WEEK 11

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Friday, 14 March 2025

Post Bottom, Focus Shifts To A-REITs Potential

Rudi's View: Post February Conviction Calls

Propel Funeral Partners: Defence (& Offense) In Volatile Times

CONTENTS

AUSTRALIA

1. The Market In Numbers - 8 Mar 2025
2. Australian Banks: More De-Rating Ahead?

FEATURE STORIES

3. Post Bottom, Focus Shifts To A-REITs Potential

INTERNATIONAL

4. A New Capital Cycle Is Driving US Exceptionalism
5. A Simple Way To Think About Tariffs

RUDI'S VIEWS

6. Rudi's View: Preparing For Tougher Times Ahead
7. Rudi's View: Post February Conviction Calls

SMALL CAPS

8. Future Looks Bright For Generation Development
9. Propel Funeral Partners: Defence (& Offense) In Volatile Times
10. America Not The Main Game For Brickworks
11. Codan's Growing Communications Segment
12. Eagers: Peer Outperformance & Margin Upside

WEEKLY REPORTS

13. Weekly Ratings, Targets, Forecast Changes - 07-03-25
14. Uranium Week: Capitulation Near The Bottom?
15. The Short Report - 13 Mar 2025
16. In Brief: Telcos, Gaming & Building Materials
17. In Case You Missed It - BC Extra Upgrades & Downgrades - 14-03-25

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AUSTRALIA

The Market In Numbers - 8 Mar 2025

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	08 Mar 2025	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2025)	Financial Year To Date (FY25)
NZ50	12399.780	-1.60%	-1.60%	-5.42%	-5.42%	5.82%
All Ordinaries	8178.50	-2.68%	-2.68%	-2.87%	-2.87%	2.06%
S&P ASX 200	7948.20	-2.74%	-2.74%	-2.58%	-2.58%	2.33%
S&P ASX 300	7882.30	-2.73%	-2.73%	-2.67%	-2.67%	2.26%
Communication Services	1674.30	-0.93%	-0.93%	2.88%	2.88%	11.53%
Consumer Discretionary	3893.60	-3.33%	-3.33%	-0.45%	-0.45%	10.88%
Consumer Staples	11517.10	-4.20%	-4.20%	-2.14%	-2.14%	-6.96%
Energy	7741.40	-7.45%	-7.45%	-10.22%	-10.22%	-22.83%
Financials	8283.60	-4.61%	-4.61%	-3.84%	-3.84%	8.18%
Health Care	42410.70	-0.80%	-0.80%	-5.51%	-5.51%	-4.17%
Industrials	7853.00	-1.79%	-1.79%	2.70%	2.70%	15.29%
Info Technology	2455.60	-1.93%	-1.93%	-10.41%	-10.41%	4.87%
Materials	16269.10	0.17%	0.17%	0.89%	0.89%	-3.61%
Real Estate	3592.50	-2.07%	-2.07%	-4.49%	-4.49%	0.82%
Utilities	8650.60	-4.50%	-4.50%	-4.23%	-4.23%	-6.83%
A-REITs	1643.10	-1.99%	-1.99%	-4.38%	-4.38%	1.16%
All Technology Index	3629.80	-2.12%	-2.12%	-4.61%	-4.61%	15.68%
Banks	3457.70	-4.31%	-4.31%	-4.12%	-4.12%	8.22%
Gold Index	10047.80	2.72%	2.72%	19.28%	19.28%	36.57%
Metals & Mining	5297.40	0.24%	0.24%	0.80%	0.80%	-4.56%

The World

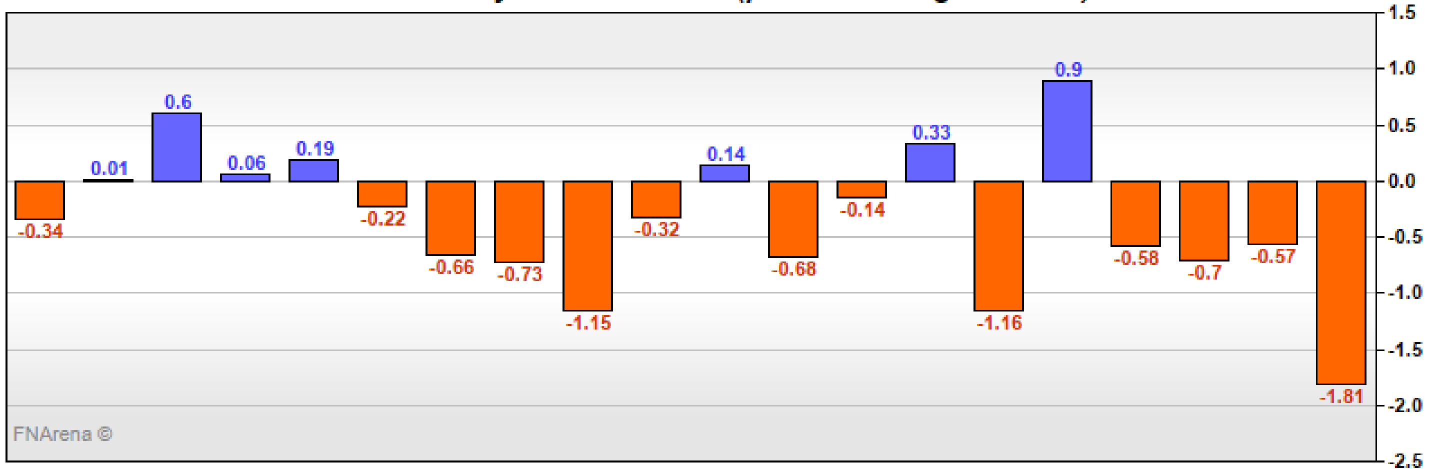
Index	08 Mar 2025	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2025)	Financial Year To Date (FY25)
FTSE100	8679.88	-1.47%	-1.47%	6.20%	6.20%	6.32%
DAX30	23008.94	2.03%	2.03%	15.57%	15.57%	26.18%
Hang Seng	24231.30	5.62%	5.62%	20.79%	20.79%	36.76%
Nikkei 225	36887.17	-0.72%	-0.72%	-7.54%	-7.54%	-6.81%
DJIA	42801.72	-2.37%	-2.37%	0.61%	0.61%	9.41%
S&P500	5770.20	-3.10%	-3.10%	-1.89%	-1.89%	5.67%
Nasdaq Comp	18196.22	-3.45%	-3.45%	-5.77%	-5.77%	2.61%

