WEEK 23

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Friday, 7 June 2024

Focus On Disruptor Wealth Platforms

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Imdex's Operational Leverage Attracts

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RUDI'S VIEWS

SMALL CAPS

WEEKLY REPORTS

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Financial News, Data & Analysis

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AUSTRALIA

The Market In Numbers - 1 Jun 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	31 May 2024	Week To Date	Month To Date (June)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
NZ50	11867.290	0.71%	0.00%	-1.97%	0.82%	-0.41%
All Ordinaries	7970.80	-0.36%	0.00%	-2.24%	1.80%	7.69%
S&P ASX 200	7701.70	-0.34%	0.00%	-2.47%	1.46%	6.92%
S&P ASX 300	7650.60	-0.34%	0.00%	-2.51%	1.52%	6.89%
Communication Services	1463.00	0.59%	0.00%	-7.35%	-7.88%	-4.84%
Consumer Discretionary	3406.90	0.83%	0.00%	-5.80%	5.14%	15.74%
Consumer Staples	11833.80	1.02%	0.00%	-4.24%	-3.87%	-10.98%
Energy	10193.30	-0.60%	0.00%	-5.39%	-4.04%	-5.86%
Financials	7288.00	-0.26%	0.00%	-2.29%	8.48%	17.18%
Health Care	42417.10	0.15%	0.00%	-2.35%	0.18%	2.73%
Industrials	6872.50	-0.35%	0.00%	-4.30%	0.10%	1.12%
Info Technology	2307.70	0.26%	0.00%	1.35%	25.90%	26.14%
Materials	18057.40	-1.35%	0.00%	0.64%	-7.35%	0.14%
Real Estate	3605.30	0.09%	0.00%	-6.04%	7.69%	18.44%
Utilities	8972.20	-2.73%	0.00%	8.30%	9.69%	2.72%
A-REITs	1639.00	0.05%	0.00%	-6.00%	9.09%	20.99%
All Technology Index	3075.00	0.37%	0.00%	-0.67%	14.14%	27.24%
Banks	3042.20	-0.14%	0.00%	-1.39%	9.45%	21.84%
Gold Index	7724.00	1.39%	0.00%	6.65%	4.84%	16.71%
Metals & Mining	5984.00	-1.31%	0.00%	2.44%	-7.46%	-1.21%

The World

Index	31 May 2024	Week To Date	Month To Date (June)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
FTSE100	8275.38	-0.51%	0.00%	4.06%	7.01%	9.88%
DAX30	18497.94	-1.05%	0.00%	0.03%	10.42%	14.55%
Hang Seng	18079.61	-2.84%	0.00%	9.30%	6.06%	-4.42%
Nikkei 225	38487.90	-0.41%	0.00%	-4.66%	15.01%	15.97%
DJIA	38686.32	-0.98%	0.00%	-2.82%	2.64%	12.44%
S&P500	5277.51	-0.51%	0.00%	0.44%	10.64%	18.59%
Nasdaq Comp	16735.02	-1.10%	0.00%	2.17%	11.48%	21.37%

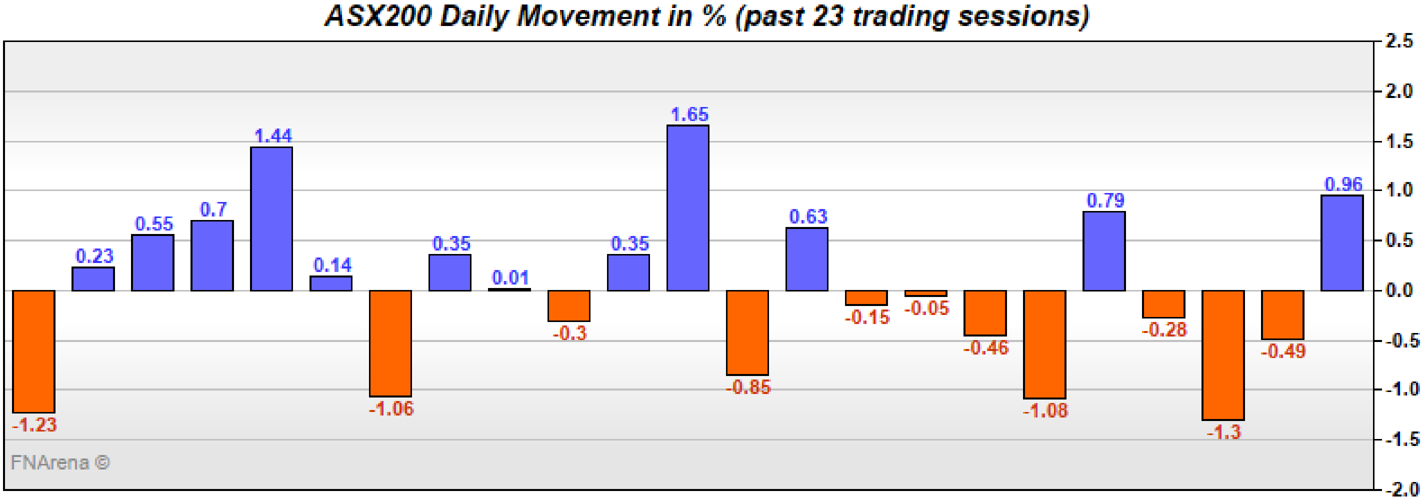
Metals & Minerals

Index	31 May 2024	Week To Date	Month To Date (June)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
Gold (oz)	2342.60	0.58%	0.00%	6.77%	14.58%	22.77%
Silver (oz)	31.11	3.49%	0.00%	26.57%	27.60%	38.08%
Copper (lb)	4.5634	-2.23%	0.00%	14.30%	19.84%	22.77%
Aluminium (lb)	1.2195	3.28%	0.00%	17.42%	25.42%	27.32%
Nickel (lb)	9.0515	-0.31%	0.00%	20.86%	21.71%	1.70%
Zinc (lb)	1.3797	0.16%	0.00%	25.25%	22.68%	31.58%
Uranium (lb) weekly	91.25	0.27%	0.00%	3.69%	6.10%	62.37%
Iron Ore (t)	117.62	0.08%	0.00%	15.76%	-14.91%	3.26%

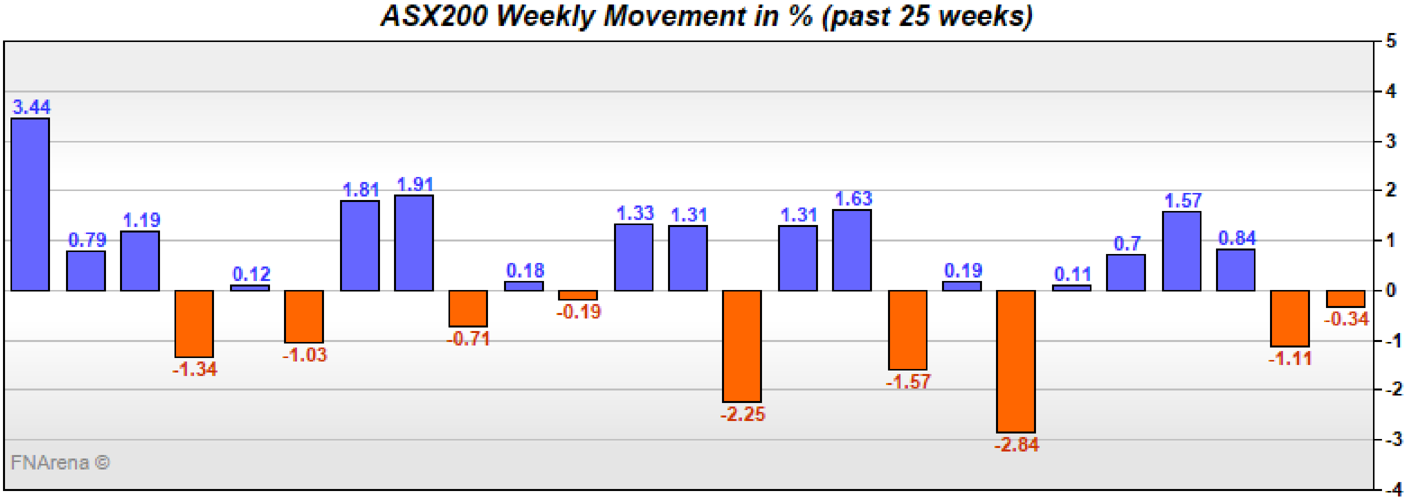
Energy

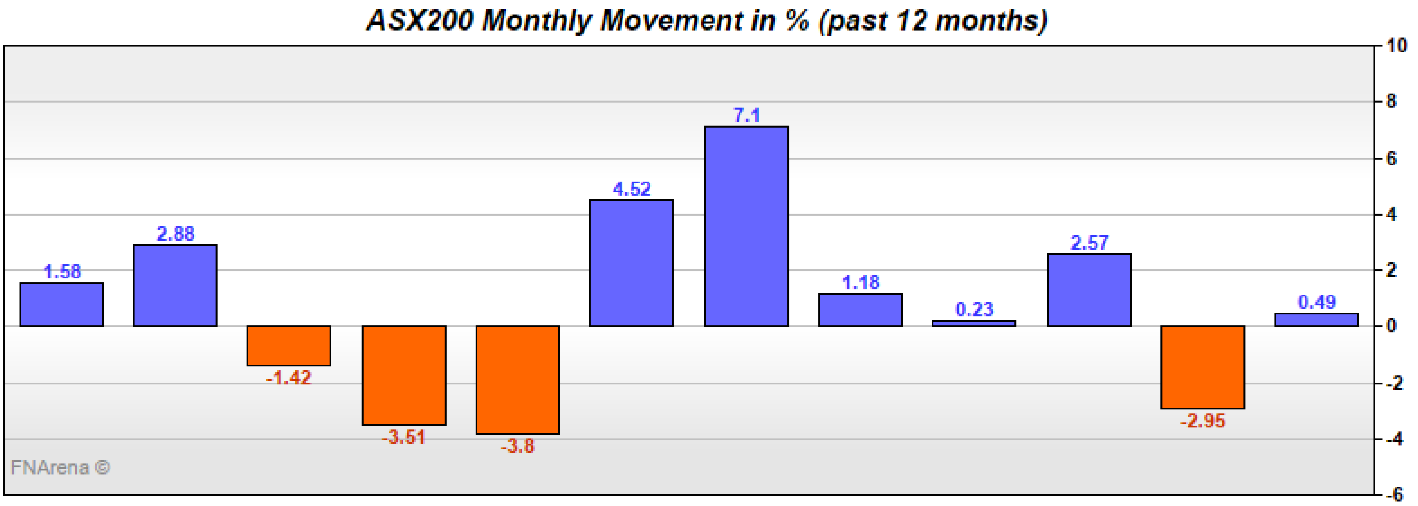
Index	31 May 2024	Week To Date	Month To Date (June)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
West Texas Crude	77.87	1.21%	0.00%	-4.71%	5.50%	11.47%
Brent Crude	81.94	0.52%	0.00%	-5.11%	3.38%	10.27%

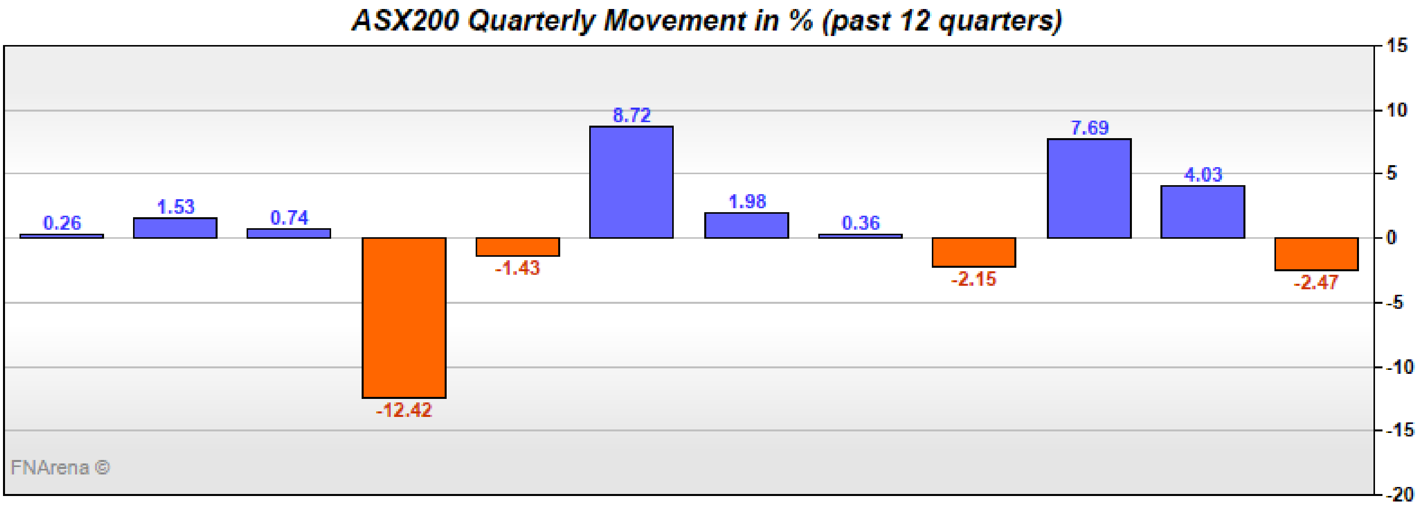
ASX200 Daily Movement in % (past 23 trading sessions)



ASX200 Weekly Movement in % (past 25 weeks)







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

FNArena is not responsible for any glitches, omissions or data errors. This feature is not investment advice. It is offering a quick status on raw price movements for information purposes only.

FNArena welcomes comments and suggestions at info@fnarena.com

AUSTRALIA

Focus On Disruptor Wealth Platforms

RBC Capital Markets sees further market share gains ahead for specialist wealth management platforms Netwealth, Hub24 and Praemium.

-RBC initiates coverage of Netwealth, Hub24 and Praemium
-Ongoing gains in market share expected
-March quarter results surprise brokers

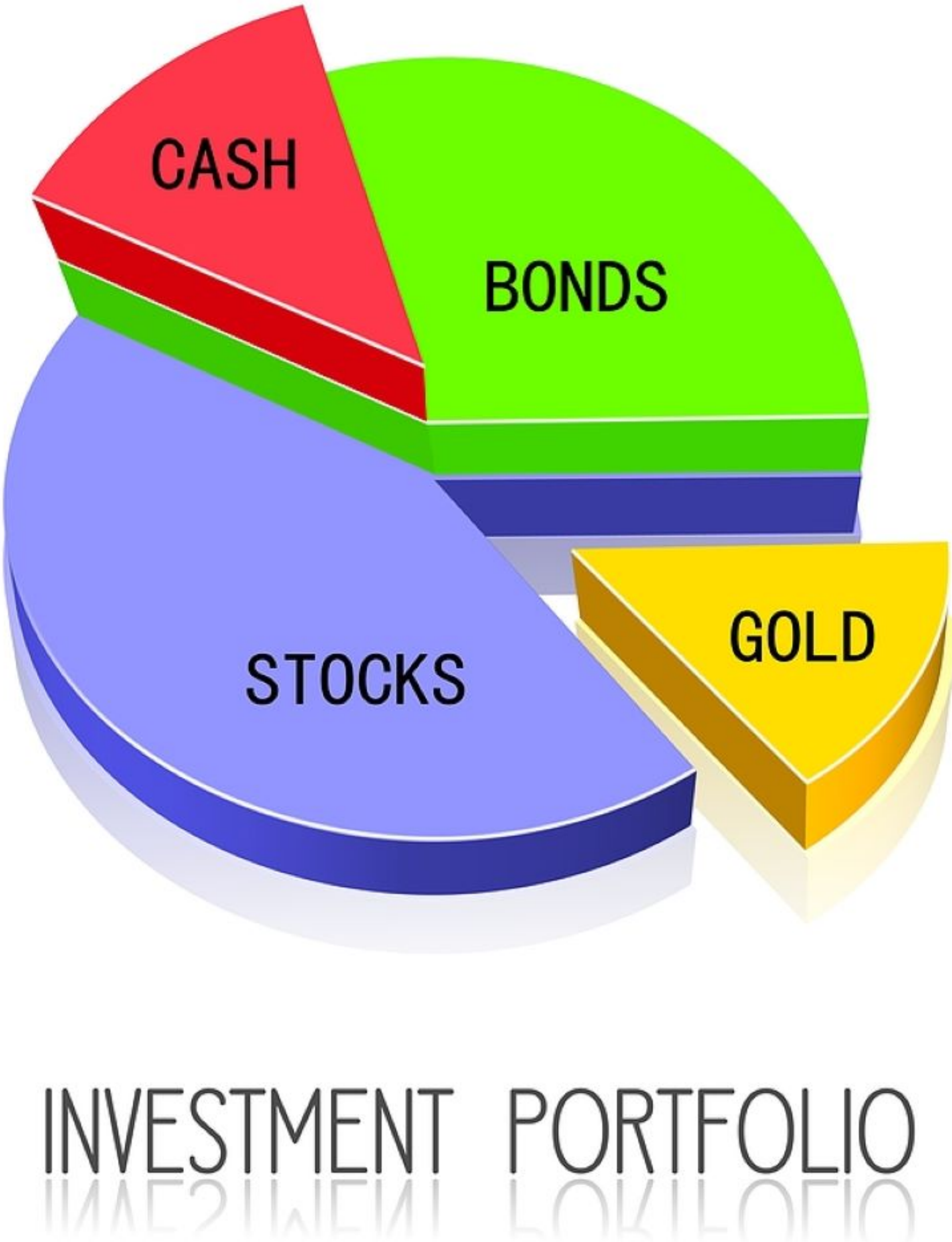
By Greg Peel

RBC Capital Markets has initiated coverage of the three leading listed specialist digital wealth platforms Netwealth Group ((NWL)), Hub24 ((HUB)) and Praemium ((PPS)). Wealth management platforms are not themselves fund managers – they do not offer investment advice – rather digital platforms on which investors can consolidate and manage their own investments via various tools and data analytics.

They are thus most popular with higher-wealth investors and their financial advisors.

