WEEK 28

FNArena
FINANCIAL NEWS, ANALYSIS & DATA

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Friday, 12 July 2024

ESG Focus: Mine Safety, Water & Diversity

Rudi's View: All-Weather Portfolio in FY24; Growth Not Value

Ventia Services: Unique Mix Of Growth & Defence

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FNArena
Financial News, Data & Analysis

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AUSTRALIA

The Market In Numbers - 6 Jul 2024

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

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

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

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

Australia & NZ

Index	06 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
NZ50	11794.810	0.66%	0.66%	0.66%	0.21%	0.66%
All Ordinaries	8070.10	0.70%	0.70%	0.70%	3.07%	0.70%
S&P ASX 200	7822.30	0.71%	0.71%	0.71%	3.05%	0.71%
S&P ASX 300	7762.40	0.70%	0.70%	0.70%	3.01%	0.70%
Communication Services	1495.20	-0.40%	-0.40%	-0.40%	-5.86%	-0.40%
Consumer Discretionary	3519.10	0.22%	0.22%	0.22%	8.61%	0.22%
Consumer Staples	12368.90	-0.07%	-0.07%	-0.07%	0.47%	-0.07%
Energy	10439.60	4.07%	4.07%	4.07%	-1.72%	4.07%
Financials	7616.30	-0.53%	-0.53%	-0.53%	13.36%	-0.53%
Health Care	44229.40	-0.06%	-0.06%	-0.06%	4.46%	-0.06%
Industrials	6771.50	-0.59%	-0.59%	-0.59%	-1.37%	-0.59%
Info Technology	2316.30	-1.08%	-1.08%	-1.08%	26.37%	-1.08%
Materials	17436.00	3.30%	3.30%	3.30%	-10.54%	3.30%
Real Estate	3614.70	1.45%	1.45%	1.45%	7.98%	1.45%
Utilities	9174.90	-1.19%	-1.19%	-1.19%	12.17%	-1.19%
A-REITs	1647.50	1.43%	1.43%	1.43%	9.66%	1.43%
All Technology Index	3081.10	-1.81%	-1.81%	-1.81%	14.37%	-1.81%
Banks	3182.50	-0.40%	-0.40%	-0.40%	14.50%	-0.40%
Gold Index	7518.70	2.19%	2.19%	2.19%	2.05%	2.19%
Metals & Mining	5757.20	3.72%	3.72%	3.72%	-10.97%	3.72%

The World

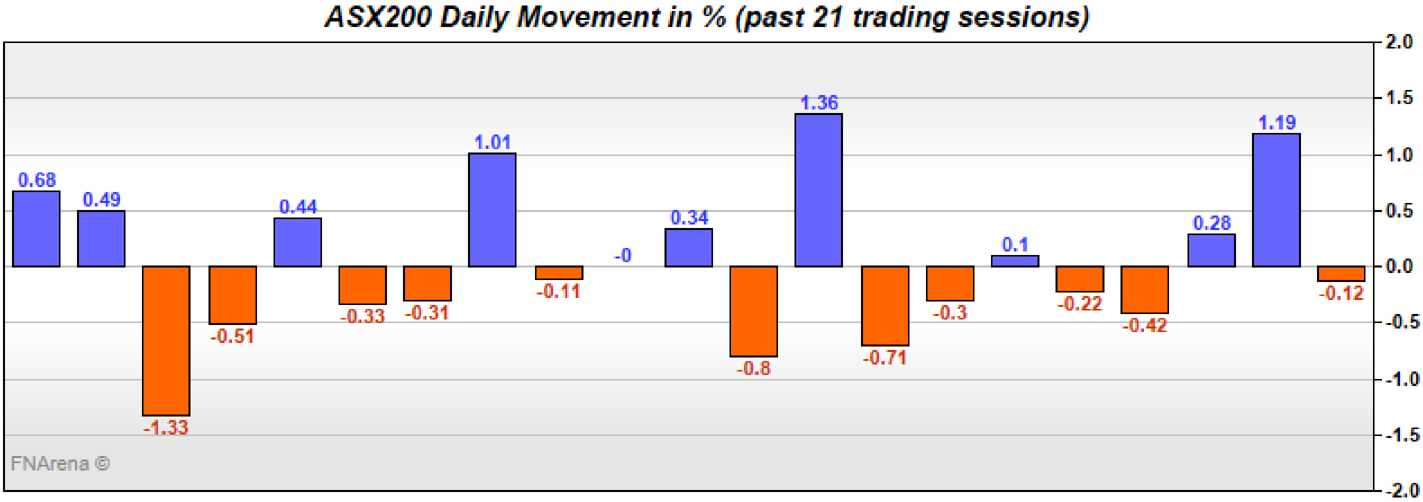
Index	06 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
FTSE100	8203.93	0.49%	0.49%	0.49%	6.09%	0.49%
DAX30	18475.45	1.32%	1.32%	1.32%	10.29%	1.32%
Hang Seng	17799.61	0.46%	0.46%	0.46%	4.41%	0.46%
Nikkei 225	40912.37	3.36%	3.36%	3.36%	22.26%	3.36%
DJIA	39375.87	0.66%	0.66%	0.66%	4.47%	0.66%
S&P500	5567.19	1.95%	1.95%	1.95%	16.72%	1.95%
Nasdaq Comp	18352.76	3.50%	3.50%	3.50%	22.26%	3.50%

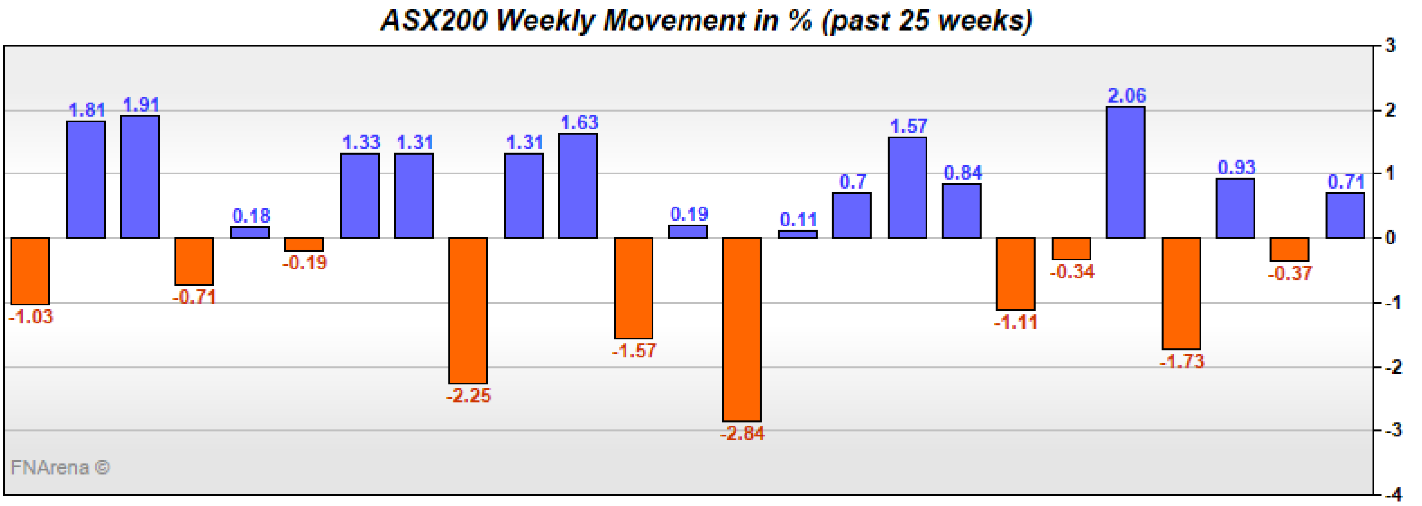
Metals & Minerals

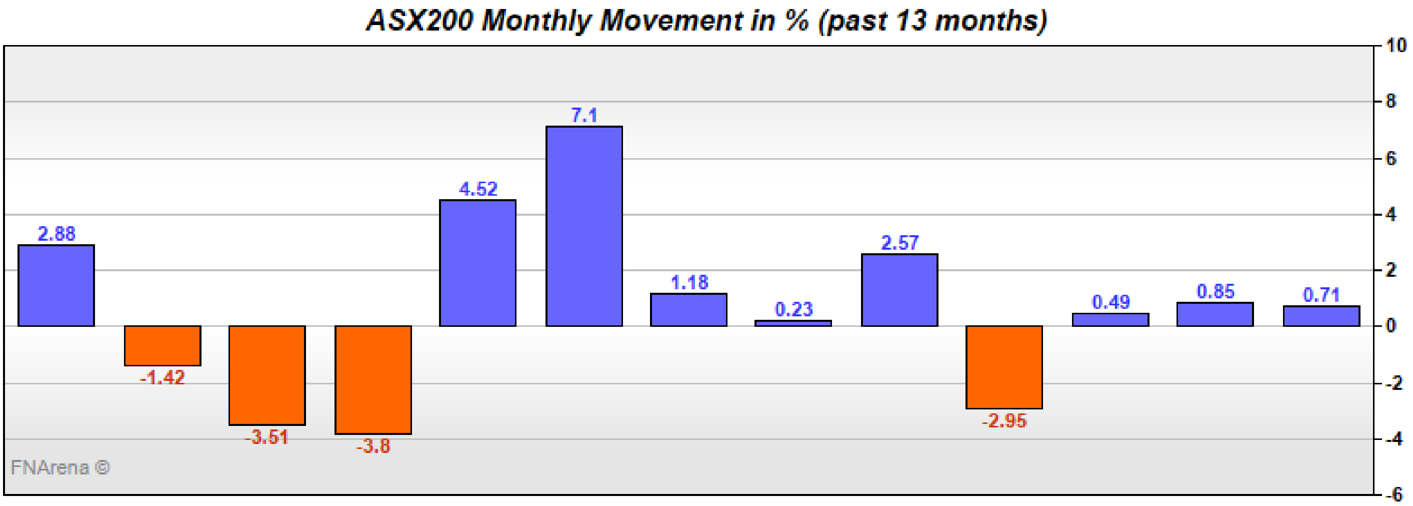
Index	06 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
Gold (oz)	2365.30	1.17%	1.17%	1.17%	15.69%	1.17%
Silver (oz)	30.68	4.89%	4.89%	4.89%	25.84%	4.89%
Copper (lb)	4.5658	5.36%	5.36%	5.36%	19.90%	5.36%
Aluminium (lb)	1.1385	1.24%	1.24%	1.24%	17.09%	1.24%
Nickel (lb)	7.7764	-0.02%	-0.02%	-0.02%	4.56%	-0.02%
Zinc (lb)	1.3482	1.67%	1.67%	1.67%	19.88%	1.67%
Uranium (lb) weekly	85.00	2.10%	2.10%	2.10%	-1.16%	2.10%
Iron Ore (t)	113.06	6.15%	6.15%	6.15%	-18.21%	6.15%

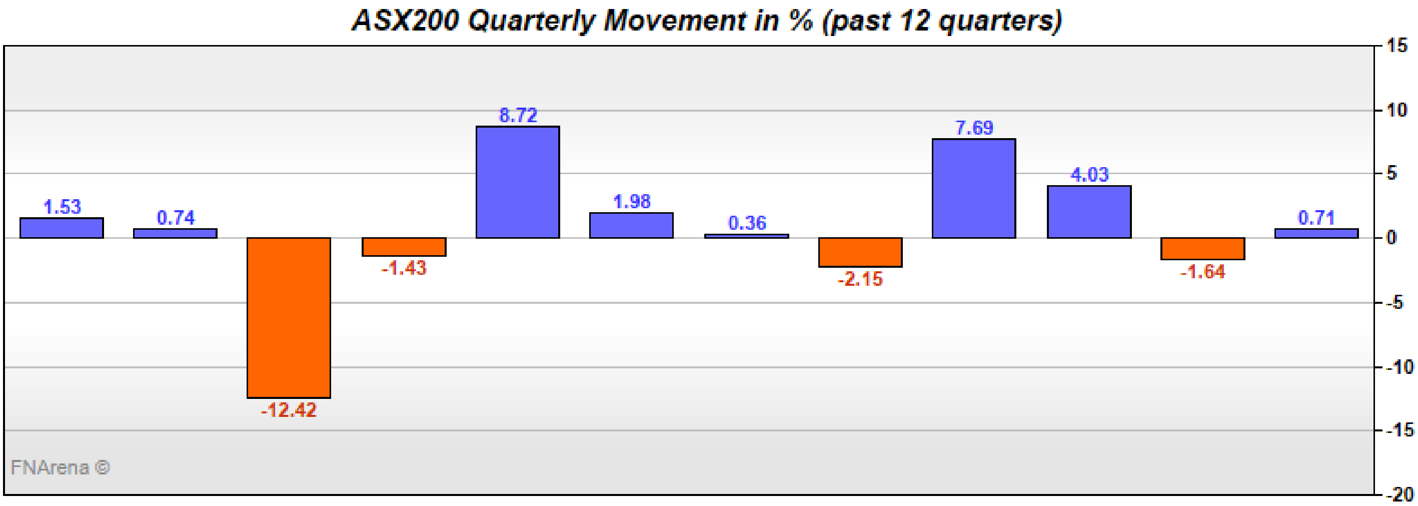
Energy

Index	06 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
West Texas Crude	84.06	2.69%	2.69%	2.69%	13.89%	2.69%
Brent Crude	87.56	2.48%	2.48%	2.48%	10.47%	2.48%









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

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FNArena welcomes comments and suggestions at info@fnarena.com

COMMODITIES

Bellevue Gold For Better Grades & Margins

At a time when brokers are increasing gold price forecasts, new Bellevue Gold research highlights significant upside from resource extensions, exploration, and a potential mill expansion.

-Analysts are positive on the outlook for Bellevue Gold
-Better grades and margins than mid-cap peers
-Upside from resource extensions and potential mill expansion
-UBS expects an A$4,000/oz gold price in the next two years

By Mark Woodruff

A structural shift is underway in the gold market, according to UBS, with the price range having moved higher on resilient physical demand and strong gold purchases by central banks. The current upward pricing trend is expected to continue due to macroeconomic uncertainty and geopolitical risks.

It seems but timely then Goldman Sachs has initiated coverage on mid-cap miner Bellevue Gold ((BGL)).

Compared to similar-sized peers, the initiating broker points to **higher average grades and stronger margin generation** at the high-grade underground Bellevue Gold project located northwest of Kalgoorlie in Western Australia.

Management is aiming to provide FY25 guidance to the market in July, and the analysts forecast a ramp-up to around 200koz per annum at a cost (AISC) of circa $1,450/oz, in line with the consensus expectation.

Since achieving first gold production last October and then full production, Goldmans assesses significant further upside for the project from resource extensions and exploration, along with an expansion of the mill.

So far, management has spent around -$620m on development and exploration since FY20.

Recent drilling highlighted assays with materially higher grades than current resources (from already above-peer gold grades), notes Goldmans, and potential for additional high-grade shoots.

Should the resource be extended by five years, the analysts see **potential 20% upside to the current net asset value (NAV) estimate**, which excludes any positive impact from long-term gold prices closing the gap with the spot price, as well any upside from the planned 1.5mtpa mill expansion.

A study is progressing for expansion at the mill to 1.5mtpa, due in the first half of FY25, whereby existing oversized equipment (crusher/proposed paste plant) helps mitigate capex requirements, and supports increased gold production of around 250koz, in a ramp-up through FY27.

Via financial modelling, the analysts can generate compelling internal rates of return (IRR) for this expansion under various gold price scenarios.

Following declaration of commercial production, and positive free cash flow (FCF) in the three months to April, second half guidance for 75-85koz appears on track to the broker.

At the time of Bellevue's March quarter results, Canaccord Genuity highlighted sector-leading 14% free cash flow (FCF) yield forecasts for FY25 and FY26.

Gold price forecasts

Back in mid-June, Ord Minnett could see a value opportunity for gold equities, noting copper equities had outperformed gold counterparts by 29% so far in 2024, despite similar rises for the underlying commodities.

At the time, copper equities had outperformed the copper price by 21%, while there had been -8% underperformance by gold equities relative to the gold price.

A rising gold price is counter-intuitive to traditional indicators such as a strengthening US dollar, weaker treasury yields and a weak volatility index, explained the broker. It was felt gold buyers were looking forward and taking a view on the US dollar and geopolitical risk.

Just over a week ago, Macquarie raised its gold price forecasts across 2024-26 by 7%, 22% and 21%, respectively, to US$2,276/oz, US$2,425/oz, and US$2,200/oz.

A peak average gold price of US$2,500/oz is forecast for mid-2025, and the broker's long-term price forecast increased by 9% to US$1,800/oz.

Despite diminished rate cut expectations, Macquarie felt the gold price had performed impressively, likely due to challenging fiscal outlooks for developed markets and stronger Chinese investor demand.

For Bellevue Gold, this broker's forecasts across FY24-27 increased by 10%, 23%, 39% and 31%, respectively, and the target was raised to $2.10 from $2.00.

Despite these higher forecasts, the analysts noted FY25 guidance could disappoint, mainly due to higher costs, but Macquarie remains positive on the impact of the potential mill expansion.

A successful ramp-up of the Bellevue project remains important for the company's near-term outlook as does any guidance following the declaration of commercial production, in the broker's view.

The higher target price, combined with a recent pullback in the gold sector, prompted Macquarie to upgrade its rating for Bellevue to Outperform from Neutral.

While Ord Minnett believes the costs/capex outlooks for larger gold names will be higher-than-expected by consensus due to inflation, this broker is less concerned about smaller cap peers given their relative underperformance.

Ord Minnett currently has an Accumulate rating and $1.85 target for Bellevue Gold.

Ongoing macroeconomic uncertainty, geopolitical risks and increased allocations to gold are expected to push the **price to US$2,800/oz or A$4,000/oz over the next two years**, predicts UBS. This forecast (published in early-June) placed the broker around 37% above lagging consensus estimates.

Goldman Sachs' upbeat outlook for Bellevue is not impacted by around 25% of medium-term gold sales being hedged at around A$2,700-2,900/oz.

UBS increased its 2025-27 gold price forecasts (significantly higher than Macquarie's estimates) to US$2,700, US$2,775 and US$2,600/oz, respectively rises of 21%, 34% and 30%. The long-term real price was also raised by US$200/oz to US$1,950/oz.

While UBS analysts were sensitive to guidance risks for FY25 as gold companies were headed for the low end of FY24 expectations at the time, an around $700/oz lift in the Australian dollar forecast should more than outweigh any potential downside for share prices.

Aging asset bases across the ASX Gold sector and a general lack of exploration success suggest more potential M&A ahead as companies look to replenish pipelines and inventory and recycle projects, explained the broker.

Recent M&A examples include Newmont Corp (NEM) acquiring Newcrest Mining, Red5 ((RED)) combining with Silver Lake Resources ((SLR)), as well as Westgold Resources ((WGX) and King River Resources ((KRR)).

The average target price of three covering brokers monitored daily in the FNArena Database is $2.08 suggesting just over 13% upside to the current Bellevue Gold share price.

Ord Minnett, Macquarie, and UBS all have a Buy (or equivalent) rating.

