WEEK 38

FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Friday, 20 September 2024

The Downs And Ups Of Mineral Resources

Rudi's View: Plenty Of Traps In Equity Valuations

Dicker Data Preps For PC Refresh Cycle Upswing

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AUSTRALIA

The Market In Numbers - 14 Sep 2024

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

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

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

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

Australia & NZ

Index	14 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
NZ50	12832.550	1.72%	3.09%	9.52%	9.02%	9.52%
All Ordinaries	8323.50	1.32%	0.08%	3.86%	6.31%	3.86%
S&P ASX 200	8099.90	1.08%	0.10%	4.28%	6.71%	4.28%
S&P ASX 300	8032.60	1.13%	0.11%	4.21%	6.59%	4.21%
Communication Services	1589.30	-0.16%	-1.68%	5.87%	0.07%	5.87%
Consumer Discretionary	3774.70	0.69%	-0.97%	7.50%	16.50%	7.50%
Consumer Staples	12731.80	0.81%	-0.91%	2.86%	3.42%	2.86%
Energy	8634.20	1.86%	-7.38%	-13.93%	-18.72%	-13.93%
Financials	8371.50	-0.79%	1.77%	9.33%	24.61%	9.33%
Health Care	45441.40	0.10%	-0.83%	2.68%	7.32%	2.68%
Industrials	7506.10	0.94%	0.76%	10.20%	9.32%	10.20%
Info Technology	2595.40	1.50%	2.54%	10.84%	41.60%	10.84%
Materials	16187.00	4.17%	-1.89%	-4.10%	-16.95%	-4.10%
Real Estate	4006.00	4.04%	5.30%	12.43%	19.66%	12.43%
Utilities	8732.60	1.80%	-1.54%	-5.95%	6.76%	-5.95%
A-REITs	1829.00	4.10%	5.38%	12.60%	21.74%	12.60%
All Technology Index	3357.70	0.80%	-0.03%	7.00%	24.64%	7.00%
Banks	3547.10	-1.22%	1.67%	11.01%	27.62%	11.01%
Gold Index	8587.00	6.24%	1.07%	16.71%	16.55%	16.71%
Metals & Mining	5256.40	5.00%	-1.86%	-5.30%	-18.71%	-5.30%

The World

Index	14 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
FTSE100	8273.09	1.12%	-1.24%	1.33%	6.98%	1.33%
DAX30	18699.40	2.17%	-1.10%	2.54%	11.63%	2.54%
Hang Seng	17369.09	-0.43%	-3.45%	-1.97%	1.89%	-1.97%
Nikkei 225	36581.76	0.52%	-5.35%	-7.58%	9.32%	-7.58%
DJIA	41393.78	2.60%	-0.41%	5.82%	9.83%	5.82%
S&P500	5626.02	4.02%	-0.40%	3.03%	17.95%	3.03%
Nasdaq Comp	17683.98	5.95%	-0.17%	-0.27%	17.80%	-0.27%

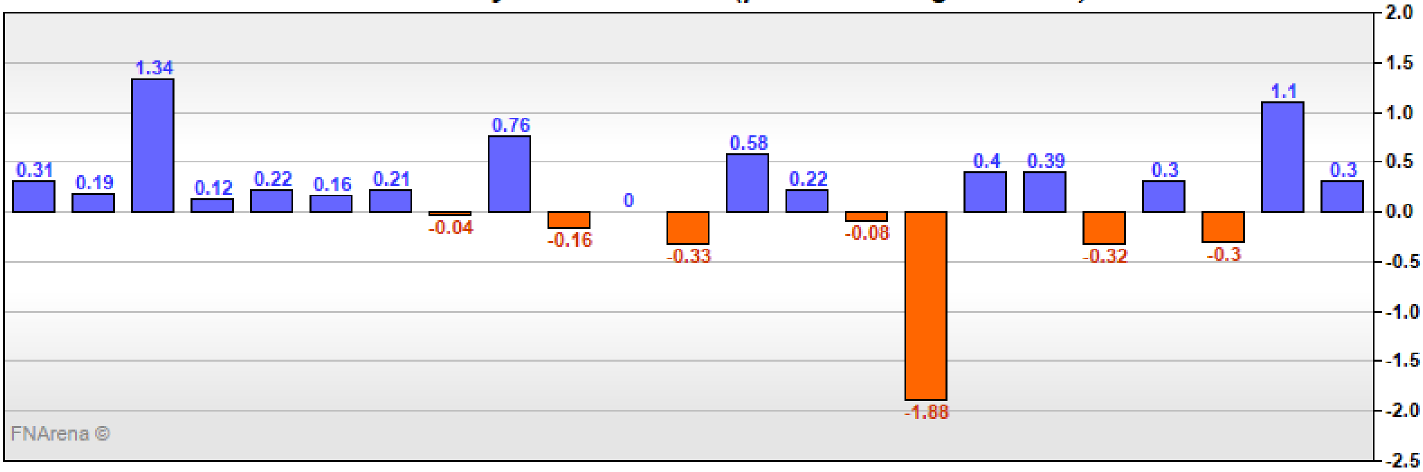
Metals & Minerals

Index	14 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
Gold (oz)	2587.00	1.57%	1.28%	10.65%	26.53%	10.65%
Silver (oz)	30.21	3.57%	1.27%	3.28%	23.91%	3.28%
Copper (lb)	4.2105	1.69%	0.02%	-2.84%	10.57%	-2.84%
Aluminium (lb)	1.0850	1.26%	-2.42%	-3.51%	11.59%	-3.51%
Nickel (lb)	7.2077	-0.44%	-5.90%	-7.33%	-3.08%	-7.33%
Zinc (lb)	1.2888	4.80%	-0.76%	-2.81%	14.60%	-2.81%
Uranium (lb) weekly	81.	1.90%	-0.62%	-3.30%	-6.40%	-3.30%
Iron Ore (t)	93.06	1.93%	-5.65%	-12.63%	-32.68%	-12.63%

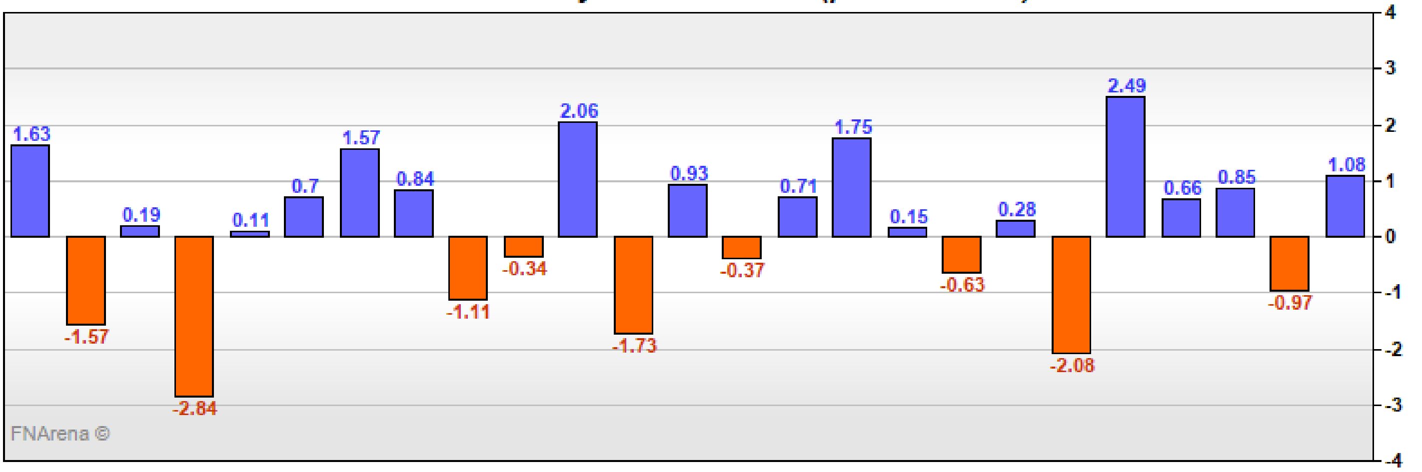
Energy

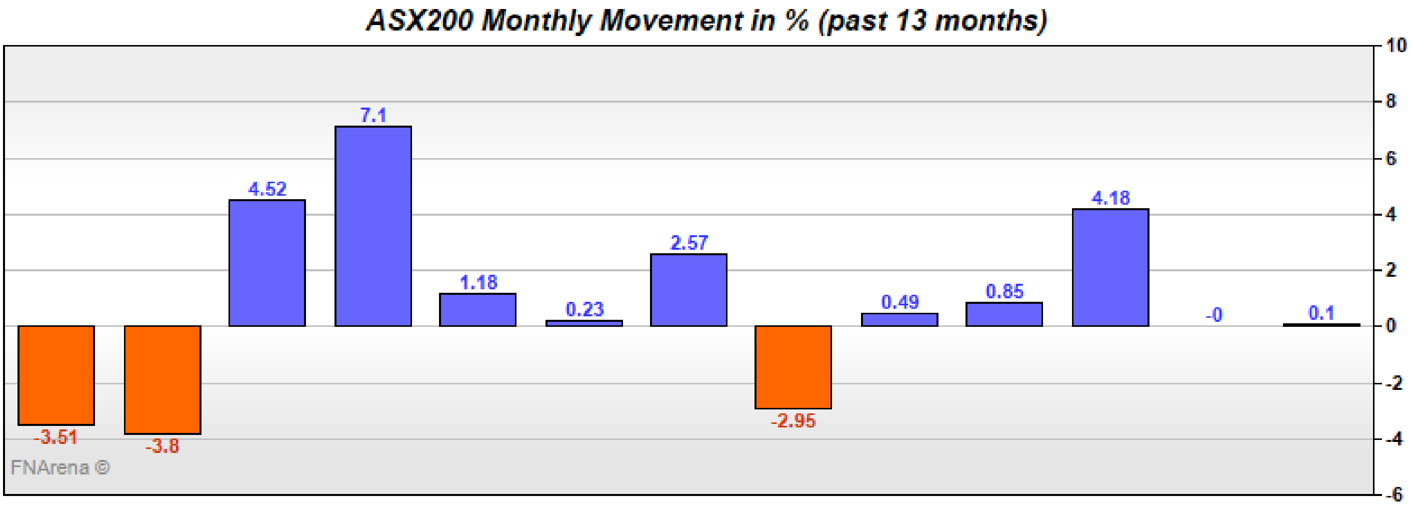
Index	14 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
West Texas Crude	69.19	-0.20%	-9.00%	-15.48%	-6.26%	-15.48%
Brent Crude	70.72	-2.90%	-10.42%	-17.23%	-10.77%	-17.23%

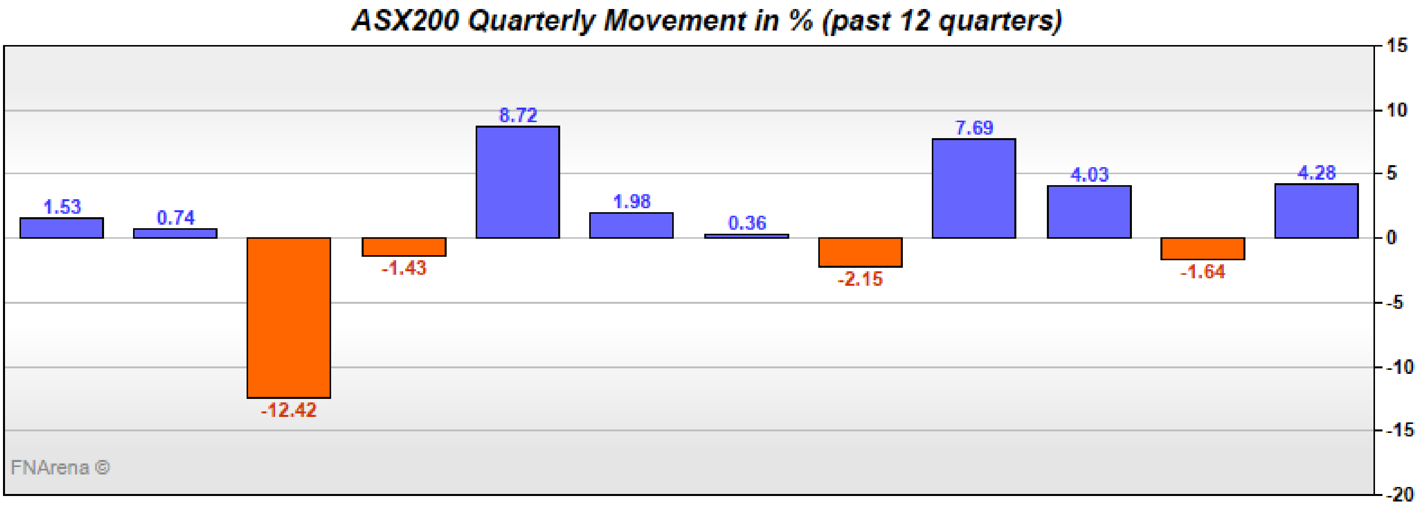
ASX200 Daily Movement in % (past 23 trading sessions)



ASX200 Weekly Movement in % (past 25 weeks)







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

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AUSTRALIA

Brambles Leverages Deep Data Analysis

Informed by data analysis, Brambles sets new medium-term targets with an eye to material volume growth potential over the longer-term.

-The opportunity for Brambles from deep data analysis
-Increased digital spending to expand addressable markets
-New targets out to FY28 in line with consensus expectations

By Mark Woodruff

Following on from consensus-beating FY24 results, management at Brambles ((BXB)) has embarked on an investor tour across the USA highlighting the material global opportunity from improved asset tracking and productivity.

Decisions made by management around pricing, pallet recovery and repair, and asset allocation are being increasingly informed by deep data, highlights Morgan Stanley, resulting in the more analytical organisation focused on optimising profitability apparent in recent years.

As part of a broader strategy to enhance supply chain efficiency and asset management, Brambles will outlay -US$60m in FY25 for the Serialisation Plus program, with future spending based on benefits and a return on invested capital (ROIC) hurdle of over 15%.

Historically, further penetration of global markets has been a compelling source of growth, but outcomes have slowed down in recent years, points out UBS.

By converting new customers to a share and reuse' model, **management sees volume growth potential in the US, Germany and Italy of 60%, 70%, and 70%, respectively.**

With a pool of over 350m wooden pallets, Brambles is highly penetrated into the fast-moving consumer goods (FMCG) supply chain.

In Chile over FY24, management incurred capex of -US$10m (which includes infrastructure) on serialising 2.6m pallets. The 350m global number above helps explain how the spend is stepping-up to -US$60m in FY25, explains Citi.

Specialising in pooled assets across wood and plastic pallets and containers, Brambles is the global leader in reusable pooling solutions, operating in 50 countries across Europe, the Americas, Africa and Asia-Pacific.

In terms of divisional earnings, CHEP Americas and CHEP EMEA each contribute around 45% each to the group total with CHEP Asia Pacific providing the balance.

<u>The opportunity and the cost</u>

An increasing digital spend by Brambles could unlock direct revenue from retailers, highlights UBS.

Beginning with between US$5-10m of sales in FY25, management is targeting over $100m per annum of revenue in the long-term due to an expanded addressable market from better data usage and asset control.

In a nutshell, management has identified previously unaddressed opportunities to convert new customers to its 'share and reuse' model in key growth markets.

A multi-layered deployment strategy -the Serialisation Plus program- utilising pallet and smart tags aims to reduce pallet losses, reduce uncompensated reuse, and improve the customer experience.

As pointed out by Morgan Stanley, scope for further profitability improvement, aided by this serialisation and improved pallet tracking, increases Brambles' moat relative to pooling or white wood competitors.

While new targets presented by management for FY26-28 were largely in line with FY25 guidance, Citi draws attention to the mix, noting more traditional operating efficiencies will be contributing most of the growth.

Specifically, the twin benefits of **automation and operating expense moderation will be the key drivers of margin expansion**, according to the broker, while contributions from digital asset initiatives, the Irrecoverable Pooling Equipment Provision (IPEP), and Customer Solutions should be less material.

Automation and cost control inherently carry less execution risk, point out the analysts, happy there is no over-reliance by management on less-proven digital strategies to hit future targets.

Consistent with the sustainably lower IPEP number in FY24, suggests UBS, management is aiming for margin expansion of more than 2 percentage points out to FY28 from supply chain productivity, asset efficiencies, and overheads.

Targets out to FY28

Brambles is budgeting for FY26-28 Non-Pooling Capex across FY26-28 of between -US$200-300m (including digital and automation).

Over that period, management is targeting sales and EBIT growth of between 4-6% and high single digits, respectively.

At more than US$750m per year (pre dividends), free cash flow (FCF) growth will be slower than EBIT growth due to reinvestment in growth to support volumes and non-pooling initiatives.

This FCF guidance is broadly flat compared to FY24, observes Citi, probably due to the material spend on serialisation.

So far, there is no guidance on serialisation capex beyond FY25 given Brambles is still determining the best model(s), explains the analyst.

