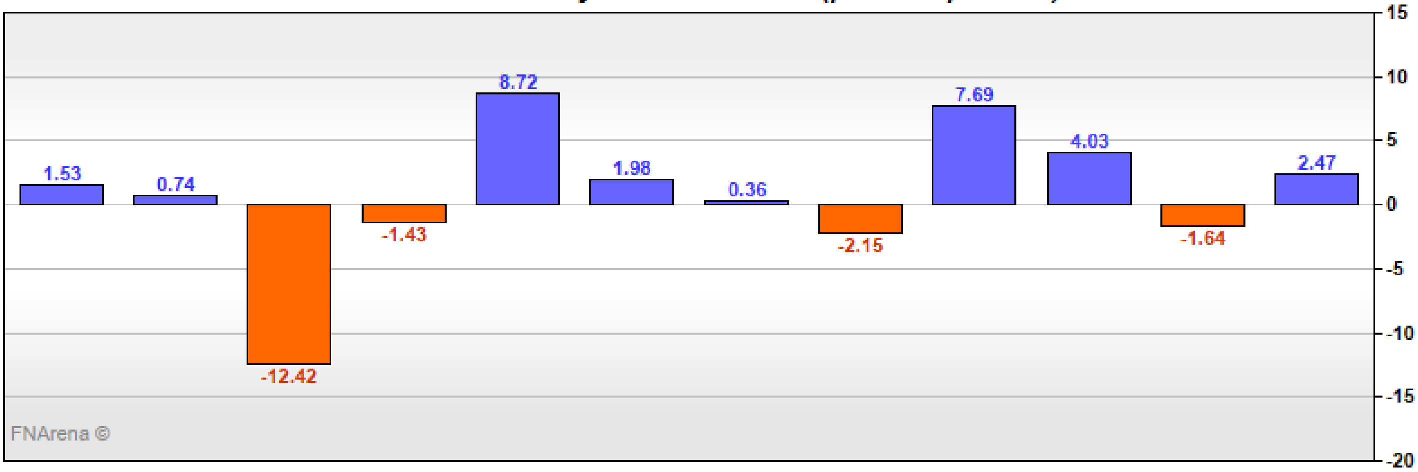
ASX200 Weekly Movement in % (past 25 weeks)



ASX200 Monthly Movement in % (past 13 months)



ASX200 Quarterly Movement in % (past 12 quarters)



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

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AUSTRALIA

Netwealth: Strong Flows & Lower Margin In FY25

Analysts raise price targets for Netwealth Group following very strong fourth quarter net fund flows and management's buoyant outlook commentary.

-Netwealth Group's fourth quarter flows exceed expectations
-Momentum strong as more client accounts/balances are transitioned
-Broker views vary on revenue margin compression
-Management confident on FY25 net inflow outlook

By Mark Woodruff

Brokers remain upbeat on the outlook for Netwealth Group ((NWL)) following stronger-than-expected fourth quarter net flows and expectations for increased flows over FY25 after management noted several significant client wins are in the early stages of transitioning.

While market movements were a drag on funds under administration (FuA) in the June quarter, and a lower cash balance weighed, the market opportunity for the financial platform disruptor remains substantial, according to Ord Minnett.

Netwealth has class-leading metrics, including strong cash flow and high returns on capital, notes the broker, and continues to grow market share at a rapid rate, while the environment for new business is also on the improve.

Enabling efficient administration of client portfolios in a single location, Netwealth Group provides financial intermediaries and their clients with a wealth management platform for superannuation (Netwealth Super Accelerator) and non-super investments on the Netwealth Wealth Accelerator.

Fourth quarter net fund flows rose by 19% on the previous corresponding period to $3.6bn, representing the **second highest quarter on record**, and well ahead of the $3.1bn forecast by consensus.

Rising gross inflows drove Netwealth's impressive performance, and UBS expects this momentum to continue as financial advisers transition more client accounts and balances onto the platform.

Opening of accounts is at multi-year highs (rising by 4% year-on-year to 143,300 in the quarter) and remains a very positive lead for future inflows, according to the broker.

Custodial Platform FuA also increased by 3.7% quarter-on-quarter to $87.6bn (up by 25% year-on-year) including a market movement of -$0.3bn.

This negative market movement reflects a high allocation to domestic equities (the ASX200 fell by -1.6% in the June quarter), even though other asset classes were broadly positive in the period, explains UBS.

Commenting prior to the fourth quarter update, Jarden noted how the stronger-for-longer RBA cash rate outlook over the quarter weighed on domestic investment returns.

The analysts highlighted how asset managers under Jarden's research coverage were benefiting relative to wealth platform providers as robust global equity returns were providing an offset.

Pooled cash balances averaged 5.9% over the quarter, down from 6.4% for the first half of the financial year.

Despite these lower cash holdings and market movements weighing on revenue margins, Wilsons points out underlying flow momentum continues to build.

This broker anticipates further support for the platform's medium-term flow trajectory as major transitions are layered-in throughout the first half of FY25, along with further competitor-forced migrations from the likes of

MLC Wrap ((IFL)), CFS FirstWrap, and Asgard ((WBC)) in the coming 6-18 months.

A $100bn FuA milestone is within management's sights, suggests Wilsons.

Revenue margin compression

While Sell-rated Citi sees upside to FY25 flows (it's a valuation thing), and potential for consensus upgrades to medium term-earnings forecasts, Citi also sees potential downside to near-term consensus earnings forecast.

This broker points out management continues to call out a lower revenue margin partly because of administration fee tiering, and would not be surprised by some profit taking heading into the **FY24 result on August 13**.

Flows from major transitions were limited in the fourth quarter, highlights Wilsons, demonstrating a healthy underlying flows number.

Given fourth quarter stability, Wilsons is unperturbed by some downward pressure on revenue margins in the second half of FY24, given the impacts of a positive market movement in the second quarter of FY24 and through the second half with fee-paying FUA growing by just 3 percentage points below the 25% year-on-year increase for Custodial FUA.

Outlook

Ord Minnett suggests the outlook remains very strong for Netwealth and forecasts an EPS compound annual growth rate (CAGR) of 24% over three years.

As this broker, management noted "*a number of significant transitions have commenced in Q4 FY2024. Many of these transitions are in the early stages, which provides us with a high level of confidence in the net inflow outlook for FY2025*".

Following the fourth quarter update, Netwealth Group's average target price in the FNArena Database of four covering brokers increased to $21.66 from $18.80, suggesting just over -2% downside to the latest share price.

UBS and Morgan Stanley have Buy (or equivalent) ratings while Ord Minnett is Hold on valuation, and Citi has a Sell rating.

Outside of daily coverage, Wilsons and Jarden have Overweight and Underweight ratings, and respective targets of $23.52 and $17.30. Jarden is yet to refresh research post the June quarter update, which is also the case for Morgans and Macquarie.

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AUSTRALIA

Not All Gaming Stocks Are Winners

New gaming sector research compares Light & Wonder with Aristocrat Leisure, as well as the defensive investment opportunity provided by Lottery Corp.

-Inaugural research by Goldman Sachs on three gaming stocks
-Light & Wonder to challenge Aristocrat's long-term dominance
-Lottery Corp's infrastructure-like characteristics
-Capital management initiatives for the trio

By Mark Woodruff

New Australian Gaming research coverage by Goldman Sachs compares heavyweights in land-based gaming, Aristocrat Leisure ((ALL)) and Light & Wonder ((LNW)), along with first-time analysis of market leader in domestic lotteries, Lottery Corp ((TLC)).

Within the ASX200, Aristocrat Leisure, Lottery Corp, and Light & Wonder rank 16th, 45th, and 135th, respectively, with market capitalisations of $33.4bn, $11bn, and $3.6bn.

The broker **prefers Light & Wonder (Buy) over Aristocrat Leisure (Neutral)** given a greater risk-reward skew, and while Lottery Corp is considered well-placed to deliver through-the-cycle growth, the analysts assign a Neutral rating due to a very strong jackpot cycle into FY24 leading to tough upcoming comparative numbers in FY25.

Providing a defensive investment opportunity with infrastructure-like characteristics, Lottery Corp is the exclusive lotteries and Keno operator with near national coverage across Australia, explains Goldmans.

For the longer-term, the analysts anticipate turnover growth will be supported by population growth, game changes, and price changes.

Margins should also expand over time, suggests the broker, due to the ongoing transition of customers from retail to higher margin digital channels, and a relatively fixed cost base.

Of six covering brokers in the FNArena Database, five have Buy (or equivalent) ratings for Lottery Corp, while Morgan Stanley is Equal-weight-rated on anticipation of flat earnings growth in FY25.

Acknowledging the market view of soft growth in the short term, Ord Minnett notes long-term empirical evidence of a reversion to trend growth of circa 5% per annum, which is likely to occur from FY26.

Ord Minnett prefers Lottery Corp over Jumbo Interactive ((JIN)) in the category.

While downbeat on earnings growth, Morgan Stanley also notes potential for capital management upside.

Certainly, Macquarie will be on the lookout for any changes to dividend policy at the FY24 result for Lottery Corp on August 21.

Current policy dictates an 80-100% payout ratio versus net profit, pre-significant items, but there are suggestions of changing the dividend payout policy to cash earnings, which equals to NPAT excluding the -$35m non-cash amortisation of Lotteries and Keno licences.

Should this policy change occur, Macquarie forecasts an around 1.6cps boost to the dividend (FY23 dividend:14cps) implying a 3.3-4.2% dividend yield in FY25. It's anticipated this dividend will be fully franked, even at the high end of the payout range.

While strong jackpot sequencing and cost guidance de-risks FY24 results, in Morgan Stanley's opinion, the FY25 cost outlook remains a key area of uncertainty post the de-merger from Tabcorp holdings ((TAH)) in May 2022.

The $5.62 average target price in the FNArena Database suggests nearly 12.5% share price upside.

Aristocrat Leisure versus Light & Wonder

Aristocrat Leisure and Light & Wonder design, develop and distribute gaming content, platforms, and machines, while also developing, marketing, and operating social games and iGaming (the term for online gaming).

It's important to note machine sales and gaming operations (i.e. leases via fixed fee or revenue share model) to land-based casinos make up the majority of revenue and earnings for both players.

Because of a skew to premium cabinets, Aristocrat and Light & Wonder command a higher daily-revenue-per-unit (DRPU) of US$55 and US$49, respectively, relative to the third key player in North America, International Game Technology (IGT), which generates US$41 of DRPU, explains Goldman.

For the uninitiated, a premium cabinet refers to a high-end, feature-rich housing for slot machines or other electronic gaming devices, which may involve enhanced display or audio-visual elements (for example).

Both companies have similar strategies and business mix, notes Goldmans, including growing their respective land-based presence, a content-driven approach facilitating the next leg of growth in social gaming, and investing in real money gaming (RMG).

There is also a common focus on reinvestment via design and development.

Such similarities may be no coincidence, given Light & Wonder's Chairman Jamie Odell's former title was CEO of Aristocrat Leisure. Under his watch, Aristocrat gained significant market share and became established as a global leader in gaming.

Light & Wonder also employs around 65 former Aristocrat senior and mid-level managers and game designers.

Goldman Sachs prefers Light & Wonder due to greater earnings upside, a more concentrated social casino segment (leveraging land-based gaming), and scope for further market share consolidation in the Gaming division driven by the launch of slot machine game, Dragon Train.

In March, Light & Wonder announced the official North American debut of Dragon Train, which has become the company's fastest-selling game in the Australian market since its launch in 2023.

Light & Wonder's stronger track record in iGaming is another point of difference, according to Goldman, an area where Aristocrat (via the Interactive segment) has been a relatively late entrant.

More positively for Aristocrat, Macquarie recently suggested Interactive's market share (currently 4.5%) will rise due to an increase in content and product availability via leveraging Aristocrat's deep and broad portfolio.

This broker predicts the Interactive division will grow by simply entering new jurisdictions, as Aristocrat is currently only operating in three of seven US iGaming markets.

At Aristocrat's recent investor day, management set a FY29 US$1.0bn revenue target for the Interactive business, well ahead of the FY29 consensus estimate for US$681m, highlighted Morgan Stanley.

Despite headwinds in the broader social gaming industry, Goldman believes Light & Wonder's SciPlay business is out indexing the social casino segment, driven by higher monetisation rates and modest user growth. SciPlay offers various popular games such as Jackpot Party Casino Slots, Hot Shot Casino, and Bingo Showdown.

Back in A&NZ, the success of recently launched games provides Goldman with confidence Light & Wonder can achieve similar growth in the much larger North American market.

Heightened competitive pressure from a more focused Light & Wonder should challenge Aristocrat's long-term dominance, in the analysts' view.

In North America, Goldmans suggests Aristocrat is well-positioned for strong growth in FY24 driven by outperformance in gaming operations, but, after this time, growth rates will potentially ease as the company may be close to reaching a natural market share ceiling.

Capital management initiatives

As both companies have strong balance sheets, Goldman Sachs reviews capital management initiatives, largely in the form of on-market buybacks, to return capital to shareholders.

Ongoing improvement in free cash flow (FCF) is a key factor justifying Goldman's positive stance on Light & Wonder and provides optionality for capital management.

Aristocrat generates revenue across land-based gaming, real money gaming and Pixel United (social casino and casual games), but the latter (apart from social casino) is undergoing a strategic review by management, which the broker explains could provide capital management flexibility.

Citi estimates capacity for around $60m of capital management and proceeds from the potential sale of digital assets could provide further funds in the range of $1.7-2.3bn.

On the flipside, Goldman notes the timing is uncertain and there's no guarantee of a sale.

The strategic review is in line with the company's focus on driving synergies between Aristocrat's social casino portfolio and the land-based segment, explains Goldman.

The average target price for Aristocrat Leisure of six covering brokers updated daily in the FNArena Database is $54.05.

Five of the six brokers have Buy (or equivalent) ratings and Ord Minnett is Hold-rated.

For Light & Wonder, there are two Buys and two Holds, with an average target of $165.

Outside of daily coverage, Canaccord Genuity is Buy-rated, with a $175 target.

The research by Goldman Sachs has target prices for Aristocrat and Light & Wonder of $55.30 and $190, respectively.

Jarden is Buy-rated on Aristocrat and Light & Wonder with respective targets of $47.20 and $166.

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AUSTRALIA

'Defensive' Pharmaceutical Wholesalers In Focus

New research on the Pharmaceutical Wholesaling sector identifies three stocks with long-term defensive growth within an improving government funding framework.

-First-time research on three pharmaceutical wholesaling stocks
-Each seen providing exposure to long-term defensive growth
-Ebos Group and Sigma Healthcare impacted by Chemist Warehouse
-Transformative merger for Paragon Care

By Mark Woodruff

In a market worth more than $15bn per year, the Pharmaceutical Wholesaling sector on the ASX includes three stocks uniquely positioned in terms of growth and value, according to new research by Ord Minnett. While very different opportunities, each company is considered providing long-term defensive growth within an improving funding framework.

Offering an attractive entry point into one of the highest quality operators in the sector, after a more than -30% share price decline since March, Ebos Group ((EBO)) warrants a Buy rating from the broker.

Sigma Healthcare ((SIG)) receives an Accumulate rating (one notch below Buy) as the business screens positively versus peers on a growth-adjusted basis, while Paragon Care ((PGC)) is also rated Accumulate following a share price rally of more than 100% since a merger announcement in March.

Collectively, these companies account for around 72% of the pharmaceutical wholesale market.

Ord Minnett's Buy rating for Ebos Group is complemented by recent rating upgrades by Citi and Jarden.

Earlier this month, Citi upgraded to Neutral from Sell noting the stock price had underperformed compared to the 3% Healthcare sector outperformance against the ASX200 since the beginning of March.

The broker attributed this weaker showing to the unwinding of the Chemist Warehouse contract (potentially secured by Sigma Healthcare), along with recent removal from the Morgan Stanley Capital International (MSCI) index.

At upcoming FY24 results, the analysts will be focusing on the Chemist Warehouse-related impact on revenue and earnings in FY25, the Community pharmacy market growth rate ex-Chemist Warehouse, and further detail on targeted cost efficiencies of between $25-50m in FY25/26.

In an uncertain macro-economic environment, Citi will also be monitoring management's animal care growth expectations.

Ebos Group is a leading wholesaler, distributor, and marketer of not only animal care goods, but also pharmaceutical and healthcare products in the APAC region. Revenue is split 80/20 between Australia and New Zealand, and the Healthcare segment generates 84% of group earnings.

Understanding and benchmarking performance to system growth is vital to Jarden's investment thesis for Ebos Group.

Excluding the Chemist Warehouse contract, this broker points out Australian revenue within Healthcare over FY14-23 increased at an 8% compound annual growth rate (CAGR), compared to the PBS expenditure CAGR of 6%.

In late April, Jarden upgraded its rating for the group to Overweight from Neutral on stronger valuation support and greater confidence in forecasts for Pharmaceutical Benefits Scheme (PBS) core system support (which subsidises prescription medicines).

The analysts review of this PBS support, which underpins the group's main revenue engines in Australian Community Pharmacy and Institutional Healthcare, provided the broker with more confidence management should be able to re-build from FY25 following the loss of Chemist Warehouse.

Certainly, Ord Minnett expects Ebos to emerge from the Chemist Warehouse contract exit as a higher quality, more diversified business.

An investment in the group not only provides investors with exposure to well-established growth strategies across defensive markets such as Community Pharmacy and Institutional Healthcare, highlight the analysts, but also a best-in-class capital allocation track-record.

The broker explains management has made more than 20 acquisitions over the last decade, with an average 16.5% return of capital employed (ROCE).

Ord Minnett has set an initial $33.50 12-month target price for Ebos Group, which raises the average target in the FNArena Database to $36.38, given the broker's prior whitelabeled research from Morningstar had a $28.50 target (Hold).

This new average target of five covering brokers suggests just under 17% upside to the latest share price. There are now four Buys (or equivalent) and one Neutral rating by Citi.

Outside of daily monitoring, Jarden is Overweight with a NZ$37 price target.