Outside of daily monitoring, Goldman Sachs and Canaccord Genuity have ratings of Buy and Speculative Buy, respectively, and the same $2.20 target price for Bellevue Gold.

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

COMMODITIES

Material Matters: Iron Ore, Gold & Coal

A glance through the latest expert views and predictions about commodities: potential impact on iron ore from trade tensions; gold sector stock preferences & the outlook for a range of commodities.

-The impact of trade tensions on the iron ore market
-Updates on iron ore price forecasts
-Goldman Sachs' preferences in the gold sector
-The outlook for coal and other commodities

By Mark Woodruff

Iron ore: the impact of trade tensions and price forecasts

While tariff hikes by the US in 2018 had modest and temporary effects on the US steel balance, Morgan Stanley points out iron ore demand continued to expand globally, driven by Emerging Market growth, mainly centred on China.

Net imports of steel in manufactured goods continued their rising trend, reflecting the limited impact of tariffs on steel-containing goods, highlights the broker.

In the event of a Trump win in the upcoming US Presidential General Election, the analysts note potential for 10% tariffs on all imported goods and 50% on Chinese goods.

This time around, Morgan Stanley feels the impact of these actions by the US could be more than offset by emerging market steel growth which is shifting to India, Southeast Asia, Africa and the Middle East, as Chinese demand plateaus at a high level.

China is a relatively small steel supplier to the US, representing just 2% of direct imports, and less than 20% of indirect imports, explains the broker.

Partly due to re-routing, the analysts explain China has grown its direct and indirect steel exports, despite tariffs, as it stays competitive on costs and meets rising Emerging Market growth.

Greater impacts could be felt should there be actions from a wider group of countries or barriers focused on indirect exports, cautions the broker.

Morgan Stanley highlights the risk to overall economic output posed by any worsening in trade tensions.

Iron ore price forecasts

Citi's latest bi-monthly update on the iron ore market shows the broker's FY24 forecast price has been trimmed by -4% to US$110/t.

The analysts expect the price to drift lower during the next three months over concerns relating to steel demand amidst lower steel output targets and ample port inventories.

The broker also points to a seasonal slowdown in the third quarter when prices may dive below US$100/t.

Citi sees scope for the price of 58% ore to move up against the benchmark price. Currently, benchmark (62%) ore is more expensive by around US$14.00/t for China's blast furnace operators, while 65% ore is cheaper than the benchmark price by circa -US$3.00/t.

Goldman Sachs forecasts the benchmark iron ore price will average between US$100-105/t over the remainder of the year, while UBS sees limited downside with cost support between US$90-100/t.

UBS is not anticipating a material price bounce either, with iron ore inventories now above normal, and supply stronger-than-expected in the first half of 2024.

This broker is cautious on the medium-term price outlook as supply lifts in Australia and Brazil from next year, and in Guinea (West Africa) from 2026/27 on the ramp-up of the Simandou project. Steel scrap is also expected to displace some iron ore demand.

Costs and incentive prices remain high and support a US$85/t long-term real price, according to the analysts.

In the iron ore space, the broker's 12-month target price for Fortescue ((FMG)) falls by -15% to $18.70 on lower forecast price realisation.

Also, UBS has upgraded its rating for Deterra Royalties ((DRR)) to Buy from Neutral as the announced acquisition of UK-listed Trident Royalties, and the subsequent negative impact on available dividends for shareholders, is seen as distracting investor attention from underlying asset quality.

Goldman Sachs' preferences in the gold sector

When it comes to investing in the Australian Gold sector, Goldman Sachs prefers near-term margins/returns over long-term ounces. Assets with less execution risk and those best positioned to capture increases in gold pricing are also favoured.

While the gold price has continued its run through the second quarter of 2024, rising by around 5% quarter-on quarter and by 15% year-to-date, gold equities have in recent times broadly underperformed the Australian dollar gold price, partly due to escalating costs.

Over the past five years, margin expansion has been crimped as costs (AISC) have worsened by circa -40% on average, explains Goldman Sachs, during a period when the Australian dollar gold price has risen by around 70%.

The broker still suspects absolute costs are likely to continue rising for Australian gold companies over the next 12 months.

While Goldman Sachs continues to see a constructive setup for the gold price, noting the metal offers the best protection against very high inflation and geopolitical supply shocks, the analysts remain wary on gold stocks continuing to underperform during upcoming quarterly results on higher costs/capex guidance for FY25.

UBS, which has a US$2,700/oz gold price forecast by the end of 2025, recently lowered its price targets for Northern Star Resources ((NST)), De Grey Mining, ((DEG)), and Regis Resources ((RRL)) by -14%, -14% and -12%, respectively, for exactly that reason.

Australian Gold stocks are currently pricing in an average US$1,850/oz gold price, pretty much in line with Goldman's long-term gold price forecast of US$1,800/oz.

Gold Road Resources ((GOR)) and De Grey Mining remain the standouts at a discount to the rest of this broker's coverage with shares priced closer to US$1,650/oz.

Both Northern Star Resources and Evolution Mining ((EVN)) have the best gold production outlook, in Goldman's view, with production growing in nearly each of the next five years.

Bellevue Gold ((BGL)) also rates a mention for its strong production outlook through ramp-up of the Bellevue mine, along with low-cost expansion optionality. It's felt the company has an attractive long-term cost profile due to superior gold grades.

Bellevue's story was recently recounted in greater detail at: (Bellevue Gold For Better Grades & Margins - FNArena.com).

Supporting de-leveraging, both Bellevue Gold and Evolution Mining have some of the strongest near-term free cash flow (FCF) yields in the sector, notes Goldman.

On the whole, larger producers have a more consistent cash cost and, hence, margin profile versus smaller peers.

Elsewhere, Capricorn Metals ((CMM)) has a strong five-year production outlook on the ramp-up of the Mt Gibson gold project, and the McPhillamys mine may arrest production decline for Regis Resources ((RRL)).

The second half of 2024 outlook for commodities

Goldman Sachs remains positive on the second half pricing outlook for copper, aluminium, and metallurgical coal because of anticipated market deficits.

UBS agrees on copper and likes the outlook for gold equities into the second half, as mentioned previously.

On the other hand, Goldman remains bearish on thermal coal and battery materials (lithium, nickel) on forecast market surpluses.

UBS is also cautious on the lithium sector based on both current equity valuations and future lithium prices due to robust supply and weak (ex-China) demand, but target prices for stocks under coverage remain generally unchanged.

On the supply side, some areas UBS will be focusing upon in the second half of 2024 are the magnitude of copper smelter cuts and the speed of aluminium smelter ramp-ups.

Regarding coal, the analysts anticipate thermal prices will moderate with seasonally weaker demand/lower gas prices, while **metallurgical coal has a more constructive outlook**.

For the short-term, the met coal price should lift to US$275/t after the fire at Anglo American's Grosvenor coal mine in Queensland. UBS has raised price targets for Whitehaven Coal ((WHC)) and Coronado Global Resources ((CRN)).

Based on Goldman's estimate of a long run met coal market deficit, this broker increases its long-run forecast price to US$220/t from US$205/t, along higher estimates for pulverised coal injection (PCI) and semi-soft prices.

This broker forecasts a deficit from 2027 driven by under-investment in new premium met coal supply in Australia and Canada. A Buy rating is retained for Coronado Global Resources, while New Hope ((NHC)) and Whitehaven Coal have ratings of Neutral and Sell, respectively.

On copper, UBS believes the fundamental outlook remains compelling. A deficit is expected this year, a situation which should persist (and grow) over the coming years with a strong supply recovery considered unlikely.

Top picks by UBS among its coverage of Australian Resources are South32 ((S32)), Newmont Mining ((NEM)), and Coronado Global Resources.

Goldman Sachs continues to see good free cash flow (FCF) yield support for the major diversified miners like BHP Group ((BHP)) and Rio Tinto ((RIO)), with South32 ((S32)) also a standout with a 13% yield, mostly due to the recent rally in the alumina price to around US$500/t.

ESG FOCUS

ESG Focus: Mine Safety, Water & Diversity

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future:
https://fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

Mine safety and water scarcity are in focus, as is engagement with indigenous communities, while ESG was a hot topic at this year's Macquarie Conference and Jarden lunches an ESG survey of listed companies.

-Safety performance impacts miner share prices
-Water depletion/contamination an issue
-BHP's and Rio Tinto's woes
-ESG at the Macquarie Conference
-Jarden's new ESG survey

Compiled by Greg Peel

Mine Safety

Safety is a top priority for companies in the mining space with improvement seen over the past few years. RBC Capital Markets has compiled safety metrics across its global coverage universe including injury frequency rates and analysis of 100-plus fatal safety incidents since 2018, breaking down common events by region, root cause, and mine type along with corresponding share price and operational impact.

In RBC's view, safety continues to be a growing focus for mining investors particularly around companies with less diversified portfolios, with premium paid for those with an established history of safer operations.

Looking at historic market impact to past fatal safety events, companies have experienced relative share price underperformance of -2.5% on the day of announcement and up to -5% over the following month, RBC found, with greater impact seen for intermediate/growth producers given less diversified portfolios.

Relative share price recovery back to prior baseline levels takes up to five months.

RBC estimates companies that have experienced a fatal incident over the past year are currently trading at an around -10% discount to peers on spot net asset value. RBC has highlighted those global companies with relatively better safety performance and lower injury frequency rates based on its analysis, and named seven companies.

Only one of those is Australian-listed, being Northern Star Resources ((NST)).

RBC continues to view safety as a top focus for investors and views potential for greater emphasis and premium to be paid for companies able to ensure a safe and stable workplace.

Water Scarcity

Jarden's recent discussions with traditional owner groups in the Pilbara have highlighted water scarcity issues in mining operations. Whilst water scarcity is not new, the associated risks to social licence, potential fines and accusations of human rights violations demand increasing attention.

Looking across the assets of four ASX-listed mining companies BHP Group ((BHP)), Rio Tinto ((RIO)), Arcadium Lithium ((LTM)) and South32 ((S32), Jarden finds inadequate responses to water scarcity challenges, affecting both indigenous and non-indigenous communities locally and internationally.

For Rio, Jarden singles out Oyu Tolgoi in Mongolia, the QIT site in Madagascar, the Jadar site in Serbia, Simandou in Guinea and the Bungaroo Aquifer as all suffering variously from water depletion, contamination and/or lack of engagement with communities.

For BHP, clean-up costs following the Samarco disaster in Brazil are still being negotiated, lawsuits are being faced in Chile for over-extracting water in the Salar de Atacama, and Olympic Dam water usage and Native Title agreements face scrutiny.

BHP and Rio's Resolution Copper joint venture in Arizona also faces ongoing legal challenges from the local Native Americans.

Arcadium Lithium has been accused of water depletion and contamination in Argentina.

South32's Dendrobium mine faces a regulatory probe regarding unlicensed water extraction.

Post Rio's destruction at Juukan Gorge, mining companies appeared to improve community and indigenous engagement and enhance their commitment to protect sacred sites, Jarden notes. However, persistent examples of inadequate engagement with indigenous groups and water management indicate ongoing impacts on livelihoods and in many cases lack of mitigation and remediation actions to avoid environmental and social damage.

In Jarden's view, investors should scrutinise international and local operations impacting indigenous groups in particular due to more severe environmental and community impacts, particularly in less regulated countries and areas of high cultural and/or environmental sensitivity.

It gets worse for BHP and Rio

Further Issues

Rio Tinto has overseen two recent events in the Pilbara, WA where blasting had an impact /potential impact on culturally significant rock shelters at its Nammuldi and Robe Valley mines, Jarden reports.

On top of the water issues noted above, Rio is facing environmental concerns and its part-owned Mineracao Rio do Norte project in Brazil, and a report showing more than 100 environmental infractions at its aluminum division in Quebec over the past 15 years.

Simandou is a biodiversity rich area where more than 23,000 chimpanzees could be impacted.

The clean-up bill for Rio's Argyle mine in WA is expected to be $270m more than estimated, and the company will manage the Ranger mine rehabilitation in Northern Territory which, after several delays and cost overruns, is now expected to cost materially more than assumed with an extended completion timeline.

Samarco remains the main overhang for BHP, and the company is planning to shut down its Nickel West operations in WA, attributing the decision to a significant decline in nickel prices. Closure and rehabilitation costs are estimated to be -$1.4bn.

<u>ESG in Focus</u>

At this year's **annual Macquarie Conference**, at which 113 companies made presentations, various ESG issues were highlighted.

Firstly, Australia's energy transition is taking longer with regulatory approval delays and availability of labour a challenge. AGL Energy ((AGL)) noted solar and wind developments taking around five years, although battery developments were quicker.

Origin Energy ((ORG)) flagged Eraring's life was expected to be extended. Aurizon Holdings ((AZJ)) is seeing a stronger thermal coal demand outlook and while Worley ((WOR)) is still seeing a positive sustainability investment pipeline, there has been some shift back to traditional projects with energy transition capital deployment taking longer.

There was also growing sentiment around gas as a transition fuel.

Secondly, critical minerals supply chain diversification remains an opportunity. Across the critical minerals sector, particularly in rare earths and lithium, supply chain monopolies continue to be a concern. For example, currently 90% of rare earth elements and 65% of lithium chemicals are produced by China. These concerns were discussed by Boss Energy ((BOE)), Arcadium Lithium, Liontown Resources ((LTR)) and Patriot Battery Metals ((PMT)), among others.

Thirdly, labour conditions remain challenging in construction and skilled staff. Shortages in engineering and electrical highlighted by Aurizon and Sims ((SGM)). In the real estate sector, Mirvac Group ((MGR)), Stockland ((SGP)) and Qualitas ((QAL)) flagged construction cost pressures due to labour and subcontractor shortages. These shortages in skilled staff need to be addressed with push towards renewable energy which will require upskilling the workforce.

Finally, AI and productivity, power requirements and data centre opportunities were a talking point.

NextDC ((NXT)) estimates productivity benefits from using AI models of some 5-10x almost immediately. Productivity benefits were flagged by multiple companies including Domain Group ((DHG)), Temple & Webster ((TPW)), Wesfarmers ((WES)), Worley and WiseTech Global ((WTC)). Some companies are taking a cautious approach to AI, including Insurance Australia Group ((IAG)), nib Holdings ((NHF)) and Wesfarmers given regulatory and ethical considerations.

The growth in AI and implications for energy demand was highlighted by Santos ((STO)). The greater power requirements saw strong interest in data centre exposure at NextDC, Goodman Group ((GMG)) (not at conference) and Megaport ((MP1)).

<u>More Generally</u>

Jarden has launched its new quarterly ESG Survey, covering 145 ASX-listed companies, to capture and track regular ratings of how analysts view company exposure to, and management of, the most material three-four ESG topics for each sector. In the first round of assessment to March 2024, the main trends relate to three sectors: gaming, mining and retail.

Jarden found the following:

Gaming: Aristocrat Leisure ((ALL)), Tabcorp ((TAH)) and Jumbo Interactive ((JIN)) improved their performance in diversity & inclusion (D&I) but cyber risk is on the rise for The Lottery Corp ((TLC)) and Tabcorp. The recent period has seen a general effort across the sector to push for improvements in D&I across gaming, a sector that has traditionally not attracted female talent.

Aristocrat, Tabcorp and Jumbo have all met their HESTA 40:40:20 targets. The focus on D&I helps them to bolster their social licence to operate, which also improved over the period. Meanwhile, cybersecurity threats increased for those gaming companies (Lottery Corp and Tabcorp) that are moving from retail to online operations.

Mining: IGO Ltd ((IGO)), Liontown Resources, Evolution Mining ((EVN)), Capricorn Metals ((CMM)) and Champion Iron ((CIA)) are most exposed to increasing regulatory risks as they wait longer to get approvals for new projects and navigate more complicated and unclear approval processes, which do not appear to be easing over the coming year.

Champion Iron, Core Lithium ((CXO)) and IGO also have greater social licence to operate risks due to operating near local townships and on culturally and environmentally sensitive lands. Positively, however, mining companies have been focusing on nature-related risks and biodiversity, which has provided opportunities to improve their social licence to operate.

Retail has shown a trend of higher safety risks and declining safety performance across Woolworths Group ((WOW)), Domino's Pizza ((DMP)), Wesfarmers, Lynch Group ((LGL)) and Inghams Group ((ING)), with retailers such as Woolworths and Domino's recording fatalities in FY23 and stubbornly high TRIFRs (total recordable injury frequency rate) due to the manual nature of the industry and staff turnover.

Wesfarmers, for example, noted the Bunnings TRIFR expanded for a couple of reasons, up to 15.9 in the first half FY24 (from 11.3 in FY21 and FY22), with an increase in manual handling, which was covid-related and a workforce profile with a materially older age demographic.

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Companies with good human capital management perform better than the pack; Macquarie Bank's BIG GREEN investment push; Aussie banks tackle ESG targets; Qantas strives towards sustainability; the gold standard for net zero emissions targets is a challenge.

-Human capital management matters
-Labour's victory in the UK, a green thumbs up
-Macquarie Group shares on their way to $600?
-ANZ & NAB update on ESG goals
-Qantas invests in Jet Zero
-The ins and outs of Science Based Target initiatives

By Danielle Ecuyer

Human capital management drives share performance

Analysts have long sought to establish what the secret sauce is when selecting winning companies.

Enter **Macquarie** research of financial based data to support the proposition that human capital management is not only real and can be measured, but it also has a material bearing on the share price performance of a company.

The broker highlights an increasing amount of evidence to link human capital management to performance as well as it acting as a leading indicator.

Human capital management covers metrics such as staff turnover, absenteeism, pay and productivity, diversity, industrial disputes, and safety. Macquarie has collated an 18-year data base for the ASX100 with more companies added since 2014.

The latest study revealed Commonwealth Bank ((CBA)), Nick Scali ((NCK)), Santos ((STO)) and TPG Telecom ((TPG)) had the most improved scores in human capital management.

The companies with the highest scores overall were AGL Energy ((AGL)), ANZ Bank ((ANZ)), APA Group ((APA)), Brambles ((BXB)), Commonwealth Bank, Cochlear ((COH)), Goodman Group ((GMG)), JB Hi-Fi ((JBH)), Mirvac Group ((MGR)), REA Group ((REA)), Transurban ((TCL)), Viva Energy Group ((VEA)), Wesfarmers ((WES)), and WiseTech Global ((WTC)).

The Macquarie research showed the share prices of the portfolio of companies which scored highly on human capital management (the dynamic leaders) outperformed those share prices of companies where there is "room to improve".

In fact, the dynamic leaders' portfolio has generated 1.4% p.a. in annual outperformance since it started. When the analyst overlaid a momentum score, the level of outperformance rose to 3% per annum.

Macquarie points to the companies in the second portfolio with room for improvement, such as Domino's Pizza Enterprises ((DMP)), Lovisa Holdings ((LOV)), Netwealth Group ((NWH)) and Seven West Media ((SWM)), as having the lowest scores.

Given these results, it is hardly surprising the unexpected resignation or departure of senior management can cause share prices to flag.

Labour victory in the UK and green policies

With so much political upheaval, many are starting to question the durability in specific climate change policies, ESG investing and sustainability factors.