The three small "disruptors" have received a boost in recent years with the exit of banks from wealth and specialist platforms. While all three have made significant inroads, they are still dwarfed by incumbents in the field such as Insignia Financial ((IFL)), BT, AMP Ltd ((AMP)) and others which each boast 12-20% of the market, while the leading small player – Netwealth – has 7.6%.

RBC Capital sees a long runway for growth for all three smaller players, leading to increased scale and thus greater fixed-cost leverage.



Netwealth Group

Netwealth is Australia's largest and most profitable specialist platform, RBC notes, with a primarily in-house developed product and a strong focus on developing out its core capabilities. The platform has a strong track record of growth, with a four-year historical compound annual growth rate of 21% for revenues and 18% for earnings, supported by its highly rated product and service offering which was voted number one for overall satisfaction for eleven consecutive years by industry monitor Investment Trends.

RBC sees a long growth runway for Netwealth, with a full pipeline of existing clients to draw from. The broker expects market share gains to continue to be supported by the platform's accelerating share of inflows, relatively constrained outflows and the multi-year transition benefits from new advisors coming onto the platform.

Netwealth's large proportion of net inflows from existing financial intermediaries reveals the substantial opportunity to further capture a larger share for its current network, with RBC's analysis suggesting there is additional upside to be extracted in terms of increased advisor and investor wallet penetration.

RBC believes recent reinvestment into technology, sales and marketing will act as a platform for fixed cost leverage as the business grows, given these areas are highly scalable, supporting new accounts coming onto the platform with little incremental cost to serve. The forecast is a four-year compound annual growth rate in earnings of 22%.

The current share price is nonetheless in line with RBC's valuation, and a 46x PE multiple is in line with Netwealth's four-year historical average. The broker thus initiates coverage with a Sector Perform rating and a $20.00 target.

Valuation is also an issue for other brokers covering Netwealth. The platform's March quarter trading update in April showed net funds inflows above, or only slightly below, forecasts, buoyed by a strong equity market performance in the quarter and new product initiatives. But of the six brokers monitored daily by FNArena covering Netwealth, ratings are even split between two Buy or equivalent ratings, two Holds and two Sells.

Two brokers outside daily coverage – Wilsons and Jarden – are equally split Overweight/Underweight.

No-one has a bad word to say about Netwealth, and the general expectation, given management commentary, is for solid inflows in the June quarter, so it simply comes down to valuation. Targets range from $16.75 to $22.50 among daily-monitored brokers. That implies consensus of $18.76.

Citi has one of those Sell ratings, but in the wake of March quarter updates from Netwealth and Hub24 (Citi does not cover Praemium), this broker has placed a "positive catalyst watch" on Netwealth given upside risk to its June quarter inflow assumptions following management commentary.

Hub24

By contrast, Hub24 draws three Buy and three Hold ratings from the same six FNArena brokers, on a tighter target spread of $39.25 to $44.00, for consensus of $41.74. Hub24's March quarter update similarly came in above or below forecasts.

Jarden and Moelis each have Hold or equivalent ratings, while Wilsons has a Buy. Wilsons' target price exceeds the aforementioned range at $44.69.

For Hub24, RBC sees a long runway for growth supported by an accelerating share of inflows, relatively contained outflows and a strong opportunity to capture a larger share of its existing base through its best-in-breed product offering.

Hub24 has an experienced management team with a strong track record of delivering growth, the broker notes, boasting a four-year historical compound annual revenue growth rate of 30% and earnings of 60%. Growth has been driven both organically and through acquisition, which has strengthened the platform's position in new product verticals.

RBC expects market share gains to continue given the platform's accelerating share of market inflows, while outflows appear relatively contained compared to incumbents.

Hub24 has developed a best-in-breed product and service offering which is top-rated for advisor experience, functionality, support and product choice. This has resulted in the platform attracting new advisors, the broker notes, and winning greater share of their funds under administration wallet.

The stock trades below its average historical discount to Netwealth, its own historical trading averages, as well as its historical premium to the ASX200. RBC initiates coverage with an Outperform rating and $47.50 target.

Praemium

Smaller Praemium does not enjoy the same extent of broker coverage as its larger peers. Ord Minnett is the only daily-monitored broker covering the stock, but coverage is also provided by Canaccord Genuity, Moelis and Wilsons.

All four have Buy or equivalent ratings, with targets ranging from Ord Minnett on 55c to Canaccord on 86c.

Praemium's March quarter trading update exceeded all four brokers' expectations, on a combination of net inflows and market strength.

This platform leans towards the higher net worth client. RBC notes Praemium is a leading platform for the emerging and established "affluent" investor market, having built one of Australia's largest non-custodial offerings and pioneering in emerging industry products such as self-managed accounts (SMA).

RBC believes the foundations are in place to drive greater scale and profitability following the business' renewed focus on Australia's sophisticated wealth segment with the acquisitions of Powerwrap and OneVue.

For Powerwrap, while there is the potential for further near-term volatility from elevated outflows, RBC ultimately views these risks as transitory. For OneVue, the broker believes there exists additional upside to deal metrics, if Praemium can extract revenue synergies with existing products or deliver additional funds under administration growth which would come at higher incremental margins.

Praemium expects to launch its next generation Investor Directed Portfolio Service wrap product by the first half of FY25. The new product will be a full-functioning IDPS solution designed to target affluent clients, investing around $1m, between the platform's SMA and Powerwrap businesses.

RBC believes this will be a key catalyst for inflows from new and existing clients.

RBC initiates coverage with an Outperform (Speculative Risk) rating and 65c target. The Speculative Risk caveat is due aforementioned risks which the broker views as transitory. Praemium trades at a significant discount both to its relative historical trading and average discount to key peers Netwealth and Hub24.

Shareholders in Netwealth and Hub24 have experienced a similar return since equities bottomed in late 2022, in excess of 60% ex-dividends, but that required Netwealth shares outperforming in 2024 thus far.

Shares in Praemium have lagged both noticeably and are still lagging since January 1st returning circa 14% ex-dividend, against 31% and 18% respectively for Netwealth and Hub24.

AUSTRALIA

May In Review: Inflation Spoils The ASX Party

Overseas markets rallied in May on lower bond yields and stabilising inflation prints, but the Australian market couldn't sustain the early May up-swing, weighed down by a surprisingly high April CPI reading and some negative earnings updates.

-NASDAQ and S&P500 gained the most since May 2003, and the Dow topped 40,000
-Australian stocks were mixed, with some stand out beats and surprise earnings misses
-Domestics banks continued to shine in May, only to be beaten by Technology stocks
-June could prove to be a real downer

By Danielle Ecuyer

<u>US markets go risk on in May</u>

Just in case we had forgotten; markets, traders and investors remain fixated on inflation readings and where central banks are in the interest rate cycle.

May was no different. US equity markets responded positively to a more subdued April inflation print, which took the possibility of further rate hikes off the table.

US government bonds rallied 18bps, showcasing the biggest monthly decline in yields since December 2023, according to CommSec, which created the positive backdrop for a risk-on equities rally.

The Dow topped 40,000, its best performance since 2020, and Apple rallied 13% over May on the back of better-than-expected quarterly earnings, plus a record-breaking US$110bn stock buyback.

The S&P500 lifted 4.8% in May with NASDAQ up 6.9%; both indices registering their best May performances since 2003.

Semiconductor stocks ("chips"), riding the wave of artificial intelligence, saw the poster child of growth, Nvidia, report another quarterly earnings result that surpassed even the whispers on the street. Management upgraded guidance, sending the stock up to over US$1000 (up 26.9%).

Qualcomm also reported strong results as a major supplier to smart phones and that stock lifted 23.5%.

<u>Australian shares skip a beat post the April CPI print</u>

The Australian market experienced the return of heightened volatility with no less than six +/-1% daily moves for the ASX200 index, according to Morgan Stanley.

The ASX gained 0.9% (total return) over the month compared to the MSCI global index which lifted 3.8% in US dollar terms.

In contrast to the US, the domestic April CPI print brought the prospect of further rate hikes back into focus and trimmed the ASX rally ro less than 1% from 3.2% at the high. The ASX200 closed out at 7702 points.

The RBA remained on hold in May, although this did not stop traders moving around the ASX Cash Futures which priced in a 3% chance of another hike ahead of the meeting. Futures have since moved to expectations of a -25bps cut in June, albeit at a 5% chance only, notes Morgan Stanley.

The Consumer Discretionary, Real Estate and Communication Services sectors retreated the most in response to the higher-than-expected April inflation reading of 3.6% versus expectations of 3.4%-3.5%.

A series of guidance downgrades and weak corporate trading updates did not help investor sentiment.

Information Technology was the standout sector in Australia throughout the month, up 5.42%, boosted by the better-than-expected results from Xero ((XRO)) and TechnologyOne ((TNE)), shares rallying 10.6% and 9.7%, respectively.

Macquarie is quick to point out **technology stocks have managed to grow profits in the face of inflation-cost based headwinds** and some 80% of the price appreciation was due to earnings upgrades and not PER expansion (an increase in valuation).

Banks rose 3.6%, with UBS commenting the bank share prices have surged by around 30% in the past six months, driven by strong capital returns, while the underlying earnings trends show sustained competitive pressures and cost inflation.

Utilities also rallied in May, up 3.4%, which Macquarie attributes to the Gen Ai narrative around increased power demand for data centres, leading to multiple expansion, rather than upgraded earnings forecasts.

Earnings results over May proved a mixed bag, along with the upside surprises from Xero and TechnologyOne, Aristocrat Leisure ((ALL)) shares rose 13.5%, making it the top star performer in the ASX50.

It was a case of **bigger is better in May**. The ASX20 rallied the most, rising just over 2%, with more subdued performance form the ASX50 to ASX300 indices.

Commonwealth Bank ((CBA)) and BHP Group ((BHP)) did some heavy lifting, contributing 37bps and 32bps to the ASX20's gain, even as BHP walked away from the US$49bn Anglo American takeover.

The Telecommunications Services sector fell -5.5% in May, dragged down by Telstra's market update which included -$250m in cost outs from a -9% reduction in the workforce and the removal of the CPI-linked mobile price increases in FY25. Telstra Group ((TLS)) contributed -10bps to the ASX20, followed by James Hardie Industries ((JHX)) at -14bps, and Fortescue ((FMG)) at -10bps.

Looking at the year-to-date movements thus far in 2024, **Financials have been the standout sector** in terms of contribution to ASX200 returns at 314bps, with Technology at 63bps, followed by Real Estate at 35bps, Discretionary at 47bps, down to Industrials at 7bps.

Materials have been a noticeable laggard with a -151bps drag on the index, followed by Communication Services at -24bps.

Small caps were yet again out of favour in May, and that index declined- 0.1%. Some standouts were Paladin Energy ((PDN)) up 14%, Telix Pharmaceuticals ((TLX)) up 20.6%. Pexa Group ((PXA)) up 19.3%, and Life360 ((360)) up 11%.

Small cap losers included Audinate Group ((AD8)) down -16.7%, Imugene ((IMU)) down -23%, and Bapcor ((BAP)) down -26.5%.

Aggregate IBES FY24 Consensus EPS continued to trend down in May to 450.3 from recent levels of 460 in December 2023 or a -1.1% decline month-on-month, Morgan Stanley notes. The FY24, FY25 and FY26 trends have all been downward in April and into May, with the broker highlighting aggregate consensus EPS growth for FY25 stands at 4.5%, with FY24 at a negative -6.9%.

Australian share valuations remain elevated. Morgan Stanley highlights the forward multiple of 16.3x at May end is above the historical 10-year average of 15.8x since June 2014.

The **Macquarie FOMO meter** of market sentiment rose to 1.21 to May end from 0.68 in April. This broker notes that forward equity returns err to below average trends for the year ahead when its FOMO meter reading exceeds 1.

<u>Forget sell in May, June is usually the real downer</u>

Since 1980, Bell Potter's the Coppo Report highlights, the month of June tends to be a negative month for Australian shares. Over the last 44 years, the All Ords in June has performed negatively in 28 of those years, or some 64% of the time.

Over this time frame, June has on average seen the index retreat by -0.67%, followed by September at -0.18%, October -0.13% and November at -0.13%.

With only 36% of positive performances, June is historically the year's worst performing month in Australia, with April up 78% of the time (the best) and September the second worst up only 45% of the time.

The Coppo Report also points to institutional selling for tax losses as having already started in May and continuing into June, when the retail investors are likely to participate. In recent years, June's performance doesn't look too bad, reports Richard Coppleson, maybe that's because institutions have pulled foward the timing of their selling?

Research by Macquarie Quant analysts suggest tax loss selling is usually reversed in July, and Coppo's data analsysis points in the same direction; after a weak June, on average, a much stronger July can be expected (all else remaining equal).

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

Company	Change	Company	Change
A2M - A2 MILK COMPANY LIMITED	16.07	SQ2 - BLOCK INC	-14.14
ALL - ARISTOCRAT LEISURE LIMITED	12.55	JHX - JAMES HARDIE INDUSTRIES PLC	-13.69
BEN - BENDIGO & ADELAIDE BANK LIMITED	11.76	IGO - IGO LIMITED	-11.63
S32 - SOUTH32 LIMITED	10.58	FLT - FLIGHT CENTRE TRAVEL GROUP LIMITED	-11.13
XRO - XERO LIMITED	10.58	RHC - RAMSAY HEALTH CARE LIMITED	-9.84

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

Company	Change	Company	Change
TLX - TELIX PHARMACEUTICALS LIMITED	20.60	BAP - BAPCOR LIMITED	-24.78
PXA - PEXA GROUP LIMITED	19.33	APE - EAGERS AUTOMOTIVE LIMITED	-19.94
AWC - ALUMINA LIMITED	16.62	FBU - FLETCHER BUILDING LIMITED	-18.16
PNI - PINNACLE INVESTMENT MANAGEMENT GROUP LIMITED	16.33	AD8 - AUDINATE GROUP LIMITED	-16.65
A2M - A2 MILK COMPANY LIMITED	16.07	TAH - TABCORP HOLDINGS LIMITED	-16.33

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

Company	Change	Company	Change
VUL - VULCAN ENERGY RESOURCES LIMITED	40.24	OBL - OMNI BRIDGEWAY LIMITED	-32.53
CHN - CHALICE MINING LIMITED	36.78	MYX - MAYNE PHARMA GROUP LIMITED	-27.69
SYA - SAYONA MINING LIMITED	32.35	WBT - WEEBIT NANO LIMITED	-27.62
RSG - RESOLUTE MINING LIMITED	31.15	BAP - BAPCOR LIMITED	-24.78
OFX - OFX GROUP LIMITED	27.71	IMU - IMUGENE LIMITED	-22.99

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

Company	Change	Company	Change
NXL - NUIX LIMITED	49.76	WBT - WEEBIT NANO LIMITED	-27.62
OFX - OFX GROUP LIMITED	27.71	NVX - NOVONIX LIMITED	-20.23
RUL - RPMGLOBAL HOLDINGS LIMITED	11.34	AD8 - AUDINATE GROUP LIMITED	-16.65
360 - LIFE360 INC	11.11	TYR - TYRO PAYMENTS LIMITED	-16.58
XRO - XERO LIMITED	10.58	BRN - BRAINCHIP HOLDINGS LIMITED	-15.52

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Aluminium (lb)	1.2195	4.52%	17.42%	25.42%
Nickel (lb)	9.0515	4.30%	20.86%	21.71%
Zinc (lb)	1.3797	3.90%	25.25%	22.68%
Uranium (lb) weekly	91.25	4.46%	3.69%	6.10%
Iron Ore (t)	117.62	6.40%	15.76%	-14.91%