Paragon Care

Compared to the $6bn market capitalisation for Ebos Group, Sigma Healthcare and Paragon Care weigh in at around $2bn and $761m, respectively.

Ord Minnett's initial 46c target for Paragon Care closely aligns with Buy-rated Bell Potter's 45c target, which was raised from 31c in late-May just prior to the shareholder meeting to approve the merger with CH2 Holdings, which ultimately completed on June 3.

At the time, Bell Potter stated the merger would be transformative in creating a leading healthcare wholesaler, distributor and manufacturer operating across healthcare markets in the Asia Pacific region.

At least $10.8m in annual cost synergies would commence from FY25 and be fully realised by FY26, explained the broker.

CH2 was previously a privately-owned distributor and wholesaler of pharmaceuticals, nutritional products, medical consumables, and complementary medicines. The company also provides logistics solutions to pharmaceutical and healthcare manufacturers, including warehousing and customer service solutions.

Ord Minnett expects a significant earnings growth opportunity for Paragon Care underpinned by ongoing market share gains and operational synergies.

The merged group creates an independent healthcare wholesaler, with a Top Two position in the Australian Hospital market, along with growth platforms in Australian Retail Pharmacy (circa 8% share) and APAC Medical Technology, explains the broker.

Further highlighted are cross-selling opportunities, including offshore expansion for CH2, along with management's strong track record, and significant alignment with shareholders.

The average target price of Ord Minnett and Bell Potter corresponds with the latest 45.5c share price.

Sigma Healthcare

Ord Minnett would pay even more than Sigma Healthcare is offering for the proposed merger with Chemist Warehouse, a "category killer" with a best-in-class retail model. The business has leapt to a 29% share of the Australian retail market, more than three times the No 2 player.

While the merger target has more than 60% store roll-out runway left in Australia, Ord Minnett's also sees potential for material upside offshore, as the business model is exported to other countries with fragmented markets and weak store level economics.

The broker lists Chemist Warehouse's compelling fundamentals including the current market position, the growth opportunity, and a high return on invested capital (ROIC).

Looming in the background are competition concerns the merged company could favour Chemist Warehouse stores or worsen terms for non-Chemist Warehouse pharmacies, potentially harming independent pharmacies currently supplied by Sigma Healthcare.

While acknowledging risks exist, with an ACCC decision expected by September 4, Ord Minnett recommends investors Accumulate shares in Sigma at current levels.

Management at Sigma and Chemist Warehouse considers there are good arguments why the proposed merger will not lessen competition and will continue to engage with the ACCC to address any potential concerns.

Citi agrees competition issues can be addressed (but the process may be delayed) and Morgans remains confident the deal will go through and complete by January 2025.

On the other hand, Shaw and Partners believes the merger in its current form is unlikely to receive ACCC approval and excludes merger adjustments from forecasts for Sigma Healthcare.

The current risk/reward ratio for the deal appears unbalanced to Macquarie, with the market underestimating the risk of an amended deal with altered economics.

A first glance at the database suggests Ord Minnett's "initiation" on Sigma Healthcare is an upgrade to Accumulate from Hold and a lift in target to $1.35 from 78 cents. In reality, the changes reflect the transition of research coverage to in-house from whitelabeling Morningstar research (as also occurred for Ebos Group).

The new target raises the average of six covering brokers in the FNArena Database to $1.15 from $1.06 suggesting nearly -15% downside to the current share price. Ord Minnett has become the high-marker with price targets set by all of Shaw and Partners, Morgans, Macquarie, Citi and Morgan Stanley below the present share price.

There are six brokers monitored daily covering Sigma Healthcare in the database including one rating of Accumulate, three Holds (or equivalent) and two Sell ratings.

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FEATURE STORIES

Pros & Cons Of Discounted A-REITs

Historically defensive yield-plays, REITs have suffered a volatile year due to interest rate uncertainty and economic challenges. But is there now light at the end of the tunnel?

-A-REITs have underperformed the market
-Bond market volatility has fuelled REIT volatility
-Challenges remain for office
-Residential poised to bounce
-Broker preferences

By Greg Peel

In the month of June, Australian-listed real estate investment trusts (REIT) delivered a flat return, underperforming the ASX200 by -1.9%. Year to date, REITs have outperformed by 7%. June brought the surprisingly strong May CPI print, which upended both the bond and stock markets.

That 7% is misleading as it includes a 38% gain for the largest REIT, Goodman Group ((GMG)). While Goodman is indeed a REIT, and a property fund manager, its alignment with the AI thematic through its development/management of data centres has turned it into an AI story, more so than a real estate story.

Ex-Goodman, the REIT sector is down -4% year to date, and large-cap REITs are down -8%.

The Australian ten-year bond yield, the benchmark against which REIT returns are measured, began 2024 under 4%. Expectations were high in the US that the Federal Reserve was about to embark on a rate cutting cycle and it was assumed the RBA would eventually follow suit.

But 2024 has since proven volatile in that regard with sticky inflation eroding rate cut hopes (Aussie ten-year 4.6% in April). Back then a generally weakening inflation trend was leading economists to predict the first RBA cut as soon as August (yield down to 4.1%). The May CPI represented the first actual uptick in the inflation trend, and today the yield is around 4.35% (equivalent to the RBA cash rate). The market is now pricing a 50/50 chance of another RBA rate *hike* by year's end.

Bond yield volatility has led to share price volatility for the historically defensive, plodding REIT sector, typically bought for yield rather than growth.

The question now is: have REIT valuations fallen far enough?

<u>The Bad and the Good</u>

With another rate increase now expected, UBS suggests the sector needs to confront several challenges.

Excluding Goodman Group, UBS notes growth into FY25-26 is muted, due to dilutive asset sales and higher debt costs. Generating outperformance through development/funds management has become more challenging.

The dividend yield spread to bond yields is -114 basis points below long term averages (ex Goodman). UBS sees very stretched valuations for names with growth, such as Goodman and HMC Capital ((HMC)), versus the rest, for which catalysts are lacking, with high office vacancy and logistics/retail slowing after a period of strength.

Yet, having hosted some of Australia's leading real estate companies (listed and unlisted) at its annual property conference, Barrenjoey learned globally a significant amount of capital is sitting on the sidelines waiting to deploy, and institutions are typically underweight real estate versus their target allocations.

Australian superfunds have strong equity inflow projections, and the government's *Your Super Your Future* legislation (2020-21 budget), which requires APRA to conduct an annual performance test for MySuper products and other prescribed products, implies continued investment in traditional and alternative real estate sectors.

The tremendous drop in cap rates is still unwinding and Australia has been slower to reprice than the US and Europe. Independent valuations could take another 6-12 months to fully adjust, Barrenjoey learned, and cap rates will expand by another 50-60 basis points to average 6%.

The capitalisation (cap) rate is annual rental income produced by a real estate asset divided by its current market value.

<u>The Outlook</u>

Jarden is forecasting 40-60bps of cap rate expansion.

Jarden acknowledges rates are likely to remain higher for longer and the August results season is unlikely to be a major catalyst for most REITs, but weighted-average funds from operations (earnings) growth is starting to improve. At an implied -15% decline in gross asset value for the passive REITs, Jarden believes the downside risk to asset values is well reflected in current valuations and a growing number of REITs is moving from defence to offence.

Overall, the broker sees 18% upside to its 12-month REIT target prices (ex Goodman) and suggests sector risk-reward is looking more attractive.

Also acknowledging the backdrop of higher rates, UBS sees several positives.

Asset values are closer to the trough, with transactions gradually resuming. Debt markets are improving. The consumer has remained resilient, albeit slowing.

UBS sees less supply and pockets of growth (data centres, manufactured housing estates), and most valuation metrics are supportive. In a period of sticky inflation, the broker has a preference for value REITs with high quality assets and only seeks cyclical earnings/growth where it sees suitably low market expectations.

The Office Question

The covid lockdowns proved that office workers could successfully work from home without a loss of productivity, giving rise to the assumption that forever after, hybrid work-from-office/work-from-home models would be adopted. This would result in a downsizing of corporate office space requirements, and thus a decline in demand for office blocks.

Which to an extent has come to pass, reducing office asset valuations. But while some CEOs have embraced the hybrid model, others are beginning to demand a full return to the office.

Office market sentiment has become marginally more positive in recent weeks, Jarden notes. While listed office portfolios faced further negative reversions in their latest valuation announcements, adopted cap rates are starting to look more realistic to Jarden, supported by a broadening basket of transaction (office sales) evidence. In addition, while overall office market vacancy rates remain high, the broker saw evidence of positive leasing momentum within new developments under construction across both the Sydney and Melbourne CBDs.

Jarden's analysis demonstrates 68% of assets under construction have now been leased, with assets in the core Sydney CBD showing occupancy rates of 80-95%. With assets under construction leasing steadily, and potentially no further assets being delivered within the core this decade, the broker sees the risk of a supply shortage within the core CBD in the next five years.

There is a debate in the market over the potential and timing of an office recovery, Citi has found. A survey of investors revealed 62% believe office-exposed REITs have reached an inflection point. The positive response is reflective of a potential improvement in investor sentiment towards the sub-sector.

Although transaction activity is showing sign of improvement, Citi remains cautious on underlying fundamentals and cash flow pressure of high office lease incentives and vacancy.

The office rent growth outlook is not great, declares Morgan Stanley. Sydney/Melbourne CBD rent growth has tracked at 2.8% per year since 2020, and real estate agents expect it to run at 3% per year to 2027, versus 5% per year in 2000-20. Given the lower income growth outlook, there are reasons to think, Morgan Stanley suggests, the cap rate spread should be higher than the long-term average in the foreseeable future.

Preferences

Goodman Group is still the best quality stock in the sector, Jarden insists, and the broker would not find a lot of disagreement. But while it is hard to ignore 10-15% annual growth, the shares are up 82% in the past twelve months and 46% in the past six months.

Goodman remains well underpinned going into a tough August results season but, as investors become more positive on the value names in the sector, Goodman could become a funding source for rotation into beaten-down areas of the sector.

Jarden has downgraded Goodman to Sell from Neutral.

UBS sees very strong growth from Goodman's data centre strategy but also moves to Sell from Neutral on valuation grounds and high investor expectations.

Industrial cap rates are rather tight for where bond yields are now, Morgan Stanley admits, when compared to the typical relationship. However, industrial market rent growth should track at 4.4% per year in 2023-27, more than double the 2% compound annual growth rate in 2000-18.

Given lower asset valuation risks, Morgan Stanley prefers industrial-exposed REITs over office-biased REITs, and that includes Goodman Group, for which the broker retains an Overweight rating.

Also holding Buy or equivalent ratings on Goodman along with Morgan Stanley are Macquarie and Citi. Ord Minnett leans to the negative side with a Lighten rating.

Further to Goodman, Morgan Stanley also prefers industrial-exposed Stockland ((SGP)), Centuria Industrial REIT ((CIP)) and GPT Group ((GPT)) over office-biased Dexus ((DXS)), Centuria Office REIT ((COF)) and Mirvac Group ((MGR)).

Jarden is becoming more constructive on deep value diversified REITs, upgrading GPT Group and Mirvac to

Overweight and Dexus to Neutral after significant weakness in the past six months. All three are now trading at discounts to the sum of their parts, even if the broker struggles to see near-term catalysts.

GPT is arguably best positioned, Jarden argues, with retail, logistics and funds management performing well. Mirvac's re-rating relies mainly on a residential recovery, while Dexus' exposure to office and funds management probably means it will take longest to turn around.

UBS upgrades Mirvac to Buy following underperformance with earnings growth emerging post FY25, and upgrades Lendlease ((LLC)) and Vicinity Centres ((VCX)) to Neutral from Sell. This broker's most preferred names are Dexus, Mirvac and Region Group ((RGN)) while its least preferred names are Scentre Group ((SCG)), Goodman, and Centuria Capital ((CNI)).

Which segues us towards property fund managers. Jarden is concerned consensus expectations for Centuria Capital's FY25 earnings look too high given pressure on asset values and assets under management.

Charter Hall ((CHC)) looks best value to Jarden but in the absence of a pick-up in transaction activity, the broker believes earnings momentum in FY25 remains sluggish. HMC Capital is seeing strong momentum but Jarden expects underlying cash earnings momentum to take time to follow. After the share price rally, Jarden believes the shares are pricing in a lot of that earnings upside potential.

Housing

Don't mention the housing crisis.

Macquarie's recent HomeBuilder survey found that, despite incrementally positive feedback, builders are cautious about a material rebound in sales until there is clarity on RBA cash rate cuts. 50% of builders have experienced an increase in sales over the past three months, although most are cautious over the coming three months.

Macquarie's Macro Strategy team expects -75bps of RBA rate cuts over 2025, beginning in the March quarter, which should support the sector.

Mirvac's and Stockland's residential activity remains sluggish, however, longer-term sector fundamentals remain positive, in the broker's view. This is due to the supply/demand imbalance, strong population growth, tight rental markets, and the potential for government stimulus.

Macquarie believes Mirvac has the potential for one of the largest re-rates across the sector as rate cut timing becomes more certain. The broker's prior analysis has also indicated residential stock multiples have historically troughed 6-8 months prior to a shift in monetary policy to an easing stance.

While sales and settlement momentum in residential is still weak and unlikely to improve in the near term, Jarden also believes sentiment will change quickly when RBA cuts become likely. Stockland is the broker's top pick, as it believes the REIT's strategy sets it up for superior earnings growth and returns, despite trading at a discount to the sector.

Landlease communities remain structurally attractive and Jarden believes Lifestyle Communities' ((LIC)) recent weakness now looks overdone, while both Lifestyle Communities and Ingenia Communities ((INA)) should see strong growth. Reader take note: this view was expressed before Lifestyle Communities became the subject of a Four Corners' deep dive into alleged malpractices throughout the landlease industry, targeting Lifestyle Communities in particular.

Jarden upgrades Mirvac to Overweight after recent underperformance but sees fewer near term catalysts than for the other residential names.

And Another Thing

Jarden's preference in passive REITs remains for stocks with the best top-line momentum. National Storage REIT ((NSR)) should benefit from structural storage demand drivers, ramping up its non-stabilised portfolio and inorganic growth.

Mall REITs Vicinity Centres and Scentre Group continue to see a better-than-feared leasing environment, Jarden notes, with additional upside from medium-term development growth and asset recycling.

Strong demand and low supply in logistics (Centuria Industrial REIT) and childcare (Arena REIT (ARF))) should drive strong growth. Ongoing weakness in non-discretionary retailers (Region Group, Charter Hall Retail REIT ((CQR)) and HomeCo Daily Needs REIT ((HDN))) looks overdone to Jarden against steady growth.

UBS has downgraded Arena REIT and BWP Trust ((BWP)) to Neutral from Buy.

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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.

-Battery demand softer than expected
-Lithium remains over-supplied
-Low prices should lead to supply re-balancing
-Brokers nominate their preferred exposures

Greg Peel

Lithium prices have remained under pressure in 2024, driven by a combination of softer than expected battery-sector demand and an influx of new supply into the market. Near-term oversupply is larger than previously anticipated.

On the demand-side, **global electric vehicle uptake has decelerated**, most notably in the US and Europe, where cost of living pressures have prevailed, and also in China, which is suffering from a prolonged economic downturn.

The near-term outlook for lithium demand in China has been further clouded by **tariff initiatives from both the US and Europe** on government-subsidised, and thus artificially cheap, Chinese EVs.

It has been noted that while Australia's burgeoning lithium mining sector has been subsequently impacted, having no car manufacturing industry of our own, let alone EVs, means said Chinese subsidies are resulting in cheap EVs benefiting consumers in Australia.

This softer demand backdrop has driven severe inventory de-stocking across the battery supply chain over the last year, creating a downward spiral in lithium prices and demand.

On the supply-side, global **lithium supply has grown meaningfully** over the last year.

This has been driven primarily, Wilsons notes, by higher cost resources including African spodumene and Chinese lepidolite. In terms of known near-term additions, capacity is being ramped up in Zimbabwe, the Congo and Chile. The broker points out there is a degree of uncertainty around the magnitude of future near term China/Africa additions.

In the nearer term, Morgan Stanley's commodity strategists see risks of a loosening balance, with supply improvements from Australia, for example the ramp-up of IGO Ltd's ((IGO)) Greenbushes joint venture, as well as from China, Chile, and Africa post wet season.

During a recent trip to China, Macquarie noted more resilient than expected lithium supply upstream, which could weigh on lithium prices in the near term.

Lithium mine and refined supplies are concentrated in a small number of countries. Australia and Chile dominate the upstream (mining) markets, while China controls 70% of the downstream (processing) market. This makes lithium and battery supplies vulnerable to country-specific risks, ANZ Bank's commodity analysts note.

Near-term surpluses are symptomatic of lithium's relative immaturity as a major global commodity market, Wilsons point out, which has driven a temporary mismatch in the aggressive growth profile of both supply and demand.

The Supply Side

While weak near-term sentiment appears likely to persist for the remainder of this calendar year, Wilsons is confident further downside for lithium prices will be limited from here given support provided by the cost curve. The broker's positive long-term structural view towards lithium remains unchanged.

Strong growth in lithium demand is still likely to result in compounding supply deficits this decade, which underpins Wilsons' expectations of higher lithium prices over time.

A strong supply response to the recent collapse in the price of lithium is setting the stage for a market rebalancing, ANZ Bank suggests, but a sustained recovery is unlikely until overcapacity in the supply chain for lithium batteries is reversed.

The persistently weak price is prompting lithium producers to apply fiscal discipline. High-cost miners and processors are likely to exit the market and other producers will either reduce or defer investments. Given this is usually what the playbook dictates, ANZ believes supply adjustments are likely.

Wilsons agrees.

A meaningful proportion of producing and prospective lithium projects will be unprofitable at the current lithium price, Wilsons notes. This is likely to result in higher-cost lithium producers mothballing their production and/or deferring expansion projects, which will eventually result in supply exiting the system.

There have already been examples of this domestically, Wilsons points out, with Core Lithium ((CXO)) suspending mining at its Finnis operation earlier this year until market conditions improve. Over time, this dynamic should improve the supply/demand balance of the market, reducing forecast surpluses which the broker expects to support lithium prices.