Morgan Stanley points to both the Labour and Conservative parties remaining committed to the UK's Net Zero 2050 goal.

Labour's victory means business as usual, with the cessation of its GBP28bn p.a. "green prosperity plan" being replaced by an estimated GBP4.7bn p.a. on low carbon energy.

The Labour Party is also proposing Great British Energy to "create jobs and build supply chains" for clean power, including the doubling on onshore wind, tripling solar power, and quadrupling offshore wind by 2030.

Some GBP1bn will be directed towards carbon capture and storage and GBP500m for green hydrogen manufacturing.

Long term security of nuclear power and the Small Modular Reactors are also part of the mix.

While you might be questioning why the UK election matters, look no further than Macquarie Group ((MQG)).

Barrenjoey has undertaken a "deep dive" into the clean green world of Macquarie's asset management division.

Against the backdrop of *McKinsey's forecast that US$275trn or 7.5% of global GDP from 2020-2050 will need to be invested to achieve net zero emissions by 2050,* Macquarie has the goal of becoming as large in green energy asset management as in infrastructure within 10-years.

Due to the capital-intensive investment required for the development and operating expenses of green assets, Macquarie has evolved to an asset management model. By shifting the Green Investment Group to Macquarie Asset Management from Macquarie Capital, external investing parties can now participate, thereby reducing balance sheet funding pressures.

The bank's current capacity stands at 110GW, split 98GW in development/construction.

Under the new structure there are several funds, including Macquarie Green Investment Group Renewable Energy Fund (1&2), UK Climate Investments, as well as the Macquarie Green Energy and Climate Opportunities Fund, and the Macquarie Green Energy Transition Solution.

The funds have different mandates across varying technologies, both mature and emerging, and at different stages of development.

On its balance sheet, Macquarie retains Corio a global wind developer with a 30GW pipeline and Cero, a solar specialist with a 25GW portfolio of solar and storage across Europe. Both these assets are slated for divestment at some stage.

Corio has exposure across Asia, South America, Europe, Asia, Australia, and the US.

Cero's exposure includes Greece, Italy, Poland, Spain, France, and the UK.

From an earnings perspective the Corio and Cero portfolios are not expected to yield the scale of contributions from FY22 and FY23, the CEO has publicly stated.

The off-balance sheet funds will generate fees from green energy and Macquarie can invest in them. Barrenjoey has not included any income from fees until FY29.

<u>The bottom line for Macquarie Group's earnings</u>

Macquarie Group has transitioned into the world's largest infrastructure manager with equity under management of $213bn (half is in Europe). Barrenjoey calculates this could grow to $567bn if it compounds revenue at 10% per annum.

Macquarie's goal is to become as large in green energy, which Barrenjoey views as "very challenging" but not beyond possibility.

For those of you who like blue sky forecasts, the analyst calculates around 40% upside to existing Macquarie earnings estimates, which would equate to around a $600 target price.

For now, shareholders and investors can return to Terra firma with an Overweight rating and a $210 target price.

Among brokers monitored daily, Morgan Stanley has a $215 target price with an Overweight rating.

Citi is more conservative with a target of $176 and a Sell rating. The average target from daily monitored brokers is $193.08.

ANZ and NAB 2024 ESG updates

JP Morgan used the latest ANZ Bank((ANZ)) ESG update to reaffirm its Neutral rating on the company.

The bank's seventh annual ESG offering, highlights three pillars of strategic emphasis by management.

As the bank continues to build its mortgage lending for the retail division, pressures on net interest margins (NIMs) remain.

From an ESG perspective, ANZ remains committed to supporting the increase in supply of social and affordable housing. Out of the $10bn target investment by the end of FY30, the bank has to date delivered on over $5.7bn of funding in affordable housing from 2018 to mid-March 2024.

The second pillar focuses on the goal of 2.5m customers in A&NZ with a financial buffer by the end of FY26.

Via government and community organisation partnerships, the program has assisted 60,000 lower-income Australians save over $29m.

The last pillar rests on the aim to fund at least $100bn in social and environmental outcomes through direct investments and customer activities by the end of FY30, including transition plans to net zero.

Macquarie highlights ANZ has $8.8bn in progress.

In comparison, National Australia Bank ((NAB)) has a recently stated $80bn environmental finance target from October 2023 to 2030, with an undisclosed amount of funding in progress.

CommBank has a $70bn target, set in 2021 with $44.7bn in progress, while Westpac Banking Corp ((WBC)) set new sustainable finance targets in November 2023 of $55bn in lending and $40bn of bond facilitation across Green, Transition, Social and Sustainability areas.

NAB's latest residential real estate emissions intensity target of a -56% reduction in emissions intensity to 15.4kg CO_2/m^2 by 2030 is in line with Westpac and approaches CommBank's 15.7kg CO_2/m^2.

While NAB's commercial real estate office emissions intensity target is a -58% reduction to 29.6kg CO_2/m^2 and 32.6% CO_2/m^2 by 2030 for office and retail.

Macquarie notes NAB's targets are lower than ANZ's but higher than Westpac's.

Nab's transport targets are a reduction to 133g CO_2/vehicle km by 2030 from 2022.

Regarding agriculture, NAB deferred its agriculture target due to problems in data collation across such a wide-reaching portfolio.

Qantas' fleet renewal a boost for sustainability goals

Macquarie hosted Qantas Airways' ((QAN)) Chief Sustainability Officer and team for an ESG update highlighting the 2030 sustainable aviation fuel target of 10% which is a key decarbonisation driver.

The airline's decarbonisation goals are split one third from sustainable aviation fuel, one third fleet renewal/operating efficiency, and one third from offsets.

Fleet renewal is viewed as a "driver of lower emissions", although supply chain problems are creating challenges even though the renewal is oriented more to Airbus.

Offsets will remain important with direct investments through the Qantas' $400m climate fund, including the Western Australian wheat belt project.

Waste reduction is curbed by quarantine restrictions, but Qantas aims for net zero single us plastic by 2027 and zero general waste to landfill by 2030.

Sustainable aviation fuel is challenging, and Qantas believes the 10% mandate for 2030 is not achievable with a 5% target considered more realistic. The latter has been proposed to the government. Some form of subsidies will be required for the next five to ten years.

Qantas has invested in Jet Zero to develop Australia's first alcohol-to-jet-fuel facility in Townsville. This facility is forecast to produce around 100m litres of sustainable aviation fuel per annum.

Pricing as indicated by Jet Zero stands around $4.08 per litre, some two-and-a-half to three times the cost of conventional fuel, which could deliver circa -70% reduction on CO2 emissions against traditional aviation gas.

Macquarie has an Outperform rating and a $6 target price on Qantas.

The FNArena average broker target price is $6.683 with one Buy, one Hold, an Add and an Overweight from **UBS**, **Ord Minnett, Morgan Stanley, Morgans,** respectively.

Aligning Australian companies with Science Based Targets Initiative

Jarden considers Science Based Targets Initiatives (SBTi) as the "gold standard" for Corporate Net-Zero Standard frameworks as it aligns targets with climate science.

Using sixteen assessment criteria, the broker classified Australian listed companies as "aligned" if the targets are SBTi validated or in the process of validation.

Companies are "not aligned" if they do not meet all the requirements.

Jarden stresses the challenges and complexities for companies to comply with SBTi, particularly in the fossil fuel sector, due to a lack of suitable guidelines.

In conclusion, 70% of the ASX50 companies do not align with SBTi, with the main issue being incomplete Scope 3 inventories.

The 30% or 15 aligned companies included eight in the process of seeking validation; Aristocrat Leisure ((ALL)), Fortescue ((FMG)), Origin Energy ((ORG)), Ramsay Health Care ((RHC)), Stockland ((SGP)), Sonic Healthcare ((SHL)), Telstra ((TLS)) and Woolworths Group ((WOW)).

NAB, Seek ((SEK)), Westpac and Xero ((XRO)) align with SBTi but aren't seeking validation.

Brambles ((BXB)), Newmont Corp ((NEM)) and Transurban Group are validated.

Jarden highlights the challenges for mining companies to commit to SBTi.

The broker concludes there is no one size fits all for the approach to target setting and different companies could use the SBTi framework differently. It believes non-mining companies should at a minimum seek to align with the SBTi standard to assist in net zero target setting and climate risk management.

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RUDI'S VIEWS

Rudi's View: All-Weather Portfolio in FY24; Growth Not Value

All-Weather Portfolio in FY24; Growth Not Value

By Rudi Filapek-Vandyck, Editor

We all experience the share market through our own portfolio, which might explain why so many voices remain downbeat, if not straightforward negative about the local market and its prospects.

In contrast to general sentiment, the ASX200 just clocked off its second successive double-digit financial year return, coming in at 11.78%. One year ago, FY23 returned 14.80%.

Total return over the past ten years has averaged no more than 8.06%, and that number includes the past two years, so the absence of the sound of champagne corks popping seems a bit odd. But share prices have been more volatile than many can bear during the best of times.

Above all: the bifurcation underneath the headline performance remains extreme, with many more stocks not performing and a select group of popular names generating all the rewards. Investing in the share market is seldom a walk in the park. Whenever it is, the sunny conditions don't last for long.

Outside of the Winners circles, Australian equities have been overwhelmingly frustrating, deflating, gut-wrenching, and, at times, de-moralising. Unless one's portfolio owned plenty of supercharged Winners. But even then, the optics remain important and Australia looks bleak against the outsized gains yet again achieved in the US.

The Nasdaq100 index, as its website proudly shows, has returned 55% over twelve months, 177% over five years, and 419.34% over ten years (all data as of 4 July 2024).

We need not look any further as to why general sentiment is far from ebullient among local investors. But as said, total return has been above average for the second year in a row, and the all-important banks have been among the strong outperformers.

The **FNArena-Vested Equities All-Weather Model Portfolio** does not invest in popular banks or resources companies, but instead attempts to identify local companies of higher quality, with robust growth prospects, underpinned by continuous re-investments and a leading market position.

This focus has served the Portfolio well. Total return pre-fees for FY24 has been 18.28%. Last year, total return slightly underperformed on 12.71%. The year prior, in FY22, the Portfolio kept the damage limited to -2.59% for an average three-year return of 10.43% p.a. against the ASX200 Accumulation index's 6.27%.

Period Ending 30/06/2024							
Name	Code	Type	1 mth	3 mths	6 mths	1 year	3 years
All Weather Portfolio	M00701	Capital	3.10%	1.85%	10.15%	16.32%	8.80%
All Weather Portfolio	M00701	Income	0.13%	0.34%	0.94%	1.96%	1.63%
All Weather Portfolio	M00701	TR	3.23%	2.19%	11.09%	18.28%	10.43%
S&P/ASX Blended Equity and Bond - Conservative Index - Primary	CONSERVINDX	TR	0.92%	-1.04%	1.26%	6.12%	0.09%
S&P/ASX 200 Accumulation Index - Secondary	XJO	TR	1.01%	-1.04%	4.18%	11.78%	6.27%
S&P/ASX Bank Bill Index - RiskFreeRateIndex	SPBDABBT	TR	0.34%	1.08%	2.17%	4.37%	-3.02%

Many Lessons To Be Learnt

What usually happens is I start now highlighting the Big Winners that have contributed to the sizeable Portfolio outperformance, but maybe it's equally important to acknowledge not all Portfolio constituents have been a Winner over the past three years.

As per always, disappointments do occur and the biggest disappointment for the All-Weather Portfolio has been education services provider IDP Education ((IEL)).

When asked in late 2022 about my favourite stock for the year ahead, I had little hesitation to nominate IDP Education. The company is a global market leader in its field and benefiting from the desire of parents in emerging countries such as China and India to send their offspring to universities in the UK, Canada and Australia.

Competitiveness has increased in the sector, but what really changed sector dynamics is a deliberate push back against student immigration by governments in those destination countries. Instead of reaching for new highs, the share price has more than halved over the past 17 months.

Observation number one: this has not prevented the Portfolio overall to put in a market-beating performance. Other inclusions like CSL ((CSL)) and ResMed ((RMD)) have equally not kept up with the index in recent years, but none of this means the Portfolio cannot still (out)perform.

Harry Hindsight is a wise man, of course, and always knows best after the facts. Admittedly, if I'd known with 100% certainty these share prices were heading for much lower price levels I would not have hesitated to sell and get back on board near ground zero, but investing is seldom that straightforward, just ask the many shareholders in large swathes of micro- and small-caps and in lagging value stocks today.

To my own credit, while I might have held on for too long to a share price that was ultimately only going lower, and lower yet again, I did acknowledge the increasing risks involved and therefore kept overall exposure small. An important part of risk management is making sure one IDP Education disappointment does not destroy the Portfolio performance entirely.

I've read and heard too many stories throughout the years past of investors doubling down on share prices that only kept falling further, upgrading one unfortunate slip-up into a major disaster. Doubling down, in my book, is only for traders with high risk appetite.

Running an investment Portfolio of, say, twenty stocks means there are always Winners and Laggards, in the moment. But one can have a broad assessment of where available cash is best allocated. Simply adding more to a share price that has fallen might seem instinctively the most logical decision to make, in practice it seldom is.

It is much better practice to try to assess what the risks are, and be cognisant that risk changes regularly. After shares in Woolworths Group ((WOW)) weakened from $40 to below $31, the Portfolio did purchase more exposure, but the consideration was not to get the average purchase price down, but to jump in at a great entry point on a longer term view.

The experience with IDP Education also shows it's dangerous to rely on 'value' when a company operates under tough market dynamics. In this particular case, new pressure points kept popping up, putting additional pressure on forecasts and on apparent 'valuation'. With the shares trading near $14, there are no fans left and all former friends have left for greener pastures elsewhere.

IDP Education shares remain the second most shorted on the ASX.

The Portfolio hasn't sold and will continue to re-assess. What matters right now is not at what price we bought the shares; that is 100% irrelevant. What matters now is whether better times are around the corner, creating the platform for a renewed trend upwards. If this proves the case, the Portfolio might buy more shares. There is no hurry and plenty of other stocks deserve our attention too.

As investors, we are always influenced by daily share price moves, whether we want it or not. The Big Challenge is to keep our focus firmly on the underlying company fundamentals and accept that sometimes shares do not reflect what is happening inside the business, and sometimes our judgment is wrong.

The All-Weather Model Portfolio has stuck with ResMed shares on the ongoing belief GLP-1s did increase long term risks, but shorter term volatility is mostly related to market sentiment (and traders creating mayhem). CSL is the largest holding as we firmly don't believe share price action post-2020 is reflective of what the future holds for Australia's largest and most successful biotech.

<u>Time To Sell The Winners?</u>

The Portfolio is an extension of my personal research into All-Weather Performers, which, apart from the highest quality names on the ASX, also involves identifying those emerging growth companies that enjoy structural benefits with higher quality than the majority of peers.

A quick glance over the selections made in years past quickly reveals most of these stocks have been on the beneficial side of share market momentum. ARB Corp ((ARB)) shares are up 33% since June 2022. Total appreciation for Cochlear ((COH)) shares is 67%. Carsales has done 92%. Pro Medicus ((PME)) is displaying a whopping 239%.

Note: the All-Weather Model Portfolio does not own all stocks in my selections, but this is its main focus.

Ai-related beneficiaries in particular have been in focus throughout the year past. Shares in Goodman Group ((GMG)) have rallied 37% in the past six months. They are up 72% over twelve months, and 95% since mid-2022. For NextDC ((NXT)) the corresponding numbers are 28% to date in 2024, 41% and 66%.

I could go on and on, but the numbers speak for themselves. The contrast with the likes of BHP Group ((BHP)), Aurizon Holdings ((AZJ)), Elders ((ELD)), Lendlease ((LLC)), Metcash ((MTS)) et al is very stark. And these are by far not the worst performers.

The first dilemma that pops up after such a sharp polarised outperformance is whether it is time to sell the Winners and re-allocate into the share market Laggards? Yet again, what seems but logical instinctively may not be so straightforward at all.

For starters, many of today's outperformers are carried by ongoing strong growth prospects. Think, for example, Goodman Group and NextDC in relationship to an explosion in global demand for data storage and data centres. While market crowding and short-term multiples might suggest the risk is for a sharp pull back in share prices at some point, medium to longer term those share prices should have a lot more upside.

Maybe the best comparison to make is with property prices in the major cities throughout Australia. Ten years ago, properties looked over-priced changing hands for, say, $2m. Ten years earlier, they'd only cost $800,000. Today, you cannot buy a decent house unless you're willing to fork out $4.5m, and beyond.

Properties are by no means the equivalent of listed equities, but the underlying dilemma is the same: selling at $2m because you made a big gain from your $800k purchase doesn't seem very smart when judging from today. In similar vein, shares in Pro Medicus looked over-priced at $50 in 2021, and yet again at $85 in 2023. Today they are trading above $130 and yes, there have been plenty of pullbacks along that trajectory.

While the general expectation is that share market momentum should broaden to those parts that as yet have not participated in the market upswing, weaker economic momentum both locally and overseas means the risk for profit warnings and operational disappointment remains high, and that risk applies more to cyclical, lower quality businesses, aka today's share market Laggards, than it does to the Winners.

What Could Go Wrong?

If central banks are forced to wait for longer before starting to reduce interest rates, as has probably already happened for the RBA locally, this could well prove another delaying factor in the broadening of the share market momentum.

If economies weaken a lot before interest rate cuts are starting to stimulate growth, this would add yet another negative for most of today's share market laggards.

Equally important: I remain of the view that during times of spectacular new growth avenues, as the world is experiencing in the current decade through GenAi, GLP-1s and multiple other megatrends, quality and sustainable growth companies can certainly fall out of fashion, but they don't stay in the doldrums for long.

In recent years, we've all witnessed the pendulum swinging away in 2021, only to roar back from the moment bond markets stopped rallying. The second half of 2018 and of 2016 were equally times when the pendulum swung from Winners (Growth/Quality) to Laggards (Cyclicals/cheaper Value), but it never lasts for more than a number of months.

Sure, it's an excruciating process when in the midst of it, but every time has been nothing but a temporary nuisance as far as the macro trend is concerned - and, need we all be reminded, simply an ideal entry point for the next upswing.

So, when I get asked: the share price has run a lot, should I sell? I advise investors to take all of the above into account. Don't underestimate the psychological barrier that opens up once you've sold all your shares in, say, that high quality growth company that is ready to double in size over the years ahead.

If the share price doesn't fall as much as you expect, and the rally starts without you being back on board, you're now at risk of blaming yourself for appearing smart for five seconds, and missing out on the next grand opportunity.

I know what I am talking about. This is how and why the All-Weather Portfolio no longer includes Pro Medicus, while it had to wait until September last year to get back on board Hub24 ((HUB)), REA Group ((REA)) and WiseTech Global ((WTC)).

Sometimes the best course of action is simply staying the course, and maybe only make adjustments at the margin.

Unless we identify a significant change in market dynamics, that's exactly what we intend to do with the All-Weather Portfolio.

SPECIAL REPORT

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

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

Model Portfolios, Best Buys & Conviction Calls

This section appears from now on every Thursday morning in a separate update on the website. See **Rudi's Views** for the archive going back to 2006 (not a typo).