Energy

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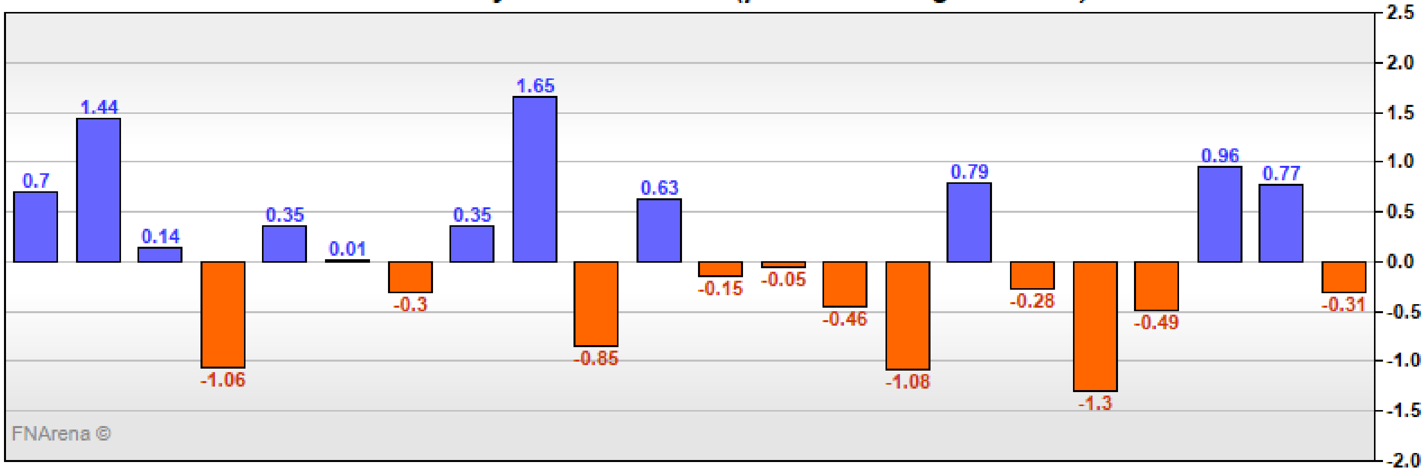
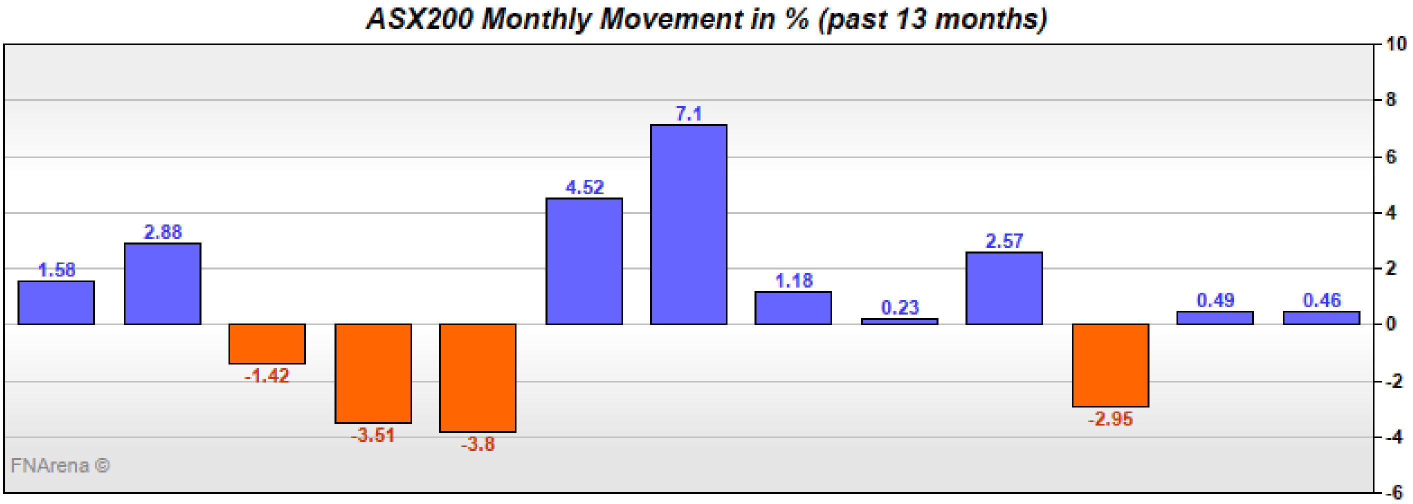
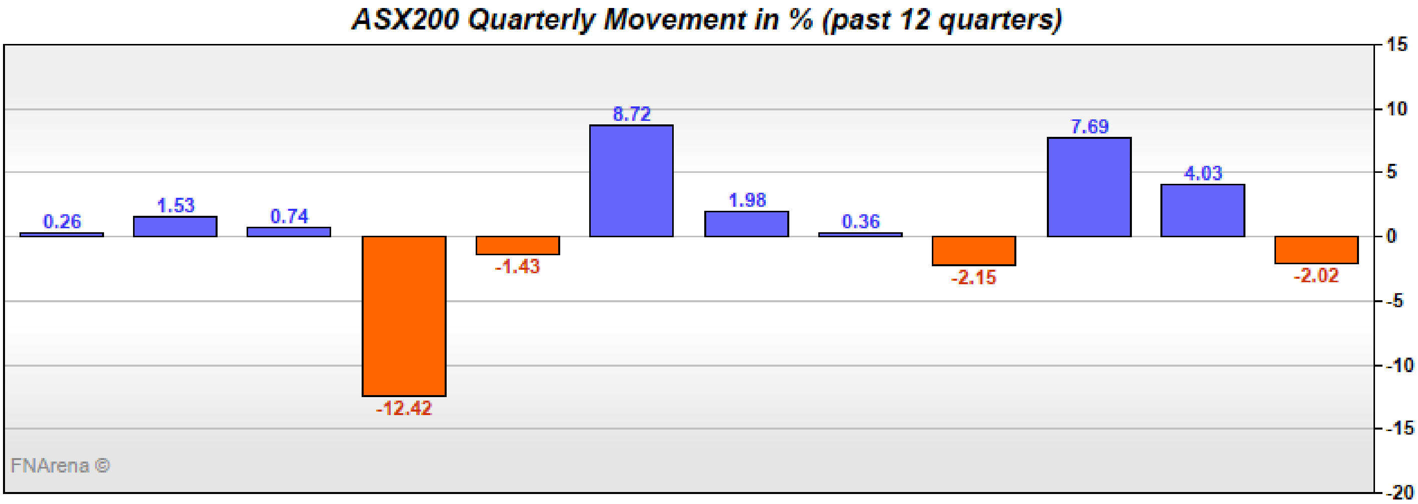
ASX200 Daily Movement in % (past 22 trading sessions)







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RUDI'S VIEWS

Rudi's View: Winners Are Winning For Longer

In this week's Weekly Insights:

-Winners Are Winning For Longer
-Rudi Interviewed

By Rudi Filapek-Vandyck, Editor

Winners Are Winning For Longer

The share market being an open forum where humans combine and clash with robots and other humans, it should be no surprise Monday's announcement by the Fair Work Commision to increase by 3.75% the National Minimum Wage and all modern award minimum wages from July 1st onward has already been interpreted in opposing ways.

Forget about any prospect for RBA rate cuts anytime soon, says one share market commentator, an increase of this magnitude means the official cash rate will remain untouched until mid-2025, at the earliest.

Economists at **ANZ Bank** and **Westpac** beg to differ, however, and believe nothing fundamentally has changed (ANZ) or that the announcement is actually positive for inflation and for the RBA. Westpac had expected this year's wage increase could have been as high as 4.50%.

Clearly, the Fair Work Commission has also taken into consideration there will be tax cuts for virtually everyone from July 1 onward, and it's not like there aren't any other forms of financial support in the pipeline from both state and federal governments. This might well explain why the Commission stayed well clear from Westpac's 4.50% scenario.

Both ANZ and Westpac economists believe the RBA would be comforted by Monday's announcement. Judging from the price actions on the day, it looks like that assessment is carried by the majority of investors and forecasters.

ANZ Bank has reminded us all the RBA's latest forecasts see the local Wage Price index growing at 3.7% from the year earlier in the final quarter of 2024, and by 3.6% by the second quarter of 2025. The Fair Work Commission's statement considers the forecast return of the inflation rate to below 3% in 2025 remains intact.

Those who prefer a more negative interpretation can point to the fact this is the first time in three years when the increase exceeds recorded price inflation, so there's a surplus coming for wage earners in Australia (while Monday's decision doesn't affect all wages, there usually is a follow-through impact on wages that are not directly impacted).

A more constructive view is the freshly announced 3.75% increase remains well below the 5.75% rise in FY23, as well as the 4.6% rise in the year earlier. While this year implies a small rise in inflation adjusted incomes, real wages will still be below the level before inflation spiked higher.

All of this melts into the economic debate that weighs on general sentiment among Australian investors, also illustrated by the fact some media reports still have the RBA hiking rates while most other central banks around the globe are preparing for rate cuts. I see a lot of biased hyperbole, and a not so subtle political agenda.

I sympathise with the view that many Australian households are feeling the squeeze, while small businesses are closing their doors, and thus many among us won't go on a spending spree if we find a little bit of extra money in our purse post June 30th.

The counter-argument is today's economic impact from inflation and rate hikes is not being felt by a large proportion of the population that owns its property and welcomes additional wealth through the share market, or otherwise.

It's a polarised world, for sure, and this also polarises experts views and predictions, as well as ASX-listed companies.

Before we zoom in on what has been happening inside corporate Australia, let's first take note of what has been happening in the USA recently, as that might surprise a few readers.

Insights From US Quarterly Updates

Big Tech has been driving the American share market indices through the peak in bond yields and their economic impact to fresh all-time record highs in 2024. In the slipstream of Big Tech, market momentum has stuck with 'Growth', and 'Quality', and with 'Technology', more than it has with the lagging 'Value' stocks.

Led by 'elevated' valuations, as well as by historical analyses of Fed rate cuts, many investment portfolios are positioned for a reversal in momentum, i.e. smaller cap companies instead of large and Mega caps, but also 'value' (both 'cheap' and 'cyclicals') rather than Big and smaller Tech, or 'expensive' Quality.

Thus far, the predicted switch in market leadership has failed to materialise. There have been a number of attempts, but the dial keeps reverting back to Growth and Technology. There is one obvious explanation for this: the direct correlation with market expectations for Fed rate cuts.

As US Treasuries have delayed the timing and reduced the number of expected rate cuts this year, this has placed market momentum back in favour of those expensive-looking, large cap Growth stocks.

Underneath the surface, however, there's a second driver that equally should be taken notice of: the recent quarterly results season has yet again worked in favour of the (almost universally) maligned Mag7, as well as other Growth companies.

In simple terms: now that analysts have updated their forecasts post the latest financial results and company presentations, the pendulum for positive earnings momentum has swung back in favour of those who already were leading the share market higher in the first place.

A third explanation comes through accumulating signals the US economy continues to lose momentum, which might equally be reflected in more subdued performances and forecasts for companies whose operations align more directly with economic momentum.

As pointed out by **analysts at RBC Capital** recently, Value and Small Caps tend to outperform when GDP readings are above average. The opposite is currently happening, and economic data and indicators are feeding into reductions in forecasts. The March quarterly reporting season in the US has also shown many companies are still struggling with inflation, or their key customers are.

The good news, as far as inflation forecasts and the Fed's intention to start cutting rates are concerned, is companies are starting to talk about lowering prices. Another stand-out observation highlighted by RBC Capital is companies are delaying decisions about purchases and investments.

<u>May In Australia</u>

On FNArena's assessment, some 170-plus ASX-listed companies that are at least covered by one of the brokers monitored daily have provided an operational update in May, ranging from quarterly trading updates, to investor days and AGMs, to interim or full year financial reporting, to the dreaded profit warning that puts a few extra kilograms on top of the share price, forcing analysts' forecasts lower.

As one would expect, the Australian economy does not exist in a vacuum, and those key observations from the US mostly also apply locally. Think Xero ((XRO)), Aristocrat Leisure ((ALL)), Goodman Group ((GMG)), TechnologyOne ((TNE)), and REA Group ((REA)); all are trading on above-average PE multiples, and have been for a long while, and all have forced forecasts to rise post the release of financials, with share prices being rewarded for it.

But while the first batch of market updates communicated throughout April and the first two weeks of May had a relatively positive bias, that has noticeably deteriorated throughout the second half of the month.

On Friday, micro-cap automotive parts distributor and provider of heat transfer solutions, Adrad ((AHL)), joined a growing queue of soft trading updates marked by customers deferring purchases until the next financial year.

While it can be argued a $66m market cap company operating inside the automotive sector is not necessarily reflective of the local economy or share market dynamics generally, the past number of weeks have provided plenty of similar updates by companies including Duratec ((DUR)), Chrysos ((C79)), Big River Industries ((BRI)), and others.

As per always, **smaller companies are much more affected**, such is the tragedy of moving on the register too early in anticipation of the upswing that should announce itself if not later this year, than surely in 2025?

But 'small' does by no means equal guaranteed failure. Supply Network ((SNL)), which operates as distributor of after market parts to the commercial vehicle industry, delivered a much stronger-looking quarterly market update and its shares haven't sold off in the following days, even with a strong rally preceding.

Supply Network (market cap $981m) is widely regarded as the superior Quality operator in its sector. This label has been re-affirmed once more as competitor Maxiparts ((MXI)) has fared significantly worse over a prolonged period of time. Two weeks ago, Maxiparts issued a good old fashioned profit warning that has pushed the share price below $2 yet again (it has been as high as $7 in the past).

Shares in Supply Network, by the way, have surged to a fresh all-time record high. This goes to show, yet again, successful investing involves a lot more than simply picking a cheap-looking share price.

Moelis initiated coverage on Monday with a Buy rating and $26 share price target, suggesting even with a share price at record high level, this need not be the end of the journey as long as operational momentum keeps *trucking on* (pun intended).

As some readers might be aware, I tend to look at the share market in terms of the 'strong' versus the 'vulnerable' rather than 'expensive' versus 'cheap'.

While that doesn't always guarantee the best investment outcome, during conditions like the ones we are currently experiencing, it certainly helps with identifying and avoiding attractive-looking value traps.

Ainsworth Gaming ((AGI)) yet again has been forced to issue a severe profit warning. The share price is still well-above the 2020 low, but your typical 'value' seeker can hardly claim victory. Market leader (and more 'expensive'-looking) Aristocrat Leisure has performed significantly better, and so has the $12.8bn 'newcomer' in that sector, Light & Wonder ((LNW)) with a number of ex-Aristocrats in charge.

Such market updates can also reveal which sectors are experiencing better momentum, and which ones are not. Market updates by the banks, for example, have been better-than-expected, albeit on low expectations. But this has not stopped shares in Bendigo and Adelaide Bank ((BEN)) from surging to a fresh post-covid high (still gone nowhere on a ten-year view).

Market updates by both REA Group and smaller competitor Domain Holdings Australia ((DHG)) have been strong, so clearly that sector is not feeling the pain as are currently the casino operators, the media sector, car dealerships, labour services and parts of the retail sector. Asset management and financial services is also a sector clearly divided between Winners and Losers.

Some of today's Losers might turn out excellent opportunities when the economic upturn arrives on the back of central bank rate cuts, but that will be of later concern if/when the market has to adjust for a profit warning first.

For what it's worth, RBC Capital suggests the following needs to happen to bring the big rotation trade back in focus:

"Our work suggests that the 10-year yield needs to stop rising, the market needs more clarity and certainty around the path of monetary policy and the timing of cuts, earnings trends need improve for the broader market such that they look better than the biggest growth names, and economic excitement needs to return.

"The trigger for a renewal of the rotation trade may also come from positioning. CFTC data suggests that the large cap growth trade (as expressed through Nasdaq futures positioning) is no longer frothy. But it also doesn't look washed out suggesting overbought conditions could return rather quickly to this corner of the market."

The FNArena Monitor keeps track of earnings releases by corporate Australia: https://fnarena.com/index.php/reporting_season/

More reading:

https://fnarena.com/index.php/2024/05/30/rudis-view-how-to-benefit-from-eofy-selling/

https://fnarena.com/index.php/2024/05/29/rudis-view-its-special-vs-cheap-but-whos-most-at-risk/

https://fnarena.com/index.php/2024/05/23/rudis-view-strategy-updates-model-portfolios/

https://fnarena.com/index.php/2024/05/22/rudis-view-rate-cuts-equal-optimism/

Rudi Interviewed

Last week, I shared my market observations and predictions about artificial intelligence and Quality stocks in an interview with Ally Selby at Livewire Markets.

That interview of more than 53 minutes (not meant to discourage anyone) is available via Youtube: https://youtube.com/watch?v=yDD3CKlZTM4

General feedback thus far has been constructive and appreciative.

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Paying subscribers have 24/7 access to a dedicated section on my research into All-Weather Performers: https://fnarena.com/index.php/analysis-data/all-weather-stocks/

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).

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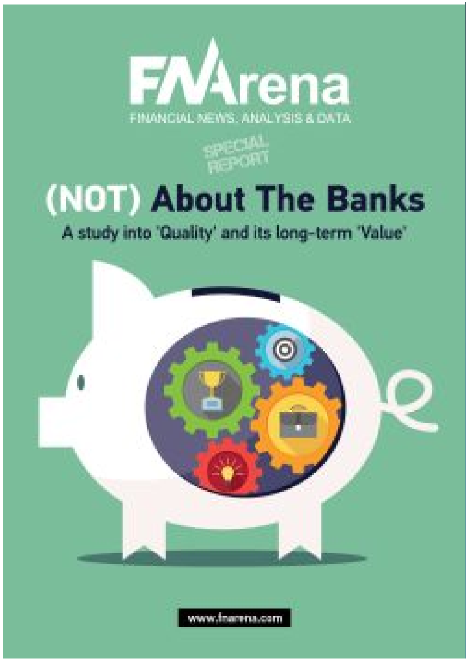

(This story was written on Monday, 3rd June, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

(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: Healthcare, Megatrends & FoMo

By Rudi Filapek-Vandyck, Editor

So far this year, ResMed ((RMD)) shares are down -4.4%, with Cochlear ((COH)) shares down -0.8% and CSL ((CSL)) scraping into positive territory to the tune of 1.2%

Doesn't sound like much? Always good to know the ASX200 is up 1.46% ex-dividends. Banks and technology stocks have been the flavour of the moment throughout the first five months, followed by utilities and REITs, and to a lesser extent discretionary retailers and gold producers.

Market strategists at Wilsons are making the call this week, and not for the first time, that **Australian healthcare looks poised for market outperformance** on a combination of attractive looking valuations and the prospect for above-average growth.

The sector generally is currently offering significantly more growth than the rest of the market generally, point out the strategists, while the average healthcare stock is trading below valuations seen over the past five years. Wilsons doesn't hesitate to use the label "compelling value".

Just to add a little more context to the broker's reasoning: while average EPS growth for the ASX200 is projected to be negative for the year ahead to the tune of -4%, the average growth forecast for the ASX300 Healthcare index is no less than 20%. The average PE multiple for the sector has fallen to 28x versus a five-year average of 33x.

Wilsons' Focus Portfolio is Overweight on Aussie healthcare through holdings in CSL, ResMed, and upcoming biotech Telix Pharmaceuticals ((TLX)).

Analysts at **Janus Henderson** took a longer view into the future and concluded the healthcare sector might well become one of the biggest users, and **beneficiaries, of artificial intelligence within the decade ahead**. Already, reports the asset manager, some Ai applications are having a meaningful impact on healthcare delivery and on the growth outlook of selected companies.

Janus Henderson has identified three areas that should have investors' attention:

-data building for drug discovery
-medical device use and imaging
-pre- and post-procedural assistance

In summary: Artificial intelligence (Ai) has enormous potential to improve healthcare delivery across the globe. To be continued, without any doubt.

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Damien Boey, Chief equity Strategist at Barrenjoey, warns investors not to get sucked into positive investor sentiment which seems to be directly connected with rallying bonds (lower yields).

The latest reason for bonds to rally has been a rather weak manufacturing survey released by the Institute of Supply Management, but Boey points at the finer details which revealed new orders have now fallen to a level that historically suggests material earnings downgrades are forthcoming.

Stocks rallying because bond yields are falling might therefore be no more than a simple head fake. Boey is of the view equities are not priced either for higher real yields or material earnings downgrades. Barrenjoey prefers the safer approach and advocates investment portfolios preference defensives.

With the context of Boey's general observation, it should also be noticed **Macquarie's FOMO Meter**, designed to measure equity market sentiment, rose to 1.21 at the end of May (0.68 in April) with Macquarie pointing at weaker data points, lower yields and higher liquidity.