However, given a decent ROIC and the base FCF, this investment is considered valuable for the longer-term.

Outlook for the pooling program

In anticipation of recovering white wood prices, and as customers recognise the benefits of the pooling program, management's FY25 guidance assumes volume increases from new business wins in FY25 and FY26 of 1% and between 1-2%, respectively.

Overall, UBS is more optimistic on management's current direction, compared to previous strategies such as BXB Digital, due to better available data and a growing customer need, while Morgan Stanley suspects the new targets set by management out to FY28 are conservative.

UBS now has greater confidence in the outlook for Brambles due to the new FCF floor regardless of the pace of investment, yet **the new targets across FY26-28 won't necessarily drive upgrades to consensus forecasts.**

Indeed, this outcome looks to be playing out, with the average target price of six covering brokers in the FNArena database only rising by 19 cents to $18.95 following the strategy day. Both Morgans and Macquarie are yet to refresh their research.

The average target price broadly aligns with the present share price.

Of those six daily updated brokers, four have Buy (or equivalent ratings) and two remain on Hold.

Outside of daily monitoring, Jarden has an unchanged Overweight rating and $17.90 target.

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

BOOK REVIEWS

Book Excerpt: How Not To Lose $1 Million

Book excerpt from: *How Not to Lose $1 million* by John Addis, Co-Founder of Intelligent Investor
Published by Major Street Publishing

According to John, "The path to investing success is one of repetitive failure. The learning is in the failing."

For three decades John Addis has been researching, writing about and investing in stocks in Australia and overseas. Over the years, he has made millions of dollars in his funds management business. He also estimates that he has lost $1 million along the way through mistakes he has made. Looking back on his investment career, John has found that the most valuable lessons he has learned came from the stocks and trades that lost money. It is these lessons that he shares in this fascinating new book.

Part 1: Stocks We Sold Too Late

In her book *Quit: The Power of Knowing When to Walk Away,* Annie Duke tells the story of Muhammad Ali's rise against the odds to become the greatest boxer of all time. Refusing to serve in the Vietnam War, Ali was stripped of his heavyweight title in 1967.

Unable to box for three and a half years, it took him four more years before he could challenge George Foreman to regain the title. In 1974, aged 33 and a decade after originally being crowned champion, that is what he achieved. This tremendous sporting feat is still celebrated today, along with the grit and unbreakable determination that helped bring it about.

When he regained the title, Ali had competed in 46 professional fights. Despite signs of mental and physical deterioration, and warnings from doctors and advisers, he went on to fight for seven more years. In 1980, he fought what would become his penultimate match, against then-champion Larry Holmes. The beating Ali received was so severe Holmes wept after it. Actor Sylvester Stallone described it as like watching an autopsy on a man who's still alive'.

After his final loss in 1981, Ali retired. Three years later he was diagnosed with Parkinson's disease. The punches he took over a long career were crucial to his condition. Despite the decline and severity of his condition, Ali simply could not give up.

As Duke writes, 'While grit can get you to stick to hard things that are worthwhile, grit can also get you to stick to hard things that are no longer worthwhile. The trick is figuring out the difference'.

This section covers three stocks where we failed to figure out the difference.

There is a unique unhappiness about buying a company, watching the investment case come apart and then failing to act quickly enough *How not to lose $1 million* to limit the damage. These are not the most devastating errors, those are reserved for Part II but they are the most common.

The reason is as Duke describes. Grit is what makes value investing work. The ability to do what others cannot to find a cheap stock and buy it when everyone else is screaming 'sell' is central to it.

It can also be the source of error, mainly because the act of purchasing a stock deepens the commitment to it. When that happens, the grit is already in the gears. Reversing when you expected to accelerate is like trying to jam a fish into a sock: most people simply cannot even contemplate it.

Investing is more capricious and less predictable than we imagine, an art as much as a science. Errors are inevitable, with this book proof of it. Not acting fast enough to sell stocks that weren't playing out as we expected is the source of most of our errors. This is where the agonies and sleepless nights lie: the red flags ignored, the clues missed in ASX announcements, the complexities neglected and the pride that got in the way.

The sharemarket excels at crushing the egos of the overconfident and ill-informed. If one is prepared to accept hard truths brutally dispatched, the opportunities to learn are as plentiful as they are painful.

Each of the three following case studies created painful and necessary scars. Growth is not in the success that confirms our brilliance but in the failures that confound and nearly break us. The grit that is required to examine them is as necessary as that required to buy the stocks in the first place.

While the sources of failure were different in each case, they are bound together by a primal question: after making up our minds about a stock and putting money behind it, in the face of changing facts, why didn't we change our minds?

Book excerpt from: *How Not to Lose $1 million* by John Addis, Co-Founder of Intelligent Investor, Published by Major Street Publishing.

Technical limitations

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

COMMODITIES

The Downs And Ups Of Mineral Resources

Fighting weak lithium and iron ore prices, Mineral Resources' share price has tanked, but news on an infrastructure sell-down and large gas reserve estimates go some way to righting the ship.

-Mineral Resources hit by weak lithium and iron ore prices
-Production curtailments have followed, but so has a substantial capex increase
-A haul road sell-down and updated gas reserves offer balance sheet relief
-Balance sheet vulnerability remains a central focus

By Greg Peel

Traditional iron ore miner and mining services provider Minerals Resources ((MIN)) has taken on a decidedly more green tinge in recent years, venturing into lithium mining and LNG production. In the latter case, the company's website states:

"MinRes aims to integrate lower-emission and renewable energy solutions across our operations, including using natural gas to drive the company's pathway towards a more cost-effective and cleaner energy future," and *"MinRes aims to integrate lower-emission and renewable energy solutions across our operations, including using natural gas to drive the company's pathway towards a more cost-effective and cleaner energy future"*.

In the former case, the rolling collapse in the price of lithium, combined with a more recent slide in the iron ore price, have conspired to send Mineral Resources' share price down close to -60% since its peak in January 2023.

For lithium, there appears no immediate end in sight. Having already cut its price forecasts, UBS earlier this month cut again, convinced there will soon be more supply coming out of Africa. UBS has a Sell rating on the stock and a target of $41.

Mineral Resources has responded to depressed lithium prices by cutting back production volumes at its Mt Marion mine and deferring a third lithium train at its Wodgina mine. A fourth train had also been considered. The company has also deferred its stage two expansion at its Ashburton iron ore mine.

To rub salt into the wound, Mineral Resources is not the only miner to cut back production and defer expansion plans, and this has weighed on prospects for the company's mining services business.

Yet, in response to this general malaise, management has decided to increase capital expenditure substantially well above analysts' assumptions.

<u>Cash Preservation?</u>

If the purpose of cuts and deferrals is to preserve cash, Jarden ponders, why has FY25 capex been guided almost $2bn more than double the broker's earlier estimate -- despite updated production guidance falling well short of forecasts? Such are the constant ambiguities with Mineral Resources' financial results and management briefings, Jarden sighs.

Extremely weak FY25 production guidance across the lithium assets is a reflection of cash constraints and the supply-side behaviour is at odds with well-funded peers lower on the cost curve, Jarden notes, including Pilbara Minerals ((PLS)) and IGO Ltd ((IGO)). Despite recently completing a capital-intensive expansion at Mt Marion to facilitate production of 900ktpa, management has guided to FY25 production of only 300-340kt -- a material -25-35% reduction from FY24 production of 463kt.

"It seems to us something is not right at the Mt Marion JV and the issues extend beyond ore availability in our view," Jarden comments. Similarly, at Wodgina, production guidance of only 420-460kt represents running only two trains at less than nameplate capacity. It is possible the JV partners have different motivations, which could act to the detriment of Mineral Resources shareholders. In response, Jarden has completely removed Wodgina Train 4 from its modeling, which in isolation results in a -$6.50/share valuation decrease.

Jarden maintains a view that Wodgina, as an asset, can support more processing capacity but with a difficult and conflicted JV structure and a constrained Mineral Resources balance sheet, the broker removes it for now.

Jarden has retained a Sell rating and cut its target to $32.00 from $44.70.

Overall, Goldman Sachs assumes Mineral Resources has implemented a strategy that assumes lithium and iron ore prices stay at current depressed levels for a short period only. At spot prices, this broker estimates all of the company's five mining assets are free cash flow negative, and that Ashburton will only be free cash flow positive sometime in the June half on a US$95/t iron ore price forecast and assuming a production run rate of over 20Mtpa.

If commodity prices decline further, then Goldman Sachs thinks the company may need to cut capex and opex further and potentially place Iron Valley and Mt Marion on care and maintenance.

FY25 capex guidance is well above Goldman's estimate. Looking at the balance sheet, the broker forecasts net debt to increase to over $6bn by the end of FY25. Goldman has cut its target by -9% to $43, but given the share price decline, has upgraded to Neutral from Sell.

Following the company's FY24 results, Morgans went the other way, lowering its target to $39 from $53 and downgrading its rating to Hold from Add on a higher assessment of near-term balance sheet and commodity risk. The brokers' risk assessment is balanced against existing debt levels and upcoming capex commitments.

The Road to Redemption

"Onslow Iron is set to redefine mining in Western Australia through world-first autonomous road trains, industry leading dust free transport and resort-style workforce accommodation."

This website declaration is a reference to the tarred road Mineral Resources is building from its Onslow iron ore operation in WA to port. A week ago the company announced at a business update it had received FIRB approval for the sale of -49% of the Onslow Iron Haul Road. Following the approval, upfront consideration of $1.1bn is expected to be received within three weeks. On cost reductions, Mineral Resources identified -$300m in FY25 costs savings, without impacting production guidance, with more being investigated.

Mineral Resources' share price weakness is driven by the combination of its net debt level and weak commodity prices and sentiment, Bell Potter notes. Management expects Mining Services earnings of $1bn per annum from FY26, which will be foundational to deleveraging the balance sheet.

The share price appreciated 16% on the business update, a very strong response, Bell Potter suggests, to a well-guided capital release, and speculation of a modest quantity of marginal Chinese lithium production suspension. The response is seen as indicative of how sensitive the share price is to good news on the balance sheet and commodity sentiment.

Management reiterated it has many non-dilutionary options to release capital, which could be interpreted as signalling Mineral Resources has no plans to raise new equity capital, and foreshadowing further asset sales to release capital, Bell Potter suggests.

Bell Potter has a Buy rating and a $66 price target. We are beginning to see a wide spread of targets.

After the haul road sell-down, management has realised it does not need to own 100% of infrastructure, Citi reports. Citi has a Buy rating and a $50.00 target.

It's a Gas

This week, Minerals Resources released its initial resources estimates for the Lockyer Gas project and Erregula oil project, both onshore Western Australia, which have been under extensive exploration since the company made the Lockyer Deep-1 find in 2021. These are two of the largest onshore hydrocarbon discoveries in the state.

The Lockyer gas resource on a 2C basis (base-case scenario) equates to 76mbbl of oil equivalent, Ord Minnett notes. Meanwhile, the Erregulla oil project is estimated to contain a 2C contingent oil resource of 32mmboe, the largest onshore oil find in Western Australia since Barrow Island in 1964.

Ord Minnett has lifted its target on Mineral Resources to $58.00 from $56.50 and retains an Accumulate rating.

The resource estimate alone, in terms of an in-ground valuation estimate on a 2C basis (ignoring any complexities to develop and based on recent trade sales) is 45% better than the valuation encapsulated in Morgan Stanley's base case, with significant upside still from unexplored tenements (albeit valuation is also dependent on WA government policy progress on gas exports).

With plenty of opportunity to crystallise value, this showcases another asset that Mineral Resources could utilise to ease balance sheet pressures, Morgan Stanley suggests, should it be required. Not only is the broker Overweight the stock, with a target of $70, it has Mineral Resources as its key pick in the sector.

As a guide to resource valuation, Evans & Partners has turned to the valuation of Beach Energy's ((BPT)) Waitsia gas project (Mitsui 50%) also in the Perth Basin, albeit Waitsia is almost completed.

Evans & Partners believes Mineral Resources is actively exploring a sale of its energy business. Beach/Mitsui could be interested given the Waitsia project has a reserve life of 10-11 years. Hancock Energy could also be interested given neighbouring permits and gas discoveries. A full sale could release close to $500m or more, which would strengthen the company's liquidity position and de-risk the investment proposition.

Evans & Partners has a Positive rating on Mineral Resources and a $67 valuation.

Wider than the Perth Basin

Macquarie has reduced its target on Mineral Resources by -17% to $40 on the back of reduced lithium and iron ore price forecasts. The company's heightened financial leverage, along with higher operationally levered iron ore operations, leads to significant earnings cuts. However, from a valuation stance, its long-term asset position and competitive services business (which hedges commodity price volatility), provides insulation, Macquarie suggests.

This broker has upgraded to Outperform from Neutral.

All up, brokers monitored daily by FNArena covering Mineral Resources have set target prices in a range of $39 (Morgans; Hold) to $70 (Morgan Stanley; Overweight). Among these brokers there are five Buy or equivalent ratings, one Hold and one Sell (UBS).

It should be noted not all brokers have updated their valuations since the FY24 result release, with the Onslow road sell-down and Perth Basin gas resource updates having transpired since.

Nor has Jarden updated, since setting a Sell rating and $32 target. Nor Goldman Sachs (Neutral; $43). Evans & Partners' rating and target have been set subsequent to both updates.

COMMODITIES

Material Matters: Major Miners Upgraded

A glance through the latest expert views and predictions about commodities: updated forecasts result in ratings changes for resources stocks and analysts review favoured exposures.

-Copper is Morgan Stanley's key pick, BHP Group upgraded
-The broker's long-term forecasts for copper and iron ore rise
-Rising gold equity valuations at Macquarie, Northern Star preferred
-UBS lowers oil forecasts, better gas outlook

By Mark Woodruff

In the past week, major miners in the iron ore space have received one or more ratings upgrades as Morgan Stanley and Macquarie review the outlook across the Resources sector more broadly.

Investor sentiment towards the commodity space remains volatile, observes Morgan Stanley, as markets focus on US economic data, the pace and extent of interest rate cuts, the US election, as well as the disappointing growth outlook for China.

While the price of "safe haven" gold is at an all-time high and is believed to have further upside, so far in the September quarter copper and iron ore prices have fallen by -3.5% and -14%, respectively,

Undeterred, Morgan Stanley raises most of its long-term commodity prices forecasts to reflect ongoing inflation.

Copper is the broker's top pick as low prices begin to spur demand and refined supply growth will likely slow, driving inventory drawdowns.

It's also felt iron ore and metallurgical coal prices can lift, partly due to seasonal demand support.

On the other hand, thermal coal lacks catalysts into the shoulder season, with strong Indonesian and Australian supply keeping prices under pressure, explain the analysts.

In the case of lithium and nickel, demand remains challenged, but as prices cut into the cost curve supply cuts are being invoked. It's felt equities reflect existing headwinds. The rating for Pilbara Minerals ((PLS)) is upgraded to Equal-weight from Underweight.

In contrasting stances, UBS remains Underweight the lithium sector, while Macquarie suggests the lithium price has found a bottom.

Lower lithium price forecasts at Macquarie have had a material impact on earnings and valuation across stocks under research coverage, resulting in lower targets for Mineral Resources ((MIN)), Arcadium Lithium ((LTM)) and IGO Ltd ((IGO)).

Macquarie analysts like Outperform-rated Patriot Battery Metals ((PMT)) for its corporate appeal.

On the uranium front, Morgan Stanley remains cautious due to weak contracting activity and supply restarts, but the analysts also contemplate upside risks should Russia restrict exports.

The highlights from Morgan Stanley's updated long-term price forecasts are respective price rises for copper and iron ore of 20% and 6% to respectively US$9,500t and US$90t.

In contrast, Macquarie has lowered its 2024 and 2025 copper price forecasts by -5% and -4%, respectively, driven by 2024 demand cuts for China, North America, and the EU.

For the medium-term, this broker has an Underweight view, while holding the long-term price forecast at US$9,000t and keeping an Overweight stance for those who can bear shorter term weakness.

Preferred iron ore and copper exposures

Flow on effects of Morgan Stanley's higher copper and iron ore forecasts include an upgrade to BHP Group's ((BHP)) rating to Overweight after two years at Equal-weight.

BHP is a key beneficiary of the forecast copper price rise (with around 43% revenue coming from this source) which was a key driver behind the broker's upgraded rating.

Fortescue is also upgraded: to Equal-weight from Underweight.

The broker prefers Rio Tinto ((RIO)) over BHP Group on better growth prospects but Mineral Resources trumps both in the space on anticipated balance sheet deleveraging from 2025.

The analysts at Macquarie forecast a medium-term market over-correction associated with peak production at the Simandou mine in Guinea (53%-owned by Rio Tinto) and the Onslow mine ramp-up, which is 40%-owned by Mineral Resources.

As a result, Macquarie has a medium-term Underweight view and long-term Neutral view on iron ore.