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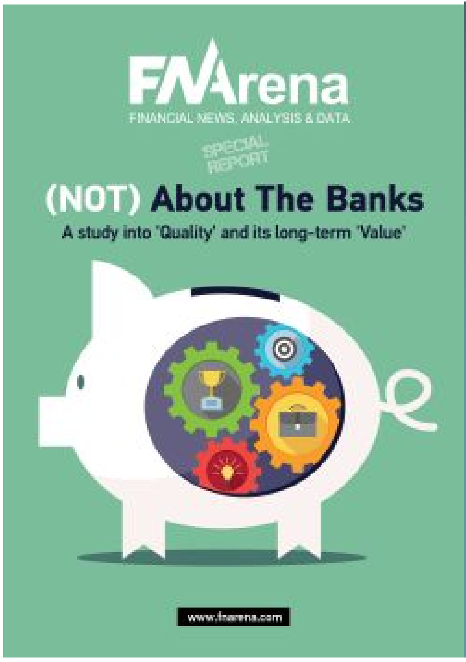

(This story was written on Monday, 8th July, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

RUDI'S VIEWS

Rudi's View: Gold, Healthcare, Staples & Copper

Updates on strategies, model portfolios, key picks, best buys and conviction calls.

By Rudi Filapek-Vandyck, Editor

Macquarie strategists believe the US economy has decelerated into a slowdown, with consequences for which sectors are likely to perform or not on the share market.

The fact the RBA might still hike in August is ignored. Macquarie prefers to take guidance from the fact central banks elsewhere are almost universally moving towards loosening.

Key changes applied to the broker's **Model Portfolio** include increased exposure to **defensives, growth and REITs** and reduced exposure to financials and resources.

The strategists also point out the Macquarie proprietary FOMO meter currently reads 1.42, which is at elevated level, while sentiment in the US seems extemely bullish. The combination of the two is treated as a warning signal.

Macquarie suggests further returns from here onwards are most likely to be "weak" and driven by defensives. Macquarie prefers healthcare and staples.

In terms of individual stocks, Macquarie's Model Portfolio has added exposure to Amcor ((AMC)) and GrainCorp (GNC)) -both are new inclusions- and to CSL ((CSL)) and ResMed ((RMD)), as well as to growth stocks Xero ((XRO)) and Block ((SQ2)).

REITs have been overweighted through the inclusion of Mirvac Group ((MGR)).

Exposure to National Australia Bank ((NAB)) and CommBank ((CBA)) shares has been slimmed down, as well as to Suncorp Group ((SUN)) on the expectation of negative impact from La Nina weather. The latter should benefit GrainCorp.

All in all, point out the strategists, average returns from shares tend to be lower during a slowdown phase, with the Australian market taking its lead from the US, based on historical precedents.

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Did anyone mention "resources"?

The past week has seen multiple sector updates by resources analysts, with major shifts in preferences occurring.

All in all, optimism for copper remains, met coal is back on the radar and sentiment towards rare earths and lithium and other battery materials varies from poor to really poor. The outlook for iron ore is not looking great, but not terrible either.

The team at **JP Morgan** retains its large cap preferences for BHP Group ((BHP)), Rio Tinto ((RIO)) and South32 ((S32)), accompanied by positive views on BlueScope Steel ((BSL)) and Sandfire Resources ((SFR)).

In the local gold sector, JP Morgan retains Overweight ratings for Evolution Mining ((EVN)), Northern Star ((NST)) and De Grey Mining ((DEG)). The broker has downgraded Newmont Corp ((NEM)) and Gold Road

Resources ((GOR)) to Neutral.

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Staying with the gold producers, **Goldman Sachs** reports Australian producers have transitioned back to focus on margins and cash generation rather than production growth throughout the year past (even though M&A remains a theme).

This should make the sector more attractive for investors, but share prices have yet to reflect this change. The broker suspects continuously rising costs are keeping the buyers at bay.

Goldman Sachs suggests those producers with higher costs and lots of capex on the agenda are most likely to underperform peers that offer less risk for cost overruns.

Gold producers currently rated Buy at Goldman Sachs are Evolution Mining, De Grey Mining, Gold Road Resources, and Bellevue Gold ((BGL)).

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Similar caution dominates the latest preview for the upcoming quarterly production report updates and August result releases by Australian gold producers at **Barrenjoey**.

Most of in-house updates on the sector are generating financial estimates below market consensus, reports Barrenjoey, with a combination of lower production, higher costs and more capex all impacting.

Barrenjoey has singled out Northern Star, Regis Resources ((RRL)) and Gold Road Resources for potentially greater downside risks, and sees relatively lower risk for Evolution Mining, Newmont Corp, and Capricorn Metals ((CMM)).

The broker's advice to investors: those gold equities that demonstrate cash generation relative to peers through reporting season will be rewarded.

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Analysts at **RBC Capital** are more optimistic (or is that more courageous?). They understand investors in gold companies do not want to get caught out in case FY25 guidances disappoint, but it is their view there should be less risk than last year of such disappointments repeating.

RBC Capital has Outperform ratings for Northern Star, Regis Resources, Westgold Resources ((WGX)), and Bellevue Gold. Both Evolution Mining and Gold Road Resources are rated Underperform.

Separately, RBC Capital also added Brambles to its selection of Top 30 Global Ideas for 2024.

****

Canaccord Genuity's best gold poducer ideas:

-Northern Star Resources ((NST))
-Ramelius Resources ((RMS))
-Resolute Mining ((RSG))
-Adriatic Metals ((ADT))

Best developer ideas:

-Spartan Resources ((SPR))
-Predictive Discovery ((PDI))
-Mitre Mining Corp ((MMC))

****

A general update on commodity prices at **Petra Capital** resulted in positive changes for gold and bauxite, while forecasts for copper and zinc have been upgraded too. Negative adjustments were made for rare earths and graphite fines, while near-term forecasts have been lowered for uranium and lithium.

With Petra Capital's research zooming in on the smaller end of the sector, and with all share prices trading well below revised price targets, page 5 of the research report only contains Buy ratings.

Blue Energy ((BLU)) in the oil&gas sector, offers the highest upside potential of the bunch, with its shares trading 845% (not a typo) below the broker's price target.

****

Over at **UBS**, the Australasian Mining sector team prefers copper, aluminium, gold and met coal, but not iron ore or lithium. The broker's macro view is that mining companies are at risk of providing investors with potentially "stale" forecasts as more capex might be required to sustain production and/or achieve growth.

Among individual companies, UBS's Top Picks are South32, Newmont Corp, and Coronado Global Resources ((CRN)). The broker recently upgraded Deterra Royalties ((DRR)) to Buy as that share price was seen as too cheap post the unexpected UK acquisition announcement.

****

Jarden's preview on the local energy sector has seen Buy ratings maintained for Karoon Energy ((KAR)) and Carnarvon Energy ((CVN)) while Santos ((STO)), Origin Energy ((ORG)) and Cooper energy ((COE)) kept their Overweight ratings (one step below Buy).

****

Morningstar Australia sees value in mineral sands, gold, and thermal coal.

****

Morgan Stanley recently updated its global preferences among mining equities for the third quarter which features Rio Tinto and Mineral Resources.

The list of Least Preferred exposures features one ASX-listed company; Fortescue ((FMG)).

As a reminder, Morgan Stanley has made met coal its number one commodity pick.

Investors ready to ride the rally have been guided towards the following key stock calls:

-Yancoal Australia ((YAL))
-Whitehaven Coal ((WHC))

****

Macquarie's prefererd company to play the copper theme is Capstone Copper ((CSC)) with the analysts lauding Capstone as a copper pure play with a strong organic growth outlook. South32 is preferred for aluminium/alumina exposure.

****

Morgan Stanley occasionally pampers its clientele with "Actionable Ideas" whereby confidence is high for share prices to perform in a certain way over a relatively short time frame.

On July 7, a report with Three Actionable Ideas was released, including the forecast shares in Suncorp Group ((SUN)) are on their way to re-rate in line with the higher valuation that currently sticks with peer Insurance Australia Group ((IAG)).

The other two conviction ideas are ASMPT and Kia Corp, both listed in Hong Kong.

****

Looking forward to August reporting season for ASX-listed healthcare companies, **Citi analysts** have identified Ansell ((ANN)), Ramsay Health Care ((RHC)) and Sonic Healthcare ((SHL)) as most at risk for missing consensus forecasts.

Citi analysts also took the opportunity to upgrade CSL ((CSL)) to Buy from Neutral and Ebos Group ((EBO)) to Neutral from Sell.

****

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

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

****

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

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

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

Selected names:

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

As well as:

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

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

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

<u>Model Portfolios, Best Ideas & Conviction Calls</u>

Analysts at **Bell Potter** have updated their **Key Stock Picks** for the year-ahead:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

****

Barrenjoey Chief Equity Strategist Damien Boey had already decided it's time to pivot the investment portfolio in favour of a more defensive positioning.

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

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

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

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

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

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

****

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

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

****

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

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

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

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

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

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

****

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

-Alliance Aviation Services ((AQZ))
-ARB Corp ((ARB))
-Cosol ((COS))

-EQT Holdings ((EQT))
-Lindsay Australia ((LAU))
-Pinnacle Investment Management ((PNI))
-Red 5 ((RED))
-Regis Healthcare ((REG))
-Select Harvests ((SHV))
-SRG Globval ((SRG))
-Waypoint REIT ((WPR))
-Webjet ((WEB))
-Whitehaven Coal ((WHC))

****

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

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

****

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

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

Plus also ("sector picks"):

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

Has been removed: Regis Healthcare ((REG)).

****

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

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

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

-Pexa Group ((PXA))

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

****

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

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

****

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

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-Macquarie Group ((MQG))
-QBE Insurance ((QBE))
-Suncorp Group ((SUN))
-Goodman Group ((GMG))
-Scentre Group ((SCG))
-Stockland ((SGP))
-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-James Hardie ((JHX))
-Orica ((ORI))
-Coles Group ((COL))
-Treasury Wine Estates ((TWE))
-CSL ((CSL))
-ResMed ((RMD))
-AGL Energy ((AGL))
-Origin Energy ((ORG))
-Telstra ((TLS))
-Transurban Group ((TCL))
-BHP Group ((BHP))
-Newmont Corp ((NEM))
-Rio Tinto ((RIO))
-South32 ((S32))
-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy ((WDS))

****

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

More ideas come with "long term growth" profiles:

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

Among Resources stocks, there are two favoured ideas:

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

And there's a Speculative basket too:

-Immutep ((IMM))

****

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

The Focus Portfolio encompasses the following:

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

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

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

<u>Healthcare</u>
-CSL ((CSL)), ResMed ((RMD)), Telix Pharmaceuticals ((TLX))

<u>Industrials</u>
-Worley ((WOR))

<u>Information Technology</u>
-TechnologyOne ((TNE)), Xero ((XRO))

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

<u>Real Estate</u>
-Goodman Group ((GMG)), HealthCo Healthcare & Wellness REIT ((HCW))

****

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

-Goodman Group ((GMG))
-Seek ((SEK))
-Aristocrat leisure ((ALL))
-Northern Star ((NST))
-CSL ((CSL))
-Computershare ((CPU))
-NextDC ((NXT))

-Flight Centre ((FLT))
-Mineral Resources ((MIN))
-Cleanaway Waste Management ((CWY))
-Steadfast Group ((SDF))
-Arcadium Lithium ((LTM))
-ResMed ((RMD))
-Pexa Group ((PXA))
-Treasury Wine Estates ((TWE))
-Viva Energy ((VEA))
-Xero ((XRO))

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

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

****

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

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

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

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

****

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

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

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

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

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

<u>Preferred Resources:</u>
-South32 ((S32))
-Stanmore Resources ((SMR))

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

****

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

The selected ten:

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

-ReadyTech Holdings ((RDY))
-Silex Energy ((SLX))

****

Macquarie's ASX Quality Compounders

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

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

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

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

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((GUD)) G.U.D. HOLDINGS LIMITED has changed its code to ((AOV)).

SMALL CAPS

Ventia Services: Unique Mix Of Growth & Defence

Analysts highlight structural tailwinds for Ventia Services and margin protection from contract mix and flexible costs.

-Structural tailwinds for Ventia Services
-Unique combination of strong growth and defensiveness
-Margins protected via contract mix and flexible costs
-Work-in-hand a feature of FY23 results, notes Macquarie

By Mark Woodruff

Favourable tailwinds continue to support maintenance services provider Ventia Services ((VNT)) as population growth creates pressure on existing infrastructure, with sustainability and the energy transition driving rising investment, and spending on defence rises to meet geopolitical risks.

Exhibiting defensive attributes with a strong growth profile, the company represents a unique investment opportunity on the ASX, according to Canaccord Genuity, in first-time research released last week.

Ventia's business model is underpinned by long-term contracts with government (which represent 75% of revenue) and corporates such as BHP Group ((BHP)), Chevron, and Telstra Group ((TLS)), which contribute the remaining 25%.

This spread of blue-chip clients significantly minimises counterparty risk, highlight the analysts.

Only last month, Morgans listed Ventia Services among three key picks across the Building, Construction and Engineering sectors, noting management continues to deliver shareholder value through dividends and earnings growth, with potential for future capital management.

Since listing on the ASX at an IPO price of $1.70 in November 2021, Ventia has delivered a two-year compound annual growth rate (CAGR) for revenue and underlying earnings of 11.1% and 10.7%, respectively.

The share price has subsequently risen to $4.05 and Ventia's market capitalisation of $3.4bn now sits between Morgans' other key sector picks Worley ((WOR)) and Maas Group ((MGH)) with market capitalisations of respectively $7.78bn and $1.31bn.

Providing routine upkeep to maintain asset quality and operational efficiency, Ventia operates across more than 400 sites in Australia and New Zealand (90% of FY23 revenue from Australia) with a combined workforce of over 35,500 people, of which around 20,000 are subcontractors.

Service capabilities span the full infrastructure asset lifecycle, including Operations & Maintenance, Facilities Management, Minor Capital Works, Environmental Services, and other solutions.

The business includes four segments, namely Defence & Social Infrastructure, Infrastructure Services, Telecommunications and Transport.

Ventia holds an around 7.8% market share of a total addressable market (TAM) estimated at $73.5bn in the Maintenance Service markets, which BIS Oxford Economics (in 2022) expected to reach $87.8bn by FY26.

Contracts are secured with an average tenure of between five and seven years, with direct inflation pass-through mechanisms (95% of revenue) built into most contracts, explained Morgans.

Management is selective when choosing work and doesn't undertake major capital construction projects (more than $100m), while only 8% of FY23 revenue derived from fixed-price contracts, notes Canaccord.

Annuity-style income is generated, while cash flows from maintenance are comparatively resilient to external shocks, according to Ord Minnett, and capital requirements are typically low.

Being a Maintenance Services business, historically, Ventia had less than 1% of capex as a percentage of revenue, which Canaccord contrasts with the (similiar sized) more capital intensive Downer EDI ((DOW)), which has lower return metrics and a more inconsistent earnings profile.

Not only does Ventia's low capital intensity provide protection against economic cycles, but it also supports a high degree of cash generation, points out the broker, enabling management to adhere to a profit payout ratio target of 75%.

As financial leverage is light, Canaccord explains management can flex the balance sheet as required, should M&A targets present attractively.

<u>Margin protection</u>

Courtesy of existing revenue and cost structures, Canaccord Genuity believes Ventia is well positioned to continue growing earnings in a steady fashion.

Management looks to mitigate earnings risk, explain the analysts, by contracting work with a high proportion of inflation and price escalation mechanisms for cost increases.

Since FY20, there has been a shift in the contract mix away from fixed price, with the current mix working to protect margins in times of high-cost inflation (as seen recently), observes Canaccord, resulting in a more robust earnings profile.

Ventia's scalable business model, with subcontractors accounting for around 50% of total costs, provides further flexibility to the cost base.

<u>FY23 results in February</u>

Ventia has thus far consistently achieved growth and exceeded management guidance.

FY23 results last February provided the most recent example, with revenue, earnings, and profit (NPATA) increased by 9.8%, 10.8% and 12.5%, respectively, compared to FY22.

At the time, Morgans noted management was delivering on a promise of stable and predictable earnings, with the 12.5% profit growth exceeding the company's long-term revenue growth target of 7-10%, reflecting a business which increased its market share to 8% from 6%.

Ventia increased work-in-hand by 4% to $18.1bn following a 7% increase in FY22. The growth rate only slowed in FY23 due to government delays, explained Macquarie, noting work-in-hand has grown at a 7% CAGR, outpacing the sector in the past five years.

More positively, work-in-hand from renewed contracts in FY23 increased by 11% to $2.7bn, explained Ord Minnett, and the company increased the client renewal rate to 87%.

While there were solid performances across the divisions in FY23, Telecommunications was the standout with 23% EBITDA growth on a 21% lift in revenue driven by high contract volumes and strong data demand, explained Macquarie.

New contracts also ramped-up within the Telecommunications division, such as the Square Kilometre Array (SKA) project (on behalf of SKA Observatory), which aims to build the world's largest radio telescopes, supported by 16 countries globally.

Outlook

Ventia's future growth is supported by a growing total addressable market (TAM), high contract renewal rates, longstanding client relationships, and a substantial pipeline, explains Canaccord. along with further pipeline opportunities valued at over $30bn through 2026.

The company is favourably placed to capitalise on strong market trends, finds Ord Minnett, including increasing demand for essential services, noting population growth alone leads to higher urban densities, increased congestion, and pressure on infrastructure.

The average target price of three covering brokers monitored daily in the FNArena Database is $4.10 suggesting just over 1% upside to the current share price. Those models are expected to be updated after the release of FY24 financials in August.

Morgans, Macquarie and Ord Minnett all have Buy (or equivalent) ratings.

Outside of daily monitoring, Canaccord Genuity has a Buy rating and $4.44 target.

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SMALL CAPS

Twists And Turns Of Telix And Australian Biotech

In the wake of Telix Pharmaceuticals' non-IPO on the Nasdaq, FNArena shines a light on the company's fortunes and that of Australian biotech and cancer research generally.

-Telix Pharmaceuticals unexpectedly called off Nasdaq IPO
-Company has asked FDA for priority review of second product, Zircaix
-Australia is recognised as a world leader in cancer research
-Increased collaboration between the US and Australia could create over US$10bn in exports and generate 34,000 jobs

By Ed Kennedy

In mid-June Telix Pharmaceuticals ((TLX)) announced it had withdrawn its intention to list on the Nasdaq. Market conditions, in tandem with other considerations, were cited as the reasons.

According to a SEC filing, the company had aspirations to obtain up to US$232m (approximately A$344m) from the IPO, and the surprise move was notable news for a company that has enjoyed substantial forward momentum in recent years.

Per the statement Telix released following its withdrawal, "Given the proposed Nasdaq listing was not predicated on the need to raise capital, Telix's management and Board of Directors have decided not to move forward with the transaction at the terms provided under current market conditions", and in turn, "The Company did not feel that the proposed discounts were aligned with its duty to its existing shareholders."