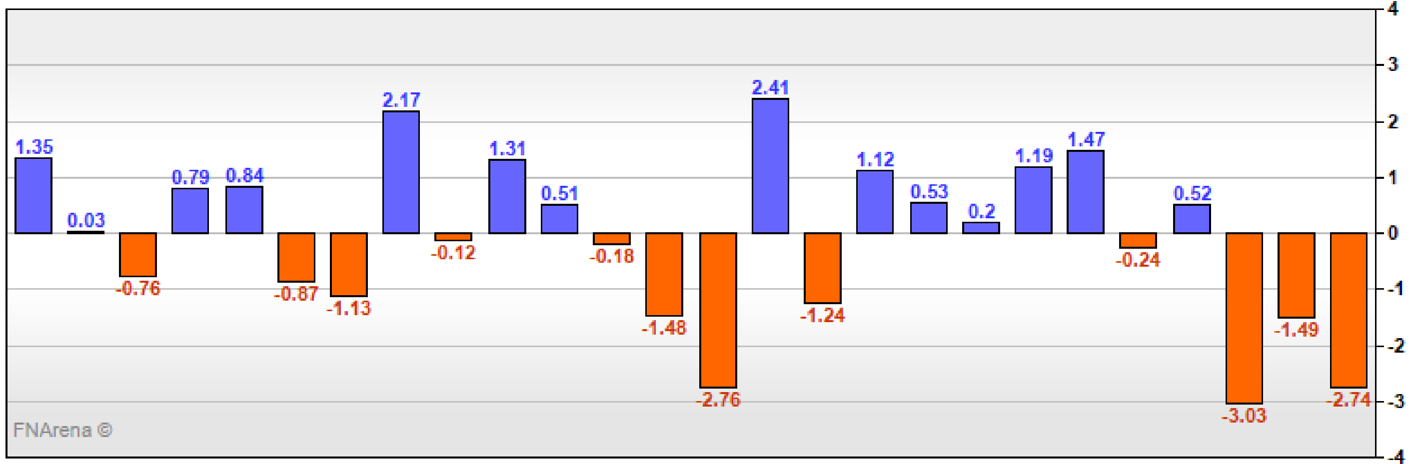
Metals & Minerals

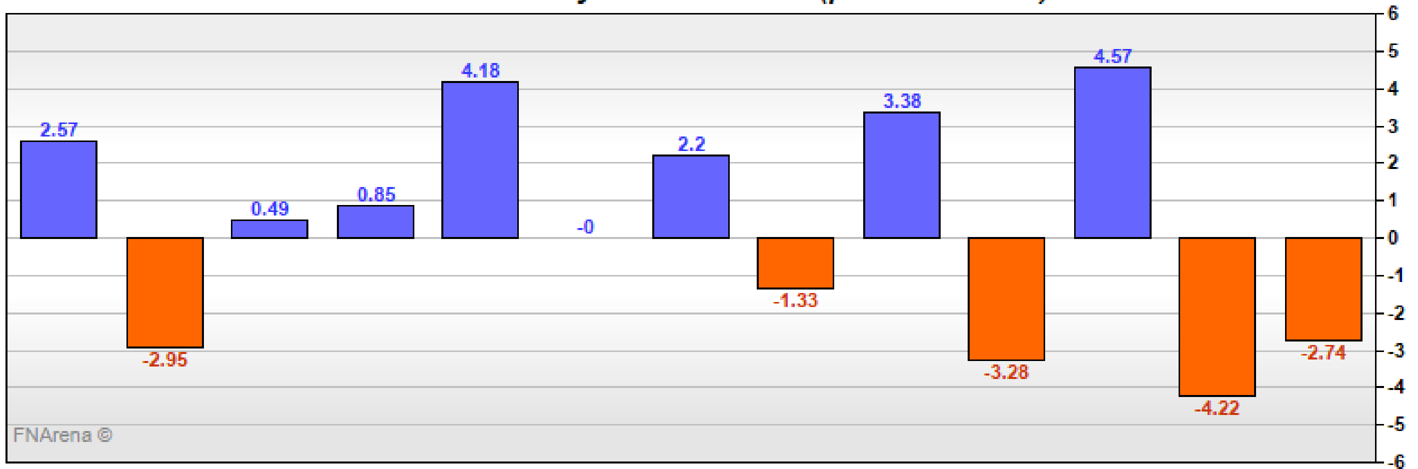
Index	08 Mar 2025	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2025)	Financial Year To Date (FY25)
Gold (oz)	2921.10	1.24%	1.24%	11.21%	11.21%	24.94%
Silver (oz)	33.19	5.37%	5.37%	9.80%	9.80%	13.45%
Copper (lb)	4.7945	4.19%	4.19%	17.04%	17.04%	10.64%
Aluminium (lb)	1.2176	2.64%	2.64%	6.52%	6.52%	8.28%
Nickel (lb)	7.0493	1.81%	1.81%	-1.34%	-1.34%	-9.37%
Zinc (lb)	1.3197	4.18%	4.18%	-2.34%	-2.34%	-0.48%
Uranium (lb) weekly	64.50	-1.15%	-1.15%	-10.42%	-10.42%	-22.52%
Iron Ore (t)	101.24	-5.45%	-5.45%	-2.50%	-2.50%	-4.95%

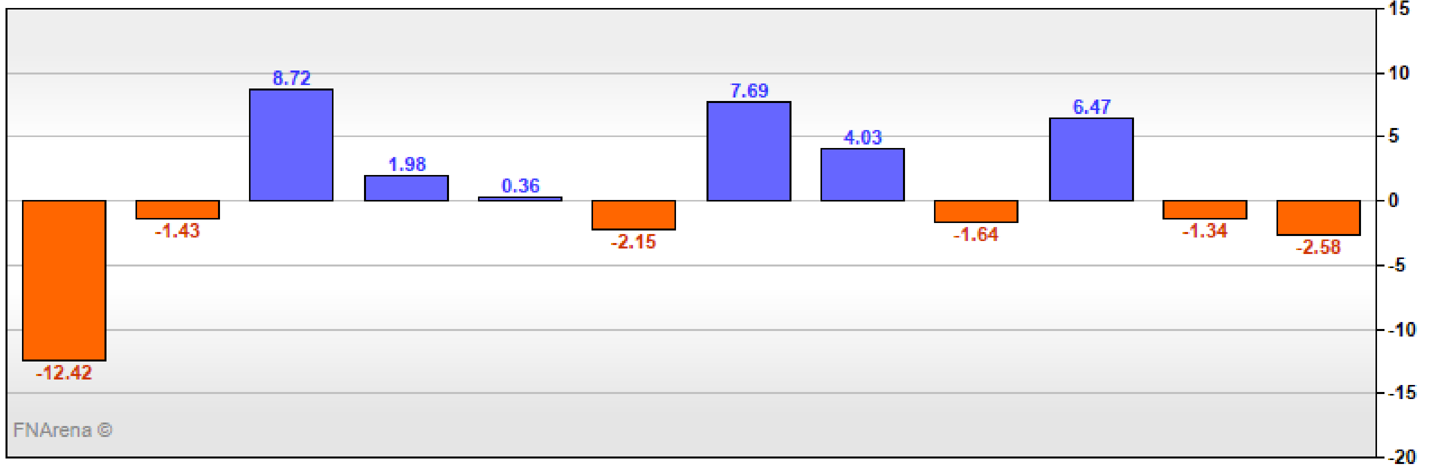
Energy

Index	08 Mar 2025	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2025)	Financial Year To Date (FY25)
West Texas Crude	66.24	-5.67%	-5.67%	-4.66%	-4.66%	-19.08%
Brent Crude	69.54	-5.21%	-5.21%	-4.16%	-4.16%	-18.61%









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AUSTRALIA

Australian Banks: More De-Rating Ahead?

Australian bank shares underperformed a weak ASX200 in February. Could this be the beginning of a long-awaited de-rating cycle?

-Banks underperformed post trading updates in Febuary
-PE multiples already considered too high prior
-Earnings risk still seen as to the downside
-Might a de-rating cycle have started in 2025?