Wilsons cites the dusty old adage: the best cure for low prices are low prices.

We have seen this in recent years with regard the uranium price. Post the 2011 Fukushima disaster, the spot uranium price fell to as low as US$17/lb, as Japan shut down all its reactors and nuclear energy once more became a dirty word among the global populace, forcing the shutdown/mothballing of uranium mining projects. Earlier this year the spot price traded above US$100/lb as nuclear energy regained global support in the face of climate change.

Still gaining support in some countries, I hear.

While the timing of a recovery in the lithium price is inherently uncertain, Wilsons suggests assessing cost levels provides insight into where prices may receive some fundamental support. The cost curve of existing projects suggests further downside to lithium prices is likely to be limited, with the S&P Global 2024 global lithium cost curve implying some 20% of assets aren't profitable on a total cash cost basis.

Wilsons points out this assessment arguably under-represents the level of cost support as it excludes project and sustaining capex requirements.

The broker is thus comfortable that we are at, or near, a "price floor" for lithium, with further downside likely to be limited from here.

Yet, Goldman Sachs points out with lithium spot prices still sitting near the top end of the integrated cash cost curve, we have yet to see meaningful volumes come out of the market or new projects deferred. In fact, new projects continue to be proposed, such as Pilbara Minerals' ((PLS)) "P2000", or progressed.

Furthermore, direct lithium extraction (DLE) is set to become a commercial reality outside China later this year, with French company Eramet recently inaugurating its new plant. With this backdrop, Goldman Sachs continues to factor in near-term pricing weakness over the second half of 2024 and through 2025.

Morgan Stanley is also not so convinced of a near term price recovery.

Lithium prices did indeed stage somewhat of a recovery over March-April this year, but have once again come under pressure, currently trading -26% weaker year to date, Morgan Stanley notes. After years of under-investment, the price highs seen in 2022 have led to a significant ramp up of investment in new supply capacity, a driving force behind the over-supplied market the broker's strategists estimate will continue beyond 2030.

<u>The Demand Side</u>

Morgan Stanley also sees risks on the demand side, with cathode restocking in China appearing to slow as inventories remain at their highest levels since June 2023, as well as the potential for falling lithium intensity on the back of hybrids gaining EV market share.

Global battery EV sales were up 12% year to date in June, JPMorgan notes, but the market share of petrol hybrid EVs continues to trend higher and currently sits at an all-time high of 21%.

ANZ Bank suggests demand for lithium to support the electrification of the transport sector remains strong. ANZ analysts see demand for lithium and lithium-ion batteries growing 17-18% annually through 2030. The supply overhang is not that large, ANZ believes, and the fall in prices looks overdone. ANZ sees prices rising in 2025.

Despite current cost-of-living headwinds, global passenger EV sales (in total) have continued to demonstrate strong structural growth, Wilsons notes, rising 26% year on year over the first five months of 2024. Moreover, consensus expectations are still for strong growth in EV sales over the long term, despite recent concerns around the potential impacts of tariffs on Chinese EVs and "net zero" emission target setbacks in a number of countries.

S&P Global forecasts a compound annual growth rate for EV demand of 20% to 2028.

Over the next decade, demand for EVs will be supported by the car maker-led transition towards EVs, Wilsons believes, which is driving a greater choice for consumers and improving EV affordability. Government incentives are also promoting EV uptake.

Therefore, in line with most industry forecasters, Wilsons continues to expect strong growth in demand for lithium, driven by EV demand, to result in compounding supply deficits over the long-term which will support higher lithium prices over time in the broker's view.

The declaration of "in line with most industry forecasters" is Wilsons'. Clearly, not all agree on the timing of a lithium price recovery, however "near term" and "long term" have no specific definition. Nor has "over time", as Wilsons suggests above.

That said, just as de-stocking has been the key driver of the downswing in lithium prices since 2023, the most significant near-term catalyst for a recovery in the lithium price will be the commencement of demand-driven re-stocking across the battery supply chain.

While the exact timing of when re-stocking will occur remains unclear, with inventory levels now relatively low, Wilsons expects re-stocking to support a recovery in the lithium price sometime over the next 12-18 months, before emerging structural supply deficits manifest themselves over the medium/long-term.

As re-stocking emerges, Wilsons believes a lithium price recovery could be equally as swift as the pace of decline in lithium prices experienced from early 2023 to now.

<u>Preferences</u>

Wilsons' *Focus Portfolio* includes lithium exposure via Arcadium Lithium ((LTM)) and Mineral Resources ((MIN)). The producing assets of both companies are low on the cost curve, which has allowed both to generate positive operating free cash flows to date despite depressed lithium prices.

Arcadium Lithium's balance sheet is very strong, the broker points out, and gearing is expected to remain very low over the next few years.

While Mineral Resources' current gearing is relatively high, this reflects its recent capex cycle focused on Onslow iron ore. With the company now past "peak capex", and cash flow from Onslow set to build over FY25-26, Wilsons is comfortable the level of gearing will fall materially over the next 12-24 months.

Goldman Sachs sees Arcadium Lithium's current discount to net asset value as fair, and in part representative of upcoming growth/execution risk with more than 60% of estimated 2030 raw material production yet to be built/ramped up.

For Liontown Resources ((LTR)), though Goldman expects more modest cost escalation based on the analysts' benchmarking, the broker remains Neutral on relative valuation, and upgrades Core Lithium to Neutral with risks now more priced in.

Goldman has a Sell on Pilbara Minerals, noting the stock continues to trade at a fundamental premium versus peers, even when including an underwhelming "P2000" expansion scenario. Goldman Sachs sees a widening discount supporting its relative preference for IGO (Buy), given the analysts feel the Greenbushes expansion (and opportunity for value optimisation) and JV balance sheet risk are overdone, with Greenbushes' costs well below peers.

Morgan Stanley remains cautious on lithium equities in general, and is Underweight on both Pilbara Minerals (100% lithium) and IGO (46% of forecast FY25 revenue lithium-exposed).

Morgan Stanley's preferred name for lithium exposure is Mineral Resources, however, this is primarily due to its ramping lower cost iron ore exposure from the Onslow project and an improving balance sheet.

JPMorgan notes (as at July 9) IGO's and Pilbara Minerals' share prices are down some -30% since late May compared to -1% for the ASX200 (at the time), and with valuations looking less demanding, this broker upgraded both to Neutral.

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INTERNATIONAL

Investors Are Being Punished For Diversifying

By Carley Garner, DeCarleyTrading.com

While the NASDAQ100 and S&P500 are at all-time highs, many disciplined and diversified portfolios and funds are not.

For instance, the Vanguard Target Dated 2030 Fund, designed for those looking to retire on or around 2030, offers an automated portfolio that adjusts allocation over time based on conventional diversification practices. This fund is still more than -10% below its 2021 high.

If you are wondering, this particular fund contains both domestic and global stocks and bonds of varying quality and is allocated roughly at a 60%/40% balance. In essence, it is a perfectly balanced portfolio based on pre-Fed intervention finance.

The underperformance of traditionally prudent portfolios is largely due to the worst three-year stretch ever in the bond market. Still, it also has to do with the fact that most index gains have been on the backs of a few individual stocks (namely the Magnificent Seven), not the broad market.

In short, investors practicing tried and true investing are being left behind, while those assuming outsized risks are rewarded handsomely. This is a dangerous game of musical chairs; nobody knows when and where the music will stop, but it will stop abruptly, and not everyone gets a chair.

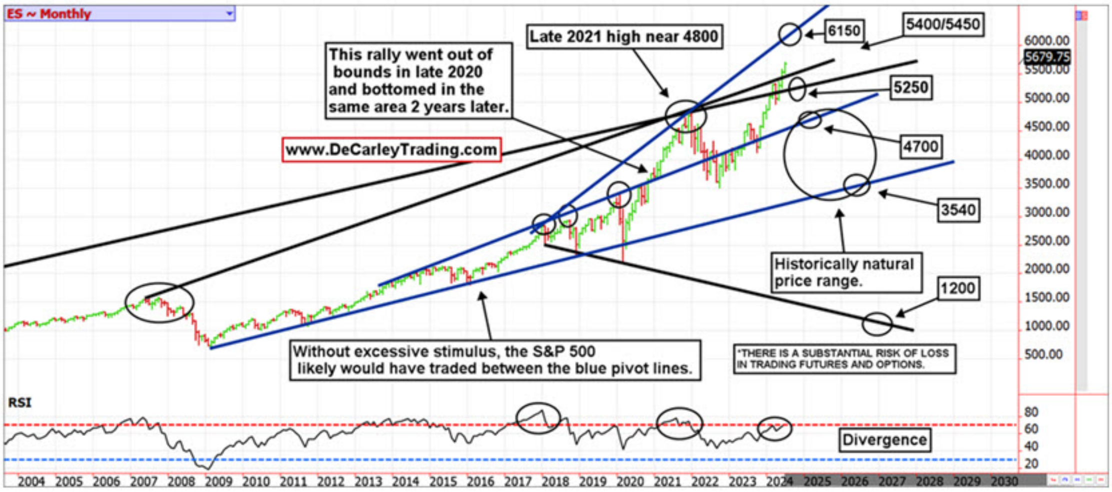
History is repeating itself. I was in my early 20s during the dot.com bubble pop, but I'll never forget its ramifications on those around me. I watched one relative grow a modest nest egg of US$200,000 to US$300,000 into tens of millions by throwing caution to the wind and allocating the funds into three individual stocks (Worldcom, Level 3 Communications, and I forgot the other).

The success of the undiversified portfolio was stellar; near the peak, I believe it was close to US$13,000,000. Even wilder, the portfolio peak occurred despite large withdrawals for lavish spending on high roller style trips to Las Vegas, a custom-built home featured in Home and Garden Magazine, and an impressive collection of vehicles.

Ignoring fundamental diversification strategies allowed this portfolio to flourish, but in the end, the lack of diversification wiped it out in a devastating fashion. It is possible to get rich by taking excessive risks (even for those who don't realise their investment strategies are aggressive), but staying rich with such an approach to the market is a different story.

Fear of missing out is real. Nobody wants to be the one watching others "get rich" from the sidelines, but investing and building wealth is a marathon, not a sprint. There is a time to press the gas and another to tap the brakes.

Ironically, the appropriate times to do either is when it is least comfortable and popular. Many of the voices that were wildly bearish a few years ago as the S&P500 was testing the mid-3,000s are now adjusting targets higher. They were wrong then, and they might be wrong again. Stay on your toes and mind your risk.



For those keeping score, while others were pounding the recession table and looking for lower equities last year, we had been suggesting 5,150 was a real possibility. That opinion was met with quite a bit of pushback and even some name-calling, but as it turns out, our projection was far too conservative.

While I wouldn't have believed it a few months ago, the chart has opened up to the possibility of the S&P reaching 6,150!

The problem is that sticking the course to capture another 400 points in the S&P requires acceptance of at least double, but likely triple, the risk. I'm not an investment advisor; I'm just a futures and options broker. However, in my personal finances, I've been systematically de-risking as the market inches higher and have encouraged my brokerage clients to hedge their downside risk with risk reversals or similar strategies.

Risk reversals involve selling a call option and using the proceeds to purchase a put option. In short, it is free insurance. The opportunity cost of using the market's money to buy your portfolio insurance is giving up portfolio gains above the strike price of the short call option.

Protection should be bought when you can, not when you must. Volatility is historically low, and the indices are at all-time highs. There has never been a better time to hedge; it is possible to purchase proximal insurance for far less than is normally the case.

Today, an investor can hedge their equity risk by selling a December e-Mini S&P 500 6100 call for about 50 points and using the proceeds to purchase a 5100 put. This allows the portfolio to grow to the next trendline but takes the tail risk away under 5100.

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INTERNATIONAL

A Blip For Equities, Not A Change In Trend

By Michael Brown, Senior Research Strategist at Pepperstone

A brutal midweek session has seen stocks sold-off aggressively across the board, owing to a confluence of factors, though said move appears likely to prove a blip, rather than a sign that the tide may be turning out of the bulls' favour.

Just as everyone was getting all over-excitable about the so-called 'Trump Trade', said view appears to have been Trumped (pardon the pun) by reality, with stocks taking a battering during the midweek session.

At the time of writing, the front Nasdaq future trades as much as -2.5% lower, on track for its biggest one-day decline since December 2022, while the front S&P 500 future has slumped over -1%, in its biggest one-day decline since the end of April.

Naturally, this brings to mind a few questions. Namely what's causing the move? And, what might come next?

In terms of drivers behind the move, there appear to be a few:

-A continued rotation out of tech/growth stocks, and into value/small caps, which begun after last Thursday's cooler than expected June CPI report cemented the case for a September Fed cut; the Russell marginally outperforming, down just -1% on the day, evidences this

-Something of a sell winners' vibe creeping into the market, as a number of momentum strategies appear to unwind, including a significant bout of JPY strength as some carry traders close out positions, and some profit taking being seen in gold after a run to fresh record highs during Tuesday's session

-Soft guidance from chipmaker ASML, despite an earnings beat, exerting significant pressure on the sector, and European equities more broadly, with the name being the biggest stock by weight in both the AEX and the STOXX 50

-Sticking with chipmakers, reports that the Biden administration is seeking to impose tougher restrictions on the sale of chips to China, though this has provided a boost to some stocks in the sector such as Intel (INTC +2%)

-Finally, comments from President Trump in a wide-ranging Bloomberg interview that Taiwan has "stolen" the US' tech business, and should "pay" for the security guarantee the US provides to the island

Taken together, that's a rather potent mix of negative factors to hit the market at the same time. Add in the fact we are in the middle of summer with even the UK weather starting to warm up, meaning this mix has hit the market at a time of thinner than usual liquidity, and light volumes, exacerbating the selling pressure.

As for what comes next, I see little reason to expect significant downside moves to continue, and stick to my long-standing view that **dips remain buying opportunities**.

Earnings season continues, with reports having proved solid enough so far, with around 80% of S&P 500 stocks having reported positive EPS surprises, even if guidance has been a touch soft in parts. Furthermore, economic growth remains resilient, with the control group retail sales measure which feeds directly into the GDP release having risen 0.9% MoM last month, its fastest pace since March, with **the old adage of never betting against the US consumer continuing to ring true.**

Of course, there is also the supportive policy backdrop to be considered. While markets price a September Fed cut as a near-certainty, the OIS curve implies a 96% chance of such a move, this is likely to be the start of a normalisation cycle, with quarterly cuts from there onwards remaining the base case. Nevertheless, with the battle against inflation seemingly won, the flexible and forceful 'Fed put' remains in place, with policymakers willing, and able, to cut more aggressively, and inject targeted liquidity, were it to be required.

Investors remain safe in the knowledge of this concept, hence are likely to remain comfortable to stay further out the risk curve. In fact, policymakers have already given us a glimpse of this ability, having slowed the pace of quantitative tightening by more than expected at the May FOMC, in order to prevent funding issues from occurring, and thus ensuring a greater provision of liquidity.

In short, with growth resilient, and looser policy on its way, the path of least resistance should, over the medium-term, continue to lead higher on Wall Street. A pullback is, of course, healthy, helping to remove some froth from the market, though dips are likely to remain well-bought.

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RUDI'S VIEWS

Rudi's View: Corporate Earnings, The Best Indicator?

By Rudi Filapek-Vandyck, Editor

Today's markets are confusing many, not in the least because many traditional indicators don't seem to apply anymore.

Us, humans, we like to at least have some sense of control or predictability about things, and when that "security" drops away, we feel uncomfortable.

This, to a large extent, explains why today's bull market has not been widely embraced as a positive phenomenon. There are way too many contradictions involved.

When the Federal Reserve (and other central banks) embarked on a steep tightening path in early 2022 it didn't take long for bond markets to invert; whereby short-term yields exceed those further out on the yield curve, which is a classic signal that economic recession is on the horizon.

The US yield curve started inverting in mid-2022. Two years later, the expert community is still debating whether there will be negative economic growth or not. Locally, the official statistics have remained in positive territory because of seldom-witnessed immigration influx.

The RBA might yet deliver one more rate hike, but other central banks outside of outlier Japan are all preparing for policy loosening, i.e. rate cuts. The global policy reversal has already started, now also including the RBNZ.

Bond markets in Europe and the USA have already started to price-in rate cuts before year-end. Clearly, this is a positive for equity markets... as long as that anticipated economic recession does not follow next.

Can investors simply rely on financial markets getting it right? Of course not! Markets reason in the here and now and if/when signals change down the track, they simply re-adjust accordingly without blinking first.

2024: The Big Dichotomy

A lot is being written about the dichotomy in share markets where a small selection of strong performers keeps pushing indices to fresh all-time record highs, leaving behind a large majority that simply cannot catch a bid, outside of the occasional attempts for momentum reversal.

There's an even greater contradiction happening between numerous traditional indicators pointing at economic recession and economies simply refusing to play to that script.

With the bulls firmly in charge of share markets, the bears have their indicators to rely on, but little else. Sour grapes, heartache and migraines, maybe?

Calls and predictions of a severe share market correction, let alone a crash, have been well off the mark and completely out-of-sync with markets that rally further into blue sky territory.

In defence of the many Cassandras, today's dichotomy surrounding some of the most used indicators is quite remarkable, and possibly unprecedented. It might even elicit the occasional observation that this time, indeed, things do look different.

Apart from the two year versus 10 year yield curve (we know bond markets don't always get it right), the equally closely followed ISM index, believed to be in lock-step with economic momentum albeit more skewed towards manufacturing, has generated a negative reading for 19 out of the past 20 months. March this year is that one positive exception.

To date, there has been no previous precedent of this magnitude. If history were a carbon copy for today's world, economies would be in *deep doo-dah* by now. But they are not.

Another indicator that turned strongly negative at the end of 2022 was M2 money growth in the US economy. This is why so many remained sceptical about equity markets throughout 2023. But M2 money growth has again turned positive.

