WEEK 26

STORIES TO READ FROM FNArena

Friday, 28 June 2024

Collins Foods Looking For M&A Opportunities

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AUSTRALIA

The Market In Numbers - 22 Jun 2024

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

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

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

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

Australia & NZ

Index	22 Jun 2024	Week To Date	Month To Date (Jun)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
NZ50	11682.390	-1.54%	-1.56%	-3.49%	-0.75%	-1.96%
All Ordinaries	8039.90	0.82%	0.87%	-1.40%	2.69%	8.63%
S&P ASX 200	7796.00	0.93%	1.22%	-1.28%	2.70%	8.23%
S&P ASX 300	7738.60	0.93%	1.15%	-1.39%	2.69%	8.12%
Communication Services	1506.50	1.86%	2.97%	-4.60%	-5.14%	-2.01%
Consumer Discretionary	3557.30	1.03%	4.41%	-1.64%	9.79%	20.84%
Consumer Staples	12387.80	1.71%	4.68%	0.24%	0.63%	-6.82%
Energy	9939.10	0.75%	-2.49%	-7.75%	-6.44%	-8.21%
Financials	7644.50	2.08%	4.89%	2.49%	13.78%	22.91%
Health Care	44346.70	1.92%	4.55%	2.09%	4.74%	7.40%
Industrials	6816.50	-0.24%	-0.81%	-5.08%	-0.72%	0.29%
Info Technology	2280.60	-0.62%	-1.17%	0.16%	24.43%	24.66%
Materials	17020.50	-1.08%	-5.74%	-5.14%	-12.67%	-5.61%
Real Estate	3686.40	0.76%	2.25%	-3.93%	10.12%	21.11%
Utilities	9333.20	4.21%	4.02%	12.66%	14.10%	6.86%
A-REITs	1683.80	0.94%	2.73%	-3.43%	12.07%	24.29%
All Technology Index	3092.40	-0.01%	0.57%	-0.11%	14.79%	27.96%
Banks	3210.90	1.90%	5.55%	4.08%	15.52%	28.60%
Gold Index	7617.90	3.97%	-1.37%	5.19%	3.40%	15.11%
Metals & Mining	5608.90	-0.87%	-6.27%	-3.98%	-13.26%	-7.40%

The World

Index	22 Jun 2024	Week To Date	Month To Date (Jun)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
FTSE100	8237.72	1.12%	-0.46%	3.58%	6.52%	9.38%
DAX30	18163.52	0.90%	-1.81%	-1.78%	8.43%	12.48%
Hang Seng	18028.52	0.48%	-0.28%	8.99%	5.76%	-4.69%
Nikkei 225	38596.47	-0.56%	0.28%	-4.39%	15.34%	16.29%
DJIA	39150.33	1.45%	1.20%	-1.65%	3.88%	13.78%
S&P500	5464.62	0.61%	3.55%	4.00%	14.57%	22.79%
Nasdaq Comp	17689.36	0.00%	5.70%	8.00%	17.84%	28.30%

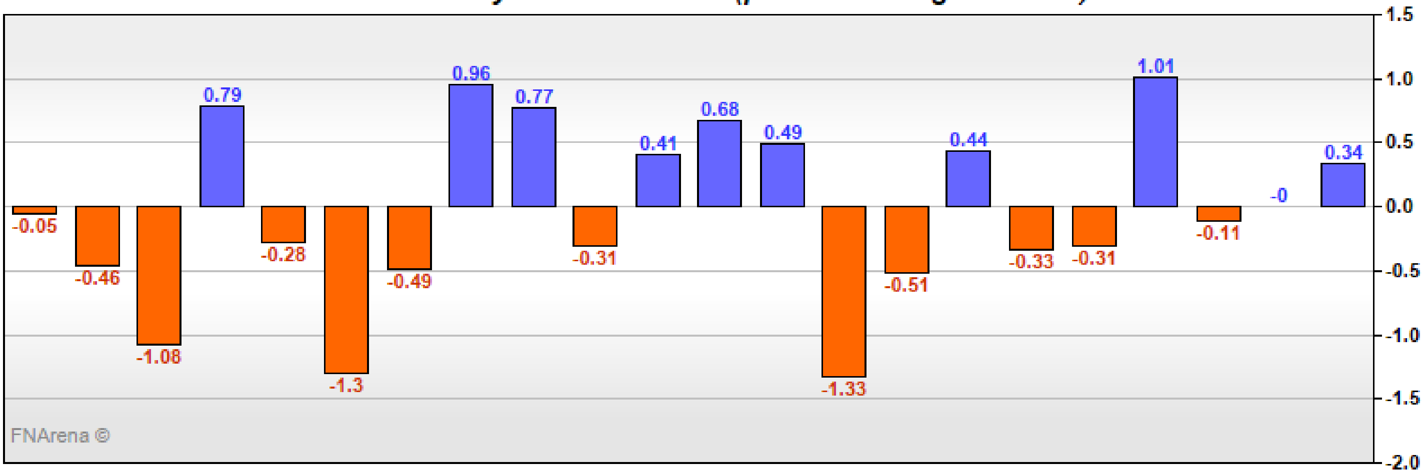
Metals & Minerals

Index	22 Jun 2024	Week To Date	Month To Date (Jun)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
Gold (oz)	2373.60	2.36%	1.32%	8.18%	16.10%	24.40%
Silver (oz)	30.78	6.14%	-1.06%	25.22%	26.25%	36.62%
Copper (lb)	4.5635	1.64%	0.00%	14.30%	19.84%	22.78%
Aluminium (lb)	1.1367	-0.74%	-6.79%	9.45%	16.91%	18.68%
Nickel (lb)	7.8300	-2.06%	-13.50%	4.55%	5.28%	-12.02%
Zinc (lb)	1.2924	-0.04%	-6.33%	17.32%	14.92%	23.25%
Uranium (lb) weekly	85.00	0.00%	-6.85%	-3.41%	-1.16%	51.25%
Iron Ore (t)	107.11	-0.01%	-8.94%	5.41%	-22.51%	-5.97%

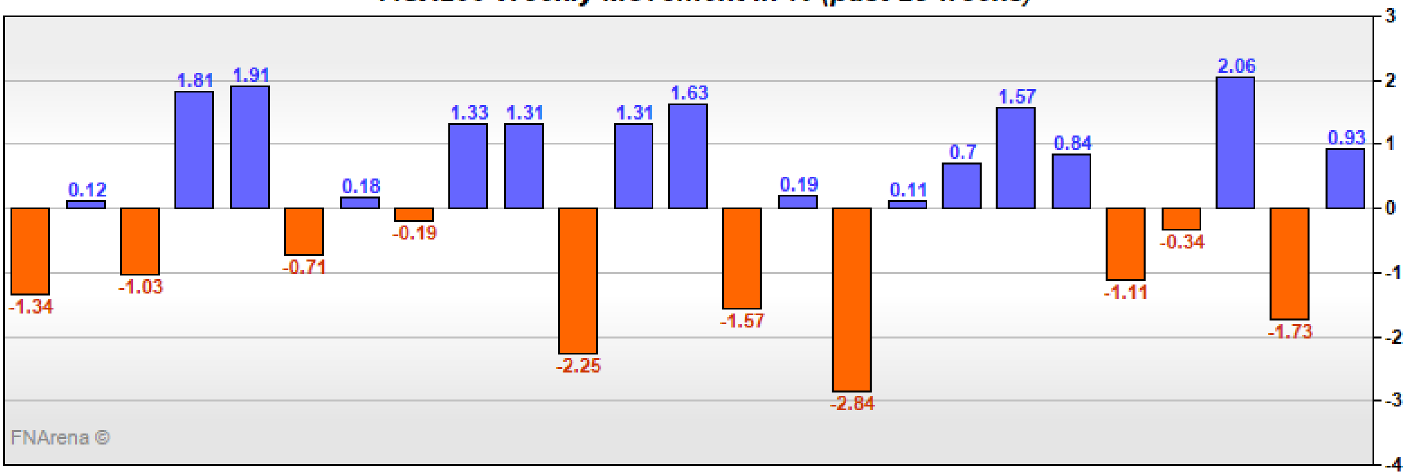
Energy

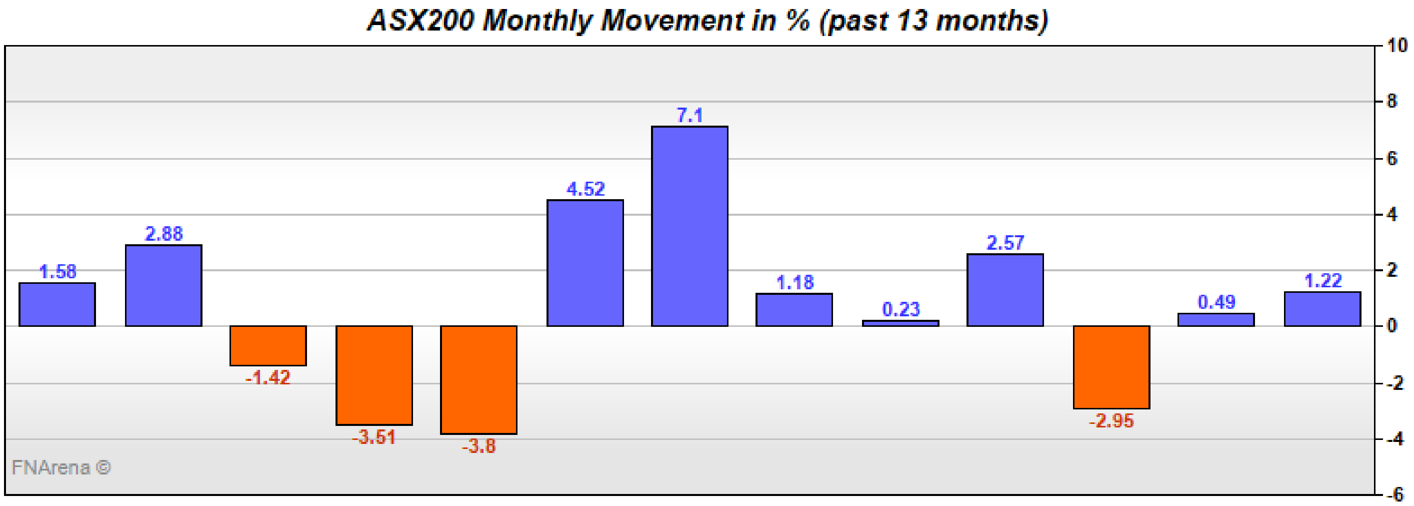
Index	22 Jun 2024	Week To Date	Month To Date (Jun)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
West Texas Crude	81.25	4.42%	4.34%	-0.58%	10.08%	16.30%
Brent Crude	85.83	4.44%	4.75%	-0.60%	8.29%	15.50%

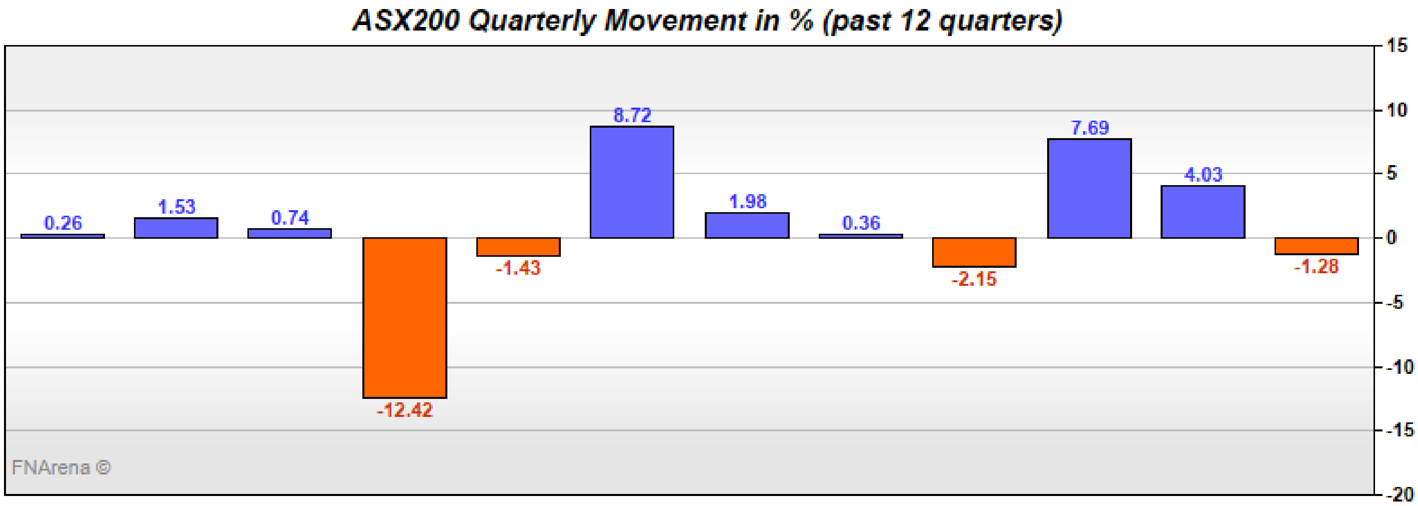
ASX200 Daily Movement in % (past 22 trading sessions)



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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FNArena welcomes comments and suggestions at info@fnarena.com

AUSTRALIA

Treasury Wine Chases Luxury

Treasury Wine Estates is seeking to become more of a luxury wine brand in the US, and in China, now that tariffs have been lifted. Analysts are encouraged by the company's new three-year plan.

-Treasury Wine Estates ups the ante in China
-US acquisition to add to luxury shift
-New guidance for medium term earnings and margins
-Analysts are becoming more confident

By Greg Peel

In mid-2021, Beijing imposed a 176% tariff on Australian wine imports, along with tariffs on many other imports from Australia, in response to the Australian government refusing to bow to China's demands. The government remained unmoved, and Beijing has been gradually lifting those tariffs in recent times.