By Greg Peel

The recent stock price correction across Australia's major banks over the last two weeks of February came as a surprise to Citi, given updated earnings performances were largely in line with expectations. One might be quick to argue, nonetheless, that banks fell in line with the market in general, as the ASX followed down Wall Street.

However, as Morgan Stanley points out, the average total shareholder return (share price move plus dividends) of the major banks fell -5.4% in February when the net ASX200 equivalent fell by only -3.8%.

Movements were mixed across the majors. Perennial outperformer Commonwealth Bank's ((CBA)) total return fell only -1.0%, Morgan Stanley notes, compared to ANZ Bank's ((ANZ)) -2.7%, Westpac's ((WBC)) -5.7% and National Bank's ((NAB)) -12.1%.

The spread among the smaller banks was even more stark. Judo Capital ((JDO)) actually grew its TSR by 0.5%, compared to Bank of Queensland ((BOQ)), down -3.9%, and Bendigo & Adelaide Bank ((BEN)) down a standout -19%.

In pure and plain naked share price movements, CommBank shares have now lost -11.5% in less than one month, with Westpac shares down by a similar magnitude, while shares in ANZ Bank and NAB both lost about -7% since.

Were the banks simply overpriced?

<u>Multiple Issues</u>

On a relative price/earnings multiple basis, the banks troughed in June 2023, UBS' Australian-based analysts note, post the collapse of Silicon Valley Bank in the US and the bail-out of Credit Suisse by Swiss compatriot bank UBS, with sentiment at a peak period of pessimism after the yield curve inverted (suggesting a potential recession ahead).

Recession fears in the US persisted through 2022 and into 2023 as inflation soared, but petered out in 2024 as US economic growth surprised to the upside.

From that trough the banks rallied from a low base, and since October 2023 the sector has been a strong outperformer, up over 30%, driven by PE multiple expansion, leaving it looking, to UBS and many others, overvalued.

Having peaked at record high PE multiple of an average 19.2x in January, Australian majors fell back to 18.2x in February, Morgan Stanely notes, or 14.5x ex-CBA.

At the start of the year Morgan Stanley suggested in its 2025 outlook report that earnings expectations and trading multiples set a very high bar for Australia's banks in 2025, with little margin for error. The sector's share price underperformance in February suggests recent results (half-year for CBA, first quarter for ANZ, NAB and Westpac) and trading updates were not good enough to meet lofty expectations or to support the elevated trading multiples.

Specifically, Morgans Stanley thought market updates fell short in two key areas: net interest margin movements were relatively small in the December quarter but the trends were weaker than forecast; and capital levels were lower than expected, leading to less conviction on the size and timing of future buyback announcements.

<u>Banks and Rate Cuts</u>

When the RBA hikes its cash rate, the banks typically pass on the hike in full to mortgage rates, but not so to deposit rates. Retirees relying on interest income have long decried this reality, but, at least as far as politicians are concerned, mortgage holders have the louder voice. Riling retirees even more this time around is the banks immediately passed on February's -25 point cut to mortgage rates, and also to deposit rates.

Lifting mortgage rates by more than deposit rates increases banks' net interest margins (NIM), the sector's earnings bread and butter which arguably protects against lower mortgage and general loan demand at higher rates, as well as possible loan defaults. Rate cuts threaten bank NIMs, while at the same time increasing loan demand and easing default risk.

It's a delicate balancing act.

Rate cuts have historically led to an acceleration in the housing market and housing credit growth, Macquarie notes. With the RBA February cut well anticipated, the housing market is already showing signs of recovery, with prices lifting in February after four months of flat-to-falling prices.

But this time it's different, Macquarie takes the risk in suggesting. It's early days, but the broker expects the macro tailwinds from rate cuts to be more muted this cycle given they have already been significantly front-loaded, a relatively modest easing cycle is likely ahead, and borrowers already face very stretched housing affordability.

Indeed, Macquarie forecasts housing credit growth to moderate from around 6% (annualised) to around 5.6% by the end of 2025. The early response from the housing market nevertheless suggests some upside risk, the broker admits.

It must be said that for several years now, economists have clearly underestimated the upside for Australian house prices and mortgage demand in both positive and negative economic climates, while clearly over-estimating house price falls during negative times.

It also must be noted an RBA rate-cutting cycle that many have been hoping for for some time, and for many is still assumed, may not be a given. Inflation has come down but is struggling in the "last mile", while unemployment remains stubbornly low, as far as the RBA is concerned.

Looking (with trepidation) across the Pacific, the US Federal Reserve delivered two rate cuts (or three on a -25 point basis) and many more were expected. But now the Fed is on hold due to fiscal policy uncertainty, notwithstanding the US CPI actually ticked up in January, which can't be blamed on Trump.

The RBA flagged at its last meeting, which delivered a -25 point cut, it is likely on hold now as well.

One driver of inflation that refuses to fall as fast as hoped, on either side of the ocean, concerns insurance premiums. The dominant driver of rising premiums is the cost of major natural catastrophes. It is feared Tropical Cyclone Alfred may yet prove Australia's most costly event more so than the devastating 2019-20 bushfires given the sheer population density impacted. In the US, the Los Angeles fires are a similar case in point.

Mortgage Amortisation

When the RBA cut rapidly to as good as zero during covid, a record number of Australians locked in record-low fixed mortgage rates being offered in desperation by the banks. But they did not necessarily reduce their weekly payments commensurately, meaning they could pay back their mortgages faster.

This "mortgage amortisation" weighed on credit growth, Macquarie explains, another headwind to bank earnings in a rate-cutting cycle.

But if we are in another "cycle", will the same be the case this time? Possibly not, says Macquarie. Headwinds will likely be smaller this cycle given cost of living pressure and record-high mortgage repayments, hence more households may reduce repayments this time around.

Indeed, the media has reported that bank call centres have been flooded with customers seeking to reduce their repayments in the wake of the RBA cut. If around 50% of borrowers were to reduce their repayments to the minimum, it effectively reduces the drag on credit growth from lower rates, Macquarie notes.

Not all banks automatically adjust minimum repayments. Customers of ANZ, CBA and NAB will all need to contact their bank to reduce their repayments, while Westpac customers who are already making the minimum repayment will have their repayments automatically reduced to the new minimum. Macquarie estimates over 40% of customers might be making minimum repayments.

Another balancing act for the banks.

Downside

Over the next year or so, the bank sector faces several headwinds, Citi warns.

Net interest margins are likely to compress as funding costs are likely to remain high. Relief from easing default risk as rates fall may not eventuate if RBA rate cuts are gradual and households continue to face cost of living pressure.

Another headwind, Citi suggests, is attention needs to be paid to bank capital positions. The recent reporting season showed bank CET1 ratios below expectations, which brings into question the capacity for future share buybacks and/or dividend payouts.

Overall, Citi sees downside risks to consensus earnings forecasts, which may make it hard for banks to outperform, especially given current lofty valuations. The broker maintains an Underweight view on the sector and expects stock prices to remain under pressure as downside catalysts play out.

As noted, Morgan Stanley believes the banks' latest results were not good enough to meet lofty expectations or to support elevated trading multiples. This broker too retains a negative stance on the major banks and expects them to underperform the ASX200 in 2025.