When the FOMO Meter is greater than 1, the broker reports ASX forward returns tend to be below average the following year, suggesting risk of a correction. No surprise: Macquarie adds June is often a weaker month for ASX equity returns (broadly blamed on tax loss selling).

Nuveen's Chief Investment Officer, Saira Malik, agrees with adding a more defensive slant to equity portfolios, but she also looks beyond the many predictions of June potentially being a disappointing month.

Her advice: investors should focus on the historical performance for the three months ahead. Since 1994, S&P500 investment returns for the trio of June, July and August have been positive in 18 of the past 30 years, with a median gain of nearly 3%.

In Australia, **Bell Potter's Richard Coppleson** (The Coppo Report) this week released his own historical data analysis for the local market. According to his data, the three months ahead on average add 0.16%, 1.14% and 0.31% respectively, which doesn't quite match the US return, but is positive nevertheless.

If we were to rely on data going back 44 years, average returns become -0.67%, 2.07%, and 0.69%.

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Asset manager Amundi has a slightly different view on equity markets, suggesting too much too soon is expected from Ai, as any tangible benefits will take time to show up. In the meantime, a **barbell strategy of Quality and Value**, Defensives and Cyclicals, seems like the correct approach.

Amundi's stock pickers favour "good quality businesses" with "attractive valuations" that are driven by "secular themes".

In Europe, at the sector level, Amundi is positive on consumer staples (slightly less than before) and healthcare, while staying cautious on the technology sector. In the US and elsewhere the asset manager is cautious on cyclicals.

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Former Chief Technical Strategist at HSBC Investment Bank, Robin Griffiths is now the Editor of **The Adaptive Asset Allocation Report**, and as such Griffiths pointed out to his subscribers 'Sell in May' only works when equities are in a Bear Phase.

He thinks equities currently are in a Bull Phase. Another reason not to stick to that script is because history shows Sell in May equally does not apply during US Presidential election years., which 2024 is.

The in-house model remains keen on **gold**. So is **UBS**. See The Broker Call Report on Wednesday (yesterday).

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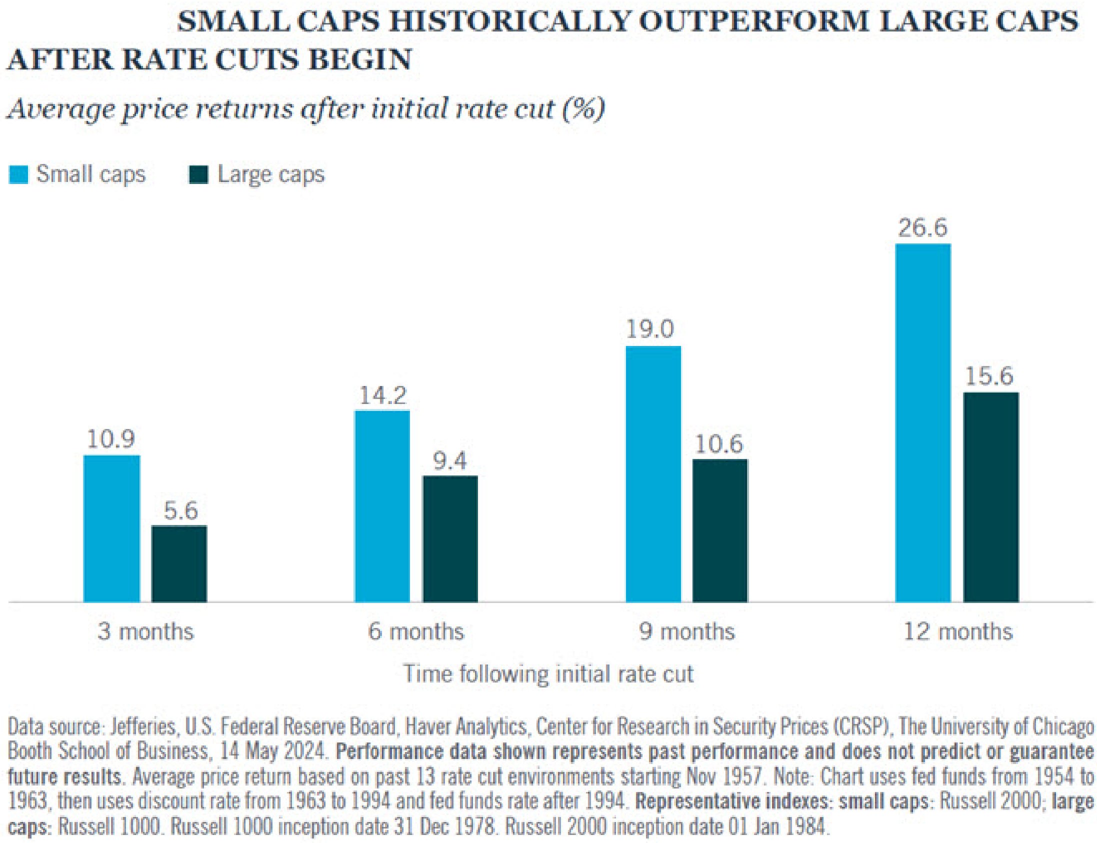
The graphic below is courtesy of **Nuveen**.



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Wilsons' partner **Craigs Investment Partners** (also 50% owner) recently highlighted why its research, and asset allocations, remains wedded to the world's Megatrends; it's there where most of today's **high quality, growth-oriented companies** can be located and identified.

When in search for structural growth, Craigs has the following **Megatrends** in mind:

-Cloud transition
-Artificial intelligence (Ai)
-Digital economy
-Innovative healthcare
-Payments revolution
-Entertainment on demand
-The emerging Asian consumer

Think Alphabet, Amazon, Salesforce and Microsoft, but also L'Oreal, Mastercard, Nike, LVMH, Tencent, Nvidia, and Disney.

Following on from the recent March quarterly results in the US, Craigs observes Tech companies have yet again been responsible for the lion share of earnings upgrades, with demand for GenAi projected to lift Nvidia's data centre revenues to above US$100bn this financial year.

All of the world's leading cloud services providers, highlights Craigs, showed accelerating top line growth driven by traditional cloud migration and incremental GenAi related workloads.

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Ord Minnett recently revisited ASX-listed companies inside the **discretionary retail sector**, which has led to the broker expressing its preference for Webjet ((WEB)) -Top Pick!- as well as ARB Corp ((ARB)), Aristocrat Leisure ((ALL)), and Breville Group ((BRG)).

The broker sees risk building for Bapcor ((BAP)), JB Hi-Fi ((JBH)), and Wesfarmers ((WES)).

Model Portfolios, Best Ideas & Conviction Calls

Goldman Sachs's **High Conviction calls** for the Asia-Pacific region recently saw the inclusion of Qantas Airways ((QAN)) with the current valuation discount expected to narrow as earnings should sustainably grow at a faster pace than pre-covid and management will demonstrate willingness to distribute capital to shareholders while also renewing the airliner's fleet.

Only three other ASX-listed companies are included:

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

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Jarden's select list of preferred small cap stocks in Australia ("Emerging Companies key picks") has seen Dicker Data ((DDR)) being added, alongside Lovisa Holdings ((LOV)), Siteminder ((SDR)), Nick Scali ((NCK)), Universal Store Holdings ((UNI)), and Temple & Webster ((TPW)).

Other stocks that have the blessing, with conviction, of the broker's sector analysts:

-Telix Pharmaceuticals
-Regis Healthcare ((REG))
-Pepper Money ((PPM))
-Inghams Group ((ING))
-National Storage ((NSR))
-Ingenia Communities Group ((INA))
-Karoon Energy ((KAR))
-Domain Australia Holdings ((DHG))
-NRW Holdings ((NWH))

One stock has seemingly disappeared since the previous update one month ago: Capricorn Metals ((CMM)).

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Morningstar's Best Equity Ideas for ASX-listed stocks currently contains 14 inclusions. Morningstar's approach is traditionally centred around 'cheap value':

-TPG Telecom ((TPG))
-Domino's Pizza ((DMP))
-Bapcor ((BAP))
-a2 Milk Co ((A2M))
-Santos ((STO))
-AUB Group ((AUB))
-ASX Ltd ((ASX))
-Aurizon Holdings ((AZJ))
-Ventia Services ((VNT))
-Lendlease Group ((LLC))
-Pexa Group ((PXA))

As well as Fineos Corp ((FCL)), ResMed ((RMD)) and Newmont Corp ((NEM)) 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
-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
-ResMed ((RMD))
-AGL Energy ((AGL))
-Origin Energy
-Telstra ((TLS))
-Transurban Group ((TCL))
-BHP Group ((BHP))
-Newmont Corp
-Rio Tinto ((RIO))
-South32 ((S32))
-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy

****

Wilsons' list of Highest Conviction Investment Ideas has seen the allocation increase to Woodside Energy, Xero ((XRO)) and Netwealth Group (NWL)).

Other Most Preferred Ideas are Aristocrat Leisure and Collins Foods ((CKF)).

More ideas come with "long term growth" profiles:

-Ridley Corp ((RIC))
-TechnologyOne ((TNE))
-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))
-Clarity Pharmaceuticals ((CU6))

****

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).

In terms of individual stocks, the Focus Portfolio encompasses the following:

Consumer Discretionary
Aristocrat Leisure, IDP Education ((IEL)), Lottery Corp ((TLC)), Collins Foods, Breville Group ((BRG)), Webjet ((WEB))

Energy
-Woodside Energy

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

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

Industrials
-Worley ((WOR))

Information Technology
-Xero

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

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

****

Macquarie Wealth's recommended **Growth Portfolio** currently includes the following stocks:

-Goodman Group
-Seek ((SEK))
-Aristocrat leisure
-Northern Star ((NST))
-CSL
-Computershare ((CPU))
-NextDC ((NXT))
-The Lottery Corp
-Flight Centre ((FLT))
-Mineral Resources
-Cleanaway Waste Management ((CWY))
-Steadfast Group
-Arcadium Lithium
-ResMed
-Pexa Group
-Treasury Wine Estates
-Viva Energy ((VEA))

Macquarie Wealth's recommended **Income Portfolio** currently has the following composition:

-Suncorp Group

-Telstra
-National Australia Bank
-Westpac Bank
-ANZ Bank
-BHP Group
-CommBank
-Premier Investments ((PMV))
-Coles Group ((COL))
-Viva Energy ((VEA))
-Atlas Arteria ((ALX))
-Aurizon Holdings
-APA Group ((APA))
-GPT Group ((GPT))
-Deterra Royalties ((DRR))
-Metcash ((MTS))
-GUD Holdings ((GUD))
-Charter Hall Retail REIT ((CQR))
-Amcor

****

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
-Domino's Pizza
-Evolution Mining ((EVN))
-James Hardie Industries ((JHX))
-Pilbara Minerals ((PLS))
-Qantas Airways ((QAN))
-ResMed
-Suncorp Group
-Treasury Wine Estates
-Xero

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

****

Back in December, **Bell Potter** analysts released their **stock picks for 2024**, ranked by themes and market segments:

-For Listed Investment Companies (LICs); Australian Foundation Investment Company ((AFI)), Plato Income Maximiser ((PL8)), and MFF Capital Investments ((MFF))

-Agriculture & Fast Moving Consumer Goods; Bega Cheese ((BGA)), Rural Funds Group ((RFF)), and Elders ((ELD))

-Technology; Life360 ((360)), WiseTech Global, and Task Group ((TSK))

-Diversified Financials; Perpetual ((PPT)), Regal Partners ((RPL)), and PSC Insurance ((PSI))

-Real Estate; HMC Capital ((HMC)), Dexus Convenience Retail REIT ((DXC)), HealthCo Healthcare & Wellness REIT ((HCW))

-Retailers; Cettire ((CTT)), Propel Funeral Partners ((PFP)), and Accent Group ((AX1))

-Industrials; DroneShield ((DRO)), Austal ((ASB)), Corporate Travel Management ((CTD)), IDP Education, IPD Group ((IPG)), and The Environment Group ((EGL))

-Healthcare; Telix Pharmaceuticals, Cyclopharm ((CYC)), Clarity Pharmaceuticals ((CU6)), Clinuvel Pharmaceuticals ((CUV)), and Immutep ((IMM))

-Gold sector; Regis Resources ((RRL)), and Santana Minerals ((SMI))

-Base Metals; Aeris Resources ((AIS)), Nickel Industries ((NIC)), Mineral Resources, and IGO Ltd ((IGO))

-Strategic Minerals; Lynas Rare Earths ((LYC)), Talga Group ((TLG)), Liontown Resources ((LTR)), and Alpha HPA ((A4N))

-Energy; Boss Energy ((BOE)) and Strike Energy ((STX))

-Mining services providers; Chrysos Corp ((C79)), Matrix Composites & Engineering ((MCE)), and GenusPlus Group ((GNP))

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Also 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
-Gentrack Group ((GTK))
-Metro Mining ((MMI))
-MMA Offshore ((MRM))
-Peninsula Energy ((PEN))
-ReadyTech Holdings ((RDY))
-Silex Energy ((SLX))

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Macquarie's ASX Quality Compounders

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

-James Hardie
-Cochlear ((COH))
-REA Group
-TechnologyOne
-ResMed
-Data#3 ((DTL))
-Pro Medicus ((PME))
-Jumbo Interactive ((JIN))
-PWR Holdings ((PWH))
-Netwealth Group ((NWL))
-Aristocrat Leisure
-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
-The Lottery Corp
-Lovisa Holdings ((LOV))
-CSL
-IDP Education

-Pinnacle Investment Management ((PIN))
-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/

Weekly Insights this week: https://fnarena.com/index.php/2024/06/05/rudis-view-winners-are-winning-for-longer/

(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.

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SMALL CAPS

Better Value In Smaller Banks?

Does the ASX banking small fry offer better value than the ‘overvalued’ Big Four?

By Tim Boreham

Big or small - or none at all?

With the Big Four banks regarded as overvalued, investors are pondering whether there’s better value in their smaller counterparts that trade on more modest valuations but with similar or higher dividend yields.

Recent conditions for the small ‘uns have been problematic – notably their cost of capital disadvantage and their ability to compete for mortgage market share.

Lower credit ratings mean the banks pay more for their wholesale funding - which is like Minnie Mouse getting in the ring with Mike Tyson.

The smaller banks’ return on equity is in the single digits, compared with the Big Four’s double-digit returns.

That said, the small banks have their charms, including far superior customer satisfaction ratings, a deeper attachment to local communities and an ability to act more nimbly to enter new markets or withdraw from unprofitable ones and undertake IT initiatives.

This flexibility was starkly evidenced in the recent decision by the Bank of Queensland ((BOQ)) to taper back home lending growth. Bancassurer Suncorp Group ((SUN)) has thrown in the banking towel altogether and is selling its bank division to the ANZ Bank ((ANZ)), having finally gained approval from the competition regulator to do so.

Generally speaking, the Big Four banks have outperformed their smaller brethren since the sector rally from late October last year, when it became evident that mortgage stress was not as bad as thought.

The trends continued to be reflected in the recent half-year reports from the National Australia Bank ((NAB)), Westpac ((WBC)), the ANZ and the quarterly update from the Mohammed Ali of the sector, the Commonwealth Bank of Australia ((CBA)).

Net interest margins – or NIM, the profit on lending – generally improved, although fierce mortgage competition has meant the banks are not gaining the usual benefit of high interest rates.

(Higher rates usually mean higher margins because there’s more headroom to tweak them - but if they’re too high delinquencies start to rise).

Since December 1, 2023 the Big Four share price gains have ranged between 22% (Westpac) and 16% (ANZ Bank).

The small banks' performance has been patchier, with Bendigo and Adelaide Bank ((BEN)) shares up 21%, while the Tasmania and northern Queensland focused MyState ((MYS)) has spurted 18%.

Bank of Queensland recently reported a half-year result that was not great, but not as bad as expected. The shares have still declined -5% over the six months.

The former Bundaberg-based Wide Bay Capricorn Building Society, Auswide Bank ((ABA)) is struggling to land punches and its shares have declined -18%.

The Big Four rally has led to an almost universal consensus that the sector is overvalued, despite the foursome returning $5bn in capital from loan provisioning that is not required.

Broker Wilsons notes that on broker consensus numbers, the Big Four are expected to record negative earnings per share growth in the current year, as well as in 2024-25.

"In this context, the sector's valuation premium relative to history remains excessive and unjustified at the headline level, albeit with pockets of relative value within the sector."

Macquarie's analysts also chime in that "current valuations are hard to justify, particularly given the backdrop of underlying earnings trends."

Of course, experts are well known for being wrong – especially when they are all saying the same thing. Income-seeking investors addicted to (reasonably) reliable franked dividends won't heed the warnings anyway, but they may do well to at least diversify their exposures to the small fry.

In its recent strategy update, Bendigo and Adelaide Bank chief Marnie Baker described the institution as "the only credible challenger to the major banks" – a claim likely to roil her second-tier peers.

Her evidence lies in an aggressive push into business banking and digital banking, while the bank is holding its own in the mortgage market, courtesy of fast approval procedures.

Morgan Stanley's analysts concur that Bendigo Bank is the best bet of the bonsai banks.

"Bendigo and Adelaide Bank is our preferred smaller bank given its focus on margin management, efficiency and returns as well as the quality of its deposit franchise," say the firm's bank watchers.

As for MyState, one would think the bank has benefited from Tassie's transition from a bunch of lumberjacks to boutique whisky-sipping gourmands and art afficionados. The formation of the Tassie Devils AFL – and an eventually $750m-plus stadium – adds further economic impetus.

MyState's February half-year results showed nine basis point improvement in NIM to 1.46% and a resolve to "temporarily rebalance lending growth aspirations for the balance of 2023-24".

The tiny $190m market cap Auswide rarely gets mentioned in despatches. This bank's February half-year numbers were well off the pace, with underlying profit sliding -53% to $6.6m and the NIM tumbling -52bp to 150bp.

There's no magic in the explanation: intense home loan competition and the flight to higher yielding deposits. But if the more recent Bendigo and Adelaide Bank experience reflects on Auswide, new CEO Doug Snell may have some better news early in his tenure.

Meanwhile, SME banking specialist Judo Capital Holdings ((JDO)), better known as Judo Bank) is making some deft manoeuvres of its own as it tries to chop into the big banks' share of business lending.