In March this year, the tariff on wine was lifted, an event the Australian wine industry had been holding on for all that time, including Treasury Wine Estates ((TWE)). In the interim, Australian winemakers had looked to expand into other markets, such as Singapore, Hong Kong, Malaysia and Thailand, but nothing compares to the size of the Chinese market.

Treasury Wine did manage to some extent to skirt China's tariffs, supplying Penfolds wines made in China and other wines from France and the US. But now the door has been re-opened altogether.

In light of the lifting of tariffs, and last year's acquisition of the California-based Daou luxury wine business, last week Treasury Wine announced its new strategy for the near to medium term. (Daou is not an acronym, the company was originally founded by the Daou brothers).

<u>The Plan</u>

Treasury Wine first reiterated its FY24 guidance. This is slightly below consensus forecasts, but analysts were braced for a downgrade based on recent peer results and industry data. Management also provided a three-year guidance outline for the Penfolds brand. China is a prominent factor, given despite the tariff period, Penfolds remains number two in the top ten of imported wine brand awareness in China.

Management expects to deliver a 14% three-year compound annual earnings growth rate for Penfolds, but in FY25, growth will only be in the single digits. This is because Treasury Wine will invest -$20m in building a Penfolds marketing team in China to restore the brand and subsequent sales. This cost will be offset by a 6% price rise previously announced for Penfolds wines in FY25.

In FY26-27, Treasury Wine expects its investment will pay off, projecting 15% earnings growth. While earnings margins will be somewhat constrained in FY25, management is targeting 45% in FY26-27 and beyond. The company is currently seeing solid demand for its higher-end brands, particularly in the US, making it difficult to provide sufficient supply, but FY24 has proven to be a strong vintage, allowing for the volumes required to meet restored Chinese demand.

Management has insisted it will build earnings on volumes, not on price, and there will be no further price rises in FY26-27 after the FY25 hike. Analysts are not convinced this promise will be kept, given Treasury Wine has a track record of frequent price increases. But taking the pledge on board, analysts simply suggest there could be "earnings upside".

<u>The US</u>

Treasury Wine's business case for for Daou remains unchanged, with low double-digit net sales revenue growth per annum targeted over the medium term. Distribution growth outside California is expected to be a key driver of growth. The plan is also to establish Daou as a renowned international brand, particularly through Asia.

Daou's scale supports a future standalone TA Luxury division for Treasury Wine, which would include Penfolds, Frank Family Vineyards and other brands, making the business the largest luxury wine player in the US. In FY25, the wine availability for the TA Luxury portfolio will increase by double digits.

<u>The Response</u>

Citi considers the short term outlook for Treasury Wine to be "materially de-risked", given the company did not deliver an FY24 guidance downgrade as was feared, and has provided increased comfort regarding the near term outlook for Daou. The issuance of Penfolds guidance for the next three years also reduces the risk of analysts making incorrect assumptions about the pace of the China recovery, and upside is on offer should further price rises occur.

Citi is incrementally more positive on the company, and to turn even more positive is looking for signs the premium segment of the Americas division, representing some 31% of divisional earnings, has stabilised.

Citi lifts its target to $12.95 from $12.40 but retains Neutral.

Ord Minnett is similarly maintaining a Hold rating for now. While the company likely enjoys a solid brand reputation at the very high end of its wine range, particularly in Penfolds, this broker expects pricing pressure to remain at critical mid-range price points, and profitability to continue to trail global wine leaders.

Ord Minnett expects a rebound over the longer term, but near term believes volatility will likely persist. The broker has increased its fair value estimate by 4% to $12.00.

While Treasury Wine won't be completely immune to cost of living pressures and reduced alcohol consumption, Morgans thinks the company has a number of drivers to underpin solid earnings growth over coming years, including greater luxury wine supply, the Daou acquisition and associated synergy benefits and rebuilding its China business.

The stock is seen as trading on attractive valuation metrics for a luxury brand owner, hence Morgans maintains an Add rating with a target of $15.03, up from $14.03.

Morgan Stanley also sees valuation as attractive, trading at a forward PE of 19.5x. This broker has made minor adjustments to earnings forecast which lead to a target increase to $14.60 from $14.50. An Overweight rating is retained.

Macquarie retains Outperform, but has actually reduced its target by -1% to $13.60 due to an increase in the risk-free rate.

This broker sees significant growth opportunities in both the US and China over the short to medium term. Penfolds' margin structure, the group's global distribution, the more-focused US portfolio and a strong balance sheet provide confidence in the Outperform rating.

UBS has also lowered its target, to $14.50 from $15.00, due to a reduction in near term earnings forecasts based on investment spend. Those forecasts nonetheless sit above Treasury Wine's guidance, and UBS retains Buy.

That leaves four Buy or equivalent ratings and two Hold among brokers monitored daily by FNArena. The consensus target is $13.78, on a range from $12.00 (Ord Minnett) to $15.03 (Morgans).

Not monitored daily, Goldman Sachs has hiked its target to $15.20 from $13.40. Goldman also finds Treasury Wine's value attractive compared to the rest of its global growth Consumer coverage, and maintains a Buy rating.

Jarden highlights a multi-year relative PE low, and a growing luxury skew, along with greater conviction in terms of Penfolds upside risk and Daou synergy upside. Jarden retains a $14.50 target and upgrades to Buy from Overweight.

AUSTRALIA

Housing Crunch For Metcash

While Metcash has enjoyed resilient food & liquor sales, hardware has been hit by the building downturn. Analysts nevertheless see brighter times ahead.

-Metcash earnings down, but better than expected
-Food & liquor sales holding up
-Hardware hit by a slowing in builder confidence
-Housing cycle expected to turn in 2025

By Greg Peel

Metcash ((MTS)) this week reported its FY24 result, which showed a -1% drop in earnings year on year. The result was nevertheless 2% better than the consensus forecast, and a solid result, analysts declared, in a challenging environment.

Total food sales (ex tobacco) rose 4.6%, as the group benefited from investment in store competitiveness. Food inflation moderated to 1.9% in May. Strong food sales continue to be offset by softness in tobacco sales, which fell -14%.

The growing popularity of vaping, and the growing availability of illegal cigarettes (under the counter at some convenience stores and tobacconists, along with illegal nicotine-based vape liquids), remain a headwind for compliant operators like Metcash. Further regulation and tightened policing of illegal tobacco and vaping could stem this revenue headwind for Metcash, Macquarie posits.

An announcement from the government that vapes will soon only be available in pharmacies, and to adults, has since been forthcoming.

Despite a solid result in food, Citi believes independent supermarkets continue to cede market share, principally to Aldi and Coles Group ((COL)). While continued strong cost management is welcomed, Citi sees limited further upside to margins over the next few years.

Goldman Sachs has been cautious on its outlook for Metcash versus consensus expectations, with one reason being intensifying competitiveness in supermarkets, especially given the onset of Ocado from Coles may result in market share losses in FY25.

A recent Choice survey found the same basket of groceries at Aldi was -25% cheaper than at Coles or Woolworths Group ((WOW)). IGA stores were not surveyed given their independence, with stores setting their own prices. Apples would thus not be apples.

Goldman Sachs' latest channel feedback suggests while the multi-site IGA supermarkets are holding share well, the tail of smaller-format independents are beginning to see more share losses given a higher price gap to the majors.

Liquor was Metcash's strongest division relative to expectations. The company noted it was winning share overall, but was seeing on-premise sales slowing. Macquarie sees medium term upside through expansion of liquor sales into recently acquired Superior Food. The first seven weeks of FY25 trading saw sales up 3.1%.

But food sales (including tobacco) were down -1.7% in the first seven weeks, as they were in FY24 in total.

The Hard Part

Hardware is the most cyclical Metcash division, and is estimated to now represent more than 50% of the stock's value. The hardware division is divided into the Independent Hardware Group (IHG), which includes the Mitre 10 and Home Timber & Hardware chains, along with a couple of smaller chains plus a number of pure independents, and the previously acquired Total Tools chain.

IHG and Total Tools are more trade-oriented than Bunnings ((WES)), and trade is experiencing a more cyclical decline than DIY.

Australia's housing construction backdrop is challenging, notes UBS, with the overall market down -6% (new housing -14%, renovations -3%) and DIY flat (with notable weakness in more discretionary items like outdoor furniture or a new mower).

Metcash noted a "rapid slowing in builder confidence" was negatively impacting demand for hardware. What's more, Metcash was seeing intense competition in tools as Tool Kit Depot pushes for online growth, but stated this competition had eased in recent weeks.

The Tool Kit Depot was formerly Adelaide Tools, rebranded when acquired by Wesfarmers (Bunnings).

There is a twist for Metcash as the rapid, and profitable, growth of the company-owned Total Tools stores was dragging on margin, as the stores are lower margin than pure franchisee fees. Yet, Macquarie sees this growth as positive overall. Management noted the first seven weeks of trading saw 0.6% growth, helped by the recent Alpine Truss and Bianco Construction acquisitions.

Yet, total hardware revenue and earnings fell -3% and -11% respectively in FY24, excluding acquisitions. Trade represents two-thirds of revenue and continues to be impacted by the downturn in the residential construction cycle. With housing approvals for the twelve months to April down -10% year on year, conditions are likely to remain tough into FY25, Citi warns.

And you thought there was a housing crisis.

And Another Thing

There is little room on the Metcash balance sheet for capital management. With a challenged housing market biting, and cost of living pressures impacting on supermarkets, Metcash is also faced with the realities of higher interest rates.

Indeed, interest costs are flagged to step up a full 32% in FY25 to $120-125m, up from $93m in FY24, as higher rates, acquired leases and debt-funded acquisitions push up funding costs.

All is not Lost

Looking ahead, Jarden continues to see value in Metcash, given significant operating leverage across hardware "when the housing cycle turns into 2025". Nearer term risk does nevertheless exist, particularly across the frame & truss businesses, Jarden suggests.

The broker is increasingly confident in Metcash's ability to grow food & liquor earnings via ongoing cost-outs, rising teamwork scores and mix (food own-brand was up 16% in FY24). Jarden retains an Overweight rating with the view valuation is attractive, the food market is improving, and the market will begin to price in a housing up-cycle three to six months in advance.

Jarden increases its target to $4.40 from $4.20.

Goldman Sachs has been cautious on its outlook for Metcash given a higher exposure to trade in hardware, intensifying competitiveness in supermarkets, and recent high management turnover. This broker believes execution demonstration is required to turn more constructive.

Goldman maintains a Neutral rating with a $3.70 target.

While earnings growth has been modest in the food business, it nevertheless has been better than Evans & Partners' expectations, and Metcash has held onto its material step-up in underlying profitability compared to pre-covid levels. Given this, and recent share price underperformance, this broker upgrades to Neutral from Negative with a valuation of $3.93.

While underlying earnings for the hardware business are likely to remain challenged in the near term given weak operating conditions, recent acquisitions are expected by Evans & Partners to underpin overall modest group earnings growth.

Among brokers monitored daily by FNArena, Citi cites no room for capital management and challenging market conditions as reasons to stick to Neutral and a $4.00 target.

Morgan Stanley has dropped its target to $3.83 from $4.03 in line with its divisional earnings adjustments, and retains Equal-weight.

Ord Minnett is claiming bottom-of-the-cycle earnings. Predicting the length and depth of the housing cycle is challenging, the broker admits, but Metcash's investments in new businesses, the Total Tools store rollout, and tight cost control position it well for the future.

Ord Minnett sees valuation as attractive, given the long-term opportunity the investments in hardware present, upgrading to Buy from Accumulate with a $4.30 target.

UBS also retains Buy, given resilient food & liquor divisions and growth potential in hardware when the cycle improves. Target cut to $4.00 from $4.25.

Growth opportunities through a wider addressable market in the Superior Foods and hardware acquisitions, alongside increased re-investment into the existing business, has Metcash set up for growth over the medium term, Macquarie believes.

This broker sticks with an Outperform rating, trimming its target by -2% to $4.20.

That leaves three Buy or equivalent and two Hold ratings for Metcash with a consensus target of $4.12.

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AUSTRALIA

Collins Foods Looking For M&A Opportunities

FY24 results showed relative resilience, but also slowing sales momentum. With margin improvement unlikely in the short term, management at Collins Foods is focusing on M&A opportunities.

-FY24 results for Collins Foods marginally exceed expectations
-Analysts praise earnings resilience and are positive for the medium-term outlook
-For the short-term, slowing sales momentum is a concern

By Mark Woodruff

Despite a slightly better-than-expected FY24 result, analysts trim earnings forecasts for Collins Foods ((CKF)) on evidence of slowing momentum in the second half that has continued into early-FY25 trading. Management also cited challenging trading conditions in a later conference call with analysts.

FY24 was a tale of two halves, observes Morgans, with the second half slowdown due to a weaker consumer environment and a tougher comparison to the previous corresponding period.

After generating same store sales (SSS) growth of 6.6% in the first half, KFC Australia's growth slowed materially (as expected by the broker) to 1% in the second half. Post week thirty-two, growth slowed further to 0.4%.

KFC Europe growth also slowed in the second half to 0.9% from 8.8% in the first half, and post week thirty-two sales growth declined again to 0.7%.

While revenue proved broadly in-line with consensus expectations, earnings grew by 15% and beat forecasts by Macquarie and consensus by 4% and 3%, respectively, driven by margin improvements across the KFC business segments.

Collins Foods operates Quick Service Restaurants (QSR) in Australia, Germany, and the Netherlands. In the latter country, the company is a corporate franchise partner, running KFC on behalf of US-listed fast-food company Yum! Brands.

The company operates 279 KFC restaurants (as the franchisee) throughout Australia, and a further 75 stores across the Netherlands and Germany. A further 27 Taco Bell franchises are in operation across Queensland, Victoria, and Western Australia.