Despite a less-buoyant outlook, Macquarie analysts upgrade both Rio Tinto and BHP Group to Outperform, with a preference for the latter on valuation. Mineral Resources is also upgraded to Outperform (aided by the broker's view the lithium price has reached a nadir), while Fortescue is kept at Underweight.

Macquarie lowers its 2024 iron ore price forecast by -4%, but a lower Australian dollar forecast across 2025 and 2026 helps mitigate earnings downside for all resource stocks under coverage.

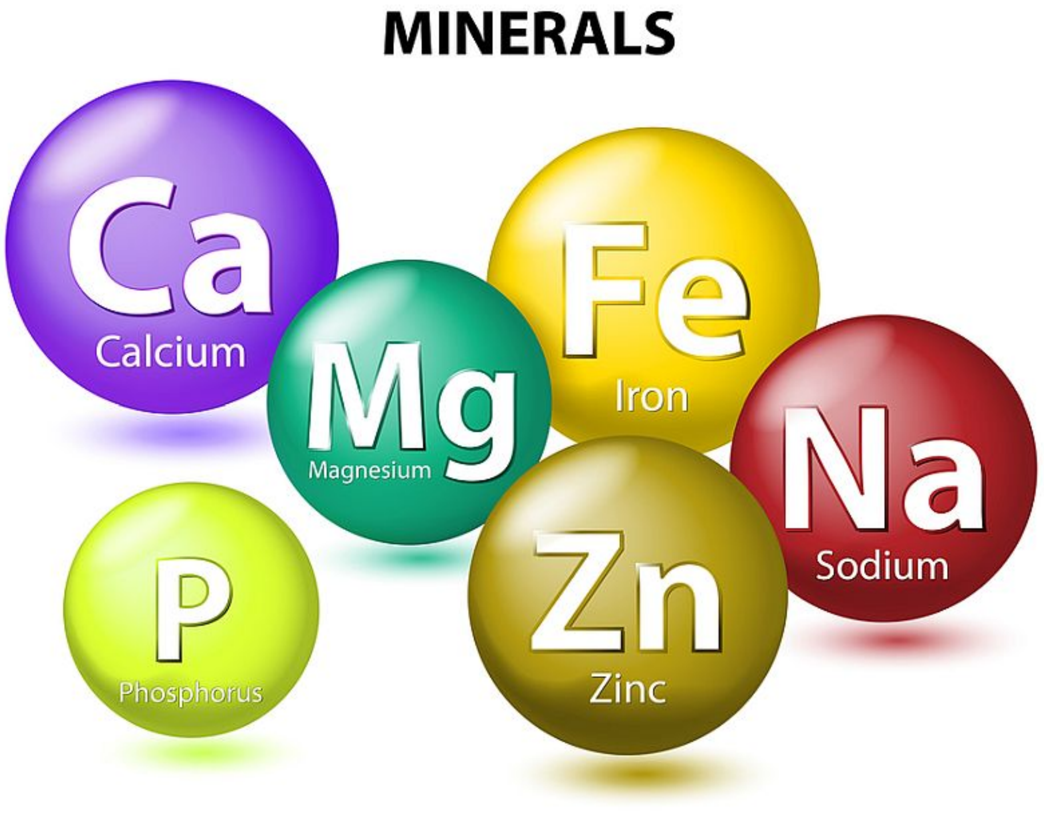
Regarding copper, Morgan Stanley points out pure play ASX-listed copper opportunities are thin on the ground. Sandfire Resources' ((SFR)) premium valuation justifies an unchanged Hold rating in the analysts' view, with a rise in target to $8.25 from $7.95.

Including Morgan Stanley, there are five covering brokers in the FNArena database with Hold (or equivalent) ratings, while Macquarie is at Outperform. The average target of the six is $9.25, suggesting circa 6% upside to the latest share price.

Among the majors, Macquarie prefers South32 ((S32)) - despite lower EPS forecasts due to falling manganese price forecasts- over BHP Group followed by Rio Tinto and the Underperform-rated Fortescue.

In the last week, Macquarie's target for Outperform-rated South32 has fallen to $4.15 from $4.25, while Morgan Stanley (Equal-weight) raised its target to $3.20 from $2.95.

Among mid-caps, Macquarie likes Capstone Copper ((CSC)) due to organic production growth, Coronado Global Resources ((CRN) for metallurgical coal and Nickel Industries ((NIC)).



Gold and preferences in the sector

Weaker macro-economic data and inflation falling to the US Federal Reserve's target of 2% are signalling deeper interest rate cuts, suggested ANZ Bank only one day prior to the Federal Reserve delivering a higher-than-expected -50bps reduction.

Falling real rates and a weaker US dollar will push gold prices higher, in the bank's opinion. It's also noted silver prices (after a recent sell-off) are recovering too.

Providing a lift to gold equity valuations at Macquarie, the long-term price has been increased by 11% to US$2,000/oz, which is 5% ahead of the 2030 consensus forecast. Forecasts over 2024-26 rise by a more moderate 2-3%.

This broker now prefers Northern Star Resources ((NST)) due to its organic growth potential, while in the mid-caps space the preference sides with Perseus Mining ((PRU)), Capricorn Metals ((CMM), and Genesis Minerals ((GMD)).

While analysts at Morgan Stanley see gold doing well near-term, upside is seen as already priced into equities, and this broker has downgraded Evolution Mining ((EVN)) and Regis Resources ((RRL)) to Equal-weight from Overweight. Northern Star Resources ((NST)) is downgraded to Underweight from Equal-weight. All three rating downgrades are due to valuation.

UBS lowers oil forecasts, better gas outlook

Brent crude oil prices briefly dipped below US$70bbl in September, the lowest level since 2021, with demand weakness weighing on sentiment and price, explains Morgan Stanley.

Weak macro-economic data are deepening oil demand concerns, suggests ANZ Bank, while the end of peak summer demand is also weighing on market sentiment. Gas prices are easing as demand softens in Asian markets.

Reflecting weaker global oil demand due to slowing GDP growth, UBS has lowered its fourth quarter Brent crude forecast to US$75bbl from $83bbl, which reduces the projected 2024 average price by -US$4bbl to US$80bbl.

This broker's 2025 and 2026 forecasts also fall by -US$5bbl to US$75bbl, in line with the long-term forecast.

OPEC-Plus the coalition of oil-producing countries that includes the 13 members of OPEC and 10 other oil producing nations, recently postponed a planned production increase. UBS believes the window to unwind production cuts is deferred to 2027/28 as weaker demand and sustained non-OPEC-Plus supply pushes the global market towards surplus.

In contrast to the broker's oil price forecasts, the outlook for global gas is looking more promising.

For LNG, the analysts lift the fourth quarter Japan Korea Marker (JKM) price estimate by 4% to US$14.5mmbtu in the expectation of a higher risk premium given strength in prices over the third quarter. Geopolitical risks, including uncertainty of future Ukraine transit flows also contribute to the stronger forecast, explain the analysts.

UBS's 2025 JKM forecast rises by 2% to US$12.8mmbtu due to ongoing tightness in the global gas market, driven by slower LNG supply growth due to construction and commissioning delays for new LNG liquefaction projects.

As a result of these new forecasts, the broker's target prices for Woodside Energy ((WDS)) and Santos ((STO)) fall by around -8.5% and -1%, respectively, to $28.10 and $8.70.

UBS's target for Beach Energy ((BPT)) remains at $1.60, while Origin Energy's ((ORG)) slips to $11.65 from $11.70.

The outlook for coal

While Macquarie has an Underweight stance on thermal coal and lowers its 2024 and 2024 price forecasts by -3% and -10%, respectively, medium-term and long-term (US$80t) forecasts are maintained.

For metallurgical coal, this broker continues to see medium-term upside across 2026 and 2027 to US$320/t. The long-term price forecast is unchanged at US$200/t.

This week, Macquarie raised its rating for Whitehaven Coal ((WHC)) to Outperform from Neutral (despite cuts to EPS forecasts) on valuation grounds following a post results season share price decline and left its $7.50 target unchanged.

Further background on iron ore and copper markets

Brazilian iron ore company Vale recently increased 2024 volume guidance by 4%, and there has been a 3% year-on-year rise in exports from Australia and Brazil.

Barrenjoey considers these two announcements will have an insufficient supply impact to overwhelm demand via Chinese imports, which are on track for a 7% year-on-year increase in 2024.

The analysts forecast the iron ore price will average US$100/t this year and next.

For context, the iron ore price has averaged above US$100/t since 2018 and Barrenjoey expects this will continue until Simandou begins to ramp-up from early-2026, at which point market oversupply will be a consideration.

ANZ Bank expects the property crisis will roll-on in China given falling sales and contracting new starts, leaving little room for any significant recovery in steel demand.

Amid the previously mentioned strong imports from Australia and Brazil, iron ore inventories remain elevated, ANZ Bank points out.

Analysts at Morgan Stanley highlight Simandou's development is of a different scale to the capacity surge of 2010-2015, and a return to the low level of industry margins experienced over the 2015-17 downturn is seen as unlikely as further capacity growth for projects is limited beyond Simandou.

For copper, ANZ Bank sees a few emerging positive demand signals with exchange inventories retreating and pushing spot premiums higher. However, contracting manufacturing activity presents a downside risk to the sector, with speculators liquidating positions.

INTERNATIONAL

Gen.Ai: Infrastructure Arms Race Powers Ahead

Behind the Gen.Ai megatrend is the growing demand for data centres with major news making events putting the sector back into the spotlight, alongside the adjacent industries being swept up in the infrastructure build out.

-Oracle's Ellison fires up the data centres debate
-Electricity generation is the key
-Bitcoin miners part of the solution
-Wilsons overweights Gen.Ai stocks

By Danielle Ecuyer

Part 1 was published on September 11: https://fnarena.com/index.php/2024/09/11/gen-ai-update-bubble-licious-or-not/

Part 2: Powering Up Gen.Ai

At the frontier of AI models and the development of the most advanced neural networks (large and specialised language models) lays the home for all the computing power, referred to as the data centre or hyperscaler, when in fact we're talking about multiple large data centres with cloud computing services.

By now most investors are probably familiar with the concept and the race to build out more capacity to compute.

It is a well-served topic in the FNArena data base of news stories and more literature on the topic can be found inside the dedicated section on the website with several links at the finish of this article.

But back to the *topic du jour* or at least what Larry Ellison, the founder, chairman and chief technology officer of Oracle, wanted to talk about in the quarterly results webcast: data centres.

Cloud services have become the company's largest business. Oracle has 162 cloud data centres in operation and under construction, including one 800MW development which will contain acres of Nvidia GPU clusters for training large language models.

With the signing of a Multicloud agreement with AWS (Amazon Web Services), Oracle is embedding its latest hardware and software into AWS cloud data centres.

On the webcast Ellison highlighted the company is in the process of planning the development of a one-gigawatt (1GW) data centre adjacent to the proposed site for three small modular nuclear reactors.

Asking the question to Microsoft's Co-Pilot how big this would be, Co-pilot explained a 1GW data centre campus is planned in Northumberland, UK, consisting of 10 buildings, each with three stories and 54,000 square metres each. Or, about the equivalent of 100 football fields.

Eillison was unequivocal in his outlook for the sector that there is an **"ongoing battle for technical supremacy"** with a handful of companies and a nation state that would continue for the next five to ten years.

Creating the ultimate neural network is not a finite event, he explained, with ever more refined neural networks, both large and smaller more specialised models for various needs and sectors, such as biotech or finance.

Ellison is far from the lone voice on the topic just in the last week.

According to the CEO of real estate giant, Related Companies, Jeff Blau, data centres are the **"most incredible**

asset class" and "unique", in part because of the tremendous demand for power.

While last week's sale of AirTrunk to Blackstone and CPP Investments for $24bn is the largest data centre transaction on record, preceding the 10 September $750m equity raising announcement from NextDC ((NXT)) to meet upgraded capital expenditure requirements, including the acquisition of the S7 (Sydney) site for more than a 500MW facility.

Wilsons recently shone a light on the data centres industry in a catchy titled report *Digital Infrastructure Deep Dive: Cloud Is Great, GenAI Will Be "Gen-sational"!*

The broker quoted CEO of Digital Bridge, (specialised US digital infrastructure investors), Mark Ganzi . He forecasts the Gen.Ai market will be around three times the current installed cloud base at around 13GWs to circa 38GWs. With cloud computing expansion comes the need for increased data centre capacity.

Morgan Stanley also weighed into the Gen.Ai infrastructure debate with an aptly titled report *"Underappreciated US Powering GenAI Dynamics"*.

The main conclusion is there is a burgeoning "severe" shortage of data centre capacity in the US.

Electricity generation the new gold

"Over the next five years, consumers and businesses are expected to generate twice as much data as they did over the past 10 years, with major tech companies expected to invest $1 trillion in data centres. Globally, power demand is forecast to increase at a compound annual growth rate of 14 per cent over the next three years".

That quote is from Shane Hurst, Portfolio Manager at ClearBridge Investments

Data centres are big news and big money with Goldman Sach expecting data centre power demand to advance 160% by the end of the decade.

The International Energy Agency forecasts data centres' total electricity consumption could reach 1000 terawatt-hours in 2026 including a 60TWh increase in US data centre demand by 2026.

Share of electricity demand from data centres will increase to 8% from 3% or a 15% average compound rate in the US. As such, US utilities will experience 2.4% compound annual growth in electricity demand from 2022 to 2030 with data centres representing around 90bps of that growth.

Similar trends are in train across Europe and Asia, the above mentioned brokers highlight. Morgan Stanley observes US hyperscalers are increasing investments in Asia with over US$50bn committed. Malaysia is viewed as a "outsized" beneficiary because of its regulatory support, good data security laws and available power supplies.

NextDC's recent equity raising is expected to help fund land acquisition in Johor, Malaysia for a hyperscale facility and land for a co-location facility in Bangkok, Thailand.

Power supplies on notice

Citi noted "it's no mistake that some large-scale upstream firms are considering buying utilities".

As the full extent of data centre demand is laid bare, the corresponding demand for increased electricity generation is a hot topic. None more so than the recent World Nuclear Symposium in London where industry consultants TradeTech observed a record 800 attendees including financiers and delegates from the data centres industry.

Apart from Ellison's latest comments, AWS recently acquired a data centre campus from Talen Energy for US$650m in Pennsylvania which is directly powered by the adjacent Susquehanna Steam Station, one of the largest US nuclear power plants. The proposed data centre will have capacity up to 960MW.

Crestone: *"In our view, the only way AI and net zero can co-exist is if the aggressive lean into AI technologies is matched with an equally aggressive lean into renewables and other low-carbon sources of energy"*.

RBC Capital points to 100% renewable energy power commitments for data centres by Amazon, Google, Meta, Microsoft and Apple. There is no industry standard.

Increasingly, RBC Capital sees demand for natural gas growing to fill the gap between renewables and other energy supply sources. Morgan Stanley also believes the market is under-appreciating the potential role of natural gas. This broker proposes data centre developers may choose to locate facilities next to gas fired power generating plants.

ClearBridge makes the case that AI's demand for power could increase investment in solar at a compound annual growth rate of 16% compared to 8% currently and wind investment up to 31% p.a. from 18% p.a. up to 2030.

Morgan Stanley estimates the carbon footprint for Gen.Ai is greater than the market currently anticipates which will underpin more growth in decarbonisation solutions as 2030 carbon neutral goals need to be met.

Part of the energy mix for data centres, as defined by the broker, is the energy intensity of the equipment and the cooling of the centres.

Breaking down the electricity usage, 40% of demand comes from the server infrastructure, 40% from cooling the data centre and 20% for lighting and storage.

While traditional air cooling has been employed, RBC Capital stresses the newer energy density for Gen.Ai renders air cooling impractical, making liquid cooling more viable.

With the aim for more sustainable data centres, this broker believes demand for efficient liquid cooling will rise.

nVent, a global provider of heat management solutions, is quoted by RBC Capital stating an estimated 5% of data centres use liquid cooling and it is growing three times faster than the legacy technology air cooling.

The broker estimates a total addressable market of US$2.5bn-US$4bn and a compound growth rate of 30% to 40% over the next five years which exceeds the pace of overall data centre investment.

Wilsons points to DUG Technology ((DUG)) as offering potential exposure to this new trend. More details below.

Bitcoin to AI, when only a switch will do

Morgan Stanley has investigated a different solution to the long lead times for data centre developments and potential supply shortages with the conversion of bitcoin mining centres to a HPC (high performance computing) data centre.

The broker believes it is "plausible" and investors are assessing Bitcoin companies to create a REIT structure for bitcoin mining assets to be converted into data centres.

Post the Morgan Stanley symposium focused on crypto and Gen.Ai, the broker believes there is "value arbitrage" for conversion. On the broker's calculations, a US bitcoin mining facility ranges from US$2-US$3/watt of capacity while the value to a hyperscaler of 3-years of time savings to power up a new data centre would be greater than US$10/watt.