Just as recent history has a tale to tell regarding Telix and its progress towards an IPO in the USA, so too is the contemporary state of cancer treatment and Australia's biotech sector worthwhile to understand as part of the broader context.

<u>Telix's Offerings: Just What the Doctor Ordered?</u>

Since listing on the ASX in November 2017 -and being available in that month for less than $1 a share- Telix has thereafter enjoyed a remarkable ascent, its shares trading north of $18.00 in the closing days of last month.

Telix specialises in providing therapeutic and diagnostic radiopharmaceuticals. In addition to its Australian premises -and headquarters in Melbourne- Telix has offices in the US, Japan and Europe.

The value of Telix's therapeutic radiopharmaceuticals is explained in its 2023 Annual Report, "Many existing therapies for cancer and rare diseases are non-selective and as a result can act against healthy tissue and vital organs while treating disease", however, "Our radiopharmaceuticals are designed to deliver focused doses of radiation with precision targeting via an injection, regardless of where the cancer or disease is in the body."

Illuccix serves as a key offering from Telix's diagnostic wing. Utilised in tandem with a positron emission tomography scan, the imaging agent aids in the diagnosis of prostate cancer. In addition to already being available in Australia -having first been administered at Austin Health in Melbourne- it has been approved by the United States Food and Drug Administration (FDA) and Health Canada.

Also in Telix's stable is Zircaix, utilised for clear cell renal cell carcinoma, a type of kidney cancer. In early June, Telix announced it had completed its Biologics License Application submission to the FDA.

The rolling submission first commenced in December of 2023; it has seen Telix request a Priority Review. As Telix notes, if approval is granted, it means Zircaix "will be the first targeted radiopharmaceutical imaging agent specifically for kidney cancer to be commercially available in the U.S."

Before returning to the story of recent events, it's useful to first touch on the contemporary state of cancer rates and then the state of biotech in Australia.

Cancer in Context

While improvements in quality of life, coupled with advances in medicine, have led to the eradication of other diseases in recent history -with Australia commencing routine vaccinations against polio in 1956 and being declared free of it in 2000 serving as a leading example of such progress- cancer rates remain high in Australia.

The story of cancer in the country is ultimately one of many contrasts. The World Cancer Research Fund has previously declared **Australia to have the highest cancer rates in the world**, at 462.5 people per 100,000. Yet, a 2019 report from the International Agency for Cancer Research declared Australia led the world in cancer survival rates. The nation is also recognised as a **world leader in cancer research**, but faces a confronting march toward the end of the decade.

As detailed by the Australian government's Australian Cancer Plan, "Cancer is responsible for Australia's largest disease burden and is a leading cause of death". In turn, "the Australian population is expected to increase by 15% between 2021 and 2031 and cancer cases are estimated to increase by around 22% during this time."

It's of course the case the term cancer' is often used as a catch-all to describe many diseases. Thus, the quest to cure' cancer *en masse* can be regarded as a far more complicated ambition than the more straightforward task of pursuing a treatment for a single disease.

In turn, in roughly the same period of time that polio was eradicated in Australia, and in the decades of the 21st century since, commendable progress has been made globally in diminishing the impact of many cancers. Prevention methods have risen -public campaigns and other endeavours to reduce the use of cigarettes is among the most renowned of these- and so too have increases in 5-year survival rates been seen, such as among some childhood cancers like leukaemias and lymphomas.

Statistics showing overall cancer rates are rising is unwelcome news. It's also the case the anticipated growth in cancer rates is informing surging demand for investments in firms looking to address this issue, and in the broader Australian biotech sector.

The Long Consultation

In 2022, the Australian government released *Biotechnology in Australia: Strategic plan for health and medicine*. It detailed numerous key challenges facing the national sector, as identified by extensive consultation within it.

Limitations that exist due to access to capital, the gaps in commercialisation and translation, the need for a greater coordination of incentives and support, and the need to nurture scientific and commercialisation skills, were cited as key issues.

Additionally, the need for strategising to build Australia's sovereign capability in this space was also cited as essential. The report's production and release in the midst and latter days of the covid-19 pandemic underscored the value of sovereign capability in this regard.

Yet, just as it's widely recognised -though it was a century between the outbreak of the Spanish flu pandemic and covid-19- that the next global pandemic will not take a century to arrive again, Australia's long-term potential to be a leading provider in the years and decades ahead of medical products and services throughout the rapidly growing Asian region warrants further discussion.

The 21st century has seen outbound medical tourism make waves with a decrease in cost of plane travel -as Australians catch a flight to capitals in Asia for dental makeovers and other cosmetic treatments at a far lower cost than what's on offer in Australia- but growth in the other direction has also been seen, especially when it comes to the high tech medical offerings available domestically.

For its part, Canberra has entertained dialogue on the idea of boosting Australia's capacity in this regard, with a submission to the Inquiry into the Development of Northern Australia in 2012 discussing the prospect of increasing the medical capabilities of the nation's northern reaches to play host to medical tourists.

But, overall, it could be said the more effective engagement with and enticement of medical tourists from Asia to Australia at present remains on the drawing board' of national priorities.

The Initial Dose

Telix has successfully caught and surfed the wave amidst greater interest and investment in cancer treatments, methods, and technologies in recent years. But it's certainly not the only player in this arena, in Australia or globally.

In addition to Telix, Australia plays host to the headquarters of AdvanCell and Clarity Pharmaceuticals ((CU6)). More widely, the operations of AstraZeneca -who notably made news in March with an agreement to buy Fusion Pharmaceuticals for US$2.4bn- as well as firms like Sweden's Elekta, illustrates the robust global competition for attention and investments in the sector.

This said, international competition notwithstanding, there is undoubtedly an immense opportunity in this era for Australian biotech firms. According to *A Prosperous Future: Biotech*, a report co-produced by KPMG Australia and the American Chamber of Commerce of Australia, increased collaboration between the US and Australia could create over US$10bn in exports for the latter, and generate 34,000 jobs.

The Treatment Plan

Obviously, the road ahead for any business in a sector like Telix's industry is one beset with potential pitfalls. The paths to obtaining success from clinical trials and approval from regulators can generate headaches a-plenty, in addition to the problems that can arise on the long path from initial idea to final output. The competition can also be anticipated to grow far more intense as we shift into the second half of this decade.

This said, Telix appears well-placed with its present offerings. What's more, its enviable record of progress in recent years continues to inform its current standing. Thus, the surprise twist with its IPO notwithstanding, Telix remains a great organisation to watch closely given the dynamism it has shown thus far, and the foundation it has built for the future.

SMALL CAPS

Jumbo's FY25 Growth Potential Under A Cloud

Jumbo Interactive has been benefiting from a run of big lottery jackpots, but is this a trend or a blip? Citi has concerns, initiating coverage with a Sell rating.

-March quarter jackpots boost Jumbo Interactive's earnings
-Analysts lift jackpot forecasts through FY25
-Forecasting jackpots is risky business
-Citi sits below consensus forecasts

By Greg Peel

Online lottery marketer Jumbo Interactive ((JIN)) enjoyed a cracking March quarter this year, with lottery markets seeing twelve jackpots of over $15m, up from seven in the same period last year. The quarter included a $150m Powerball draw and $40m for Oz Lotto. The $150m found a sole winner. An earlier jackpot of $200m was split between two winners, hence $150m stands as the biggest single jackpot win in Australian history.

Jackpots of such a magnitude bring in the punters. The bigger the jackpot, the greater numbers of players. Don't tell them this increases the already near-impossible odds. Some first-time players stay on as customers, some scoff at mere $4m pocket-change jackpots that follow big wins and only play the big numbers. Either way, Jumbo does very well out of big jackpots, which, of course, only grow big when nobody wins.

Jackpot games are a big driver for Jumbo in terms of sales and new customer acquisition, Morgan Stanley (Overweight) noted late last month. Year to date total implied jackpot game sales saw 22% growth for the first 50 weeks of FY24. Assuming this accounts for two-thirds of the company's portfolio and the remaining sales see low single-digit growth, that implies mid-teens growth in volumes, Morgan Stanley estimates.

In addition, Jumbo increased pricing on Powerball by around 20c per game, and the broker expected online migration and Jumbo's market share's positive correlation with jackpots to be further tailwinds. After ten months, total transaction value (TTV) was up 22% year on year. Consensus had, at the time, FY24 growth of 19.5% and FY25 growth of 24.3% up on FY23.

Morgan Stanley believes it's possible Jumbo gets close to FY25 consensus volumes in FY24, making the path to FY25 estimates much more achievable.

"We see few stocks offering more conviction into reporting season than Jumbo Interactive's implied ticket sales," said Morgan Stanley last month, referring to the upcoming August reporting season.

"However cycling favourable FY24 draws in FY25 is clearly a concern. We feel the hurdles are manageable, with tailwinds from a larger customer base, product extension and further online migration".

The Risks

Was the March quarter just a one-off jackpot blip? Surely forecasting jackpots is about as accurate as forecasting the winning numbers themselves? Morgans (Add) nevertheless gave it a shot at the end of May, lifting its large jackpot forecast for both Lottery Corp ((TLC)), with which Jumbo has a licencing agreement, and Jumbo Interactive, to 60 from 48 in FY24.

In mid-June, Macquarie (Neutral) suggested consensus earnings upgrades were expected given recent Australian lotteries jackpot activity. Forecasting both Powerball and Oz Lotto jackpots through June, this broker anticipated volume growth at around 15% in FY24 (up from 10%),which implies 40% second half growth. Macquarie expected this growth will support digital penetration.

Analysts have little choice but to forecast jackpots. The market can choose, nonetheless, and the market pushed Jumbo shares up around 35% from the beginning of 2024 to late February. But there the price stalled, and the shares have since drifted back some -9%.

Cycling strong FY24 jackpots is clearly a risk, but Morgan Stanley's view is much of the heavy lifting to get to FY25 expectations will be done in FY24 and starting FY25 with more than 20% more customers is a significant tailwind.

But Jumbo Interactive isn't simply a local lottery reseller. The company operates through three segments, being Lottery Retailing, Software-as-a-Service, and Managed Services, and is involved in the retail of digital lottery tickets through Oz Lotteries, licenses *Powered by Jumbo*, a digital lottery platform solution to government and charity lottery operators, as well as lottery management services, including prize procurement, lottery game design, campaign marketing, and customer relationship, plus draw management services to charities. It also provides turnkey digital lottery solutions.

Jumbo has grown through M&A, and in terms of proving the value-add of managed services M&A, the market is clearly focused showing a return on invested capital ROIC uplift, Morgan Stanley warns.

Then there's the upcoming (2030) licence renegotiation with The Lottery Corp. Fears of another reduction in net commission in 2030 are already being debated, Morgan Stanley notes. Jumbo offers very cheap customer acquisition and support at a -62% commission discount to other retailers for The Lottery Corp's most valuable customers - digital customers.

The Naysayer

The task for Jumbo Interactive to cycle a record FY24 looks challenging given the strong jackpot runs, Citi believes. This broker estimates Jumbo generates 9-11x more ticket sales on jackpots in excess of $100m, which will account for around 48% of TTV in FY24.

Citi is positive on The Lottery Corp's ability to skip steps in the sequence to create more large jackpots, but views it as more likely to mitigate potential falls in TTV rather than drive growth, and sees consensus FY25 forecasts as too "auspicious".

To that end, Citi sees the long-term growth opportunity for Jumbo in the Charity and Lottery (Lotterywest in WA and iLottery in North America) markets, and views near-term growth as more challenging.

Jumbo manages lottery services for charities and for governments. Last year Jumbo extended its lottery agreement with Western Australia's state-owned Lotterywest for four years, effective from November.

Charities in international markets move at glacial speed, Citi notes, and a Lotterywest request for proposal regarding its digital operations is more of a FY27 story. While the broker sees upside to Jumbo's FY24 result given the strong jackpot run in the second half FY24, which could result in positive momentum, Citi views consensus as too optimistic on earnings in FY25 and sits -6% below.

Citi has initiated coverage of Jumbo Interactive with a Sell rating and a $15.50 target price.

Citi joins Ord Minnett with a negative rating (Lighten), with the latter last reporting in early May. Ord Minnett has a $13.10 target, although strictly this is a "fair value" calculation.

Morgan Stanely leads with a $20.80 target, followed by Morgans on $19.20, then Macquarie on $17.45.

Jarden is the most recent of the brokers not monitored daily by FNArena to report on Jumbo (mid-May), and a has a $15.90 target with a Neutral rating.

SMALL CAPS

Can Gentrack Live Up To Its Shareprice?

Gentrack is emerging as a potential key player in the cloud native, SaaS based utility meters sector, where utilities are under invested and thus requiring a major upgrade cycle, in the transition to sustainability and net zero emissions.

-Gentrack's investment thesis carried by a positive narrative
-Utilities globally looking beyond the more traditional ERP software
-Where the brokers differ
-Overseas expansion in the distance
-How stretched is the valuation?

By Danielle Ecuyer

The new cloud-based SaaS provider on the block

Gentrack Group ((GTK)) recently joined the ASX All Technology Index after listing on the ASX and the NZX ten years ago. The shares have risen by some 235%, from $4 at the start of 2024 to around $9.80, pushing market capitalisation to just over $1bn.

Top shareholders include Milford Asset Management, Australian Ethical Investment, Regal Funds and Wilson Asset Management in order of magnitude from largest down.

Bell Potter recently initiated coverage and described Gentrack as *"an enterprise billing and Customer Relationship Management developer and integrator."*

The company serves energy/water utilities and airport/adjacent industries, with utilities representing 85% of total revenues.

The Gentrack investment case

Bell Potter outlines what seems like a straightforward investment case for Gentrack, underpinned by an overdue utility metre upgrade cycle and the IT infrastructure transition in the utility industry. Think smart meters for distributed energy sources such as solar, wind and battery storage, explains the analyst.

The changes also come at a time when utilities are potentially looking beyond the more traditional enterprise resource planning (ERP) software offering from the legacy providers SAP and Oracle, which retain the lion's share of meter points, according to the latest update from **Shaw and Partners**.

What comes across as quite a fragmented and competitive market under Shaw and Partners' analysis, including Kraken (20% owned by Origin Energy ((ORG)) via Octopus); Hansen Technologies ((HSN)) and Kaluza (20% owned by AGL Energy ((AGL)), provides potential growth opportunities.

The strategic growth market for Gentrack centres around the company's belief that 76% of global utilities currently use the incumbent, legacy software of more general enterprise resource planning (ERP) software solutions, leaving a gap in the market for smarter industry-specific solutions.

Enter Gentrack and its updated legacy billing/customer relationship manager platforms of Junifer and Velocity to g2.0, by incorporating Salesforce CRM which allows for the billing platform to be a cloud native and able to create data analytics. Ultimately, Gentrack offers a smarter cloud based SaaS service with increased capabilities around complex data sets for smart meters and more diversified energy and water grids.

Bearing in mind management has targeted 15% p.a. revenue growth over the medium term, Shaw and Partners shock and surprise wasn't contained on learning this goal could be achieved via the successful roll out of the new g2.0 service across the existing customer base with the addition of 10m new meters.

To provide some context, the analyst estimates there are circa 1.7bn meter points globally across the Top 18 billing vendors (SAP/Oracle etc) and Gentrack needs to achieve some 3-4% of the expected churn to grow its meter base to the 10m target.

In the analyst's view, this relatively low hurdle mitigates the perceived risks of growing revenue 15% p.a. off an ever-higher base.

<u>1H24 earnings bring Gentrack back to reality</u>

Sounds like a good story, well, not so fast according to **Jarden's** recent report on the 1H24 earnings results.

The analyst states the *"weight of expectations already priced into the stock which, given both the competitive nature of the market and the lumpy nature of new wins, elevates the risk."*

As usual the devil is in the detail, with Jarden cautious on management's ability to grow non-recurring revenue (NRR) due to competitive pressures for new business on which the forecasts rely.

Jarden calculates the share price (NZ$9.44 at the time of writing) was discounting a 10-year compound average revenue growth of 16% p.a. and an EBITDA margin of 27.5% which the analyst doesn't believe is achievable. More on margins soon.

Taking a step back, Jarden does highlight Gentrack reported another strong 1H24 revenue result and an upgrade to FY24 guidance by 18% to around NZ$200m, from at least NZ$175m in previous guidance.

1H24 revenue rose 58% year-on-year to NZ$102m and 2H24 revenue guidance implies a flat result which Jarden explains is due to the variability of the project work, i.e., non-recurring revenue from new business wins.

Picking apart the details of the 1H24 report, the broker highlights similar growth across Utilities and Veovo (airports) generated by new customer wins and upgrades/upsells for the installed base.,

Jarden hasn't split out new non-recurring revenue (NRR) versus average recurring revenue (ARR) for existing customers, but forecasts an NZ$5m increase in annual recurring revenues (ARR) for the 2H24.

Shaw and Partners explains NRR generated NZ$28.9m in sales in the 1H24, with an estimated NZ$22m-NZ$23m in the 2H24 and ARR is forecast to generate NZ$62m-NZ$62.5m in the 2H24.

By FY29, Shaw and Partners expects ARR from utilities will expand to 74% of total revenue and 84% over the longer term.

Looking ahead, Bell Potter forecasts ARR as a percentage of total revenue at 65% and growing at 18%p.a. over a three-year period. This analyst anticipates NRR from new customer acquisition precedes the recurring SaaS revenues and quotes the percentage divergence in ARR historically between 50%-80% of total revenue.

Margins, the big debate

With the company turning to investment opportunities, Jarden envisages the company will manage EBITDA margins at the lower end of the 15% to 20% range in the near term.

Jarden views the 15% revenue growth target will require growth in the existing customer base and new opportunities in Australia. The international markets are not expected to contribute until at least FY25.

Shaw and Partners builds the bull base for Gentrack based on the ability for the company to grow its utility business revenues by 15% p.a. and airports at 9% p.a.

In calculating the forecasts, Shaw and Partners assume g2.0 can add around NZ$50m of recurring revenue and NZ$160m of non-recurring revenue through to FY29 with around an estimated 30m meter points.

The recurring revenue expectations are derived from other software vendor cloud migrations such as TechnologyOne ((TNE)), Objective Corp ((OCL)) and ReadyTech Holdings ((RDY)).

Genesis Energy (NZ) is the first customer to migrate to g2.0. The project is on schedule and will continue to FY26.

Shaw and Partners expect this successful transition could act as a catalyst for Gentrack's outstanding 60 utility customers to also migrate.

But a re-rating of the stock depends in large part on Gentrack's ability to increase its EBITDA margins to the upper end of the guidance range (15%-20%).

Shaw and Partners consider this range suffices for a faster growing company, but as it matures the expectation is for higher EBITDA margins due to operating leverage as ARR scales and the revenue mix improves.

Shaw and Partners has a robust EBITDA terminal margin forecast of 30%.

Bell Potter observes capitalising R&D expenditure would increase EBITDA margins to 24% for the broker's FY24 forecast against 13%, including R&D as an expense.

Longer term, Gentrack expects with an improving SaaS based recurring revenue profile and a stable cost base, margins can expand to 30%, including the expensing of R&D.

Overseas expansion

As part of Gentrack's growth strategy, international expansion will continue to be part of the mix.