Given the inevitability of higher business delinquencies relative to home lending, pundits have been sceptical of this one since it listed in early November 2021.

But Judo's May 9 update left the doubters flailing on the mat: the bank's loan book ticked over $10bn, with a $1.7bn pipeline of further lending.

The bank reported an average NIM of 4.4% over the bank bill swap rate: a figure of envy for the home lenders working on an average NIM of well under 2%.

Yes – Judo's delinquencies also increased, with 90 days past due at 2.63% of the book as of the end of March, compared with 1.73% at year's end. Management stresses the blip is mainly related to four loans that are secured as property.

Judo Bank shares have gained 27% year to date, but still have lost 44% of their value since listing.

For those seeking something more left field, Kina Securities ((KSL)) is Papua New Guinea's leading bank and funds manager.

Kina has interest margins (5.6%), return on equity (17%) and capital adequacy (20%) that would make a hardened Martin Place banker weep. This bank pays a dividend equating to more than a 10%, albeit unfranked.

At the bank's AGM last Wednesday, chairman Isikeli Taureka highlighted record customer and business lending growth and a 44% surge in digital banking revenue.

That said, a financial exposure to our volatile and strife-prone near neighbour is not everyone's cup of tea, so PNG discount in the valuation is justified.

In Taureka's words: "law and order, security, unreliable public utility services, foreign exchange and fiscal and regulatory policy uncertainty are just some of the many challenges we continue to face in PNG."

This column does not constitute financial product advice. You should consider obtaining independent financial advice before making any financial decisions

SMALL CAPS

Dr Boreham's Crucible: Amplia Therapeutics

By Tim Boreham, Editor, The New Criterion

ASX code: ((ATX))

Market cap: $17.93m

Shares on issue: 271,609,233

Chief executive officer: Dr Chris Burns (co-founder)

Board: Dr Warwick Tong (chair), Dr Burns, Dr Robert Peach, Jane Bell

Financials (March quarter 2024): receipts nil, cash outflows -$554,000, cash balance $3.385m*, quarters of available funding 2.5

Identifiable major shareholders: Platinum Investment Management 14.54%, Blueflag Holdings 6.94%, Pengana Capital 5.6%, Acorn Capital 5.19%.

**Ahead of $4.27m raised in rights offer

In its pursuit of a cancer drug for pancreatic cancer and possibly other indications including ovarian cancer, Amplia Therapeutics has history on its side given the involvement of its leading figures in a US-approved drug for blood cancer.

The therapy in question, Ojjaara (momelotinib) is a so-called janus kinase (JAK) inhibitor drug to treat myelofibrosis, developed by the formerly ASX-listed Cytopia.

The lead inventors were Melbourne based scientist and current Amplia CEO, Dr Chris Burns and Cytopia founder Prof Andrew Wilks.

In a typical case of ownership pass-the-parcel, Cytopia was sold to Canada's YM Biosciences for $14m, the drug was acquired by Gilead for US$510m ($770m) and then by Sierra Oncology (for a song).

Glaxosmithkline then acquired the drug through its 2022 purchase of Sierra for US$1.9bn - the highest amount ever paid for an Australian-developed therapy.

The US Food and Drug Administration (FDA) green-lighted the treatment last year – a rare event for an Australian-developed drug.

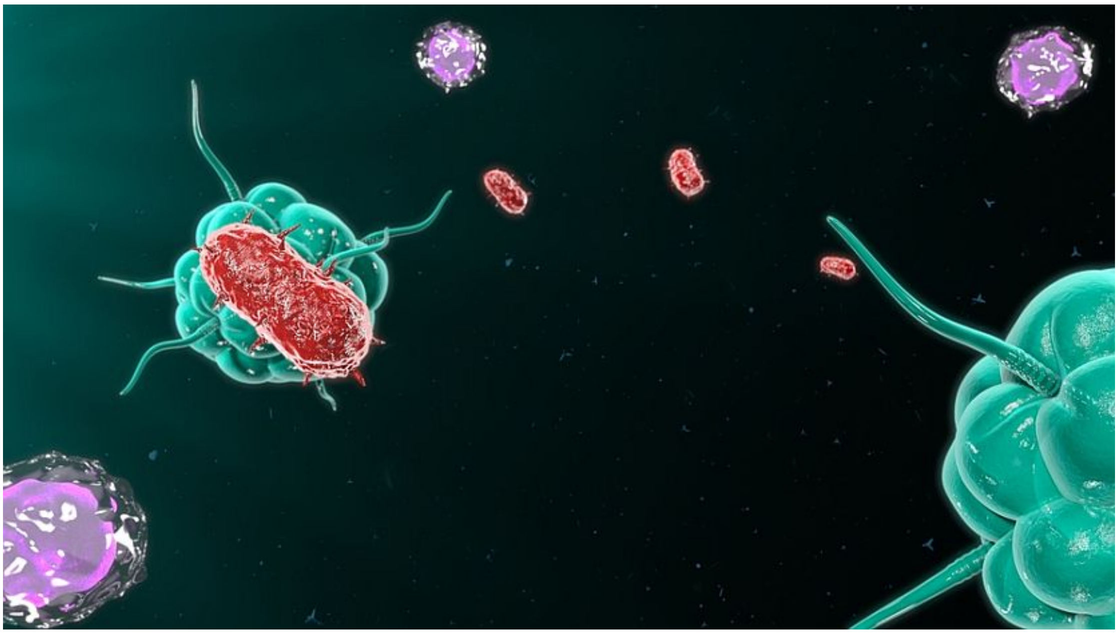
"It was a very interesting time," Dr Burns says.

Can history repeat itself?

Amplia certainly can't be accused of targeting the low-hanging fruit, in that pancreatic and ovarian cancers are notoriously hard to detect and to treat.

Amplia's lead compound, AMP945, targets fibrosis: the formation of excessive fibrous connective tissues that can impair the function of organs including the lungs, liver, heart and kidneys.

The company has orphan indication for both pancreatic cancer and idiopathic pulmonary fibrosis - another hard-to-treat condition.



Making Amplia Great Again

Amplia has an - er - interesting history.

In early 2018, the company was known as Innate Immunotherapeutics and it famously had just come a cropper with a phase II multiple sclerosis trial.

There's even a Trumpian tinge to Amplia's history, in that former Innate director and major shareholder Chris Collins was Donald Trump's congressional liaison.

If convicted criminal Trump is jailed – admittedly unlikely - he knows who to consult about life in the clink: Mr Collins was sentenced to 26 months' jail after pleading guilty to tipping-off his son that the MS trial was less than tickety-boo.

(Eventually, he was pardoned by Trump during his presidency).

But not to worry. After considerable soul-searching the company acquired the privately owned Amplia and its FAK inhibitor program (more on FAKs later).

Amplia was owned by parties including the now legendary Dr Chris Behrenbruch, Dr Chris Burns and Peter MacCallum Cancer Centre researcher Dr Mark Devlin (now an Amplia scientific adviser).

Initially, the program was the work of the Melbourne based, Federal Government-funded Cancer Therapeutics Cooperative Research Centre.

While developed here, the rights resided with Cancer Research UK. But the organisation wasn't actively developing it, so Doctors Burns and Behrenbruch negotiated to re-claim the tech.

Dr Burns took over from Dr John Lambert as CEO in December 2022. Dr John had replaced Simon Wilkinson in June 2019.

Dr Burns has 30 years in drug discovery and development, including CEO positions at public and private companies.

Along the way, Dr Behrenbruch resigned from Amplia's board in 2020 to focus on Telix Pharmaceuticals ((TLX)) but remains a supportive Amplia holder with a 1.5% stake.

Innate changed its name to Amplia shortly thereafter and bunkered down to focus on its current programs.

What the heck is FAK all about?

Amplia's lead compound AMP945 (narmafotinib) is a focal adhesion kinase (FAK) inhibitor.

Most cancer treatments are designed to attack tumors directly by either poisoning them, or starving them of nutrients. This is fine when it works, but tumors are cunning in that they tend to mount a defensive response which blunts the effect of many cancer drugs.

It is hoped AMP945 will suppress a bodily agent suspected of aiding and abetting the spread of tumors and fostering fibrosis.

AMP945 removes the protective shields, rendering the tumors more responsive to chemotherapy.

AMP945 was discovered at the former Cancer Therapeutics Cooperative Research Centre, with the help of scientists from Monash Institute of Pharmaceutical Services and Peter MacCallum Cancer Centre, St Vincent's Institute of Medical Research, the Walter and Eliza Hall Institute of Medical Research and the CSIRO.

A great team effort all round, guys and gals!

On trial (and we're not talking about Trump)

Dubbed Accent, Amplia's clinical trial efforts centre on a two-phase open-label combination trial for advanced metastatic or non-resectable (inoperable) pancreatic cancer.

A recently completed phase Ib dose-escalation study enrolling 14 patients dabbled with 100, 200 and 400 milligram deliveries and concluded that a 400mg dose was most suited for the phase IIa stage.

Combining AMP945 with standard-of-care generic gemcitabine and nab-paclitaxel (Abraxane), the phase Ib stage reported six of the patients had a partial response, while the remaining eight patients had disease "stabilisation" (they didn't get worse).

Seven of the 14 patients continued their treatment for more than six months, with two continuing after 10 months. This compares with the historic median progression-free survival of five and a half months for the standard-of-care therapy.

The phase IIa safety and efficacy effort will take place at six local sites and five in South Korea (a popular geography for trials given the in-situ skills and a compact population of 50m).

The study aims for 26 patients initially, before interim analysis in six to seven months.

In a May 15, 2024 update, Amplia said the trial was going to plan, with 19 patients enrolled.

"An interim analysis will be conducted to determine whether six or more patients on the trial record a partial response," the company says.

If so, a further 24 patients will be enrolled taking the total to 50.

The most advanced patient to date has been treated for 300 days, with a best response of a 70% change from baseline.

The company expects to release interim data by September 30 this year.

Beyond that, the company has an open investigational new drug status with the FDA for a trial combining AMP945 with Folfirinox and is discussing potential funding with US pancreatic cancer charities.

Also known as Folfoxiri, Folfirinox is a combination treatment of four chemotherapy drugs (folinic acid, fluorouracil, irinotecan and oxaliplatin) and the preferred pancreatic cancer chemo in the US and most of Europe (but not in older patients because of toxicity issues).

Buying time

It should be stressed that with so many other cancer drugs, AMP945 is not pitched at a pancreatic cancer cure - it's all about buying more quality time for the patient.

In February the FDA approved a Folfirinox variant called Nalirifox, a cocktail of four drugs for metastatic pancreatic cancer who have not received previous treatment.

Trials of Nalirifox showed an overall survival of 11.1 months, a statistically significant improvement over the 9.2-month overall survival with gemcitabine/Abraxane.

"You don't need to do much for the community to be enthusiastic about new developments," Dr Burns says.

Based on its animal studies to date, Amplia hopes it can do better - and with less toxicity than the standard of care, the generic gemcitabine and/or nab-paclitaxel (Abraxane)

"There's very clear evidence from the literature that inhibiting FAK synergizes with the activity of gemcitabine," he says. "We know if we put those together, we are supercharging gemcitabine activity."

He says pushing out the overall survival out from seven months to 12 months or beyond would be a "profound improvement" on the standard of care.

"If we could add four months or more that would be fantastic - patients could make it to their next Christmas, or their daughter's wedding."

Ovarian cancer

Because pap/cervical smears do not pick up the condition, around 70% of ovarian cancers are picked up in late stage and mortalities are high.

"As with pancreatic cancer, ovarian cancer is highly fibrotic, it's very difficult to treat and turns up quite late in testing," Dr Burns says.

In October 2023, Amplia presented pre-clinical ovarian cancer data to the American Association for Cancer Research special ovarian cancer pow-wow held in Boston.

The mice model pertained to the highest grades of the disease, which account for 90% of all ovarian cancer patients.

The data "clearly demonstrated" that narmafotinib improved tumor growth inhibition in chemotherapy-resistant ovarian cancer, relative to the standard-of-care, called niraparib.

The company is eying an investigator-initiated study, by which Amplia supplies the drug while another party funds the study and finds the patients.

Dr Burns is encouraged that the Boston-based Verastem Oncology is about to get accelerated FDA approval for a combo FAK drug for ovarian cancer (defactinib).

However, Verastem is targeting a low-grade ovarian cancer (which affects about 10% of patients), while Amplia focuses on the remaining high-grade patients.

Thus, the Verastem program validates the FAK approach whilst not being a competitor.

Finances and performance

On May 15, 2024, Amplia said it had raised $4.27m in a rights offer, with most of the proceeds to be used to fund the Accent trial.

The two-for-five offer was struck at 5.5c per share. Investors put out their palms for $1.983m, with most of the shortfall satisfied by underwriter Taylor Collison.

Director Dr Robert Peach also agreed to sub-underwrite up to $150,000 of shares and was allocated $105,000. Dr Burns and director Jane Bell cumulatively took up $78,000.

The raising takes the company's cash kitty to around $5m, which Dr Burns says is adequate to fund the trial.

The stock is well-supported institutionally with Platinum Investment Management, Pengana Capital and Acorn Capital all gracing the register.

Over the last 12 months, Amplia shares have declined from 11 cents in May last year to 5.7 cents in mid-May, this year. In the post-Innate era, the stock peaked at 80 cents, in March 2018.

Dr Boreham's diagnosis:

So far, the Federal Government's 'Made in Australia' push has centred on solar panels and critical minerals, but should it be extended to drugs as well?

"Despite years of government funding and academic work, not many drugs have got to phase III and only two have been approved," Dr Burns says.

"Others developed by Australian companies were bought in or were natural products."

If Dr Burns and Amplia have their way, a third drug (for pancreatic cancer) will be proudly bearing the made – or technically, discovered – in Australia logo.

"The difference with this [compared with the myelofibrosis] drug is I want to drive it locally for as long as we possibly can and see more of the success come back to Australia."

Patriotism aside, the unmet need is startling. In the US, 66,000 pancreatic cancer cases were diagnosed last year, with 50,000 deaths.

The current cost of treatment in the US alone is US$6bn and is estimated to grow to US$36bn by 2036.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort.

This column was proudly made in Australia

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SMALL CAPS

Imdex's Operational Leverage Attracts

A lack of junior miner exploration in tough economic times has weighed on drill supplier Imdex, but brokers believe an upswing is not too far off.

-Junior miner spending has been restricted recently
-Rising commodity prices suggest momentum may change
-Imdex exhibits strong operating leverage
-Brokers are confident of better times ahead

By Greg Peel

Imdex ((IMD)) is the leading global supplier of intelligent drill rig tools, drilling fluids and software to the mining industry. The tools provide geological information about the drillhole, and fluids are used to lubricate the rig and enhance drillhole performance.

Drilling in the mining industry is all about exploration for metals/minerals. The extent of drilling activity at any time is dependent upon prevailing commodity prices, which provide the incentive for greater exploration. Imdex's earnings are 80% exposed to exploration spending.

Imdex's share price has risen from under 20c in late 2015 to $2.26 today.

In 2023, global exploration spend was US$12.6bn, down -3% year on year from US$13.1bn in 2022, Morgans notes. Standard & Poor's expects spending to be flat to down -5% in 2024.

Over one year, the price of gold has risen from under US$2000/oz to over US$2300/oz, recently peaking at over US$2400/oz. The price of copper has risen from around US$3.80/lb to around US$4.50/lb, peaking over US$5.00lb. These are but two metals. Others, such as lithium, have not fared so well. However, gold and copper typically make up some 50% and 25% of exploration spending, respectively.

The two are also inexorably linked as the major by-product of gold mining is copper and the major by-product of copper mining is gold. Morgans notes Imdex's share price tends to move in lockstep with the copper price. Over the last five years, the correlation between Imdex and the copper price is nearly 90%. Over this time, copper has increased by around 80% and Imdex shares by around 120%

But while larger and intermediate miners have been maintaining or increasing their exploration budgets in recent times, spending by junior miners has declined sharply given limited access to funding, being capital risings or debt financing. Holding back such funding has been the high interest rate environment, regulatory headwinds with respect to greenfield projects, and drill rig availability.

These headwinds have clearly weighed on Imdex.

A Trough?

Imdex's March quarter trading update in April fell short of analyst forecasts, reflective of lower drilling activity in a tough market afflicted by falling exploration budgets and reduced mining activity.

However, analysts were not put off. Macquarie suggested at the time Imdex was currently well placed to benefit from a pick-up in drilling activity driven by strong industry fundamentals. Stronger commodity prices were driving improved exploration budgets and increased junior capital raising activity. The broker maintained an Outperform rating.

UBS continued to see significant upside when the tide turned for global capex spending in the mining sector. The March quarter probably represented a cyclical low point, argued UBS, drawing some comfort from the strong rally in key commodities gold and copper.

Jarden agreed the worst of the cycle might now be in the past.

Emphasising this point, Citi noted in May the value of junior miner financings in April had surged past the US$1bn mark. While this was encouraging, Citi points to the December quarter, which represented three consecutive months of above US$1bn raisings but a subsequent absence of uptick in exploration. For Citi to turn more positive, the analysts wanted to see this momentum retained without severe volatility.

With continued support from solid commodity prices, Citi believed the environment was ripe for elevated junior raisings, but this had yet to emerge up until April.

Citi acknowledged it was too early to call it a pivot to a surge in exploration, but should this momentum in raisings continue or accelerate further, it could increase the likelihood of meaningful volume recovery for Imdex. This could present upside risk with respect to volumes across FY25.

Citi wanted to see a sustained level of elevated raisings from juniors before turning more positive, hence a Neutral rating.

This week, Morgans reported it had used trailing 12-month (TTM) junior miner equity raisings as a proxy for the health of balance sheets. TTM raisings have been troughing for some 13 months and previous cycles suggest that prolonged troughs tend to last 15-25 months. This indicates an inflection is not too far away. A prolonged trough is always followed by a material surge in raisings, Morgans notes, which translates into more exploration activity.

Operating Leverage

Imdex's operating leverage means earnings growth well exceeds revenue growth, Morgans points out. This holds true in both an upcycle and downcycle.