Morgan Stanley understands around 80% of bitcoin company management teams are looking at the opportunity versus around 50% previously.

With a shortage of data centres in 2025/2026/2027 driven by grid connection challenges, converting existing bitcoin mining capacity is viewed as a growing opportunity. A long-term lease structure between a hyperscaler and bitcoin mining firm is envisaged as a possible solution.

Bringing it back home

Wilson's focus on Gen.Ai ranks the preferred stocks in Australia.

NextDC is the top pick (pre the recent equity raising) as the purest data centre play and of the highest quality.

FNArena daily monitored brokers have an average target price of $19.975 with a Buy rating equivalent.

Next is Macquarie Technology Group ((MAQ)) as the company's Macquarie Park is viewed as attractive to global enterprises and governments.

Morgan Stanley has a target of $100 with an Overweight (Buy equivalent) rating. Wilsons is equally positive with a $97.27 target price.

Data#3 ((DTL)) is the third preferred by Wilsons as it partners with global technology companies to procure, deploy and manage IT systems for enterprise and government clients.

FNArena's average target price is $9.117 with an equivalent Buy rating, one Sell and one Hold. Wilsons has a positive rating with a $9.23 target.

DUG Technology ((DUG)) is a seismic data analysis business for the global oil and gas industry but notably it has approved and pending liquid immersion technology it has been using in its High-Performance Computing for around 10 years.

FNArena's Stock Analysis currently shows two Buys and an average target price of $3.495. Wilsons is Buy equivalent rated with a $4.11 target price.

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More reading on similar topics:

https://fnarena.com/index.php/2024/09/09/nextdc-building-a-generative-ai-future/

https://fnarena.com/index.php/2024/09/05/macquarie-technology-just-a-flesh-wound/

https://fnarena.com/index.php/2024/05/08/rudis-view-opportunity-in-data-centres/

RUDI'S VIEWS

Rudi's View: Plenty Of Traps In Equity Valuations

In this week's Weekly Insights:

-Plenty Of Traps In Equity Valuations
-Post-August Key Picks
-FNArena Talks
-Gen.Ai - A New Section On The Website

By Rudi Filapek-Vandyck, Editor

Plenty Of Traps In Equity Valuations

Financial markets operate in a constant flux because of changes in geopolitics, monetary policy, societal progression and technological innovation. As investors, it's probably best we keep a watchful eye out for any lasting changes, lest we be guided by the past rather than the future.

One of such changes that has not yet received enough attention is the fact the local share market has become noticeably more 'expensive' throughout the post-GFC years.

As was highlighted in a report by Morgan Stanley last week, the long-term average PE ratio for the ASX200 is now 14.7x, which is higher than the 14.4x that once served as the multi-decade average stretching back to the early nineties, but the average for the past decade sits at 15.9x.

That increase of almost 1.5x has happened without mining and energy being sustainably upgraded, which tells us a lot about a share market wherein these sectors represent some 30% of the index.

The observed increase in the average market multiple is partially attributable to changes in the composition and weightings of the index itself. CSL ((CSL)), which constantly trades on above-average multiples, is now the third largest constituent, while the likes of WiseTech Global ((WTC)), Block ((SQ2)), Pro Medicus ((PME)), Hub24 ((HUB)), REA Group ((REA)) and Car Group ((CAR)) have gradually climbed up the local ranks.

But it's not just that. The number two in the index today, CommBank ((CBA)), is trading on 24x times FY25 earnings per share, which is quite unprecedented for such a large bank on, equally important, rather small forecast increases in EPS and DPS for the two years ahead.

The latter is illustrated by the fact the PE multiple for CommBank is only falling to 23.3x on FY26 forecasts, with the forward-looking dividend yield only increasing to 3.4% from 3.3% in FY25, ex-franking.

The average PE multiple for the ASX100 in 2024 has blown out to 17.3x, making some investors nervous and triggering the conclusion from Morgan Stanley that local share prices have disconnected from underlying earnings growth.

Outside of the 1990s dot com boom and the covid-impact four years ago, the local market usually doesn't trade on such an elevated multiple. But then neither do CBA shares and, given CBA is the local number two, it's difficult to argue there's not a close correlation between the two.

Trading above $142 on Monday, CBA shares are displaying a 30% premium vis a vis the consensus price target as calculated from six leading stockbrokers monitored daily by FNArena. That's a pretty big number by anyone's standards.

Banks, including CBA, were among the positive surprises throughout the August results season locally, but any 'beats' delivered look rather small when compared with the numbers mentioned. Both National Australia Bank ((NAB)) and Westpac ((WBC)) shares are nowadays enjoying a multiple of around 17x, which previously had been the ceiling for premium CBA.

ANZ Bank ((ANZ)) is today's sector laggard trading on 14.2x times FY26 forecast EPS, which is lower than this year's estimate, which also explains the lower premium priced-in. The fact ANZ's risk profile includes more exposure to falling interest rates in Asia and to a significantly weaker economy in New Zealand doesn't by default imply the shares are of better 'value' than its peers.

Following what seems to have been a one-off 20% lift in dividend payout in FY23, ANZ's dividend is forecast to slide yet again, and stabilise in FY25 rather than rise. Already, ANZ Bank's dividends are no longer 100% franked.

The numbers cited will keep the public debate alive whether Australian banks are appropriately priced or egregiously expensive, and about the outlook for the share market generally.

All of this also highlights the dangers of relying on generalised PE ratios alone to make investment decisions and assess whether the stock market is too expensive or attractive.

When it comes to individual companies, those widely used PE multiples can be just as tricky, if only because it's so easy to make mistakes. Time to zoom in on the most commonly made errors, and why they are faulty.

Backward-looking reference points

Backward-looking data and multiples can have a function, within the right context and predominantly for share markets, as markets don't tend to grow as fast as individual companies.

But anyone trying to find an entry point on reasonable looking multiples for a fast growing Nvidia in the US, or Goodman Group ((GMG)), Hub24 ((HUB)) or WiseTech Global ((WTC)) closer to home, would have found it impossible on the basis of data and multiples from the past.

I cannot think of any better example as to why investors need to keep focusing on what likely lays ahead. Markets are constantly forward-looking, even if they are imperfect, as are those analysts' assumptions and projections that guide share prices (most of times).

Forecasts and multiples are not a static indicator

Probably the most often made mistake is to treat today's multiples as if they are set in stone. On-the-ground conditions are dynamic, which means things can change, in either direction, and turn today's set-up into a false or misleading proposition.

One such positive example is provided by Goodman Group, for whom consensus forecasts have steadily grown since the release of FY23 financials twelve months ago. Anyone who sold out because the multiple might have looked unattractive at that time has missed out on one of the most profitable opportunities the local bourse has offered over that period.

Goodman Group shares have appreciated from circa $20 in September 2023 to circa $36 today.

One prominently negative experience has been provided by Platinum Asset Management ((PTM)) for whom key financial metrics have continued to decline over the years past. This has reshaped this often 'cheap' looking proposition into a nasty value trap which will only turn around successfully if those key financials can be sustainably reversed onto a positive trajectory.

Shares in the local fund manager were trading around $5 only 3.5 years ago, they are below $1 in 2024. Analysts are yet to be convinced FY26 won't be another down-year.

(Addendum: it has since emerged that Regal Partners ((RPL)) is interested in acquiring Platinum Asset Management).

<u>Look for broader context</u>

Every indicator needs context, and when it comes to assessing the valuation of an individual company it often pays off to look beyond the one year ahead to avoid being hoodwinked by one-off impacts.

Insignia Financial ((IFL)), for example, has had a terrible few years that saw this financial services provider report a huge loss for FY24. For the current financial year its EPS is projected to improve by nearly 200%, but that tells us more about how bad the past has been. Current consensus forecast for FY26 sees EPS growing by no more than 2.1%.

That latter number explains why the PE ratio sits no higher than 7x. Having been hit by disappointment too often, the market has grown ultra-sceptical about when management will/can successfully guide this troubled ship onto a more prosperous course once again.

On the other side of the ledger, once the market sees a robust multi-year growth story, shares in those companies will no longer look 'cheap' ever again, unless that trajectory loses visibility or comes unstuck. This principle applies to today's data centre beneficiaries, including NextDC ((NXT)) and Macquarie Technology Group ((MAQ)), but equally so for companies including REA Group, WiseTech Global, Pro Medicus, and others.

While such sustainable growth stories have continuously traded on multiples well above the market average, shareholder returns have equally been well-above average. Within this context, the better strategy might be to use additional tools such as consensus price targets as calculated by FNArena.

Shares in REA Group, for example, are currently trading on 47.5x times the FY25 forecast EPS and 40.2x times the FY26 forecast EPS --well above the earlier highlighted market averages-- but most analysts' price targets are suggesting double-digit percentage upside for the share price .

<u>No one-size fits all</u>

The example of REA Group also highlights one extremely important feature of the share market; different valuation dynamics apply for different sectors and even for different companies inside the same sector. Simply applying Peter Lynch's rule of thumb as published in the 1990s seems but ill-informed in today's context.

As almost perfectly illustrated by the local banking sector over the past two decades, some companies enjoy a premium valuation, often linked to classifications of quality and market leadership, and avoiding them out of fear they might lose their premium appreciation often means missing out on the better opportunities.

CommBank shares have steadfastily traded on a premium versus the rest of the sector, and they have by far generated the superior return for shareholders. A common saying among investors is that sometimes a stock is 'cheap' for good reason. The experience for CommBank shareholders is that sometimes a stock looks 'expensive' for very good reason, and that reason is linked to operational superiority and outsized returns.

Of course, once a company enjoys exceptionally quality status and a premium valuation, it needs to maintain that status or else lose the premium, with negative consequences. One good example is private hospitals operator Ramsay Health Care ((RHC)), widely revered until 2016, but traveling through struggle street since.

The result is Ramsay's share price today is lower than where it was ten years ago. The privilege needs to be earned time and again.

Equally important: PE ratios work the other way around for highly cyclical commodity stocks, i.e. BHP Group ((BHP)) shares trading on 80x times the forecast FY16 EPS in February of 2016 did not indicate the shares were 'expensive' as the signal might have suggested for a bank or a supermarket operator, but it indicated those shares were dirt cheap.

As many might remember, BHP shares sank briefly below $13 in those days. They have since revisited the $50 level.

That BHP experience also highlights a common mistake that is all too often made: a share price that is sold down post major negative development does not by definition trade on a reduced PE multiple. More often than not, the multiple will rise as investors anticipate a recovery on the horizon.

It is only when investors give up on such prospect that a weak share price combines with a low PE multiple, but this is one big red flag for investors, not a screeming buy signal.

Returning to the cyclicals, shares in BlueScope Steel ((BSL)) trading on no more than 3x times forward-looking EPS back in mid-2021 did not signal a 'cheap' and attractive proposition at hand. The shares subsequently weakened from $25 to $15 and as forecasts were cut too, the PE multiple doubled to 6x.

Today, BlueScope Steel's multiple is 15.5x and consensus price targets are suggesting double-digit percentage upside is possible.

Also important: PE ratios simply do not apply to large segments of the share market, including stocks that trade in close relationship with bond markets, also referred to as bond proxies. Exceptions include APA Group ((APA)) and Transurban ((TCL)), as well as just about every listed A-REIT.

There's a fair argument to be made that a company like Telstra ((TLS)) also should not be judged on its PE multiple. Similar as with APA and the REITs, it's all about yield, dividend sustainability, and relative attraction vis a vis the credit and bond markets.

One fairly modern methodology to value technology companies is the Rule of 40 which dictates revenue growth plus EBITDA margin need to sum up to 40 or higher. This method too, including its multiple variants, doesn't always compare well with the old fashioned PE multiple.

For those reasons, I tend to also pay attention to consensus price targets, interpreted in an intelligent manner, as well as trends in forecasts and the broader macro picture. The latter two factors have the ability to impact heavily on the outlook and the financial metrics of companies.

Underlying lives the understanding not everything can be forecast or anticipated. Plus too much risk will spoil the party at some point, even though that is not directly related to the PE multiples in the portfolio.

Post-August Key Picks

Morgan Stanley's list of Key Picks among ASX-listed small and mid-cap companies post the August results season has by now grown to six:

-Accent Group ((AX1))
-Jumbo Interactive ((JIN))
-ARB Corp ((ARB))
-SiteMinder ((SDR))
-Data#3 ((DTL))
-Hub24 ((HUB))

FNArena Talks

Last week's long-form interview with Fat Tail Investment Research's Greg Canavan lasts about one full hour:

https://youtube.com/watch?v=CNvS6si42DY

The interview starts off as a post-August results season analysis, but soon expands into Value vs Growth, the market's dominant narratives, human psychology, premium quality, central bank interventions and the abundance of liquidity.

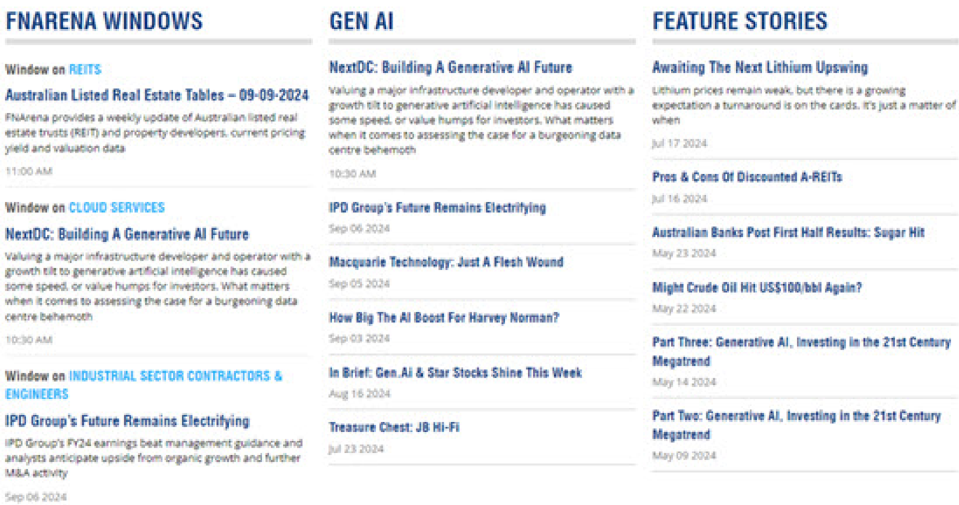
Gen.Ai - A New Section On The Website

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

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

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

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


FNARENA WINDOWS

Window on REITS

Australian Listed Real Estate Tables – 09-09-2024

FNArena provides a weekly update of Australian listed real estate trusts (REIT) and property developers, current pricing yield and valuation data

11:00 AM

Window on CLOUD SERVICES

NextDC: Building A Generative AI Future

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

10:30 AM

Window on INDUSTRIAL SECTOR CONTRACTORS & ENGINEERS

IPD Group's Future Remains Electrifying

IPD Group's FY24 earnings beat management guidance and analysts anticipate upside from organic growth and further M&A activity

Sep 06 2024

GEN AI

NextDC: Building A Generative AI Future

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

10:30 AM

IPD Group's Future Remains Electrifying

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

All-Weather Portfolio FY24 Review

The FY24 review for the All-Weather Model Portfolio can be downloaded here: https://fnarena.com/index.php/download-article/?n=DE2A4552-E2C7-4DC7-0A896CE5CF68ACD8

Prior years:

FY23: https://fnarena.com/index.php/download-article/?n=DFC11150-CB36-C777-1AA3EDA640E2F5BF

FY22: https://fnarena.com/index.php/download-article/?n=DFE7241B-9CD8-61F1-1602C581A8E539C4

FY21: https://fnarena.com/index.php/download-article/?n=DFF82691-E53E-3CF5-17A2337D72CDB54F

FNARENA VIDEO

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

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

SPECIAL REPORT

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

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

Model Portfolios, Best Buys & Conviction Calls

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

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(This story was written on Monday, 16th September, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

RUDI'S VIEWS

Rudi's View: Defensives, Healthcare, Resources & Data Centres

By Rudi Filapek-Vandyck, Editor

Many years of experience with investing and analysing the share market teaches us one very important insight: whether the outlook involves a 'bear' or 'bull' market very much depends on specific definitions that may or may not be the all-important for one's strategy and portfolio positioning.

Either way, **Morgan Stanley's wealth management** division has been so kind in offering us their **key themes for the 'next' bull market**:

-Electrification and Real Infrastructure: grid build out, EV charging networks, data center cooling

-Digitisation of services business: including hardware and software/service providers behind enterprise automation implementation of: AI, natural language processing, machine learning, optical scanning and facial recognition. Sectors that stand to benefit most include financials, health care, government, education, consumer services/call center heavy

-De-globalisation: infrastructure and supply chain reconfiguration. Sectors: industrials, construction, materials, mining

-De-carbonisation: energy both green and carbon, EV, batteries, minerals, mining, internet of things, smart highways

-Defense/Cybersecurity, space, satellite surveillance

-Biotech/Genomics

-Demographics/Residential housing

-Managing longevity/Debts and deficits

If anyone thinks Morgan Stanley might not have the most optimistic forecasts in mind for equities they'd be correct. In Australia, the house view is that share prices and underlying corporate earnings have disconnected, as also illustrated by expensively priced bank shares that simply won't go down.