The latest indicator to raise eyebrows is the so-called 'Sahm rule' that stipulates when US unemployment rises by 0.5 percentage points (or more) from its trough, economic recession will follow next. That increase is measured from the three-months moving average in the official unemployment rate. Economists will tell us the Sahm rule has accurately predicted all American recessions in the modern era.

But in light of all the other failed indicators, is 2024 the exception that breaks this indicator's perfect track record?

Corporate Earnings & Valuations

The general picture doesn't change when we zoom in on what has transpired in share markets since october last year.

After that strong rally from (in hindsight) beaten down levels, markets have been flashing overbought warnings since early 2024 and in-house sentiment indicators at the likes of Citi and Macquarie are suggesting sentiment is too 'hot' overall, but July yet again is paying no attention.

Share markets are trading on multiples that look elevated by historical standards, nobody denies it, but this is at the same time where general agreement stops. Are Nvidia shares really in a bubble when its EPS has grown by 452% in FY24, with a further 100%-plus to follow for the current financial year?

Yes, it is true, only 24% of stocks in the S&P500 have outperformed the index over the first six months of the year, possibly an all-time low, with the equalweighted index only up 5%, not that different from indices locally.

But there's equally a valid argument in that those outperformers are carried by strong growth, supported by megatrends such as GenAi, data centres and GLP-1s, also offering a lower-risk profile in light of higher-for-longer bond yields, a tepid deceleration in inflation, and still valid questions about the outlook for economies.

To further add to that argument: earnings for the so-called Magnificent Seven grew by 51.8% year-on-year in Q1. For the rest of the pack, the comparable number is only 1.3%.

As pointed out by more supportive market observers: earnings forecasts, in particular for Gen.Ai-related beneficiaries, have continued rising, which has subsequently translated into further share price gains.

The not-so-supportive sceptics have a point though: earnings growth cannot possibly keep going at current breakneck pace.

At some point, one has to assume, at least a pause in the uptrend will announce itself. Whether that pause shows up in the upcoming Q2 results season in the US looks highly questionable, but investors shall soon find out.

Two reasons for investors to not throw caution in the wind, either today or later:

-when stocks trade on high multiples small downward changes can have a rather large impact on modelled valuations and the share price

-there's a lot of crowding going on in today's share market winners. If/when parts of these funds start flowing elsewhere this too can have an outsized impact in the moment

Market consensus is currently positioned for 8.8% earnings growth in Q2 on average for the S&P500. If this number survives the actual results, Wilsons points out it will mark the strongest year-on-year growth since Q1 of 2022 when 9.4% was achieved. Eight of eleven sectors are expected to report growth in Q2.

Currently the average multiple for the S&P500, forward-looking, is 21x but Wilsons points to the fact that multiple drops below 18x when one strips out the winners from the technology sector.

That median multiple ex-Mag7 doesn't look extremely bloated at all and would allow for a broadening of the (out)performers in the share market, on the proviso other sections of the market also start reporting positive earnings growth.

In The Land Of Down Under

In Australia, the polarisation underneath share prices has not been dissimilar. Banks and resources are having a relatively tough time (operationally) and one of key differences is average EPS growth for the ASX200 is negative for FY24 (the financial year just concluded). Forecasts are more positive for FY25, but nowhere near the numbers seen in the US.

As things stand right now, only weeks out from that all-important August results season locally, consensus sees average EPS for the ASX200 contracting by -3.5%, having already contracted by -3% a year ago in FY23. The forecast for FY25 is a positive 5.8% which, if proven correct, also implies a broader, better growth environment.

The local PE multiple sits around 16.5x, which is equally above the long term average, but I've explained earlier we're no longer comparing apples with apples when comparing to the past as the local index has gone through impactful changes in composition. That, plus an equally bifurcated share market means the local market too could grow into its multiple if/when earnings growth shows up for today's laggards.

Readers who pay attention to these numbers will have noticed analysts' expectations locally have also improved over the weeks past. This despite the fact there remain plenty of companies for whom forecasts are deteriorating, albeit, it has to be pointed out, largely because of mid-year sector updates on miners and energy companies.

A lot has been written about how cheap shares in today's lagging sections of the local share market seem, including for small and micro-cap companies, for cyclicals, and for REITs generally, and with the ECB and Fed ready to start cutting interest rates in a few months' time, it is possible local laggards will enjoy a come-back simply because of the global copy-effect.

Locally, one would hope the RBA does not hike in August, but apparently that is the typical view from someone who has a mortgage in Australia. I do believe the 'value' proposition on the ASX is muddied because parts of the economy are arguably in a recessionary condition with underlying trends still deteriorating, which means the risk for profit warnings remains high, either this month or in August.

At the same time, the winners from the past 18 months are not by default awaiting a pause or a break in their growth trend. The risk of selling out too early remains, even if local Growth stocks could be sucked in by any correction in share market winners in the US.

One factor that might rise to investors' attention in the months ahead is possibly a stronger Aussie dollar, thanks to the RBA being handcuffed by still too high local inflation trends.

But let's first find out what local corporate profits and cash flows look like. In about two weeks' time, the first small batch of corporate results will open the August season.

In the long term, beyond all these short-term impacts and considerations, investing in the share market remains closely related to corporate earnings. Fingers crossed we can all avoid the cluster bombs and booby traps (though some share prices weakening will present opportunity).

FNArena traditionally monitors corporate results closely, and will continue to do so throughout August:
https://fnarena.com/index.php/reporting_season/

FNARENA VIDEO

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

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

SPECIAL REPORT

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

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

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, 15th July, 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: Rate Cuts, Growth & Small Caps

Part One of this week's Weekly Insights was published yesterday: https://fnarena.com/index.php/2024/07/17/rudis-view-corporate-earnings-the-best-indicator/

Part Two contains updates on strategies, model portfolios, key picks, best buys and conviction calls.

Research-based views and strategy updates pass by just about every day at FNArena. This week I have cherry-picked quotes to illuminate and inform about trends in views and forecasts that are underpinning positive sentiment in share markets in July.

Model Portfolios and Best Buy Ideas are, as per usual, further below.

Rate Cuts, Growth & Small Caps

By Rudi Filapek-Vandyck, Editor

"In early April we upgraded our year-end 2024 ASX200 market target on signs of relief from investors that economies were on a more balanced path. Since then sentiment and momentum have driven stocks higher, with the ASX200 breaking through our 8000 market target on Monday.

"Although we remain positive on equities, we keep our year-end target unchanged at 8000 as we await upcoming company results through August. Bull market yes, but no clear signs of market euphoria. Crossing a market milestone allows us to compare and contrast with previous experiences.

"At 8000, the ASX200 sits on a richer than usual valuation multiple, whilst the current dividend yield still seems comparable to history. Bolstering the support for equities is the fact that although both cash and bond yields have risen over the last four years, they don't offer the attractive pull they once did have against stocks"

(...)

"The cyclical adjusted PE, or CAPE', allows us to gauge if standard PE ratios are being restrained by an over inflated earnings base. Currently we do not see any such signs of an 'earnings bubble', with share prices still being relatively commensurate with the preceding trends seen in earnings. ROE's also indicate that companies have not been 'overearning'."

[UBS]

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"The door is opening for the Fed to begin cutting rates soon, which we expect to start in September (25bp).

"Second quarter inflation data indicate disinflation is in place. The labour market has rebalanced, and hiring is slowing.

"Our models indicate that GDP growth may slow to below its potential rate. This adds to our conviction that excess demand has subsided, and the broader economic landscape supports a sustained return to price stability.

"Monetary policy looks too tight. Our augmented Taylor Rule gauge of neutral policy rates signals fed funds should be in a range of 3.75-4.0%. We forecast fed funds to be in a range of 3.25-3.50% by Q3 2025."

[ANZ Bank]

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"Markets are almost fully priced for a cut at the September 17-18 FOMC meeting, which remains our baseline forecast. But we see a solid rationale for cutting as early as the July 30-31 meeting.

"First, if the case for a cut is clear, why wait another seven weeks before delivering it?

"Second, monthly inflation is volatile and there is always a risk of a temporary reacceleration, which could make a September cut awkward to explain. Starting in July would sidestep that risk.

"Third, the FOMC has an undeniable (if never acknowledged) incentive to avoid initiating cuts in the last two months of a presidential election campaign. This doesn't mean the committee couldn't cut in September, but it does mean that July would be preferable."

[Goldman Sachs]

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"With the stage now set for Fed rate cuts (our economists see the first cut in September), the question is, how will equities respond to a lower policy rate given it is likely to come alongside softer growth and pricing power?

"We side with the historical precedent, which suggests a quality and growth equity leadership base. As a result, we are not of the view that last week's brief rotation to lower quality cyclicals persists in a durable manner. We also retain our constructive stance on select defensive pockets, some of which are showing relative earnings revisions strength (...).

"**Growth over Value within Small Caps**. Growth has recently started to outperform value within small caps as rates have come down. In our view, this is supportive of the idea that longer duration small caps that are more secular growth-oriented and more sensitive to cost of capital have benefitted on a relative basis as yields have come down.

"In contrast, small cap stocks that are more economically sensitive (i.e., value) have not benefitted given lower rates are likely a reflection of slower growth and pricing power. We believe this trade has more relative upside to go as earnings revisions are supportive of small cap growth, and history shows that small cap growth typically outperforms when the Fed begins cutting rates."

[Morgan Stanley]

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"In the US, worries continue about stretched valuations, but we see reason to be positive. While the market-capitalisation weighted S&P 500 has a forward price-to-earnings (P/E) ratio of 21, the forward P/E of the equal-weight version of the Index is a more reasonable 16, especially given current interest rate levels. The difference reflects the large weighting big tech has in the benchmark.

"For the rest of the S&P 500, earnings growth declined on average during the first quarter, which helped to cap valuations. Even so, consensus forecasts expect profits to reaccelerate over the remainder of year, resulting in overall positive earnings growth for calendar year 2024.

"We take a similar view but also note uncertainties around consumer spending, the timing and number of potential rate cuts, and geopolitical tensions. As such, we continue to think investors should focus on high-quality firms whose growth is not dependent on the economic cycle, can generate strong free cash flow, and have reasonable debt levels.

"Today, we think one sector that offers many of these attributes is healthcare. After a multiyear bear market, many biotechnology stocks still trade below the value of cash on their balance sheets. Meanwhile, the broader healthcare sector's (S&P 500 Health Care Sector) total return lagged the S&P 500's by more than 20 percentage points in 2023, suffering from a sharp slowdown in COVID-19-related product sales.

"And yet, the healthcare sector is ripe with innovation. Last year, the Food and Drug Administration approved a record 73 novel medicines. These drugs are now beginning what will likely be a 10-year revenue cycle, including in new end markets with multibillion-dollar sales potential.

"Recently approved GLP-1 drugs for diabetes and weight loss, for example, are already annualising more than [US]$30 billion in revenue and are forecast to reach roughly [US]$100 billion in sales by the end of the decade."

[Janus Henderson]

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"Our base case remains that inflation will subside enough over the balance of the year for the Fed to cut rates twice, while economic activity will slow, but in an orderly fashion.

"This macro backdrop keeps us constructive despite some caution around current US valuations and signs of tech sector exuberance. We continue to believe that broader market participation will characterize the second half of 2024.

"However, this broader participation will require a clearer signal on growth, which we view as a prerequisite for market breadth to extend beyond mega-cap AI."

[Wilsons]

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"Historically, when the market experiences a significant one-day rotation from large to small caps, the trend tends to continue for the following four weeks.

"When reviewing the top 5 instances, the largest 10 companies underperformed the rest of the market by -4.8% over the next month.

"Importantly, the S&P 500 advanced by 4.5% over the same period."

[Crestone]

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"Discontent with incumbent leaders has been a common theme leading to several opposition party wins, with economic, trade, and immigration policies and corruption also contributing to voter dissatisfaction. The uncertainty associated with these elections could aggravate an already fragile global economic environment on the cusp of finally reigning in inflation and skirting a more severe downturn.

"With the potential for abrupt changes in fiscal policies, trade, and tariffs on the horizon, markets could become increasingly volatile as they weigh the impacts. Some of this is already playing out across European markets, which appeared to be turning the corner economically just weeks before recent snap elections were announced.

"With more elections to come and the increasing uncertainty around the U.S. elections that are still months out, the uncertainty itself could become an increasing downside risk to growth and one leading to central bankers regretting not snapping at the opportunity when they had it."

[T Rowe Price]

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"Inflation is stickier than expected but should further decelerate towards central bank targets in 2025. This will allow major central banks to proceed with a new cycle of cuts to avoid an excessive slowdown, though at different speeds.

"Economic fundamentals support easing in most EM countries, as long as the Fed does not raise rates. Our base case is that the Fed will begin cutting rates by September 2024.

"A less likely downside scenario would be a renewed spike in inflation in the wake of the US election.

"Geopolitical risk is expected to increase in the coming years, with factors such as protectionism, sanctions, tariffs, export controls, and trade wars intensifying. The outcome of the US election will be pivotal, as US foreign policy should significantly differ under a Biden vs Trump presidency.

"Nevertheless, US confrontation with China is expected to rise and Europe will need to assess its approach to China because of its own priorities in defence, resilience of supply chains, and the energy transition."

(...)

"Overall, we favour high-quality equities, maintain a positive duration stance, and look at commodities as a hedge against inflation."

[Amundi]

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"Our base case is for volatility (geopolitical and market) to persist in the short-term and hence we retain a fairly conservative stance in our asset allocation positioning. The risk-reward opportunity in fixed income, particularly high quality domestic credit, remains compelling with yields well in excess of equities and valuations in line with historical levels.

"From an equity perspective we prefer to tilt portfolios towards global (US and Emerging Markets) exposures given more accommodative monetary and fiscal policy backdrops which, in turn, should support earnings and returns over the medium-to-long-term."

[Evans and Partners]

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"We are adding risk to portfolios by moving modestly overweight equities. As global inflation pressures ease, this should set the scene for lower rates, supporting broader financial conditions.

"That said, we are cognisant of the risks to the outlook, including relatively expensive equity valuations. We favour fixed income, with current yields continuing to offer a favourable risk-return outlook.

"Within alternatives, we favour hedge funds and real assets, particularly infrastructure. We lean overweight equities, favouring quality and domestic equities."

[Crestone]

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"The key change to our forecasts over the past month was the shift on our view for the timing of the first RBA rate cut. We now expect the first cut to occur in May 2025 though we still expect the RBA to ultimately cut rates by 125bps over the subsequent year or so.

"We acknowledge the upside risks to rates in the near-term, but we ultimately see the RBA maintaining its strategy of trying to hold onto labour market gains. That sees the need to remain on hold for longer."

[National Australia Bank]

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"The economic situation has affected Australians differently. Older Australians and retirees have experienced the least pressure, with deep savings and interest income growth.

"Generally, mortgagees, confronting higher interest rates, inflation, and fewer working hours, have been able to manage through with savings built during the pandemic.

"Renters and younger people have come under the most pressure during these times as they have a smaller pool of savings. Assuming the economy evolves in line with the RBA's forecasts, much of this year will remain challenging for borrowers and renters already under pressure."

[Shaw and Partners]

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"On balance, we see the now significant weakness in the domestic consumer as suggesting the upcoming tax cuts, while supportive for consumption, won't add materially to the inflation backdrop."

[Wilsons]

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"Our forecast for an August RBA rate hike and continued lag of the global easing cycle could drive more FX appreciation a help to the disinflationary path via imports.

"In equities, current levels of AUD should not challenge FY24e result outcomes, but should consensus embrace a structurally higher AUD for FY25e+, there would be more meaningful translation headwinds to earnings.

"Offshore investor and corporate interest in Australia would also be influenced."

[Morgan Stanley]

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Also:

Ahead of the August reporting season, JP Morgan's favourite apparel retailers are, in order of preference, Universal Store Holdings ((UNI)), Accent Group ((AX1)), then Lovisa Holdings ((LOV)).

Model Portfolios, Best Ideas & Conviction Calls

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

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

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

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

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

Selected names:

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

As well as:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

-Woolworths Group ((WOW))
-Viva Energy Group ((VEA))
-TechnologyOne ((TNE))
-Medibank Private ((MPL))

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

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

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

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

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

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

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

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

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

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

-AGL Energy ((AGL))
-BlueScope Steel ((BSL))

-Orica ((ORI))
-Origin Energy ((ORG))
-Rio Tinto ((RIO))
-Santos ((STO))

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

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

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

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

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

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

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Jarden's select list of **preferred small cap stocks** in Australia ("Emerging Companies key picks"):

-Temple & Webster ((TPW))
-Lovisa Holdings ((LOV))
-Siteminder ((SDR))
-Nick Scali ((NCK))
-Universal Store Holdings ((UNI))
-Dicker Data ((DDR))

Plus also ("sector picks"):

-Ingenia Communities Group ((INA))

-National Storage ((NSR))
-Telix Pharmaceuticals ((TLX))
-Karoon Energy ((KAR))
-Domain Australia Holdings ((DHG))
-Inghams Group ((ING))
-NRW Holdings ((NWH))
-Light & Wonder ((LNW))
-Pepper Money ((PPM))
-Champion Iron ((CIA))

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

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

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

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

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

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

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

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-Macquarie Group ((MQG))
-QBE Insurance ((QBE))
-Suncorp Group ((SUN))
-Goodman Group ((GMG))
-Scentre Group ((SCG))
-Stockland ((SGP))
-Aristocrat Leisure ((ALL))

-Car Group ((CAR))
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-James Hardie ((JHX))
-Orica ((ORI))
-Coles Group ((COL))
-Treasury Wine Estates ((TWE))
-CSL ((CSL))
-ResMed ((RMD))
-AGL Energy ((AGL))
-Origin Energy ((ORG))
-Telstra ((TLS))
-Transurban Group ((TCL))
-BHP Group ((BHP))
-Newmont Corp ((NEM))
-Rio Tinto ((RIO))
-South32 ((S32))
-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy ((WDS))

****

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

More ideas come with "long term growth" profiles:

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

Among Resources stocks, there are two favoured ideas:

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

And there's a Speculative basket too:

-Immutep ((IMM))

****

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

The Focus Portfolio encompasses the following:

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

<u>Energy</u>
-Woodside Energy ((WDS))

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

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

Industrials
-Worley ((WOR))

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

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

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

****

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

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

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

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

****

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

-Aristocrat Leisure ((ALL))
-Domino's Pizza ((DMP))
-Evolution Mining ((EVN))
-James Hardie Industries ((JHX))
-Pilbara Minerals ((PLS))
-Qantas Airways ((QAN))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-Treasury Wine Estates ((TWE))
-Xero ((XRO))

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

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

****

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

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

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

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

Tactical Ideas:
-Treasury Wine Estates ((TWE))
-ClearView Wealth ((CVW))

-Inghams Group ((ING))
-Avita Medical ((AVH))
-Flight Centre Travel ((FLT))

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

A-REITs:
-Cedar Woods Properties ((CWP))
-Dexus Industria REIT ((DXI))
-HomeCo Daily Needs REIT ((HDN))
-Qualitas ((QAL))

****

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

The selected ten:

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

****

Macquarie's ASX Quality Compounders

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

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

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

-Fisher & Paykel Healthcare ((FPH))
-Medibank Private ((MPL))
-Coles Group ((COL))
-The Lottery Corp ((TLC))
-Lovisa Holdings ((LOV))

-CSL ((CSL))
-IDP Education ((IEL))
-Pinnacle Investment Management ((PNI))
-ARB Corp ((ARB))
-Breville Group ((BRG))
-Johns Lyng ((JLG))

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

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions.)

