WEEK 33

FNArena
FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Friday, 16 August 2024

Resilient CAR Group Motors On

EPS (Normalized) Growth Rates – As of 9th August 2024 (CQ2 2024 & CY

ex	CQ2 2024	CQ2 2024 Growth	CY 2024	CY 20
n services	$3.86	27.37%	$15.54	
cretionary	$15.16	11.99%	$57.26	
iples	$9.72	2.49%	$39.50	
	$12.59	0.82%	$51.98	
	$11.80	17.02%	$44.51	
	$20.76	15.62%	$80.81	
	$12.44	-1.69%	$46.75	
chnology	$30.13	18.43%	$131.59	
	$7.38	-7.54%	$26.14	
	$1.74	-5.16%	$6.70	
	$4.19	7.44%	$20.49	
	$60.24	12.03%	$240.95	

Rudi's View: August Results - Early Beginnings

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

CONTENTS

AUSTRALIA

1. The Market In Numbers - 10 Aug 2024
2. First Shock Of The Season, What's Next Audinate?
3. JB Hi-Fi Does It Again
4. Aurizon: A Dividend Downer For Investors
5. The Seek Conundrum
6. Resilient CAR Group Motors On

COMMODITIES

7. Material Matters: Nickel, Copper & Gold

RUDI'S VIEWS

8. Rudi's View: August Results - Early Beginnings
9. Rudi's View: Model Portfolios, Best Ideas & Conviction Calls

WEEKLY REPORTS

10. Weekly Ratings, Targets, Forecast Changes - 09-08-24
11. Uranium Week: Aussie Stocks Heavily Oversold?
12. The Short Report - 15 Aug 2024
13. In Brief: Gen.Ai & Star Stocks Shine This Week

FNArena
Financial News, Data & Analysis

GPO Box 3145 - Sydney NSW 2001
info@fnarena.com

Your editor:
Rudi Filapek-Vandyck

Your dedicated team of journos:
Greg Peel, Danielle Ecuyer & Mark Woodruff

AUSTRALIA

The Market In Numbers - 10 Aug 2024

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

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

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

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

Australia & NZ

Index	10 Aug 2024	Week To Date	Month To Date (Aug)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
NZ50	12243.460	-1.68%	-1.30%	4.49%	4.02%	4.49%
All Ordinaries	7990.70	-2.20%	-3.96%	-0.29%	2.06%	-0.29%
S&P ASX 200	7777.70	-2.08%	-3.89%	0.13%	2.46%	0.13%
S&P ASX 300	7711.90	-2.12%	-3.91%	0.05%	2.34%	0.05%
Communication Services	1544.10	-1.25%	-2.30%	2.86%	-2.78%	2.86%
Consumer Discretionary	3662.50	-1.57%	-4.38%	4.30%	13.03%	4.30%
Consumer Staples	12620.90	-0.90%	-1.77%	1.96%	2.52%	1.96%
Energy	9383.30	-4.92%	-6.11%	-6.46%	-11.67%	-6.46%
Financials	7694.00	-2.57%	-5.44%	0.48%	14.52%	0.48%
Health Care	45655.20	-0.01%	-1.44%	3.16%	7.83%	3.16%
Industrials	6955.80	-1.43%	-3.34%	2.12%	1.31%	2.12%
Info Technology	2234.30	-3.64%	-4.79%	-4.58%	21.90%	-4.58%
Materials	16303.90	-2.54%	-3.30%	-3.40%	-16.35%	-3.40%
Real Estate	3680.20	-1.90%	-3.12%	3.28%	9.93%	3.28%
Utilities	9073.20	0.04%	0.59%	-2.28%	10.92%	-2.28%
A-REITs	1679.80	-1.91%	-3.15%	3.42%	11.81%	3.42%
All Technology Index	3037.40	-3.20%	-4.45%	-3.20%	12.75%	-3.20%
Banks	3222.50	-2.48%	-5.79%	0.85%	15.94%	0.85%
Gold Index	7747.50	-3.86%	-2.85%	5.30%	5.15%	5.30%
Metals & Mining	5310.40	-2.57%	-3.17%	-4.33%	-17.88%	-4.33%

The World

Index	10 Aug 2024	Week To Date	Month To Date (Aug)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
FTSE100	8168.10	-0.08%	-2.39%	0.05%	5.62%	0.05%
DAX30	17722.88	0.35%	-4.25%	-2.81%	5.80%	-2.81%
Hang Seng	17090.23	0.85%	-1.47%	-3.55%	0.25%	-3.55%
Nikkei 225	35025.00	-2.46%	-10.43%	-11.52%	4.66%	-11.52%
DJIA	39497.54	-0.60%	-3.29%	0.97%	4.80%	0.97%
S&P500	5344.16	-0.04%	-3.23%	-2.13%	12.04%	-2.13%
Nasdaq Comp	16745.30	-0.18%	-4.85%	-5.57%	11.55%	-5.57%

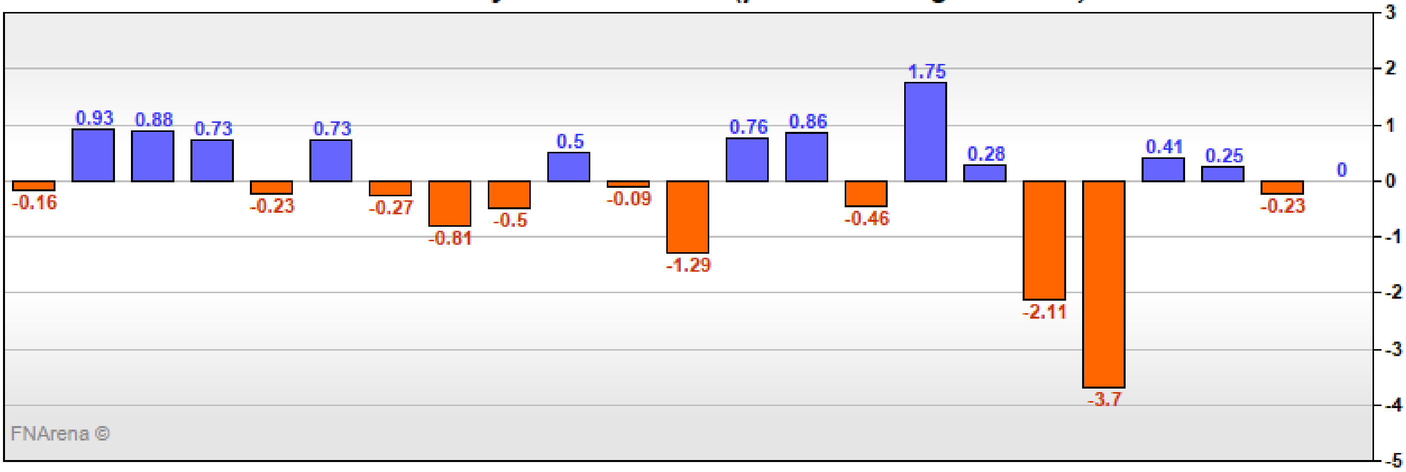
Metals & Minerals

Index	10 Aug 2024	Week To Date	Month To Date (Aug)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
Gold (oz)	2467.40	-0.94%	0.46%	5.54%	20.68%	5.54%
Silver (oz)	27.63	-3.53%	-3.15%	-5.54%	13.33%	-5.54%
Copper (lb)	3.9825	-2.09%	-2.68%	-8.10%	4.58%	-8.10%
Aluminium (lb)	1.0282	0.52%	2.14%	-8.56%	5.75%	-8.56%
Nickel (lb)	7.3346	-1.68%	1.34%	-5.70%	-1.38%	-5.70%
Zinc (lb)	1.1907	-1.46%	-0.27%	-10.21%	5.88%	-10.21%
Uranium (lb) weekly	82.	0.00%	0.00%	-1.50%	-4.65%	-1.50%
Iron Ore (t)	100.75	-2.02%	-5.18%	-5.41%	-27.11%	-5.41%

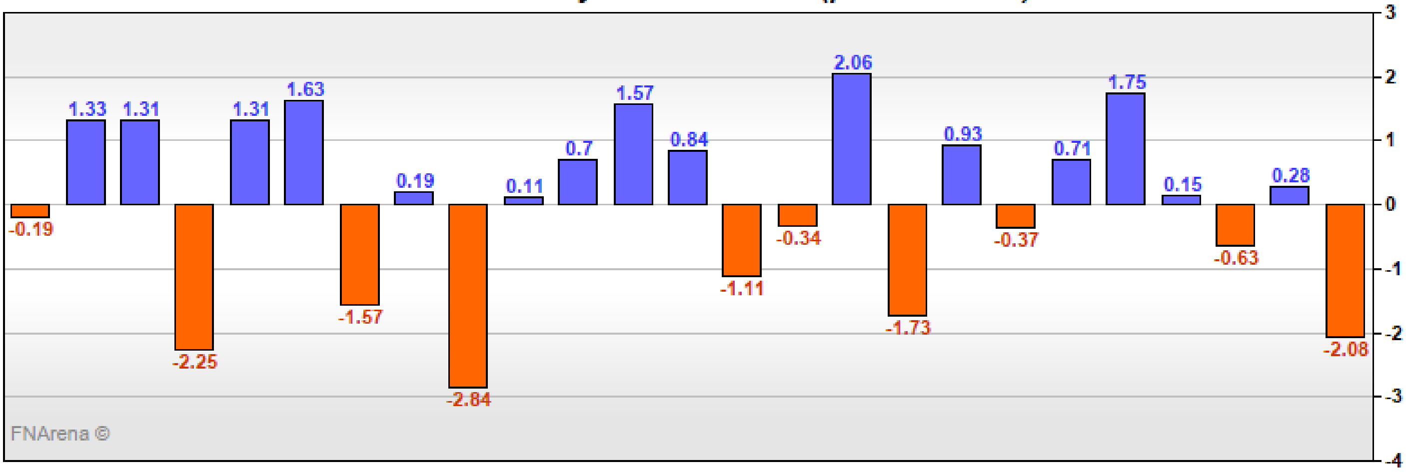
Energy

Index	10 Aug 2024	Week To Date	Month To Date (Aug)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
West Texas Crude	76.09	-1.09%	1.12%	-7.05%	3.09%	-7.05%
Brent Crude	78.97	-1.28%	0.55%	-7.57%	-0.37%	-7.57%

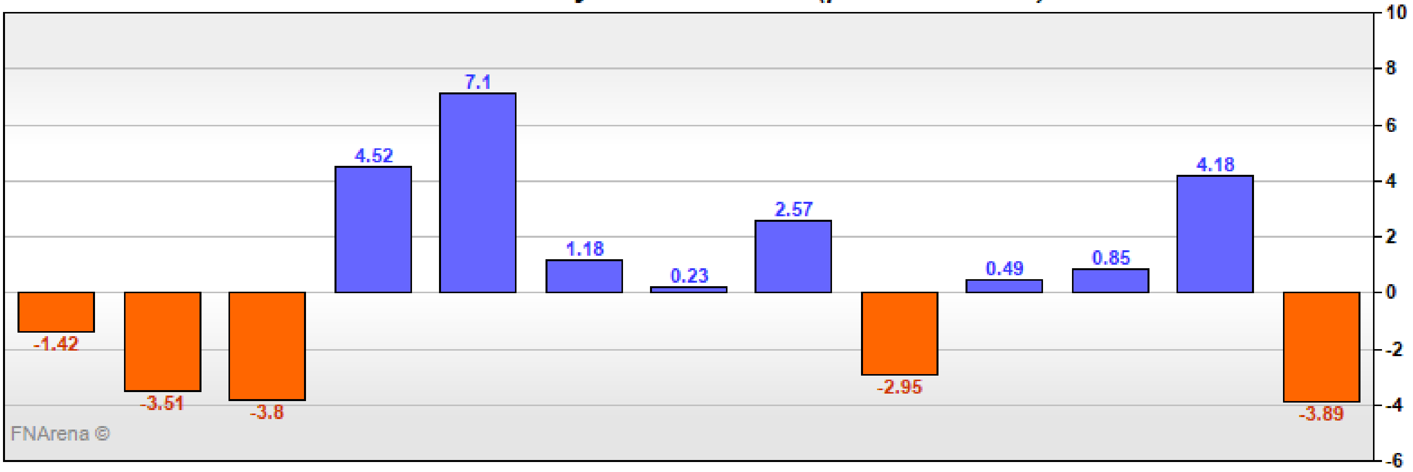
ASX200 Daily Movement in % (past 23 trading sessions)



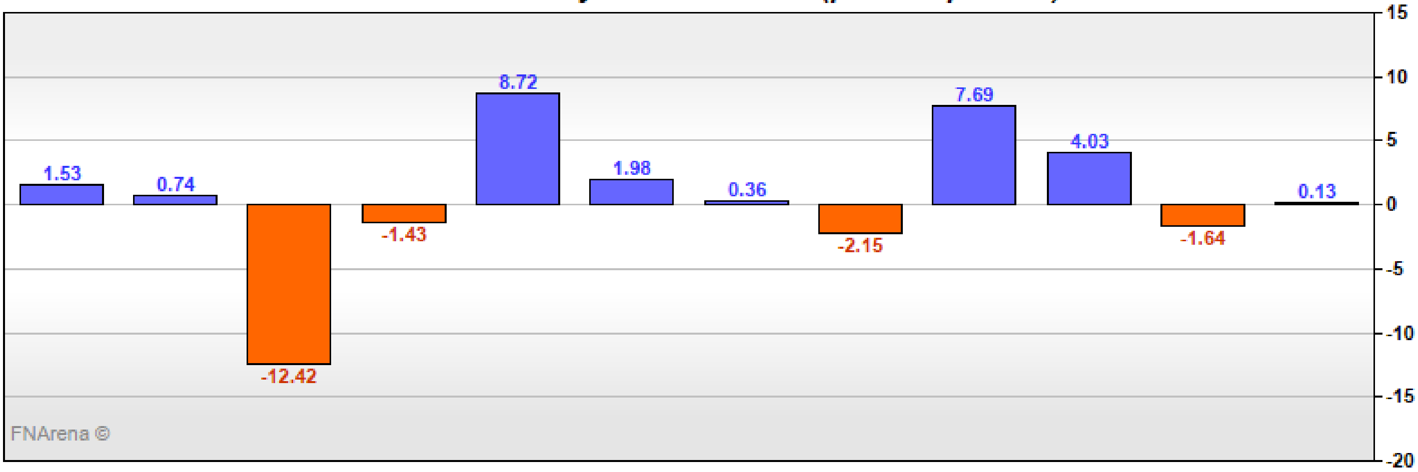
ASX200 Weekly Movement in % (past 25 weeks)



ASX200 Monthly Movement in % (past 13 months)



ASX200 Quarterly Movement in % (past 12 quarters)



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

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

FNArena welcomes comments and suggestions at info@fnarena.com

AUSTRALIA

First Shock Of The Season, What's Next Audinate?