Taco Bell appears to be turning a corner, according to Macquarie, with rising sales in FY24, and positive momentum continuing into early-FY25.

In coming months, as Taco Bell hits performance milestones, the company will review the restaurant rollout, after being on pause over the last year due to inferior performance.

Management cautioned the weaker consumer environment in both Australia and Europe will likely impact group performance over the year ahead, with weaker SSS's and top line revenue placing pressure on margins in the near-term. Also, while most commodity prices are easing, costs of labour and energy remain elevated across all business units.

Swimming against the trend of brokers, **UBS raises its 12-month target price and upgrades to Buy from Neutral** on the basis Collins Foods is a trade-down beneficiary in the tough consumer environment. The company's shares are considered an appropriate investment for investors seeking some retail exposure.

The company has both the scale and ability to drive share gains through market leading value offerings such as the KFC Australia $35 family of 4 "Feast" deal, notes this broker.

Macquarie disagrees, suggesting KFC's strong value proposition is a potential risk to margins as management may need to reinvest in price to bring volume growth back into the business.

Energy and commodity costs are beginning to ease in Europe, explains Macquarie, following significant inflationary pressures over the last two years, which should allow for KFC Europe to mitigate some margin pressures that were anticipated for FY25.

Unlike in Europe, energy costs in Australia remain elevated and will create margin pressure over the coming year, explains the broker.

Management has walked away from its guidance for margin improvement in FY25, highlights Citi, due to both weak customer demand and labour headwinds.

Further positives

Collins Foods has exposure to the stronger Australian states of Western Australia and Queensland, notes UBS, and would also benefit from improved spending intentions by consumers over the next year at QSR's, signalled by respondents to the broker's latest consumer survey.

Further, UBS highlights twin positives of a potentially favourable protein cost outlook and ongoing organic store expansion, with a chance for M&A upside.

Wilsons has long admired the company's strong cash conversion, and, because of de-leverage in recent years, Ord Minnett believes around $270m could potentially be allocated to M&A activities.

Partly due to this strong cash performance, the board declared a fully franked final dividend of 15.5cps taking the full year dividend to 28cps.

Potential M&A

A boost for growth could be on the cards, with management stating, "We're exploring and evaluating M&A opportunities for KFC in existing markets and new geographies".

Certainly, Macquarie sees significant scope for Colins Foods to increase its presence, particularly in Australia, while Ord Minnett highlights M&A would potentially speed up growth for the European business.

This broker explains management is primarily focused on KFC-branded opportunities, which could involve retiring franchisees in Australia or launching restaurants in new or existing markets in Europe, where operations are currently under-scaled.

These considerations include neighbouring countries to the Netherlands and Germany where management could buy a group of stores and rapidly expand the network, according to Bridge Street Capital Partners.

Apart from scale benefits, Macquarie points to potentially better control of marketing and pricing in operating markets, which would create an opportunity to further expand margins over the medium-to long-term.

Outlook

Jarden declares **the medium-term outlook for Collins Foods is as strong as it has been in recent years**, with a strong balance sheet, clean network, strong rollout pipeline, and a master franchisor focused on delivering value and gaining share.

While earnings growth in the half of FY25 is considered unlikely, Morgans anticipates decent growth will resume from the second half, noting QSR has proven to be a resilient category over time.

Morgan Stanley admires the resilience of the durable KFC brand, and its positioning as a value offering, and notes the company is trading at a slight discount to its long-run average 12-month forward price earnings multiple. It's felt the company can sustain a multiple premium in an uncertain macro backdrop given its relatively defensive earnings.

The performance of KFC Australia should improve throughout FY25, Ord Minnett surmises, due to an easing of competition and the introduction of tax cuts, along with electricity rebates in Queensland.

The share price appears cheap, assuming margins recover as expected, but Barrenjoey thinks the risks remain balanced, while Canaccord Genuity prefers to await evidence of improved same store sales (on the proviso sales are driven by volume, not price) and stabilised margin dynamics.

Bridge Street has the gloomiest outlook with an Underweight rating and $8 target, while Morgan Stanley is Overweight with a $13 target.

The average target price of six covering brokers monitored daily in the FNArena Database is $11.27 suggesting around 24% upside to the current share price.

This average fell from $12.13 prior to the FY24 results on small decreases by most brokers and a move to $10.50 from $14.40 by Ord Minnett, after deciding to undertake its own research on Collins Foods rather than whitelabel Morningstar.

Four of these brokers have a Buy (or equivalent) rating, while Macquarie is Neutral and Citi is Sell- rated.

Outside of daily monitoring, Wilsons and Jarden have Overweight ratings, Barrenjoey and Canaccord Genuity are Hold (or equivalent). As mentioned, Bridge Street assigns an Underweight rating to Collins Foods.

AUSTRALIA

Evolution Mining's Spending Spree

New guidance for Evolution Mining's assets includes greater capex than analysts had assumed. Yet greater clarity also provides greater faith in the miner's longer term plans.

-Strategy updates for Evolution Mining's NSW assets highly anticipated
-Capex assumptions much greater than forecast
-Clarity provides for greater confidence
-Buy ratings continue to dominate

By Greg Peel

Evolution Mining ((EVN)) owns or owns stakes in gold-copper projects In NSW (Northparkes, Cowal), Queensland (Ernest Henry, Mt Rawdon), Western Australia (Mungari) and Canada (Red Lake). Last week, the company hosted analyst site visits to the NSW projects. Cowal was acquired in 2015 and Northparkes (80%) in December last year.

Both are large-resource, long-life deposits. Analysts have been waiting to learn how Evolution plans to go about developing Northparkes and extending Cowal, which mining processes could best be used, which takes us into the realm of geology and the business of mining beyond the understanding of the average reader.

So we'll try to keep things as simple as possible. To that end, Jarden has provided one of the more easy-to-read updates on the visit.

<u>What to do?</u>

Since acquisition, and following what Jarden understood to have been extensive due diligence, the Northparkes strategy has remained unclear. Block caving (BC) or sub-level caving (SLC) of the E22 ore body was the initial consideration. However, more recently, a strategy to complete an SLC of the narrower portion of the E48 ore body emerged.

Though still in conceptual study phase, management advised the -$45-60m per year (FY25-27) development will start in the coming weeks. This will likely result in development of E22 not occurring until around 2027, enabling feasibility and optimisation work to be completed in FY25.

The Cowal visit also provided the first capex guidance of -$200-230m per year (FY25-29) for the Cowal Stage I open pit, the need for open pit fleet replacement, expected timelines and sustaining capex of -$40-50m per year. Implied total capex over the next five years was therefore between -$130-200m per year above consensus.

Though the outcomes of the feasibility study are pending, it remains Jarden's view the E22 BC represents the most economic approach to extend life-of-mine at Northparkes due to the grade and volume of material it should deliver.

However, the likely associated capex, indicated to be around -$600m before any plant modifications, would otherwise coincide with the -$475m flagged for Ernest Henry life extension, the more than -$1bn in major capex outlined at Cowal, and the balance of Mungari expansion capex.

The more conservative approach apparently being taken is further notable given the tour highlighted the operational execution in expanding Northparkes' milling capacity to 7.6mtpa despite the operation only running at 5.4-6.2mtpa over the past five quarters.

Goldman Sachs sees the improved clarity on the medium-term outlook across both assets and the broader portfolio as lessening the risk of significant capex increases/production softness relative to expectations versus peers, and reducing uncertainty. The timing of major capex later this decade across Northparkes, Cowal and Ernest Henry is not seen as a risk, where assets largely fund their own capital requirements. The broker forecasts Evolution to be net cash by FY27.

In the miner's favour, but clearly also a risk, are the current spot prices for gold and copper.

<u>Free Cash Flow</u>

Prior to the site visit, UBS had Evolution producing nearly 15% free cashflow yield near-term, based on the brokers' gold/copper price forecasts. Post model updates this is reduced to 8-11% over FY25-27.

While the site visit reiterated long-term asset quality and organic growth options, UBS's investment thesis was based on anticipated elevated levels of free cashflow near-term. The broker is alert to more capex and cost surprises not just from Evolution, but across the industry -- as we move into guidance season, but for now sees better gold options elsewhere.

UBS cites those better options as Northern Star ((NST)), Bellevue Gold ((BGL)), Gold Road Resources ((GOR)) and De Grey Mining ((DEG)).

While Citi hasn't been a fan of Evolution's piecemeal guidance update strategy over the past few months, the site visits should provide a rebase, the broker suggests. Few other gold companies have provided this detail of operating expenditure and capital expenditure profile to the end of the decade.

<u>Targets Trimmed, Views Little Changed</u>

Cowal and Northparkes are both meaningful operations for Evolution Mining, Macquarie suggests, but meaningful capital is required for their next phase. This view is consistent among brokers.

Before the site visits, all five brokers monitored daily by FNArena covering Evolution Mining held Buy or equivalent ratings. (Ord Minnett actually held an Accumulate rating, which sits between Hold and Buy on the broker's five-tier system.)

Post the visits, only UBS, who as noted sees "better options elsewhere", has downgraded, to Neutral from Buy.

All brokers, taking on board increased cost expectations and updated production forecasts, have nonetheless downgraded their free cash flow yield and net present value estimates to arrive at lowered target prices. The consensus target among the five brokers, which includes Morgan Stanley among those otherwise mentioned, has fallen to $4.04 from $4.31.

Goldman Sachs also retains a Buy rating, and has trimmed its target to $4.00 from $4.25.

Jarden is the odd one out, having held an Underweight rating pre site visits which it has left unchanged. Jarden was also the only broker to have previously set a price target below that of the prevailing share price ($3.39 at time of writing), being $2.91.

Jarden has now dropped that target to $2.84, which it calculates on long-term (2027) forecasts of US$1,700/oz gold, US$3.50/lb copper and US$0.70 Aussie dollar. The broker highlights the risks to its forecasts as rising inflation, tight labour markets, execution risk, general market risk and commodity prices.

Those commodity prices, Jarden notes, affect big swings in valuation, hence upside risk is also on offer.

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ESG FOCUS

ESG Focus: Do Data Centres Threaten ESG Targets?

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

Do Data Centres Threaten ESG Targets?

Will Investors, data centre developers and operators be forced to tackle the challenges and opportunities arising from increased cooling demand and energy use in our generative Ai world?

-Data centre growth collides with energy and water use
-The state of play for Australian companies
-Data centre cooling technological trends
-Nvidia efficiency versus ESG challenges

By Danielle Ecuyer

A top down look at the data centre industry

The expansion in data centre developments to accommodate processing and data storage for generative Ai is a rubber hits the road moment in terms of energy and water usage.

Just when the world is grappling to reduce both emissions from energy production and tackle increasing water scarcity, demand for both resources is growing rapidly due to a surge in demand for large (hyperscalers) and smaller data centres (co-location providers) developments.

ESG reporting requirements and actual reports on water/energy use and efficiency remain scant but are likely to increase around these two topics, with some players currently providing more information than others.

In the US, Google was sued to provide water usage information at its The Dalles, Oregon based data centres. The lawsuit ultimately revealed water consumption had tripled over the previous five years.

Google's data centres were using more than 25% of all the city's water usage.

Increasingly, data centre developers and operators will need a social license to run the centres, Jarden concluded in a recent analysis of water usage efficiency in this sector.

Depending on the company and the sovereign state in which data centres operate, disclosure varies greatly.

In Australia, Jarden highlights a 2023 UTS study disclosed some 5% of sustainability experts considered Australian data centre operators had provided insufficient information.

Although, it was highlighted Australian data centre developers kept water and energy usage high on the list of priorities and domestically closed-loop water cooling systems tend to be used.

In contrast, US hyperscalers normally employ open loop systems, which means used water is not recycled.

Microsoft reported Ai consumes 1.8l to 12l of water per KWh of energy use for its data centres. Microsoft has increased water consumption by 34% between 2021 and 2022.

Jarden observes a single text Ai request uses ten times the energy in comparison with a typical Google search.

Is the use of water and energy also inextricably linked?

In the US hyperscalers have preferred to develop data centres in states with strong renewable energy production and large open spaces such as Arizona. Think solar energy.

With that comes the problems of increased water challenges in drier states and higher temperatures which exacerbates the cooling requirements.

One solution from Google is to adopt air cooling (air conditioning) powered by 80% renewable energy instead of water. This option is only possible up to a certain temperature.

Types of cooling available

Wilsons' recent deep dive into domestic data centres included a description of the varying types of server cooling systems.

Air conditioning or air cooling is the traditional method and most frequently used to cool data centres. This is unlikely to change in the short-to-medium term, according to Wilsons. Notably, air cooling is the least efficient and most expensive to operate, just walk past your office server to gauge how intensive it is.

Direct-to-chip is considered a transitory cooling method, which uses liquid within the server to cool it, however, the costs remain elevated, and it has been typically used at smaller scales.

Liquid immersion cooling is the submersion of computer components in a "thermally conductive, but not electrically conductive liquid". Due to the efficiency benefits of this method, it is up to -50% less costly to run versus air cooling, and is considered the best potential option for high-density computing infrastructure or Gen Ai.

The industry is expected to transition to liquid immersion from direct-to-chip.

Is water usage a financial risk for data centres?

The UTS study confirmed there is a lot more work for data centre developers and operators to do in terms of disclosure, as well as increased awareness from sustainability experts to understand the implications of increased data centre developments.

Jarden discussed the varying disclosures for Australian listed companies.

Goodman Group ((GMG)) currently doesn't disclose water usage efficiency (WUE) but it does reveal it seeks to make its data centres as efficient as possible and employs closed-loop water cooling systems, which obviate the need for constant water inputs. The company also notes it uses sub-metering to track water usage.

NextDC ((NXT)) provides WUE statistics and reports reuse of water for its cooling systems. The company has achieved a reduction in WUE to 1.73l per kwh of energy from 2.07l per kwh. Most interestingly, Next DC has stated it **views water use as a potential "financial risk"** due to the increasing costs of a warming world and the rising costs of water rights.