Management is looking to five South East Asian markets, but has tempered expectations to no significant updates until FY25 at the earliest.

Bell Potter points to the recently opened Singapore office and a UK base, as well as the Riyadh office to expand into Saudi Arabia.

Jarden believes a win in any of these markets would be a significant confidence boost for investors.

Shaw and Partners also emphasises the increased customer stability post new management. This analyst showcases the renewal of Pulse Energy in 2022; Mercury adopting its platform as part of its Trustpower acquisition; Genesis becoming the first customer to transition to g2.0 after going to market, and UK customers boosting spending by 85% for Managed Services.

In Australia, utility revenue has compounded at 20% p.a. over the last four years and is expected to be a growth driver for the company, including a recent -NZ$12m investment in Amber, the smart electricity retailer.

Targets and valuations

Jarden remains cautious on the company with the lowest target price of NZ$7 at the time of the 1H24 results release in late May.

Shaw and Partners' target price stands at $10 with a Buy, High Risk rating.

This broker calculates the stock is trading at a FY25 EV/cash EBITDA multiple of 22x which compares to TechnologyOne at 45x, with cash profits growing at 21%; ReadyTech on 22x, growing at 33%, and Hansen Technologies at 14x growing at 1%.

Bell Potter initiated coverage with a Buy rating and $10.90 target price referring to the Bloomberg consensus EV/EBITDA valuation at 42x FY24 estimates and 29x FY25. This is above the long-term average at 25x.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 05-07-24

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday July 1 to Friday July 5, 2024
Total Upgrades: 12
Total Downgrades: 10
Net Ratings Breakdown: Buy 58.43%; Hold 32.86%; Sell 8.71%

For the week ending Friday July 5, 2024, FNArena recorded twelve ratings upgrades and ten downgrades for ASX-listed companies by brokers monitored daily.

Four of the upgrades and five of the downgrades were a direct result of a report issued by UBS largely reducing forecasts across its research coverage of the Australian REIT sector, placing the broker's forecasts below consensus in most cases.

UBS analysts argue the sector is now less likely to find support from RBA rate cuts as many A-REITs are growth challenged and funds management benefits are harder to achieve. It's felt valuations for the winners in the sector are currently "stretched".

Developers are faced with tougher conditions, explained the broker, with asset sales on the menu (and a must for some), while performance fees for fund managers will be much harder to achieve.

UBS ratings for both Mirvac Group and Lendlease Group were upgraded. Citi chimed in with upgrades for both companies on valuation grounds, following market sensitive announcements last week.

Mirvac downgraded its FY24 residential settlement target by -4% (but still retained FY24 EPS guidance) and announced the sale of a 66% stake in the 55 Pitt Street Sydney office development to Japanese company Mitsui Fudosan.

Citi felt Lendlease had progressed well on its asset divestment strategy, post the sale announcement of the US Military Housing business at a substantial premium to book value.

Lendlease shares are discounting a lot of bad news at current levels, according to this broker.

A-REITs favoured by UBS are Mirvac, Dexus and Region Group, while Scentre Group, Goodman Group and Centuria Capital are now least preferred (valuations are seen as too elevated).

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

Liontown Resources received the largest reduction in average earnings forecast from brokers after Macquarie incorporated the company's US$250m convertible note issue to LG Energy Solutions into forecasts. This change resulted in higher interest repayments, and EPS reductions of between -4-9% across the broker's FY25-29 forecast period.

The note issue removes a funding gap for Liontown and enables LG to gain a subsequent stake of up to 8% in Liontown equity.

Citi upgraded its rating for Liontown to Neutral from Sell after share price underperformance against peers of around -10% so far in 2024.

This broker now applies a 10% risk weighting (down from 20%) to valuation for Liontown given the new funding, which offsets around -9% net asset value (NAV) dilution from the note issue.

Average earnings forecasts for Nickel Industries also fell last week after management guided to second quarter earnings of between US$75-85m, significantly below Morgan Stanley's US$133m forecast.

Lower guidance was due to higher-than-average rain at the Hengjaya mine in Indonesia, which has impacted the delivery of ore to the Morowali Industrial Park.

Separately, Macquarie is expecting share price support for Nickel Industries given a US$100m share buyback has been approved and retained an Outperform rating.

The buyback is now feasible, explained Morgan Stanley, driven by FIRB approval for United Tractors to increase its equity interest in Nickel Mines beyond 20%.

While Megaport's average earnings forecast fell by over -13% last week, Ord Minnett's new research arrangement was the sole cause.

For many stocks under coverage the broker is transitioning to in-house analysis from whitelabeling Morningstar's research.

This change also impacted AMP which appears just below Megaport on the earnings downgrade table this week.

More generally for insurers, Ord Minnettt noted how rising bond yields in the June quarter tempered expectations for interest rate cuts and helped reduce the impact of weaker equity markets.

The analyst also highlights diversified financials experienced slight earnings downgrades over the quarter due to underperforming equity markets.

On the flipside, Cobram Estate Olives received the greatest lift in average earnings forecasts from brokers, but the percentage change was exaggerated by the relatively small numbers involved.

Following management's 2024 trading and harvest update, Shaw and Partners highlighted the harvest was in line with Cobram's expectations but below the analyst's forecasts. However, the broker upgraded FY24 and FY25 EBITDA forecasts due to higher-than-expected output pricing amid a global shortage of olive oil.

On the other hand, Bell Potter observed domestic competitors are finally catching up with price increases, EU extra virgin olive oil pricing indicators appear to have peaked, and EU crop volumes have improved.

The average broker target price for Insurance Australia Group rose the most in the FNArena Database last week following a trading update and restructure of reinsurance arrangements. The latter is likely to improve investor perceptions of earnings quality, UBS suggested.

Management raised FY24 guidance to the "upper end" of the earnings ranges, which conforms with the margin momentum UBS is seeing across the industry.

Morgan Stanley increased its target for Insurance Australia Group to $6.60 from $5.45 as stronger, multi-year CAT cover, alongside a new reserving cover, reduces the group's cost of capital.

The average Origin Energy target price also rose by over 7% last week.

Ord Minnett updated for actual commodity prices in the June quarter, as well as slightly increasing LNG volumes for the period, and raised earnings forecasts for part-owned UK energy retailer Octopus Energy in FY25 and beyond.

Back home, should evening peak price spreads expand to more than $500/MWh over time from over $300/MWh year-to-date, UBS forecasts circa $2.4bn (or $1.40/share) of valuation upside for Origin.

Total Buy ratings in the database comprise 58.38 % of the total, versus 33.02% on Neutral/Hold, while Sell ratings account for the remaining 8.60%.

Upgrade

AMPOL LIMITED ((ALD)) Buy by Ord Minnett .B/H/S: 2/2/0

In the ongoing transition from whitelabelling Morningstar to in-house research, and after updating for a reduction in refining volumes and a slight decrease in refining margins, Ord Minnett sets a $36.50 target and Buy rating for Ampol.

The broker lowers forecast refining margins for 2024 to US$11.8 per barrel from US$12.1 per barrel. More modest Fuel & Ingredients (F&I) International trading activity is also anticipated, which typically yields low margins, explains the analyst.

CSL LIMITED ((CSL)) Upgrade to Buy from Neutral by Citi .B/H/S: 6/0/0

Citi upgrades CSL to Buy from Neutral on the basis of less headline risks going into the 2H of 2024. This follows the CSL112 trial failure, a downgrade of Vifor expectations, and approval of Vyvgart in Chronic Inflammatory Demyelinating Polyneuropath (CIDP) for argenx.

The broker anticipates double digit EPS growth and a 14% NPATA compound annual growth rate (CAGR) between FY23 and FY27, in-line with the consensus forecast.

The target rises to $335 from $305.

DETERRA ROYALTIES LIMITED ((DRR)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/3/0

UBS is of the view the announced acquisition of Trident and subsequent negative impact on available dividends for shareholders is distracting investors' attention from the underlying quality of Deterra Royalties' assets.

Therefore the share price weakness following the Trident announcement is seen as offering an attractive entry point into a business that remains "fundamentally sound".

Upgrade to Buy from Neutral. Target price $4.90.

EBOS GROUP LIMITED ((EBO)) Upgrade to Neutral from Sell by Citi .B/H/S: 3/2/0

Citi upgrades its rating for Ebos Group to Neutral from Sell on valuation after a share price decline.

The key near-term risk remains the unwind of the Chemist Warehouse contract, suggests the broker, and its impact on top-line growth and margin.

The target falls to $31.50 from $33 as the analysts cut the company's mid-term growth rate to 4% from 5% and roll-forward the financial model.

G8 EDUCATION LIMITED ((GEM)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/1/0

Macquarie anticipates G8 Education will experience better occupancy rates, although the rate of improvement may slow in the 2H24.

Lower than expected wage increases and the sale of 17 underperforming centres is expected to boost the company's margins on the analyst's forecasts.

The broker anticipates any further wage increases post the May Budget will be subsidised and support increased female work participation.

Adjusting for the updates, Macquarie lifts EPS forecasts by 0.5% for FY24 and 0.6% for FY25.

The target price is increased to $1.35 from $1.26 and the rating upgraded to Outperform from Neutral.

LENDLEASE GROUP ((LLC)) Upgrade to Neutral from Sell by UBS and Upgrade to Buy from Neutral by Citi .B/H/S: 2/2/0

Through a broad sector update on A-REITs, UBS analysts argue the sector is now less likely to find support from RBA rate cuts (as many REITs are growth challenged and funds management benefits are harder to achieve) and valuations for the winners in the sector are seen as "stretched" in the here and now.

Developers are faced with tougher conditions, with asset sales on the menu (and a must for some). Performance fees for fund managers will be much harder to achieve.

UBS has reduced forecasts across the board, placing the broker's numbers below consensus in most cases.

As one of few upgrades only, the broker's rating for Lendlease Group has shifted to Neutral from Sell. The price target has adjusted to $5.79 from $5.56.

Lendlease Group has progressed well on its asset divestment strategy, post the sale announcement of the US Military Housing business, and at a substantial premium to book value or US$320m, Citi highlights.

The sale is expected to deliver $105-$120m in operating profit after tax in FY25.

Management guided FY24 earnings lower again to $260m-$275m from $305m, notes Citi, with $275m-$335m transactions contracted/announced for FY25 profit after tax, compared to consensus estimates of $418m.

Citi believe Lendlease Group shares are discounting a lot of bad news at current levels and views the asset sales to date as encouraging.

The rating is upgraded to Buy from Neutral with a $6.30 target price.

LIONTOWN RESOURCES LIMITED ((LTR)) Upgrade to Neutral from Sell by Citi .B/H/S: 2/4/0

LG Energy Solutions will invest US$250m into Liontown Resources via convertible notes in exchange for offtake.

Management has foregone commercial debt in favour of greater flexibility and less restrictive debt covenants, explains Citi.

If exercised as equity today, the broker notes LG Energy Solutions would hold 8% of Liontown Resources shares, subject to FIRB approval.

Citi upgrades its rating for Liontown Resources to Neutral from Sell given share price underperformance versus peers of around -10% year-to-date. The $1.00 target is unchanged.

MIRVAC GROUP ((MGR)) Upgrade to Buy from Neutral by UBS and Upgrade to Buy from Neutral by Citi .B/H/S: 4/1/0

Through a broad sector update on A-REITs, UBS analysts argue the sector is now less likely to find support from RBA rate cuts (as many REITs are growth challenged and funds management benefits are harder to achieve) and valuations for the winners in the sector are seen as "stretched" in the here and now.

Developers are faced with tougher conditions, with asset sales on the menu (and a must for some). Performance fees for fund managers will be much harder to achieve.

UBS has reduced forecasts across the board, placing the broker's numbers below consensus in most cases.

The broker's rating for Mirvac Group has been upgraded to Buy from Neutral. The price target has adjusted to $2.19 from $2.23.

Citi views the sale of the 66% Mirvac Group stake in 55 Pitt Street as a positive development for the group. Assuming a $1.3bn sale price, the value of the office development comes in at around $2bn.

The broker highlights the unchanged end value of the project, suggests the sale price is in line with what was originally expected by Mirvac Group

Management also reported a reduction in the FY24 residential settlement target by -4% to 2400 lots, the broker notes.

The group's earnings guidance for FY24 was retained at between 14-14.3c.

Citi upgrades the stock to Buy from Neutral. Its forecasts are in line with FY24 and FY25 consensus estimates, although there are downside risks to book values for office landlords in the 2H24, Citi acknowledges.

STRIKE ENERGY LIMITED ((STX)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 1/2/0

Macquarie points to the -20% retracement in Strike Energy shares this week, which drives an upgrade in the rating.

The analyst believes the market has adjusted to a more accurate reflection of the growth opportunities for Strike Energy including the potential South Erregulla gas peaking plant.

While exploration outcomes could drive upside to the share price, Macquarie emphasises the potential delays in the final investment decision for West Erregulla as a potential downside risk.

The stock is upgraded to Neutral from Underweight with the 22c target price unchanged.

No changes in the analyst's earnings forecasts.

See also STX downgrade.

VICINITY CENTRES ((VCX)) Upgrade to Neutral from Sell by UBS .B/H/S: 1/3/1

Through a broad sector update on A-REITs, UBS analysts argue the sector is now less likely to find support from RBA rate cuts (as many REITs are growth challenged and funds management benefits are harder to achieve) and valuations for the winners in the sector are seen as "stretched" in the here and now.

Developers are faced with tougher conditions, with asset sales on the menu (and a must for some). Performance fees for fund managers will be much harder to achieve.

UBS has reduced forecasts across the board, placing the broker's numbers below consensus in most cases.

The broker's rating for Vicinity Centres has been upgraded to Neutral from Sell. The price target remains unchanged at $1.86.

Downgrade

AGL ENERGY LIMITED ((AGL)) Downgrade to Neutral from Buy by UBS .B/H/S: 1/3/0

The UBS target for AGL Energy falls to $10.85 from $11.25 after extending the terminal year forecast to FY36, despite raising forecasts for long-term wholesale electricity prices.

The broker reminds investors AGL remains favourably exposed to rising electricity demand from data centres and AI, which may add pressure to evening peak prices.

Because management is embarking upon a highly complex retail transformation to the electricity supply and billing platform Kaluza from SAP, UBS lowers its rating for AGL Energy to Neutral from Buy.

The analyst sees downside risks arising from unplanned generation outages and the risk of higher retail costs/weaker retail performance over FY25-28.

ANSELL LIMITED ((ANN)) Hold by Ord Minnett .B/H/S: 1/4/0

Ord Minnett sets a $24.30 target and Hold rating for Ansell after transitioning from whitelabeling Morningstar research.

The broker highlights a significant shift in strategic direction from the acquisition of Kimberly-Clark's Personal Protective Equipment business (effective on July 1). The related institutional placement and share purchase plan are also factored into forecasts.

The transaction enhances Ansell's presence in the Scientific verticals, explains Ord Minnett.

The company's product portfolio will now be balanced across Scientific/Industrial segments and geographic presence, as the new business is skewed towards North America, explains the analyst.

ARENA REIT ((ARF)) Downgrade to Neutral from Buy by UBS .B/H/S: 1/2/0

Through a broad sector update on A-REITs, UBS analysts argue the sector is now less likely to find support from RBA rate cuts (as many REITs are growth challenged and funds management benefits are harder to achieve) and valuations for the winners in the sector are seen as "stretched" in the here and now.

Developers are faced with tougher conditions, with asset sales on the menu (and a must for some). Performance fees for fund managers will be much harder to achieve.

UBS has reduced forecasts across the board, placing the broker's numbers below consensus in most cases.

The broker's rating for Arena REIT has been downgraded to Neutral from Buy. The price target has adjusted to $3.94 from $3.97.

BENDIGO & ADELAIDE BANK LIMITED ((BEN)) Lighten by Ord Minnett .B/H/S: 1/0/3

Bendigo & Adelaide Bank announced what Ord Minnett describes as the "surprise" resignation of Marnie Baker post a 35-year career at the bank, highlighted by her investment in technology and a digital transformation.

Richard Fennell will become CEO and MD, formerly having held the CFO and head of Consumer Banking roles with the broker expecting a smooth transition with limited strategic or financial impacts.

Ord Minnett points to the lingering problem for small regional banks like Bendigo & Adelaide Bank to boost return on equity in the face of heavy competition from the four major banks.

The stock has rallied since 16% since May 1 and is rated Lighten with a $10 target price.

BWP TRUST ((BWP)) Downgrade to Neutral from Buy by UBS .B/H/S: 0/2/2

Through a broad sector update on A-REITs, UBS analysts argue the sector is now less likely to find support from RBA rate cuts (as many REITs are growth challenged and funds management benefits are harder to achieve) and valuations for the winners in the sector are seen as "stretched" in the here and now.

Developers are faced with tougher conditions, with asset sales on the menu (and a must for some). Performance fees for fund managers will be much harder to achieve.

UBS has reduced forecasts across the board, placing the broker's numbers below consensus in most cases.

The broker's rating for BWP Trust has been downgraded to Neutral from Buy. The price target has adjusted to $3.79 from $3.80.

CENTURIA CAPITAL GROUP ((CNI)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/2/1

Through a broad sector update on A-REITs, UBS analysts argue the sector is now less likely to find support from RBA rate cuts (as many REITs are growth challenged and funds management benefits are harder to achieve) and valuations for the winners in the sector are seen as "stretched" in the here and now.

Developers are faced with tougher conditions, with asset sales on the menu (and a must for some). Performance fees for fund managers will be much harder to achieve.

UBS has reduced forecasts across the board, placing the broker's numbers below consensus in most cases.

Believing investors are pricing in too much growth in the short term, UBS has downgraded Centuria Capital to Sell from Neutral. Price target is now $1.51, down from $1.53 previously.

GOODMAN GROUP ((GMG)) Downgrade to Sell from Neutral by UBS .B/H/S: 3/1/1

Through a broad sector update on A-REITs, UBS analysts argue the sector is now less likely to find support from RBA rate cuts (as many REITs are growth challenged and funds management benefits are harder to achieve) and valuations for the winners in the sector, such as Goodman Group, are seen as "stretched" in the here and now.

Developers are faced with tougher conditions, with asset sales on the menu (and a must for some). Performance fees for fund managers will be much harder to achieve.

UBS has reduced forecasts across the board, placing the broker's numbers below consensus in most cases.

Believing investors are pricing in too much growth in the short term, UBS has downgraded Goodman Group to Sell from Neutral. Price target lifts to $31.71 from $29.25.

MONADELPHOUS GROUP LIMITED ((MND)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 2/4/0

Bell Potter has tempered the outlook for the Monadelphous Group's engineering construction activity, post a thorough review of anecdotal reports and major Resource and Energy project awards.

The broker now forecasts EBITDA margins in FY25-FY27 to come under pressure as the $750m-plus of contracts awarded in FY24 will roll-off in the 2H25, with only a partial replacement in new contracts now anticipated.

Earnings forecasts are tweaked for FY24 and FY25 with more substantial downgrades the analyst expects in the outlying years at this stage.

The stock is downgraded to Hold from Buy with the target reduced to $14 from $15.40.