Morgans has drawn upon the historical relationship between gold and copper prices and exploration spend.

Current commodity prices imply spending of US$16bn which is 27% above that of 2023 (US$12.6bn). Morgans' FY26 estimates assume exploration spend of US$13.3bn.

For every 5% increment of higher spending, Imdex's earnings per share increase by around 12%. If exploration spend were to reach US$16bn in FY26, assuming Imdex's share remains constant, this would see 30-50% earnings upgrades to the broker's forecasts.

In terms of valuation, Morgans notes when the exploration outlook strengthened post-2019, Imdex's PE ratio firmed to around 24x. From April 2022, Imdex shares de-rated to average around 16x as growth expectations faded with the cycle. More recently, the PE has expanded to around 20x. This is still well off peak and shouldn't be a deterrent, Morgans suggests, given the scale of potential upgrades.

Morgans has this week initiated coverage of Imdex with an Add (Buy-equivalent) rating and a $2.50 target price, which is based on 23x the broker's FY25 adjusted earnings forecast.

Five brokers monitored daily by FNArena cover Imdex. Of those, three have Buy or equivalent ratings and two have Hold. One of the Holds is Bell Potter, which has yet to comment since Imdex posted its interim result in February.

Bell Potter thus has the lowest target among the five, at $1.75. The other four have targets ranging from $2.20 to $2.50 (Morgans).

Also not updating since the result release in February, are Jarden, which maintained an Overweight rating and $2.10 target, and Canaccord Genuity, which kept a Buy rating and raised its target to $2.25 from $2.10.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 31-05-24

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 May 27 to Friday May 31, 2024
Total Upgrades: 5
Total Downgrades: 6
Net Ratings Breakdown: Buy 55.93%; Hold 34.50%; Sell 9.57%

For the week ending Friday May 31, 2024, FNArena recorded five ratings upgrades and four 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 falls in average target prices were a little larger than rises.

The average target for perennial outperformer Pro Medicus increased by 12% following the signing of five new customer contracts in North America with a combined minimum value of $45m per year, prompting Bell Potter to upgrade its rating to Hold from Sell and raise its 12-month target to $115 from $75.

The drivers of demand for the Visage product remain firmly in place, according to the broker, including declining reimbursement for radiology, too few radiologists and a sector requirement for improved productivity.

Total contract value for FY24 now rises to $245m, highlighting the strength of the company's 'Full Stack' product offering and trend towards cloud deployment, noted Outperform-rated Macquarie.

The average target price for Pro Medicus of five covering brokers is now $88.40. Should Ord Minnet's/Morningstar's unchanged $34.50 target be excluded, the average rises to $101.88, which is still more than -20% shy of the current share price.

Last week, Ord Minnett/Morningstar felt the current PE multiple is unjustifiable given potential for earnings volatility, and the significant competitive threat posed by rivals such as Intelerad, Sectra, and Change Healthcare. Morningstar has been preaching on a near deserted island thus far.

On the flipside, there were material falls in average target prices for Peter Warren Automotive, Serko, and Lendlease Group.

Peter Warren Automotive received two ratings downgrades from separate brokers last week after issuing a disappointing trading update.

Citi downgraded to Sell from Neutral and lowered the target to $1.70 from $2.40 after being surprised by the magnitude of the earnings decline evident in the market update.

The analysts noted second half gross margins had likely contracted by around -110bps, all driven by discounting on new cars, and anticipated a "dreary" outlook for the dealership industry.

Should consumer demand soften further, given the lag between OEMs reducing production orders and current volume estimates, the broker could see further downside risks.

Ord Minnett felt the weakness was unsurprising because of some of the recent announcements from competitors.

Given near-term margin uncertainty, this broker downgraded to Hold from Buy and reduced its target to $1.95 from $3.30.

Serko experienced a significant improvement in free cash flow in FY24, and narrowed the EBITDA loss to -NZ$7.1m in FY24 from -NZ$32.6m in FY23 due to the incremental impact of the Booking.com deal, explained Ord Minnett.

However, management pointed to a short-term slowing in revenue from this deal resulting in revenue guidance for FY25 of between NZ$88-$92m compared to the broker's NZ$106m forecast.

On a positive note, Serko has not assumed much contribution from new strategic partnerships and the contribution from redirected traffic from the Booking.com leisure site, which Citi noted is not within management's control. Both factors are expected to be positive contributors to FY26 revenue.

Lendlease Group outlined plans at its strategy day to sell most of the international business and refocus upon Australia. The group will exit its offshore Construction and Development business, but will retain investments in the US, Europe and Asia.

For more detail on these changes and potential for capital management please refer to https://fnarena.com/index.php/2024/05/30/lendlease-bringing-it-back-home/

Capitol health, which operates 67 diagnostic imaging clinics around Australia, heads up the earnings upgrade table below, just above Serko. The large percentage increase is largely due to the small forecast numbers involved.

A new analyst at Bell Potter increased revenue estimates for Capitol, due to normalising volume and pricing growth rates across diagnostic services and benefits, though inflationary pressures are expected to dampen the recovery in operating margins.

This broker forecasts rolling earnings will grow by 50% over two years (starting from a low point).

Fisher & Paykel Heealthcare is next with a nearly 31% rise in average earnings forecasts by brokers.

FY24 results were stronger-than-expected by Ord Minnett driven by higher revenue, good cost control and a better-than-expected gross margin expansion.

The company achieved a gross profit margin of 61.1% (excluding the provision of a product recall) compared to 59.3% for FY23, due to lower freight costs, manufacturing efficiencies and pricing, explained Morgan Stanley. First time FY25 guidance implied 8% upside to the broker's current forecast.

Macquarie highlighted a favourable growth outlook but noted margin expansion was already captured within the current share price and retained a Neutral rating.

Xero announced price increases in the UK, and also put through packaging changes similar to the changes made in Australia. While the latter were already included in Citi's forecasts, the broker sees potential upside to consensus estimates.

For a summary of the prior week's FY24 results and the outlook for Xero the reader may refer to https://fnarena.com/index.php/2024/05/28/xeros-growing-cash-balance-in-focus/.

In terms of earnings downgrades, here Paladin Energy was the "leader" with an around -38% fall in average FY24 earnings forecasts by brokers. Again, only small forecast numbers were involved which exaggerate any percentage move.

The Bell Potter analyst attended the Langer Heinrich mine site and came away "surprised" at the quality of the site, infrastructure and the workforce.

The mine restart is proceeding well and could generate upside potential to earnings estimates, noted the broker. The rating was downgraded to Hold from Buy after recent strength in share price.

Outperform-rated Macquarie suggested exploration upside could extend the mining phase and maintain the

6mlb per annum run-rate for longer than the current seven-year period.

Mineral Resources is next after Ord Minnett lowered earnings forecasts but maintained its $67 target price as current earnings drivers are considered short-term in nature.

The analyst reminded investors volatility in iron ore and lithium prices, as well as low-margin iron ore operations, makes for wild and uncertain swings in profitability.

The Reject Shop and Nufarm also received earnings downgrades from brokers.

Following a trading update, Morgan Stanley lowered its target for The Reject Shop to $3.70 from $4.75 as gross margin pressure and cost-of-doing-business (CODB) weigh, despite ongoing improvement for customer count and units per basket.

The higher CODB is due to ongoing inflationary pressures in labour costs and higher shrinkage, noted Ord Minnett.

Sales growth has moderated to 4.1% in the second half so far, after tracking at 4.8% at the start of the half. Management guided for FY24 group EBIT in the range of $4.0-5.5m, which implies a shortfall of -$2.3m-$3.8m against consensus forecasts, according to the Morgans analyst.

There is negative earnings momentum and clear pressures in terms of mix, shrinkage and cost inflation, and Morgan Stanley suggested inflationary pressures will be hard to offset.

Nufarm's first half result materially missed consensus estimates, noted Morgans, and the midpoint of management's new FY24 underlying earnings guidance also missed the consensus forecast by -15%.

Management is anticipating a return to growth in the second half with the mid-point of guidance implying to the broker second half earnings will be up 25% on the previous corresponding period.

Attaining management's unchanged revenue growth aspiration of between $4.4-4.6bn in FY26 appears challenging to Morgans.

Total Buy ratings in the database comprise 55.90% of the total, versus 34.54% on Neutral/Hold, while Sell ratings account for the remaining 9.56%.

Upgrade

A2 MILK COMPANY LIMITED ((A2M)) Buy by Citi .B/H/S: 3/3/0

Post assessing the latest New Zealand (NZ) port data in relation to a2 Milk Co, the Citi analyst confirms management is performing well against a challenging macro backdrop.

The analyst highlights NZ infant milk formula exports fell -11% in the January to April 2024 period compared to 28% growth in the 1H24, which is attributed to the company stocking channels with the company's new China label and the comparision of results in the previous corresponding period.

Citi highlights the potential market share gains from new product developments in the English label which reported growth in volumes to Hong Kong of 145% over the four-month period.

The supply chain partnership with Yashili is seen as a positive step that may lead to broader collaborations. Buy rating and $7.85 target price.

DATA#3 LIMITED. ((DTL)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 1/2/0

Morgan Stanley considers the current valuation for Data#3 is more compelling after a -25% share price retracement from all time highs, and upgrades its rating to Overweight from Equal-weight. The target rises to $8.40 from $8.10. Industry view: In-Line.

Growth should be supported by Services strength (in particular Managed Services) and resilient end customer exposures, to say nothing of medium-term tailwinds from AI, point out the analysts.

The company's government/enterprise end market exposures should prove more resilient relative to the SME market, which is starting to experience incremental uncertainty, according to the broker.

HMC CAPITAL LIMITED ((HMC)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/4/0

Macquarie raises its target for HMC Capital to $7.97 from $6.96 and upgrades the rating to Outperform from Neutral.

These changes follow the acquisition of Payton Capital, a private credit manager, alongside a $100m institutional placement and $30m shareholder purchase plan.

The acquisition increases assets under management (AUM) to $12.5bn, with management reaffirming its $20bn medium-term target.

The broker believes the transaction will be around 7% accretive to operating EPS, and sees material upside if management executes on its growth ambitions in the credit segment.

PRO MEDICUS LIMITED ((PME)) Upgrade to Hold from Sell by Bell Potter .B/H/S: 1/2/2

While Bell Potter continues to struggle with the valuation ascribed to Pro Medicus, the analyst acknowledges the recent announcement of five new clients, adding $45m in revenue over eight years, enhances the company's revenue visibility for FY25.

Full revenue realisation from these contracts is anticipated in the 2H25, with the broker noting consensus FY25 revenue estimates are in a tight range around $200m, representing 25% growth on FY24.

The target price is raised to $115 from $75 and rating upgraded to Hold from Sell.

LOTTERY CORPORATION LIMITED ((TLC)) Add by Morgans .B/H/S: 2/4/0

Morgans highlight the strength in the lottery markets over the 1H2024, with 12 large jackpots over $15m against 7 in the previous corresponding period, including this past weeks $150m Powerball draw and the $40m Oz Lotto draw.

Accordingly, the broker has adjusted the large jackpot forecast for both Lottery Corp and Jumbo Interactive ((JINN) to 60 from 48 in FY2024.

The analyst upgrades EPS forecasts for Lottery Corp by 9.7% in FY24 and reduces by -1.1% for FY25 to account for the strong jackpot backdrop.

The target is raised to $5.60 from $5.40 with an Add rating.

Downgrade

CROMWELL PROPERTY GROUP ((CMW)) Accumulate by Ord Minnett .B/H/S: 1/1/0

Ord Minnett assesses the unexpected recent sale of the European fund management platform and associated assets of Cromwell Property.

The broker views the sales as far from ideal given that markets are under pressure, but stresses the strategic move is expected to streamline operations and improve the overall financial position of the group with gearing moving to 25% by the September quarter.

Post the sales, Ord Minnett notes the business should be more predictable as an Australian business with the financial strength improved.

Accumulate rating. The target falls to 66c from 75c.

KEYPATH EDUCATION INTERNATIONAL INC ((KED)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

Macquarie increases its target to 87c from 67c to align with the merger agreement offer price (they always call it a 'merger', don't they) for Keypath Education International from Sterling Partners, which already held a 66% stake in the company.

The rating is downgraded to Neutral from Outperform.

Separately, management at Keypath upgraded FY24 revenue guidance to US$137-139m from the upper end of US$130-135m.

PALADIN ENERGY LIMITED ((PDN)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 4/1/0

The Bell Potter analyst attended the Paladin Energy Langer Heinrich mine and came away "surprised" at the quality of the site, infrastructure and the workforce.

The mine restart is proceeding well and could generate upside potential to earnings estimates, although Bell Potter points to potential higher operating costs, up 5% from inflation, as a moderating factor.

Rating downgraded to Hold from Buy due to the strong share price performance. Target lowered to $15.70 from $16.50.

PETER WARREN AUTOMOTIVE HOLDINGS LIMITED ((PWR)) Downgrade to Hold from Buy by Ord Minnett and Downgrade to Sell from Neutral by Citi .B/H/S: 1/2/1

Ord Minnett assesses the recent trading update from Peter Warren Automotive as weaker than expected, with new car margins being crimped due to improved supply and lower demand.

The analyst notes the weakness is unsurprising given some of the recent announcements from competitors.

Management points to revenue holding up, but lower margins underpin a decrease in profit before tax guidance of $52-57m for FY24.

The broker highlights this implies a significant reduction in margins, with 2H2024 profit before tax expected to fall to a $20m mid-point.

The earnings estimates are downgraded substantially. The rating is downgraded to Hold from Buy with the target price reduced to $1.95 from $3.30.

Citi downgrades its rating for Peter Warren Automotive to Sell from Neutral and lowers the target to $1.70 from $2.40 after being surprised by the magnitude of the earnings decline evident in yesterday's trading update.

The analysts believe 2H gross margins have contracted by around -110bps, all driven by discounting on new cars, and see a "dreary" outlook for the dealership industry.

Should consumer demand soften further, given the lag between OEMs reducing production orders and current volume estimates, the broker sees further downside risks.

SMARTPAY HOLDINGS LIMITED ((SMP)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 1/1/0

Bell Potter saw how SmartPay's FY24 earnings result met expectations.

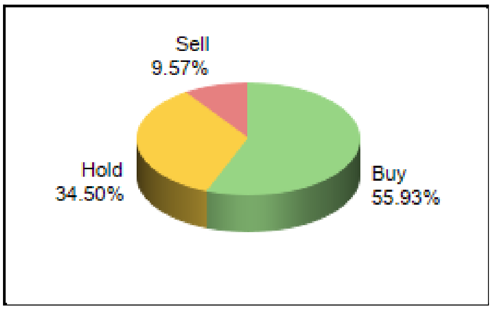
Revenue growth of 24.1% year-on-year was viewed as "soft" but offset by a lower cost base, which declined to 34.8% of revenues against 38.2% in FY23.

The broker highlights considerably weaker free cashflows from internal software development, hardware inventories and other network infrastructure spend ahead of the 3G shutdown.

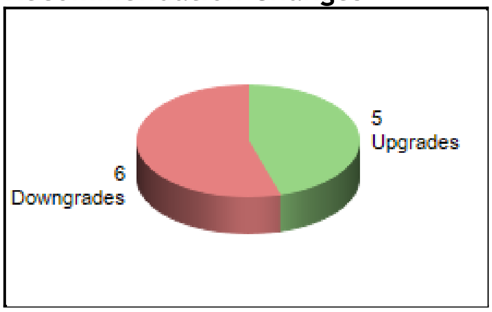
The higher churn rate is a surprise to Bell Potter and the broker lowers the FY25 EPS forecast by -29%.

Rating downgraded to a Hold from Buy and the target price lowered to $1.30 from $1.76.