Over in the US, the house view is the bull case scenario has pretty much been priced-in for equities, suggesting investors should be looking at reducing their exposure to this year's winners and turn more defensive.

Head of **Nuveen Equities** and Fixed Income, Chief Investment Officer, Saira Malik also believes decelerating economic momentum is likely to turn financial markets a lot more volatile and a lot tougher to navigate. Her solution is to turn to trustworthy, reliable dividend payers.

History suggests, according to Nuveen research, dividend growers are an effective diversifier from large cap growth stocks when times get tougher. The research suggests companies operating a robust business model offering an attractive yield and growing their dividends tend to be less volatile, which makes them a sound choice for a core portfolio allocation, Malik suggests.

Over at **DNR Capital**, the stockpickers' intention is to stick with high-quality companies that might still be undervalued. Two such companies have been identified:

-James Hardie ((JHX))
-Treasury Wine Estates ((TWE)

Macquarie's Model Portfolio recently added James Hardie shares.

****

Additional surveys conducted are suggesting the Australian consumer is refusing to crack. This has convinced UBS strategist Richard Schellbach that share prices for **consumer discretionary** companies are too cautiously priced.

The **UBS Model Portfolio** has shifted to Overweight this sector, as well as towards more exposure to the telecom sector as those same consumers are indicating they expect to increase payments on phone bills.

UBS also reports respondents are warming to the idea of buying property, but still acknowledge that such a purchase will require a sale of any additional homes.

The team of global strategists led by Andrew Garthwaite retains its **portfolio preference for defensives.** This team's view remains most cyclicals are still expensively priced, i.e. investors are too optimistic about what lays ahead. In terms of seasonality, Garthwaite & Co point out November is traditionally the time to start buying cyclicals, not in September.

Taking into account a whole range of factors, including investor crowding, valuations, earnings and share price momentum, it is UBS's view the best defensives to buy/own globally are among food producers, beverages companies, utilities and healthcare equipment providers.

Among the companies mentioned are no ASX-listed names. The list includes the likes of E.On, Abbott Laboratories, Air Liquide, Microsoft and Heineken.

****

Fresh from an overall underwhelming August reporting season, **healthcare analysts at Jarden** did see early signals of greenshoots emerging for the sector in Australia, although improvements were by no means universal.

Ramsay Health Care ((RHC)) in particular has been identified as one former outperformer that remains difficult to get excited about, still. Another prominent negative surprise was Cochlear's ((COH)) outlook.

Jarden's sector favourites are CSL ((CSL)), as one of higher-quality stocks expected to enjoy multi-year top line, margin and cashflow improvements, as well as ResMed ((RMD)), as the latter continues to win more market share and equally still has the potential to further improve margins.

Among smaller-sized companies in the sector, Jarden's preference lays with Telix Pharmaceuticals ((TLX)), followed by Integral Diagnostics ((IDX)), assuming the merger with Capitol Health ((CAJ)) goes ahead, and Regis Healthcare ((REG)).

The analysts observe the pathology sector in particular is making significant investments in AI led by Sonic Healthcare ((SHL)) while Ramsay Health Care and Integral Diagnostics appear to be investing the most in technology.

Sector analysts at **Macquarie** highlight the healthcare sector delivered the highest EPS growth in Australia in August growing at an average of 7%. But the sector remains polarised and there's a lot of divergence hiding behind that average.

Regardless, average EPS growth throughout FY09-FY19 had been 8% per annum, but that number had sunk to 5% over FY19-FY24. Conclusion: the bad covid-days might increasingly be ready to be relegated to the past.

Macquarie's sector preferences are Ansell ((ANN) first, followed by CSL, Fisher & Paykel Healthcare ((FPH)), Pro Medicus ((PME)), and ResMed. All are rated Outrperform (Buy-equivalent).

****

As interest rates have embarked on a downward sloping trajectory, even though the RBA is a global laggard, **JP Morgan** highlights **AREITs** will be among key beneficiaries on the ASX.

Excluding all-dominant sector leader Goodman Group ((GMG)), the sector seems poised for a three-year CAGR of 5.3%, well above the negative growth suffered over the past two financial years. Large-cap AREITs excluding Goodman Group are expected to grow on average by 7-8% CAGR (which would be the highest pace in ten years).

While the sector has already enjoyed a decent rally, JP Morgan believes average valuations are still below historical trends ex-Goodman.

JP Morgan has Overweight ratings for Scentre Group ((SCG)), GPT ((GPT)), Dexus ((DXS)) and Charter Hall ((CHC)).

****

Viridian Financial Group has equally shared its portfolio preferences:

-<u>Overweight Healthcare and Tech:</u> These sectors are expected to benefit from strong demand for healthcare services and products, and high demand for AI-enabled products and data centres.

-<u>Underweight Banks and Resources:</u> These sectors face challenges due to economic uncertainties and lower demand for bulk commodities. The focus is on managing risks and navigating economic uncertainties.

-<u>Positive on Copper and Gold</u>: Long-term demand for copper is driven by industrial and energy transition applications, while gold is seen as a safe-haven asset.

-<u>Neutral towards rates</u>: The portfolio maintains a neutral stance towards interest rates, with a focus on building positions in sectors that can benefit from rate cuts and improved economic conditions.

-<u>Overweight Industrials</u>: The industrial sector is expected to benefit from diversified business models and easing labour cost pressures, contributing to strong performance and improved profitability.

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Post August, the **Asia Conviction List** at **Goldman Sachs** no longer includes Woolworths ((WOW)), but the stock has retained its inclusion for the broker's **APAC Conviction List**. The added twist here is those who are responsible for one list are the same as for the other.

Only three other ASX-listed companies are included in both selections:

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

****

The select list of **highest conviction calls** from analysts at **Ord Minnett** has seen numerous changes post August results.

Gone are Select Harvests ((SHV)), Webjet ((WEB)) and Whitehaven Coal ((WHC)). Instead, Electro Optic Systems, Qoria, SiteMinder and Stanmore Resources have been included.

The full list of Ord Minnett's Conviction calls consists of the following 14 companies:

-Alliance Aviation Services ((AQZ))
-ARB Corp ((ARB))
-Cosol ((COS))
-EQT Holdings ((EQT))
-Electro Optic Systems Holdings ((EOS))
-Lindsay Australia ((LAU))
-Pinnacle Investment Management ((PNI))
-Qoria ((QOR))

-Red 5 (RED)
-Regis Healthcare ((REG))
-SiteMinder ((SDR))
-SRG Global ((SRG))
-Stanmore Resources ((SMR))
-Waypoint REIT ((WPR))

****

Not too bad, is probably an accurate summary of how **stockbroker Morgans** perceived the performance of **mining services companies** throughout the August reporting period. One key problem for the sector is ongoing tough conditions for junior exploration companies, which also remains Citi's core point of attention when it comes to assessing the outlook for a company such as Imdex ((IMD)).

As per usual, activity levels are by no means uniform across the sector with lithium bleeding profusely but gold, iron ore, gas and wind providing plenty of offset. Morgans does highlight the risks for iron ore are rising.

Two sector favourites have been identified: ALS Ltd ((ALQ)) and Civmec Singapore ((CVL)).

The first one has been chosen for the positive trajectory in margins for the Life Sciences division while Civmec has re-located to the ASX and the broker sees potential for a re-rating.

****

Morningstar saw no reason to make any changes to its selection of **Best Buys** on the ASX. That selection continues with the following 14 companies:

-IGO Ltd ((IGO))
-TPG Telecom ((TPG))
-Domino's Pizza ((DMP))
-Bapcor ((BAP))
-Endeavour Group ((EDV))
-Santos ((STO))
-ASX Ltd ((ASX))
-Aurizon Holdings ((AZJ))
-Brambles ((BXB))
-Dexus ((DXS))
-SiteMinder ((SDR))
-APA Group ((APA))
-Fineos Corp ((FCL))
-ResMed ((RMD))

Investors should be aware Morningstar's selection is traditionally centred around a seemingly cheap valution (or at least: undervalued) without taking into account additional factors such as corporate quality or the economic cycle. An undervalued valuation is not a timing tool and some inclusions have literally grown a beard while on Morningstar's list (think Aurizon Holdings).

It also shouldn't surprise to see companies such as TPG Telecom, the ASX, Dexus and Bapcor included; one look at the respective share price charts will provide plenty of explanation. But there's always room for a surprise and in the current selection I would point towards SiteMinder and ResMed as being 'different' from the other inclusions.

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

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

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

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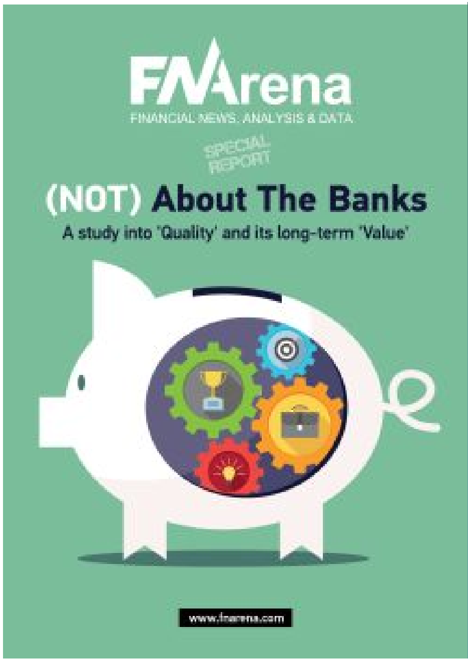

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FNArena is proud about its track record and past achievements: Ten Years On

SMALL CAPS

Dicker Data Preps For PC Refresh Cycle Upswing

Analysts see value in Dicker Data shares based on second quarter momentum and potential upside to PC sales.

-First half miss for Dicker Data, but gathering momentum
-Profit disappointment and elevated inventory explained
-Upside from PC refresh cycle and AI-related features

By Mark Woodruff

Post the August reporting season, analysts suggest investors overlook Dicker Data's ((DDR)) slight first half profit 'miss' and instead focus on gathering sales momentum in the second quarter along with upcoming benefits from the PC refresh cycle with additional tailwinds from the new generation of PC's designed to handle AI and machine learning tasks more efficiently.

The share price is currently range-trading around $9.00, not far above the 52-week low of $8.68 having peaked at $12.76 in February this year, and at $16.00 during the post-covid run-up.

Sales in the second quarter lifted by 9% on the prior quarter while gross margins remained strong. As this was noticeably better than UBS's 2% growth forecast, this broker has upgrade its rating to Buy from Neutral.

First half pre-tax profit of $50.8m still marked a -7% year-on-year decline and missed the consensus forecast by -6% largely due to higher employee and interest costs.

Higher rates and higher debt saw interest costs rise by 28% to $12.1m.

More positively, with the gross margin percentage holding its ground in the second quarter, analysts believe management is not discounting product to generate sales.

Jarden sees upside risk to its own earnings forecasts given management's ability to grow second quarter revenue by 8.6% year-on-year despite facing macroeconomic headwinds and tough comparisons after losing the Autodesk distribution agreement.

Goldman Sachs also highlights the loss of the Dahua distribution arrangement in the first half but expects additional incremental revenue leading into the end of 2024 due to the signing of new vendors such as Adobe in Software.

Existing key product vendors include the likes of Microsoft, Samsung, LG, and Hewlett Packard.

Dicker Data is a wholesale distributer of computer hardware, software, cloud, access control, surveillance, and technologies in Australia and New Zealand.

The New Zealand business more than offset macro weaknesses with market share gains and demand for cloud and cybersecurity, though small-to-medium business (SMB) demand remained subdued, Petra Capital highlights.

Apart from the potential upside from the refresh cycle and AI computers, the analysts note improving SMB engagement, receding macro headwinds benefiting the company's broader hardware portfolio, as well as AI filtering through the rest of the ecosystem, with servers and software key beneficiaries.

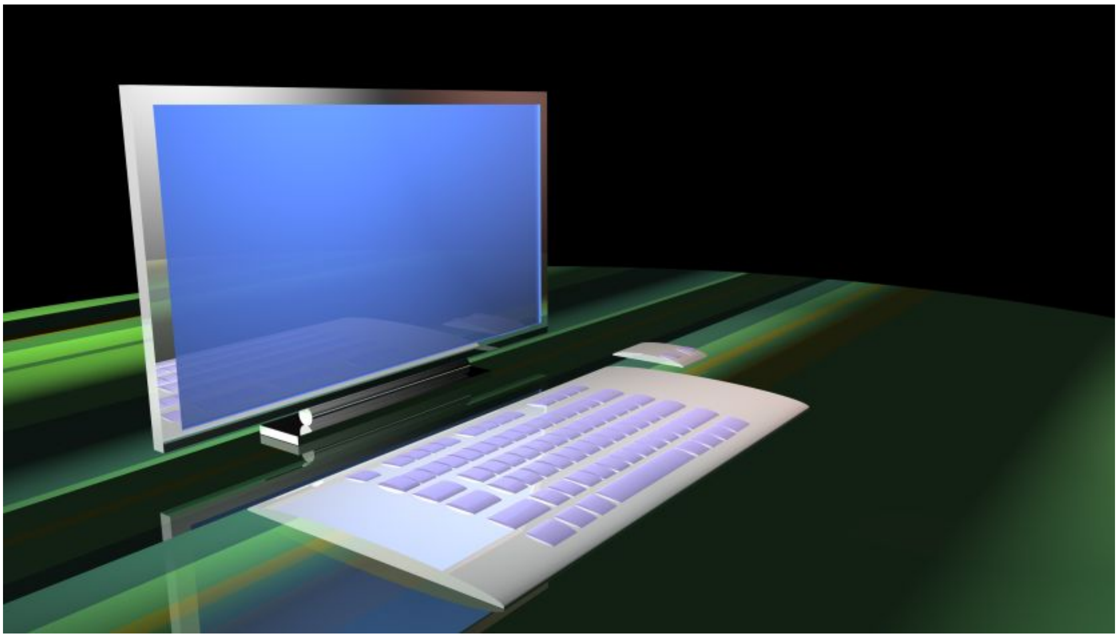
Current valuation and management's record suggest upside

Given long-term structural tailwinds, shares of Dicker Data represent good value, Jarden's opines.

The current relative valuation has de-rated with the next-twelve-month P/E ratio now less than 21x times on the broker's estimate, when the shares have traded at a significant premium over the last two years.

Petra Capital's pre-tax profit margin estimate of 5.1% (of net sales) could prove conservative if revenue and associated operating leverage exceed the analyst's current expectations, with PC sales considered the key catalyst.

This broker expects management's track record of above-system sales and EPS growth will continue over the medium-term.



First half profits and inventory

UBS attributed the first half profit miss to a higher-than-expected increase in headcount to support major new vendor wins plus an around -$2m worse-than-expected bad debt provision expense.

After adjusting for this provision, profit was in line with the consensus forecast, highlights Jarden.

Second quarter revenue growth reflected increasing demand across several product categories and further market share gains, highlighted Petra Capital.

While working capital was slightly elevated as management invests in inventory ahead of expected revenue growth in the second half, Goldman Sachs pointed out this was a healthier dynamic than the supply chain driven build-up during covid.

Morgan Stanley suggested there may have been some sticker shock from higher-than-expected prices as management takes inventory ahead of the PC refresh cycle.

The inventory balance is expected to normalise towards year's end as large deals convert and sales cycles reduce, explains Goldman.

Management has not provided explicit second half guidance but expects the business will return to growth in revenue and profit.

Goldman Sachs found gross margin commentary was constructive, with mix shifts towards larger, lower margin Enterprise deals placing downward pressure on the gross profit percentage during the first half.

The average target price of the three covering brokers in the FNArena database has risen to $10.57 from $10.45 following first half results. This level suggests around 18% upside to the latest share price.

UBS and Citi are Buy rated while Morgan Stanley remains on Hold.

Outside of daily coverage, Jarden and Petra Capital have Buy ratings while Goldman Sachs sticks with Neutral, with an average target price across these three brokers of $10.37.

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TREASURE CHEST

Treasure Chest: Regis Healthcare

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

Whose Idea Is It?

Analysts at JP Morgan

The subject:

Regis Healthcare ((REG))

More info:

Reforms underway to the Aged Care Act will boost earnings for Regis Healthcare by more than $40m (30%) by FY29 when fully phased in, according to JP Morgan.

The Federal Government is targeting long-term sustainability and increased investment into the sector.

JP Morgan has raised its 12-month target price to $6.70 from $5.00 after lifting earnings forecasts from FY27 and increasing forecast inflows for the annual refundable accommodation deposit (RAD)/maximum room price.