With bank earnings upgrades potentially reaching their end, even ahead of the impact of lower rates, it appears to Macquarie the long-awaited de-rating of the sector may be here.

Hindsight is a wonderful thing, the broker admits, but looking back, this de-rating was long coming given stretched valuations, limited-to-no earnings growth, and crowded positioning (especially for NAB and Westpac), which ultimately led to outsized share-price moves relative to earnings.

Following the RBA's expected February rate cut, Macquarie expects the market to continue to focus on margin expectations, which the broker believes are too high and likely to lead to further share-price headwinds.

Macquarie sees further downside risk to consensus earnings and margins in FY26 as the impact of rate cuts flow through to margins.

(CBA's FY25 ends in June, the other three in September.)

FNArena Major Bank Data					**FY1 Forecasts**				**FY2 Forecasts**			
Bank	B/H/S Ratio	Previous Close $	Average Target $	**% Upside to Target**	% EPS Growth	% DPS Growth	% Payout Ratio	**% Div Yield**	% EPS Growth	% DPS Growth	% Payout Ratio	**% Div Yield**
SUN	3/3/0	19.30	20.55	**6.46**	2.0	2.4	83.0	**4.9**	2.4	- 11.7	71.6	**4.3**
JDO	3/2/1	1.93	2.15	**11.23**	23.3	N/A	0.0	**0.0**	53.7	N/A	0.0	**0.0**
MQG	2/2/1	208.09	225.71	**8.47**	7.2	- 2.3	63.6	**3.0**	12.7	15.3	65.1	**3.5**
NAB	1/1/4	34.24	33.12	**- 3.29**	- 0.1	0.7	75.8	**5.0**	1.4	0.0	74.8	**5.0**
WBC	1/0/5	30.54	29.70	**- 2.74**	- 0.9	- 6.6	77.9	**5.1**	1.9	1.4	77.5	**5.1**
ANZ	0/4/2	28.75	28.17	**- 2.03**	7.5	3.6	73.4	**6.0**	1.0	0.4	73.0	**6.0**
BEN	0/2/3	10.38	10.49	**1.06**	- 16.0	- 1.8	76.4	**6.0**	- 2.3	0.6	78.7	**6.0**
BOQ	0/1/5	6.43	5.90	**- 8.29**	18.6	3.7	68.5	**5.5**	14.4	9.7	65.7	**6.0**
CBA	0/0/6	148.68	107.46	**- 27.73**	7.6	3.4	78.8	**3.2**	3.3	3.2	78.7	**3.3**

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FEATURE STORIES

Post Bottom, Focus Shifts To A-REITs Potential

After a long period of post-covid underperformance, analysts believe we are at or near a trough for the listed real estate sector.

-Cap rates up and valuations down in REIT sector
-Recent outperformance in falling market
-Transaction activity picking up
-Analysts calling the trough

By Greg Peel

In the two and a half years to December 2024, listed real estate investment trusts (REIT) have expanded their cap rates by 47-140 basis points depending on asset class, while valuations have declined as much as -26% in Office. Morgan Stanley thinks the revaluation cycle has bottomed, and this could be a timely period for equity investors to consider the Real Estate sector.

In simple terms, the capitalisation or cap rate is the ratio of net income on a property (rent less expenses) divided by the current value of that property. It is not a black-and-white measure, as while a higher cap rate appears on the surface to be good, if it reflects a weaker property valuation rather than rising rent, it is not so good. Just as a high dividend yield may result from a falling share price.

Typically, high cap rates are considered a concern, reflected in weakness in the REIT sector over the past high inflation, high interest rate period.

The Australian REIT sector weakened -4.2% in February, over the result season period. But there are two caveats. Firstly, the market in general suffered a Trump-led downdraught, and secondly if we remove Goodman Group ((GMG)) which has by far the biggest market cap in the sector, daylight second the REIT sector actually rose 0.6%, Jarden notes.

But volatility was excessive within the sector (as it was elsewhere too). Of the listed REITs under Jarden's coverage, fifteen saw share price moves over the month of more than 5%. Many share price reactions far exceeded changes to earnings forecasts following results, Jarden notes.

The ongoing market sell-off had REITs down -2.7% in the first week of March, but the sector outperformed the ASX200 by 80bps. As stock markets sell off here and in the US, there has been a flight to safety into bonds, pushing down yields. This has eased the pressure REITs have suffered ever since the post-covid inflation surge.

Trough?

One of the key concerns in A-REITs since mid-2022 has been cap rate expansion and associated decline in asset valuations, Morgan Stanley notes, especially on the back of rate hikes and ten-year bond yield escalations. This broker believes it is under-appreciated that in the stocks under its coverage, Industrial cap rates have expanded 140bps since June 2022, Office valuations have declined -26% since June 2022, and all Retail portfolios resumed positive revaluations in the December 2024 half.

As physical valuations start to recover, investors may see improved relevance of the price to net tangible asset (NTA) valuation multiple for asset-heavy REITs, Morgan Stanley suggests. Value-biased investors could see attraction in stocks trading at discounts to NTAs.

But investors should take note as stocks currently trading at the greatest discounts are those that have the greatest fundamental cash earnings concerns. The broker singles out Dexus ((DXS)) and Centuria Office REIT ((COF)) due to Office incentives, and HealthCo Healthcare & Wellness REIT ((HCW)) due to Healthscope uncertainty.

There are growing signs we are at or close to a trough in NTA and adjusted funds from operations (AFFO), Jarden notes. With the first rate cut occurring during the earnings season, it was no surprise all REITs flagged a more constructive outlook for earnings and NTA going forward. Jarden agrees cap rate expansion is largely behind us, which should drive NTA growth.

The outlook for AFFO depends a little on how close individual REITs are to the marginal cost of debt but Jarden suggests the growth profile for the sector is improving, and earnings per share (EPS) growth should exceed earnings before interest and tax (EBIT) growth from FY27 onwards.

More REITs are trying to move from playing defence to playing offence and, based on Jarden's forecasts, earnings momentum should improve from here. However, there is still a strong divergence in REITs' abilities to do so.

Given the dominance of Goodman Group in the sector, both in terms of market cap weight and growth expectations, Jarden has analysed growth potential for the sector both with and without Goodman. Analysis suggests, assuming the bank bill swap (funding cost benchmark) futures curve does not move up from here, the earnings outlook has reached a trough and should accelerate further from FY25 onwards, and headwinds from rising weighted average cost of debt should slowly diminish.

Office

The hardest hit segment of the REIT sector in recent years has been Office. A combination of covid lockdowns leading to requisite rent relief, the subsequent work-from-home trend reducing office space demand, and rising interest rates in the post-covid inflation boom have hit the segment hard.

Asset values in Australia have troughed in Morgan Stanley's view, and Office is at or near a trough. As a result, property fund managers, which have been hampered in the last two-three years by increased gearing, valuation uncertainty and slower funds inflows, are likely to have better momentum in 2025.

Morgan Stanley has identified the patterns of buyers of the $70bn-odd of Office transactions in Australia from 2019-24 and believes we could be at the start of a period in which capital inflows into Australian commercial real estate will ramp up.