Audinate Group's disappointing FY25 outlook came as a shock to many, but what about that long-term growth prospect?

-Audinate Group's FY24 pre-release included FY25 outlook shock
-FY25 impacted by software transition and backlog
-Earnings forecasts and valuations significantly reduced
-Morningstar outlines the (ongoing) market opportunity

By Mark Woodruff

Following the pre-release of FY24 results, shares of audio-visual company Audinate Group ((AD8)) received a reality check as analysts reset the company's growth trajectory following significantly weaker-than-expected FY25 guidance.

The business is experiencing a contraction in demand after a heightened FY23/24 growth period that proved unsustainable, but there are positive signs for the gross margin.

Making forecasting difficult, management has only two-to-three months of visibility on the order pipeline, explains Shaw and Partners.

Audinate now expects FY25 gross profits will be "marginally lower" than the US$44.5m achieved in FY24, which jars badly when set against Morgan Stanley's prior expectation for around 22% growth.

While the outlook may get worse before it gets better, Macquarie suggests the current share price represents an attractive entry level for the long-term Audinate story and upgrades its rating to Outperform from Neutral.

This broker stresses the key driver of a weaker FY25 outlook was over-earning in FY24, not a fundamental impairment of the core business, plus management has already articulated plans to remedy known issues.

Despite some dramatic reductions in 12-month target prices, other brokers also remain generally supportive, including Overweight-rated Morgan Stanley and Morningstar. The latter has a fair value estimate of $18 while shares flounder below $9.00 having peaked at $23.51 in mid-March.

Morningstar regards Audinate shares as materially undervalued as FY25 is likely a **transition year, after which growth will reaccelerate and margins will expand again.**

Audinate's Dante platform distributes digital audio and video signals over computer networks and is designed to bring the benefits of IT networking to the professional Audio-Visual (AV) industry.

Dante is the world's most widely used protocol for digital audio networking, with more than ten times the number of products (enabled with the protocol) than the nearest competitor, Ravenna.

The Ravenna protocol is not owned by a single entity but was developed and is promoted by ALC NetworX GmbH, a German company based in Munich.

End users of Dante include universities, corporates, convention centres, theatres, stadiums, theme parks and recording studios.

Over 400 original equipment manufacturers (OEMs), including Bosch, Bose, and Yamaha, license the Dante protocol to enable digital delivery and management of audio for over 4,000 products, such as microphones, mixers, and speakers. These OEMs on-sell Pro-AV products (speakers, amplifiers, and mixers) to system integrators.

Explaining the FY25 slowdown

FY24 benefited from over-ordering by OEMs, catch-up benefits with the return of chip supply, and an unwinding of the backlog, explains UBS. Also, AVIO adaptor promotions are thought to have contributed to the overall positive performance.

Unfortunately, management's FY25 guidance points to a dramatic slowdown, which Morningstar attributes to a transition of the business to software-based sales from hardware-based sales (cannibalising some of the existing revenue base) and a resolved backlog of hardware products. While both causes were expected, the magnitude was much greater than expected.

In particular, there was a large customer over-order on high value Brooklyn 3, but subsequent below average end product sell through is a material (one-off) headwind into FY25, explains Morgan Stanley. Inventory de-stocking was then compounded by end-of-life products (e.g. the Viper board which added US$2.8m in FY24).

A positive margin outlook

More positively, based on the preliminary results, gross margins for the second half of FY24 are expected to be 500%points (5%) higher than in the first half, while guidance for fiscal 2025 implies another 300%points (3%) increase in gross profit margins over the second half.

As a result, Morningstar's gross margin expectation for FY25 has now been exceeded by 7% reflecting the shift to higher-margin (though lower-priced) software sales.

Audinate is still adding around 1m Dante devices to the field each year, which is supported by a lower average selling price (ASP) in embedded software, explains Macquarie.

As gross margins are expanding with a shift to software, there is **a smaller impact to gross profit than to sales.**

Shaw forecasts FY25 margins of circa 78% and gross profit of around US$43m.

This broker expects the company will likely burn some cash, but also notes Audinate has ample liquidity with more than $110m cash on the balance sheet.

The opportunity for Audinate explained

Morningstar believes Audinate has around 10% market share in audio devices, which leaves a large and highly winnable market opportunity as the industry digitises. Also, the analyst anticipates the company will gain significant pricing power (especially in the software segment) as network effects continue to strengthen.

The opportunity in digital video networking is more uncertain and likely less profitable, plus there is an impediment to establishing network effects, notes Morningstar, due to varying compression technologies (needed for the larger data intensity) that are usually not compatible with each other.

While Audinate is demonstrating strong momentum on all relevant metrics for its video networking business, this is from a small base, and the analysts consider this market is still up for grabs.

Despite this difficulty, Morningstar believes network effects from Dante's audio solutions will help pull in AV professionals, who are already familiar with the Dante protocol. Because OEM's need to cater to the preferences of AV professionals, the analysts note they are increasingly choosing to enable their products with Dante.

Ultimately, what matters for longer-term growth is industry adoption and competitive position, and Morgan Stanley doesn't consider the latter has changed.

This broker points out cycle/revenue sequencing concerns also materially weighed on the stock price during the pandemic, but Audinate's structural growth profile triumphed.

Focus on gross profit and a bullish revenue forecast

While revenue remains the key metric the Audinate share price trades to, according to Morgan Stanley, the gross profit is becoming increasingly important.

As per guidance, the broker's FY25 gross profit forecast now trails slightly behind FY24, but the new FY26 forecast show a return to 18% gross profit growth.

Morningstar forecasts revenue will grow at an organic compound annual growth rate (CAGR) of 17% over the next decade, driven primarily by Audinate expanding the market for digital audio networking. Earnings (EBIT) margins are expected to widen to 40% by FY33, compared with 1% in FY23.

Overall Outlook

While reducing its 12-month target price to $10 from $22, Morgan Stanley still believes end-market demand is stable, Audinate's structural growth story remains intact, and the company's competitive position is not under threat.

Upcoming FY25 results on August 19 will provide more details, explains the broker, including commentary on end market demand, OEM/product trends (particularly in Video), and long-term incentive which may be a pointer to FY26 growth prospects.

Also awaiting greater clarity around video momentum, UBS removes -$2.01/share from its valuation of Audinate to reflect a potential 2% share of the digital video networking opportunity, which still has large upside potential. Despite slashing the overall target to $10.90 from $22.80, this broker still believes in the long-term structural shift to digital from analogue, Audinate's strong leadership position, and a deep moat which is superior to anything under UBS's Emerging Companies coverage.

There are five covering brokers in the FNArena database with four Buy or equivalent ratings and one Hold (Shaw and Partners). The average target price ex-Ord Minnet is $10.18. This amended target price suggests around 15% upside to the $8.87 share price at the time of writing.

As previously noted, Morningstar (not monitored by FNArena) has a fair value estimate for Audinate Group of $18.50. Ord Minnett previously whitelabeled Morningstar research.

AUSTRALIA

JB Hi-Fi Does It Again

Once again, JB Hi-Fi has beaten forecasts. But is it just too expensive?

-JB Hi-Fi's result exceeds forecasts, again
-A special dividend excites shareholders
-Brokers acknowledge a sensible acquisition
-Valuation a stumbling block

By Greg Peel

Oh JB, you've done it again.

That about sums up the response from analysts to electronic retailer JB Hi-Fi's ((JBH)) FY24 result. And its FY25 to-date trading update. And an acquisition. And a special dividend.

To say that JB Hi-Fi has a habit of beating expectations through the thick and thin of economic cycles would be a gross understatement. For many years hedge funds lined up to short the stock, believing its run of success could not be sustainable. Bridge Street is littered with their corpses.

Cost of living crisis? Well, the company did post a -16.4% reduction in profit year on year, and a -0.4% fall in total sales, along with a -15.8% drop in earnings, but the point is these results were at least 5% better than consensus forecasts.

Operating costs as a percentage of sales were up 74 basis points to 13.1%. This, too, was better than consensus. FY24 was really a function of better than expected cost management, particularly in JB Hi-Fi Australia. "JB Hi-Fi is the master of cost discipline," notes Morgans, particularly in its ability to flex staffing costs in line with sales.

The company reported gross margins down just -42 bps to 22.2% despite a heavily promotional period, driven partly by sales mix as well as an increase in on-floor discounting. Management stated it believes promotional cadence had returned to more "normal", pre-covid levels.

Promotional activity is key in a tougher consumer environment, says Morgans, and JB Hi-Fi continues to work with its suppliers to drive sales (implying suppliers are funding promotions). Morgans continues to see customers drawn to promotional events. This plays well for JB Hi-Fi given its reputation for value.

And momentum is only set to continue, it would appear, with sales for JB Hi-Fi Australia up 5.6% year on year in the first month of FY25, New Zealand up 12.2% and The Good Guys 2.7%. This despite July this year having only four weekends compared to last year's five.

Capital Management

It is testament to JB Hi-Fi's capacity to generate free cash flow that the company was able to execute an acquisition in the period (more on that in a minute) while still announcing an 80c special dividend on top of a 261c ordinary dividend which was itself, you guessed it, was ahead of expectation.

Analysts suggest it was the special dividend which drove a very positive share price response on Monday, despite what many perceive as an overstretched valuation.

Further capital management is likely in the future. Management suggested it would continue to monitor its capital position and evaluate further returns to shareholders, but did note some investment in inventory in FY25.

Citi now forecasts special dividends of 80c annually through to FY27.

The Acquisition

Brokers agree the acquisition of 75% of upmarket kitchen, bathroom and laundry appliance retailer E&S Trading (with an option to acquire the remaining 25% in 2029) is a good move. The company is currently based only in Victoria, with ten stores, and thus provides a platform for showroom rollout and category expansion.

Citi forecasts 35 showrooms across Australia by FY30. Similar to the acquisition of The Good Guys, the broker sees buying terms harmonisation driving some 200 basis points of gross margin expansion given many of the suppliers overlap both The Good Guys and E&S.

E&S may be modest in scale, notes Ord Minnett, but it provides entry into appliance segments that are currently dominated by rival Harvey Norman ((HVN)) at the premium end of the market. JB Hi-Fi's historical adeptness in capital allocation, coupled with the retention of E&S management through FY29, underscores Ord Minnett's endorsement of this strategic move.

E&S is a sound acquisition, suggests UBS, extending into an adjacent customer (commercial) and range (premium), yet this broker suggests interstate expansion is likely to take some time, noting modest brand awareness and some state-based supply arrangements.

The E&S acquisition diversifies JB Hi-Fi's target customer base, notes Macquarie, opening up the premium whitegoods segment and B2B channel. It also presents integration benefits from improved sourcing and distribution costs.

Despite near-term risks due to the current softness in new building, this move offers medium-term growth opportunities and exposure to high-end brands. With JB Hi-Fi's strong market position and strategic investments, including inventory management and store rollouts, the company is well-positioned for sustained growth and profitability, Macquarie believes, supported by macroeconomic tailwinds favouring discretionary retail consumption.

The Valuation Issue

Revenue growth opportunities driven through AI-enabled devices and the replacement cycle of early covid consumer purchases should underwrite demand in FY25-26, Macquarie suggests. Throw in this year's stage three tax cuts, and next year's (presumably) RBA rate cuts, and Macquarie remains positive on discretionary retail.

The broker sees consumer demand as continuing to improve over FY25, hence an Outperform rating with a target increase of 7% to $77.00.

JB Hi-Fi is the best performing retail stock under Citi's coverage year to date. However, this broker believes investors are still underweight discretionary. Given this, and further earnings upside as the consumer recovery takes shape, Citi retains a Buy rating and raises its target price to $85.00 from $74.00.

Morgans expects JB Hi-Fi to outperform its peers during an economic slowdown, but the electronics category is discretionary and is inevitably subject to a contraction in demand. Morgans forecasts operating margins to remain above pre-pandemic levels, but cannot ignore risks to profitability if sales prove softer than the broker expects.

Hence, a Hold rating and target price of $69.00, up from $62.00.

The absence of a discernible trigger for a regression of operating margins to pre-pandemic levels further bolsters the outlook for the company, suggests Ord Minnett. JB Hi-Fi is trading near record highs but the superior operational performance and positive prospects in a surprisingly firm retail sector means this broker's Sell recommendation can no longer be justified.