These deposit inflows have the greatest positive impact on JP Morgan's higher earnings forecast, accounting for $30m of the $40m rise by FY29, with potential upside should RAD prices increase rapidly due to the upcoming shortage of places.

For the past decade, funding has been subject to political whims, highlight the analysts.

Now, an important element of the new Aged Care funding model is the role of the Independent Health and Aged Care Pricing Authority (IHACPA) to ensure funding keeps up with the cost of providing care.

Before the start of October, when the new care minute requirements (215 minutes per-resident-per-day, up from 200 minutes) come into effect, the IHACPA will issue the new Australian National Aged Care Classification (AN-ACC) rate.

According to JP Morgan's sources, the rate may rise by around 10% to cover the 7.5% lift in minutes plus recent pay increases.

Applying to new residents only, the new reforms included an increase in the "maximum accommodation price" allowing RADs to be priced at up to $750,000 (indexed with the CPI), up from $550,000 (since FY14) without seeking approval from IHACPA.

Analysts at Jarden point out Aged Care Providers will be able to retain 2% per annum of the face value of a resident's RAD across a maximum of five years. The remainder of the RAD can be refunded following the resident's departure from the facility.

As Regis Healthcare has 2,200 RAD residents with an average RAD face value of $500,000, management will be able to retain 2% of these RADs, representing a net benefit of around $22m per year.

When considering residents who opt for a combination of a RAD and the Daily Accommodation Payment (DAP), JP Morgan calculates an additional $5.5m per year.

Like JP Morgan, Ord Minnett forecasts an $48m earnings (EBITDA) increase by FY28 (or $17 per resident per day) and raises its target to $6.40 from $4.90 on higher RAD pricing.

Describing the Australian Government's move as "generational regulatory overhaul", this broker sees Regis healthcare emerging with **lower regulatory risk and a higher return on invested capital** (ROIC).

In the analyst's view, the aged care services provider now has a renewed growth strategy as RADs will allow the funding of developments and a stronger balance sheet will support significant M&A optionality.

Apart from accelerated capital deployment, upside risk could emerge from a number of sources, notes Ord Minnett, including higher accommodation supplements and higher RAD prices.

Following consensus-beating FY24 results for Regis Healthcare on August 26, Macquarie noted incorporation of RAD retention would provide further upside to its forecasts at the time, which resulted in an unchanged $5.50 target.

Macquarie has not yet updated for the new industry dynamics.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 13-09-24

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday September 9 to Friday September 13, 2024
Total Upgrades: 4
Total Downgrades: 5
Net Ratings Breakdown: Buy 58.98%; Hold 32.36%; Sell 8.67%

For the week ending Friday September 13, 2024, FNArena recorded four rating upgrades and five downgrades for ASX-listed companies by brokers monitored daily.

Overall, positive percentage changes to average earnings forecasts were similar to negative changes (if one ignores the big negative change for Mineral Resources) while falls for average target prices were slightly larger than positive changes, as may be seen in the tables below.

While Mineral Resources received the largest downgrade to earnings forecasts last week, brokers remained positive on the outlook and the average target price of seven covering brokers in the FNArena database remained at $52.93, suggesting 38% upside to the latest share price.

After a rugged period of falling prices for both lithium and iron ore, last week FIRB approval was received for the $1.3bn sell-down of the Onslow iron ore haul road, with the first $1.1bn cash payment due this month.

As part of a business update, management also forecast an annualised shipment of 8.64mt in September which bodes well for FY25 guidance, suggested Citi.

Retaining its Overweight rating for Mineral Resources, Morgan Stanley noted the stock is cheap and offers material upside for value investors with a longer-term horizon.

After management foreshadowed further asset sales to release capital, this broker could see no requirement for an equity raise unless both iron ore and lithium prices experience further significant price falls simultaneously, as management still has more levers to pull on opex and capex.

Paladin Energy follows Mineral Resources on the earnings forecasts downgrade table and heads up the table for negative change to target prices.

UBS re-initiated research coverage with the lowest ($10.90) target of the six covering brokers in the FNArena database (average $14.12), but still began with a Buy rating in anticipation of a stronger share price after recent weakness.

While positive on the long-term nuclear demand thematic, the broker is mindful how ambitious some government policy targets are (post COP 28) and is wary they may not be met.

Also, uranium's flattish cost curve sees the analyst err towards the side of conservatism, assuming the uranium price will average US$80/lb in the near-term and forecasting a long-term price of US$70/lb from 2035.

This month, Paladin is set to acquire Fission Uranium which owns the Patterson Lake South project in Canada, making the company an around 11.5mlbpa (attributable) multi-mine operator.

This move will result in multi-asset production faster than Paladin progressing its own Michelin project, noted Morgan Stanley, given the lengthy approval process in Canada. Also, Patterson has higher-grade uranium, which could lead to lower costs.

Despite these positive comments, Morgan Stanley's target fell to $12.00 from $16.65 (even though Fission is contributing $2.40) after this broker updated the overall valuation for Langer Heinrich following a new technical study.

Regal Partners and Seek were next on the list for downgrades to average earnings forecasts.

Only Bell Potter updated research on Add-rated Regal Partners last week, and while FY24 forecasts were lowered, Regal remains as one of its leading stock picks.

Similarly, there is no cause for investor alarm at Seek as the main reason for the fall in average earnings forecast was due to Ord Minnett's transition to in-house research from whitelabeling Morningstar's analysis. Following a review of the employment market and updating for the company's price rises in the Australasian division earlier this month, the broker maintained a Buy rating and $27 target.

Returning to average target prices, here Bellevue Gold and Johns Lyng featured second and third on the negative change table, below Paladin Energy.

Bellevue Gold's average was dragged down to $1.46 from $1.73 after UBS lowered its target by -36% to $1.45 following incorporation of the company's $146m equity raise (proceeds will largely be used to pay down debt) and after including maiden multi-year production and cost guidance.

The broker's forecasts were reduced significantly due to lower-than-expected near-term production, higher-than-anticipated costs (AISC) and a slower ramp-up to more than 250kozpa. Capex was also around $40m per year higher-than-expected by the analyst over the next three years.

Johns Lyng's average target suffered after Morgan Stanley slashed its 12-month target to $4.40 from $7.20 following a further assessment of FY24 results.

Noting the -7.5% miss on the key Business as Usual (BAU) revenues ex Commercial Construction, the analysts felt inflection catalysts could be more than six months away.

The market will be specifically awaiting evidence Insurance Building and Restoration Services (IB&RS) BAU is on track to deliver FY25 guidance, in Morgan Stanley's view.

On the flipside, Iress received the largest percentage upgrade to average earnings forecasts last week, after new research (dated 21 August) from Shaw and Partners was added to the FNArena database, further highlighting a first half results beat.

For more detail on the Iress result and the full summary of reporting season results please refer to https://fnarena.com/index.php/reporting_season/

Boss Energy was next (after ignoring Light & Wonder and Newmont Corp due to database cleanups) after UBS initiated research coverage.

As mentioned above when discussing Paladin Energy, UBS is conservative in its outlook for uranium stocks generally and the broker's earnings forecasts only provided a lift for the average Boss Energy forecast in FY25 and subsequently they acted as a drag.

The broker noted emerging value given the -36% share price fall so far in 2024 and began with a Buy rating and $3.50 price target.

Following the restart at the Honeymoon mine, first production was announced in April, and 57,000lbs of uranium was produced in the June quarter. The analyst suggested near-term catalysts will be around the ongoing ramp-up of operations.

Average earnings forecasts for Temple & Webster also rose by over 10% thanks to updated research by Citi which nominated the stock as its top pick under coverage of online and online-adjacent retailers.

Heading into a recovering consumer environment, the analysts see limited risk of softening top-line growth in

FY25 given market share gains, encouraging signs in B2B, and growing app usage to capture repeat purchases and support the earnings margin.

App usage is becoming a material channel, which the broker sees as a significant positive given it demonstrates brand awareness campaigns are working and customer acquisition costs are relatively lower.

Total Buy ratings in the database comprise 58.98% of the total, versus 32.36% on Neutral/Hold, while Sell ratings account for the remaining 8.67%.

Upgrade

ARB CORPORATION LIMITED ((ARB)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 3/2/1

Morgan Stanley raises its target for ARB Corp to $46 from $40.50 as OEM collaborations are taking further shape and US distribution is falling into place. The latter has been further boosted by the (conditional) acquisition by associate Off-Road Warehouse of 4 Wheel Parts.

The broker highlights management's strategic investments are leading to positive trends for the export order book. Incremental market share gains are also expected from domestic store expansion. Industry view: In-Line.

Based on the above positives and more, ARB Corp makes the Morgan Stanley list of key small/mid-cap ideas.

BHP GROUP LIMITED ((BHP)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/2/0

Macquarie has an Overweight stance on metallurgical coal and alumina, is Even-weight on gold and aluminium, and Underweight thermal coal, along with a marginally Underweight view on iron ore.

The broker raises its target by 2% to $44 for BHP Group and upgrades to Outperform from Neutral on valuation grounds.

Recent iron ore price falls have brought spot pricing back in line with the analysts' short-term outlook. 2024 and 2025 copper price forecasts are reduced by -5% and -4%, respectively, and the long-term estimate remain at US$9000/t.

For the majors, Macquarie prefers South32 over BHP followed by Rio Tinto and the Underperform-rated Fortescue.

CHALLENGER LIMITED ((CGF)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 5/1/0

Macquarie observes the sale of Apollo's stake in Challenger to 9.9% from 20.1% and suggests there is no reason why the remaining holding would not be divested.

The fall in the share price, -11%, offers an entry point with the company's fundamentals intact. There is no change to the working partnership between the two companies, the analyst highlights.

Rating upgraded to Outperform from Neutral. Target price retained at $7.

The company is expected to report 1Q25 update on Oct 16.

RIO TINTO LIMITED ((RIO)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/2/0

Macquarie has an Overweight stance on metallurgical coal and alumina, is Even-weight on gold and aluminium, and Underweight thermal coal, along with a marginally Underweight view on iron ore.

The broker raises its target by 2% to $120 for Rio Tinto and upgrades to Outperform from Neutral on valuation grounds.

Recent iron ore price falls have brought spot pricing back in line with the analysts' short-term outlook. 2024 and 2025 copper price forecasts are reduced by -5% and -4%, respectively, and the long-term estimate remain at US$9000/t.

For the majors, Macquarie prefers South32 over BHP followed by Rio Tinto and the Underperform-rated Fortescue.

Downgrade

DREADNOUGHT RESOURCES LIMITED ((DRE)) Downgrade to Hold from Speculative Buy by Bell Potter .B/H/S: 0/1/0

Bell Potter lowers its target for Dreadnought Resources to 2c from 15c and downgrades to Hold from Speculative Buy. Management is increasing exploration for niobium across its Mangaroon project and focusing less on rare earths, explains the broker.

This is a similar move to near neighbour Hastings Rare Earths ((HAS)), observes Bell Potter, which has pivoted to a niobium by-product stream at its Yangibana project.

In the event rare earth pricing recovers, the analysts see some chance for consolidation of the Yangibana and Mangaroon
tenements, but at this point talk of consolidation is highly speculative.

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED ((FPH)) Downgrade to Sell from Neutral by Citi .B/H/S: 2/1/1

In a delayed update, Citi mentions in new research it downgraded the rating for Fisher & Paykel Healthcare to Sell from Neutral (on valuation) in the wake of FY24 results.

The analysts' top picks are CSL ((CSL) in large caps and Australian Clinal Labs ((ACL)) in small caps.

Just after Fisher &Paykel's FY24 results, FNArena's summary on August 26 of the broker's latest research was as follows.

Should current favourable conditions continue, Citi believes Fisher & Paykel Healthcare (March year-end) can achieve the top end of FY25 profit guidance, which has been upgraded by around 3% on strong 1H growth across all products.

FY25 revenue guidance was maintained given the variability in 2H northern hemisphere seasonal hospitalisation rates.

Management also supplied 1H profit guidance of between NZ$150-160m, which is 10% above the consensus estimate, notes the broker.

Neutral rating. The broker's target is raised to NZ$33.50 from NZ$28.75 on higher earnings forecasts and a higher mid-term growth rate.

GENMIN LIMITED ((GEN)) Downgrade to Speculative Hold from Speculative Buy by Bell Potter .B/H/S: 0/1/0

Genmin provided an updated funding disclosure post an ASX query, Bell Potter highlights. The company's cash position declined to US$0.648m at June 30 2024 against US$6.2m at March 31 2024

The company stressed capital requirements will fall substantially in the Sept quarter after several sizeable one-off payments are made. Management is also in advanced discussions on non-dilutive fund-raising options for working capital and project financing for Baniaka iron ore project.

The stock is downgraded to Speculative Hold from Speculative Buy. Target falls to 9c from 48c on the assumption of a doubling of shares in the next 12-months for a fund raising.

PROTEOMICS INTERNATIONAL LABORATORIES LIMITED ((PIQ)) Downgrade to Reduce from Speculative Buy by Morgans .B/H/S: 0/0/1

Morgans considers there are no penalties for the cancellation of Proteomics International Laboratories licensing agreement with Sonic Healthcare USA ((SHL)) to distribute its DKD test because of delays and performance targets not being achieved.

Until a commercialisation pathway is established, the broker is happy to "avoid" the company.

The stock is downgraded to Reduce from Speculative Buy. Target price slashed to 50c from 99c.

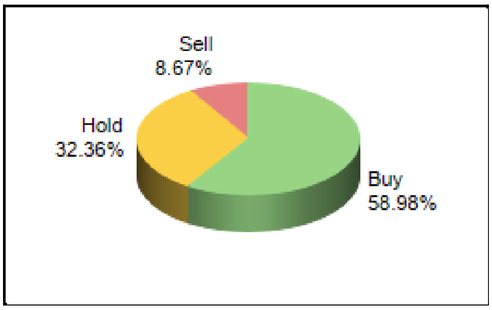
S2 RESOURCES LIMITED ((S2R)) Downgrade to Speculative Hold from Speculative Buy by Bell Potter .B/H/S: 0/1/0

Bell Potter adjusts the outlook for S2 Resources on the back of results for eight holes at Greater Fosterville, the company's most developed gold exploration project.

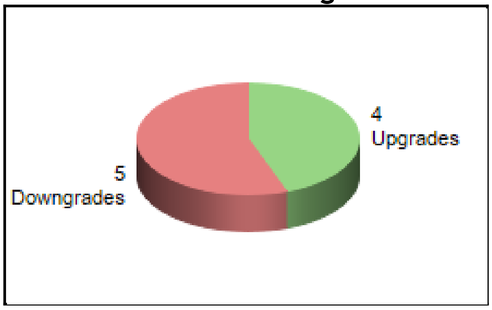
The analyst notes initial results have produced economic grades and widths but insufficient data to articulate the true potential scale and opportunity of the project.

Target price cut to 10c from 24c. Rating downgraded to Speculative Hold from Speculative Buy.