Office capital flows are insightful to track, the broker suggests, given it has traditionally been the most liquid sector. 2019 saw $23bn of assets transacted; the largest in a single sector in a year. The number dropped down to just $5.2bn in 2023.

2024 saw a recovery $9bn of deals, which was mostly driven by opportunistic offshore buyers, Morgan Stanley notes, in particular Asia-based groups. This volatility, against a backdrop of around -20-25% asset devaluations over the past two-three years, means that Office is perhaps the bellwether for confidence and funds flows into Australian properties.

Property Fund Managers

Jarden has updated its analysis of asset under management (AUM) growth for REIT fund managers following the December half results to assess what is currently priced in by consensus. AUM growth is still under some pressure from negative revaluations and asset disposals, the broker notes, although the long anticipated pick-up in transaction activity is starting to emerge and Jarden believes future acquisition opportunities should drive an ongoing re-rating across the group.

Jarden finds it interesting to see the significant valuation discrepancy between dedicated listed REIT fund managers. Goodman Group (which is also a fund manager) and HMC Capital ((HMC)) continue to trade at premiums, but this has reduced somewhat following recent underperformance. Despite strong outperformance year to date, Charter Hall Group ((CHC)) looks the most attractive to Jarden from a valuation point of view, given a strong track record of assets under management (AUM) growth in the previous cycle.

Over the five-year period to December 2024, fund managers Goodman Group, Charter Hall, GPT Group ((GPT)) and Centuria Capital Group ((CNI)) combined have added $86.7bn of AUM, at a compound annual growth rate of 14.2%, to reach an aggregate total of $178.6bn of AUM. The rate of AUM growth clearly declined through FY23-24, driven mainly by negative revaluations and a slowdown in transaction activity.

Jarden feels the sector is at or close to the trough in asset valuations, and has factored this theme, together with an improvement in transaction and development activity, within its outlook for the sector. Over the next three years to December 2027, Jarden forecasts AUM across this group of fund managers will grow 40% at a CAGR of 11.9%.

Jarden has not yet captured HMC Capital and Dexus in its historical analysis due to inconsistent history, but adding these entities contributes a further $26.4bn of forecast incremental AUM over the next three years to December 27, driven primarily by HMC Capital's strong growth targets.

As asset values and cap rates improve, this should be followed by escalation in transaction volumes, Morgans Stanley suggests, and therefore an uplift in fees and AUM for companies that facilitate capital flows. Charter Hall remains this broker's preferred exposure for investors seeking earnings leverage to asset valuation and uplift in transaction volumes.

In the small cap space, Morgan Stanley's preference is for Centuria Capital. Both REITs are looking to launch new products by the end of 2025 to capitalise on the bottom of cycle, with Charter Hall looking at a Convenience Retail, and a Diversified fund, while Centuria is planning two new listed REITs.

The Wider Sector

Citi hosted a group of Australian listed corporates, and met with both investors and global peers discussing key trends in global real estate fundamentals.

The conclusion was Australian real estate is benefitting from GDP and consumer spending growth, underpinned by immigration and underlying consumer resilience. This, together with reducing or limited development supply across various property sub-sectors, is creating improving fundamentals.

Retail is benefitting with high occupancies, escalation momentum and positive leasing spreads, participants noted. Industrial remains attractive given low vacancy and development discipline with limited speculative development.

Office has been the laggard sector in recent years, but management teams seem more confident we are at or

close to the bottom in fundamentals, with the potential for improvement moving forward. Residential continues to benefit from significant under-supply of housing in major cities.

As noted, Goodman Group is both the biggest stock in the REIT sector and was the biggest drag over February. From late January to early March, the stock has lost -30%. Some might opine, Goodman shares had arguably become overvalued and overcrowded, driven by the global AI frenzy.

Goodman falls into the Industrial segment and, in recent times, the Logistics sub-sector, which rode a boom in distribution centres required for the rise of online retail. Then it moved into data centres, which were already seeing growing demand before AI suddenly appeared.

Citi's conference found data centre development at attractive yields on cost is a key theme across listed real estate. The recent interest rate cut is expected to improve finance costs and valuations with stabilising cap rates.

Amidst the positivity there was nevertheless recognition there are still REIT headwinds from high construction costs, operational cost inflation and differing property taxes across various states. Citi concludes investors were generally positive on underlying fundamentals, but cautious on macro environment uncertainty and implications of global tariffs.

Funds management remains a key theme to create asset-light earnings growth with companies pursuing differing strategies differentiating themselves from competitors.

Jarden continues to like Residential and prefers Stockland ((SGP)) and Ingenia Communities Group ((INA)) but believes Mirvac Group ((MGR)) should see a strong earnings trajectory as well beyond FY25. Lifestyle Communities ((LIC)) is starting to look oversold, Jarden suggests, but may take longer to recover.

Jarden prefers Vicinity Centres ((VCX)) over Scentre Group ((SCG)) in retail malls. The broker thinks weakness in Goodman is overdone, and also believes Charter Hall offers the most earnings recovery among fund managers.

In passive REITs, Jarden suggests weakness in Arena REIT ((ARF)), National Storage REIT ((NSR)) and Region Group ((RGN)) is creating opportunities assuming management teams at these REITs can continue to execute.

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INTERNATIONAL

A New Capital Cycle Is Driving US Exceptionalism

By Robert M. Almeida, Jr., Portfolio Manager and Global Investment Strategist, MFS Investment Management

In brief

-Economic forecasting is challenging, but understanding the capital cycle can help
-Led by investment in AI, the US has embarked on a new capital cycle
-The result is a shifting landscape of likely industry winners and losers

While equity market forecasters are wrong about half the time, they tend to have a higher success rate than economists, who predicted a US recession in 2024 and inflation falling back to 2%.

More recently, the latest US labor report showed that the number of new jobs created in December blew past consensus forecasts by more than 3 standard deviations.

Why is economic modeling so hard?

Economic forecasting warrants a stronger adjective than hard. Its exceptionally challenging and complex. While several factors are at play, at its core, gross domestic product isn't a static measure like wealth, enterprise value or stock market capitalization.

Instead, GDP captures the dynamic flow of capital within an economy, meticulously tracking expenditures their magnitude, location and source and comprises many variables moving in conflicting directions.

As a result, the aggregated data streams used in economic modeling can sometimes make a change in trend or direction hard to see. Seemingly small or immaterial data points are often underemphasized if not overlooked.

Often the most critical datapoints, such those that mark the end or beginning of meaningful directional changes in the flow of capital, reveal themselves years later as important inflection points.

This is where a bottom-up approach may complement a top-down forecast.

Getting at the economic cycle through the capital cycle

The purpose of capital markets it to bring together society's savers, those seeking returns above cash yields and those with ideas but in need of funds. In exchange for capital, entrepreneurs are willing to give up some of the potential spoils.

Since capital is allocated in accordance with the potential utility and risk of the project, where capital is being allocated to and from signals where the private market sees growth and contraction.

For example, we can observe this in the very long but weak business cycle following the 2008 financial crisis. Households and banks undertook balance sheet repair that warranted years of austerity and deleveraging that deflated economic growth.

With anemic revenue growth, developed market companies only added to the malaise by offshoring, which lowered spending and expenses.