Macquarie Technology ((MAQ)) does not report water use; however, it points to the use of the best cooling technologies available where possible.

Telstra ((TLS)), TPG Telecom ((TPG)) and Seek ((SEK)) are also exposed to the issue.

Telstra is both a data centre owner and a user with TPG and Seek both users.

Telstra highlights data centres are one of the largest energy consumption sources for the telco and although total water consumption is provided, the data centre usage is not isolated. Nor does the company highlight the type of cooling systems used. Telstra did note a new trial of a water cooling system to reduce energy consumption.

TPG is reputably expanding data centre use, but makes no mention of energy or water use metrics.

Seek is also growing data centre usage and only reports the related energy consumption.

Ultimately, Jarden concludes water usage is an "under reported risk" and as demand for centres grows, so too will the issue of water intensity at data centres, as well as reporting requirements, as investors seek out a better ESG-adjusted outlook.

Liquid cooling technologies a beacon of hope for data centres

According to Dell'Oro Group, liquid cooling market revenue is expected to reach US$2bn by 2027, on a 60% compound average growth rate between 2020 and 2027.

Liquid cooling includes submersion technologies, as outlined, and ASX-listed DUG Technology ((DUG)) has approved and pending patents in liquid immersion cooling technology.

The company has been employing submersion liquid cooling for over ten years in its High-Performance Computing operations.

Analysts at Wilsons point out DUG is essentially a global seismic data analytics company for the oil and gas industry, but it is exploring options and growth potential for immersion cooling technology into data centres.

Chip suppliers supporting the power density (usage) problem

There are two sides to the water and energy ESG equation, and one that is often overlooked is efficiency.

Wilsons pointed to examples of efficiency gains as outlined by Jensen Huang at Nvidia's March GTC conference:

"If you were to train a GPT model, a 1.8 trillion parameter model, it took about 3-5 months with 25,000 Amperes.

With Nvidia's Hopper chips it would take ~8,000 GPUs, would consume 15MWs and would take about 90days.

This would allow you to train a ground-breaking AI model.

If you used the Blackwell chips, it would only take ~2000 GPUs (instead of 8,000) also over 90-days but only consume ~4MWs (instead of 15MWs)"

Nvidia's technological development has allowed for around a -75% power reduction in energy use for processing with the new Blackwell GPUs.

A fun fact, Wilsons highlights is, Moore's Law states in eight years there can be a 40x to 60x improvement and yet this Law is below what Blackwell will achieve.

Tremendous food for thought on the pace of technological innovation in the GenAi picks and shovels space, if nothing else!

Ultimately, the Nvidia example suggests part of the ESG solution for data centres will come via improved technologies that lower both energy, cooling and water usage.

Hyperscalers face real ESG challenges, is this a red flag for investors?

Microsoft's recent 2024 Environmental Sustainability Report pointed to a -6% fall in Scope 1 and Scope 2 emissions since 2020, whereas Scope 3 emissions rose 30% which directly relates to data centre developments.

The company's water consumption also increased by 87% over the period.

Microsoft's target is to be carbon negative, water positive with zero waste, as well as protecting more land than it uses by 2030.

Amazon's goal is to power all its energy use with renewables by 2030. Alphabet is aiming for net zero-emissions across all its businesses and value chain by 2030.

Morgan Stanley questions whether these tech behemoths can reach their 2030 targets, which poses a risk to ESG and Sustainability funds that own them.

For more reading on Generative Ai:

https://fnarena.com/index.php/2024/06/19/rudis-view-genai-the-super-megatrend-part-1/

https://fnarena.com/index.php/2024/06/20/rudis-view-genai-the-super-megatrend-part-2/

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future:
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RUDI'S VIEWS

Rudi's View: Traditional Value Is A Flawed Narrative

The decade past has challenged the narrative that buying 'cheaply' priced equities are a starting point for guaranteed success. Why would the decade ahead be any different?

By Rudi Filapek-Vandyck, Editor

We don't need to read Yuval Noah Harari's '*Sapiens*' to understand how people unite behind narratives.

It happens in financial markets all the time.

Not that popular narratives are also required to be accurate or able to withstand the test of time. The US has been on the verge of going bankrupt for multiple decades now, and the end of the US dollar as the world's reserve currency has been "imminent" for all this time.

Another popular prediction sees a replay of the stagflation 1970s, with bond yields reverting back into the double-digit percentages as the price of crude oil jumps to US$200/bbl and those mean-spirited central bankers can no longer contain inflation.

Not all narratives are equally flawed. If they were, we'd probably be no longer treating them as gospel, though maybe I am now putting too much faith in the intelligence of my peers and contemporaries. Certainly, social media has been a genuine eye-opener.

The most dominant narrative in the world of investing is that, in order to achieve the best return in the long run, we must buy assets at a discount. Buy something that's worth a dollar for less, preferably a lot less, so the adage goes, and you cannot go wrong.

It's what a smart investor does, as opposed to those who simply chase market momentum.

So ingrained is this narrative in the share market's psyche that many will never, ever question it. It's like religion. You believe. You don't doubt. It's simply the way it is.

The problem is, however, a 'cheap' valuation is not the same as a low PE. Never has been. Even more important: sometimes the world changes so dramatically, it makes a mockery out of old ways and habits that used to work well during the Halcion days.

The past ten years have been such a time. One need not look any further than the latest marketing campaign by investors in 'growth' stories at Hyperion, part of the Pinnacle Investment Management Group ((PNI)), which is proudly showing off the 17.1% per annum average return from the Hyperion Global Growth Companies Fund since 2014.

Let's not beat around the bush, your average 'value' investor fails to beat the local index which has done a little better than half that return over the period (circa 9%). By anyone's measurement, that's a significant difference.

A quick glance over the individual stock performances for the decade past easily explains why buying cheap & undervalued stocks has failed to keep up: many of the familiar household names have significantly underperformed, including all the banks (ex-dividends), energy retailers, small industrials, and large swathes of the energy and metals sectors.

While many a local investor might argue total return for banks and other market segments has kept up with the index, broadly, when taking into account the large dividends and franking attached, the gap with those stocks that have performed over the period is nevertheless mindbogglingly large.

We are talking three-four times the average index return without taking into account any dividends on top. Those are merely broad averages; many 'Growth' stocks have done significantly better.

You all know the names too: Altium ((ALU)), Aristocrat Leisure ((ALL)), ARB Corp ((ARB)), Cochlear ((COH)), Fisher & Paykel Healthcare ((FPH)), Pro Medicus ((PME)), REA Group ((REA)), WiseTech Global ((WTC)), et cetera.

Even CSL ((CSL)) and ResMed ((RMD)), whose share prices have encountered more headwinds in recent years, have still outperformed the ASX200 accumulation index by a factor three and four respectively.

For good measure: the select list of significant outperformers also includes a number of commodities-related companies, including BlueScope Steel ((BSL)), Fortescue ((FMG)), Mineral Resources ((MIN)) and smaller peers like Chalice Mining ((CHN)), Evolution Mining ((EVN)) and Paladin Resources ((PDN)), but this segment always generates a few Heros among many more Zeros.

Making the observation is an eye-opener, for sure, but how will we respond to this?

On my observation, most people, whether they are in Finance or otherwise, find it incredibly difficult to deal with 'change'. We rather stick with what we know from the past, and wait for things to revert back to how they were. For many, that's the easiest path to choose.

But what if there's no quick reversion on the horizon?

When the world changes, it doesn't happen overnight. These are long, elongated processes. The past ten years have not been without major events and markets violently swinging in either direction. We've seen Europe in crisis, oil prices slump and rise, a global pandemic, wars in the Ukraine and in Gaza, negative real bond yields, and the steepest tightening from central banks ever... and yet, there is a *gigantonormous* gap in performances between those who benefit from change and those who don't.

Most importantly, 'Growth' and 'Quality' have been out of favour multiple times -think the second half of 2016 and the whole of 2022- but those stocks still come out on top when the long-term calculations are made.

Frustrating as it may be for your dyed-in-the-wool value investors, solely looking out for low PEs and companies trading at intrinsic discount may not be the most appropriate strategy in a time when new technology, disrupters, innovators, 'Quality Growth' and 'structural growth' rule the financial landscape.

Time to highlight one of the market observations that have coloured the decade past (it is repeated by all kinds of investment experts regularly across my social media forum): a stock trading on a low PE is not by definition 'cheap' or even 'attractive', while a stock trading on a high PE can still be 'cheap' and 'attractive'.

The counter narrative thus becomes: don't look for the one dollar stock to buy at 70c or 60c, look for the stock that will go to one hundred dollars and you can buy it at $10, at $20, at $40, even at $80, still. And when you arrive at $100, consider it might yet have a lot more upside in store, still. The past ten years (and beyond) have offered plenty of examples to make that strategy work.

I can report the **FNArena-Vested Equities All-Weather Model Portfolio** has used this strategy successfully, most recently when shares in Audinate Group ((AD8)) sold off from above $21 to below $15.

Ironically, confidence in the future growth path of this high quality small cap emerging conqueror of the global wireless AV market has been backed up by an initiation of coverage by Morningstar, which tends not to lead when attempting to value such emerging strong growth stories.

This time, however, Morningstar's $23 fair value estimate (whitelabelled by Ord Minnett) is even higher than your traditional technology enthusiasts at Morgan Stanley (target $22).

Now that I am thinking about it, the All-Weather Portfolio's exposures to successful and strong growth achievers such as Hub24 ((HUB)), REA Group ((REA)), and WiseTech Global ((WTC)) have all been purchased following a pull-back in the share price.

It always raises the question: how deep should the pullback be?

There's no golden rule when it comes to playing the share market. One has to deal with what the market offers. I am an avid user of the data and tools on the FNArena service. I look at price targets and where the share price trades. I try not to be too greedy, but I am equally aware investing is not about being perfect.

I always remember anecdotes like that investor who'd only buy CSL below $90 or Wesfarmers ((WES)) below $30. In both cases the price didn't quite get there, and thus no purchases were made. Now look at where those share prices are trading, and make sure next time it won't happen to you.

Goes without saying: trends from the past do not continue into eternity. There is equally a valid argument to be made that GenAi has the power to significantly re-shape the world in the years ahead, and that process has only just started.

GenAi won't be the only source for growth (and disruption) either.

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

Recent updates on GenAi and the era of technological advancements:

-VIDEO: https://youtube.com/watch?v=yDD3CKlZTM4

-https://fnarena.com/index.php/2024/06/19/rudis-view-genai-the-super-megatrend-part-1/

-https://fnarena.com/index.php/2024/06/20/rudis-view-genai-the-super-megatrend-part-2/

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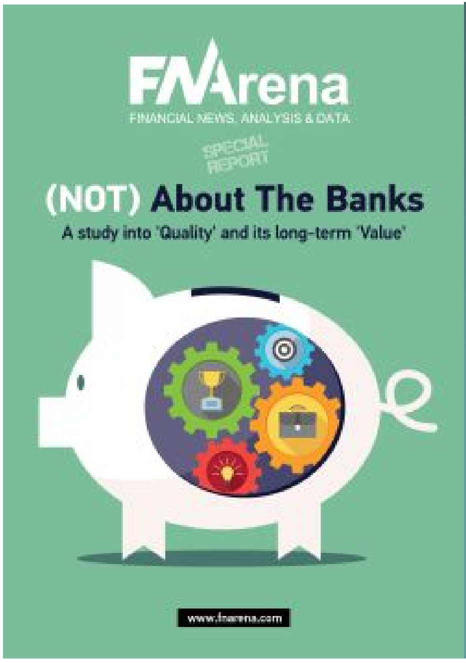

(This story was written on Monday, 24th June, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

RUDI'S VIEWS

Rudi's View: Copper, Lithium, Retailers & TechnologyOne

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

By Rudi Filapek-Vandyck, Editor

Don't give up. Don't despair. The world economy should be in a better environment overall this time next year. The process to bring inflation back to target and to normalise central bank interest rates is simply unfolding slower than expected.

Such is the message communicated by **Barrenjoey's team of metals and mining analysts** led by Glyn Lawcock (previously at UBS).

A weaker Chinese economy is central in the team's assessment, as is the much flatter trajectory in the global disinflation process (see also the latest CPI release in Australia this week).

Approaching the half-way mark in calendar 2024, the team has made a number of changes to forecasts, with consequences at the individual stock level. Four mining stocks have seen ratings change:

-Fortescue ((FMG)) moved to Underweight from Neutral
-Liontown Resources ((LTR)) moved to Underweight from Neutral
-Northern Star ((NST)) moved to Neutral from Overweight
-Evolution Mining ((EVN)) moved to Neutral from Underweight - the sole upgrade made.

As far as commodity price forecasts go, Barrenjoey sees iron ore weakness in Q3 (seasonal) followed by a pickup in Q4, but also has sharply lowered lithium price projections (-20%).

Both forecasts for gold and silver have been raised, though the picture for gold miners remains mixed and muddled as weather impacts on production output and margins remain subjected to capex, opex, and operational disappointments.

In the share market, Barrenjoey advocates investors seek out miners with plenty of free cash flow, a strong balance sheet, and growth that does not required additional funding.

Rio Tinto ((RIO)) is preferred over BHP Group ((BHP)), partially because of a cheaper valuation. Copper remains a favourite, with Metals Acquisition ((MAC)) and Sandfire Resources ((SFR)) preferred exposures.

Newmont Corp ((NEM)) is the broker's preferred gold miner. For playing the battery raw material space, Barrenjoey prefers Lynas Corp ((LYC)), Mineral Resources ((MIN)), Arcadium Lithium ((LTM)), Wildcat Resources ((WC8)) and IGO Ltd ((IGO)).

Overweight-rated stocks include Iluka Resources ((ILU)), Meteoric Resources ((MEI)), Perseus Mining ((PRU)), Predictive Discovery ((PDI)), South32 ((S32)), West African Resources ((WAF)), and Whitehaven Coal ((WHC)).