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

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

FNARENA VIDEO

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

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

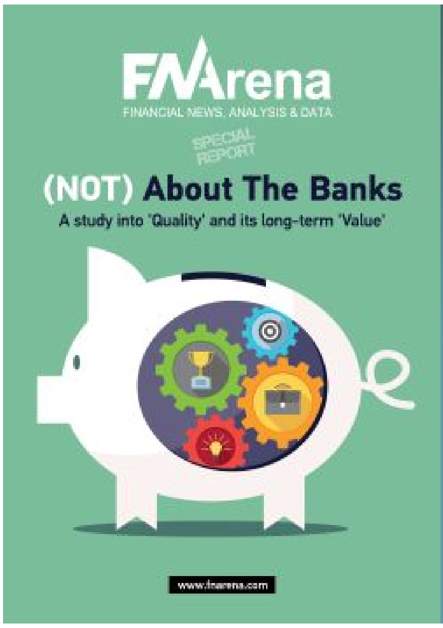
SPECIAL REPORT

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

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

FNArena Subscription

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



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

SMALL CAPS

Dr Boreham's Crucible: SDI

By Tim Boreham

ASX code: ((SDI))

Shares on issue: 118,865,530

Market cap: $101.0m

CEO: Samantha Cheetham

Financials (first half to December 2023): revenue $52.2m (up 3.5%), earnings before interest tax depreciation and amortization $9m (up 49%), net profit $3.7m (up 37%), dividends per share 1.5 cents (steady), cash balance $7.1m (-18%), net debt $17.9m (-1.1%).

Board: Jeffery Cheetham (chair), Ms Cheetham, Cameron Allen, John Slaviero (CFO/COO), Gerald Bullon, Dr Geoffrey Knight, Gerard Kennedy

Identifiable major shareholders: Cheetham family interests 45.8%, Garrett Smythe Ltd 3.2%, Nicholas and Annette Debenham 3%, Nicholas Debenham 1.5%.

In 1987, then Prime Minister Bob Hawke said no child would live in poverty by 1990 an utterance that proved an aspirational statement rather than a core promise.

Over at the United Nations, promises are more like hard targets - at least when it comes to phasing out the use of mercury.

Specifically, signatory nations to the UN's Minamata Convention on Mercury have pledged to abolish dental amalgams - a common filling used for the last 175 years - by 2030.

About half of the amalgam material consists of mercury, which is known for its manifold health risks. The remainder consists of easily recyclable silver, tin and copper.

It's estimated that 3,000 to 5,000 tonnes of mercury are in our gobs and up to 40% enters water or solid waste streams. In the case of cremations, it ends up in the atmosphere along with Uncle Bertie's soul.

Sweden, Norway and Germany have already banned amalgam, while 128 nations have signed up to the Minamata Convention. Over the last five years, fewer than 6% of posterior teeth fillings used amalgam, compared with 73% five years previously.

These trends are music to the ears of SDI, our home-grown supplier of filling and aesthetics material to more than 100 countries and regions including the US, Europe and Brazil.

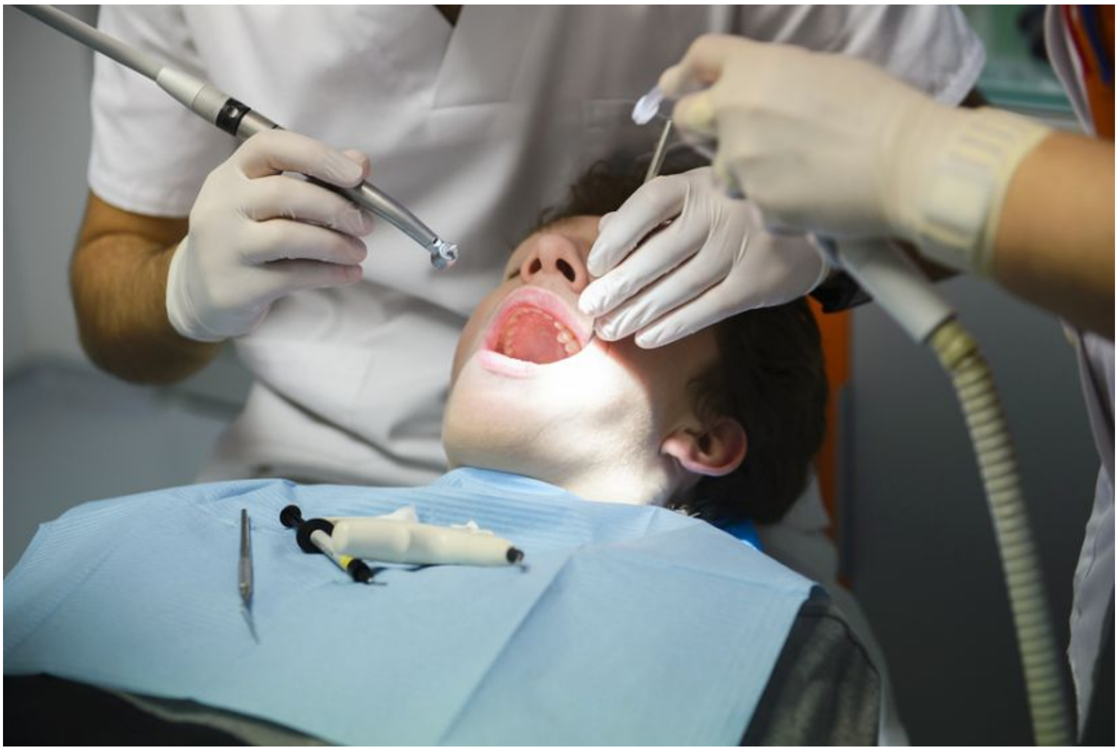
SDI's revenues mainly were derived from amalgam, which chief executive Samantha Cheetham dubs a "great product" given there's no need for marketing spend.

But the company has bit the bullet and swung sharply to composite and glass ionomer cement materials, as well as whitening products.

"We have a really small market share in most countries, but we are growing," she says.

SDI holds especially high hopes for its high-margin Stela, an amalgam replacement material that promises to revolutionise filling procedures by making dentist visits quicker and more efficient.

Meanwhile, management has a spring in its step after last week's disclosure of a record performance for the financial year just ended (see below).



Long in the tooth

For more than 50 years, SDI has been developing and exporting dental supplies from its base at Bayswater, in eastern Melbourne.

Formerly known as Southern Dental Industries, SDI was founded in 1972 by Jeffery James Cheetham (now the company chair).

The company listed on the ASX in 1985, but ran into trouble after expanding into selling dental chairs. The elaborate patient repositories seemed an obvious allied activity, but in reality, it required very different skills.

The company quickly retreated to selling the mouth gob and smaller equipment, such as applicators.

Mr Cheetham's daughter, Samantha, took over as CEO in July 2016, having been sales and marketing supremo. Two of her four brothers are also involved in the business.

SDI's brands include Stela, Pola Rapid, Riva Star Aqua, Luna 2, Aura Bulk Fill, Riva Light Cure and Radii Expert.

A recently-launched aesthetic product called Riva Cem Auto Mix, is a self-curing, fluoride-releasing paste/resin for cementing metal and ceramic restorations.

While small by world standards, SDI competes with the likes of Dentsply, 3M, Kerr Dental and Coltene.

A Stela product

Developed by SDI with the University of New South Wales, University of Wollongong and University of Sydney, Stela has the potential to be the gold standard of filling material.

Stela is stronger than amalgam and - being tooth coloured - has pleasing aesthetics, and reduces the steps to complete a filling. The product is relevant for about half of all fillings.

With a silvery-grey hue, amalgam fillings might look ugly but they have the advantage of being incredibly strong and lasting for decades.

"With composites you have to drill the hole, etch it and put a bond on which is cured with the blue light," Ms Cheetham says. "You then put on composite, layer upon layer."

The material cannot be applied at once because it sets towards the light, which can result in the filling pulling away from the tooth surface.

"Because Stela is self-curing, it sets towards the tooth so it is gap-free."

In 2022, the US Food and Drug Administration approved Stela, followed by the local Therapeutic Goods Administration and the Brazilian regulator.

European assent is pending, although post Brexit regulatory shifts have slowed the process.

With the product launched in April last year, Ms Cheetham says initial Stela sales are going "really well" and she is pleased dentists are using it not just for back teeth but the more prominent molars.

"The sales are not significant yet, but dentists are re-ordering it," she says.

"It is something super-innovative and we are getting fantastic feedback from really important dentists and good evaluation results as well.

"It can take four years to get traction with any product but I would say this will be quicker."

Stela's -$6m development cost was supported by $4.5m of government and university grants.

Finances and performance

Some companies prefer to leave it to the August reporting season to lift the kimono on performance, but SDI last week was happy to pre-reveal the key numbers.

And why not? Sales for the year to June 30, 2024 will come in at an unaudited record $111.4m, 3.2% higher. Net profit is expected to be $9.5m to $10m compared with the previous $7.1m, or $10.5m to $11m excluding asset impairments.

SDI posted sales of $52.4m for the December 2023 half year, up 3.5% and also a record. Net profit zoomed 36% to $3.7m, reflecting abating costs (such as logistics) which were problematic in the prior period.

"There's a lot of moving parts in the results, including currency movements, product and geographic mix and logistics costs," chief finance officer John Slaviero says.

Post-pandemic, elevated supply chain costs have reduced but and are unlikely to come down further.

While most of SDI's raw materials (including silver) are locally sourced, some chemicals are imported, while Switzerland is the main supplier of mercury.

In line with the 10-year trend, aesthetics products led the way with revenue of $26.3m for the half year, up 5%. Management attributes this to "market share gains and new product".

Conversely, amalgam product sales crumbled -17% to $7.7m. This fall was partly attributed to stronger sales in the previous period, the result of two big rivals withdrawing from the market.

(While the use of amalgam has diminished, it's still widely used in the US - especially in lower socio-economic markets).

Whitening product sales were -0.6% off the pace, although European sales held up. The company doesn't service the do-it-yourself whitening market, for fear of annoying dentists.

Geographically, Europe and Australia each account for around 35% of sales, followed by North America on 22% and Brazil on 7.0%.

A curious aspect of the record first-half year turnover was that sales declined everywhere except for Europe, where they increased by 16%. This more than compensated for the falls elsewhere.

Brazil lost its cha cha cha, with sales down -13%, the result of major distributor Henry Schein reducing inventory. This was expected to "normalise" in the June half year.

Ms Cheetham says Brazil's 200m people are well serviced by 350,000 dentists.

"They are the most beautiful looking, made-up people, including the men," she says of this populace. "They are very conscious of the way they look."

Australian sales declined -2.5%, the result of "inconsistent ordering patterns affected by customer import licences, payment terms and credit limits."

A property purchase (see below) resulted in the company taking on debt in 2023, having had none previously.

Investors were bestowed with a 1.5c a share interim dividend, steady on previously.

Over the last year, SDI shares have gnashed between 72c (mid-February 2024) and 88c (mid-March this year).

The stock peaked at $2.38 in January 2004.

On the move

Having outgrown its current premises, SDI is on the move - but only down the road to nearby Montrose.

In 2022, the company confirmed the -$19m purchase of a 24,500 square metre site, which includes an 11,200 square metre warehouse (to be refurbished to a manufacturing facility in a staged process.)

The company hopes to move in in the 2026-'27 year.

In total, the company expects to spend -$60m on the Montrose site; -$45m on land and buildings and -$15m on machinery, for an expected return on investment of more than 20%.

SDI's current net debt stands at $17.9m. Mr Slaviero says gearing will peak at $38m, falling to $22m after the sale of the 16,200 square metre Bayswater site.

The new facility is expected to support annual sales of $200m - twice the current run rate.

Dr Boreham's diagnosis:

Ms Cheetham notes that tooth decay is the world's number-one non-communicable disease - at a time when people are becoming more conscious of their dental health.

While the principle of applying fillings hasn't changed much over the ages, the techniques certainly have. These days, all or most of the pain felt by patients is in the anticipation of the visit - and perhaps the wallet afterwards.

SDI is a minnow in a sea of giants, with a sub 1% share of the US composites market and a circa 5% share here.

But over the ages, the company has proved nimble enough to compete with the titans of teeth.

With products like Stela, it is well-placed to address the body beautiful' market for which ugly silvery-grey fillings are simply not Instaworthy.

SDI has a solid record of earnings and dividends, although some observers reckon the company could do more in terms of expanding its global reach.

"In our category, there is so much we can do but you may as well stick to your knitting. We know what we can develop," Ms Cheetham says.

Having seen more than a few up-and-coming corporates subsumed by their hubris, your columnist doesn't mind the humble approach.

A year ago, SDI management said investors should see the benefit of increased sales "flowing through in the next year or so".

Given the Stela revenue boost is yet to be seen in earnest, this utterance was more an aspirational statement more than anything.

But unlike Hawkie's infamous promise, at least it has some semblance of being achieved.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He is often told to shut his gob - and not just because of the ugly grey fillings

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TREASURE CHEST

Treasure Chest: Qantas Airways

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

By Danielle Ecuyer

Whose Idea Is It?

Evans and Partners

The subject:

Qantas Airways ((QAN))

More info:

Evans and Partners has nominated Qantas Airways as one of its preferred dividend plays.

Qantas has not paid a dividend since 2019 and management's announcement to re-start dividend payments in FY25 is being embraced by some brokers more than others.

Several brokers outside of daily monitoring by FNArena have been providing upbeat dividend forecasts for the airline.

Evans and Partners is the standout with a forecast dividend per share of 40c in FY25, 45c in FY26 and 50c in FY27.

The broker's thesis is based upon *"The long term FY30 target for Loyalty to generate EBIT of $800m-$1b remains the objective. Evans and Partners forecast EBIT of $826m in FY30."*

Evans and Partners has a $6.85 target price.

Morgans proposes a different perspective. Post a management meeting, the analyst highlights FY24 is a transitional year for the company.

It is envisaged Qantas will benefit from upgrades in earnings estimates over FY25 from improved operating metrics, including more efficient aircraft and freight headwinds moving to tailwinds.

Morgans believe cash flows will surprise and come in stronger than consensus estimates which are "likely assuming a material unwind in revenue received in advance (RRIA) and too high cash tax" for FY25, despite a capex program of -$3.7bn - $3.9bn.

Morgans has a $7 target price and a forecast dividend per share of 15c and 17c for FY25 and FY26, respectively. This broker has an Add rating for the airline.

Goldmans Sachs has Qantas on its **APAC conviction list** with a Buy rating and an $8.05 target price.

This broker forecasts profit before tax will come in 51% above pre covid levels in FY24 and 61% higher in FY25, with the uplift reflecting -$1bn in cost outs.

Over a future three-year period, the analyst anticipates Qantas gearing, net debt/EBITDA will remain within target, including FY25-FY27 cumulative capex of -$11.3bn, which is in line with consensus.

Management will also pay out a $1.6bn capital return.

Goldmans Sachs is forecasting a 30c dividend per share in FY25 and FY26.

Another bullish broker is **Jarden**, with a recently upgraded target price to $7.30 from $7 in mid-June.

"In our view, the announcement of the recommencement of 'base dividends' for Qantas in FY25E will be a positive catalyst for the share price, all else being equal."

The analyst is forecasting a 25.3c and 32.8c dividend per share in FY25 and FY26, respectively and emphasises the concerns on capex are unwarranted, due to potential delays to the Boeing and Airbus aircraft deliveries.

Jarden envisages improved margins for the domestic business and cost benefits from Project Winton fleet (the replacement of the aging domestic Boeing fleet with Airbus aircraft) will underwrite a greater premium mix per plane.

This broker forecasts up to 200bps of EBITDA improvement from the domestic operations as the fleet is modernised. Jarden highlights its EPS forecasts are 5% above consensus in FY25 and 9% above in FY26.

The broker believes Qantas' balance sheet has the capacity to support the heavy capex program.

Daily monitored brokers have an average price target of $6.725 and a forecast average 19.9c dividend in FY25 which equates at the current price of $6.21 to a 3.2% fully franked yield.

The yield on offer rises to 4.83% in case the Qantas board decides to payout 30c next year, and to 6.44% if Evans and Partners' 40c forecast materialises.

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.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 12-07-24

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

By Mark Woodruff

Guide:

The FNArena database tabulates the views of eight major Australian and international stockbrokers: Citi, Bell Potter, Macquarie, Morgan Stanley, Morgans, Ord Minnett, Shaw and Partners and UBS.

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

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

Summary

Period: Monday July 8 to Friday July 12, 2024
Total Upgrades: 5
Total Downgrades: 11
Net Ratings Breakdown: Buy 58.45%; Hold 32.86%; Sell 8.70%

For the week ending Friday July 12, 2024, FNArena recorded five ratings upgrades and eleven downgrades for ASX-listed companies by brokers monitored daily.