With deflation risks mounting, central banks rekindled a capital cycle by artificially suppressing borrowing costs. While a new capital cycle was borne, it wasn't the one many had hoped for, fueled by tangible fixed investment.

Instead, newly created capital was cycled to shareholders via dividends and stock buybacks, culminating in one of the longest economic cycles in decades, one that produced immense wealth for many equity owners.

So where is capital flowing today and does the answer to that question explain the current state of US

economic exceptionalism? More important, can it give us insight into the future?

The capital cycle now and why it matters

A lot of goods consumed in the US, including many related to national security, are manufactured outside the country. As a result, companies haven't had to create tangible capital because China has done it for them to the benefit of shareholders.

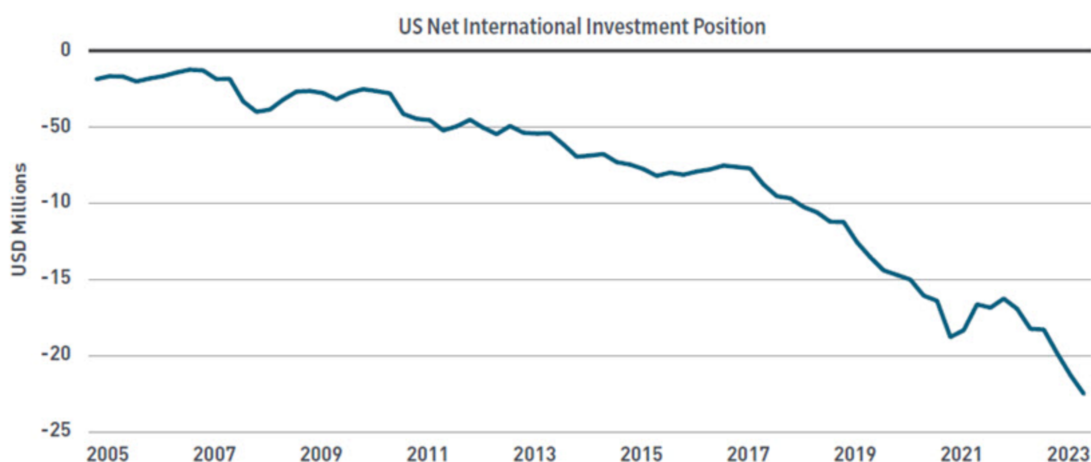
However, in recent years, the combination of COVID, rising geopolitical tensions and prospects for future tariffs has brought about a shift. An efficient, low-cost system is being exchanged for one where products are produced more simply and closer to home.

Following many years of US corporate capital expenditures falling relative to sales, today it's reversing. A new capital cycle has emerged, but this is only part of the narrative.

Since the US is the primary home of artificial intelligence, it's sucking up the world's investment capacity.

The exhibit below illustrates the net level of US international investment (the difference between US residents' investments abroad and foreign investment in the US). At -US$22 trillion, it's more than quadrupled since the runup to the global financial crisis.

Exhibit 1: Foreign investors find the US exceptional



Source: Bloomberg, International Monetary Fund (IMF). Quarterly data from 31 December 2005 to 30 June 2024 (latest available).

The investment needs associated with the AI ecosystem are massive. While there are over 8,000 data centers globally, the bulk are in the US. Think of these as AI factories that turn energy and data into human-like outcomes.

The physical and capital needs for data centers alone, never mind that the demand for cooling, power and the like are enormous.

This shifting use of capital helps explain US exceptionalism and perhaps supports the notion that the recent US labor report shouldn't have been as surprising as it was.

The capital cycle of the 2010s deflated cost and produced very little economic growth but fueled huge profits and wealth for stock owners. That capital cycle has ended. Today's cycle is different.

It's inflating costs (equipment and labor), driving growth, US exceptionalism and higher interest rates. What remains to be seen is how this will affect profits and thus stock prices.

Future profits and equity returns

US profits are high as companies have been able to maintain the elevated prices from the COVID stimulus period. Additionally, investors are enthused by the prospect of future corporate tax cuts and continued superior US GDP growth and extrapolate those into continued earnings gains.

While that's a possibility, the changing capital cycle points to a potentially different outcome. Recent investments have already produced new products across varying industries. Increasing supply, particularly that comprising goods better or cheaper than existing ones, challenges the pricing power of incumbents and forces them to invest more. Lower prices and higher costs are a high hurdle for companies to clear, which is what the prices of most stocks imply today.

Take consumer goods. Traditionally, brand power has been a substitute for consumer due diligence, and it has delivered market share and profits. AI has changed that.

An online query via a common search engine leads you to products with large advertising budgets, but large language models (LLMs) will go further, cutting through marketing noise and delivering goods tailored to consumers.

LLMs will become a workhorse for the consumer by reading what industry experts have to say, checking out every customer review, etc. In other words, AI will give consumers agency, posing immense challenges and bringing changes across multiple industries, potentially disappointing the very high expectations of investors today.

Conclusion

There has been a substantial change in the capital cycle. Instead of funding dividends and buybacks, many companies are funding tangible projects. While that could mean more growth and inflation, it would also mean a whole different set of winners and losers.

Looking ahead, stock market leaders will likely be those companies insulated from competition with the ability to protect profit margins. Laggards will likely be those susceptible to ankle-biters forcing change.

Like generals fighting the last war, benchmarks are positioned for a paradigm of the past, not the future. We think that forward-looking active managers who employ a capital cycle lens will outpace the pack

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Technical limitations

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

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INTERNATIONAL

A Simple Way To Think About Tariffs

MFS' Robert Almeida unearths a simple, common sense equities investment focus when tariff risk is on the rise.

In brief

-Investing is simple but hard
-Who pays? The consumer or the producer?
-Businesses with low competition offer insulation

By Robert M. Almeida, Portfolio Manager and Global Investment Strategist, MFS Investment Management

For manufacturers in developed markets, the allure of higher margins driven by low-cost manufacturing in far-away places fueled a multi-decade period of globalization. The result, of course, is a vast, highly integrated network of supply chains whose complexity, I think, is just being recognized by market participants.

Take a simple pair of jeans as an example. While some US producers source cotton locally, most denim comes from China, India and Pakistan. For some premium pants, materials come from Zimbabwe, Turkey and Egypt. A lot of coloring is done in China and Germany and the zippers come from Japan. While there is more to it, you get the idea.

Investing is simple but hard

Taking a step back, let's remember that investing is simple but hard.

Simple because the range of potential cash flow outcomes for a business drives both its stock price and its volatility. The hard part is the future is uncertain and profits assumptions change, sometimes radically, when new information emerges.

In recent weeks, the combination of tariffs and policy uncertainty, along with a growing realization of the complexity of global supply chains, has raised doubts over future profits and increased volatility.

Is there a simple way to think about this risk factor?

Who pays? The consumer or the producer?

The word tariff is derived from an Arabic term which means "to notify" and was used in reference to customs duties approximately 1,000 years ago. Think of them simply as a tax or a toll.

While investors and market commentators are wrestling over possible economic outcomes, they should be concerned with financial outcomes. Somebody must bear the burden of this new tax.

Since stock prices are derived from profit outcomes, the only question that really matters from an investment perspective is who pays the tax, the consumer or the producer?