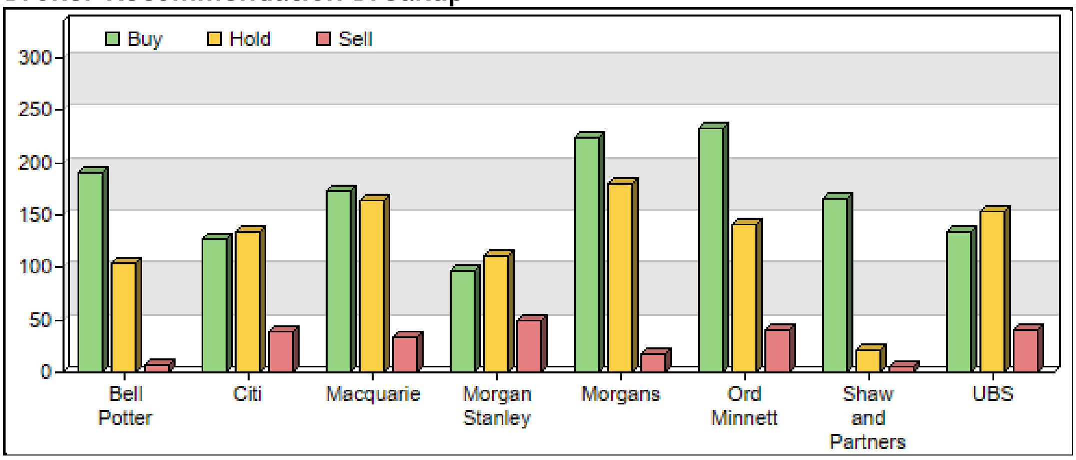
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ARB CORPORATION LIMITED	Buy	Neutral	Morgan Stanley
2	BHP GROUP LIMITED	Buy	Neutral	Macquarie
3	CHALLENGER LIMITED	Buy	Neutral	Macquarie
4	RIO TINTO LIMITED	Buy	Neutral	Macquarie
Downgrade				
5	DREADNOUGHT RESOURCES LIMITED	Neutral	Buy	Bell Potter
6	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	Sell	Neutral	Citi
7	GENMIN LIMITED	Neutral	Buy	Bell Potter
8	PROTEOMICS INTERNATIONAL LABORATORIES LIMITED	Sell	Neutral	Morgans
9	S2 RESOURCES LIMITED	Neutral	Buy	Bell Potter

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	CSR	CSR LIMITED	9.000	8.520	5.63%	4
2	CMM	CAPRICORN METALS LIMITED	6.597	6.297	4.76%	3
3	DEG	DE GREY MINING LIMITED	1.830	1.755	4.27%	4
4	TPW	TEMPLE & WEBSTER GROUP LIMITED	12.590	12.090	4.14%	5
5	ARB	ARB CORPORATION LIMITED	42.800	41.250	3.76%	6
6	SLC	SUPERLOOP LIMITED	2.067	2.000	3.35%	3
7	IEL	IDP EDUCATION LIMITED	18.038	17.463	3.29%	4
8	TNE	TECHNOLOGY ONE LIMITED	19.836	19.221	3.20%	7
9	GMD	GENESIS MINERALS LIMITED	2.450	2.375	3.16%	4
10	MQG	MACQUARIE GROUP LIMITED	206.420	200.420	2.99%	5

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	PDN	PALADIN ENERGY LIMITED	14.120	16.088	-12.23%	5
2	BGL	BELLEVUE GOLD LIMITED	1.533	1.733	-11.54%	3

3	JLG	JOHNS LYNG GROUP LIMITED	4.670	5.230	-10.71%	5
4	BOE	BOSS ENERGY LIMITED	4.590	4.863	-5.61%	5
5	RPL	REGAL PARTNERS LIMITED	4.300	4.523	-4.93%	3
6	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	35.950	37.092	-3.08%	6
7	IPH	IPH LIMITED	7.965	8.183	-2.66%	4
8	PPT	PERPETUAL LIMITED	23.080	23.567	-2.07%	5
9	BKW	BRICKWORKS LIMITED	29.800	30.383	-1.92%	6
10	ABB	AUSSIE BROADBAND LIMITED	4.110	4.190	-1.91%	3

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	IRE	IRESS LIMITED	38.533	32.067	20.16%	4
2	LNW	LIGHT & WONDER INC	451.300	403.250	11.92%	5
3	NEM	NEWMONT CORPORATION REGISTERED	456.222	408.517	11.68%	4
4	BOE	BOSS ENERGY LIMITED	13.520	12.150	11.28%	5
5	TPW	TEMPLE & WEBSTER GROUP LIMITED	7.475	6.780	10.25%	5
6	RRL	REGIS RESOURCES LIMITED	21.780	20.300	7.29%	6
7	CMM	CAPRICORN METALS LIMITED	35.100	32.800	7.01%	3
8	NXT	NEXTDC LIMITED	-9.525	-10.125	5.93%	6
9	TAH	TABCORP HOLDINGS LIMITED	1.400	1.325	5.66%	5
10	RMS	RAMELIUS RESOURCES LIMITED	26.850	25.550	5.09%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	MIN	MINERAL RESOURCES LIMITED	-26.250	-7.014	-274.25%	7
2	PDN	PALADIN ENERGY LIMITED	49.407	60.836	-18.79%	5
3	RPL	REGAL PARTNERS LIMITED	24.467	28.967	-15.53%	3
4	SEK	SEEK LIMITED	39.900	45.000	-11.33%	5
5	SLC	SUPERLOOP LIMITED	6.700	7.300	-8.22%	3
6	CAR	CAR GROUP LIMITED	91.575	97.600	-6.17%	6
7	JLG	JOHNS LYNG GROUP LIMITED	17.440	18.460	-5.53%	5
8	XRO	XERO LIMITED	139.735	147.136	-5.03%	6
9	ABB	AUSSIE BROADBAND LIMITED	15.333	16.000	-4.17%	3
10	S32	SOUTH32 LIMITED	31.530	32.882	-4.11%	6

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: U308 Supply In The Spotlight

The brave new world continues to reveal the heightened risk of geopolitics when it comes to global commodity supplies. This week uranium was in focus as Russia suggests a retaliation against Western sanctions and Kazatomprom hits a transportation cost hurdle.

-U308 spot market takes the backseat to the mid-term market
-World's largest uranium producer hints at major supply cuts
-Citi is tactically bullish on U308 prices
-UBS the new kid on the uranium stock stage

By Danielle Ecuyer

Higher activity in near-to mid-term markets

The disconnect between the spot and mid-term U308 market pricing continued last week, despite President Putin and the world's largest uranium producer, Kazatomprom, making announcements which laid bare again the increasing role of geo-political tensions in commodity markets.

Volatility in the spot price market persisted last week, according to industry consultants TradeTech, with 800,000lbs traded in a price range from US$80lb down to US$79.75lb before finishing the week at US$80lb, a fall of -US$0.50.

TradeTech highlighted ongoing activity with buyers focusing on purchasing U308 on a near-to mid-term time horizon. Traders, financial groups and utilities were reported as active in the almost 2 million pounds of U308 trade across a delivery window from the beginning of 2025 through to 2027.

TradeTech's Mid-Term price is US$86lb and the Long-Term price US$82lb.

Geopolitics takes centre stage

Uranium stock prices reacted positively over the week to two announcements.

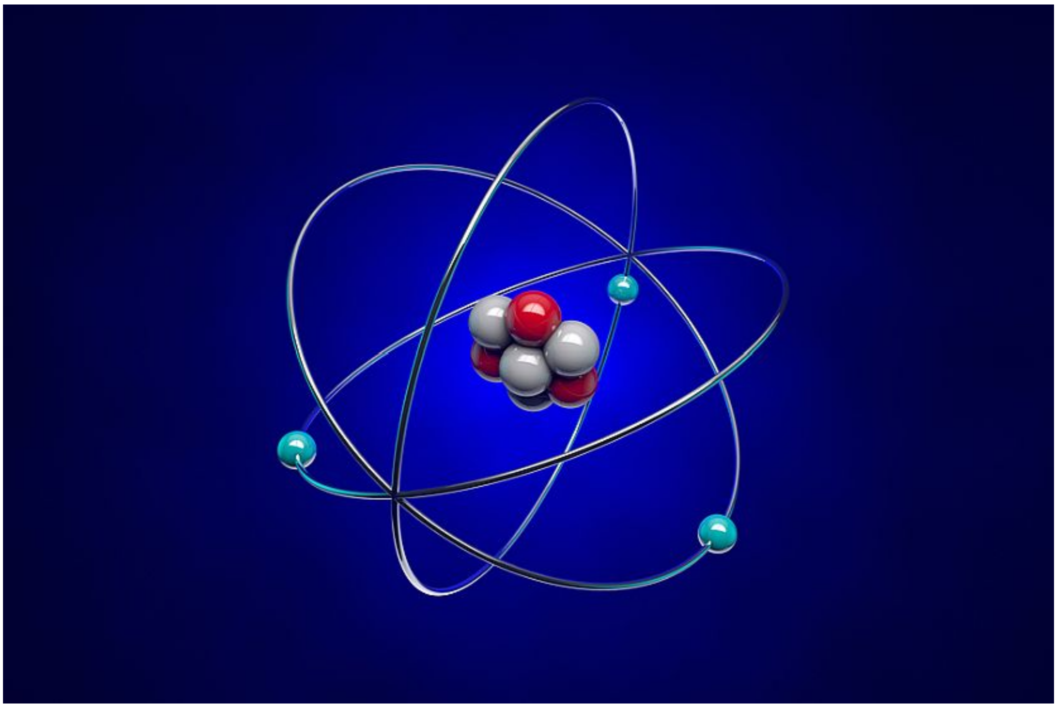
Meirzhan Yussupov, Head of Kazatomprom suggested Kazakhstan may be required to redirect its uranium supplies away from European markets due to prohibitive transport costs.

The suggestion comes on the back of sanctions against Russia which means the traditional transport route through St. Petersburg is no longer viable. The alternative via Azerbaijan is -apparently- not cost efficient for the company.

Kazatomprom produces about 43% of U308 global supply to nuclear power plants.

President Putin also weighed into the space with statements suggesting a limit on the export of uranium in response to Western sanctions.

TradeTech emphasises the potential uncertainty to supplies is boosting U308 purchases in the term markets.



Citi updates its commodities outlook

Despite the softer spot market (U308 spot prices down -13% since the start of 2024, but 22% above 2023) **Citi remains "tactically bullish" on uranium.** As a base case, the broker forecasts the price could reach US$98lb later in 2024 with ongoing momentum to the upside in 2025, to a projected average of US$110lb.

Observing the Chinese market, Cit believes the country will play an ever-important role in demand for U308. The broker points to rising stockpiles and forecasts 450mlbs, peaking in 2028 and 300mlbs in 2050, or the same as two-years uranium supply for utilities to hold in inventories.

UBS initiates coverage on uranium stocks

From a macro perspective, UBS considers a flat U308 price at US$80lb is on the cards in the near-term because of a "flattish" cost curve for the commodity.

UBS remains positive on the outlook for nuclear energy but believes post COP 28 some government nuclear power targets are on the optimistic side.

Over the longer term, the broker forecasts the U308 price will trend to US$70/lb post 2035.

Regarding **Paladin Energy** ((PDN)), UBS points to a "conservative" earnings outlook or some -20% below consensus forecasts due to its more restrained estimate for uranium prices.

The stock is initiated with a Buy rating and a $10.90 target price.

Paladin was also in the news with Fission Uranium shareholders giving the thumbs up for the proposed acquisition. Canaccord Genuity was quick to remind investors the company would now become the third-largest listed uranium resource globally with an estimated 11.5mlbs according to Morgan Stanley.

The takeover will build scale and provide medium-term production growth for Paladin as well as bringing the company down the cost curve.

Morgan Stanley has lowered its target price to $12 from $16.65 because of the updated valuation on Langer Heinrich post the new technical study, including Fission contributing $2.40.

The FNArena daily monitored brokers have an average target price of $14.12 and are all have Buy-equivalent ratings.

Canaccord Genuity has a $16.50 target price, with an Overweight rating (Buy).

UBS also initiated with a Buy rating on **Boss Energy** ((BOE)) as the latter restarts its 100% owned Honeymoon Uranium project in South Australia.

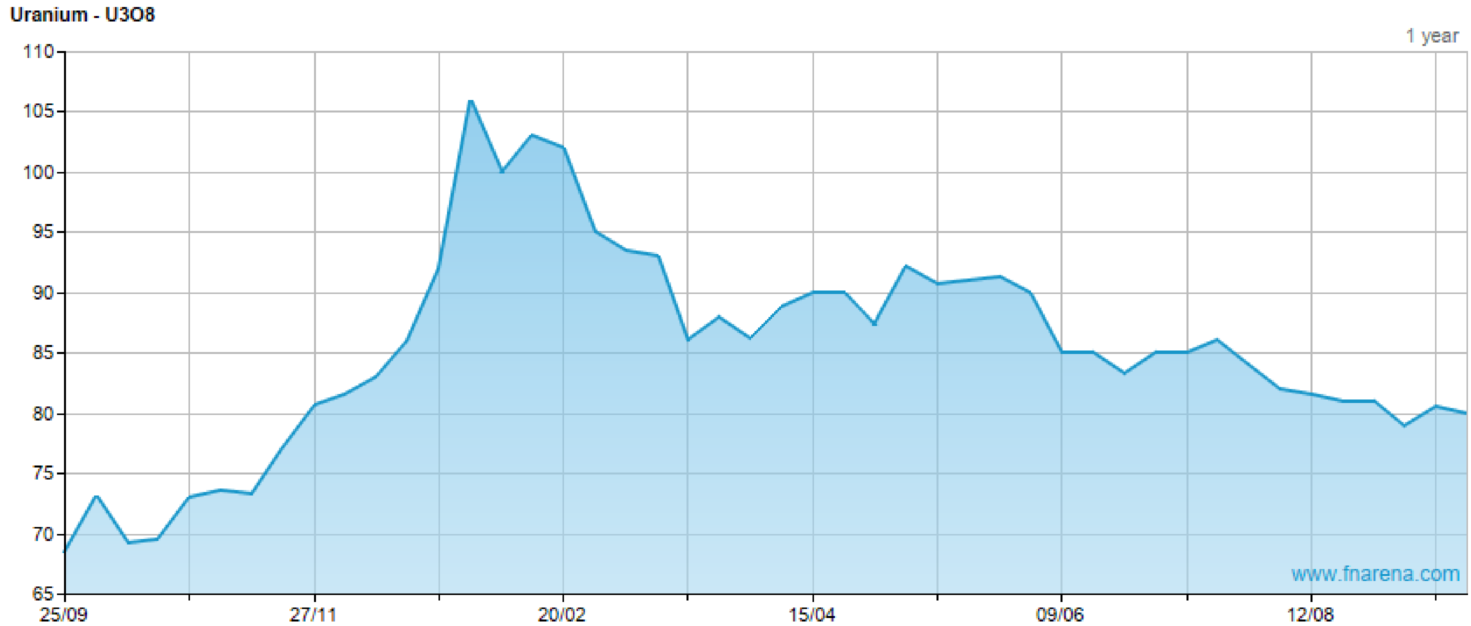
The broker focuses on the expansion potential at Honeymoon via the inclusion of Gould's Dam and Jason as satellite deposits. UBS proposes the extension of the resource is not being priced by the market and could result in the original mine doubling in scope with permitting and transport facilities to over 20 years from 11 years.

Alternatively, the expansion of capacity is possible. Target price of $3.50.

FNArena's daily monitored brokers have an average target price of $4.59 with four Buy-equivalent ratings (including UBS) and one Hold.

<u>Uranium companies listed on the ASX:</u>

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	13/09/2024	0.0400	0.00%	$0.19	$0.03			
AEE	13/09/2024	0.1200	▲13.04%	$0.36	$0.11			
AGE	13/09/2024	0.0400	▲ 2.56%	$0.08	$0.03		$0.100	▲150.0%
AKN	13/09/2024	0.0100	0.00%	$0.07	$0.01			
ASN	13/09/2024	0.0900	▲ 9.89%	$0.20	$0.07			
BKY	13/09/2024	0.3400	0.00%	$0.45	$0.26			
BMN	13/09/2024	2.2900	▲15.82%	$4.87	$1.90		$7.400	▲223.1%
BOE	13/09/2024	2.8400	▲13.77%	$6.12	$2.38	20.8	$4.590	▲61.6%
BSN	13/09/2024	0.0300	▼- 3.23%	$0.21	$0.02			
C29	13/09/2024	0.0700	0.00%	$0.12	$0.06			
CXO	13/09/2024	0.1000	▲19.05%	$0.45	$0.08		$0.090	▼- 10.0%
CXU	13/09/2024	0.0200	▲100.00%	$0.06	$0.01			
DEV	13/09/2024	0.1400	0.00%	$0.45	$0.11			
DYL	13/09/2024	1.1300	▲20.42%	$1.83	$0.91	-80.0	$1.770	▲56.6%
EL8	13/09/2024	0.3300	▲ 9.68%	$0.68	$0.26			
ERA	13/09/2024	0.0100	▲66.67%	$0.08	$0.00			
GLA	13/09/2024	0.0100	0.00%	$0.04	$0.01			
GTR	13/09/2024	0.0030	0.00%	$0.02	$0.00			
GUE	13/09/2024	0.0600	▲20.00%	$0.18	$0.05			
HAR	13/09/2024	0.0400	▼-25.00%	$0.28	$0.03			
I88	13/09/2024	0.4900	▲13.33%	$1.03	$0.14			
KOB	13/09/2024	0.1000	▼-16.67%	$0.18	$0.07			
LAM	13/09/2024	0.5500	▼-25.17%	$1.04	$0.55			
LOT	13/09/2024	0.2500	▲20.93%	$0.49	$0.20		$0.710	▲184.0%
MEU	13/09/2024	0.0400	▲ 8.11%	$0.06	$0.03			
NXG	13/09/2024	8.6100	▲ 9.71%	$13.66	$7.89		$16.200	▲88.2%
ORP	13/09/2024	0.0600	▼-14.29%	$0.12	$0.04			
PDN	13/09/2024	9.1200	▲11.95%	$17.98	$8.15	18.2	$14.120	▲54.8%
PEN	13/09/2024	0.0800	▲ 5.26%	$0.15	$0.07	26.7	$0.260	▲225.0%
PNX	13/09/2024	0.0040	0.00%	$0.01	$0.00			
SLX	13/09/2024	3.4900	▲ 3.14%	$6.74	$2.93		$7.200	▲106.3%
TOE	13/09/2024	0.2600	▲27.27%	$0.70	$0.01			
WCN	13/09/2024	0.0200	0.00%	$0.02	$0.01			



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

WEEKLY REPORTS

The Short Report - 19 Sep 2024

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

Summary:

Week Ending September 12th, 2024 (most recent data available through ASIC).