Ord Minnett thus upgrades its recommendation to Hold and lifts its target price to $68.00 from $51.00.

Morgan Stanley does not typically wax lyrical in its initial response to corporate results. The broker acknowledges AI-enabled devices are expected to provide future runway for growth, and an increase in the AI PC product range. Telco is also an opportunity, however, the timing is more uncertain.

Without clarification, Morgan Stanley retains an Underweight rating and a $54.70 target.

This leaves the six brokers monitored daily by FNArena and covering JB Hi-Fi evenly split on two Buy or equivalent ratings, two Hold and two Sell. The consensus target is $69.62, on a wide range from Morgan Stanley's $54.70 to Citi on $85.00.

Jarden similarly has an issue with valuation.

JB Hi-Fi is one of the global leaders in consumer electronics, Jarden admits, and continues to execute well, through category innovation and cost control. But Jarden is of the view JB Hi-Fi shares are expensive on a relative basis with the company finding it increasingly challenging to take market share at a similar pace.

The company is already a top three player in telco and number one in AV/IT/appliances/games, with some 30% of the total electronics market in Australia. It faces competition from direct-to-consumer from the likes of Apple, Samsung, Dyson and others along with newer entrants such as Officeworks ((WES)). Supplier support will likely ease, in Jarden's view, as competition lifts.

With that in mind, and trading at a five-year high PE multiple, Jarden retains Underweight, while lifting its target to $64.80 from $50.50.

AUSTRALIA

Aurizon: A Dividend Downer For Investors

Bulk earnings continue to weigh on Aurizon Holdings with coal volumes under pressure in H2 FY24. Higher costs eroded the result and the outlook for FY25.

-Aurizon's dividend disappointed in FY24 (and likely beyond)
-Sustainability of bulk earnings questioned
-Earnings downgrades underwrite lower target prices

By Danielle Ecuyer

For a company which is treasured by investors for its dividend yield, the latest FY24 results from Aurizon Holdings ((AZJ)) left a sour taste in shareholder's mouth.

The decline in the share price on the day reflected the disappointment on the lower-than-expected 2H24 dividend of 7.3c, some -9% below forecasts; the result of a weaker-than-anticipated performance.

Ord Minnett failed to hide its disappointment as the three major divisions of network, coal and bulk all pulled up stumps which were lower than the analyst's forecasts.

Are bulk earnings sustainable?

Morgans states 2H EPS slipped -24% below consensus which was attributed to a "material" lift in net interest costs and higher depreciation and amortisation charges.

Jarden, not a daily monitored broker, zoomed in on the bulk business which revealed a -17% decline in 2H earnings before interest and tax. Reasons for the fall included wet weather, issues with the customer ramp up, and a softer performance from grain.

After a host of bulk misses on multiple reasons, Jarden is questioning if the "one-off" reasons represent fundamentally based issues, such as more exposure to lower quality counterparties, or problems with the location of growth and customer targets, or just "bad luck".

Whether the disappointing results for bulk are "non-recurring" or structural, Jarden positions its FY25 and FY26 earnings forecasts well below consensus, awaiting confirmation the company can significantly improve the outlook.

Morgans is looking for "moderate" growth in bulk over 2024, with the analyst stressing over circa $2bn in capital has been invested into bulk and the division's EBITDA needs to rise by over 20% for Aurizon to generate the goal of double-digit earnings return (pre interest and tax) on the investment.

The company's touted growth from the Northern Iron contract, Morgans suggests, is a possible question mark over this division's earnings sustainability with this contract extending for only three years.

Macquarie is equally cautious on bulk, but UBS seems more relaxed, noting network and bulk EBITDA reported earnings were in line with estimates and have been guided to grow in FY25.

Macquarie refers to management's target of 10% return on invested capital for bulk and containerised freight, which equates to four times or $200m above current earnings.

Barrenjoey emphasises bulk has the potential to be the earnings driver for Aurizon. With the investment spend completed between FY22 and FY24, new contract wins could provide leverage. The success or otherwise of this division is seen by Barrenjoey as **the key to growth and investor sentiment**.

Evans and Partners also weighs into the bulk division's travails. This analyst, like others, is concerned about "the lack of progress across these divisions". Bulk central's ongoing underperformance and absence of new contract wins since 1H is highlighted as the disconnect between ongoing investment (-$30m at Flinders Port Logistics) versus new customers.

With a -$2bn investment in bulk since FY22 and a $101m earnings before interest and tax contribution in FY24, Ord Minnett is also seeking earnings growth into the future. This broker believes evidence of benefits from the investment would assist investors' faith and market confidence in Aurizon's strategic aims.

The coal engine beholden to export markets

Turning to coal, Macquarie highlighted an earnings before interest and tax rebound of 25% including an increase in the network tariffs by 25%. Whereas Citi assesses 2H coal volumes were around -3% below expectations. Queensland was flat over the period and export data are inferring year-on-year falls over the June quarter.

Citi cautions the 1HFY25 annual comps on thermal coal and NSW could be challenging with an overall tough

1HFY25 and more growth pushed into the 2H. Increasing depreciation/amortisation charges also risk pushing flat EBITDA results into falling operating profits.

UBS homes in on coal margins, which continue to be challenged to return to pre-covid levels. In the absence of sizable cost savings or re-pricing, UBS analyst believe coal margins will not revert.

Barrenjoey turns to network as the most significant contributor to EBITDA in FY25 because of an increase in the maximum allowable revenue of around $80m. But when it is combined with higher costs and yields normalising, the expected increase in coal volumes is not forecast to deliver more than a flat FY25 EBITDA result, the analyst states.

For Evans and Partners, FY24 coal EBITDA proved in line, up 16% on the previous corresponding period. Higher volumes were countered by increased operating costs and the customer mix.

Brokers seek more confidence in earnings growth

When it comes to the balance sheet, capital management and the payout ratio, the six brokers monitored daily have a mixed view on the outlook for Aurizon.

A reduction in gearing is the reason Barrenjoey ascribes to the resumptions of higher capital distributions. An 80% dividend payout and $150m share buyback equals around a 115% total payout or circa 7.6% distribution yield, the analyst estimates.

Macquarie affirms management's position of buybacks (reinstated after three years at this result) will continue to utilise the company's balance sheet. UBS gauges the buyback as a return of capital more than 100% of FY25 EPS forecasts or circa 110% on its estimate, as reflective of management's desire for flexible capital management on shareholder returns.

In line with EPS downgrades, Morgans lowered its dividend forecasts by -3% to -16% for FY25 to FY27 assuming an 80% payout ratio.

Turning to the FY25 outlook, Macquarie slices EPS forecasts by-16% and -12% for FY25 and FY26. Macquarie has a target price of $3.60, together with a Neutral rating.

Morgan Stanley raises its rating to Equal weight from Underweight with a revised target price of $3.55, down from $3.77. This broker considers the valuation as "reasonable" with Aurizon making some progress on the non-coal growth, although risks remain in terms of implementation, including the conversion of trials into contracts for the likes of land-bridging for car importers.

Jarden (not monitored daily) believes the company will be challenged to retain its circa 80% dividend payout target, although the announced $150m buyback is considered as a peace offering to shareholders.

Jarden has downgraded the stock to Underweight from Neutral and lowered its target price to $3.25 from $3.75.

Post the fall in the share price in response to the result, UBS assesses most of FY25's downgrade through management's guidance in combination with lower dividend expectations are now discounted. UBS rates the stock as Neutral; target price $3.40.

Citi has a Neutral rating and target price of $3.55.

Morgans expects capex to increase to -$560m-$640m excluding -$80m in transformation costs. With a Hold rating, Morgans believes the long-term value of network and coal is curbed by the outlook for coal export markets, but both should generate sufficient returns to offer shareholders dividends and cash returns, while offering investment options into bulk and freight. Target price $3.42.

Barrenjoey states maintenance capex at around -$680m, up from the circa -$500m per annum invested in One Rail, includes cost inflation and around 60% will generate a regulated return. Barrenjoey is another broker seeking more sustainable earnings growth to become more positive on Aurizon. The stock is rated Neutral along a revised target price of $3.60 from $4.10.

FY26 will be a "pivotal year" for Aurizon, Evans and Partners predicts, as expected flat coal earnings will need to be offset by bulk and containerised, with these strategies yet to deliver. This broker has reduced its valuation to $3.72 together with a Neutral rating.

Ord Minnett has downgraded to Hold from Accumulate and slices its target price to $3.60 from $4.10. This analyst seeks increased earnings growth to re-establish confidence in the outlook for the company and for an improved view on Aurizon.

All of Ord Minnett, Morgans, Macquarie, Citi, UBS and Morgan Stanley make up FNArena's daily monitored coverage for Aurizon Holdings. The average target price from these six brokers post FY24 disappointment (yet again) is $3.52, suggesting the share price might look a little undervalued. All six have a Neutral/Hold (equivalent) rating for the shares.

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

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

AUSTRALIA

The Seek Conundrum

Seek's miss on earnings and guidance was all about hard-to-predict job ad volumes, but strong yield, market share gains and solid operating leverage have brokers looking forward to better times ahead.

-Seek's FY24 earnings and FY25 revenue guidance disappoint
-Yield growth nonetheless impressive
-Cost control suggests strong operating leverage
-Re-rate opportunity when the RBA starts cutting

By Greg Peel

As was the case in February when digital employment classifieds company Seek ((SEK)) posted its first half result, its full year result was also a miss on most financial metrics. More significantly, FY25 guidance was even more disappointing, and the likely driver of a -7% share price hammering on the day (the share had been weak already beforehand).

The miss surprised, particularly given Seek provided a market update on its Zhaopin (China) impairment as late as July 25, but did not take the opportunity to provide updated guidance.

"Seek needs to improve the timeliness of its updates to the market (particularly on cyclical-related matters out of its control," suggests Jarden, "as we think the guidance miss (largely on volume) has overshadowed strong operating outcomes such as 13% yield growth in Australia/New Zealand".

And therein lies the crux of the matter. Seek's revenues are dependent on job ad volumes, which are economically cyclical and out of the company's control. What it can control is the yield it achieves on its ads through dynamic pricing and various advertising options, as well as its costs.

Since peaking in FY22, when the local employment market was tight and filling positions was difficult post-covid, job ad volumes have been on the decline. Seek's FY25 guidance assumes a further "low-teens" percentage decline in volumes in A&NZ and "low single digit" declines in Asia.

Jarden infers volumes will be -10% below "mid-cycle" in FY25. Where mid-cycle volumes sit is critical to valuing Seek, the broker notes, but forecasting volumes is difficult.

Seeking Volumes

The key debate, suggests UBS, is whether Seek's volume guidance is a worse-case scenario or a reasonable outcome. More importantly, the broker sees Seek's volume weakness as being largely cyclical rather than structural; it is not losing market share -- which suggests a strong re-rate opportunity when the volume outlook stabilises.

Indeed, Seeks' share of job placements in FY24 increased in A&NZ to 32.8% -- the highest level in four years.

But exactly when will the volume outlook stabilise? Australia's unemployment rate has remained stubbornly low through the RBA hiking cycle which began in 2022, but recently it has been creeping up. This is not a bad thing as far as economists are concerned, as rising unemployment will be a prompt the RBA needs to start cutting.

Expectations for when that will be have been pushed out to later in 2025, given sticky inflation, but brokers agree volumes can increase once cutting begins, which is likely an FY26 story.

Macquarie's analysis suggests job ad growth follows rate changes with a 12-month lag. So don't hold your breath. But Macquarie also suggests expectations are now sufficiently rebased lower into FY25.

Yield

Seek delivered another year of strong yield growth, particularly in A&NZ, where second half yield growth of 16% exceeded its February guidance of 10%, as the company continues to flex its variable price lever. UBS remains constructive on Seek's pricing power over the medium term supported by strong placement share.

This is likely to drive flat margins in FY25. Looking into FY26, UBS assumes compound annual yield growth of 9%, with potential further upside from outcomes-based pricing initiatives, such as pay per qualified applicant and pay per hire, which are currently in experimental phase.

Operating Leverage

Seek re-iterated that following completion of Asian unification, cost growth would not exceed mid-high single growth per annum, so any significant recovery in volumes would drive strong operating leverage.

With the technology infrastructure spend now largely complete as of end-FY24, Morgans expects Seek to utilise the flexibility in its cost base (noting mid-to-high single digit cost growth through the cycle) and show overall operating leverage. Indeed, this broker expects widening "jaws" (revenue growth exceeding cost growth) if volumes recover to mid-cycle levels over time.

Total FY25 cost guidance is for a 5% year on year increase excluding unification spend. Management is indicating revenue growth should exceed total cost growth (opex plus capex) implying margin expansion. Given the track record, Macquarie suggests investors are right to be cautious on this front, although the broker thinks the likelihood increases post-unification.

Morgan Stanley views Seek as the deepest cyclical amongst the digital classified stocks, and for now prefers CAR Group ((CAR)) and REA Group ((REA)), but history suggests the job ad cycle will eventually turn up again (likely after RBA rate cuts), and when that occurs, the high operating leverage, which is currently hurting Seek's earnings and the share price, will turn around to the company's advantage.

Morgan Stanley thus retains an Overweight rating, with a $31 price target.

Macquarie cites early evidence of dynamic pricing success, alongside increasing discipline on cost management to benefit operating leverage in its decision to upgrade to Outperform from Neutral with an unchanged $23 target.