The tables below show percentage upgrades by brokers to average earnings forecasts were slightly larger than downgrades, while changes in average target prices were broadly equal.

As part of Macquarie's review of upcoming quarterly production results for large cap ASX-listed copper stocks under coverage, earnings forecasts were raised for Sandfire Resources. While heading up the positive earnings forecast change table below, Sandfire's percentage move was exaggerated by the small forecast numbers involved.

Macquarie is forecasting a Q2 2024 realised copper price of US$4.45/lb, 16% higher than the Q1 realised price of US$3.83/lb.

The analyst forecasts copper production of 27.2kt for Sandfire in the June quarter, 2% higher than the 26.5kt consensus estimate.

Capstone Copper is still the broker's preferred pick among copper pure-plays under coverage due to its strong organic growth, portfolio optimisation potential (asset divestments), and the likelihood of ASX300 index inclusion during the September rebalance.

Appearing second on the forecast earnings upgrade table is Strike Energy after a general update by Ord Minnett across the Energy & Utilities sectors.

The broker highlighted both sectors are often attractive from a dividend yield perspective, as was the case in FY24. The Energy sector registered a dividend yield of 5.5% over the period, while the Utilities sector yielded 6.3%.

Among coverage of smaller caps, the analysts like Strike Energy, Beach Energy, Carnarvon Energy, Karoon Energy, and Stanmore Resources.

Capitol Health was next after Macquarie reviewed the Australian Diagnostic Services sector last week, noting industry growth should be supported by population, aging, utilisation, mix and indexation.

The broker's preferred exposure is Integral Diagnostics due to a solid organic growth outlook and potential upside from the proposed merger with Capitol Health. It's felt a merger has potential to drive significant upside from both a revenue and cost perspective.

Last month, FNArena highlighted the deregulation and scale benefits from the potential merger: (Building The No 3 Diagnostic Imaging Player - FNArena.com).

TPG Telecom also received a material lift in average earnings forecast in the FNArena Database last week.

UBS highlighted both TPG Telecom and Telstra Group will see the benefit in upcoming August earnings reports from previous mobile price rises flowing-through into numbers for second half FY24 mobile average revenue per user (ARPU).

Mobiles will be a primary driver of a recovery in industry return on invested capital (ROIC) over the next few years, according to the broker.

The average earnings forecast for Aeris Resources also received a boost after fourth quarter copper and gold production beat Macquarie's forecasts by 14% and 3%, respectively.

Unfortunately, processing issues at Mt Colin resulted in weaker-than-expected FY24 copper production of 27.1kt (at the lower end of management's guidance) and the broker maintained a Neutral rating and 26c target price.

On the flipside, average earnings forecasts fell in the database last week for De Grey Mining, Paladin Energy, and Regis Resources.

Again, forecast numbers were small and minor changes appear large in percentage terms, and, overall, the positive view held by UBS on De Grey Mining was reinforced after reviewing a scoping study for regional deposits near the Hemi project.

Around 140kozpa of incremental gold production was added for six years, and the company's large and growing inventory (with gold priced over A$3,500/oz) was highlighted by the broker.

In reaction to higher cost and production guidance by management at Paladin Energy, Bell Potter lowered its target to $15.70 from $16.10, while also noting the Langer Heinrich ramp-up appeared to be running ahead of prior estimates by the analysts and consensus.

The broker's uranium price outlook was also marked-to-market, reflecting weaker than anticipated near-term pricing.

According to Bell Potter, the most significant share price catalyst for Paladin will be the closure of the transaction to acquire Fission Uranium, which is expected by September.

Four brokers in the database reviewed forecasts for Regis Resources after management pre-released FY24 gold production of 417.7koz compared to guidance of between 415-455koz.

Production at Tropicana was impacted by rain and missed Morgan Stanley's forecast by -20%, but production at the Duketon operations exceeded the broker's forecast by 16%.

On the one hand, Citi raised its target to $1.90 from $1.70 on higher gold price forecasts and upgraded to Neutral from Sell after recent share price underperformance. On the other hand, UBS lowered its target to $1.85 from $2.10 after raising opex assumptions and downgraded to Neutral from Buy.

UBS highlighted short-to medium-term production profile risks at Duketon, as well as timing and execution risks at the McPhillamys project, while Citi felt the latest reserve statement was underwhelming, as group resources were flat year-on-year at circa 7moz.

Changes in average target prices were largely immaterial in the database last week. The largest moves were a 9% rise for Sigma Healthcare and a nearly -14% drop for Meteoric Resources.

Several average target prices and earnings forecasts in the database were again impacted last week as Ord Minnett continues to replace prior Morningstar research coverage with in-house analysis.

The broker now has an Accumulate rating and $1.35 target for Sigma Healthcare compared to the prior Hold rating and 78c target.

The proposed merger of Sigma with Chemist Warehouse Group would create the number one vertically integrated pharmacy group in Australia, noted the broker.

Ord Minnett also suggests the capital light business model of the merged entity has potential to create material growth optionality both domestically and internationally.

Last week, Meteoric Resources released details from the scoping study for the ion-adsorption clay rare earth Caldeira project in the Minas Gerais state of Brazil, which highlighted an open pit operation scenario with 5mtpa throughput and a 20-year mine-life.

The project, which makes an around 50% operating margin at spot before accounting for royalties and transport costs, can operate through all stages of the pricing cycle, observed Bell Potter.

This broker maintained a Speculative Buy rating but lowered its target to 40c from 50c after incorporating higher capital costs and associated equity financing into forecasts, as well as adjusting pricing formulas.

While higher recovery rates and lower operating expenses were a positive, Macquarie noted the capital investment required was higher-than-expected. Thius broker's target declined by -22% to 36c and the Outperform rating was maintained.

Total Buy ratings in the database comprise 58.45% of the total, versus 32.86% on Neutral/Hold, while Sell ratings account for the remaining 8.70%.

Upgrade

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

UBS upgrades its rating for IGO to Neutral from Sell and increases its target to $6.10 from $5.95.

As the June TLEA dividend was well ahead of expectations and the share price has fallen by -37% so far in 2024, ther broker believes
the market has discounted challenges at TLEA and the nickel business sufficiently.

See also IGO downgrade.

NORTHERN STAR RESOURCES LIMITED ((NST)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/2/0

Citi previews the Australian gold sector's upcoming results, stating equities "look attractive" relative to the physical metal.

The global Citi team is bullish on gold prices with the Fed expected to lower rates at the September meeting.

Northern Star Resources has underperformed both Evolution Mining ((EVN)) and the AUD gold price by -7% and -13%, respectively for the quarter to date., the analyst states.

The broker applies a US$2500/oz gold price to the earnings forecasts, lower than the Citi global team's US$3000 forecast,

The Northern Star Resources price target is raised to $15.90 from $15.20 and the stock upgraded to Buy from Neutral.

REA GROUP LIMITED ((REA)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/3/0

After assuming a higher valuation multiple and raising earnings forecasts, Macquarie raises its target for REA Group to $212 from $196 and upgrades to Outperform from Neutral.

The broker is anticipating solid FY24 result due to the benefit of Premiere-plus (the top-tier depth product for property listings on realestate.com.au) penetration and geographic mix.

The analyst forecasts a buy yield of 21% compared to management's guidance of between 18-19%. The pathway to breakeven for REA India may also come earlier than expected by the market, suggests Macquarie.

REGIS RESOURCES LIMITED ((RRL)) Upgrade to Neutral from Sell by Citi .B/H/S: 3/3/0

Citi raises its target for Regis Resources to $1.90 from $1.70 on higher gold price forecasts and upgrades to Neutral from Sell after recent share price underperformance.

Management's pre-release of FY24 production was in line with forecasts by the broker and consensus. FY24 Duketon production of 290koz proved within 280-305koz guidance, but Tropicana disappointed with volume of 128koz missing guidance, explains the broker.

The latest reserve statement was underwhelming, according to the analysts, with group resources flat year-on-year at circa 7Moz, inclusive of new areas at Garden Well Main and Rosemont Stage 3.

See also RRL downgrade.

TELSTRA GROUP LIMITED ((TLS)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 5/0/1

Macquarie does a mea culpa and confesses a misinterpretation of the "step-away of inflation-lined pricing" for Telstra Group as a negative.

The broker believes the price increases across the three major retail brands (Telstra, Belong and JB Hi-Fi) confirms the telco will remain a price leader.

Equally, the outlook for Telstra Group's dividend improves, states the analyst, with a better-than-expected mobile pricing decision.

Macquarie now forecasts a 1H25 dividend per share of 9.5c and higher tax paid should assist with franking credit issues.

The target price is raised to $4.40 from $3.70 and the rating upgraded to Outperform.

Downgrade

AMPOL LIMITED ((ALD)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 1/3/0

A general sector update on energy companies shows Ampol is currently rated Hold versus Buy on July 3.

APA GROUP ((APA)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 1/4/0

A general sector update on energy companies shows APA Group is currently rated Hold versus Buy on July 3.

CLINUVEL PHARMACEUTICALS LIMITED ((CUV)) Downgrade to Hold from Add by Morgans .B/H/S: 2/1/0

Awaiting FY24 results and more information regarding US clinic growth and demand, Morgans decides to downgrade its rating for Clinuvel Pharmaceuticals to Hold from Add in the expectation of short-term stock price volatility.

Recent share price strength was also factored into the broker's decision to downgrade. The $16.00 target is unchanged.

The analysts caution investors Clinuvel Pharmaceuticals is not a "set-and-forget" stock given the risk around alternative therapies and potential generic competition in time.

GENERATION DEVELOPMENT GROUP LIMITED ((GDG)) Downgrade to Hold from Add by Morgans .B/H/S: 1/1/0

Morgans lowers its FY25 and FY26 EPS forecasts by -6% and -1%, respectively, after allowing for the acquisition of the remaining 61.9% of Lonsec for around -$197m. Strategically the acquisition makes sense, but the broker is wary of the full price paid.

The broker's near-term earnings changes are offset by increased long-term valuation growth assumptions, and the target edges up to $2.57 from $2.56.

As upside to the analyst's target is now more limited after a share price rise, the rating is downgraded to Hold from Add.

GQG PARTNERS INC ((GQG)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 4/0/0

Ord Minnett believes GQG Partners delivered an "excellent" June quarter with FUM up 3.7% over the month and up 8.5% on the previous quarter.

The 2Q2024 inflows of $6.5bn are the largest reported since listing and the broker adjusts EPS forecasts by 5% to 9% over the next two years due to better-than-expected FUM and flows.

The rating is downgraded to Accumulate from Buy due to the strong share price performance over the last 12-months.

Target price is lifted to $3.20 from $2.85 on the earnings forecast upgrades.

HUB24 LIMITED ((HUB)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/4/0

Citi highlights the "material" slowdown in hiring activity for Hub24, whereas Netwealth Group's ((NWL)) hiring has picked up in June.

The broker flags the stock is likely to outperform into the FY24 results, due to higher margins, even though it sees consensus revenues as too high.

A 15% lift in ASX trading volumes year-on-year and up 8% in the 2H24 should boost revenue margins, Citi calculates, but this is likely to be offset by lower cash allocations.

The analyst believes Netwealth Group will overtake Hub24 in terms of underlying flows.

The target price is raised to $46.42 from $42.80.

The rating downgraded to Neutral from Buy on valuation grounds.

IGO LIMITED ((IGO)) Downgrade to Sell from Hold by Bell Potter .B/H/S: 1/3/2

Bell Potter believes the current IGO share price implies long-term lithium prices of US$1,450/t SC6 and US$20,000/t lithium hydroxide, which are significantly higher than spot prices of US$1,000/t and US$12,000/t, respectively.

In the broker's view, considerable further short-term downside risk remains for the IGO share price. The target is lowered to $5.15 from $7.60 and the rating is downgraded to Sell from Hold.

Separately, management announced the receipt of a $159m dividend from Tianqi Lithium Energy Australia (TLEA).

This payment provides confidence in TLEA's ability to generate returns to shareholders against the current lithium price backdrop, suggests the broker, while executing committed expansion programs at Greenbushes.

See also IGO upgrade.

ORIGIN ENERGY LIMITED ((ORG)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 3/2/0

A general sector update on energy companies shows Ampol is currently rated Hold versus Accumulate on July 3.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/3/0

UBS downgrades its rating for Regis Resources to Neutral from Buy and lowers the target to $1.85 from $2.10 after raising opex assumptions.

The broker highlights short-to medium-term production profile risks at Duketon, as well as timing and execution risks at the McPhillamys project.

See also RRL upgrade.

REX MINERALS LIMITED ((RXM)) Downgrade to Hold from Buy by Shaw and Partners .B/H/S: 1/1/0

Rex Minerals has entered into a scheme implementation deed for its major shareholder MACH Metals to acquire all of its shares not already owned at 47c.

Shaw and Partners lowers the target price to 47c reflecting the deal and changes the rating to Hold from Buy. High Risk.

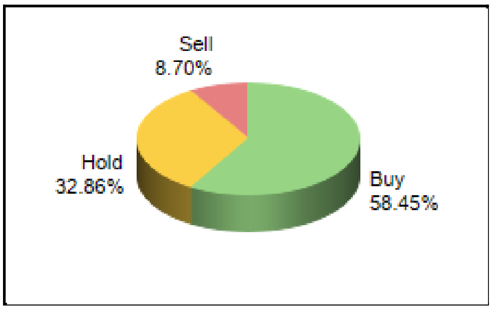
SUNCORP GROUP LIMITED ((SUN)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/3/0

Following Insurance Australia Group's new reinsurance arrangements, Macquarie argues the group should trade on a material
premium to Suncorp Group after boxing in catastrophes and long tail reserves.

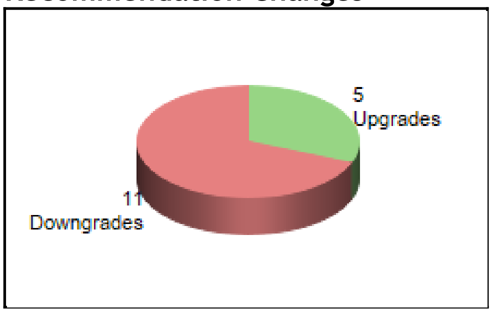
Insurance Australia Group is now the broker's preferred exposure in the sector, trading at a more attractive multiple, with capital management likely in August, and margin stability due to the new reinsurance.

Macquarie's rating for Suncorp Group is downgraded to Neutral from Outperform given a lack of reinsurance cover versus peers and the prospect of La Nina this year. The target is reduced to $15.80 from $17.

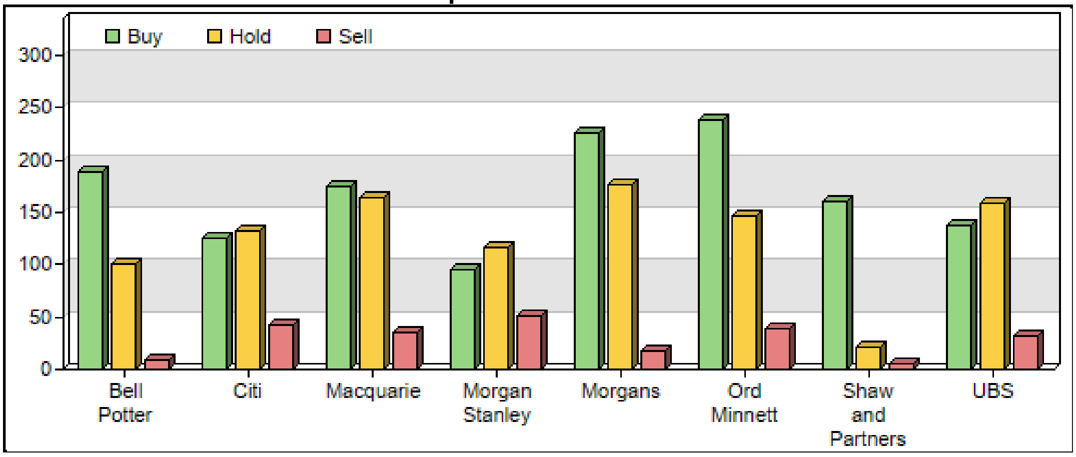
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	IGO LIMITED	Neutral	Sell	UBS
2	NORTHERN STAR RESOURCES LIMITED	Buy	Neutral	Citi
3	REA GROUP LIMITED	Buy	Neutral	Macquarie
4	REGIS RESOURCES LIMITED	Neutral	Sell	Citi
5	TELSTRA GROUP LIMITED	Buy	Neutral	Macquarie
Downgrade				
6	AMPOL LIMITED	Neutral	Buy	Ord Minnett
7	APA GROUP	Neutral	Buy	Ord Minnett
8	CLINUVEL PHARMACEUTICALS LIMITED	Neutral	Buy	Morgans
9	GENERATION DEVELOPMENT GROUP LIMITED	Neutral	Buy	Morgans
10	GQG PARTNERS INC	Buy	Buy	Ord Minnett
11	HUB24 LIMITED	Neutral	Buy	Citi
12	IGO LIMITED	Sell	Neutral	Bell Potter
13	ORIGIN ENERGY LIMITED	Neutral	Buy	Ord Minnett
14	REGIS RESOURCES LIMITED	Neutral	Buy	UBS
15	REX MINERALS LIMITED	Neutral	Buy	Shaw and Partners
16	SUNCORP GROUP LIMITED	Neutral	Buy	Macquarie

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	SIG	SIGMA HEALTHCARE LIMITED	1.152	1.057	8.99%	6
2	NWL	NETWEALTH GROUP LIMITED	20.258	18.800	7.76%	6
3	PRU	PERSEUS MINING LIMITED	2.933	2.767	6.00%	3
4	GQG	GQG PARTNERS INC	2.925	2.775	5.41%	4
5	XRO	XERO LIMITED	159.767	152.267	4.93%	6
6	CRN	CORONADO GLOBAL RESOURCES INC	1.790	1.710	4.68%	5
7	VEA	VIVA ENERGY GROUP LIMITED	3.967	3.813	4.04%	4
8	IAG	INSURANCE AUSTRALIA GROUP LIMITED	7.342	7.075	3.77%	6
9	SUN	SUNCORP GROUP LIMITED	18.000	17.433	3.25%	6
10	WHC	WHITEHAVEN COAL LIMITED	9.443	9.157	3.12%	7