Producers of goods with low demand elasticity can pass along price pressures to their customers. The reasons for the inelasticity include limited substitutes and superior quality. Whatever the reason, that economic moat affords the producer the ability to pass the tariff on to their customers. In this scenario, the consumer bears the burden, which is inflationary and growth depleting as there are fewer resources to go around.

Conversely, for goods that are price elastic because of viable substitutes, the additional cost burden falls to the producer in the form of margin compression.

While financial markets have increasingly been discounting the tariff impact on companies, there are likely other variables at play. I think the reality will be a mix of both, where customers pay the tax on things they cannot do without and producers with duplicable goods disappoint investors with profit weakness.

How might we think about this from a portfolio construction perspective?

Businesses with low competition offer insulation

Since we live in a capitalist world, where entrepreneurs seek returns and are always looking to disrupt, businesses with above average but also durable profit profiles do things that others cannot.

High barriers to entry, whatever they may be, keep competition low and profit margins high. We have always felt, for example, that the producers of tools and equipment that sell to life sciences companies embody these characteristics.

These are the pickaxes and shovels of the life sciences and have historically been the best businesses in health care. They sell instrumentation, related consumables, services and other products to pharma and biotech companies, hospitals, laboratories, academia and governments.

Their tools measure, separate, purify, quantify and diagnose. They're mission-critical across a range of projects from drug development, clinical trials, biomanufacturing and many more.

Keeping it simple, their business model is akin to the razor/blade model. They sell an instrument with a useful life of five to 10 years that requires the repeated purchase of consumables and service contracts.

These are long-cycle businesses given the multi-year process it typically takes to bring a therapy or drug to market. Their customers, who care very much about quality, are willing to pay a bit more to ensure quality and reliability for something that is relatively low cost compared with the large expense of the broader endeavor.

While they too have complex global supply chains, and costs will rise as a result of the tariff war, the mission-critical nature of what they offer, combined with the trust their customers have in their goods, may insulate them from substitution risk, something that other industries lack.

We can make a similar case for electrical equipment companies who manufacture components for use across broad industrial end markets such as artificial intelligence infrastructure, energy and power transmission, electric vehicles and other secularly growing industries.

The risk of substituting a cheaper good to save a few dollars often isn't worth the relationship risk to these large and wellfunded customers.

Conclusion

While we don't know Socrates' exact quote about knowledge, I've always liked the version that reads "All I know is that I know nothing, and I am not quite sure that I know that."

Even if we knew the precise level of tariffs, the complexity of supply chains renders trying to gauge the downstream effects on the economy difficult, if not impossible. At least, I think that is what Socrates would believe, and if so, I agree.

Instead, let's put our energy towards understanding which businesses will be able to absorb the levies and which will not. Because that's what will determine stock outcomes, and isn't that what we as fiduciaries get

paid to do?

I think the current environment will bring forward a paradigm shift to the value of discretionary portfolios with fundamental underpinnings.

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RUDI'S VIEWS

Rudi's View: Preparing For Tougher Times Ahead

In this week's Weekly Insights:

-Preparing For Tougher Times Ahead
-Invitation To FNArena Subscribers & Readers
-On The Money Puzzle Podcast

By Rudi Filapek-Vandyck, Editor

Preparing For Tougher Times Ahead

A little over four months since the 2024 presidential election and circa seven weeks after Donald J Trump was sworn in as the 47th president of the USA, financial markets are grappling with the realisation this new administration is not simply about getting rid of red tape and lowering taxes.

There's a much more radical strategy that is being rolled out, making America more isolationist and American businesses home base-focused. Forcefully unwinding 80 years of trading and investing globally will never be a rapid and smooth process.

Can it 'work' in the way the Trump administration thinks it should?

One of my favourite expressions, one I often use in relation to central bank policies and specific economic initiatives is: in theory, there is no difference between theory and practice. In practice, however, there almost always is.

It's quite popular among investors these days to mock all those forecasts that economic recession and a savage bear market would be the result of never-before-witnessed central bank tightening but the consensus recession never arrived and the brief bear market for Quality, Growth and Technology stocks that did eventuate has long been forgotten about as these stocks rallied to fresh all-time highs by late last year.

Both economists and financial markets have an abysmal track record when it comes to accurately predicting the future, but one thing cannot be ignored or denied: markets don't like uncertainty.

Right now, there are very few matters that remain set in stone or that can be relied upon with 100% certainty.

To a very large extent, this is of the US president's own making as we all know he likes the broad media attention, as well as creating chaos to leave everyone else guessing about his next possible moves, and thus there are no guarantees left for financial markets looking for clues and likely outcomes.

The one question that remains on my mind is how much of a backflip, and how many backflips, will follow once protests in the streets reach enough members of Congress and inside this administration as many actions and inititiatives will hurt US businesses and households hard and, frankly, they often seem to make little sense, also taking into account many US citizens that will be feeling the pain voted for Trump at the November election.

Even more important, the radical change that is being forced upon the US economy has never been attempted before. There is literally no historical precedent.

Sure, there have been times when the US, and other countries, actively applied and relied upon tariffs, but that never before has occurred in the context of weening the entire economy away from international trading.

No precedent means there's no historical framework investors can rely upon for what's coming up next. Are

tariffs inflationary? They can be, assuming consumers simply keep buying irrespective of higher prices. They can also be deflationary if higher prices have the opposite effect.

Pick your pick. It is well possible that inflation comes first, then the economic slow down and deflation.

Constant messaging by the US administration that plans and implications have been well-thought through and offer no surprises will only harden the market's anxiety that things may well become a lot worse first.

No surprise thus, the overall climate for US equities, and in Australia as well, has deteriorated in recent weeks. Gone are the widespread enthusiasm and forecasts of yet another year of positive return.

Right now the mood is Risk Off and general anxiety revolves around how low can these markets fall?

How we respond to this change in the overall climate and direction of the share market is very much a personal choice. One school of thought tells us anything nefarious will prove to be but temporary.

History shows things always get back on the right track, as that's the scenario that always plays out, even after global wars, financial system meltdowns and severe economic recessions.

The flipside is, of course, there are plenty of stocks around that never recovered from the Nasdaq meltdown (25 years ago), or from the GFC (18 years ago), or more recently the covid lockdowns (4-plus years ago).

Plus it can take many, many years to make up for the fall in capital value of our investments in case markets do experience a deep and prolonged bear market.

The other factor to note is it is one thing to look back at history and conclude troubled times never last, it is a complete different experience to be in the thick of market turbulence and see the dollars flying off one's investment portfolio.

Who really has the stomach, and the confidence, if given the choice?

Others prefer to simply sell out and retreat to the sideline. After all, if you're going to panic, you better do it early and capital preservation, for most among us, is not a luxury.

This strategy is not without its pitfalls either. Plenty of examples around of investors who miss the turnaround or who are misled by the next bear market rally and end up being worse off.

Some investors who had abandoned investing in the share market back in 2020 only returned last year. Confronted with the same dilemma, after having missed out on the strong gains in between, surely those investors must be thinking this is getting all too hard?

The way most humans operate, having no skin left in the game it usually doesn't take long before general interest wanes and finds something else to focus on.

But investing is like playing golf. If you want to retain any chance of success, you must continue to focus and practice, even during the down times.