Now cycling a period in which Seek's performance was robust due to strong domestic listings and candidate shortages driving increased reliance and utilisation of Seek's products, Morgans expects job ad volumes to continue to normalise from the record highs seen in FY22.

However, this broker believes Seek has the ability to pull levers to drive growth in the medium term and retains an Add rating, trimming its target to $25.00 from $25.80.

Despite cutting earnings forecasts, as have all other brokers, UBS reiterates its Buy rating on Seek with the stock trading on a two-year forward forecast earnings multiple more than one standard deviation below the average of the last five years. UBS cuts its target by -6% to $25.40.

Despite being indignant about poor updating, Jarden retains Seek as its top pick in the space, with an unchanged Buy rating. Jarden's target falls to $26.60 from $28.00.

Seek is the number one employment classified player in Australia and New Zealand by revenue, with international operations across Asia, notes Goldman Sachs. This broker nevertheless remains Sell-rated given it believes the company is the most exposed to a near-term deceleration in earnings driven by its cyclical volume exposure against a very robust labour market in 2022.

There had to be one. Goldman has a target of $19.50, well below Morgan Stanley's chart-topping $31.00.

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

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

AUSTRALIA

Resilient CAR Group Motors On

Analysts approve of CAR Group's FY24 result praising the resilience of the domestic business and growth prospects overseas.

-FY24 results for CAR Group in line with expectations
-Dealer revenues grow, Media outperforms
-Requirement for growth investment weighs on margins
-Ongoing strong growth outlook with potential M&A

By Mark Woodruff

Analysts liked FY24 results from CAR Group ((CAR)), citing a resilient Australian business and growth prospects internationally. A slight disappointment on margins is explained by the need for ongoing investment.

The group's FY24 earnings and core profit were in line with consensus expectations, while management guided to "good revenue and earnings growth on a constant currency basis".

CAR Group's domestic platform generated stronger volumes, increased depth uptake and dynamic pricing, explains Morgans, while the international businesses, particularly Trader Interactive in the US and webmotors in Brazil, are also showing operational momentum and improved margins.

The majority of revenues derive from dealers advertising used cars. As there is increasing customer demand for used cars below $50,000, management alluded to a pick-up in leads growth, alongside growth in the dealer business.

Overall, Macquarie describes a "good counter-cyclical result as expected" with management executing on initiatives within its control. Consensus forecasts have risen post the market update due to yield growth in Australia and Brazil, partly offset by less operating leverage (margin expansion) than expected.

This yield growth in Australia and the pace of product innovation in the US (Premium Select) were the main positive surprises for Macquarie within the FY24 result.

Slightly raising FY25 and FY26 revenue forecasts, Citi notes stronger-than-expected revenue guidance (primarily in Australia) combined with a stronger growth outlook for the automotive marketplace, webmotors.

Apart from webmotors, CAR Group's other international investments include: Trader Interactive (US non-automotive marketplaces); Encar (Korean automotive); and various Latin American portals.

Providing a marketplace where both dealerships and individuals can buy and sell used and new cars, along with motorcycles, trucks, and boats, CAR Group also supplies research and reporting, car valuation and software analytics to a number of car dealerships.

Australian dealer revenues grew 12% year-on-year with the contribution from yield, price, and depth roughly equally spit.

Media outperformance

Both second half and FY24 Media revenue growth were a standout at 18% and 20%, respectively, partly driven by the diversification into non-auto, suggests Morgans.

While most market forecasts centre on the outlook for CAR Group's Dealer advertisement products and its Private seller listings, Morgan Stanley considers its expertise on CAR Group revolves around insights on the company's generally underappreciated Media segment, where digital display/banner advertisements are sold.

This broker disagrees with the consensus view the Media division is mature, and growth is limited to upswings in the overall advertising cycle. While the cycle is relevant, the analysts believe this business now has multiple ways to drive higher growth.

Importantly, Morgan Stanley points out the media product suite has potential to be leveraged in other geographies, with both the US and Brazil offering the most upside.

Margins

The group earnings margin of 52.9% in FY24 was -20bps below the consensus forecast. Further, consensus was expecting an earnings margin of 53.8% for FY25, but management guided to a margin similar to FY24, with limited margin expansion expected across any geography.

The FY24 margin 'miss' was primarily driven by the Latin American region, assesses Macquarie.

Investment will remain high in FY25 across Australia, Trader Interactive, and Brazil, and will increase in Korea, notes Goldman Sachs. This investment, alongside business mix (i.e. lower margin Brazil growing fastest) is driving the expectations for flat margins, explain the analysts.

The FY24 dividend of 73cps was 1% ahead of the consensus estimate.

Trader Interactive

While Trader Interactive revenue growth moderated in the second half, Goldman Sachs expects an improvement for FY25.

Dealer acquisition for Trader Interactive was below trend in FY24 with the addition of only 100 dealers on a net basis compared to management's targeted range of 200 to 300.

Largely operating in the United States, this platform focuses on the digital marketplace for non-automotive vehicles and recreational equipment. Users may buy and sell items such as recreational vehicles (RVs), motorcycles, boats, commercial trucks, and heavy equipment.

Near-term earnings margin expansion will be constrained as management invests to catch-up after years of private equity ownership, explains Citi. An increased investment in brand is also expected, which will ultimately be supportive for medium-term growth.

Certainly, UBS see a potential re-rate opportunity for Trader Interactive especially in the event of interest rates easing, which could drive better dealer acquisition.

Outlook

UBS forecasts a 16% compound annual growth rate (CAGR) over the next three years for CAR group, driven by price rises and ongoing growth in average dealer spend from take-up of additional products, such as Premium Select. Ongoing growth is also expected for the new adjacencies - Private and Media.

M&A activity also has the potential to further accelerate growth, points out Citi, especially as current leverage is below targeted levels.

There are six brokers monitored daily in the FNArena database with five Buy or equivalent ratings and one Hold rating by Morgans.

Noting that Ord Minnett is yet to refresh research, the average target price for CAR Group has increased to $38.48 from $38.02 following the FY24 result.

Outside of daily monitoring, Goldman Sachs lowered its target by -1% to $40.90.

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

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

COMMODITIES

Material Matters: Nickel, Copper & Gold

A glance through the latest expert views and predictions about commodities: nickel prices nearing a floor; opportunities in copper & Morgans' gold sector preferences.

-Has the bottom been reached for nickel prices?
-Copper price retracement creates opportunities
-Morgans' gold sector preferences

By Mark Woodruff

Is the bottom in for the nickel price?

The nadir for nickel pricing may be approaching, exclaims Morgan Stanley, with the broker's year end price target of US$16,000/t already been met.

Despite potential for short-term rallies as a lot of bad news has already been priced into the market, elevated nickel inventories and a challenging demand environment limit the sustainability of any nickel price rally, in the broker's view.

Global nickel exchange inventories have surged 67% so far in 2024, reaching the highest levels since November 2021.

At the same time, the analysts also see limited further downside to nickel pricing after a pullback in prices to around the 70th percentile of the cost curve, a level where nickel has historically found support.

Morgan Stanley concludes pricing might remain range bound for the time being, noting **the current nickel price is now back close to lows for 2024**, after a brief rally back above US$$21,000/t.

Weighing on the nickel price, lithium iron phosphate (LFP) batteries continue to gain market share, explains the broker, causing the share of nickel-bearing batteries in global deployment to fall to 53.6% in June, the lowest since April 2018.

While stainless steel still accounts for around 70% of global nickel demand, the mantle of key growth driver has passed to batteries, explains Morgan Stanley, which currently account for around 16% of nickel demand.

China's output of stainless steel has been robust so far, yet elevated inventories are likely to create an overhang going forward. Morgan Stanley also sees downside to European stainless steel output.

Low nickel prices are triggering supply responses such as BHP Group's ((BHP)) suspension of its Nickel West division in July, while ongoing production challenges in New Caledonia and weather impacts in Indonesia are tightening up supply, bringing downside risks to projected surpluses for 2024 and 2025.

Copper prices: opportunities after the fall

While Macquarie highlights the recent pullback in spot copper prices to US$3.94/lb, notes potential future volatility, and lowers short-to medium-term copper price forecasts, the broker also points to opportunity for investors to gain share price exposures at current levels.

Certainly, the analysts expect no pause in copper M&A activity as the major miners transact on long-term pricing, as evidenced by BHP Group's recent pairing with Canada's Lundin Mining to expand their copper operations in South America by acquiring Filo Corp. The broker leaves its long-term US$4.08/lb forecast unchanged.

Due to weaker global demand and a slight increase in production, Macquarie lowers its 2025, 2026, and 2027 copper price forecasts by -5%, -4% and -2%, respectively, to US$4.16, US$4.16 and US$3.76/lb. The broker's new copper price estimates are now lower than consensus across 2025-27 by -10%, -12%, and -21%, respectively.

The analysts revise down 2024 Chinese copper demand growth forecasts to 1.2% from 2.9% driven by lower construction and electrification end-use demand, and also lower North American demand growth to 0.5% from 2.5% due to deteriorating economic conditions and a potential US recession.

For stocks under coverage by Macquarie, the biggest casualties in terms of target price are the commodity pure plays Sandfire Resources ((SFR)) and Capstone Copper ((CSC)) with respective falls of -5% to $9.40 and -6% to $12.40.

Capstone Copper remains the broker's top pick in the sector among larger caps due to its strong organic growth and potential for portfolio optimisation.

The impact of Macquarie's lowered copper price forecasts on the major miners like BHP Group, Rio Tinto ((RIO)), and South32 ((S32)) is relatively small with falls in targets of between -1-2%. The impact on gold companies (with copper exposures) like Newmont Mining ((NEM)) and Evolution Mining ((EVN)) is also minor.

Among the smaller names, 29Metals ((29M)) and Aeris Resources ((AIS)) display the largest downside to copper price changes due to their comparably high-cost operations and leveraged balance sheets, caution the analysts.

To access Macquarie's latest target prices for the above-mentioned stocks, as well as for copper exposures Aurelia Metals ((AMI)) and Carnaby Resources ((CNB)), subscribers may refer to the FNArena Broker Call Report (dated August 12) or go to Stock Analysis.

Morgans' gold sector preferences

Since mid-February, the Australian dollar and US dollar gold prices have risen by 19% and 17%, respectively, as global conflicts fuel uncertainty and demand for the precious metal, explains Morgans.

Buying by central banks adds a further tailwind, along with uncertainty around interest rates and sticky inflation. Adding to gold's attractiveness, speculators are anticipating rate cuts in the second half of 2024.

While sustainable and growing production profiles for stocks like Red 5 ((RED)), Westgold Resources ((WGX)) and Catalyst Metals ((CYL)) demand a premium as spot prices generate strong cashflows in the immediate term, **reserve profiles are more valuable in the longer-term** as consensus long-term forecasts increase, highlights Morgans.

Reflecting gold spot price gains, average gold sales in the June quarter for the ASX Gold sector lifted to $3,413/oz from $3,070/oz.

Achieved sale prices were further complemented by hedge book closures/restructuring for certain stocks including Catalyst Metals, Bellevue Gold ((BGL)), Capricorn Metals ((CMM)), Regis Resources ((RRL)), and Westgold Resources.

While cost pressures persisted in FY24, despite easing supply chain issues, the metric for average all-in sustaining cost (AISC) per ounce for producers fell by -1% over the June quarter.

The nickel sector downturn has allowed for increased availability of both people and equipment to enter the previously tight market, explain the analysts.

Persistent cost or operational bottlenecks may place pressure on margins (relative to peers) for companies trading on multiples that imply significant growth such as Bellevue Gold, Genesis Metals ((GMD)) and Pantoro Ltd ((PNR)), cautions the broker.

Standouts with the lowest AISC's, notes Morgans, are Ramelius Resources ((RMS)), Capricorn Metals and Northern Star Resources ((NST)).

At the other end of the spectrum for AISC are Ora Banda Mining ((OBM)) -which recently missed AISC guidance due to weather events during ramp-up- and Genesis Minerals ((GMD)) which continues to accelerate its growth strategy at Leonora and in the Laverton region, explains the broker.

At the smaller end of the market, Morgans prefers Catalyst Minerals, Red 5 and Westgold Resources.

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

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

RUDI'S VIEWS

Rudi's View: August Results - Early Beginnings

In this week's Weekly Insights:

-August Results: Early Beginnings
-FNArena Talks

By Rudi Filapek-Vandyck, Editor

August Results: Early Beginnings

Share price movements are not the most reliable indicator thus far in July and August.

Contrary to what investors might assume, the Q2 corporate earnings season in the US is not a big failure.

Share price weakness over there is more plausibly explained through Gen.Ai scepticism and macro-inspired investor angst. Forced selling because hedge funds and others got burned through the yen carry trade hasn't helped either.

In flagrant contrast with weak sentiment in the first two weeks of August, believe it or not, corporate performances in the US have mostly surprised to the upside, including trading updates and forward-guidances delivered. On data crunching undertaken by **S&P Global Market Intelligence**, Q2 EPS growth for the S&P500 has improved to 12.03% from 8.17% over the past four weeks.

That's one big jump in defiance of widespread concerns about too high valuations carried by too high expectations.

US financials have thus far led the positive surprise, as well as consumer discretionary companies. The big disappointment is the energy sector. S&P Global's consensus snapshot as per August 9th is shown below.