10%+

PLS 20.36
IEL 14.13
SYR 12.47
LTR 11.15
LYC 11.05
PDN 10.83
CTT 10.24

Out: CHN, STX

9.0-9.9%

MIN
STX
BOE
SYA
CHN

In: CHN, MIN, STX

8.0-8.9%

DYL
LOT

In: LOT Out: MIN

7.0-7.9%

ACL
SEK

Out: LOT

6.0-6.9%

KAR
ADT
GMD
SFR
NUF
OBL
WBT
LIC
FLT

In: WBT Out: CXO

5.0-5.9%

CUV
BGL
DXS
IMU
NAN
WEB
RIO
DMP
SIG
NVX
A2M
IDX

In: SIG Out: AX1, BOQ, CTD, HLS, IFL, VUL, WBT

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.5	0.7	NAB	0.8	0.7
ANZ	0.6	0.6	QBE	0.5	0.4
BHP	0.5	0.5	RIO	5.5	5.3
CBA	1.5	1.5	STO	1.0	1.0
COL	0.9	0.8	TCL	0.8	0.8
CSL	0.3	0.3	TLS	0.3	0.3
FMG	1.6	1.5	WBC	0.9	0.8
GMG	0.8	0.8	WDS	1.8	1.7
JHX	0.9	1.0	WES	1.0	1.0
MQG	0.8	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.

WEEKLY REPORTS

In Brief: Lithium, Webjet Split, Retailers In Focus

Lithium prices to remain under the pump as global supply growth continues; Webjet's break up won't have shareholders crying, and retailers in focus for an improving sales trend and digital momentum.

-Is CATL a red herring in the lithium market?
-WebBeds aspiring to premium valuations
-Foot traffic and retail sales are improving
-Australian retailers investing for digital growth

By Danielle Ecuyer

Quote of the week comes from Oxford Economics

"The 50bps cut sends a strong signal that central banks are shifting back towards business as normal, and that their focus is becoming more forward looking and less focused on the latest inflation numbers. This supports our expectation of steady and sustained rate cuts from here."

Lithium prices and supply don't add up

UBS analysts have been investigating lithium supply dynamics across geographies including China, Africa and Latin America. Forecast lithium supply is expected to grow 36% in 2025 or an incremental 490kt lithium carbonate equivalent and by another 22% in 2026 which remains in contrast to the low-price backdrop.

Despite a reprieve last week from CATL's "surprise" announcement to alter production at its Jiangxi lepidolite mine, UBS is cautious on China lepidolite growth and anticipates it will represent 26% of global supply growth in 2025.

Domestically, the analyst is forecasting 97kt incremental volume from Australia or around 20% of the 2025 growth estimates due to the ramp up at Kathleen Valley and Mt Holland.

In contrast, an extensive African trip by the broker has underwritten a higher expectation on the "stickiness" of supply. Africa is responsible for 22% of forecast 2025 supply with the spot price still above production cost.

Chile's sliding royalty scale is highlighted for the cost implications to SQM and Albemarle. UBS points to the increasing supply growth out of LATAM which could reach circa 23% of supply growth in 2025.

UBS remains Underweight the sector with projected spot prices of around US$750t for 2024/25/26 to help rebalance the market.

The broker is Buy rated on **Patriot Battery Metals** ((PMT)); Neutral on **Arcadium Lithium** ((LTM)) and Sell rated on **IGO Ltd** ((IGO)), **Liontown Resources** ((LTR)) and **Pilbara Minerals** ((PLS)).

Breaking up is not hard to do

Webjet ((WEB)) is in focus for Wilsons with this week's approval by shareholders for the de-merger of WebBeds and the company's Business-to-Consumer (B2C) operations.

Completion is expected on September 30 with shares in Webjet B2C commencing trading on October 1. The broker considers Expedia, Booking Holdings and Airbnb are the most relevant comparisons to value WebBeds while stressing there are no "pure-play bed banks" listed.

A suggested value for WebBeds ranges between 15-20x FY25 EBITDA or an equity value of between $2.6bn to $3.4bn. But considering the "pure play" characteristic with high growth rates and margins, Wilsons assesses there is upside to the valuation range.

In the ASX universe, the analyst opines travel companies are most comparable to Webjet B2C but for WebBeds appropriate comparisons are seen with **Pexa Group** ((PXA)), **REA Group** ((REA)), **Domain Holdings Australia** ((DHG)) and **CAR Group** ((CAR)).

Internationally, the analyst assesses eDreams ODIEGO, lastminute.com and Despegar.com as the best comparisons for Webjet B2C as an online travel agency with a high percentage of flight bookings. Domestic comparisons include **Flight Centre** ((FLT)), **Corporate Travel** ((CTD)) and **HelloWorld Travel** ((HLO)) suggesting a valuation range of 5x to 7.5x FY25 EBITDA or around a 15x to 21x FY25 price-to-earnings ratio.

This equates to an equity valuation of circa $270m-$370m with downside risks.

Applying these valuation estimates to the current Webjet valuation offers a range between a -2% decrease to a 28% increase at a $7.73 share price.

Wilsons retains an Overweight rating with a target price of $9.59. Among FNArena's daily monitored brokers, the average share price target is $9.864 with five Buy-equivalents and two Hold-equivalent ratings.

<u>Let's go shopping</u>

Citi steps in the latest foot traffics/sales for small cap retailers in footwear/clothes/accessories and housing related goods post the FY24 reporting season updates.

The broker concludes the data support strength from footwear and housing-related retailers which have performed better than clothing in the first seven weeks of FY25 from a sales performance perspective.

In the US-based clothing/accessory retailers, the analyst notes available data suggest an improvements in sales.

The broker observes sales momentum at **Accent Group** ((AX1) appears to have been maintained, with forecast 3.5% growth in like-for-like sales in 1H25 on the back of 3.5% growth in the first seven weeks.

The stock is Buy rated with a $2.57 target price.

Universal Store Holdings ((UNI)) may have seen some softening in the clothing segment, but Citi does not anticipate any major changes to the 1H25 like-for-like sales forecast of 10% growth. The analyst highlights management is adept at selecting on-trend products which has helped maintain sales momentum, noting the closure of 17 Glue stores as a potential positive. Buy rated with a $7.90 target price.

Scope for an uplift in Citi's like-for-like sales forecast for **Lovisa Holdings** ((LOV)) in 1H25 might be on the cards as sales momentum looks to be improving in the US. The company has around 23% of its stores located in the US in FY24. Risks associated with a poorer performance from the recently opened lesser quality stores leads Citi to a Neutral rating and $32.16 target price.

When it comes to house-related goods, the broker is upbeat on **Beacon Lighting Group** ((BLX)) and **Nick Scali** ((NCK)) with sales momentum showing signs of improvement.

Citi's economists are forecasting 75bps of interest rate cuts in 2025 which could be a macro tailwind for these companies. Both are Buy rated with a respective $3.12 and $16.53 target price for Beacon and Nick Scali.

Jarden also turns the focus on the Australian retail sector emphasising FY25 could be an "inflection" point for the sector. This broker concentrates on the **"growing importance of digital engagement for broader retail"**.

November retail sales are anticipated to reveal improving sales growth post a subdued period over July/August against the backdrop of tax cuts. Some 60% of Australians are delaying making purchases until "key cyber" events.

This year Cyber Monday is in December which could see increased promotional activity for the Christmas season.

Jarden sees increasing capital expenditure and operating investment across supply chains, range, and loyalty programs all designed to enhance the share of the consumers' wallet and spend.

Australia is estimated to be between one and four years behind overseas locations when it comes to digital retailing, but the trend is positive with average online penetration year-to-date up around 40bps to 11.1% and 40bps against FY23.

Most of the increase has been evidenced in November because of cyber events like Black Friday. Fashion and homewares are the largest category purchased online during these events when sales peak. Sport/outdoor and fashion accessories exhibited the highest growth, all coming off a low base.

Citi believes Walmart provides some inspiration to **Wesfarmers** ((WES)), Neutral rated with $61.20 target, **Woolworths Group** ((WOW)), Overweight rated with a $38.60 target, and **Coles Group** ((COL)), Neutral rating, $17.70 target.

In terms of stock preference, the broker advocates companies with sustainable moats which continue to grow at scale with differentiated offerings, including Woolworths, **Temple & Webster Group** ((TWP)), Buy rated, $14.30 target, Flight Centre, Buy rated with $24.60 target, **Treasury Wine Estates** ((TWE)), Buy rated and $14.20 target price, with Wesfarmers offering opportunity.

WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 20-09-24

Broker Rating Changes (Post Thursday Last Week)

Downgrade

WESTPAC BANKING CORPORATION ((WBC)) Downgrade to Neutral from Overweight by Jarden.B/H/S: 0/0/0

Jarden's new order of preference among the major Australian banks is National Australia Bank (Overweight), Westpac and ANZ Bank with Neutral ratings, followed by the Underweight-rated CommBank.

Overall, the broker expects resilient near-term bank earnings and continues to see upside risks to FY25 consensus forecasts, driven by slightly better margins and currently overstated loan loss expectations.

The analysts raise FY25 and FY26 EPS forecasts by around 1-2% across the majors, while 12-month target prices rise modestly.

The target for Westpac rises to $29.20 from $28.60 and the rating is downgraded to Neutral from Overweight on an elevated relative valuation, explains the broker.

Order	Company	New Rating	Old Rating	Broker
Downgrade				
1	WESTPAC BANKING CORPORATION	Neutral	Buy	Jarden

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
AEE	Aura Energy	$0.13	Petra Capital	0.33	0.45	-26.67%
ANZ	ANZ Bank	$31.50	Jarden	30.00	29.50	1.69%
AX1	Accent Group	$2.36	Wilsons	2.55	2.40	6.25%
CBA	CommBank	$144.02	Jarden	107.00	106.00	0.94%
CCX	City Chic Collective	$0.13	Canaccord Genuity	0.30	0.25	20.00%
CHL	Camplify Holdings	$1.32	Canaccord Genuity	2.40	2.75	-12.73%
COI	Comet Ridge	$0.17	Canaccord Genuity	0.17	0.21	-19.05%
FFM	FireFly Metals	$1.03	Canaccord Genuity	1.40	1.35	3.70%
GTK	Gentrack Group	$9.75	Wilsons	11.50	11.00	4.55%
NAB	National Australia Bank	$39.50	Jarden	37.00	36.00	2.78%
NHC	New Hope	$4.62	Goldman Sachs	3.80	3.90	-2.56%
NXD	NextEd Group	$0.12	Canaccord Genuity	0.38	0.60	-36.67%
PMT	Patriot Battery Metals	$0.38	Canaccord Genuity	1.05	1.40	-25.00%
SMP	SmartPay	$0.95	Wilsons	1.66	1.86	-10.75%
WBC	Westpac	$33.37	Jarden	29.20	28.60	2.10%
WEB	Webjet	$8.07	Wilsons	9.59	9.52	0.74%

WGX Westgold Resources	$2.68	Canaccord Genuity	3.50	3.55	-1.41%
		Petra Capital	3.60	3.75	-4.00%
Company	Last Price	Broker	New Target	Old Target	Change

More Highlights

CCR CREDIT CLEAR LIMITED

Diversified Financials Overnight Price: $0.29

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

Petra Capital continues to advocate for a contrarian play on Credit Clear despite clear evidence of a deteriorating macro-economic environment, including hardship cases highlighted by Origin Energy ((ORG)) and rising business insolvencies.

The company is continuing to growth its Tier-1 clients up 67% in FY24 which infers improved revenue growth in around 12-15 months given the lag, the analyst notes.

The target price lifts to 53c from 51c. Buy rating unchanged.

This report was published on September 13, 2024.

Target price is **$0.53** Current Price is **$0.29** Difference: **$0.24**
If **CCR** meets the Petra Capital target it will return approximately **83%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

> Petra Capital forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.10** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 290.00**.

Forecast for FY26:

> Petra Capital forecasts a full year **FY26** dividend of **0.00** cents and EPS of **0.90** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **32.22**.

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

GTK GENTRACK GROUP LIMITED

Software & Services Overnight Price: $10.02

Wilsons rates ((GTK)) as Overweight (1)

As UK water utilities are increasingly ramping-up procurement for modern CRM and billing solutions, Wilsons sees a material opportunity for Gentrack Group.

The utilities are motivated by lower leakage, reduced household consumption, improved customer experience and the smart water meter rollout, explain the analysts.

Securing some current potential contract wins in the space would be a material catalyst for Gentrack Group, suggests the broker, given the current lack of B2C reference sites.

Overweight rating. The target rises to $11.50 from $11.00.

This report was published on September 16, 2024.

Target price is **$11.50** Current Price is **$10.02** Difference: **$1.48**
If **GTK** meets the Wilsons target it will return approximately **15%** (excluding dividends, fees and charges).
Current consensus price target is **$11.23**, suggesting upside of **12.1%**(ex-dividends)
The company's fiscal year ends in September.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **0.00** cents and EPS of **11.07** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **90.53**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **17.25** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **58.09**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **17.4**, implying annual growth of **93.3%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **57.6**.

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

RED RED 5 LIMITED

Gold & Silver Overnight Price: $0.33

Jarden rates ((RED)) as Initiation of coverage with Overweight (2)

The merger of Red 5 and Silver Lake Resources -resulting in the new name of Vault Minerals ((VAU)) later this month- brings together four operating mines.

The mines are King of the Hills, Darlot, Mt Monger and Deflector, as well as Sugar Zone (currently under care & maintenance).

This combination creates an around 400kozpa producer with true upper third quartile costs (AISC), highlights the broker, which initiates coverage on Red 5 with an Overweight rating and 40c target.

The amount of cash on hand will double form the current level to around $1bn by FY26, highlight the analysts, providing prospects for capital returns to shareholders once tax losses are exhausted.

This report was published on September 17, 2024.

Target price is **$0.40** Current Price is **$0.33** Difference: **$0.07**
If **RED** meets the Jarden target it will return approximately **21%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

Jarden forecasts a full year **FY25** dividend of **0.00** cents and EPS of **3.70** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **8.92**.

Forecast for FY26:

Jarden forecasts a full year **FY26** dividend of **0.00** cents and EPS of **3.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **11.00**.

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

TWE   TREASURY WINE ESTATES LIMITED

Food, Beverages & Tobacco Overnight Price: $11.23

Goldman Sachs rates ((TWE)) as Buy (1)

Goldman Sachs reviews the latest NielsenIQ scan data and highlights it only covers around 50% of retail sales in the US.

The latest data insights do offer a trend, the broker notes. Sales for the four weeks to September 7 were mixed with 19 Crimes revealing slightly weaker pricing and better volumes.

Treasury Wine Estates US sales ex-Daou were down -5% year-on-year versus a fall of -2% for the US wine market, the analyst points to an improvement against the previous four weeks.

Goldman Sachs believes the results were "positive" for the group. Buy rating and $15.20 target maintained. No change to earnings forecasts.

This report was published on September 19, 2024.

Target price is **$15.20** Current Price is **$11.23** Difference: **$3.97**
If **TWE** meets the Goldman Sachs target it will return approximately **35%** (excluding dividends, fees and charges).
Current consensus price target is **$13.71**, suggesting upside of **22.1%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

Goldman Sachs forecasts a full year **FY25** dividend of **42.00** cents and EPS of **60.00** cents.
At the last closing share price the estimated dividend yield is **3.74%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **18.72**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **61.7**, implying annual growth of **385.8%**.
Current consensus DPS estimate is **41.4**, implying a prospective dividend yield of **3.7%**.
Current consensus EPS estimate suggests the PER is **18.2**.

Forecast for FY26:

Goldman Sachs forecasts a full year **FY26** dividend of **50.00** cents and EPS of **71.00** cents.
At the last closing share price the estimated dividend yield is **4.45%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **15.82**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **71.5**, implying annual growth of **15.9%**.
Current consensus DPS estimate is **48.1**, implying a prospective dividend yield of **4.3%**.
Current consensus EPS estimate suggests the PER is **15.7**.

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

WGX   WESTGOLD RESOURCES LIMITED

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

Petra Capital forecasts FY26 production of 520koz for Westgold Resources which would lift the company to be the third-largest producer on the ASX.

This week, management guided to FY25 production of 400-420koz which will be back ended as several mines ramp-up.

As synergy benefits are crystallised and output rises, the broker notes a falling cost (AISC) profile for Westgold at the same time as capex is peaking.

The target for Westgold Resources falls to $3.60 from $3.75. Buy.

This report was published on September 18, 2024.

Target price is **$3.60** Current Price is **$2.65** Difference: **$0.95**
If **WGX** meets the Petra Capital target it will return approximately **36%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **10.00** cents and EPS of **21.20** cents.
At the last closing share price the estimated dividend yield is **3.77%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **12.50**.

Forecast for FY26:

Petra Capital forecasts a full year **FY26** dividend of **12.00** cents and EPS of **47.00** cents.
At the last closing share price the estimated dividend yield is **4.53%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **5.64**.

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

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