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	MEI	METEORIC RESOURCES NL	0.420	0.487	-13.76%	3
2	WDS	WOODSIDE ENERGY GROUP LIMITED	31.560	33.800	-6.63%	6
3	IGO	IGO LIMITED	6.483	6.867	-5.59%	6
4	DEG	DE GREY MINING LIMITED	1.755	1.830	-4.10%	4

5	BSL	BLUESCOPE STEEL LIMITED	22.420	23.090	-2.90%	5
6	FMG	FORTESCUE LIMITED	19.990	20.476	-2.37%	7
7	GOR	GOLD ROAD RESOURCES LIMITED	2.063	2.113	-2.37%	4
8	NST	NORTHERN STAR RESOURCES LIMITED	15.820	16.180	-2.22%	5
9	ALX	ATLAS ARTERIA	5.416	5.538	-2.20%	5
10	BOE	BOSS ENERGY LIMITED	5.050	5.163	-2.19%	4

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	SFR	SANDFIRE RESOURCES LIMITED	1.791	-0.244	834.02%	6
2	STX	STRIKE ENERGY LIMITED	0.700	0.467	49.89%	3
3	CAJ	CAPITOL HEALTH LIMITED	35.000	23.667	47.89%	3
4	TPG	TPG TELECOM LIMITED	17.725	13.360	32.67%	5
5	AIS	AERIS RESOURCES LIMITED	-0.167	-0.233	28.33%	3
6	IPL	INCITEC PIVOT LIMITED	19.380	18.050	7.37%	5
7	SIG	SIGMA HEALTHCARE LIMITED	1.753	1.637	7.09%	6
8	VEA	VIVA ENERGY GROUP LIMITED	28.400	27.100	4.80%	4
9	SUN	SUNCORP GROUP LIMITED	108.760	104.840	3.74%	6
10	GQG	GQG PARTNERS INC	21.608	20.926	3.26%	4

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	DEG	DE GREY MINING LIMITED	-0.700	0.300	-333.33%	4
2	PDN	PALADIN ENERGY LIMITED	-8.841	-5.522	-60.11%	4
3	RRL	REGIS RESOURCES LIMITED	8.520	9.900	-13.94%	6
4	NIC	NICKEL INDUSTRIES LIMITED	6.433	7.044	-8.67%	5
5	CRN	CORONADO GLOBAL RESOURCES INC	9.117	9.718	-6.18%	5
6	WDS	WOODSIDE ENERGY GROUP LIMITED	195.091	200.268	-2.59%	6
7	CUV	CLINUVEL PHARMACEUTICALS LIMITED	68.900	70.200	-1.85%	3
8	KAR	KAROON ENERGY LIMITED	48.438	49.336	-1.82%	5
9	JLG	JOHNS LYNG GROUP LIMITED	19.860	20.180	-1.59%	5
10	BSL	BLUESCOPE STEEL LIMITED	205.420	208.620	-1.53%	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: Focus On Kazatomprom (Aug 1)

The world's largest uranium producer, Kazatomprom, takes centre stage while the Biden Administration drives a nuclear reactor reform agenda.

-U308 price higher
-Kazatomprom hit by new taxes
-Aussie uranium stocks look attractive

By Danielle Ecuyer

A quiet spot market belies big macro changes

The U308 spot market was relatively quiet last week. Only one transaction was reported by industry consultant TradeTech at a price of US$86lb, a US$1 increase on the previous week.

On the corporate news front it was quite the contrary as Kazatomprom, the world's largest uranium producer, announced changes to the Mineral Extraction Tax for its Kazakhstan mining operations.

The tax change from the Kazakh government is reported by TradeTech as part of "broader economic reforms" to balance the budget and provide greater economic equality.

The new rate would move to 9% from 6% starting in 2025 and remain stable for one year before changing to a differentiated rate and would be based on production volumes and uranium prices annually at the start of 2026.

The spot uranium market has taken leave of activity as participants, such as utilities, continue to assess and prepare application waivers for the Russian import ban.

Next week will be marked by the **Nuclear Energy Institute's Nuclear Fuel Supply forum in Washington** on June 27, where TradeTech expects attending parties will be seeking clarification on important industry issues, including the Department of Energy's Request for Proposals seeking delivery offers of low-enriched uranium.

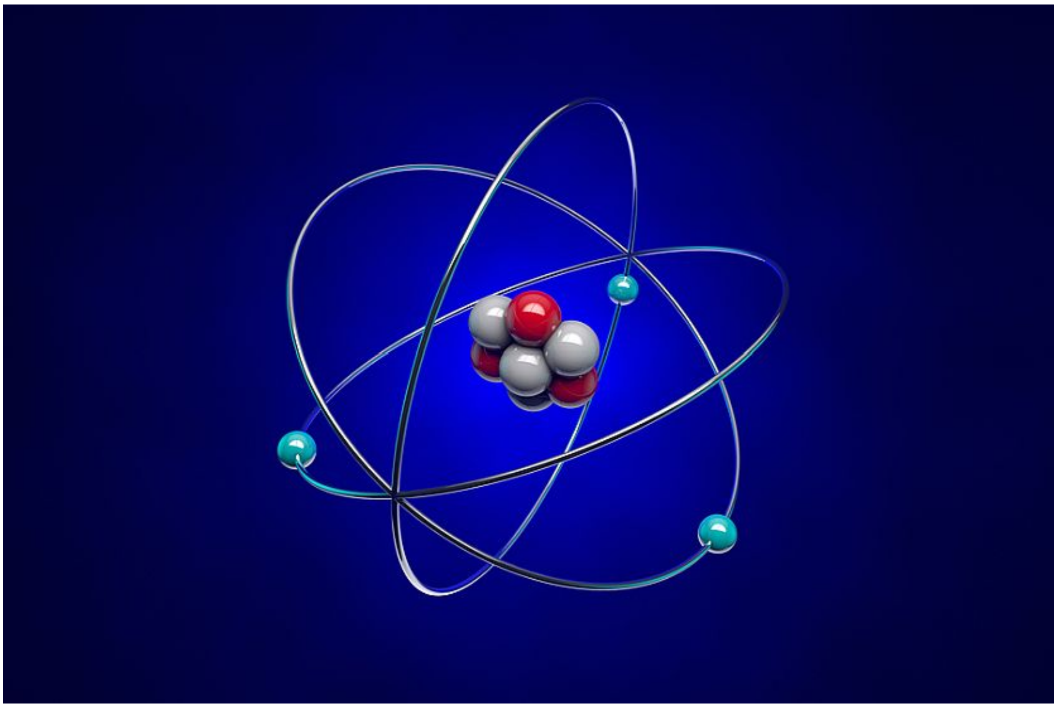
President Biden also signed a bill on July 9 which incorporates the Accelerating Deployment of Versatile, Advanced Nuclear for Clean Energy Act. TradeTech states the bill aims to "accelerate the timeline for licensing new nuclear reactors" which includes a reduction in fees companies are required to pay.

The bill is designed to enhance new build reactors at a pace not seen since the 1970s as:

"Energy demand is expected to grow over the next decade as data centers, electric vehicles, and industrial processes all search for a clean and reliable source of power. Nuclear will be part of that solution, which is why the United States has already **committed to tripling our nuclear capacity** and is making moves to help secure our clean energy future," the Department of Energy stated.

Turning to U308 prices trends, TradeTech emphasises although the spot price has retraced -7% in 2024 and is off -20% from the 2024 high of US$107lb, it remains 54% above the price a year ago.

The U308 Mid-Term price indicator is US$93/lb and the Long-Term price is US$80lb.



Corporate news in focus

Australian brokers also had Kazatomprom in focus this week.

UBS hosted a call with the company, which is due to report earnings on **August 1** and provide **updated 2025 production guidance**.

The market remains concerned around the sulfuric acid shortages, a key input resource and a reason for the 2024 production guidance downgrade by -14% to around 21.8kt.

Lingering concerns over supply remain for 2025, particularly as management has been unwilling to lift production guidance from its stated 30.5kt 31.5kt or 100% of its 2025 subsoil contract levels, the broker highlights.

UBS views the guidance update as a potential catalyst for more support, underwriting the uranium price.

Bell Potter also commented on the upcoming results and views the possibility of a 2025 guidance downgrade as "highly likely". This broker also envisages ongoing production cost increases. This may result in higher pricing pressures to levels which could incentivise greenfield production.

Turning to stocks, the Bell Potter analyst believes the recent price weakness for Paladin Energy ((PDN)) and Boss Energy ((BOE)) due to respectively the Fission Uranium transaction and the downward revision in production guidance to around 1.2mlbs as overdone.

The broker has reiterated a Buy rating on Boss with a $5.90 target price.

Paladin is also Buy rated with a $15.70 target and Bell Potter is positive on the growth options that will be forthcoming from the Fission Uranium transaction.

Canaccord Genuity also jumps on the proposed acquisition as a win-win for both Paladin and Fission Uranium, with the combined group underwriting the third-largest uranium resource globally (for listed companies).

The broker estimates costs will decline as much as -27% to US$31lb from US$42lb, and the production potential shifts to 13.6mlbs, at a time when Canaccord forecasts a -36mlb supply deficit in 2030.

Fission brings forth Patterson Lake South, a resource of 130mlbs of U308 and "bridges the gap between Langer Heinrich and a potential mine development at Michelin" states the analyst.

The target price is raised to $16.50 from $15.90 with an unchanged Buy rating.

Reactor Update

Bell Potter also observed 60 reactors were under construction globally at the end of May, with China representing 26 of those.

In China, two reactors have been connected since the last update and over 2023 four in Slovakia, China, the

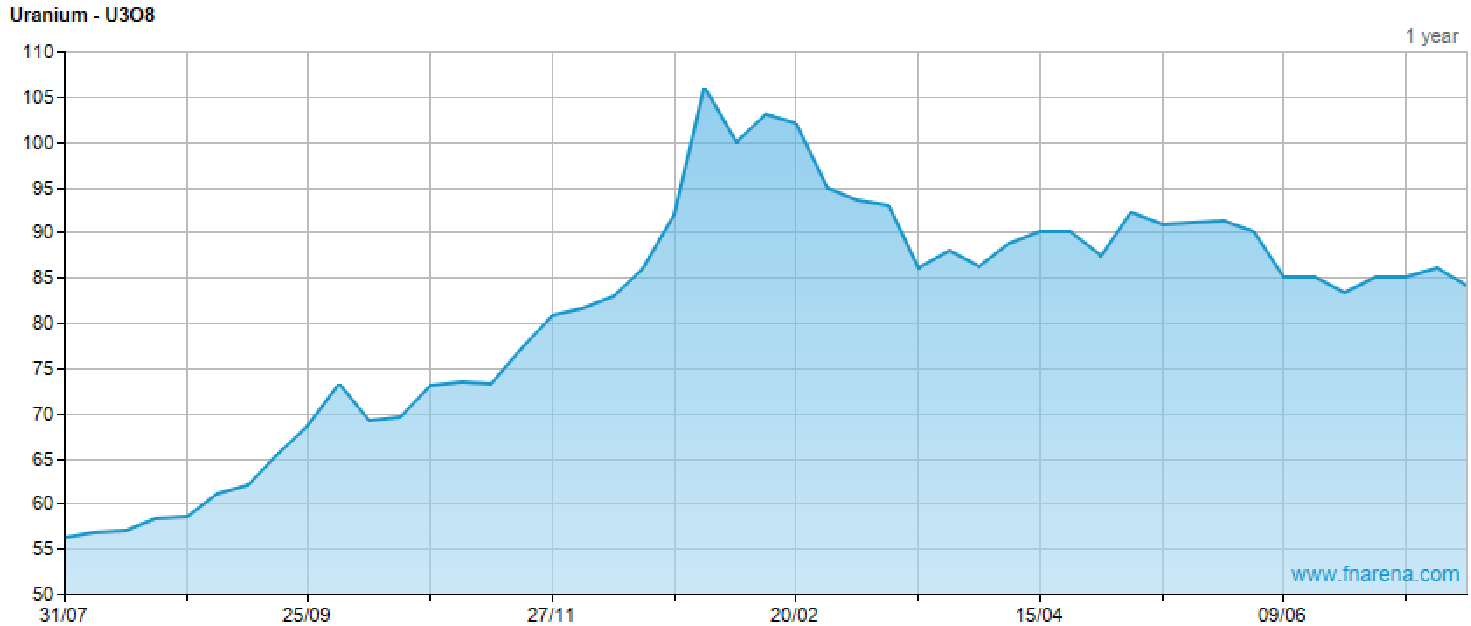
USA, and Germany were connected to the grids.

In Japan two suspended reactors have restarted.

Bell Potter continues to be positive on nuclear reactor installations across the globe, including in China with a further 154 reactors and 28 in India.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	12/07/2024	0.0800	▲33.33%	$0.19	$0.06			
AGE	12/07/2024	0.0500	▲ 4.00%	$0.08	$0.03			
BKY	12/07/2024	0.3600	▼- 9.33%	$0.70	$0.26			
BMN	12/07/2024	3.1300	▲ 1.91%	$4.87	$1.44		$7.400	▲136.4%
BOE	12/07/2024	3.9700	▲ 6.58%	$6.12	$2.83	39.7	$5.050	▲27.2%
DYL	12/07/2024	1.4600	▲ 6.34%	$1.83	$0.65	-105.0	$1.770	▲21.2%
EL8	12/07/2024	0.4100	▲ 6.41%	$0.68	$0.29			
ERA	12/07/2024	0.0400	▲ 2.70%	$0.08	$0.03			
LOT	12/07/2024	0.3500	▲12.31%	$0.49	$0.19		$0.660	▲88.6%
NXG	12/07/2024	10.9000	▲ 6.24%	$13.66	$6.82		$17.500	▲60.6%
PDN	12/07/2024	13.7000	▲ 8.11%	$17.98	$7.25	-155.2	$16.287	▲18.9%
PEN	12/07/2024	0.1200	▲ 9.52%	$0.18	$0.08	40.0	$0.260	▲116.7%
SLX	12/07/2024	5.1600	▲ 2.17%	$6.74	$2.92		$7.600	▲47.3%



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

WEEKLY REPORTS

The Short Report - 18 Jul 2024

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

Summary:

Week Ending July 11th, 2024 (most recent data available through ASIC).

10%+

PLS 21.17

IEL 13.11

FLT 11.12

LTR 11.02

ACL 10.98

CHN 11.54

SYR 10.52

Out: VBTC

9.0-9.9%

WGX
SYA
LYC

In: LYC

8.0-8.9%

STX
WBT
CTT

In: CTT Out: LYC

7.0-7.9%

HLS
BOE

In: BOE Out: CTT

6.0-6.9%

GMD
BGL
ARU
OBL
BOQ
VISM
MIN
IFL
WEB

In: IFL, MIN, VISM Out: BOE, NAN

5.0-5.9%

CUV
LIC
DYL
VUL
NAN
CXO
SFR
NUF
RIO
SEK

In: NAN, SEK Out: IFL, MIN

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.5	0.5	NAB	0.5	0.5
ANZ	0.4	0.5	QBE	0.7	0.6
BHP	0.5	0.4	RIO	5.1	5.0
CBA	1.6	1.6	STO	1.0	1.0
COL	0.5	0.5	TCL	0.6	0.6
CSL	0.5	0.5	TLS	0.5	0.4
FMG	0.9	0.8	WBC	0.8	0.7
GMG	1.2	1.3	WDS	0.5	0.4
JHX	0.8	0.8	WES	1.1	0.9
MQG	0.7	0.8	WOW	0.5	0.5

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

In Brief: More US Millionaires & More From ECB

Weekly Broker Wrap: US millionaires multiplying, inflation in China and Japan; ECB rate cuts; unaffordable housing in the USA; and tracking technology software.

-Superior output from the US millionaires factory
-Inflation aint the same in China and Japan
-ECB to trump the US on rate cuts
-Home affordability issues in the USA
-Investors crowding in ASX software companies

By Mark Woodruff

Food for thought: quote of the week

Former President Donald Trump "wouldn't feel too secure if I was [Taiwan]" and questioned why the US was acting as Taiwan's "insurance" when, he claimed in an interview with Bloomberg, they had "taken" American chip business.

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The US millionaire factory

"Money is better than poverty, if only for financial reasons" once stated Woody Allen.

Around 22 million American millionaires (or 6% of the population) would undoubtably agree, which is 50% more than the combined total of their counterparts in China, France, Japan, and Germany, according to new data presented by Stocklytics.com.

From the beginning of the century until 2023, the total number of millionaires (measured in US dollars) globally increased to 58m from 14.7m, according to the UBS 2024 Global Wealth Report, and the US accounted for nearly 40% of the number. Second-ranked China, with a much larger population, had only six million millionaires in 2023.

Reasons put forward by Stocklytics' writer Jastra Kranjec for the rapid increase over the past two decades are: globalisation; a booming technology industry; expanding financial markets; rising real estate prices; and growth in emerging market economies.

Over 3.5 million Americans will join the millionaire club by 2028, according to a survey within the UBS Wealth Report. China and Japan will add 500,000 and 800,000, respectively, by 2028, and France, Germany, and Canada can hope for around 400,000 new entrants each.

Suffering from relative impoverishment, the United Kingdom will have to endure a projected -17% decline by 2028, according to the survey, or around -500,000 fewer millionaires than in 2023.

Opposing inflation scenarios in China and Japan

Morgan Stanley anticipates consumption growth will stay weak in China but gradually improve in Japan, noting consumer spending is a key factor for each country's growth outlook.

By way of background, the broker explains Japan is going through a structural shift to a moderate sustainable rate of inflation from low-flation, whereas China is up against a persistent deflation challenge.