S&P 500 EPS (Normalized) Growth Rates – As of 9th August 2024 (CQ2 2024 & CY 2024)

Sector index	CQ2 2024	CQ2 2024 Growth	CY 2024	CY 2024 Growth
Communication services	$3.86	27.37%	$15.54	24.45%
Consumer discretionary	$15.16	11.99%	$57.26	11.45%
Consumer staples	$9.72	2.49%	$39.50	4.14%
Energy	$12.59	0.82%	$51.98	-10.26%
Financials	$11.80	17.02%	$44.51	11.51%
Healthcare	$20.76	15.62%	$80.81	5.86%
Industrials	$12.44	-1.69%	$46.75	3.82%
Information technology	$30.13	18.43%	$131.59	17.88%
Materials	$7.38	-7.54%	$26.14	-2.99%
Real estate	$1.74	-5.16%	$6.70	1.67%
Utilities	$4.19	7.44%	$20.49	10.07%
S&P 500	$60.24	12.03%	$240.95	9.77%

In terms of general statistics, 77.9% of companies reported have beaten EPS estimates and 62.3% of companies reported have beaten Revenue estimates, with 53.9% beating both EPS and Revenue.

Note how the percentage of EPS beats remains higher than top line beats, with both percentages better than the prior Q1 season.

One thing that stands out is those companies beating expectations are not by definition rewarded for it.

To experienced market observers, this means macro drivers are currently dominating investor sentiment and short-term trends. Add ongoing investor angst about elevated asset prices and it's probably fair to observe corporate earnings have been relegated to the back burner, unless they're well off the mark in a negative sense.

Deteriorating economic indicators might have re-opened the public debate about a recession or not for the US economy later this year, analysts at RBC Capital have spotted no confirmation in transcripts from corporate conference calls with investors these past number of weeks.

Rather, they say, most commentary seems to confirm the US economy is slowing, but so far without any dramatic consequences. Consumer spending appears less impacted at the higher end of society, which is not dissimilar from observed dynamics in Australia and elsewhere. General caution remains directed at the situation inside China. Inflation pressures are abating.

RBC Capital found references to 'uncertainty' and 'risk' have been much lower than in 2016 and 2022. As the Q2 reporting season winds down, RBC Capital analysts report "we remain struck by how solid the overall stats look". Results and forecasts for technology companies have remained positive.

Results In Australia

In Australia, the season for corporate earnings updates is only gradually warming up. An acute shortage in experienced accountants is, apparently, responsible for most local companies releasing their financial numbers late in the month.

On Monday August the 12th, when I am writing these sentences, the **FNArena Corporate Results Monitor** still shows assessments of 24 updates only. In February, the total number of market updates accumulated to 387 throughout the season. This gives us a good insight into where we stand today, and what is yet to come over the three weeks ahead.

On FNArena's assessment, 10 out of the first 24 companies managed to outperform expectations, which is a relatively high percentage (41.7%) but nine updates disappointed and that's a high percentage too (37.5%). The first contrast with US equities is that outperformers locally still are being rewarded, if not on the day of release, then as soon as the macro allows it.

That observation stands for AMP Ltd ((AMP)), Car Group ((CAR)), JB Hi-Fi ((JBH)), Life360 ((360)), Light & Wonder ((LNW)), News Corp ((NWS)), Pinnacle Investment Management ((PIN)), REA Group ((REA)), ResMed ((RMD)), and Vista Group International ((VGL)).

The added observation is that six stocks out of that list are part of the higher-valued market segment that has been responsible for most of the local share market's gain throughout the year past. In other words: a strong performance on above-average PE multiples is not by definition a deterrent for further upside (this is even more the case when the result forces analysts to upgrade forecasts and their valuation).

In line with observations made in past reporting seasons, often a strong share price performance (and above average PE) is merely a reflection of the market's confidence this company is performing well, with more to follow. More often than not, on my observations, reporting season tends to confirm that confidence is warranted.

Not all the companies mentioned have as yet been fully assessed (the Monitor waits for analysts responses and they are not instant) but early indications are if companies surprise positively the average price target from the brokers monitored daily moves higher. The only exception to date has been Champion Iron ((CIA)), producer of iron ore.

Among the disappointments to date we find Audinate Group ((AD8)), Aurizon Holdings ((AZJ)), Mirvac Group ((MGR)), QBE Insurance ((QBE)), A-REITs Centuria Industrial REIT ((CIP)) and Charter Hall Long WALE REIT ((CLW)), and Rio Tinto ((RIO)). The latter reported only a small miss in the bigger scheme of things, its share price more a reflection of China troubles and US economic uncertainty.

But what this list shows is that hiding in underperforming, cheaper-priced laggards does not by definition equal a lower-risk strategy. A-REITs have been trading at sizable valuation discounts for the best part of three years now but analysts keep warning the sector is still subjected to falling asset valuations, higher operational costs, too much debt, and a lack of growth and positive catalysts.

Two early disappointments from the two REITs releasing market updates might be enough evidence already analysts' caution is simply warranted.

Might the same observation prove as equally apposite following more disappointment from the likes of Aurizon Holdings and Mirvac Group? Shares in the former are trading near an eight year low while Mirvac shares are at a similar price level as during the peak of the covid sell-off in 2020 but there has been no short-term respite for long-suffering shareholders.

The strong and resilient versus the weak and vulnerable. Whereas most commentators elsewhere only look at the share market in terms of low(er) and high(er) share price valuations, my experience shows result seasons tend to reveal which businesses are strong and resilient and which ones are of lower quality and much more fragile when confronted with macro-economic challenges.

As shown by the relatively high number of earnings 'misses' to date, those challenges remain tangible and large. QBE Insurance never quite manages to update without disappointment lurking somewhere, but at this point positive momentum for the insurance cycle dominates the outlook. AMP, for the first time in a long while, has most analysts adopting a more supportive view as the business no longer operates in freefall.

The first shock of the season has come early in the month with young and upcoming conqueror of the global sound industry, Audinate Group, surprising with lower sales and lower profits for the year ahead. All kudos to Macquarie who'd issued a warning before Audinate pre-indicated its FY24 numbers and FY25 guidance.

The irony resides with Morningstar whose technology analyst doesn't like much listed on the ASX, certainly not the likes of Xero ((XRO)) or TechnologyOne ((TNE)), but then in particular developed a liking for Audinate Group (target of $23 in May).

Equally telling, those same analysts at Macquarie upgraded back to Outperform once the news was out and Audinate shares had received a good old shellacking from traders and dismayed investors.

How best to interpret what has happened? Having given this plenty of thought, I've come to the conclusion Audinate's disappointment is simply the risk that comes attached to your typical small cap company.

Easily forgotten, but this is still only a business that sells less than $100m a year in products and services. Any set back in the order of -$10m has an outsized impact and that's exactly what has happened.

This does by no means imply there are no further risks, and we still have to wait and see how management at the firm deals with ongoing growth pains and operational challenges.

By all accounts, and by most assessments made, Audinate should still have the capacity to develop the global industry standard for digital sound networking. However, similar as with experiences elsewhere (think lithium, cannabis, et cetera) not all megatrends are equally as strong and company size matters.

For more on the company, FNArena published the following on Monday:
https://fnarena.com/index.php/2024/08/12/first-shock-of-the-season-whats-next-audinate/

On balance, there's plenty to like from the early batch of local results. But there's a lot more to come. Too early to draw firm conclusions as yet.

****

FNArena's Reporting Season Monitor (now updated daily): https://fnarena.com/index.php/reporting_season/

FNArena Talks

-Pre-results season interview with Ally Selby at LiveWire Markets:
https://livewiremarkets.com/wires/rudi-why-csl-could-be-headed-for-500

-Danielle Ecuyer talks with The Australian's James Kirby on The Money Puzzle podcast:
https://podcasts.apple.com/au/podcast/if-the-market-has-recovered-shouldnt-you-be-bargain-hunting/id1201031401?i=1000664692977

FNARENA VIDEO

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

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

SPECIAL REPORT

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

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

Model Portfolios, Best Buys & Conviction Calls

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

FNArena Subscription

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

(This story was written on Monday, 12th August, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

RUDI'S VIEWS

Rudi's View: Model Portfolios, Best Ideas & Conviction Calls

By Rudi Filapek-Vandyck, Editor

Morningstar's Best Equity Ideas for ASX-listed stocks (freshly updated) has seen a few changes.

Gone are AUB Group ((AUB)), Newmont Corp ((NEM)) and Pexa Group ((PXA)). Instead APA Group ((APA)), IGO Ltd ((IGO)) and SiteMinder ((SDR)) have been included.

Three in and three out means the selection still have 14 names:

-APA Group

-ASX Ltd ((ASX))

-Aurizon Holdings ((AZJ))

-Bapcor ((BAP))

-Brambles ((BXB))

-Domino's Pizza ((DMP))

-Dexus ((DXS))

-Endeavour Group ((EDV))

-IGO Ltd

-SiteMinder

-Santos ((STO))

-TPG Telecom ((TPG))

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

****

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

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

-Telix Pharmaceuticals ((TLX))
-Temple & Webster ((TPW))
-Universal Store Holdings ((UNI))

****

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, "scrutinising those businesses and industries facing cyclical headwinds and instead focussing on companies with more diverse earnings drivers."

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

Selected names:

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

As well as:

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

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

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

****

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

****

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

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

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

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

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

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

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

****

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

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

****

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

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

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

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

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

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

****

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

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

****

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

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

****

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))

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

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

****

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

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

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

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

****

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

-Aristocrat Leisure ((ALL))
-Domino's Pizza ((DMP))
-Evolution Mining ((EVN))
-James Hardie Industries ((JHX))

-Pilbara Minerals ((PLS))
-Qantas Airways ((QAN))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-Treasury Wine Estates ((TWE))
-Xero ((XRO))

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

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

****

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

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

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

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

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

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

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

****

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

The selected ten:

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

****

Macquarie's ASX Quality Compounders

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

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

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

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

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

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

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

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

FNARENA VIDEO

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

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

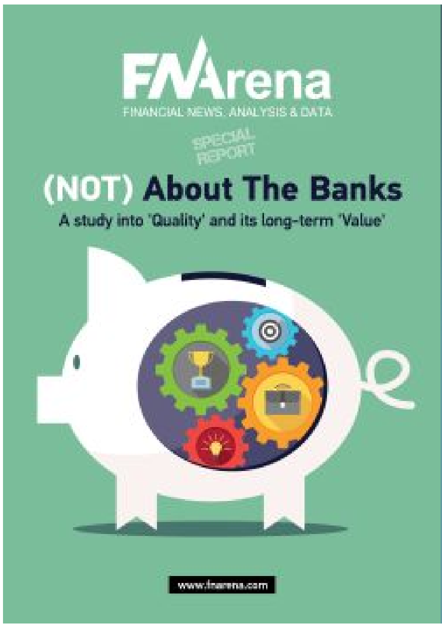
SPECIAL REPORT

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

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

FNArena Subscription

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



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

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

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 09-08-24

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday August 5 to Friday August 9, 2024
Total Upgrades: 6
Total Downgrades: 2
Net Ratings Breakdown: Buy 59.04%; Hold 32.25%; Sell 8.71%

In the early stages of the August reporting season, during the week ending Friday August 9, 2024, FNArena recorded six ratings upgrades and two downgrades for ASX-listed companies by brokers monitored daily.

The size of downgrades to average earnings forecasts and average target prices slightly exceeded upgrades.

Heading up the target price downgrade table below is Audinate Group following weaker-than-expected FY25 guidance by management in the pre-release of FY24 results. Further details will be furnished during the full result release on August 19.

Management now expects FY25 gross profits will be "marginally lower" than the US$44.5m achieved in FY24, which fell well short of Morgan Stanley's prior expectation for around 22% growth.

Macquarie stressed the key driver of a weaker FY25 outlook was over-earning in FY24, not a fundamental impairment of the core business, plus management has already articulated plans to remedy known issues. The analyst raised the company's rating to Outperform from Neutral.

Morningstar regards Audinate shares as materially undervalued as FY25 is likely a transition year, after which growth should re-accelerate and margins will expand again.

FNArena has prepared a dedicated story on Audinate Group, which is due for publication later today.

On the flipside, Pinnacle Investment Management features at the top of the target price upgrade table below following better-than-expected FY24 results.

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

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

For greater detail on both the FY24 result and the outlook for Pinnacle Investment Management please refer to: https://fnarena.com/index.php/2024/08/08/pinnacle-investment-and-the-beat-goes-on/.

Patriot Battery Metals received the largest percentage downgrade to average earnings forecasts last week (-68%) after brokers reacted to the updated mineral resource estimate for the Shaakichiuwaanaan project, previously known as Corvette.

The resource was increased to 142.6mt at 1.38% lithium oxide (Li_2O), which Shaw and Partners noted confirms the company's resource as the largest lithium pegmatite in the Americas.

The analyst noted the project is highly leveraged to higher prices, with the valuation increasing by 30% for every US$100/t rise in 6% spodumene prices.

A preliminary economic assessment is due this quarter, with a feasibility study and reserve update due by September 2025, noted Citi.

While both Shaw and Citi have Buy, High Risk ratings in common, the respective targets prices are $1.80 and 75c, which compare to the latest share price of 48.5c.

Next on the earnings downgrade table is Aeris Resources following a mixed fourth quarter result, according to Ord Minnett.

While the broker's forecasts were adjusted for higher costs and capex in FY25, guided copper production was better than consensus estimates.

The balance sheet remains a concern, noted Hold-rated Ord Minnett, with $24.8m cash, $40m debt, and ongoing refinancing needs. The analyst's target price decreased to 22c from 23c.

Next sits Avita Medical, after Bell Potter last week lowered its target price to $3.20 from $3.50 heading into the company's quarterly result as a point of caution, despite expecting the company will improve on its poor March-quarter performance.