SCENTRE GROUP ((SCG)) Downgrade to Sell from Neutral by UBS .B/H/S: 3/1/1

Through a broad sector update on A-REITs, UBS analysts argue the sector is now less likely to find support from RBA rate cuts (as many REITs are growth challenged and funds management benefits are harder to achieve) and valuations for the winners in the sector are seen as "stretched" in the here and now.

Developers are faced with tougher conditions, with asset sales on the menu (and a must for some). Performance fees for fund managers will be much harder to achieve.

UBS has reduced forecasts across the board, placing the broker's numbers below consensus in most cases.

Believing investors are pricing in too much growth in the short term, UBS has downgraded Scentre Group to Sell from Neutral. Price target is now $2.96, down from $2.98 previously.

STRIKE ENERGY LIMITED ((STX)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 1/2/0

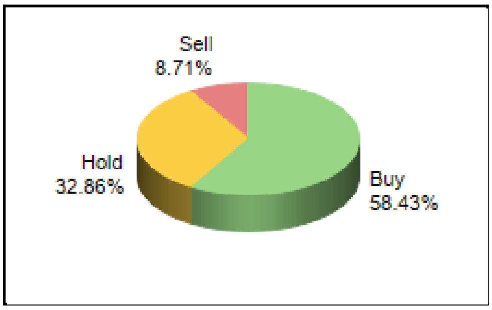
Macquarie downgrades its rating for Strike Energy to Underperform from Neutral due to excessive market optimism around the timeline and value of the South Erregulla peaking gas power plant project.

The broker risks the project at 50% and assigns a risked value of 1cps net of capex, yet the Strike Energy share price climbed by around 4.5% last week since the announcement of the power plant.

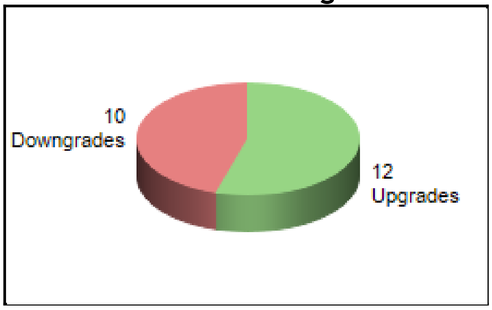
The Neutral rating and 22c target are retained.

See also STX upgrade.

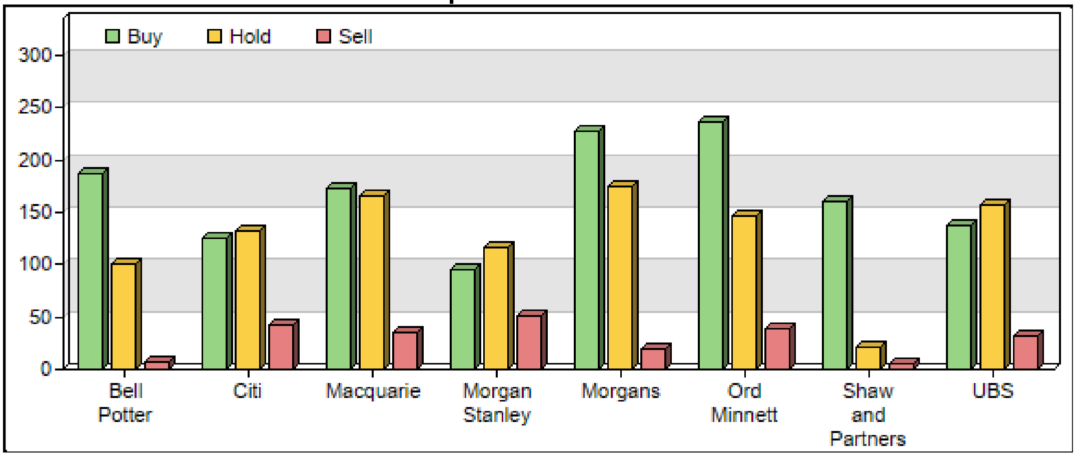
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	AMPOL LIMITED	Buy	Neutral	Ord Minnett
2	CSL LIMITED	Buy	Neutral	Citi
3	DETERRA ROYALTIES LIMITED	Buy	Neutral	UBS
4	EBOS GROUP LIMITED	Neutral	Sell	Citi
5	G8 EDUCATION LIMITED	Buy	Neutral	Macquarie
6	LENDLEASE GROUP	Buy	Neutral	Citi
7	LENDLEASE GROUP	Neutral	Neutral	UBS
8	LIONTOWN RESOURCES LIMITED	Neutral	Sell	Citi
9	MIRVAC GROUP	Buy	Neutral	Citi
10	MIRVAC GROUP	Buy	Neutral	UBS
11	STRIKE ENERGY LIMITED	Neutral	Sell	Macquarie
12	VICINITY CENTRES	Neutral	Sell	UBS
Downgrade				
13	AGL ENERGY LIMITED	Neutral	Buy	UBS
14	ANSELL LIMITED	Neutral	Buy	Ord Minnett
15	ARENA REIT	Neutral	Buy	UBS
16	BENDIGO & ADELAIDE BANK LIMITED	Sell	Neutral	Ord Minnett
17	BWP TRUST	Neutral	Buy	UBS
18	CENTURIA CAPITAL GROUP	Sell	Neutral	UBS
19	GOODMAN GROUP	Sell	Neutral	UBS
20	MONADELPHOUS GROUP LIMITED	Neutral	Buy	Bell Potter
21	SCENTRE GROUP	Sell	Neutral	UBS
22	STRIKE ENERGY LIMITED	Sell	Neutral	Macquarie

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	IAG	INSURANCE AUSTRALIA GROUP LIMITED	7.075	6.212	13.89%	6
2	ORG	ORIGIN ENERGY LIMITED	11.184	10.414	7.39%	5
3	CBO	COBRAM ESTATE OLIVES LIMITED	1.990	1.903	4.57%	3
4	JHX	JAMES HARDIE INDUSTRIES PLC	57.600	55.280	4.20%	5
5	SUN	SUNCORP GROUP LIMITED	17.433	16.775	3.92%	6
6	HUB	HUB24 LIMITED	43.379	41.742	3.92%	7
7	SRG	SRG GLOBAL LIMITED	1.187	1.153	2.95%	3
8	PME	PRO MEDICUS LIMITED	108.500	105.500	2.84%	5
9	MPL	MEDIBANK PRIVATE LIMITED	3.918	3.810	2.83%	6
10	CPU	COMPUTERSHARE LIMITED	29.917	29.142	2.66%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	44.083	47.083	-6.37%	6
2	BOE	BOSS ENERGY LIMITED	5.163	5.438	-5.06%	4
3	DGL	DGL GROUP LIMITED	0.683	0.717	-4.74%	3
4	LLC	LENDLEASE GROUP	6.160	6.463	-4.69%	4
5	BPT	BEACH ENERGY LIMITED	1.706	1.784	-4.37%	7
6	ASX	ASX LIMITED	58.758	61.342	-4.21%	6
7	JIN	JUMBO INTERACTIVE LIMITED	17.110	17.638	-2.99%	5
8	CLW	CHARTER HALL LONG WALE REIT	3.672	3.784	-2.96%	5
9	COF	CENTURIA OFFICE REIT	1.373	1.413	-2.83%	4
10	ALX	ATLAS ARTERIA	5.538	5.656	-2.09%	5

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CBO	COBRAM ESTATE OLIVES LIMITED	4.567	3.200	42.72%	3
2	LIC	LIFESTYLE COMMUNITIES LIMITED	53.350	51.233	4.13%	3
3	BBN	BABY BUNTING GROUP LIMITED	2.660	2.560	3.91%	5
4	APA	APA GROUP	21.080	20.350	3.59%	5
5	BOE	BOSS ENERGY LIMITED	10.075	9.800	2.81%	4
6	ORG	ORIGIN ENERGY LIMITED	75.860	74.060	2.43%	5
7	IAG	INSURANCE AUSTRALIA GROUP LIMITED	36.380	35.600	2.19%	6
8	RWC	RELIANCE WORLDWIDE CORP. LIMITED	27.602	27.175	1.57%	6
9	IGO	IGO LIMITED	67.625	66.750	1.31%	6
10	EBO	EBOS GROUP LIMITED	153.320	151.350	1.30%	5

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	LTR	LIONTOWN RESOURCES LIMITED	-2.275	-0.575	-295.65%	6
2	NIC	NICKEL INDUSTRIES LIMITED	7.044	8.478	-16.91%	5
3	LLC	LENDLEASE GROUP	44.500	53.375	-16.63%	4
4	MP1	MEGAPORT LIMITED	8.150	9.380	-13.11%	6
5	AMP	AMP LIMITED	6.433	7.100	-9.39%	5
6	ALX	ATLAS ARTERIA	31.450	34.175	-7.97%	5
7	CGF	CHALLENGER LIMITED	43.225	46.320	-6.68%	6
8	ALD	AMPOL LIMITED	277.700	293.700	-5.45%	4
9	NHF	NIB HOLDINGS LIMITED	44.400	46.850	-5.23%	6
10	PLS	PILBARA MINERALS LIMITED	11.440	12.040	-4.98%	7

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: Boss Energy & Paladin In Focus

The U308 market took a breather due to the midweek July 4th Independence Day holiday, and Australian brokers analysed production updates from Boss Energy and Paladin Energy.

-U308 spot unchanged on the week
-Nigeria changes the rules
-Broker updates on Aussie uranium producers

By Danielle Ecuyer

The US Independence Day holiday on July 4th underpinned a quiet week in uranium markets.

Industry expert TradeTech highlighted participants remain involved with the waiver application process to the Department of Energy, due to the upcoming Russian uranium import ban on August 11.

Russian supplier Tenex's July 15 cut-off date for orders is also looming, complicated by those seeking exemptions from the Department of Energy.

The U3O8 spot price remained unchanged on the week at US$85/lb. The Mid-Term U3O8 price stood at US$93/lb and the Long-term price is US$80/lb.

Politics never too far away

Checking in on industry news, TradeTech states GoviEx Uranium received correspondence from the Nigerian Minister of Mines, announcing it had lost the rights over the perimeter of the Madaouela mining permit as it is being returned to the public markets.

GoviEx Uranium which has finished a 650,000m drilling operation announced, "it reserves the right to challenge the decision".

Production updates in Australia

Boss Energy ((BOE)) was in the limelight, reporting production of 57lbs of U3O8 from Honeymoon up to June 30.

Bell Potter believes the ramp up is on track but slightly slower than management expected and what it had forecast.

Boss Energy has retained production guidance of 850lbs from Honeymoon for the first full year and Bell Potter points to the first U3O8 shipment in July.

Adjusting for the slightly lower FY25 production estimate, the broker has reduced its forecast to 0.85mlbs from 1.16mlbs, including 1mlbs from Honeymoon and Alta Mesa.

The rise in production costs to $42.7/lb from $35.04/lb was highlighted.

Including a mark-to-market in the uranium price, Bell Potter lowers its EPS forecasts by -5% for FY24 and -38% in FY25, with a corresponding shift in the target price to $5.90 from $6.35. A Buy rating is unchanged.

Macquarie also adjusted earnings forecasts for the lower ramp up expectations for Honeymoon. With a change of analyst, the target price is lowered to $5 from $6 and an Outperform rating maintained.

Morgan Stanley retains a cautious stance on costs. Its target is moved to $4.55 from $4.65 with an Equal-weight rating. Industry View is Attractive.

Bell Potter also focused on Paladin Energy ((PDN)) and the expectations for the upcoming 4Q24 results.

The broker lifts the production forecasts in FY25 to 4.5mlbs versus management's guidance at 4-4.5mlbs and sales of 3.9mlbs against management's guidance of 3.8-4.1mlbs.

All-in-sustaining-costs are raised to US$37/lb in FY25 due to a lift in C1 (basic operational) costs.

No guideline on shipping information was provided in management's recent update, and this could well result in volatile quarterly revenue results, Bell Potter states.

The most significant event for the analyst is the closure of the Fission Uranium deal, which is due in September.

Bell Potter has raised its target price to $16.10 from $15.70 and has an unchanged Buy rating on the back of FY25 EPS forecasts lifting 7%.

For more reading on uranium:

https://fnarena.com/index.php/2024/06/25/uranium-week-spot-goes-drop-dead-quiet/

https://fnarena.com/index.php/2024/06/20/all-aboard-for-the-nuclear-renaissance/

https://fnarena.com/index.php/2024/06/18/uranium-week-spot-price-hits-pause/

https://fnarena.com/index.php/2024/06/12/uranium-week-namibia-in-focus/

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	05/07/2024	0.0600	▼-14.29%	$0.19	$0.06			
AGE	05/07/2024	0.0500	▲ 1.96%	$0.08	$0.03		$0.100	▲100.0%
BKY	05/07/2024	0.3450	▲ 1.47%	$0.70	$0.26			
BMN	05/07/2024	3.1400	▼- 4.00%	$4.87	$1.44		$7.400	▲135.7%
BOE	05/07/2024	3.7200	▼- 6.14%	$6.12	$2.83	37.9	$5.050	▲35.8%
DYL	05/07/2024	1.3700	▲ 5.64%	$1.83	$0.65	-100.4	$1.770	▲29.2%
EL8	05/07/2024	0.3900	▼- 2.56%	$0.68	$0.29			
ERA	05/07/2024	0.0400	▲ 2.78%	$0.08	$0.03			
LOT	05/07/2024	0.3300	0.00%	$0.49	$0.18		$0.660	▲100.0%
NXG	05/07/2024	10.4200	▲ 1.74%	$13.66	$6.60		$17.500	▲67.9%
PDN	05/07/2024	12.8900	▲ 3.91%	$17.98	$7.25	-235.6	$16.287	▲26.4%
PEN	05/07/2024	0.1100	▲ 5.00%	$0.18	$0.08	36.7	$0.260	▲136.4%
SLX	05/07/2024	5.0100	▼- 0.39%	$6.74	$2.92		$7.600	▲51.7%

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

WEEKLY REPORTS

The Short Report - 11 Jul 2024

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

Summary:

Week Ending July 4th, 2024 (most recent data available through ASIC).

10%+

VBTC 35.98
PLS 21.16
IEL 13.05
CHN 11.46
LTR 11.15
FLT 10.59
SYR 10.41
ACL 10.06

In: VBTC, CHN, ACL

9.0-9.9%

WGX
SYA

Out: CHN

8.0-8.9%

LYC
STX
WBT

In: STX, WBT

7.0-7.9%

CTT
HLS

In: CTT Out: WBT. STX

6.0-6.9%

GMD
BOQ
BGL
ARU
OBL
BOE
NAN
WEB

In: BGL, BOE Out: CTT

5.0-5.9%

MIN
CUV

LIC
VUL
DYL
IFL
SFR
CXO
NUF
NVX

In: BGL, BOE, RIO Out: BAP, CTD

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.5	0.5	NAB	0.5	0.5
ANZ	0.5	0.4	QBE	0.6	0.6
BHP	0.4	0.4	RIO	5.0	4.9
CBA	1.6	1.5	STO	1.0	1.3
COL	0.5	0.5	TCL	0.6	0.6
CSL	0.5	0.5	TLS	0.4	0.5
FMG	0.8	0.9	WBC	0.7	0.7
GMG	1.3	1.3	WDS	0.4	0.5
JHX	0.8	0.7	WES	0.9	0.9
MQG	0.8	0.9	WOW	0.5	0.4

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

In Brief: Airlines, Pathology & Seek

Weekly Broker Wrap: Morgans flies high in the airline sector; Macquarie explains the macro tailwinds for growth in pathology; Seek is catching the broker's attention; Jarden highlights its favourite consumer discretionary stocks, and Trump 2025 tariffs warning

-Airlines setting themselves up for growth
-Boomers a boost for diagnostics services
-Seek laying the groundwork for upside
-Who is buying what?
-Trump's tariffs ringing warnings bells

By Danielle Ecuyer

Food for thought quote of the week.

"Morgan Stanley's Global Investment Committee, however, believes investors cannot afford to be complacent about potential policy changes especially at a time when the sustainability of U.S. debt is in question, the economy is slowing and the Federal Reserve is still seeking evidence that inflation is under control."

[Lisa Shallett, Morgan Stanley]

Dear Reader: If you find any interesting investing quotes that spark the creative investing juices, email them to info@fnarena.com with your name, if you are happy to be published alongside the quote, with a brief sentence on why you think it is great.

Come Fly With Me, Let's Fly Away

Morgans checks in on Alliance Aviation Services ((AQZ)) and Qantas Airways ((QAN)) for a review of what is expected for the upcoming FY24 earnings reports on August 14 and August 29, respectively.

Is Alliance Aviation caught in a debt trap?

The broker is looking for net profits of $85.5m for Alliance compared to $56.6m in FY23 with the analyst "unclear" on whether the earnings growth will be driven by the divestment of five E190 engines or the result of stronger business trading conditions.

Alliance has and continues to undergo a major fleet re-equipment program which is creating upside potential cashflow generation in the medium term, but investor concerns in the short term remain focused on debt.

The fleet will expand from 36 aircraft pre-covid to around 93 aircraft, with 98 assumed to be in operation by FY28. The result is a substantial uplift in debt levels, which the Morgans' analyst attributes as one of the main reasons for the share price underperformance.

The broker expects net debt to peak in the 1H25 and the airline will be able to generate circa $100m in free cash flow once all 98 aircraft are operational.

While several strategic financing moves by Alliance have alleviated concerns over the future cashflow versus debt levels, Morgans emphasises investors and the market will be seeking out more clarity and transparency on the FY25 outlook, as well as when the company will be able to start deleveraging and reap the cash flow benefits of the fleet investment.

Morgans retains an Add rating and a $4.75 target price.

The average target price from the daily covered brokers is $4.55.

Qantas moving on from the FY24 reset

Morgans anticipates Qantas will probably achieve consensus earnings forecasts of $2.09bn in net profit before tax, but for reasons unknown the broker has stuck with own estimate at $2.075bn. If correct, the result would represent a -16% decline on FY23, but EPS is only forecast to decline by -7%, because of the $1bn share buyback.

Another $300m buyback is expected to be announced in the results.

FY25 is shaping up to be a much better year for Qantas the analyst believes, including **the resumption of fully franked dividends**.

Despite a hefty $3.7bn-$3.9bn capital expenditure program, the broker views cash flow forecasts for the year ahead as too conservative. Morgans is looking for earnings upgrades with better operating performance, the benefits of new aircraft and the reversion of Freight headwinds to tailwinds.

If Qantas can establish sustainable cashflows and margin improvements, Morgans envisages the shares can re-rate. Given the strong ongoing demand for travel, the attractive valuation and strong balance sheet, the stock is rated Add with a target price of $7 per share.

The average target price from the daily covered brokers at FNArena is $6.725.

Pathology services finding growth

Macquarie turns to diagnostic services for an improved growth outlook with macro tailwinds positioning the industry for higher growth over the next two years.

From FY09-FY19, diagnostic imaging and benefits grew 5% and 7%, respectively, with growth rates of 5% and 2% post covid (FY20-FY23), the broker details.