Equity strategist Damien Boey has trimmed his previous Overweight portfolio positioning towards the mining sector.

In contrast, global strategists at **JP Morgan** see no reason to waver from their positive view. This week they argued:

"We believe the recent pullback in commodities is just that -a pullback- and we continue to see a 10% appreciation in the broader BCOM Commodities index by year-end. The fundamental backdrop for Eurozone

equities is improving, but political uncertainty needs to lift to see sustained outperformance."

Morgan Stanley's latest update on commodities equally expresses concern over the short-term prospects for lithium. Morgan Stanley favours met coal over base metals for the third quarter. Gold remains a "safe bet" and copper and aluminium are preferred among base metals.

Among individual companies, South32 and Deterra Royalties ((DRR)) have been downgraded to Equal-Weight. Rio Tinto also has this team's stamp of approval, while Mineral Resources remains a Key Pick.

Macquarie's update this week also expressed a negative view on lithium and iron ore, with Macquarie equally negative on thermal coal. This broker sees a positive outlook for aluminium, nickel, and met coal.

Among the sector's large caps, Macquarie's preference lays wth South32 and Newmont Corp. Among mid-caps, the broker likes Capstone Copper Corp ((CSC)), Nickel Industries ((NIC)), Patriot Battery Metals ((PMT)), Coronado Global Resources ((CRN)), and, for gold exposure, Red 5 ((RED)) and Genesis Minerals ((GMD)).

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Leaving commodities aside, **Barrenjoey chief equity strategist Damien Boey** has seen sufficient signs the US economy is decelerating this year, and history shows this is likely to weigh on global risk appetite and on commodity prices.

Contrary to most historical precedents, there's no room as yet for a meaningful Fed easing cycle, because of still relatively stubborn inflation.

In such an environment, Boey suggests, portfolios better hold plenty of **defensives**.

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Global strategists at Citi, however, draw confidence from the fact growth is not falling off the proverbial cliff in the US, and the Fed should start cutting rates from September onwards, as should the ECB and the Bank of England.

Citi thus continues to prefer both cyclical sensitive markets as well as the technology sector in the US and in Asia. Concerns over European markets include the French election and risks from tariffs.

In commodities, Citi remains positive on copper and gold. Energy prices are forecast to drop in Q4, so that sector was downgraded to Neutral. Citi sees downside in the coming months for nickel, lithium, tin and iron ore.

Contrary to the preferences at Barrenjoey and Morgan Stanley, Citi rates BHP Group as Buy and Rio Tinto and South32 as Neutral.

Observed: Citi's North American Focus List recently added Atlassian shares, together with Coca-Cola, Evergy, and Royal Caribbean Cruises.

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UBS has a habit of **surveying Australian consumers** about their views and intentions, which is subsequently used by the local equity strategists to update and refine their views and portfolio positioning in the share market.

The latest of such surveys was conducted before this week's CPI shock, which might well see the RBA hike in August, but it appears Richard Schellbach & team already anticipated some criticism, with their latest update on matters highlighting these surveys have proved to be more accurate throughout the current cycle than market consensus and similar surveys elsewhere.

Bottom line: the average Aussie consumer remains hellbent on continuing to spend and is becoming ever more resilient in his/her spending. UBS points at higher job security and rising asset prices which are both countering cost of living challenges.

Equally noteworthy: it's the middle-income households, earning $48k to $120k per year, that are the key driver. UBS sees strong indications tax cuts post June will be spent.

The latest survey, combined with discretionary retailers falling out of favour on the ASX, has triggered an upgrade for the sector to Overweight. In compensation, the Energy sector has been downgraded to Neutral.

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Shares in local **supermarket operators** have not received a lot of love from investors lately, and market **strategists at Wilsons** have still no appetite for the sector.

Wilsons sees ongoing headwinds from cost of living pressures, easing food prices, plus ongoing regulatory risks. In addition, there's limited opportunity to deliver above-market earnings growth over the long term, and valuations are not considered "compelling" to start with.

Wilsons prefers better options such as The Lottery Corp ((TLC)) and Amcor ((AMC)) as defensive consumer-related alternatives.

On a broader view on the world and equities generally, Wilsons remains "constructive" on the outlook for equity markets, but more so offshore than locally, despite elevated valuations and some signs of tech exuberance in the US.

Ultimately, so the reasoning goes, inflation will come down, growth outside the US already is improving, and central bank rate cuts will be forthcoming. Wilsons sees no catalyst for a sharp correction, which doesn't mean unpleasant surprises cannot happen.

Sticking with the US markets, Wilsons sees a mild multiple contraction happening over the next couple of years, but with share prices likely to find ongoing support from solid growth, which will provide offset.

The same cannot be said about the Australian share market, however. Locally, tepid, below-trend growth dominates, while inflation has proved stickier than elsewhere, and the RBA is genuinely an outlier when most central banks elsewhere already are cutting rates, or soon will be.

Wilsons thinks positive moves offshore will pull up the local market, but with prospects more favourable offshore, the recommended weighting for Australian equities has been downgraded to a slight Underweight. To compensate, the strategists prefer to allocate more funds to alternatives, including unlisted real estate, gold, and high quality domestic private credit.

Looking into 2025, it is Wilsons' conclusion risks are skewed to the downside for iron ore, a view underpinned by structural imbalances in China's property sector.

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The most recent revision of **Wilsons' Focus Portfolio**, communicated mid-month, saw the introduction of TechnologyOne ((TNE)), for which shares in IDP Education ((IEL)) had to be sold. The latter is no longer included. The portfolio's exposure to Webjet was slightly upgraded.

It was TechOne's recent interim result that has finally convinced, with Wilsons justifying the decision as follows:

"TNE's premium PE multiple [...] is justified by its long track record, exceptional earnings quality, and strong growth outlook.

"At current levels, TNE offers attractive growth at a reasonable price' and screens attractively relative to its ASX listed tech comps on a PE/EPS growth basis.

"Ultimately, TNE's ability to consistently deliver above-market EPS growth will be the primary driver of shareholder returns over the long-term in our view.

"Consensus expectations for TNE to deliver EPS growth of >15% (CAGR) over the next decade are well supported by the fundamentals, providing further comfort in the valuation."

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Portfolio managers at **T Rowe Price** have been positioned Underweight the Australian share market, and they intend to keep it that way. T Rowe Price is worried about the outlook for corporate earnings in the second half, while stubborn inflation is keeping the RBA on a hawkish 'hold' at best.

China and Europe are also Underweighted, while Japan is the sole market currently on Overweight. In support of the latter positioning, T Rowe Price argues economic indicators in Japan are reaching new highs in this cycle. But also: a weaker yen helps Japanese companies who have a higher beta to the global economy than their peers, plus corporate governance improvements continue to flow though Japanese companies' fundamentals.

Strategists at Canaccord Genuity have taken guidance from the broader international trends, which should see central banks delivering rate cuts in the not-too-distant future. Hence, they decided a slightly more cyclical tilt for the Model Portfolio seems but appropriate, without giving up on defensive exposures such as Woolworths Group ((WOW)), Endeavour Group ((EDV)), Sonic Healthcare ((SHL)), and Ramsay Health Care ((RHC)).

Canaccord's local Model Portfolio has added Santos ((STO)) and Xero ((XRO)) and sold Woodside Energy ((WDS)) and Transurban ((TCL)), while exposure to Wesfarmers ((WES)) was reduced.

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

Ord Minnett this week released an update on its analysts' **Conviction List**, now comprising of the following:

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

ARB, Pinnacle, Red 5, and Whitehaven have all been added since the previous update.

Elsewhere, Head of Asset Allocation and Macro Strategist, Malcolm Wood, believes short-term risks of higher and higher-for-longer interest rates makes the Australian housing market unattractive.

Wood remains attracted to James Hardie ((JHX)) and Reliance Worldwide ((RWC)), but would avoid Reece ((REH)) and Brickworks ((BKW)).

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

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

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

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

-Telix Pharmaceuticals ((TLX))
-Regis Healthcare

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

****

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

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

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

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

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

****

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

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-Macquarie Group ((MQG))
-QBE Insurance ((QBE))
-Suncorp Group ((SUN))
-Goodman Group ((GMG))
-Scentre Group ((SCG))
-Stockland ((SGP)
-Aristocrat Leisure
-Car Group
-Domino's Pizza ((DMP))
-The Lottery Corp
-Wesfarmers
-James Hardie ((JHX))

-Orica ((ORI))
-Coles Group ((COL))
-Treasury Wine Estates
-CSL
-ResMed
-AGL Energy ((AGL))
-Origin Energy
-Telstra ((TLS))
-Transurban Group
-BHP Group
-Newmont Corp
-Rio Tinto
-South32
-Paladin Energy
-Santos
-Woodside Energy

****

Wilsons' list of **Highest Conviction Investment Ideas** now includes TechnologyOne.

Other Most Preferred Ideas locally are Worley ((WOR)), Woodside Energy, Aristocrat Leisure, and Collins Foods ((CKF)).

More ideas come with "long term growth" profiles:

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

Among Resources stocks, there are two favoured ideas:

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

And there's a Speculative basket too:

-Immutep ((IMM))

Since the last update, Clarity Pharmaceuticals ((CU6)) has been removed following a share price appreciation of no less than 130%.

****

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

In terms of individual stocks, as mentioned earlier, IDP Education has been removed with TechnologyOne added and exposure to Webjet enlarged. The Focus Portfolio encompasses the following:

Consumer Discretionary
Aristocrat Leisure, Lottery Corp, Collins Foods, Breville Group, Webjet

Energy
-Woodside Energy

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

Group, Steadfast Group ((SDF))

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

Industrials
-Worley ((WOR))

Information Technology
-TechnologyOne, Xero

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

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

****

Macquarie Wealth's recommended **Growth Portfolio** has switched The Lottery Corp for Xero since the last update two weeks ago. The portfolio consists of the following stocks:

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

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

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

****

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

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

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

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

****

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

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

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

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

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

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

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

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

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

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

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

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

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

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

****

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

The selected ten:

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

****

Macquarie's ASX Quality Compounders

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

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

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

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

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

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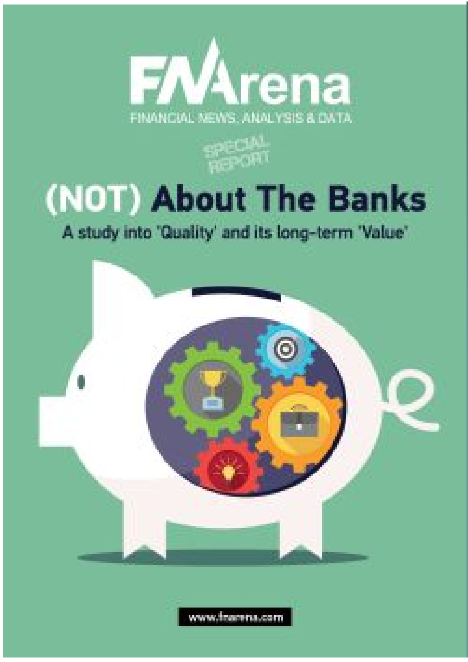

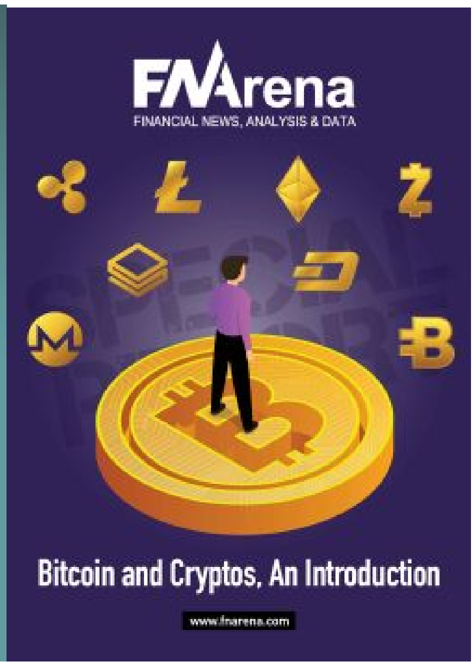

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TREASURE CHEST

Treasure Chest: Stockland

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

By Danielle Ecuyer

Whose Idea Is It?

Citi

The subject:

Stockland ((SGP))

The thesis

Citi has rung the bell on a more bullish short term move in the Stockland ((SGP)) share price with the imminent July 4th determination from the ACCC on the purchase of the Lendlease ((LLC) Lifestyle Communities business, in conjunction with Thailand's Supalai.

The analysts have opened a so-called 'Upside 30-Day Catalyst Watch' on the shares, expecting the ACCC will rule positively on the proposed deal, with a subsequent positive impact on the Stockland share price. Year-to-date, the shares haven't performed, also lagging the sector generally.

At the most, Citi analysts comment, "we believe the transaction will go ahead with a couple of sites having to be taken out from the acquisition bucket to address any competition issues".

More info

In December 2023, Lendlease announced the sale of 12 domestic community projects to Stockland and Supalai Australia for $1.3bn with Stockland retaining a 50.1% interest.

The deal also received the thumbs up from Jarden, which believes the acquisition will drive FY25 earnings growth for the property group, as well mark as an improvement in residential momentum in the run up to any rate cuts.

The market has been harbouring concerns around a potential refusal by the ACCC to allow the acquisition to go ahead, which is likely why the shares haven't performed thus far this year.

Citi forecasts some 4% of the total FY25 6% EPS growth estimate would be generated by the acquisition and concludes this is a potential major short-term driver of investor sentiment, possibly triggering a share price re-rating.

The FNArena consensus target price of $5.013 suggests circa 13% potential upside with an indicated 5.9% dividend yield on FY25 forecasts.

Jarden notably upgraded the stock to Buy from Overweight last week with a $5.45 target.