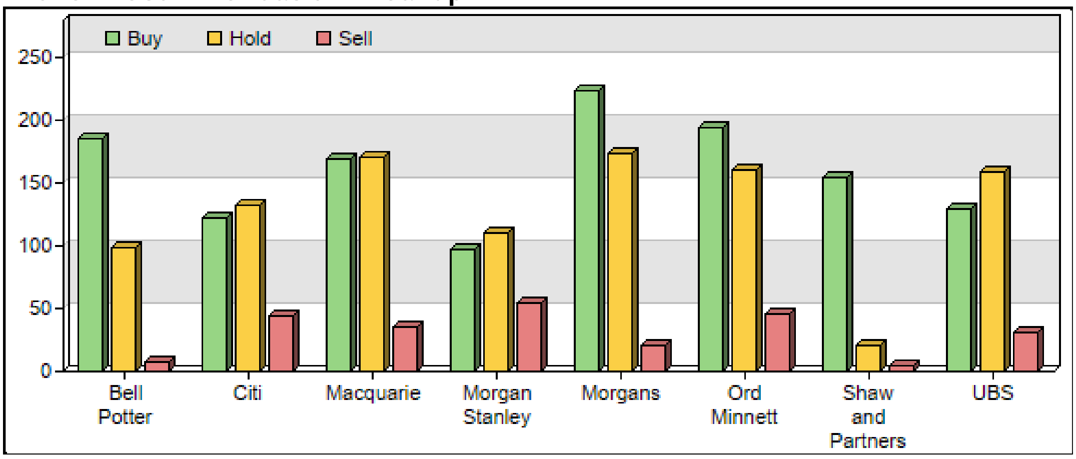
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	A2 MILK COMPANY LIMITED	Buy	Neutral	Citi
2	DATA#3 LIMITED.	Buy	Neutral	Morgan Stanley
3	HMC CAPITAL LIMITED	Buy	Neutral	Macquarie
4	LOTTERY CORPORATION LIMITED	Buy	Neutral	Morgans
5	PRO MEDICUS LIMITED	Neutral	Sell	Bell Potter
Downgrade				
6	CROMWELL PROPERTY GROUP	Buy	Buy	Ord Minnett
7	KEYPATH EDUCATION INTERNATIONAL INC	Neutral	Buy	Macquarie
8	PALADIN ENERGY LIMITED	Neutral	Buy	Bell Potter
9	PETER WARREN AUTOMOTIVE HOLDINGS LIMITED	Sell	Neutral	Citi
10	PETER WARREN AUTOMOTIVE HOLDINGS LIMITED	Neutral	Buy	Ord Minnett
11	SMARTPAY HOLDINGS LIMITED	Neutral	Buy	Bell Potter

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	PME	PRO MEDICUS LIMITED	88.400	78.900	12.04%	5
2	A2M	A2 MILK COMPANY LIMITED	6.540	6.120	6.86%	6
3	LYC	LYNAS RARE EARTHS LIMITED	6.683	6.350	5.24%	6
4	FPH	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	23.055	22.095	4.34%	5
5	HMC	HMC CAPITAL LIMITED	7.324	7.062	3.71%	5
6	AD8	AUDINATE GROUP LIMITED	20.720	20.150	2.83%	5
7	XRO	XERO LIMITED	140.817	138.575	1.62%	6
8	QUB	QUBE HOLDINGS LIMITED	3.913	3.860	1.37%	4
9	DTL	DATA#3 LIMITED.	8.133	8.033	1.24%	3
10	SDF	STEADFAST GROUP LIMITED	6.450	6.375	1.18%	4

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	PWR	PETER WARREN AUTOMOTIVE HOLDINGS LIMITED	2.288	2.900	-21.10%	4
2	SKO	SERKO LIMITED	4.125	5.175	-20.29%	3
3	LLC	LENDLEASE GROUP	7.117	8.563	-16.89%	3
4	TRS	REJECT SHOP LIMITED	4.183	4.533	-7.72%	3
5	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	47.250	49.917	-5.34%	6
6	CAJ	CAPITOL HEALTH LIMITED	0.310	0.320	-3.13%	3
7	DEG	DE GREY MINING LIMITED	1.737	1.783	-2.58%	3
8	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	18.576	18.914	-1.79%	8
9	MGR	MIRVAC GROUP	2.426	2.466	-1.62%	5
10	CKF	COLLINS FOODS LIMITED	12.125	12.275	-1.22%	6

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CAJ	CAPITOL HEALTH LIMITED	23.667	1.000	2266.70%	3
2	SKO	SERKO LIMITED	-1.710	-9.473	81.95%	3
3	FPH	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	53.146	40.686	30.62%	5
4	XRO	XERO LIMITED	139.038	120.399	15.48%	6
5	SFR	SANDFIRE RESOURCES LIMITED	-1.523	-1.676	9.13%	6
6	COE	COOPER ENERGY LIMITED	0.633	0.600	5.50%	3
7	TLC	LOTTERY CORPORATION LIMITED	17.550	16.950	3.54%	6

8	RWC	RELIANCE WORLDWIDE CORP. LIMITED	27.453	26.674	2.92%	6
9	PME	PRO MEDICUS LIMITED	75.050	73.700	1.83%	5
10	CIP	CENTURIA INDUSTRIAL REIT	17.350	17.100	1.46%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	PDN	PALADIN ENERGY LIMITED	-4.695	-3.413	-37.56%	5
2	MIN	MINERAL RESOURCES LIMITED	118.971	144.886	-17.89%	7
3	TRS	REJECT SHOP LIMITED	13.633	15.967	-14.62%	3
4	NUF	NUFARM LIMITED	15.543	17.700	-12.19%	7
5	IMD	IMDEX LIMITED	10.450	10.725	-2.56%	4
6	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	135.150	137.483	-1.70%	6
7	SUN	SUNCORP GROUP LIMITED	104.367	106.033	-1.57%	6
8	CKF	COLLINS FOODS LIMITED	51.133	51.600	-0.91%	6
9	HMC	HMC CAPITAL LIMITED	32.480	32.740	-0.79%	5
10	BEN	BENDIGO & ADELAIDE BANK LIMITED	88.900	89.125	-0.25%	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: Preparing For The Nuclear Age

The Biden administration is serious about nuclear, and so is, increasingly, the rest of the world.

-Biden administration is getting serious on nuclear
-And so is the US army
-Global investments in advanced reactors (SMRs and microreactors) ramping up
-Paladin Energy organised Langer Heinrich site visit

By Danielle Ecuyer

Nuclear power generation a top priority for the Biden Administration

The Biden Administration's H.R.1042 Bill or the "Prohibiting Russian Uranium Imports Act" finalised how the Department of Energy (DoE) would review applications for waivers last week. (For more details see previous reports in the links at the end of today's weekly update).

At a May 29 summit, the White House announced the Act's broad reaching plans to develop the USA's nuclear fuel cycle to produce high-assay, low-enriched uranium which is required to fuel advanced reactor designs.

The bill has also signed into law the gradual release of US$2.72bn in funds from the Department of Energy to "revitalise" the US domestic conversion and low-enriched uranium supply chain, including the support of large-scale nuclear power projects and the deployment of small modular reactors (SMR's), industry consultant TradeTech reports.

The Administration has included nuclear in a portfolio of carbon-free technologies to help meet the goal of mitigating carbon emissions by 2025.

A working group has been set up to deal with the thorny issue of high costs and long lead times for commercial nuclear reactors, which includes the Department of Energy, the White House energy innovation team, and the White Office Head of Domestic Climate Policy.

Notably, the US Army announced it is seeking information for the deployment of advanced reactors, including SMRs and microreactors, that can provide defense assets with resilient energy amid cyberattacks, physical threats, extreme weather, biothreats and other emerging challenges which can impact or threaten the reliability or viability of commercial energy networks.

The White House also announced agreements with major companies Duke Energy, Amazon, Google, Microsoft, and Nucor for the development of new rate structures or "tariffs" in the utility sector to lower the long-term costs of clean energy, like nuclear.

The Accelerating Clean energy (ACE) tariffs would enable the large hyperscalers – (Amazon, Google and Microsoft), as well as Nucor, to offer innovative financing structures alongside investmentments in clean energy assets.

TradeTech also pointed to the newest US reactor, Vogtle Unit 4, which started commercial services on April 29 with capacity to produce energy for 60-80 years via Units 3 and 4, the USA's first Westinghouse AP1000 reactors to supply an estimated half a million homes and businesses.

What happened to U3O8 spot prices in the month of May?

The month of May has been uncharacteristically volatile for spot U3O8 prices according to industry consultant TradeTech.

TradeTech's Long-Term U3O8 price indicator remains at US$80 for May 31 and unchanged on the previous month.

The Mid-Term indicator is priced at US$93.80/lb and down US$1.50 on April's value.

The uranium market experienced almost daily price fluctuations over May, contrasting to the norm, where prices can remain stable or unchanged for extended periods according to TradeTech.

The spot price reached a high of US$93.85 on May 7 and on May 8 it declined to US$90 with US$89 reported on May 30 before rebounding to US$90/lb as at May 31.

Utilities stepped back from the U3O8 spot market as they turned their focus to the preparation of waiver applications as well as lining up the enrichment portfolios to guard against a possible waiver refusal.

Traders and financial entities were the main market participants over May with many traveling in the first weekend of June to the World Nuclear Fuel Market Annual Meeting to glean feedback on the new act.

WoodMac on the outlook for nuclear energy

Morgan Stanley hosted a webcast with Wood Mackenzie ("WoodMac") on the global nuclear industry.

The consultant highlighted a need for more investment in nuclear generation with reactors coming to the end of their 40–50 year life span and highlighted the support for the sector is growing.

WoodMac forecasts gas to remain attractive for the next 5-10 years but the nuclear/gas trade off to diminish as gas experiences growing demand from other sectors than energy generation.

WoodMac does not see fusion as commercially viable as base case, but expects ongoing investment in SMRs with the pipeline having increased by 8.9GW since 2021. GE-Hitachi currently has the largest SMR pipeline of 2.79GW in train.

Several different types of SMRs are being developed, with the majority being traditional light water reactors (a smaller version of Gen3 reactors which have been operating for a while), as well as a new type that uses highly enriched uranium.

The greatest barrier for nuclear development is cost with WoodMac envisaging a 5-year window for the nuclear industry to solve its development problems.

SMRs currently cost US$180/MWH but could feasibly scale to US$150/MWh over the next 5-6 years. The use of cement pads is one of the larger and growing cost imposts for SMRs which needs to be addressed.

Paladin Energy in focus

ASX-listed Paladin Energy ((PDN)) recently hosted a Langer Heinrich site visit in Namibia. Analysts from Canaccord Genuity, Bell Potter and Macquarie discussed their findings in research reports once back on Australian soil.

Canaccord reports the mine re-start is ahead of expectations and the broker upgraded FY24 production by 30% to 0.66Mlb while flagging upside potential to FY25 forecasts, with current production estimated at 4.64Mlb.

The analyst retained a Buy rating on the shares and upgraded its target price to $16 from $15.53.

Bell Potter admitted to being “surprised” by the quality of the Langer Heinrich site and regional infrastructure, as well as the workforce skills.

However, this analyst flagged concerns over cost escalation. Bell Potter's price target was revised to $15.70 from $16.50 and the rating adjusted to Hold from Buy due to the 140% price appreciation of the stock price over the past year.

Macquarie retains an Outperform rating and a $15 target price. This analyst stressed the plant and operation appeared in “great condition” and the commissioning was in hand with the ramp-up underway.

Concerns around power and water supplies/security were also alleviated and Paladin management announced FY25 guidance would be provided in July this year.

Macquarie is currently forecasting 3.57mlb production, 2.34mlb shipments at all-in-sustaining costs of US$34.20/lb.

More reading:

-https://fnarena.com/index.php/2024/05/28/uranium-week-soft-us-import-waivers/

-https://fnarena.com/index.php/2024/05/21/uranium-week-russia-banned-from-august/

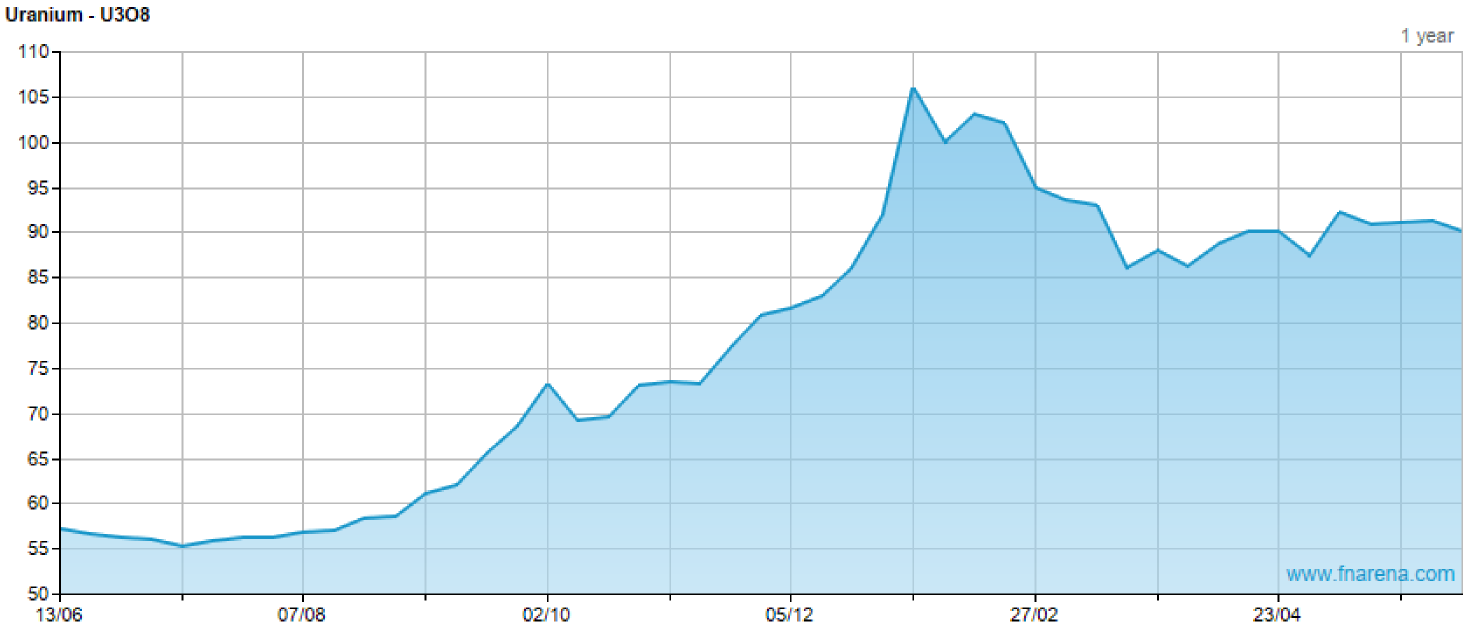
-https://fnarena.com/index.php/2024/05/14/uranium-week-us-boycott-enthusiasm-fades/

-https://fnarena.com/index.php/2024/05/07/uranium-week-finally-a-ban/

-https://fnarena.com/index.php/2024/04/30/uranium-week-nuclear-power-and-ai/

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	31/05/2024	0.0800	▲12.50%	$0.19	$0.05			
AGE	31/05/2024	0.0600	0.00%	$0.08	$0.03		$0.100	▲66.7%
BKY	31/05/2024	0.4000	▲ 6.49%	$0.80	$0.26			
BMN	31/05/2024	4.5500	▲ 2.27%	$4.87	$1.41		$7.400	▲62.6%
BOE	31/05/2024	4.7500	▼-12.55%	$6.12	$2.83	48.6	$5.425	▲14.2%
DYL	31/05/2024	1.6900	▲ 0.30%	$1.83	$0.65		$1.770	▲4.7%
EL8	31/05/2024	0.5300	▼- 1.89%	$0.68	$0.29			
ERA	31/05/2024	0.0500	▼- 8.16%	$0.08	$0.03			
LOT	31/05/2024	0.4800	▲ 3.33%	$0.49	$0.17		$0.660	▲37.5%
NXG	31/05/2024	11.7700	▲ 3.51%	$13.66	$6.44		$17.500	▲48.7%
PDN	31/05/2024	16.1900	▲ 1.21%	$17.98	$6.43	-348.0	$16.310	▲0.7%
PEN	31/05/2024	0.1100	▲ 9.09%	$0.20	$0.08		$0.260	▲136.4%
SLX	31/05/2024	6.1900	▲ 0.83%	$6.74	$2.92		$7.600	▲22.8%



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WEEKLY REPORTS

The Short Report - 06 Jun 2024

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

Summary:

Summary:

Week Ending May 31, 2024 (most recent data available through ASIC).

10%+

PLS 21.38
IEL 12.78
SYR 10.72

Out: FLT

9.0-9.9%

LTR
FLT
WGX
CHN
SYA

In: FLT, CHN Out: ACL

8.0-8.9%

HLS
STX
ACL
WBT

In: HLS, STX, ACL, WBT Out: CHN

7.0-7.9%

CXO
LYC
LIC
ARU
NAN

In: LYC, ARU, NAN Out: WBT, HLS, STX

6.0-6.9%

GMD
BAP
OBL
BOQ
WEB
VUL

In: WEB, VUL Out: LYC, ARU, NAN, MIN

5.0-5.9%

CUV
MIN
IFL
IMU
CTT
DMP
CTD
SHV
NVX

In: NVX Out: VUL, WEB

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.3	0.3	QBE	0.5	0.5
ANZ	0.5	0.5	RIO	4.9	5.0
BHP	0.4	0.4	S32	2.4	2.3
CBA	1.4	1.4	STO	1.3	1.4
COL	0.5	0.6	TCL	0.7	0.5
CSL	0.4	0.3	TLS	0.2	0.2
FMG	0.9	0.9	WBC	0.9	1.0
GMG	1.5	1.5	WDS	0.5	0.8
MQG	0.8	0.9	WES	1.0	1.1
NAB	0.7	0.6	WOW	0.3	0.2

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.

WEEKLY REPORTS

In Brief: Gas, Gold, Groceries & Aussie Banks

Weekly Broker Wrap: UBS sees structural demand change for gold, east coast gas shortages a threat; grocery prices hit rock bottom; and Aussie Banks too expensive to mention.

-East coast gas demand remains below 2023 levels
-UBS expects gold to maintain its shine
-Overseas trends point to a bottom in domestic grocery prices
-Banks are more highly valued than even a bear thought

By Danielle Ecuyer

UBS grabs gold by the "bullish" horns

In a comprehensive analysis of the Australian gold mining sector and the macro drivers behind the gold price, UBS has upgraded its outlook for the price of gold bullion, leading to an across the board upgrading of forecasts and price targets for Australian gold miners.

UBS highlights **major structural change for the global gold market**.

The analysts note there has been a move towards strong "official" gold purchases, think sovereign states, as well as resilient demand for physical gold (jewelry, for example).

Increased geopolitical risks and global macro concerns are expected to continue to underpin demand and any gold taken off the market is not considered as coming back to the market in the foreseeable future.

Importantly, investors are seeking out increased gold holdings, with UBS alluding to the fact many are underweight, while the private wealth community and longer-term investors have yet to catch the gold buying train.

The broker envisages the next move higher on the gold price stems from a global re-allocation to the asset class from this group of investors.

In the near term, the US Presidential election is a potential trigger for higher gold prices to move higher on the back of political uncertainty.

Where to for the gold price forecast?

UBS has increased its gold price forecasts by 8% in 2024, 21% in 2025, 34% in 2026, 30% in 2027 and 18% in 2028, to respectively US$2,365/oz, US$2,700/oz, US$2775/oz, US$2600/oz, and US$2,300/oz.

On inspection, the analysts believe upgraded forecasts are between 27%-33% above consensus forecasts over 2025-2027, with ASX-listed gold miners currently priced for bullion trading between US$1660-US$2090/oz.

The broker also raises the long-term real price by US$200/oz to US$1,950/oz against consensus sitting at US$1,780/oz.

In AUD terms, UBS estimates **gold reaching $4,000/oz by the end of 2025** which has resulted in material target price rises for Australian gold producers. More details are available in The Broker Call Report of May 5.

Are gas supply disruptions a risk for the winter months?

Jarden has updated its east coast gas tracker with the start of winter and what is traditionally a critical period for the South Australian market.

Weaker gas demand has continued into 2024, with cumulative demand until the end of May down -8% on the previous corresponding period in 2023. Victoria's demand fell -11% which the broker attributes in part to demand destruction resulting from higher retail gas prices in 2023.

Interestingly, non-gas-powered generation (GPG) demand is also weaker, with the seven day average demand running below 2023 and levels of recent years, consistently.