Looking ahead, Macquarie has a more upbeat outlook for the industry to expand at around 7% and 6% for FY25 and FY26, respectively, underpinned by population growth, aging demographics, utilisation, and indexation.

The percentage of the population aged 65 years and over is forecast to grow to 19% of the total population by FY30 from 13% in FY09. Equally, the rate of growth for 65 and over is expected at 3.4% p.a. against those of 65 and under at 1% per annum.

Older age groups account for a higher proportion of diagnostic services and typically use the services more.

Other positive factors include a shift in the diagnostic services mix to MRIs which will be supported by policy changes. MRI average fees per event result in a better contribution to diagnostic services benefits.

Equally. rates are being indexed at around 2% for FY26/FY27 in line with FY25.

Across the universe of stocks in the sector, Macquarie is most upbeat on Integral Diagnostics ((IDX)) with a $2.65 target price and the analyst forecasting double-digit EPS expansion for the company in FY25/FY26, post a successful Capitol Health ((CAJ)) merger. Outperform rating.

Capitol Health is rated Outperform with a 32c target price. Healius ((HLS)) and Sonic Healthcare ((SHL)) are both rated Neutral with $1.45 and $26.10 target prices, respectively.

Cocktail snack with Seek

Barrenjoey retains an upbeat view on Seek ((SEK)), while highlighting it appreciates the market's and investors' caution around a potential FY25 earnings downgrade.

In the last week Seek has increased prices around 2%-4% across its basic, standout, and premium services, with Barrenjoey highlighting management's propensity to adjust prices both up and down to test price elasticities.

The analyst proposes the rises are a positive signal for the company to put through increases into FY25 at a time when the jobs market is potentially continuing to soften and yet to bottom out.

Equally, a price decrease wouldn't surprise the broker.

JP Morgan was also on the Seek case post the -17% year-on-year decline in national job volumes in June, pointing to a slight improvement on the May and April falls.

This broker reminds us the company's FY24 guidance was contingent on job ads remaining stable in the 2H24 and highlights Bloomberg consensus forecasts are scrapping along the bottom of management's guidance.

Job applications have conversely increased by some 3% sequentially (month-on-month) and are up 62% on the year in June, which is indicative of less job ads. Importantly it does offer a "stronger platform for Seek to pass through price/yield", the analyst states.

On balance, Seek is trading at a lower valuation to its online classified peers around 20x FY26 earnings excluding the Growth Fund, compared to Car Group ((CAR)) on circa 30x and REA Group ((REA)) on circa 40x, Barrenjoey observes.

Barrenjoey acknowledges some investors will be awaiting a potential downward revision in consensus FY25 earnings estimates and or in combination with a flattening out in the A&NZ job volumes. Overweight rating and $29.50 target.

JP Morgan is also bullish with an Overweight rating and a $26.50 target price which includes the Seek Growth Fund at the last reported book value.

The broker emphasises Seek stated FY28 revenue could achieve $2bn on the back of very robust low-double-digit compound growth rates and boosted further with capacity to produce EBITDA margins of over 50%.

This assumes A&NZ volume growth in the low to neutral single levels, A&NZ yield growth of high single digits and Asia revenue growth of low double digits.

FNArena's average target price for daily covered brokers is $29.20.

The shifting sands of discretionary retail stocks

Jarden dissected the results from its 41st online tracker case study revealing a 2.3% lift year-on-year with footwear and soft goods the outperformers, up 17% and 46%, respectively.

Conversely, meal kits, marketplaces and hardware fell -14%, -12% and -11%, respectively, on the year for June.

Demographically, older customers (aged 45-65 plus) slowed online spending by -280bps across most categories ex-footwear.

Did I miss a Jimmy Choo sale? Only joking!

Young adults (aged 23-24) gained the most, rising 170bps, which would not be a surprise to our postman. The categories that gained the most were hardware, grocery, and travel.

The gain in travel for the younger market offsets the decline of footwear and marketplaces, the analyst states.

Companies with a skew to the younger demographic includes Woolworths Group ((WOW)), Coles Group ((COL)), Amazon, and JB HiFi ((JBH)).

The older demographics skewed more to Athlete's Foot ((SUL)) (walking trips in the Camino de Santiago?), home hardware ((WES)), IGA ((MTS)), and Beacon Lighting Group ((BCE)).

The broker assesses online adoption is more mixed as the younger generation continues to grow while older demographics decline.

Tax cuts are expected to benefit food including Coles, Woolworths, and Metcash, liquor, including Endeavor Group ((EDV)) and Metcash; gaming, Endeavor, and quick service retail, including Collins Food ((CKF)) and Domino's Pizza Enterprises ((DMP)).

Jarden remains more positive on companies with "long share runways, expansion plans and improving return on invested capital" and favours travel stocks, Flight Centre Travel Group ((FLT)), Helloworld Travel ((HLO)), Webjet ((WEB)); global growth via Treasury Wine Estates ((TWE)), Domino's, Lovisa Holdings ((LOV)) and "category killers" taking market share in Temple & Webster ((TPW)) and The Reject Shop ((TRS)).

The broker envisages longer term value in grocery but sees the regulatory inquiries and sluggish market growth as impediments to outperformance.

Cutting to the Presidential chase

Wilsons' deep dive into how markets might respond to a Trump versus Biden victory at the November elections is sobering.

On balance, another Biden term (which is currently looking unlikely) represents broadly more of the same for markets.

Another Trump term is anything but business as usual.

The proposed 60% import tariffs on China and an across the board 10% tariff on imports would represent an increase to almost 17% against the current 3% and would result in the highest tariff structures since the 1930s.

Wilsons explains the tariff introduction, which was already proposed by Trump in 2018, could be easily implemented as much can be done without the involvement of Congress.

The broker believes the Trump policies will be more inflationary from a combination of higher tariffs with tighter immigration and markedly lower growth in the labour force, leading to more expensive import prices and potential labour market shortages.

In combination, the policies would act against the Fed's inflation measures.

Speaking of the Federal Reserve, Chairman Powell, whom Trump appointed, would likely take an exit stage left. His tenure expires in May 2026.

Wilsons views the appointment of a more amenable "dovish" Chairman as not a straightforward process.

But extreme criticism and dovish pressure on the FOMC could at least optically, if not in reality challenge the independent mandate of the organisation.

Wilsons states **markets could well be under-pricing the risk of a global trade war** and longer-term possible negative impacts of rising US/China geopolitical tensions.

Under both candidates the fiscal deficits are expected to grow, however, either Presidential candidates will require Congress as "Congress holds the purse strings".

A one-party sweep across the Senate and the House would likely result in higher fiscal deficits and Trump has promised to extend the personal tax cuts which are due to expire at the end of 2025 at a cost of -US$4trn over 10 years.

Trump has also discussed reducing the corporate tax rate to 20% from 21% with an expectation the new tariffs will fill the revenue void.

Wilsons likes **gold as an inflation hedge**, accounting for geopolitical shocks, higher deficits, and debt concerns.

Green energy comes out as the big loser under Trump, with a promise to repeal the Inflation Reduction Act. The Republicans would need Congress to achieve the wind back.

Wilsons concludes the sequencing of Trump's policies in the event he wins will impact on markets. Tax cuts for example in 2025 would boost the economy, but tariff hikes, immigration curbs and an "attack" on the Fed could have more negative market implications.

WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 12-07-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

DETERRA ROYALTIES LIMITED ((DRR)) Upgrade to Buy from Neutral by Goldman Sachs.B/H/S: 0/0/0

For the second half of 2024 commodities outlook, Goldman Sachs remains most positive on copper, aluminium, and metallurgical coal on forecast market deficits.

On the other hand, the broker remains bearish thermal coal and battery materials (lithium, nickel) on forecast market surpluses. Elsewhere, the benchmark 62% iron ore price is expected to average between US$100-105/t over the remainder of the year.

The broker's target for Deterra Royalties falls to $4.70 from $5.00 after both iron ore and currency forecasts are marked-to-market. The rating is upgraded to Buy from Neutral on valuation.

Downgrade

METAROCK GROUP LIMITED ((MYE)) Downgrade to Speculative Buy from Buy by Petra Capital.B/H/S: 0/0/0

The Grosvenor metallurgical coal mine in the Bowen Basin, a key revenue contributor for Metarock Group, experienced a fire last Saturday. As a result, Petra Capital downgrades its rating for Metarock to Speculative Buy from Buy.

As the fire is ongoing, owner Anglo American has advised several months will elapse before workers can safely re-enter the mine.

The 35c target price is maintained. The overall impact is difficult to assess, notes the analyst, but management may be able to offset some of the reduced work availability with other contracts in the region.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	DETERRA ROYALTIES LIMITED	Buy	Neutral	Goldman Sachs
Downgrade				
2	METAROCK GROUP LIMITED	Buy	N/A	Petra Capital

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
AMP	AMP	$1.12	Jarden	1.20	1.17	2.56%
BHP	BHP Group	$43.56	Goldman Sachs	48.40	49.00	-1.22%
BOE	Boss Energy	$3.98	Canaccord Genuity	5.85	6.00	-2.50%

BSL	BlueScope Steel	$20.14	Goldman Sachs	28.20	25.50	10.59%
CAI	Calidus Resources	$0.12	Canaccord Genuity	N/A	0.29	-100.00%
CCR	Credit Clear	$0.24	Petra Capital	0.51	0.43	18.60%
CGF	Challenger	$6.87	Jarden	7.50	7.55	-0.66%
CIA	Champion Iron	$6.36	Goldman Sachs	8.00	9.30	-13.98%
CIP	Centuria Industrial REIT	$3.11	Moelis	3.72	3.71	0.27%
CMM	Capricorn Metals	$5.26	Canaccord Genuity	6.40	6.55	-2.29%
			Goldman Sachs	5.25	4.65	12.90%
CRN	Coronado Global Resources	$1.40	Goldman Sachs	1.70	1.55	9.68%
DEG	De Grey Mining	$1.16	Goldman Sachs	1.35	1.40	-3.57%
DRR	Deterra Royalties	$4.05	Goldman Sachs	4.70	5.00	-6.00%
EVN	Evolution Mining	$3.76	Goldman Sachs	4.15	3.21	29.28%
FEX	Fenix Resources	$0.39	Petra Capital	0.49	0.44	11.36%
FMG	Fortescue	$22.00	Goldman Sachs	16.20	16.90	-4.14%
GOR	Gold Road Resources	$1.76	Goldman Sachs	2.10	1.95	7.69%
HUB	Hub24	$45.39	Jarden	43.80	41.75	4.91%
IFL	Insignia Financial	$2.29	Jarden	2.80	2.95	-5.08%
ILU	Iluka Resources	$6.64	Goldman Sachs	9.30	9.90	-6.06%
KAR	Karoon Energy	$1.83	Wilsons	2.59	2.71	-4.43%
LTR	Liontown Resources	$0.97	Canaccord Genuity	1.05	1.30	-19.23%
			Goldman Sachs	1.15	1.35	-14.81%
			Jarden	1.00	1.03	-2.91%
			Wilsons	1.75	1.85	-5.41%
LYC	Lynas Rare Earths	$6.40	Goldman Sachs	7.50	7.40	1.35%
MAH	Macmahon	$0.27	Petra Capital	0.38	0.30	26.67%
MAQ	Macquarie Technology	$98.01	Canaccord Genuity	118.00	90.25	30.75%
MFG	Magellan Financial	$9.49	Jarden	9.50	9.20	3.26%
NHC	New Hope	$4.94	Goldman Sachs	3.90	3.60	8.33%
NST	Northern Star Resources	$13.29	Goldman Sachs	14.40	14.50	-0.69%
NWL	Netwealth Group	$21.00	Jarden	17.30	17.00	1.76%
PPT	Perpetual	$21.85	Jarden	24.00	24.55	-2.24%
PTM	Platinum Asset Management	$1.04	Jarden	1.05	1.15	-8.70%
QAN	Qantas Airways	$6.22	Jarden	7.30	7.00	4.29%
RED	Red 5	$0.42	Canaccord Genuity	0.43	0.48	-10.42%
RIO	Rio Tinto	$119.62	Goldman Sachs	137.00	138.30	-0.94%
RRL	Regis Resources	$1.88	Goldman Sachs	2.10	2.30	-8.70%
RUL	RPMGlobal	$2.60	Moelis	2.90	2.15	34.88%
S32	South32	$3.62	Goldman Sachs	4.30	4.00	7.50%
SFR	Sandfire Resources	$9.08	Goldman Sachs	8.70	8.20	6.10%
SGM	Sims	$10.57	Goldman Sachs	11.10	12.40	-10.48%
SLC	Superloop	$1.53	Canaccord Genuity	1.86	1.11	67.57%
SUN	Suncorp Group	$17.13	Jarden	17.00	16.80	1.19%
WGX	Westgold Resources	$2.55	Petra Capital	2.67	2.66	0.38%
WHC	Whitehaven Coal	$8.67	Goldman Sachs	8.10	6.20	30.65%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

ACF ACROW LIMITED

Building Products & Services Overnight Price: $1.06

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

The latest trading update for Acrow suggests to Petra Capital operating momentum has remained positive. Management noted record hire contract wins ($12.3m) in June, boosting contracted hire revenue to $78.3m, up by 17% on the previous corresponding period.

The broker believes the upcoming FY24 result will meet management's guidance and anticipates further strong growth in FY25.

Petra Capital points to buoyant demand across key end markets and ongoing opportunities for Acrow to expand its operating footprint.

The Buy rating and $1.47 target are maintained.

This report was published on July 3, 2024.

Target price is **$1.47** Current Price is **$1.06** Difference: **$0.405**
If **ACF** meets the Petra Capital target it will return approximately **38%** (excluding dividends, fees and charges).
Current consensus price target is **$1.34**, suggesting upside of **25.5%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **6.00** cents and EPS of **11.50** cents.
At the last closing share price the estimated dividend yield is **5.63%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **9.26**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **11.8**, implying annual growth of **31.7%**.
Current consensus DPS estimate is **5.5**, implying a prospective dividend yield of **5.1%**.
Current consensus EPS estimate suggests the PER is **9.1**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **7.00** cents and EPS of **13.40** cents.
At the last closing share price the estimated dividend yield is **6.57%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **7.95**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **13.1**, implying annual growth of **11.0%**.
Current consensus DPS estimate is **5.8**, implying a prospective dividend yield of **5.4%**.
Current consensus EPS estimate suggests the PER is **8.2**.

Market Sentiment: **0.8**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

CIP CENTURIA INDUSTRIAL REIT

REITs Overnight Price: $3.04

Moelis rates ((CIP)) as Buy (1)

Centuria Industrial REIT's discount to net tangible assets (NTA) has recently widened to around -22%. This gap is too wide, suggests Moelis, especially as the REIT's weighted average capitalisation rate (WACR) has risen by 160bps since June of 2022.

The broker points out rental growth across key markets continues to be supported by low vacancy rates across all major industrial markets, noting the national vacancy rate remains at less than 2%.

Separately, in an addition to the existing data centre portfolio, the REIT has acquired a data centre in Malaga, WA, for -$39m.

The Buy rating is unchanged and the target moves up to $3.72 from $3.71.

This report was published on July 9, 2024.

Target price is **$3.72** Current Price is **$3.04** Difference: **$0.68**
If **CIP** meets the Moelis target it will return approximately **22%** (excluding dividends, fees and charges).
Current consensus price target is **$3.52**, suggesting upside of **13.9%**(ex-dividends)

The company's fiscal year ends in June.

Forecast for FY24:

Moelis forecasts a full year **FY24** dividend of **16.00** cents and EPS of **17.20** cents.
At the last closing share price the estimated dividend yield is **5.26%.**
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **17.67**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **17.2**, implying annual growth of **N/A**.
Current consensus DPS estimate is **16.0**, implying a prospective dividend yield of **5.2%**.
Current consensus EPS estimate suggests the PER is **18.0**.

Forecast for FY25:

Moelis forecasts a full year **FY25** dividend of **16.20** cents and EPS of **17.60** cents.
At the last closing share price the estimated dividend yield is **5.33%.**
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **17.27**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **17.9**, implying annual growth of **4.1%**.
Current consensus DPS estimate is **16.5**, implying a prospective dividend yield of **5.3%**.
Current consensus EPS estimate suggests the PER is **17.3**.

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

CCR CREDIT CLEAR LIMITED

Diversified Financials Overnight Price: $0.24

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

Recent data are showing an acceleration in companies entering insolvency for the first time, with numbers now exceeding pre-covid levels, highlights Petra Capital. March through to May has seen a collective 47% increase over the previous corresponding period.

Credit Clear is set to meet the broker's earnings expectations for FY25, with management having recently slightly raised FY24 guidance.

Buy rating retained. The target rises to 51c from 43c on a roll-forward of the broker's revenue forecasts.

This report was published on July 1, 2024.

Target price is **$0.51** Current Price is **$0.24** Difference: **$0.265**
If **CCR** meets the Petra Capital target it will return approximately **108%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 1.40** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 17.50**.

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 35.00**.

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

DEG DE GREY MINING LIMITED

Gold & Silver Overnight Price: $1.17

Goldman Sachs rates ((DEG)) as Buy (1)

Goldman Sachs still prefers near-term margins/returns over long-term ounces when selecting exposures in the Australian Gold sector. Assets with less execution risk and those best positioned to capture increases in gold pricing are also favoured.

The analysts remain wary on gold stocks continuing to underperform on higher costs/capex guidance for FY25 in upcoming quarterly results.

For De Grey Mining, the target falls to $1.35 from $1.43. Buy. De Grey Mining and Gold Road Resources remain the standouts at a discount to the rest of this broker's coverage.

This report was published on July 9, 2024.

Target price is **$1.35** Current Price is **$1.17** Difference: **$0.185**
If **DEG** meets the Goldman Sachs target it will return approximately **16%** (excluding dividends, fees and charges).
Current consensus price target is **$1.76**, suggesting upside of **50.0%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Goldman Sachs forecasts a full year **FY24** EPS of **minus 1.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 116.50**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **0.3**, implying annual growth of **N/A**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **390.0**.

Forecast for FY25:

Goldman Sachs forecasts a full year **FY25** EPS of **0.00** cents.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **0.2**, implying annual growth of **-33.3%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **585.0**.

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

MAQ MACQUARIE TECHNOLOGY GROUP LIMITED

Telecommunication Overnight Price: $95.16

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

Canaccord Genuity raises its target for Macquarie Technology to $118 from $90.25 on a reappraisal of the data centre business, because of the positive outlook for colocation pricing and emerging demand for stabilised data centre assets.

The broker also highlights the premium attached to the company's developments due to confirmed power allocations. For example, there have been significant increases in the key Northern Virginia market in the US for similar set-ups.

Also, management's purchase of the lease on the Talavera Road site provides significant flexibility over the key IC3 Super West development, explains the analyst. Buy.

This report was published on July 5, 2024.

Target price is **$118.00** Current Price is **$95.16** Difference: **$22.84**
If **MAQ** meets the Canaccord Genuity target it will return approximately **24%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Canaccord Genuity forecasts a full year **FY24** dividend of **0.00** cents and EPS of **130.40** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **72.98**.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **152.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **62.61**.

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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