Morgan Stanley has the second highest target price at $5.30 with an Overweight rating, followed by Citi at $5.10 alongside a Buy rating.

UBS hasn't provided a recent update but was Neutral rated in early May with a $4.64 target price.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 21-06-24

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 June 17 to Friday June 21, 2024
Total Upgrades: 6
Total Downgrades: 4
Net Ratings Breakdown: Buy 56.73%; Hold 34.07%; Sell 9.20%

For the week ending Friday June 21, 2024, FNArena recorded six ratings upgrades and four downgrades for ASX-listed companies by brokers monitored daily.

The tables below show percentage upgrades by brokers to average earnings forecasts were larger than downgrades, while rises and falls in average target prices were broadly even.

Alumina Ltd and Regal Partners featured in the top three places for positive change to both average earnings forecasts and target prices.

The alumina price is currently being squeezed due to temporary production outages, and Citi last week responded by increasing its price forecasts for the commodity, driving up 2024-26 earnings forecasts for Alumina Ltd by between 70% to 215%.

The broker's long-term alumina price was increased to US$400/t from US$350/t, but Citi's target for Alumina Ltd only rose by 5 cents to $1.65 to be in line with the latest Alcoa share price using the offer ratio of 0.02854.

The last trading day for Alumina Ltd shares is July 23, while July 24 will be the first day of trading for Alcoa CDIs (listed on the ASX) on a deferred settlement basis.

As mentioned in last week's update, average earnings forecasts for specialist alternative investment manager Regal Partners rose by nearly 16%, in the week ending Friday June,14, after Morgans initiated research coverage and management announced the acquisition of credit fund manager Merricks Capital.

In a delayed reaction, Ord Minnett last week updated its research on Regal and forecast circa 10% EPS accretion resulting from the $235m Merricks acquisition, which will add scale and diversification to the overall group.

Separately, the broker highlighted how PM Capital's Global Companies fund (acquired by Regal late last year) is maintaining its outstanding investment performance. It's felt this fund provides the largest area of flow potential for Regal Partners over the medium-term.

For a more fulsome report on the Merricks acquisition and Regal's impressive growth trajectory, readers may refer to (https://fnarena.com/index.php/2024/06/17/the-regal-partners-alternative/).

Family safety and tracking app company Life360 received the second largest increase in average earnings forecast from brokers in the FNArena database last week largely because of the addition of inaugural research by UBS.

This broker highlighted compelling revenue growth opportunities in the company's tiered subscription rollout to international markets, scaling of user acquisition marketing budgets, and ramping-up of advertising efforts. The analysts began with a US$32 target and Neutral rating.

On one hand, bulls would argue growth in monthly active users (MAU) could re-accelerate once management leans into user acquisition marketing and localises the product to international markets, explained the analysts.

On the other hand, UBS noted bears would suggest international payers will not scale as the focus on safety/location tracking is less culturally important compared to in the USA. Additionally, it's thought the likes of Apple and Google could release similar pre-installed features on their phones.

The average earnings forecast for Coronado Global Resources also increased after Ord Minnett upgraded its commodity price assumptions to reflect historical seasonality of metallurgical coal markets, and to align more closely with the consensus view.

The broker's hard coking coal (HCC) and pulverised coal injection (PCI) grade coal forecasts for 2024-26 were increased by between 5-6% and 2-4%, respectively, resulting in a $1.35 target for Hold-rated Coronado, up from $1.30.

On the flipside, there were material falls in average earnings forecasts last week for Light & Wonder, Mineral Resources, and Chalice Mining.

While new forecasts by Morgans in first-time research on Light & Wonder (a leading supplier of land-based slot content) dragged down the average earnings forecast in the FNArena database, the broker began with an Add rating and highlighted strong growth in the US business.

Already, the experienced management team has increased land-based share in Australia to around 30% from 10% in less than 12 months, and the broker felt such a performance can be replicated in the US, where around 70% of revenue is derived.

For an article penned last week on Light & Wonder please refer to: (https://fnarena.com/index.php/2024/06/20/meet-light-wonder-the-new-star-in-gaming/).

The fall in average forecast earnings for Mineral Resources was largely due to a new take by a replacement analyst at Morgans, resulting in a $66 target, down from $71.

The analyst lowered mining services earnings forecasts following the Onslow Haul Road sale announcement, assuming it completes in the second half. Morgans' net debt and corporate overheads forecasts also increased.

Earlier this month, management announced the -49% sell-down of its Onslow Haul Road for $1.3bn (pre-tax), injecting much needed cash onto the balance sheet, according to the analyst. A tolling fee will still be received annually for the life-of-mine.

As expected, last week management also announced shipments of iron ore will cease at the Yilgarn Hub as the operation will be no longer be financially viable. The asset will be either rehabilitated or sold.

Overall, Morgans is expecting ongoing near-term volatility given weak sentiment surrounding lithium and iron ore markets, and maintained a Hold rating for Mineral Resources.

UBS updated key assumptions for Chalice Mining's Gonneville project, after recent resource and metallurgical updates.

A lower project valuation was offset by a less dilutive equity raise assumption. The broker downgraded to Neutral from Buy after adopting a target of $1.50, up from $1.45.

The project hosts a significant deposit of palladium, platinum, nickel, copper, and cobaltall critical minerals essential for technologies that address climate change.

While platinum group elements (PGE) downside has largely played out and palladium prices have fallen by around -70% peak to trough, the broker's strategy team is waiting for demand improvements before turning bullish.

Improvements include further scaling back of battery electric vehicle expectations, even larger share of hybrids, a more positive autos outlook in general and higher jewellery demand, especially ex-China.

Total Buy ratings in the database comprise 56.73% of the total, versus 34.07% on Neutral/Hold, while Sell ratings account for the remaining 9.20%.

Upgrade

ASX LIMITED ((ASX)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 1/4/1

After a further appraisal of last week's investor forum held by the ASX, Morgan Stanley feels risks for the business are now more balanced and operating leverage remains strong.

The broker also sees potential upside earnings risk from better capital markets, in particular improved futures trading and listings activity.

While regulatory concerns remain and cost growth remains elevated, management is taking actions to bring down opex and one-off compliance costs are reducing, observe the analysts.

The rating is upgraded to Equal-weight from Underweight and the target increased to $54.65 from $53.50. Industry view: In-Line.

HELIA GROUP LIMITED ((HLI)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/1/0

Macquarie believes Helia Group is likely to become the exclusive lenders mortgage insurance provider for Commonwealth Bank ((CBA)) including Bankwest, which is currently insured with QBE.

As a result, gross written premium could rise by around 9% the broker highlights.

With the stock having fallen, the rating is upgraded to Outperform from Neutral with an unchanged target price of $3.90.

The lower share price should also assist with a quickening in the $100m buyback, the broker notes.

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

Citi has updated its commodity price projections.

The broker lowers the iron ore price by -4% for 2024 to US$110/t, and lifts alumina and aluminium by 12% and 8%, to US$430 and US$2488/t, respectively, for 2024.

For 2025, Citi lifts aluminium by 13% to US$2950/t and copper by 14% to US$12,000/t.

On balance, the broker views the higher upside for copper and uranium and the greatest downside risk to prices for manganese and alumina.

Citi adjusts Iluka Resources FY25 EBITDA forecast by 9% on a lower exchange rate.

The stock's target is unchanged at $7.80 but the rating is upgraded to Buy from Neutral, due to the -20% fall in the share price since May.

NEWMONT CORPORATION REGISTERED ((NEM)) Upgrade to Buy from Neutral by UBS .B/H/S: 4/0/0

UBS continues to be positive on the gold price and believes Newmont Corp, a serial underperformer since 2019 against the gold price and peers, can now be re-rated.

The broker expects significant earnings upgrades including funds from US$2-US$4bn divestments over the next 12 months, accelerating deleveraging and cash returns.

The UBS gold price forecast sits around 30% above consensus for 2025. The broker anticipates it could underpin earnings upgrades for the company in FY25.

EPS forecasts are lifted higher with an according revision in the price target to $75 from $60.

Rating upgraded to Buy from Neutral.

REA GROUP LIMITED ((REA)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/3/1

Despite a premium multiple, Citi upgrades its rating for REA Group to Buy from Neutral and raises the target by 15% to $221. It's felt the group can easily flex its cost base, which should support long-term margins.

Further, the broker believes recent product/technology investments will result in strong earnings growth over the medium-to long-term, with potential upside from stronger-than-expected seller and mortgage leads monetisation.

Given larger geographic-mix headwinds for Domain Holdings Australia, Citi prefers REA Group in the space.

WOOLWORTHS GROUP LIMITED ((WOW)) Upgrade to Overweight from Underweight by Morgan Stanley .B/H/S: 3/2/0

The recent AlphaWise 2024 Household Survey by Morgan Stanley has given the analyst insights into consumer shopping intentions and resulted in a more upbeat view on the supermarkets.

The key takeaway is consumers will prioritise essentials and shift back to in-store shopping and price challenges, the broker states, with the results inferring a higher percentage of spending of household goods towards groceries.

On balance like-for-like sales are expected to be better than the analyst's previous forecasts for FY25.

Woolworths Group is viewed as the clear winner with this backdrop and replaces Coles Group ((COL)) as the preferred supermarket stock.

Morgan Stanley lifts the company's EPS forecasts by 3.2% for FY24 and 5.5% for FY25.

The target price is raised to $37 from $31 with an upgrade to Overweight from Underweight. Industry View: In-line.

Downgrade

BEACH ENERGY LIMITED ((BPT)) Downgrade to Neutral from Outperform by Macquarie and Downgrade to Sell from Neutral by Citi.B/H/S: 4/2/1

Macquarie lowers its target for Beach Energy by -21% to $1.55 to reflect lower production and increased capex following yesterday's strategic review update which included updated FY25 production guidance.

Management has now clearly ruled a line through the BassGas project and the Kupe development (New Zealand), suggests the broker, with major book impairments (-$365-400m combined) and reserve downgrades.

Macquarie downgrades its rating to Neutral from Outperform given the Waitsia start-up is still at least six months away, and peak free cash flow (FCF) is not expected until FY28 and FY29.

Citi lowers its target for Beach Energy to $1.40 from $1.60 and downgrades to Sell from Neutral.

A strategic review revealed higher capex than the broker's cautious forecasts, largely in the Cooper Basin, but with no apparent requisite increase in medium-term production.

While the analysts highlight a strong balance sheet, they also posit the means to improve portfolio quality do not look like being implemented in the short-term.

BIGTINCAN HOLDINGS LIMITED ((BTH)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 0/1/0

Morgan Stanley downgrades Bigtincan Holdings to Equal-weight from Overweight and reduces the target to 10c from 35c due to a lack of earnings visibility. Industry view: In line.

While management has reiterated its free cash flow (FCF) target), equity was also raised (a 1-for-3 entitlement offer) and an expensive debt facility (which had an effective interest rate of at least 16%) was extended.

The analysts have other concerns including an elevated rate of churn, declining revenue, and the withdrawal of offers by multiple potential suitors with access to more detailed data than Morgan Stanley.

CHALICE MINING LIMITED ((CHN)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/1/0

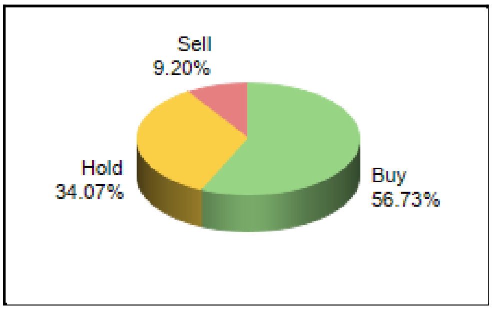
UBS lifts the outlook for Chalice Mining's Gonneville, post the project's updates, including an around a -30% lower average head grade and a less dilutional equity raising of $600m in FY24.

The updated 59Mt resource was slightly disappointing, leading to a lower production estimate of some 345kozpa palladium equivalent over the 10-year mine life, notes the broker.

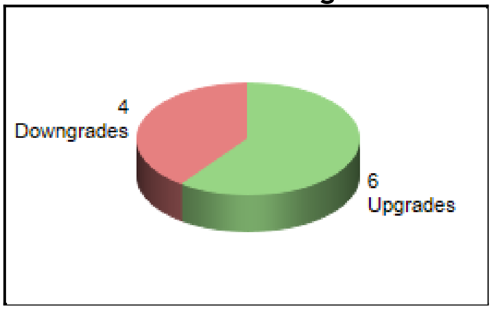
Palladium prices have declined circa -70% through the cycle, however as the analyst emphasises, the UBS strategy team has not yet become more upbeat on the outlook.

The stock is downgraded to Neutral from Buy. Target adjusted to $1.50 from $1.45.