The market shows cumulative GPG demand is still higher than the comparable period in 2023, but well below the 2019-2022 period which the broker attributes to high coal availability and lack of electricity supply disruption.

Jarden is forecasting 2024 east coast demand to remain some -5% below the 2023 level.

Will various disruptions impact the market?

In May, cooler weather, coal outages in NSW and what Jarden described as the "surprising" operation of Tasmania's Tamar Valley Power Station, all culminated to increase GPG gas demand to the highest monthly demand since July 2022.

Regarding supply, lower production from Longford due to planned maintenance is keeping southern production below the 2023 level, with higher levels of supply from Otway, Orbost and Moomba not making up the shortfall in output from the Longford gas field.

Year-to-date Longford output is down -24% compared to the same period last year.

The broker highlights Iona storage was used to meet the supply shortfalls, but there was a resulting spike in gas prices.

Jarden stresses the fragility of the gas markets to spikes in demand during colder periods on top of other factors that impact on markets, suggesting on current estimates South Australia will need to increase more supply capacity by 2030, particularly with the expected decline in Longford production over the decade.

Prices remain well down compared to May 2023, by -9%, even with the recent gas price spike, due to the cold start to winter last year in Victoria and other states.

The average May price was -28% below the prior year, but 13% above April 2024.

Jarden is Neutral rated on Woodside Energy Group ((WDS)) and Overweight on Santos ((STO)), Origin Energy ((ORG)), APA Group ((APA)), Beach Energy ((BPT)) and Cooper Energy ((COE)).

The latter has been identified as a specific beneficiary of expected higher gas prices in 2026, assuming the company can increase higher production rates at Orbost and unlock Otway gas potential.

Australian grocery markets, what the overseas experience reveals

Jarden has undertaken a deep dive into domestic grocery prices to assess probable outcomes in comparison with what has transpired overseas. The analyst reviewed nine companies across the UK and US for insights into what could develop in the domestic grocery market.

The US/UK markets are viewed as three to nine months ahead of Australia regarding inflation trends. These markets have shown slowing inflation leads to a rise in demand. The analyst notes across the US and the UK, there has been a 2–6ppts improvement in volumes as inflationary pressures eased.

Jarden assesses the current grocery outlook is near the bottom of the cycle and all things being equal, based on the overseas experience, volumes should recover by a similar amount of 2-6ppts.

This forecast is composed of population growth of circa 2% and a possible 1.5% uplift from eating at home. Looking out to 2024/25, volume growth should improve and expected sales growth is between 4%-5%.

The broker also highlights increased competition between own-private labels and branded consumables has risen.

The UK has the second largest own-brand market globally at 46% (Switzerland is the leader at 52%), with a 30% rise in private label spending over the past year, driven by 20% own brand growth from Tesco and Sainsbury.

Australia is depicted in with the middle range with around 30% own brand market share; Coles Group ((COL)) is ahead with growth of 8% year-on-year in 2024, leading Woolworths Group ((WOW)) with 4% growth.

Overall, Jarden believes investment in own brands for the "premium" rated companies, Woolworths, and Metcash ((MTS)) needs to be raised with Coles currently in the lead.

Other major takeaways include those companies offering a clear "value proposition" have benefited the most from slowing inflation, including Sainsbury in the UK and Walmart in the US.

There is also a shift in consumption trends back to traditional grocers in the UK, as Aldi's popularity has peaked and, in the US, via the rise in Costco and Walmart.

Jarden concludes volume growth should improve domestically and major operators should be in a position to increase market share via own brands and possibly improved loyalty programs.

The broker is Neutral rated on Coles, and Overweight rated on Woolworths, Metcash, and The Reject Shop ((TRS)).

Banks, how overvalued?

Whichever way Goldman Sachs cuts the assessment cake of Australian banks versus overseas peers, the broker comes away with the resounding conclusion Australian bank valuations are stretched and "heavily skewed to the downside".

The broker is quick to highlight domestic banks have always been more highly valued than offshore peers, but the widening in the discrepancy is causing more reasons for concern.

Making some financial ratio comparisons, the broker points to the decline in Australian banks' return on equity (ROE), which was the second highest globally, just behind the Canadian banks, in 2015, and has since underperformed global comparable banks by circa -50%.

Domestic banks are now generating some of the lowest ROEs in the world.

Over the same period the price-to-book (P/BV) ratio has also declined, which is in line with the trend exhibited by global comparable banks. However, on a ROE to P/BV comparison, Goldman Sachs stresses the domestic banks at 1.9x P/BV for 11% ROE versus global peers at 1.9x P/BV for 13% ROE implies **Aussie banks are the most expensive in the world.**

Goldman Sachs observes another metric which reveals the decline in profitability for Australian banks between 2015 and 2023. Over this period the banks' gearing has increased, but the decline in net profits is worse when comparing to interest bearing assets.

The deterioration in profitability between 2015 and 2023 is attributed to the decline in net interest margins (NIM) where the domestic banks have not experienced the same leverage to higher interest rates, largely due to mortgage competition, notes the broker.

Interestingly, the decline in fee generation has also been a large contributor to the deterioration in profitability relative to overseas peers.

In contrast to Australian banks, global banks are looking to generate more non-spread income (deposit/lending) to diversify away from credit risk, whereas domestically, the royal commission forced banks to reconsider their corporate structures and divest wealth management operations, thereby removing the higher margin operations.

In terms of costs and bad and doubtful debts, global banks experienced more volatility in the loss ratios over covid.

Lastly, Goldmans Sachs models the ROE versus the price-to-book ratios to provide another tangible valuation assessment and concludes Commonwealth Bank ((CBA)) has an expected one year forward ROE of 12.7% and should thus trade on a price-to-book of 1.2x, but the shares are trading on 2.7x, a 130% premium to this implied valuation method.

Historically, Commonwealth Bank shares have traded at a 56% premium to its ROE on the regression analysis against the current implied premium of 130%.

The broker stresses **"we are in unchartered valuation territory"** and the report re-affirms the more negative stance the sector analysts have adopted on domestic banks recently.

Goldman Sachs is Buy rated on ANZ Bank ((ANZ)) and Judo Bank ((JDO)); Neutral rated on National Australia Bank ((NAB)) and Bendigo and Adelaide Bank ((BEN)), with Sell ratings on Commonwealth Bank, Westpac Banking Corp ((WBC)) and Bank of Queensland ((BOQ)).

For more about Australian banks:

https://fnarena.com/index.php/financial-news/australian-broker-call-archives/?n=07BE6705-9CB1-938D-4C622062BEF532A3

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 07-06-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

AFT PHARMACEUTICALS LIMITED ((AFP)) Upgrade to Neutral from Underweight by Jarden.B/H/S: 0/0/0

Both the FY24 earnings (EBIT) result by AFT Pharmaceuticals and FY25 earnings guidance were in line with Jarden's forecasts.

The broker upgrades to Neutral from Underweight on an improved risk/reward balance after expectations were set lower following management's February downgrade. The ratings upgrade is also partly in response to the recent share price decline.

FY25 earnings growth is underpinned by a margin recovery, and, following management's guidance, Jarden has more confidence the
gross margin can improve from cycling higher impairments and an improving product mix.

Management is also confident the rest-of-the-world (RoW) opportunity is underpinned by US sales and the Hikma Pharmaceuticals relationship.

Hikma and AFT signed an exclusive license and distribution agreement for the commercialisation of Combogesic IV in the US.

The target price rises to NZ$2.90 from NZ$2.80.

ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED ((EOS)) Upgrade to Speculative Buy from Hold by Petra Capital.B/H/S: 0/0/0

Petra Capital views Electro Optic Systems in a more positive light following a $35m capital raise via an institutional placement and an additional $2m from a Share Purchase Plan (SPP).

According to the broker, the capital infusion addresses liquidity concerns and will fund working capital and growth initiatives, including long-lead inventory purchases and bank guarantee collateral.

The analyst lowers EPS estimates by -7 and -7% for FY24 and FY25 due to higher working capital and shares on issue.

Upgrade to Speculative Buy and the target lifts to $1.50 from $1.14

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED ((FPH)) Upgrade to Overweight from Market Weight by Wilsons.B/H/S: 0/0/0

Wilsons came away from the Fisher & Paykel Healthcare FY24 earnings presentation with an upgrade in the rating and price target.

The FY24 results saw revenue rise 10% to NZ$1,742.8m, driven by a 14% rise in NewApps consumables and 18% growth in Homecare sales, notes the broker.

Hardware sales decreased by -29% as they rebased from covid highs and the gross margin improved to 61.1%, up by 172 bps.

Management guided to FY25 revenue between NZ$1.9-NZ$2.0bn and net profit of NZ$310-NZ360m.

Wilsons adjusts EPS forecasts FY25-FY27 by 2% to 9%, driven by higher sales and margins.

Rating upgraded to Outperform from Market Weight and the target lifted to $30.

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

Jarden upgrades NRW Holdings to Buy from Overweight and raises its target price to $3.25 from $2.95.

The broker expects improved labour conditions and earnings mix will outpace weakness in lithium and nickel markets, and likely trigger consensus upgrades.

Jarden observes earnings visibility has improved markedly, de-risking earnings forecasts and appreciates the company's strong work in hand, spying upside risk.

EPS forecasts rise 2% across FY25 to FY26.

Downgrade

PETER WARREN AUTOMOTIVE HOLDINGS LIMITED ((PWR)) Downgrade to Hold from Buy by Moelis.B/H/S: 0/0/0

Peter Warren Automotive has guided to a sharp fall in FY24 underlying profit for FY24, missing consensus forecasts by -20% (a -40% downgrade to second-half estimates) observes Moelis.

Oversupply in new cars, a softening in new car demand (cost-of-living pressures) and higher interest costs due to higher rates and inventory were declared the culprits.

Top-line revenue remained strong due to used car deliveries and a strong performance from the company's service, parts and used-car division.

Management guided to continued weakness in FY25, observing new car margins would remain under pressure, albeit above pre-covid levels.

The broker observes an oversupply in Mazda, VW, Volvo and Chinese OEM brands.

EPS forecasts fall -20% to -30% across FY24 to FY26 to reflect continued gross profit margin pressure. The broker observes there has been no update on a new CEO.

Rating is downgraded to Hold from Buy. Target price falls to $1.98 from $2.60 in March.

SANDFIRE RESOURCES LIMITED ((SFR)) Downgrade to Market Weight from Overweight by Wilsons.B/H/S: 0/0/0

Wilsons attended the recent site tour of the Motheo operation in Botswana and the analyst noted Sandfire Resources' nearly flawless execution in delivery and ramp-up activities.

The broker highlights management is focused on commissioning the filtration plant and stabilising Motheo's performance as a 5.2Mtpa operation.

On site management indicated the long-term growth potential with plans to establish a buffer of around 15 years of reserves, and a new geological model expected in 2-3 months to enable targeted drilling.

No changes to the analyst's earnings forecasts.

Downgrade to Market Weight from Overweight, due to recent share price strength. Target retained at $9.90.

VITURA HEALTH LIMITED ((VIT)) Downgrade to Hold from Buy by Petra Capital.B/H/S: 0/0/0

Petra Capital has downgraded Vitura Health to Hold from Buy with a reduced target price of 9c from 12c.

The company's latest trading update indicated EBITDA margins year-to-date were around 5%, implying a significant downgrade for 2H24 margins, previously 8.7% in 1H24, according to the broker.

Petra Capital points to increased competition in the core cannabis distribution business for the substantial decline from the FY23 EBITDA margin of 17.7%.

The broker makes material changes to its financial estimates with net profit forecast to decline to $3m in FY24 from $6.3m. The broker is looking for management to stabilise unit volumes and EBITDA margins to regain confidence in the strategy update.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	AFT PHARMACEUTICALS LIMITED	Neutral	Sell	Jarden
2	ELECTRO OPTIC SYSTEMS HOLDINGS LIMITED	Buy	Neutral	Petra Capital
3	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	Buy	Neutral	Wilsons
4	NRW HOLDINGS LIMITED	Buy	Buy	Jarden
Downgrade				
5	PETER WARREN AUTOMOTIVE HOLDINGS LIMITED	Neutral	Buy	Moelis
6	SANDFIRE RESOURCES LIMITED	Neutral	Buy	Wilsons
7	VITURA HEALTH LIMITED	Neutral	Buy	Petra Capital

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
A1M	AIC Mines	$0.48	Moelis	0.70	0.55	27.27%
EOS	Electro Optic Systems	$1.28	Petra Capital	1.50	1.14	31.58%
ESK	Etherstack		Wilsons	N/A	0.40	-100.00%
FEX	Fenix Resources	$0.33	Petra Capital	0.44	0.43	2.33%
FPH	Fisher & Paykel Healthcare	$28.26	Wilsons	30.00	23.25	29.03%
GLN	Galan Lithium	$0.21	Petra Capital	0.55	0.59	-6.78%
NEU	Neuren Pharmaceuticals	$19.39	Wilsons	30.00	26.58	12.87%
NWH	NRW Holdings	$3.01	Jarden	3.25	2.95	10.17%
ORG	Origin Energy	$10.29	Jarden	10.61	10.24	3.61%
PDN	Paladin Energy	$15.44	Canaccord Genuity	16.00	1.55	932.26%
PME	Pro Medicus	$122.53	Goldman Sachs	136.00	134.00	1.49%
PWR	Peter Warren Automotive	$1.75	Moelis	1.98	2.60	-23.85%
SFR	Sandfire Resources	$9.09	Canaccord Genuity	10.25	7.75	32.26%
SMP	SmartPay	$1.28	Wilsons	1.86	1.87	-0.53%
TLC	Lottery Corp	$5.16	Jarden	5.20	5.30	-1.89%
VIT	Vitura Health	$0.10	Petra Capital	0.09	0.12	-25.00%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

AGY ARGOSY MINERALS LIMITED

New Battery Elements - Overnight Price: $0.12

Petra Capital rates ((AGY)) as Buy (1) -

The Japanese producer of lithium-ion batteries, Amperex Technology Limited has invested US$5m in Argosy Minerals at 14.63cps share, in what Petra Capital considers an endorsement of development progress and product quality.

The strong calibre of this counterparty bodes well for future offtake and financing discussions for the proposed expansion to 12ktpa from 2ktpa at the plant at the Rincon facility, suggests the broker.

Petra Capital feels shares of Argosy will re-rate over the coming months as production rates lift and cash flows improve.

The Buy rating and 31c target are maintained.

This report was published on May 28, 2024.

Target price is **$0.31** Current Price is **$0.12** Difference: **$0.185**

If **AGY** meets the Petra Capital target it will return approximately **148%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY24:

> Petra Capital forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 0.70** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 17.86**.

Forecast for FY25:

> Petra Capital forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.70** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 17.86**.

Market Sentiment: **0.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

ARX AROA BIOSURGERY LIMITED

Pharmaceuticals & Biotech/Lifesciences - Overnight Price: $0.57

Wilsons rates ((ARX)) as Overweight (1) -

Wilsons analyses the question "why don't Aroa Biosurgery and TELA Bio (NASDAQ:TELA) merge?"

The analyst concludes such a merger makes sense due to several factors, highlighting both companies have closely linked intellectual property and manufacturing processes, making third-party takeovers less feasible.

A merger would also leverage their combined sales force, enhancing productivity and market reach, particularly in the hernia and breast reconstruction markets.

TELA's strong sales team could further accelerate the adoption of Aroa Biosurgery's products.

The broker suggests, despite the complexities, a merger could present a fast-tracked return for shareholders, offering a more significant and expedited return profile for shareholders of both companies.

Overweight rating and $1 target unchanged.

This report was published on May 28, 2024.

Target price is **$1.00** Current Price is **$0.57** Difference: **$0.43**
If **ARX** meets the Wilsons target it will return approximately **75%** (excluding dividends, fees and charges).
The company's fiscal year ends in March.

Forecast for FY25:

> Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.19** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 308.11**.

Forecast for FY26:

> Wilsons forecasts a full year **FY26** dividend of **0.00** cents and EPS of **1.76** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **32.46**.

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

BRI BIG RIVER INDUSTRIES LIMITED

Building Products & Services - Overnight Price: $1.46

Petra Capital rates ((BRI)) as Initiation of coverage with Buy (1) -

Petra Capital initiates coverage of Big River Industries with a Buy rating and $2 target price.

The company is a vertically integrated manufacturer and distributor of value-added timber and building products across regions of Australia and New Zealand, the broker explains.

The analyst points to FY23 revenue growth of 9.8% to $449.5m, with EBITDA up 7.6% to $50.4m. and net profit was $22.2m, a 4.3% rise on the previous year.

The broker believes the company has a strong balance sheet, cash flow generation, and strategic growth initiatives, both organic and through acquisitions. Petra Capital sees these key factors supporting the company's positive outlook.

Buy rating and $2 target price.

This report was published on May 30, 2024.

Target price is **$2.00** Current Price is **$1.46** Difference: **$0.54**
If **BRI** meets the Petra Capital target it will return approximately **37%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

> Petra Capital forecasts a full year **FY24** dividend of **7.00** cents and EPS of **10.80** cents.
> At the last closing share price the estimated dividend yield is **4.79%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **13.52**.

Forecast for FY25:

> Petra Capital forecasts a full year **FY25** dividend of **7.00** cents and EPS of **11.00** cents.
> At the last closing share price the estimated dividend yield is **4.79%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **13.27**.

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

FFM FIREFLY METALS LIMITED

Gold & Silver - Overnight Price: $0.69

Moelis rates ((FFM)) as Initiation of coverage with Buy (1) -

Moelis initiates coverage of copper and gold explorer FireFly Metals with a Buy rating and $1 target price.

The broker expects the company will be supported by strong demand and sluggish supply in the copper market and that the company's Green Bay project in Newfoundland suggests the company's asset valuation could rise to $1bn over the long term.

This report was published on May 31, 2024.

Target price is **$1.00** Current Price is **$0.69** Difference: **$0.31**
If **FFM** meets the Moelis target it will return approximately **45%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

> Moelis forecasts a full year **FY24** EPS of **minus 5.70** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 12.11**.

Forecast for FY25:

> Moelis forecasts a full year **FY25** EPS of **minus 5.00** cents.

At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 13.80**.

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

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