The upcoming first half result will be critical to re-establishing the company's guidance credibility, suggested the broker, following the poor first quarter revenue result where revenues declined by -22% quarter-on-quarter.

Note: Avita's second quarter result was released last Friday (after Bell Potter's update), and some updated broker research will be available via the Broker Call Report today.

The next two positions on the earnings downgrade table were filled by Mirvac Group and Light & Wonder after a respective miss and beat against consensus forecasts.

Turning to earnings upgrades last week, here Transurban Group received the largest increase in average earnings forecast from brokers after in-line FY24 results.

Next are News Corp and REA Group with FY24 results that beat consensus forecasts, while Arcadium Lithium was fourth placed after fourth quarter results missed expectations.

For commentary on these six companies and others that reported last week please refer to https://fnarena.com/index.php/reporting_season/ which also has FNArena's calendar of upcoming results.

Total Buy ratings in the database comprise 59.04% of the total, versus 32.25% on Neutral/Hold, while Sell ratings account for the remaining 8.71%.

Upgrade

AUDINATE GROUP LIMITED ((AD8)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/1/0

Macquarie assessed the FY24 preliminary earnings and FY25 guidance from Audinate Group as an opportuntity to reset the company's earnings outlook and market expectations

The analyst stresses the current share price is only pricing in the audio hardware and while the transition to software could be "challenging" it is viewed as a separate issue to management's earnings downgrade.

Macquarie highlights the significant -58% revision in FY25 EPS forecasts but, Audinate Group's core business remains solid, with strategic plans to address known issues. The transition to software products is expected to improve gross margins.

The target price is revised to $10.50 from $14.40 and the stock is upgraded to Outperform from Neutral.

AMP LIMITED ((AMP)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 3/1/1

Morgan Stanley raises its target for AMP to $1.48 from $1.29 and upgrades to Overweight from Equal-weight following 1H results. Industry view: In-Line.

The broker suggests the current share price represents a compelling buy-case based on valuation and a greater than 30% FY23-25 forecast EPS compound annual growth rate (CAGR).

In summary, the analysts highlight management is achieving consistently on costs, revenue margins and flows, while reducing one-offs and presenting a clearer path to break-even in Advice.

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

Macquarie upgrades its rating for Credit Corp to Outperform from Neutral after the recent share price retracement. There are no forecast changes and the analyst's $18.01 target is unchanged.

In a positive read-through for the company, the broker highlights US operating conditions for competitors PRA and Encore continue to improve with supply, pricing, purchases and collections showing positive trends.

CLEANAWAY WASTE MANAGEMENT LIMITED ((CWY)) Upgrade to Buy from Neutral by UBS .B/H/S: 5/0/0

UBS sees Cleanaway Waste Management aswell positioned to take advantage of global environmental and waste megatrends, a view expressed repeatedly over the years past.

Now that labour markets are normalising, the broker also believes management's growth plans, implying stronger growth than is currently implied by consensus forecasts, are more likely to succeed.

Forecasts are little changed, while the price target shifts to $3.30 from $2.80 and the rating is upgraded to Buy from Neutral.

DRONESHIELD LIMITED ((DRO)) Upgrade to Buy from Hold by Bell Potter .B/H/S: 1/1/0

While Bell Potter lowers its target for DroneShield to $1.25 from $1.60 following a successfully completed $120m fully underwritten placement, the rating is upgraded to Buy from Hold after the recent share price decline.

Proceeds from the placement are intended for a $90m R&D program into greater application of AI in next-generation DroneShield products, explains the broker.

Another $20m will be spent on potential strategic bolt-on acquisitions, note the analysts, with the balance to cover the offer costs and further working capital.

REA GROUP LIMITED ((REA)) Upgrade to Buy from Hold by Bell Potter .B/H/S: 5/2/0

Bell Potter anticipates a strong FY24 performance by REA Group when releasing FY24 results tomorrow and upgrades to Buy from Hold following the recent share price pullback.

The analysts point to positive operating conditions, underpinned by ongoing increases in total loan originations supported by recent tax cuts and potential for upcoming interest rate cuts.

Bell Potter forecasts revenue and earnings (EBITDA) of $1,468m (consensus $1,443m), and earnings (EBITDA) of $809m (consensus $813m).

The target rises to $218 from $203.

Downgrade

BRICKWORKS LIMITED ((BKW)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/4/0

Despite the potential for anemic US earnings in the next 6-9 months, UBS prefers US building materials exposure over exposures in the A&NZ region.

While UBS' proprietary data show 2024 market volumes are broadly flat year-on-year, large US builders continue to take market share and pricing traction for building materials companies remains.

The analyst remains cautious on Brickworks and reduces the target by -8% to $30 due to a softer Australian building materials outlook and a decrease in the broker's property valuation driven by increasing capitalisation rates.

RAMSAY HEALTH CARE LIMITED ((RHC)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 1/5/0

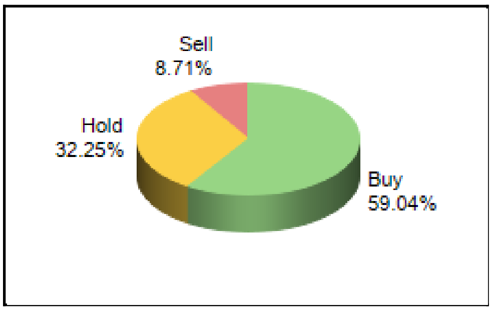
Ord Minnett downgrades Ramsay Health Care to Hold from Accumulate in response to the company's trading update, which revealed hefty asset write-downs and charges (mainly in Europe and Britain) and higher interest and depreciation and amortisation charges.

The imposts were expected but not quite so soon, observes the broker, and these overshadowed signs of improvement in labour productivity and activity.

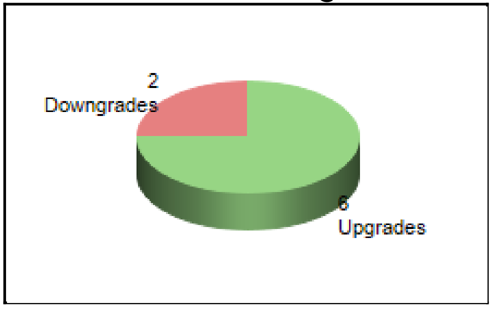
Ord Minnett now doubts earnings (EBIT) margins will recover to pre-covid levels.

Target price falls to $46.80 from $49.40.

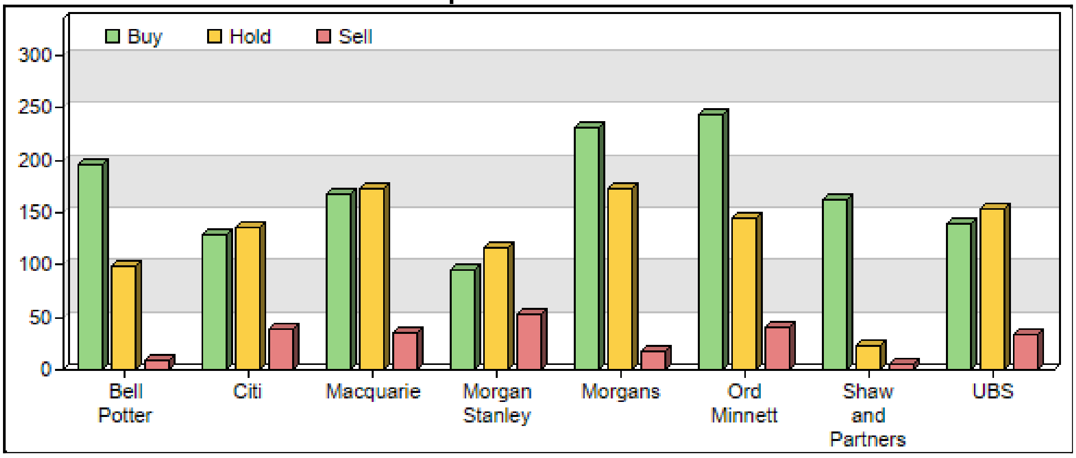
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	AMP LIMITED	Buy	Neutral	Morgan Stanley
2	AUDINATE GROUP LIMITED	Buy	Neutral	Macquarie
3	CLEANAWAY WASTE MANAGEMENT LIMITED	Buy	Neutral	UBS
4	CREDIT CORP GROUP LIMITED	Buy	Neutral	Macquarie
5	DRONESHIELD LIMITED	Buy	Neutral	Bell Potter
6	REA GROUP LIMITED	Buy	Neutral	Bell Potter
Downgrade				
7	BRICKWORKS LIMITED	Neutral	Buy	UBS
8	RAMSAY HEALTH CARE LIMITED	Neutral	Buy	Ord Minnett

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	PNI	PINNACLE INVESTMENT MANAGEMENT GROUP LIMITED	18.295	16.170	13.14%	4
2	GTK	GENTRACK GROUP LIMITED	11.233	10.450	7.49%	3
3	AMP	AMP LIMITED	1.262	1.186	6.41%	5
4	LNW	LIGHT & WONDER INC	179.800	170.000	5.76%	5
5	RMD	RESMED INC	35.056	33.342	5.14%	6
6	NWS	NEWS CORPORATION	41.933	40.600	3.28%	4
7	VNT	VENTIA SERVICES GROUP LIMITED	4.233	4.100	3.24%	3
8	CWY	CLEANAWAY WASTE MANAGEMENT LIMITED	2.987	2.903	2.89%	6
9	PMV	PREMIER INVESTMENTS LIMITED	33.033	32.200	2.59%	6

10	REH	REECE LIMITED	21.450	21.033	1.98%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	AD8	AUDINATE GROUP LIMITED	12.740	20.020	-36.36%	5
2	MEI	METEORIC RESOURCES NL	0.320	0.420	-23.81%	3
3	LTM	ARCADIUM LITHIUM PLC	7.088	8.375	-15.37%	4
4	MGR	MIRVAC GROUP	2.112	2.186	-3.39%	5
5	GOR	GOLD ROAD RESOURCES LIMITED	2.000	2.063	-3.05%	4
6	AVH	AVITA MEDICAL INC	4.733	4.833	-2.07%	3
7	RWC	RELIANCE WORLDWIDE CORP. LIMITED	5.442	5.542	-1.80%	6
8	RMC	RESIMAC GROUP LIMITED	1.117	1.133	-1.41%	3
9	BKW	BRICKWORKS LIMITED	30.383	30.800	-1.35%	6
10	PDN	PALADIN ENERGY LIMITED	16.088	16.288	-1.23%	4

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	TCL	TRANSURBAN GROUP LIMITED	34.175	23.600	44.81%	6
2	NWS	NEWS CORPORATION	128.827	102.222	26.03%	4
3	REA	REA GROUP LIMITED	432.380	345.680	25.08%	7
4	LTM	ARCADIUM LITHIUM PLC	15.633	12.900	21.19%	4
5	AD8	AUDINATE GROUP LIMITED	10.620	9.240	14.94%	5
6	RMD	RESMED INC	136.377	118.867	14.73%	6
7	AMP	AMP LIMITED	7.375	6.600	11.74%	5
8	GTK	GENTRACK GROUP LIMITED	9.763	9.045	7.94%	3
9	PNI	PINNACLE INVESTMENT MANAGEMENT GROUP LIMITED	53.975	51.925	3.95%	4
10	TWE	TREASURY WINE ESTATES LIMITED	54.340	52.740	3.03%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	PMT	PATRIOT BATTERY METALS INC	-9.425	-5.613	-67.91%	4
2	AIS	AERIS RESOURCES LIMITED	-0.933	-0.767	-21.64%	3
3	AVH	AVITA MEDICAL INC	-125.556	-109.278	-14.90%	3
4	MGR	MIRVAC GROUP	12.075	14.050	-14.06%	5
5	LNW	LIGHT & WONDER INC	400.850	462.550	-13.34%	5
6	BXB	BRAMBLES LIMITED	80.875	88.239	-8.35%	6
7	S32	SOUTH32 LIMITED	12.513	13.429	-6.82%	6
8	RMC	RESIMAC GROUP LIMITED	10.400	11.000	-5.45%	3
9	RRL	REGIS RESOURCES LIMITED	11.700	12.300	-4.88%	6
10	CRN	CORONADO GLOBAL RESOURCES INC	11.451	11.980	-4.42%	5

Technical limitations

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

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

WEEKLY REPORTS

Uranium Week: Aussie Stocks Heavily Oversold?

Industry consultants TradeTech reaffirm the longer term bullish view on nuclear energy and brokers question whether its time to buy Australian uranium stocks?

-U308 transaction volumes remain subdued
-Nuclear energy demand outlook still robust
-Petra Capital's Top Picks

By Danielle Ecuyer

The U308 spot market remained becalmed over the last week with limited activity, reports industry consultant TradeTech.

Volatility in global stock markets didn't help activity levels. The spot price declined -US$0.50 to US$81.50lb and TradeTech recorded four transactions. One was conducted on Monday at US$82lb and three transactions during the middle of the week at US$81.50/lb.

The Mid-Term U308 price indicator is unchanged at US$90lb and the Long-Term Price Indicator stands at US$82lb.

TradeTech also points to the resilience in the prices, even spot, which the consultant attributes to the positive nuclear energy demand backdrop.

Holtec International is one of the latest good demand news stories with the company stating its Palisades Nuclear plant is due to re-open in 2025, post two years of ceased operations.

The plant will require approval from the US Nuclear Regulatory Commission. A decision is anticipated in August.

Generative Ai and the demand for reliable power sources for data centres is also driving demand. TradeTech highlights the CEO of Dominion Energy who announced on its earnings call it is "open" to co-locating a data centre at its Millstone Nuclear Power Plant in Connecticut.