Over the period 2013-17, Chinese nominal GDP growth was averaging 9.1% as compared to 2% in Japan, which contrasts with nominal GDP growth (year-on-year) in the first half of 2024 for each country of 4.1% and 2.1%, respectively.

So far in Japan, imported inflation has cut into real wage and consumption growth, but the broker anticipates stronger wage growth with moderating inflation will lift real wage growth. Temporary tax cuts are also expected to support near-term consumption.

On the other hand, deflationary pressures in China continue to weigh on nominal GDP, and weak corporate returns are pressuring wage growth, observe the analysts. Spending on high-end goods is also being weighed down by wage cuts in the finance, property, and technology sectors, while property price declines are also driving households to pay down borrowings.

In adopting policies to defend GDP growth by keeping investment ratios (excessively) high, China is experiencing declining overall returns for the economy, highlights Morgan Stanley.

Consumer sentiment in China has weakened further due to rising job and income concerns and the ongoing decline in house prices. Wage growth could decelerate further as deflationary pressures persist, suggest the analysts.

From the September quarter in Japan, Morgan Stanley believes real consumption growth will turn positive on a year-on-year basis as inflation transitions to "good" (price hikes backed by wage hikes) from "bad" (driven by rising import and input costs).

ECB to trump the US on rate cuts

"We wanted to have greater confidence that inflation was moving sustainably down toward our two percent target and what increases our confidence in that is more good inflation data and lately we have been getting some of that,".

So stated Federal Reserve Chair Powell earlier this week while speaking at the Economic Club of Washington, when pressed on whether the FOMC would lower interest rates.

While the groundswell for interest rate cuts grows in the US, it appears momentum will be greater on the European continent.

Following the ECB's June rate cut, Oxford Economics expects a further -200bps of European Central Bank loosening by the end of 2025 in a marked divergence with US Federal Reserve policy.

By contrast, the US Federal Reserve is expected to start its easing cycle in September and limit policy easing to -150bps of cuts.

Oxford's forecasts, based on activity and inflation forecasts, are also supported by Qvigstad's criterion, which points to policy rate divergence at least as large.

This oft-quoted criterion by previous central bankers suggests tighter policy may be warranted if an economy is expected to run hot, with inflation above target at the same as economic activity is above normal levels. Equally, it suggests superior outcomes could be achieved with looser policy where an economy is expected to run cold.

While the surge in inflation in recent times is relatively unusual from a historical perspective, Oxford's current ECB policy rate assumptions broadly align with the evidence from previous comparable periods of disinflation.

Either of two potential risk scenarios to Oxford's baseline forecasts (a Full-blown Trump presidency and higher-for-longer interest rates) point to the highest level of divergence between the ECB and the Fed since the inception of the euro.

Rather gloomily, a full-blown Trump presidency is defined as the economy being hit by heightened protectionism, elevated interest rates, and a weakening US economy amid curbs on immigration and fading fiscal stimulus.

Under the "Higher-for-longer interest rates" scenario there is a protracted period of high interest rates that weighs on stock markets and house prices, resulting in tighter credit conditions and several years of sub-par growth, explains Oxford Economics.

<u>Home affordability issues in the USA</u>

It seems the cost of everything housing-related has made home buying historically unaffordable in the USA.

Home price growth will likely moderate slightly, but still remain positive, leaving housing affordability at historical lows, according to Oxford Economics' proprietary US Housing Affordability Index (HAI).

Renters (particularly) from among prospective first home buyers, are finding the costs involved out of reach due to elevated mortgage rates, high home prices, and rising costs for property taxes and homeowners' insurance, explains Oxford. Low affordability has also contributed to lower rates of home ownership for younger households compared to their predecessors.

Based on data from the American Community Survey, run by the US Census Bureau, Oxford points out the median income of renter households is typically about two-thirds of the median income of all households, and just over half the median income for homeowners.

While this median income for existing homeowners makes home buying still affordable, there is a strong incentive not to move, as most homeowners with a mortgage have rates well below market rates.

Coming up with a 20% deposit for a home can also be a stretch for renters. Oxford points out a Federal Reserve Survey of Consumer Finances conducted in 2022 showed median financial assets of US$5,000 for renters compared to US$100,000 for homeowners.

In a salient point, Oxford notes delaying home ownership also delays the wealth accumulation which historically follows home ownership.

While the HAI was slightly better in the first quarter of 2024 by comparison to the record low in the last quarter of 2023., Oxford is only expecting a minor affordability improvement later in 2024 and during 2025, via lower mortgage rates once the Federal Reserve begins cutting interest rates.

<u>Tracking technology sector numbers</u>

Wednesday's rally in WiseTech Global ((WTC)) shares (brought undone yesterday, perhaps by the food for thought quote above by Trump) may partly be explained by the same-day release of proprietary UBS June maritime data.

The volume of container ship entries into North America, Europe, and Asia all increased by 7.9% year-on-year.

This growth continues May's momentum of 8.1%, points out the broker. The first week of July showed activity growing by 4.3%.

As part of further software tracking, UBS notes US downloads continue to accelerate for Zip Co ((ZIP)), trending 14% higher following May's 10% increase. While supportive for the Zip investment case, a simultaneous trading update and capital raise appeared to spur the nearly 12% share price rally yesterday.

For Xero ((XRO), UK and US app downloads improved over June and market share gains were achieved in Australia, highlights the broker.

June-ending UBS Quant crowding data for Australian Software companies show long crowding positions increased month-on-month for WiseTech and Xero, while positions for Zip Co declined.

WiseTech led the crowding increase, yet the company's shares are still the "least" crowded (or most shorted), with Xero the "most" crowded, explains UBS.

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 19-07-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

CORE LITHIUM LIMITED ((CXO)) Upgrade to Neutral from Sell by Jarden and Upgrade to Neutral from Sell by Goldman SachsB/H/S: 0/0/0

Jarden revises the rating on Core Lithium to Neutral from Sell and the target price is lowered to 10c from 12c.

The target price is based on the assumption by the analyst that Finniss will return to operation, supported by lithium price and the enterprise value of $110m can be justified, notes Jarden, on the basis of a strong cash position and residual salvage value of the Finniss infrastructure.

Goldman Sachs reviews the lithium market, observing that lithium companies' share prices continue to de-rate despite having outperformed global peers (and the underlying commodities market) in the past year.

The broker spies no solid support in the near term and forecasts near-term pricing weakness through to December 2025 given continued additions to the market surplus as new projects continue to be proposed or progressed and the brokers observes narrowing premiums and widening discounts at auctions.

The broker upgrades Core Lithium to Neutral from Sell believing production restart risk has been priced in; given the company now holds cash equivalent to 40% of its market capitalisation; and given it is trading at discount to peers given the -76% fall in its share price.

But the broker cuts its target price to 8c from 12c, expecting potential benefits from easing inflation and ongoing exploration wont hit any time soon.

Downgrade

JUMBO INTERACTIVE LIMITED ((JIN)) Downgrade to Underweight from Neutral by Jarden.B/H/S: 0/0/0

Jumbo Interactive is downgraded to Underweight from Neutral by Jarden with a target price of $15.40, down from $15.70.

The broker forecasts strong upcoming FY24 results but the outlook for FY25 has been tempered by a mean reversion in jackpots towards more historical trends of 23-25 jackpots over $15m per half.

Jarden believe there is downside risk to consensus estimates for FY25.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	CORE LITHIUM LIMITED	Neutral	Sell	Goldman Sachs
2	CORE LITHIUM LIMITED	Neutral	Sell	Jarden
Downgrade				
3	JUMBO INTERACTIVE LIMITED	Sell	Neutral	Jarden

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
ADT	Adriatic Metals	$3.31	Canaccord Genuity	5.50	5.35	2.80%
AGY	Argosy Minerals	$0.08	Petra Capital	0.30	0.31	-3.23%
ALK	Alkane Resources	$0.55	Moelis	0.65	0.60	8.33%
			Petra Capital	1.00	1.06	-5.66%
			Petra Capital	1.12	1.06	5.66%
ALL	Aristocrat Leisure	$52.57	Goldman Sachs	55.30	N/A	-
ANG	Austin Engineering	$0.62	Petra Capital	0.67	0.60	11.67%
ARU	Arafura Rare Earths	$0.19	Petra Capital	0.25	0.48	-47.92%
ASN	Anson Resources	$0.14	Petra Capital	0.40	0.41	-2.44%
ASX	ASX	$65.44	Jarden	61.25	61.10	0.25%
BCB	Bowen Coking Coal	$0.06	Petra Capital	0.12	0.11	9.09%
BKT	Black Rock Mining	$0.06	Petra Capital	0.20	0.17	17.65%
BLU	Blue Energy	$0.01	Petra Capital	0.09	0.12	-25.00%
BRE	Brazilian Rare Earths	$2.98	Petra Capital	4.36	5.13	-15.01%
			Petra Capital	4.55	5.13	-11.31%
CEH	Coast Entertainment	$0.50	Canaccord Genuity	0.60	0.54	11.11%
CMM	Capricorn Metals	$5.44	Jarden	5.31	5.33	-0.38%
CNB	Carnaby Resources	$0.52	Petra Capital	1.53	1.44	6.25%
CVN	Carnarvon Energy	$0.19	Jarden	0.24	0.25	-4.00%
CXO	Core Lithium	$0.10	Goldman Sachs	0.08	0.12	-33.33%
			Jarden	0.10	0.15	-33.33%
DMP	Domino's Pizza Enterprises	$33.12	Petra Capital	38.10	40.80	-6.62%
GLN	Galan Lithium	$0.16	Petra Capital	0.51	0.55	-7.27%
GQG	GQG Partners	$2.85	Goldman Sachs	3.00	2.73	9.89%
IGO	IGO	$5.87	Goldman Sachs	7.15	8.10	-11.73%
JIN	Jumbo Interactive	$15.89	Jarden	15.40	15.90	-3.14%
KAR	Karoon Energy	$1.90	Jarden	2.25	2.28	-1.32%
LFG	Liberty Financial	$3.78	Jarden	4.00	4.20	-4.76%
LIN	Lindian Resources	$0.12	Petra Capital	0.63	0.69	-8.70%
LTM	Arcadium Lithium	$5.38	Goldman Sachs	6.35	10.90	-41.74%
MEI	Meteoric Resources	$0.14	Petra Capital	0.39	0.38	2.63%
MMC	Andean Silver	$0.99	Canaccord Genuity	2.50	2.30	8.70%
MMI	Metro Mining	$0.05	Petra Capital	0.09	0.09	1.11%
NWC	New World Resources	$0.03	Petra Capital	0.13	0.12	8.33%
NWL	Netwealth Group	$22.72	Wilsons	23.52	22.03	6.76%
OBM	Ora Banda Mining	$0.45	Moelis	0.46	0.42	9.52%
ORG	Origin Energy	$10.72	Jarden	11.00	10.40	5.77%
ORI	Orica	$17.70	Jarden	18.50	18.55	-0.27%
PLS	Pilbara Minerals	$2.98	Goldman Sachs	2.60	2.80	-7.14%
PNR	Pantoro	$0.09	Petra Capital	0.16	0.17	-5.88%
PPM	Pepper Money	$1.42	Jarden	1.55	1.60	-3.13%
QAN	Qantas Airways	$6.09	Jarden	7.30	7.00	4.29%
RED	Red 5	$0.42	Petra Capital	0.46	0.47	-2.13%
			Petra Capital	0.46	0.49	-6.12%
RHK	Red Hawk Mining	$0.86	Petra Capital	0.97	0.95	2.11%
RMC	Resimac Group	$0.81	Jarden	0.93	1.02	-8.82%
RMS	Ramelius Resources	$2.00	Canaccord Genuity	2.70	2.60	3.85%
RNU	Renascor Resources	$0.09	Petra Capital	0.15	0.16	-6.25%
RSG	Resolute Mining	$0.66	Canaccord Genuity	1.55	1.40	10.71%
SFX	Sheffield Resources	$0.31	Petra Capital	0.68	0.69	-1.45%
SMR	Stanmore Resources	$3.86	Petra Capital	5.77	5.30	8.87%
SPR	Spartan Resources	$1.07	Canaccord Genuity	1.20	0.85	41.18%
STN	Saturn Metals	$0.18	Petra Capital	0.56	0.50	12.00%

STO	Santos	$8.00	Jarden	8.25	8.15	1.23%
SUN	Suncorp Group	$17.04	Jarden	17.17	17.00	1.00%
TLC	Lottery Corp	$4.96	Goldman Sachs	5.60	N/A	-
			Jarden	5.00	5.20	-3.85%
TLG	Talga Group	$0.47	Petra Capital	1.06	1.19	-10.92%
TLS	Telstra Group	$3.88	Goldman Sachs	4.30	4.25	1.18%
TTM	Titan Minerals	$0.05	Canaccord Genuity	0.13	0.14	-7.14%
WDS	Woodside Energy	$29.52	Jarden	29.15	29.25	-0.34%
WGX	Westgold Resources	$2.73	Petra Capital	2.98	2.67	11.61%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

ADT ADRIATIC METALS PLC

Gold & Silver Overnight Price: $3.23

Canaccord Genuity rates ((ADT)) as Speculative Buy (1)

Canaccord Genuity anticipates further upside for both the gold price and gold equities supported by pending rate cuts and strong margin growth, respectively.

The broker raises its 2024-29 gold price forecasts by an average of 3.4% and increases the long-term (from 2030) estimate by 5% to US$2,712/oz. For silver, the long-term price is increased by 20% to US$33.58/oz.

Across Canaccord's research coverage of developers and explorers, price targets rise by 3% on average, after FY25 and FY26 earnings (EBITDA) forecasts increase by 2% and 3%, respectively, on the higher gold price estimates.

Adriatic Metals is among the broker's best developer/explorer ideas. The target rises to $5.50 from $5.35 and the Speculative Buy rating is maintained.

This report was published on July 11, 2024.

Target price is **$5.50** Current Price is **$3.23** Difference: **$2.27**
If **ADT** meets the Canaccord Genuity target it will return approximately **70%** (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

GYG GUZMAN Y GOMEZ LIMITED

Overnight Price: $26.97

Wilsons rates ((GYG)) as Initiation of coverage with Overweight (1)

Wilsons initiate coverage of Guzman y Gomez with an Overweight rating and a $31.98 target price.

The broker expects the company will benefit from strong unit economics, with median annual sales for drive-thru and strip stores at $6.1m and $4.5m respectively, and restaurant margins at 22% and 20%.

To date Guzman y Gomez has developed what Wilsons views as a robust store network in Australia, with plans to expand to 1,000 restaurants from 185, over the long term.

With $277m in net cash, the company can support its aggressive expansion strategy, the broker suggests, including potential growth in the US market.

Overweight. $31.98 target price.

This report was published on July 9, 2024.

Target price is **$31.98** Current Price is **$26.97** Difference: **$5.01**
If **GYG** meets the Wilsons target it will return approximately **19%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **0.00** cents and EPS of **17.70** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **152.37**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **21.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **128.43**.

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

LNW LIGHT & WONDER INC

Gaming Overnight Price: $156.40

Goldman Sachs rates ((LNW)) as Initiation of coverage with Buy (1)

Goldman Sachs initiates coverage of Light & Wonder with a Buy rating and $190 target as part of the broker's general push into the gaming industry.

The broker observes the company is a market leader in land-based gaming and offers strong opportunties for earnings growth in fledgling digital and real-money gaming markets.

Goldman Sachs prefers Light & Wonder to Aristocrat Leisure on which it also initiates coverage, appreciating its stronger risk-reward skew.

The broker observes the challenger is set to continue building market share in A&NZ and North America, forecasting a 12% compound annual growth rate.

Goldman Sachs also believes SciPlay is outperforming the social casino segment due to better monetisation and user growth.

This report was published on July 10, 2024.

Target price is **$190.00** Current Price is **$156.40** Difference: **$33.6**
If **LNW** meets the Goldman Sachs target it will return approximately **21%** (excluding dividends, fees and charges).
Current consensus price target is **$167.00**, suggesting upside of **6.8%**(ex-dividends)
The company's fiscal year ends in December.

Forecast for FY24:

Goldman Sachs forecasts a full year **FY24** dividend of **0.00** cents and EPS of **867.51** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **18.03**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **478.8**, implying annual growth of **77.4%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **32.7**.

Forecast for FY25:

Goldman Sachs forecasts a full year **FY25** dividend of **0.00** cents and EPS of **1080.65** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **14.47**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **605.9**, implying annual growth of **26.5%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **25.8**.

Market Sentiment: **0.5**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

QAN QANTAS AIRWAYS LIMITED

Transportation & Logistics Overnight Price: $6.21

Goldman Sachs rates ((QAN)) as Buy (1)

Goldman Sachs retains a positive view on Qantas Airways and belives the earnings have structurally improved, due to over -$1bn in cost reductions.

The broker also mentions the investment spend in customer experience is gaining traction, which should lead to operational improvements without the need for additional spending.

Qantas Airways' market valuation remains below pre-covid levels, trading at a significant discount compared to regional and US peers, Goldman Sachs notes.

The analyst anticipates this valuation gap to narrow as the company delivers sustained earnings and capital returns of circa $1.6bn over the next three years.

Earnings forecasts remain unchanged. Buy rating and $8.05 target price.

This report was published on May 29, 2024.

Target price is **$8.05** Current Price is **$6.21** Difference: **$1.84**
If **QAN** meets the Goldman Sachs target it will return approximately **30%** (excluding dividends, fees and charges).
Current consensus price target is **$6.73**, suggesting upside of **9.0%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Goldman Sachs forecasts a full year **FY24** dividend of **0.00** cents and EPS of **85.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **7.31**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **88.3**, implying annual growth of **-8.1%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **7.0**.

Forecast for FY25:

Goldman Sachs forecasts a full year **FY25** dividend of **30.00** cents and EPS of **96.00** cents.
At the last closing share price the estimated dividend yield is **4.83%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **6.47**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **97.9**, implying annual growth of **10.9%**.
Current consensus DPS estimate is **19.9**, implying a prospective dividend yield of **3.2%**.
Current consensus EPS estimate suggests the PER is **6.3**.

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

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