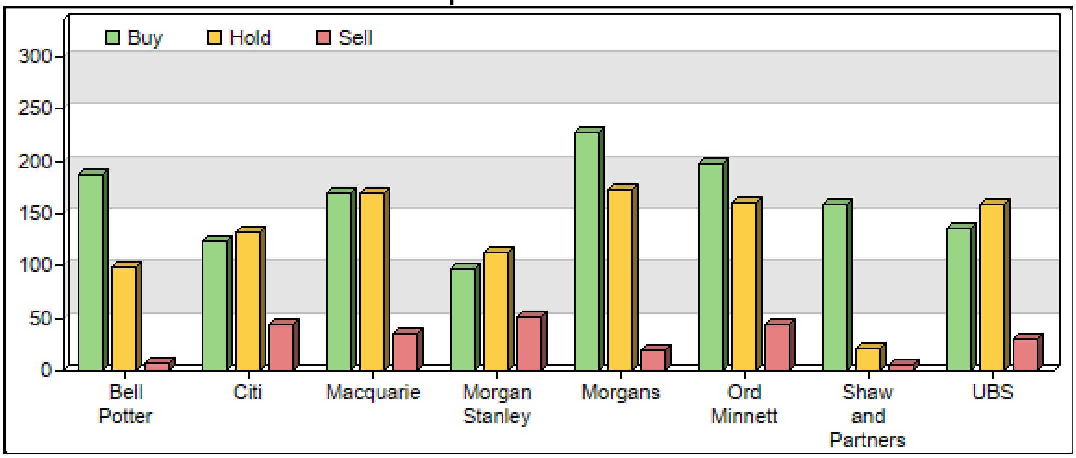
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ASX LIMITED	Neutral	Sell	Morgan Stanley
2	HELIA GROUP LIMITED	Buy	Neutral	Macquarie
3	ILUKA RESOURCES LIMITED	Buy	Neutral	Citi
4	NEWMONT CORPORATION REGISTERED	Buy	Neutral	UBS
5	REA GROUP LIMITED	Buy	Neutral	Citi
6	WOOLWORTHS GROUP LIMITED	Buy	Sell	Morgan Stanley
Downgrade				
7	BEACH ENERGY LIMITED	Neutral	Buy	Macquarie
8	BEACH ENERGY LIMITED	Sell	Neutral	Citi
9	BIGTINCAN HOLDINGS LIMITED	Neutral	Buy	Morgan Stanley
10	CHALICE MINING LIMITED	Neutral	Buy	UBS

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	AWC	ALUMINA LIMITED	1.425	1.338	6.50%	4
2	RPL	REGAL PARTNERS LIMITED	4.550	4.383	3.81%	3
3	WOW	WOOLWORTHS GROUP LIMITED	33.667	32.833	2.54%	6
4	LOV	LOVISA HOLDINGS LIMITED	31.800	31.014	2.53%	7
5	REA	REA GROUP LIMITED	192.714	188.657	2.15%	7
6	LNW	LIGHT & WONDER INC	166.000	163.000	1.84%	3
7	COL	COLES GROUP LIMITED	17.800	17.533	1.52%	6
8	360	LIFE360 INC	17.223	16.973	1.47%	4
9	ORG	ORIGIN ENERGY LIMITED	10.018	9.893	1.26%	4
10	MRM	MMA OFFSHORE LIMITED	2.767	2.733	1.24%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	BPT	BEACH ENERGY LIMITED	1.811	1.919	-5.63%	7

2	LLC	LENDLEASE GROUP	6.583	6.917	-4.83%	3
3	EVN	EVOLUTION MINING LIMITED	4.150	4.310	-3.71%	5
4	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	3.272	3.347	-2.24%	6
5	NST	NORTHERN STAR RESOURCES LIMITED	15.710	15.970	-1.63%	5
6	SFR	SANDFIRE RESOURCES LIMITED	9.417	9.533	-1.22%	6
7	CSR	CSR LIMITED	8.520	8.600	-0.93%	5
8	STO	SANTOS LIMITED	8.958	9.008	-0.56%	6
9	MTS	METCASH LIMITED	4.120	4.140	-0.48%	5
10	MIN	MINERAL RESOURCES LIMITED	73.857	74.143	-0.39%	7

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	AWC	ALUMINA LIMITED	3.441	1.182	191.12%	4
2	360	LIFE360 INC	20.128	13.209	52.38%	4
3	RPL	REGAL PARTNERS LIMITED	25.333	21.333	18.75%	3
4	CRN	CORONADO GLOBAL RESOURCES INC	12.098	10.417	16.14%	5
5	NEM	NEWMONT CORPORATION REGISTERED	373.844	349.367	7.01%	4
6	WHC	WHITEHAVEN COAL LIMITED	100.043	96.614	3.55%	7
7	SMR	STANMORE RESOURCES LIMITED	28.099	27.294	2.95%	3
8	ILU	ILUKA RESOURCES LIMITED	46.120	45.200	2.04%	5
9	CSR	CSR LIMITED	39.960	39.333	1.59%	5
10	VUK	VIRGIN MONEY UK PLC	86.486	85.365	1.31%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	LNW	LIGHT & WONDER INC	504.650	631.400	-20.07%	3
2	MIN	MINERAL RESOURCES LIMITED	95.086	118.943	-20.06%	7
3	CHN	CHALICE MINING LIMITED	-10.150	-9.150	-10.93%	3
4	LLC	LENDLEASE GROUP	49.560	51.760	-4.25%	3
5	EVN	EVOLUTION MINING LIMITED	23.400	24.260	-3.54%	5
6	MTS	METCASH LIMITED	27.980	28.380	-1.41%	5
7	RWC	RELIANCE WORLDWIDE CORP. LIMITED	27.175	27.464	-1.05%	6
8	BAP	BAPCOR LIMITED	27.867	28.017	-0.54%	6
9	QBE	QBE INSURANCE GROUP LIMITED	178.239	179.183	-0.53%	7
10	NHC	NEW HOPE CORPORATION LIMITED	61.760	61.840	-0.13%	5

Technical limitations

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

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

WEEKLY REPORTS

Uranium Week: Spot Goes Drop Dead Quiet

Still rivers run deep when it comes to the current uranium market as short term prices weaken, but US authorities shore up support for new nuclear technologies and Paladin stakes its claim as a global uranium resource company.

-U308 spot market, did someone mention quiet?
-US invests US$900m in developing nuclear reactor technologies
-Paladin Energy in pursuit of creating a uranium resource powerhouse

By Danielle Ecuyer

The week that was for the U308 spot market

For now at least, the proposed Russian uranium ban has taken the wind out for the sales of the U308 spot market, which industry experts TradeTech described as "exceptionally" quiet last week.

The market has taken a step back from supply side concerns as the slated Department of Energy waivers on Russian imports have alleviated market anxiety over supply disruption.

The U308 price declined -US$1.75 to US $83.25 last week with the only transaction reported on Tuesday afternoon, post four quiet days.

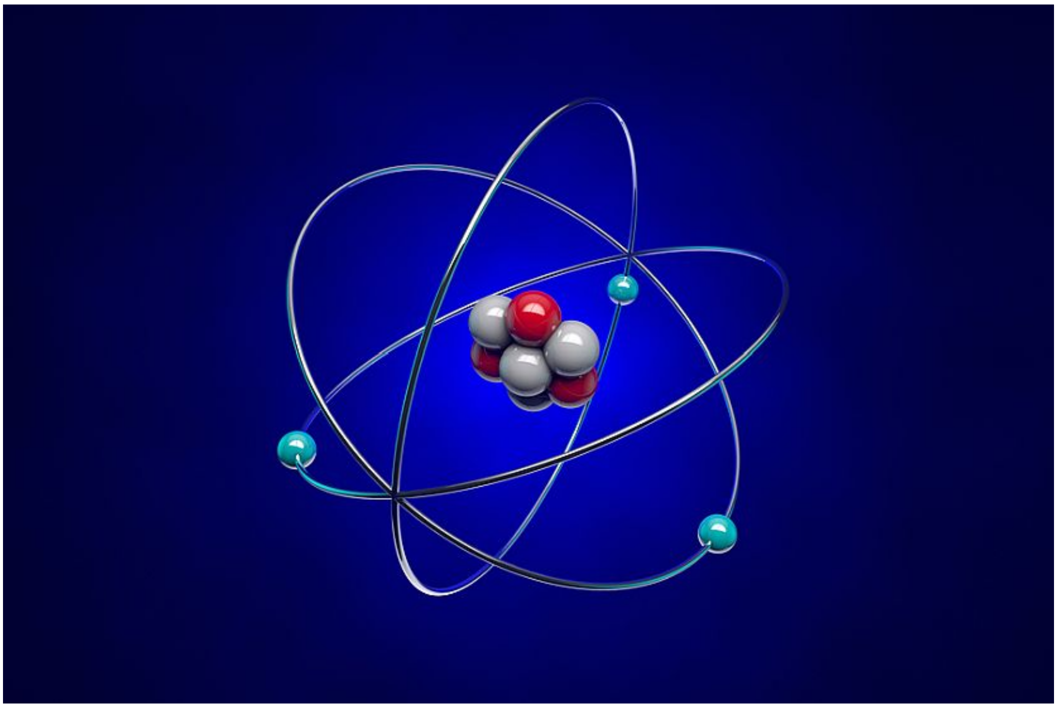
Three transactions were finally concluded for July delivery at Canada's Cameco, with 50,000lbs bought at US$83.90, followed by a second at US$82.50lb, and a third at US$83.50.

TradeTech also points to utilities shifting focus to the mid-term and long-term deliveries market.

By shifting the time factor, demand in the spot market traditionally slows as sellers wait to establish whether buyers have been successful. In the event the seller is not awarded the deal, they move into the spot market to sell, often depressing the price, as transpired in the week past.

The U308 mid-term price sits at US$93.50 and the long-term price at US$80.

In the last month, the U308 price has retreated by -9% and is off -22% from the previous high of US$107 in early February. TradeTech highlights it remains 48% above the spot value in the corresponding period last year.



Industry news in focus

The US continues to move forward with further fiscal support for its domestic nuclear energy industry. The Department of Energy announced a US$900m support package for the initial deployment of Generation 111+Small Modular Reactor technologies. TradeTech highlights this was part of the Bipartisan Infrastructure Law targeted to strengthen the US nuclear industry.

Meanwhile, the Swedish owners of the Forsmark and Ringhals nuclear power plants announced an extension to the reactors' lives to 80 years from 60 years.

Paladin Energy drives capacity expansion in Canada

What has been described by Morgan Stanley as the potential for Paladin Energy ((PDN)) to become one of the largest players on the global uranium supply stage, the company announced its $1.253bn acquisition of Canadian Fission Uranium Corp.

The Fission Patterson Lake South project is more advanced with higher grades and lower cost than Paladin's Michelin mine, Morgan Stanley highlights.

Citi finds the combined resource of 544mlb would make the merged Fission/Paladin Energy entity the third largest global resource for a listed company. When measured in market capitalisation, BHP Group and Cameco are the numbers one and two.

The timelines for the two projects synchronise with Fission's underground mine production slated for 2029 to 2039 and Paladin's Michelin not anticipated to come on stream until 2035.

Fission is reported as trading at a discount to its peers making it an attractive prospect to Paladin Energy. Fission shareholders will receive 0.1076 Paladin shares for each Fission share, which will enable Fission shareholders to own 24% of the combined group.

Paladin is expected to retain a dual listing on the Toronto Stock Exchange and the ASX.

Citi rates the stock a Buy with a $17 target price: Morgan Stanley has an Overweight rating and a $16.65 target.

The FNArena consensus sits at $16.44.

For more reading:

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

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

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

https://fnarena.com/index.php/2024/06/04/uranium-week-preparing-for-the-nuclear-age/

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	24/06/2024	0.0700	▲16.67%	$0.19	$0.05			
AGE	24/06/2024	0.0500	▼- 3.85%	$0.08	$0.03		$0.100	▲100.0%
BKY	24/06/2024	0.3450	▼- 1.43%	$0.80	$0.26			
BMN	24/06/2024	3.4900	▼- 7.94%	$4.87	$1.44		$7.400	▲112.0%
BOE	24/06/2024	3.9700	▼- 3.66%	$6.12	$2.83	40.6	$5.438	▲37.0%
DYL	24/06/2024	1.3700	▼- 4.21%	$1.83	$0.65	-97.1	$1.770	▲29.2%
EL8	24/06/2024	0.4000	▼-10.87%	$0.68	$0.29			
ERA	24/06/2024	0.0300	▼-20.00%	$0.08	$0.03			
LOT	24/06/2024	0.3300	▼- 9.59%	$0.49	$0.17		$0.660	▲100.0%
NXG	24/06/2024	10.2100	▼- 5.18%	$13.66	$6.56		$17.500	▲71.4%
PDN	24/06/2024	12.2800	▼- 2.29%	$17.98	$6.80	-243.9	$16.310	▲32.8%
PEN	24/06/2024	0.1000	▼- 4.76%	$0.19	$0.08		$0.260	▲160.0%
SLX	24/06/2024	5.0500	▼- 2.08%	$6.74	$2.92		$7.600	▲50.5%

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

WEEKLY REPORTS

The Short Report - 27 Jun 2024

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

Summary:

Week Ending June 19, 2024 (most recent data available through ASIC).

10%+

PLS 20.77
IEL 13.74
LTR 11.58
WGX 10.89

9.0-9.9%

SYA
CHN
FLT
SYR

8.0-8.9%

ACL
STX
LYC
WBT

Out: CXO

7.0-7.9%

HLS
CXO
GMD

In: GMD, CXO

6.0-6.9%

ARU
NAN
CTT
OBL
BOQ

Out: BAP, GMD, LIC, WEB

5.0-5.9%

LIC
WEB
CUV
IFL
VUL
BOE
BAP
NUF

MIN
DMP
SFR
NVX
CTD

In: BOE

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.4	0.3	NAB	0.6	0.7
ANZ	0.5	0.5	QBE	0.5	0.5
BHP	0.4	0.4	RIO	4.6	4.9
CBA	1.5	1.6	STO	1.1	1.2
COL	0.6	0.5	TCL	0.6	0.6
CSL	0.5	0.4	TLS	0.3	0.2
FMG	0.8	1.1	WBC	0.7	0.8
GMG	1.5	1.5	WDS	0.5	0.5
JHX	0.6	0.7	WES	1.0	1.0
MQG	0.7	0.7	WOW	0.5	0.4

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

WEEKLY REPORTS

In Brief: EVs Crash The Lithium Party

Brokers take the knife to lithium prices; Morgan Stanley sours (again) on big Aussie banks; Rabobank explains how we can keep smashing the avo toast and a noisy US election on the cards.

-How secular EV tailwinds turned into secular headwinds for lithium
-RBA's challenging cocktail of higher rates, lower savings and consumption
-Can Australian banks continue to outperform?
-Uncertainty is the word when it comes to the US Presidential Election
-Avocados, once a rich man's treat, now a positive free-for-all
-Food for Thought, what caught my eye

By Danielle Ecuyer

This week's In Brief has a new special "Food for Thought" quote.