The industry consultant also points to the Canadian push to expand nuclear generation. Ontario Power Generation is planning the development of small modular reactors at the Darlington nuclear site in conjunction with General Electric and Hitachi Nuclear Energy.

On BloombergNEF's projections, China's nuclear power capacity can surpass France's capacity and the USA by 2030. China has 30 reactors under construction.

The Australian government's decision not to renew Energy Resources of Australia's ((ERA)) license for the Jabiluka uranium mine has resulted in the company's response to sue the responsible Minister and others over the decision.

Uranium stocks: mind the gap

Petra Capital will not be dissuaded by the share price action of the ASX listed uranium stocks which have experienced an estimated -55% decline in market capitalisation since January 1st, compared to the uranium term price which has risen 18% year-to-date.

The broker highlights the recent volatility in global share markets has not helped with the average year-to-date decline in uranium producers down -12%; brownfield (sites) off -16%; greenfield (sites) -23% and explorers off -29%.

Despite forecast demand continuing to grow and to exceed supply, Petra Capital stresses the contracting market remains "extraordinarily quiet". Some 31mlbs of contracts have been transacted year-to-date compared to 108mlbs in the 1H2023.

Although 2023 was a robust year, transactions are below replacement rates.

The U308 spot price has been range bound. Uncertainty in the market is attributed to the US waiver process with Russia providing 27% of purchased enrichment capacity in 2023, compared to the August 11, 2024 importation ban, subject to the Department of Energy's potential waivers.

Utilities both in the US and internationally are believed to be awaiting further price certainty and Petra notes US buyers may have pulled through Russian supplies into 2023 and 2024 (no numbers are available yet).

The broker's preferred uranium stocks includes Lotus Resources ((LOT)), with a major de-risking of the company post the signed mine development agreement for Kayelekera, including better royalty rates at 5% and a 30% corporate tax rate. Lotus is Buy-rated with a 41c target price.

Bannerman Energy ((BMN)) is another top pick. Petra is attracted to the cheaper valuation compared to its Namibian peer, Deep Yellow ((DYL)). The broker likes the Etango project which has its mining license and permitting. Bannerman is Buy-rated. Target price $4.51.

This cycle, Petra believes "new frontiers and projects" will be required. This places its two top picks with such exposure, Alligator Energy ((AGE)) and Aura Energy ((AEE)) firmly in the spotlight.

Alligator is developing its Samphire project in South Australia. The broker expects current drilling will provide an increase in the resource plus an increase in the start up potential production to 1.2mlbs per annum. Alligator is Buy-rated with a 11c target price.

Aura Energy (also Buy) has its Tiris project permitted for development and mining. The final investment decision is expected in March 2025. The resource was upgraded to 91mlbs from 55mlbs in June. Target price 45c.

Petra observes the likely 2025 guidance for Kazatomprom which is expected at the 1H2024 results on August 23 could be a market moving event because of ongoing sulphuric acid supply problems.

Citi had Paladin Energy ((PDN)) in focus this week as the broker updated its model on the back of a 15%-20% increase in the expected operating costs for Langer Heinrich.

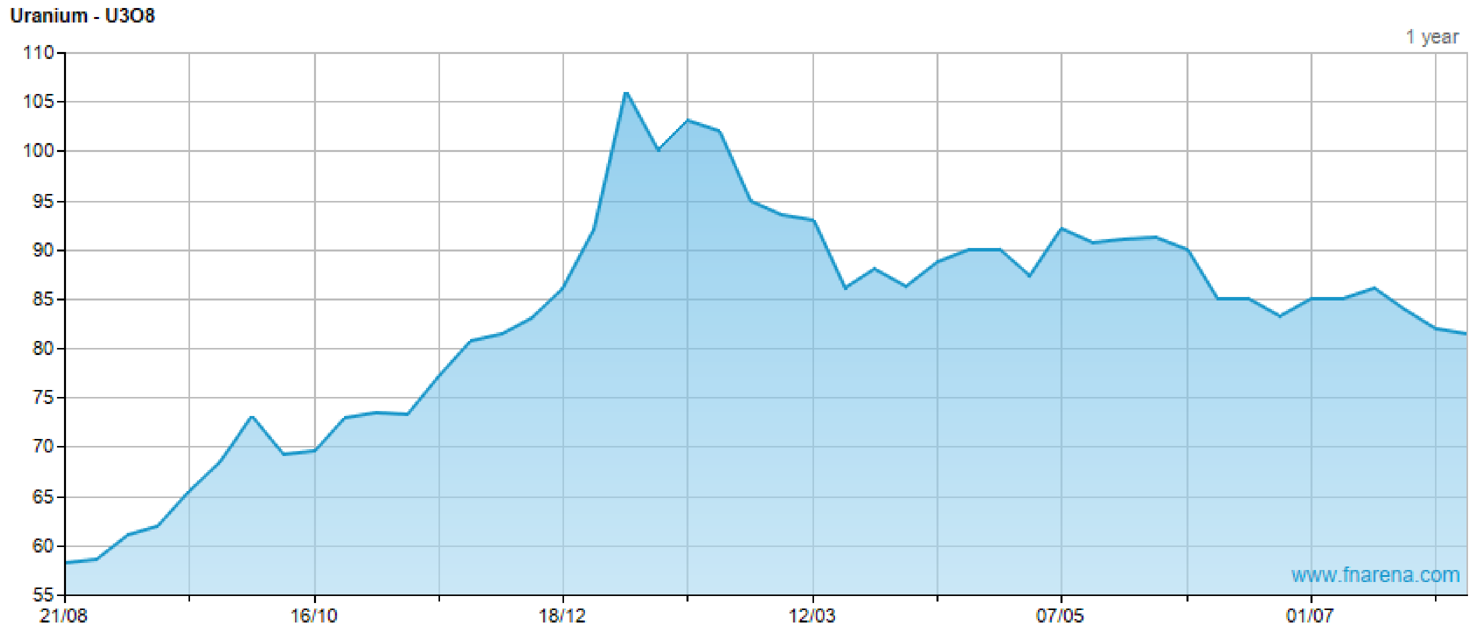
Although the target price is revised to $15.20 from $16 to account for the change in the long-term valuation, at current levels Citi believes the shares offer good value.

Short term, Citi suggests the market's assessment of the Kazatomprom 2024 guidance update is too positive and thus negative for share prices, like Paladin's.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	09/08/2024	0.0600	0.00%	$0.19	$0.06			
AEE	09/08/2024	0.1300	0.00%	$0.36	$0.12			
AGE	09/08/2024	0.0370	▲ 5.71%	$0.08	$0.03			
AKN	09/08/2024	0.0100	0.00%	$0.07	$0.01			
ASN	09/08/2024	0.1000	▲ 5.43%	$0.20	$0.07			
BKY	09/08/2024	0.3000	▲ 4.92%	$0.46	$0.26			
BMN	09/08/2024	2.4400	▲ 4.76%	$4.87	$1.65		$7.400	▲203.3%
BOE	09/08/2024	2.9300	0.00%	$6.12	$2.87	30.3	$5.013	▲71.1%
BSN	09/08/2024	0.0400	▼-20.00%	$0.21	$0.04			
C29	09/08/2024	0.0900	0.00%	$0.12	$0.06			
CXO	09/08/2024	0.0900	▲ 5.49%	$0.57	$0.08		$0.093	▲3.7%
CXU	09/08/2024	0.0200	0.00%	$0.06	$0.01			
DEV	09/08/2024	0.2100	▼- 4.55%	$0.45	$0.21			
DYL	09/08/2024	0.9700	▲ 3.17%	$1.83	$0.81	-67.9	$1.770	▲82.5%
EL8	09/08/2024	0.3000	▲11.32%	$0.68	$0.26			
ERA	09/08/2024	0.0200	▲ 6.67%	$0.08	$0.01			
GLA	09/08/2024	0.0100	▼-50.00%	$0.04	$0.01			
GTR	09/08/2024	0.0040	0.00%	$0.02	$0.00			
GUE	09/08/2024	0.0500	▼-16.67%	$0.18	$0.05			
HAR	09/08/2024	0.0600	0.00%	$0.28	$0.06			

I88	09/08/2024	0.6300	▼- 1.69%	$1.03	$0.14			
KOB	09/08/2024	0.1100	▼-15.38%	$0.17	$0.06			
LAM	09/08/2024	0.5600	▼- 8.94%	$1.04	$0.48			
LOT	09/08/2024	0.2300	0.00%	$0.49	$0.20		$0.685	▲197.8%
MEU	09/08/2024	0.0390	0.00%	$0.06	$0.03			
NXG	09/08/2024	8.6500	▼- 0.12%	$13.66	$7.32		$16.200	▲87.3%
ORP	09/08/2024	0.0600	▼-16.67%	$0.12	$0.05			
PDN	09/08/2024	10.1200	▲ 4.67%	$17.98	$7.25	-78.7	$16.088	▲59.0%
PEN	09/08/2024	0.0900	▲ 7.41%	$0.15	$0.08	30.0	$0.260	▲188.9%
PNX	09/08/2024	0.0040	0.00%	$0.01	$0.00			
SLX	09/08/2024	4.2500	0.00%	$6.74	$2.92		$7.600	▲78.8%
TOE	09/08/2024	0.2700	▲ 3.85%	$0.70	$0.01			
WCN	09/08/2024	0.0170	▲ 6.25%	$0.02	$0.01			



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

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

WEEKLY REPORTS

The Short Report - 15 Aug 2024

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

Summary:

Week Ending August 8th, 2024 (most recent data available through ASIC).

10%+

PLS 22.50
IEL 12.75
LTR 11.91
SYR 11.85
CHN 11.66
LYC 11.30
STX 10.42
CTT 10.05

In: CTT, STX Out: WGX

9.0-9.9%

SYA
FLT
PDN
WGX

In: PDN, WGX Out: STX

8.0-8.9%

GMD
WBT
BOE

In: BOE

7.0-7.9%

SFR
DYL
HLS
MIN

In: MIN Out: ARU, BOE, CTT

6.0-6.9%

OBL
BGL
WEB
CUV
SEK

In: CUV, BGL, SEK Out: MIN

5.0-5.9%

CXO

NAN
IFL
RIO
NUF
LIC
BOQ
DXS
NVX
VUL
LOT

In: LIC, LOT, NUF, VNX   Out: CUV, BGL, PDN, SEK

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.5	0.4	NAB	0.6	0.6
ANZ	0.5	0.5	QBE	0.2	0.6
BHP	0.5	0.5	RIO	5.8	5.6
CBA	1.5	1.5	STO	1.1	1.1
COL	0.8	0.6	TCL	0.8	0.7
CSL	0.4	0.3	TLS	0.4	0.4
FMG	0.8	0.6	WBC	0.8	0.8
GMG	0.4	0.8	WDS	1.1	0.9
JHX	1.1	1.1	WES	1.2	1.1
MQG	0.6	0.7	WOW	0.4	0.4

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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

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

WEEKLY REPORTS

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

Reporting season rumbles on with the winners taking a victory lap; Pro Medicus flexes its reliable muscles; Temple & Webster delivers margins and market share; Ai PCs, the potential growth driver for JB HiFi.

-Pro Medicus' Visage leads global SaaS margins
-Temple & Webster executes yet again
-PC sales turning the corner?

By Danielle Ecuyer

Quote of the week comes from Morgan Housel. It seems terribly aposite in light of the last two weeks and is dripping in irony.

"Be grateful that you lack the intelligence and sophistication needed to blow yourself up in a leveraged yen carry trade during a bull market"

Reporting season is throwing up a few anomalies (again) where analysts scratch their heads trying to align share prices against fundamental prospects and valuations.

This week's results proved to be no different, with three examples including Pro Medicus ((PME)), Temple & Webster ((TPW)) and JB HiFi ((JBH))),

Some share prices trade far and beyond targets, with analysts left to either stand by their conviction on fundamental analysis versus those who audibly sigh with a mea culpa.

Pro Medicus squashes the naysayers (again)

Wilsons describes Pro Medicus as a company which defies "valuation rules".

When searching for reasons the analyst's summary says it all - a **"market enamored by the quality, defensibility and growth rate of their US Visage business".**

The market adoration is "not unfair", Wilsons believes. The latest FY24 results are a salient reminder to the non-believers of what durable earnings growth looks like.

Management's ability to gain market share in a cost-efficient manner stands out, with volume growth supporting margin expansion a key part of the Visage model.

Notably, the US client base diversification continues which improves the earnings quality with a macro backdrop of longer-term growth in the medical diagnostic market.

Goldman Sachs is not so lyrical about Pro Medicus but is happy to affirm the contract pipeline for FY25 as "strong" and reinforces market share gains forecast to rise to over 13% in FY30 from some 7% currently.

This broker envisages 32% revenue growth in FY25 against 29% in FY24 from record contract wins, organic growth in the existing customer base, price growth and additional contract wins.

Just for the record books, Pro Medicus sports the best-in-class SaaS margins globally, states Goldman Sachs, along with a $149 target price and Buy rating.

Yes, the valuation is challenged, Wilsons' analyst stresses, but with an increased forward-looking approach it seems investors are content with paying up for some five years of earnings growth certainty, with further upside potential if some of the new products come to market. Wilsons' target price is $145, the rating Buy.

Among FNArena's daily monitored brokers, Macquarie is the most bullish with a $152 target price (Outperform rating).

Morgans has decided to join "the dance party", highlighting multiple tailwinds including increasing cloud transactions, an improved government stance on cloud security, organic growth and higher sales.