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

Lithium market more than stumbles, is it in free-fall?

This week's In Brief cannot turn a blind eye to the ongoing collapse in lithium prices.

Citi calls it "**lithium in freefall**" with data pointing to an increase in inventories of around 70kt since the start of 2024.

Prices have declined by -70% over the last twelve months as demand stumbled and slowed to 14% growth in 2024 from 28% in 2023.

Changing global trends away from electric vehicles (EVs) to hybrids and US/EU sanctions on Chinese EVs are major contributors to the deterioration in demand for lithium.

The global automotive team at Citi has downgraded EV adoption estimates no less than twice in the last six to nine months.

Is it any wonder Tesla has let go of -14% of their staff.

Morgan Stanley also waived the red flag for investors this week, pointing to the possibility for the lithium price to "overshoot" to the downside.

Macquarie downgraded earnings forecasts and target prices across the board for its universe of lithium stocks and remains underweight the sector. The broker reduced 2024/2025 spodumene prices by -24%/-35%, respectively and lithium carbonate prices by -27%/-35%, over the same period.

No improvement is expected until 2026 when the market starts to rebalance (fingers crossed).

Citi points to a slowdown in supply growth to 18% in 2024 from 40% in 2023, but believes there is a lot further to go, before lithium consumption improves from 2025.

Ord Minnett also joined the lithium bear pit, cutting the spodumene FY24 price forecast by -14% to US$1000/t and FY25 estimate by -25% to US$1100/t, citing oversupply and uncertainty around EV demand.

Secular trends do not move in a straight line.

The tussle between savings, consumption, and RBA rate hikes

RBC Capital observes Australia's household savings rate at 0.9% in 1Q24, well below the pre-covid 10-year average rate, which is attributed to income tax bracket creep, a relatively robust labour market and an elongated services recovery post the harsher covid lockdowns, compared to other developed economies.

The broker points to little tolerance from the RBA for a further pick up in consumption in the second half as highlighted at Governor Bullock's recent press conference.

RBC accentuates the risk of a further decline in household savings if per chance household consumption picks up over the second half of 2024.

Post the higher-than-expected May CPI print, UBS and Morgan Stanley now forecast the RBA to hike the cash rate by 25bps to 4.6% at the August meeting, which at minimum, Morgan Stanley observes, will be **bad for investor sentiment**.

RBC stated "At a minimum, rate cuts are not remotely on the horizon. We push back the start of some RBA easing to Q2-25 from Q1-25 but stick with just two 25bp cuts and modest adjustment."

Aussie banks not coming up roses

Although Morgan Stanley does a mea culpa regarding this year's performance of domestic banking stocks (like many brokers they have been too negative), the broker does expect a de-rating of the sector on the back of a further RBA rate hike.

The bottom line is the broker sees too much optimism priced into the sector.

Globally, Morgan Stanley continues to like the financials with the view capital markets activity is in recovery mode. In contrast to Australia, a US rate cut, and the return of M&A activity, provide positive tailwinds for financials.

In Australia, Morgan Stanley Global highlights an Overweight on Macquarie Group ((MQG)) and adds it to the Financials' Finest List.

Election 2024: volatility and uncertainty the name of game

The first Presidential debate this morning will no doubt give investors a peek through the looking glass of what's in store in the run up to the November US Presidential election.

Morgan Stanley stresses "uncertainty" around the outcome will be front and centre, with a deeply divided US public colliding with tight polls and an increase in mailer votes, which will serve to delay the eventual results.

Expect volatility, the broker predicts, with the likelihood of a stronger US dollar, and divergent moves across the Treasury markets. Trump policies are singled out as having both short-and longer-term implications.

Immigration and tariffs will play a significant role in the debates and election outcome, as well as the Republican versus Democrat policies.

CEO of the US Chief Executive Leadership Institute highlighted to CNBC's Andrew Ross Sorkin that not one of the Fortune 500 CEOs is supporting President Trump in the upcoming November Presidential election.

He stated it is completely without precedent and points to potentially highly inflationary economic policies, including 10% import tariffs across the board, which may increase inflation by 3%.

Morgan Stanley expects the election will be too close to call even into the final days and suggests investors "lean into" those sectors with potential positive impacts, including defence via a rise in the national security agenda and industrials/telecoms for tax cuts.

The good oil, keep smashing those avocados

The Global Avocado Update 2024 from Rabobank points to a 20% lift in Australian avocado crop production in 2023/24 and leaves it at an all-time high.

Local demand continues to expand at an annual compound rate of 10% p.a. but remains oversupplied with prices wallowing at low levels.

More than 1500 hectares of avocado plantings are forecast to achieve maturity this year with a further 4000 hectares maturing in the next five years.

Rabobank points to export markets as the growth opportunity, which account for 13% of total production and rose 55% year-on-year in 2023.

Mexico is the largest global avocado exporter, but the rate of expansion is forecast to slow under water and land pressures.

Weekly Food for thought: Is 6300 possible on the S&P500 by year end?

Apparently yes, according to Goldman Sachs with 6300 at the bullish end of the target range and 5600 penciled in as probable.

While many experts continue to scratch their heads about how expensive some US stocks are, **Lance Roberts from RIA Advice** posted some interesting comments on why valuations have been trending higher over time.

"There are many reasons why valuations have shifted higher over the years.

The increase is partly due to economic expansion, globalization, and increased profitability.

However, since the turn of the century, changes in accounting rules, share buybacks, and greater public adoption of investing (aka ETFs) have also contributed to the shift.

Furthermore, [...] the massive monetary and fiscal interventions since the "Financial Crisis" created a seemingly "risk-free" environment for equity risk."

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

WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 28-06-24

Broker Rating Changes (Post Thursday Last Week)

Downgrade

ALKANE RESOURCES LIMITED ((ALK)) Downgrade to Hold from Buy by Moelis.B/H/S: 0/0/0

Alkane Resources outlined a five-year production plan with better production, notes Moelis but at notably higher costs.

Remaining capital expenditures are estimated at $130m by the end of 2025, which is expected to be funded through cashflows and project debt, the analyst notes.

Moelis adjusts EPS estimates by 0.3% for FY24 and -75.8% for FY25.

Rating downgraded to Hold from Buy, with a target price reduced to 60c from 85c.

Order	Company	New Rating	Old Rating	Broker
Downgrade				
1	ALKANE RESOURCES LIMITED	Neutral	Buy	Moelis

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
ALK	Alkane Resources	$0.51	Moelis	0.60	0.95	-36.84%
APA	APA Group	$7.96	Jarden	9.00	9.20	-2.17%
APZ	Aspen Group	$1.74	Moelis	2.48	N/A	-
BPT	Beach Energy	$1.49	Canaccord Genuity	1.50	1.65	-9.09%
			Jarden	1.55	1.75	-11.43%
CUV	Clinuvel Pharmaceuticals	$15.24	Wilsons	31.38	25.46	23.25%
ENN	Elanor Investors	$0.95	Moelis	1.51	1.76	-14.20%
EVN	Evolution Mining	$3.44	Canaccord Genuity	4.40	4.60	-4.35%
HSN	Hansen Technologies	$4.46	Goldman Sachs	4.85	5.20	-6.73%
KMD	KMD Brands	$0.34	Canaccord Genuity	0.39	0.42	-7.14%
LLL	Leo Lithium		Canaccord Genuity	0.50	0.80	-37.50%
MRM	MMA Offshore	$2.55	Moelis	2.70	2.60	3.85%
MTS	Metcash	$3.61	Jarden	4.40	4.20	4.76%
PLS	Pilbara Minerals	$3.18	Jarden	3.80	4.10	-7.32%
PNV	PolyNovo	$2.44	Wilsons	2.65	2.44	8.61%
QBE	QBE Insurance	$17.44	Goldman Sachs	20.60	20.90	-1.44%
			Jarden	21.20	21.50	-1.40%
SDF	Steadfast Group	$6.15	Goldman Sachs	6.10	6.00	1.67%

SPZ Smart Parking	$0.49	Canaccord Genuity	0.70	0.52	34.62%
TWE Treasury Wine Estates	$12.53	Goldman Sachs	15.20	13.40	13.43%
Company	Last Price	Broker	New Target	Old Target	Change

More Highlights

CUV CLINUVEL PHARMACEUTICALS LIMITED

Pharmaceuticals & Biotech/Lifesciences Overnight Price: $15.38

Wilsons rates ((CUV)) as Overweight (1)

Wilsons highlights the lucrative leverage opportunities provided by the Scenesse label expansion into vitiligo, and the launch
into the Adrenocorticotropic Hormone (ACTH) market in the US.

As management at Clinuvel Pharmaceuticals keeps providing more information around expectations and preparation work, the broker suggest the opportunity is being materially undervalued by the wider market.

The company is aiming to leverage Scenesse into more indications (vitiligo, XP), and add new pharmaceutical product lines (Neuracthel), as well as diversify into photocosmetics (with a broader consumer audience), explains the broker.

The Overweight rating is retained and the target rises to $31.38 from $25.46.

This report was published on June 25, 2024.

Target price is **$31.38** Current Price is **$15.38** Difference: **$16**
If **CUV** meets the Wilsons target it will return approximately **104%** (excluding dividends, fees and charges).
Current consensus price target is **$18.75**, suggesting upside of **23.6%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **7.40** cents and EPS of **61.60** cents.
At the last closing share price the estimated dividend yield is **0.48%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **24.97**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **70.2**, implying annual growth of **13.3%**.
Current consensus DPS estimate is **6.3**, implying a prospective dividend yield of **0.4%**.
Current consensus EPS estimate suggests the PER is **21.6**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **8.90** cents and EPS of **59.20** cents.
At the last closing share price the estimated dividend yield is **0.58%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **25.98**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **76.3**, implying annual growth of **8.7%**.
Current consensus DPS estimate is **6.7**, implying a prospective dividend yield of **0.4%**.
Current consensus EPS estimate suggests the PER is **19.9**.

Market Sentiment: **0.8**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

DTL DATA#3 LIMITED.

IT & Support Overnight Price: $8.32

Wilsons rates ((DTL)) as Overweight (1)

Wilsons conducts a deep dive into digital infrastructure, including the "order of magnitude" of growth that cloud computing is generating in the Australian economy, which is expected to be significantly enhanced with GenAi.

The analyst stresses the cloud has been "great" but GenAi will make it "bigger and better" with the installed base having the potential to grow three times what it currently is to 38GWs from 13GWs.

Wilsons views the Data#3 business model, which partners with major hyperscalers like Microsoft to manage and develop complex IT systems, as well positioned to benefit from GenAi opportunities, including the recent Microsoft Office 365 Co-Pilot Early Access' program.

The Overweight rating and $9.12 target price are retained.

This report was published on June 21, 2024.

Target price is **$9.12** Current Price is **$8.32** Difference: **$0.8**
If **DTL** meets the Wilsons target it will return approximately **10%** (excluding dividends, fees and charges).
Current consensus price target is **$8.13**, suggesting downside of **-2.2%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **26.10** cents and EPS of **28.90** cents.
At the last closing share price the estimated dividend yield is **3.14%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **28.79**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **28.0**, implying annual growth of **16.9%**.
Current consensus DPS estimate is **24.6**, implying a prospective dividend yield of **3.0%**.
Current consensus EPS estimate suggests the PER is **29.7**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **28.80** cents and EPS of **31.60** cents.
At the last closing share price the estimated dividend yield is **3.46%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **26.33**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **30.2**, implying annual growth of **7.9%**.
Current consensus DPS estimate is **27.1**, implying a prospective dividend yield of **3.3%**.
Current consensus EPS estimate suggests the PER is **27.5**.

Market Sentiment: **0.3**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

DUG DUG TECHNOLOGY LIMITED

Cloud services Overnight Price: $2.63

Wilsons rates ((DUG)) as Overweight (1)

Wilsons conducts a deep dive into digital infrastructure, including the "order of magnitude" of growth that cloud computing is generating in the Australian economy, which is expected to be significantly enhanced with GenAi.

The analyst stresses the cloud has been "great" but GenAi will make it "bigger and better" with the installed base having the potential to grow three times what it currently is to 38GWs from 13GWs.

While Dug Technology's primary business is in the global oil and gas industry, the analyst at Wilsons points to the potential for the company's liquid immersion business to be expanded into the cooling systems for data centres.

Overweight rating. Target price of $3.58.

This report was published on June 21, 2024.

Target price is **$3.58** Current Price is **$2.63** Difference: **$0.95**
If **DUG** meets the Wilsons target it will return approximately **36%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **0.00** cents and EPS of **2.90** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **90.69**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **5.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **52.60**.

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

SPZ SMART PARKING LIMITED

Hardware & Equipment Overnight Price: $0.47

Canaccord Genuity rates ((SPZ)) as Buy (1)

Canaccord Genuity maintains a Buy rating for Smart Parking, raising its price target to $0.70 from $0.52.

The broker notes the strong growth trajectory in the SaaS segment, with FY24 sales expected at $55.0m, down from previous estimates of $59.6m.

Despite the downgrade in sales and EBITDA forecasts for FY24/25/26, the broker maintains the company's long-term prospects remain robust due to ongoing contract wins and market expansion.

Financial forecasts have been adjusted, with FY24 EBITDA revised to $14.8m from $16.8m, and FY25 EBITDA to $20.1m from $21.8m. The broker views the recent operational improvements and strategic initiatives positively, supporting the raised price target.

This report was published on June 20, 2024.

Target price is **$0.70** Current Price is **$0.47** Difference: **$0.23**
If **SPZ** meets the Canaccord Genuity target it will return approximately **49%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Canaccord Genuity forecasts a full year **FY24** dividend of **0.00** cents and EPS of **1.40** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **33.57**.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **2.60** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **18.08**.

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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