Even an upgrade in the target price to $139 from $85 (not a typo) hasn't matched the post share price rally. (Hold)

While ackonwledging the 34% compound growth rate in EPS over the past five years, and forecasting 32% growth in FY25, Evans and Partners believes a lot of future earnings growth is priced into the shares ($141). The analyst admits the upside potential to increase market share from 7% currently, factoring in a 25% share in 2030 into the $154.34 valuation.

Arguably, the broker highlights, the pace of contract wins will need to move higher to sustain earnings growth off an ever higher base. With so much priced in, E&P downgrades to Neutral from Positive.

Temple & Webster and the true believers

Jarden won best report title: **"Temple of boom"**. The analyst is enthused by management's successful capture of market share which is coming at a faster rate than expected.

The Temple & Webster story divides the brokers with some firmly supping at the longer-term growth narrative against those who want to see more evidence.

Jarden is clearly sipping the cool aid with the latest FY24 results providing more evidence to the analyst the company can scale to be the winning online furniture and home retailing company.

The latest EBITDA margins for FY24 came in some 500 basis points above consensus of 2.1%, making the 15% long-term target achievable, according to Jarden.

Temple & Webster has a FYF26-FY28 revenue goal of $1bn, against $497.8bn in FY24. Jarden takes a more conservative assumption of $1bn by FY29 and looking into the crystal ball, $2bn of revenue in 11 years.

The broker believes at a 15% EBITDA margin versus what is currently priced in at 8%-9%, there is 43% upside to the share price from current levels ($11.71).

Jarden's thesis is predicated on Temple & Webster managing macro headwinds with market share gains or enjoying at some point a reversal to macro tailwinds.

In the analyst's mind it is a win-win scenario. With a $14.10 target price and a Buy rating, Jarden stands above the average target price from daily monitored brokers of $12.09. In that list Morgan Stanley is the highest at

$13.15 (Overweight rating).

Petra Capital is also upbeat, pointing, like Jarden, to the market share gains alongside EBITDA margins at the upper end of guidance.

This analyst notes the Ai benefits are already coming home to roost. When combined with increased brand marketing, Ai has the potential to provide "ammo" to generate sales growth in FY25.

With customer service costs down -30%, Canaccord Genuity highlights the Ai enabled solutions including website conversion from the live chatbot up 10% and Ai created content driving product recommendations.

The $1bn revenue target is on track, Petra believes, because of the retailer's strong position across financials, a flexible business model and robust support from suppliers. Net cash ended the year at $116.4m (including a $12.1m share buyback payment) against $105.1m at the end of FY23. (Buy rated, $13.10 target price).

Canaccord Genuity emphasises Temple & Webster's market share gains against a soft macroeconomic backdrop. The company grew revenues by 26% compared to a -4% market decline in homewares and furniture. As one of the only online commerce companies to accelerate sales post covid, its market share remains at 2.4% compared to a total addressable market of $20bn.

Canaccord calculates a valuation between $11.26 and $20.75, using a long-term growth range of 20%-36% and margin targets. Current target price $13. (Buy rating).

Are Ai PC's the next big thing?

Gen.Ai, you've heard all the hype, is it time to show you the money?

According to Citi, that is what Australia's major PC retailers might be thinking when it comes to Ai PCs.

Citi highlighted in a special PC Market report that 2Q24 data revealed a turnaround in sales. PC units rose 7% year-on-year in the first half of the calendar year.

Consumer and the commercial markets expanded in the first six months by 8% and 5%, respectively, over the previous corresponding period.

Ai PCs are understood to be stealing the PC fashion parade. Citi recounts the industry feedback is upbeat on the forward-looking momentum.

In 2Q Ai PCs increased to 29% of PCs sold versus 18% in the previous quarter.

Given the average selling price for an Ai PC is around 75% higher in the consumer market and circa 36% higher in the commercial market, this provides a positive backdrop for PC revenue growth.

Citi highlights JB HiFi ((JBH)) is the leader in the Australian PC market with an estimated 15%-20% of sales generated in this category. The analyst highlights the value of total PC consumer sales is some 40% higher in 2Q than in Q2 2019.

JB HiFi, Harvey Norman ((HVN)) and Wesfarmers' ((WES)) Officeworks are the three listed companies exposed to the consumer PC Ai market.

Dicker Data ((DDR)) lost the Autodesk contract, estimated at circa $60m of revenue in 1H23 and Citi points to increased focus on the extent to which those foregone revenues can be offset by the addition of Adobe.

For the latest update on JB HiFi's FY24 results and outlook, some recently published stories:

https://fnarena.com/index.php/2024/08/13/jb-hi-fi-does-it-again/

https://fnarena.com/index.php/2024/07/23/treasure-chest-jb-hi-fi/

<u>TERMS AND CONDITIONS OF USE, AND DISCLAIMERS</u>

These Terms and Conditions of Use, and Disclaimers constitutes your agreement with FNArena Ltd with respect to your use of its FNArena website, its weekday news periodical, Australian Broker Call, as well as any other publications (including articles) FNArena may publish on its website, or anywhere else, from time to time.

Please read the contents of this page carefully as it contains important legal information and disclaimers. By entering and perusing the website, reading the Australian Broker Call, or, if you are subscriber, by entering the password protected part of the website, you acknowledge that you have read, understood and accept this agreement.

By accepting this agreement you acknowledge, understand and accept the following:

1. Reference to “FN Arena” and “FNArena” means reference to FNArena Ltd, its journalists, directors, other employees, affiliates, agents, associates and subsidiaries.

2. FNArena Ltd is the owner of the FN Arena website and brand name.

3. Reference to “we” or “us” is reference to FNArena.

4. Reference to “this website” or the “FNArena website” means reference to www.fnarena.com, and includes reference to FNArena’s weekday news periodical, Australian Broker Call, as well as any other publications (including articles) FNArena may publish on this website, or anywhere else, from time to time.

5. Reference to “news periodicals” means reference to FNArena’s weekday periodical, Australian Broker Call, as well as any other periodicals FNArena may publish from time to time on this website, or anywhere else, from time to time.

6. Reference to “publications” in this agreement means any material, including articles, published or put in print on the FNArena website, or anywhere else, whatsoever, and includes FNArena’s weekday periodical, Australian Broker Call, and any other periodicals FNArena may publish from time to time.

7. Reference to a “visitor” means, you, a visitor to this website, and includes a subscriber to Australian Broker Call as well as any other publications or periodicals FNArena may, from time to time, publish through its website.

8. FNArena is a media company which employs financial journalists to report financial news. FNArena’s journalists perform the required research and collect the information that is, ultimately, each day, published on this website and in FNArena’s news periodicals. As is obvious, the process by which the information is collected and delivered to you is a purely journalistic one and, therefore, the comments, opinions and recommendations FNArena reports on this website are not the opinions of FNArena or any of its journalist or other employees. FNArena is ONLY and specifically a

matter-of-fact reporter of industry signals suggesting price direction probability of some shares. FNArena simply delivers the information – it does not create it.

9. Although FNArena obtains the information published herein from sources deemed to be reliable, and given and received in good faith, it cannot and does not guarantee its accuracy. FNArena does not take any responsibility either for the financial soundness or for the correctness of statement made or opinion expressed in the data or content reported by FNArena, and cannot and does not guarantee the reliability and accuracy of the opinions of the brokers whose opinions, recommendations and forecasts it reports.

10. FNArena publishes this website, all publications and its periodicals strictly for convenient personal, non-commercial, educational and informational purposes of its subscribers only. Our goal is to provide the subscribers with a convenient starting point of potentially useful, but not comprehensive, content that can educate or otherwise enhance a visitor's knowledge base and frame of reference.

11. FNArena is NOT a stock broker or financial or trading advisor, nor is it an advisory service of any kind, and no advice or recommendations on investments or trading are made nor implied on this website. Nothing contained in this website is intended to be, nor shall it be construed as, advice or recommendation. Any investment or other decisions made by you must be based solely on your own evaluation of the targeted subject for investment, and your financial circumstances and investment objectives, and FNArena will not be held liable for any such investments and decisions.

12. It is distinctly understood and accepted that the shares referred to in the FNArena website, FNArena's publications and/or periodicals have not been recommended by FNArena. The content and or any comments found of this website, including the content and/or comments published in any publication and/or periodicals published by FNArena, do not constitute a recommendation or endorsement by FNArena with respect to any company, security, share or investment or any financial or investment product.

13. This website makes no representations, and, to the extent allowed by the law, specifically disclaims all warranties, express, implied or statutory, regarding the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any material contained in the website.

14. Before making an investment decision, you must do your own research and rely on your own examination of the share, and the risk involved, and not on what you read on the FNArena website, or in any publication or periodical. The content of this website is provided strictly for convenient personal, non-commercial educational and informational purposes only and FNArena shall not be held liable for any investment decisions, sales or purchase decisions, which you may have made based on what you have read on this website or in the periodicals published by FNArena from time to time, or in any other publications FNArena may publish on its website, or anywhere else, from time to time. Anyone who makes investment decisions based on what they read on this website does so at their own risk, and agrees that they cannot hold FNArena responsible and/or liable for any loss whatsoever.

15. It is your responsibility to evaluate the completeness, accuracy and usefulness of any content made available on this website. If you are unsure, or in doubt about the meaning of any information, you should consult your financial advisor.

16. FNArena does not guarantee any returns on investments made in any share mentioned on this website by the visitors. As any investor well knows, any investment opportunity, strategy or concept involves a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. FNArena strongly suggests that you consult your own financial advisors regarding the soundness of any intended investments, strategies or concepts, and discuss with such advisor your individual investment needs and goals. You may also wish to consult the broker who expressed the opinion we have reported on in the news periodicals we publish.

17. FNArena shall not be held liable to any visitor of the FN Arena website, or any reader of its periodicals and/or publications, or anyone else who may have relied on this website, directly or indirectly, for any inaccuracies in the printed material found on the FN Arena website, in the periodicals and/or other publications, any typing errors, omissions, interruptions, timeliness, completeness, deletions, defects, failure of performance, computer virus, communication line failures, alterations of, or use of any content herein, regardless of cause, for any loss or damage resulting therefrom.

18. Under no circumstances, including, but not limited to negligence, shall FNArena be liable for any direct, indirect, incidental, special or consequential damages that result from the use of, or the inability to use, the FNArena website, and any or the FNArena's publications and/or periodicals.

19. As a condition of use of the FNArena Website, FNArena's publications and periodicals, you agree to indemnify FNArena and all those affiliated with it from and against any and all liabilities, expenses (including legal costs) and damages arising out of claims resulting from your use of the FNArena website, FNArena's publications and periodicals. If you are uncertain about this agreement or the contents of the FNArena's website, or are dissatisfied in any shape or from, with the content of the FNArena website, or any of the publications or periodicals, or you do not agree with these terms and conditions, your sole and exclusive remedy is to discontinue using the FNArena website, FNArena's publications and periodicals.

20. FNArena may, from time to time, publish advice, opinions and statements of various third parties, other than the ten stock brokers, and various other information and content providers. FNArena does not represent or endorse the accuracy or reliability of any advice, opinion, statement or other information provided by these third parties. Reliance upon any such opinion, advice, statement, or other information is at your own risk.

21. The FNArena website may contain links and pointers to websites maintained by third parties. FNArena does not operate or control in any respect any information, products or services on such third-party websites. Third party links are included solely for the convenience of visitors, and do not constitute any endorsement by FNArena of any products or services provided by the third party link owners or operators. FNArena has no control over any websites that we might link to and does not

take responsibility for their quality, content or suitability.

22. FNArena is not responsible for claims made by advertisers on the FN Arena website or in any of its periodicals. Such advertisements are included solely for the convenience of visitors, and do not constitute any endorsement by FNArena of any products or services advertised. FNArena does not check the accuracy of the statements made by the advertisers. You assume sole responsibility for the access and use of third party links and pointers from the FN Arena website, as well as any purchases you may make from those third parties (including advertisers).

23. All the content, information and material made available on this website are provided to you "as is" and without warranty of any kind from FNArena whether express or implied, including, but not limited to, implied warranties of merchantability and fitness for a particular purpose, title, non-infringement, security or accuracy, nor does FNArena endorse or take any responsibility for the accuracy or reliability of any opinion, advise or statement made through the FN Arena website, its periodicals, or for making good all or part of any loss and/or damage that may have been caused by the visitor's reliance on any information, advise, product or service obtained from a linked website.

24. FNArena is not liable for any copyright infringements incurred by any outside content or information contributors, or by third parties who have links to this website, or advertise on this website.

25. FNArena reserves the right to make any and all changes to the FN Arena website, including the publications and periodicals, at its sole discretion without notice to you. FNArena reserves the right to deny access to this website or its information to anyone at any time.

26. This agreement shall be deemed to include all other notices, policies, disclaimers, and other terms contained in the FNArena website, provided, however, that in the event of a conflict between such other terms and the terms of this agreement, the terms of this agreement shall prevail.

27. FNArena shall have the right, at its discretion, to change, modify, add or remove terms of this agreement at any time. Changes shall be effective immediately. Notification of any such changes shall be made herein, therefore, you are strongly advised to read these terms each time you wish to access the FN Arena website or any periodical.

28. No permission is granted to copy, distribute, modify, post or frame any text, graphics, video, audio, software code, or viewer interface design or logos. The entire FNArena website, including the publications and periodicals, is subject to copyright with all rights
reserved. The information contained in the website, including the publications and periodicals, shall not be published, rewritten for broadcast or publication or redistributed in any medium, or for any other reason whatsoever, without prior written permission from FNArena.

29. All original content is the copyrighted property of FNArena.