All bear markets present long term opportunities, but to grab such opportunities, and leave as little to plain good luck as possible, it's probably best investors continue to research and prepare, and resort to that rather rare commodity: patience.

The market does what it does and does not care about our goals, strategy or level of experience.

The first thing to make sure is to reduce our own anxiety. Having sleepness nights is never a recipe for throughtfull actions and success.

Which is why my personal strategy consists of cleansing the portfolio by getting rid of the duds, the disappointments and the less reliable performers.

This, by the way, is the complete opposite of what most investors do when confronted with these tougher-outlook dilemmas.

They sell the winners in order to save the profits that were made. This is why we see bigger share price falls in last year's winners. At least, this is what happens in the first phase.

As not every sell-off or downturn follows the same script, and given nobody is familiar with mass-tariffs and their impacts, we can only speculate exactly how the script for 2025 unfolds, but a few general rules might well apply:

-if this is the start of a prolonged Risk Off period, solid, dependable, cash generating, lowly indebted, higher quality businesses will prove their mettle, eventually

-Risk tends to show up during Risk Off periods, meaning cyclicals are ultimately hit harder and large cap companies outperform their smaller cap peers

Regarding the latter: if there's one lesson to draw from the February results season just concluded it is smaller cap companies are much more likely to disappoint when the operating environment is tough and challenging.

A second conclusion from February is that a tough environment means companies in struggle most likely continue to struggle.

Regardless of what we all had in mind in January, February and now March are signalling the likelihood of rough(er) and tough(er) times ahead.

In my playbook now is the time to be more cautious, not necessarily to panic, but to make sure we sleep at night and we prepare for better times ahead.

In the end, all this might eventually not generate the outcome we are preparing for, like Tropical Cyclone Alfred this month, but we cannot be sure about these things in advance.

So... dial back on the risk taking, lower the overall risk profile of the portfolio, have cash on the sideline, be patient and don't lose interest. Take heed of the lessons from historical precedents and from February results.

The **FNArena-Vested Equities All-Weather Portfolio** has over the past decade never gone 100% in cash, but being more conservative and having cash on the sideline has more than once proven its utility and value, like in 2020 and during 2022.

These are times to hunker down rather than speculate on tiny specs and hope for the best. The Portfolio includes a standard allocation to gold (ETF) and sturdy, trustworthy dividend payers, which currently include Telstra ((TLS)), HomeCo Daily Needs REIT ((HDN)), and Dicker Data ((DDR)).

The change in general climate, after a disappointing February, has already triggered revisions and a rethink by market strategists and analysts at Goldman Sachs and Ord Minnett, to name but two. More about those changes in Rudi's View follow up on Thursday.

I have equally made a number of changes to my curated stock selections, as also highlighted on Thursday last week.

One of my personal disappointments in Febuary came from **Integral Diagnostics ((IDX))**, a tie-up with Capitol Health that should take out joint synergies and see profit margins increase further as the business scales up, but February arrived too soon for such benefits to show up.

So instead of starting what seemed like a pre-determined, multi-year growth story, the share price tanked by some -28%.

In light of the level of disappointment, which was in the single digits and nowhere near the level of punishment received, and the outlook for the company and the industry overall domestically, the market's response looks well overcooked.

Let this be yet another reminder to us all: smaller cap companies do represent higher risk.

Not only because smaller setbacks can have a relatively larger impact on their operations, but also because less liquidity in the share price and less familiarity among investors can easily lead to outsized outcomes; in this case to the downside.

As also highlighted last Thursday, healthcare analysts don't think the investment thesis has now been invalidated.

Some analysts have made Integral Diagnostics their number one favourite for healthcare sector exposure on the ASX.

Stock Analysis shows all seven brokers actively covering the company rate it a Buy with price targets set well above that beaten down share price.

All of a sudden there are market rumours too that private equity is now eyeing the company.

Integral Diagnostics will remain on my personal radar, but to be selected and included in my curated lists requires a higher level of dependability and performance. After all, a label of higher Quality cannot just be handed out to every company with favourable growth potential.

Not to mention the general context right now. Hence, why Integral Diagnostics might well still enjoy a favourable view among sector analysts, it cannot remain on my selected lists.

The story of **chemicals distributor Redox ((RDX))** post February is not that dissimilar.

Higher costs, albeit for different reasons, equally meant Redox' interim performance in February fell short of forecasts and its share price got duly shellacked in response. The share price has to date failed to recover and is down circa -34% from the day prior to the release.

Redox originally attracted my attention as Macquarie Quant analysis into Quality Compounders on the ASX highlighted this domestic market leader as exhibiting the same key characteristics that have made the likes of REA Group ((REA)), TechOne ((TNE)) and Pro Medicus ((PME)) such a wonderful asset for such a long time.

Redox only listed in mid-2023 but its share price had enjoyed a steady up-trend since, until last month.

Same as with Integral Diagnostics; Redox cannot at this stage be included in my selections of Higher Quality Performers on the local bourse, but I am keeping a close watch on further developments.

For the coming weeks, the focus in my writings will be on companies that are on my personal radar as markets travel through volatile and uncertain times.

Hopefully, my own observations and insights can assist investors with navigating the challenges forced upon markets this year.

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See also: https://fnarena.com/index.php/2025/03/07/in-brief-top-picks-in-financials-retail-healthcare/

Prior **Rudi's View updates**:

https://fnarena.com/index.php/2025/03/06/rudis-view-to-sell-or-not-to-sell-2/

https://fnarena.com/index.php/2025/03/05/rudis-view-februarys-reality-check/

https://fnarena.com/index.php/2025/02/20/rudis-view-best-ideas-conviction-calls/

Invitation To FNArena Subscribers & Readers

Researcher Bletchley Park and ASX-listed de.mem ((DEM)) are organising investor lunches this week, offering a personal meet and greet opportunity with management at this emerging micro-cap growth story inside the water treatment industry (current market cap is $32m).

Lunches are on Wednesdag, 12 March in Sydney and on Thursday 13 March in Melbourne.

Investors registered with FNArena have the opportunity to attend. If interested, send an email to Support@fnarena.com

Bletchley Park is offering its most recent research update to all who show interest.

On The Money Puzzle Podcast

Last week Thursday I joined The Australian's James Kirby for a 39 minutes talk about equities, investing and what to do right now.

The podcast is available through all major platforms.

On the Apple platform: https://bit.ly/4bCviX4

Model Portfolios, Best Buys & Conviction Calls

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

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

(This story was written on Monday, 10th March, 2025. 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: Post February Conviction Calls

By Rudi Filapek-Vandyck, Editor

The February results season did not live up to expectations and share markets have gone into a negative spiral during and since.

As Steve Miller once sang: *"Round and round it goes, where it stops, nobody knows"*.

The ideal environment, one might conclude, to refresh the strategy and portfolio, while taking some key observations and conclusions from February results on board.

Analysts at **Morgan Stanley** have yet again communicated their **Conviction Calls among ASX-listed smaller cap companies**. That selection post-February consists of the following six:

-Corporate Travel Management ((CTD))
-Generation Development ((GDG))
-Dicker Data ((DDR))
-McMillan Shakespeare ((MMS))
-Propel Funeral Partners ((PFP))
-Superloop ((SLC))

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Analysts at **Goldman Sachs** too have shared their key calls post the season described as "volatile and idiosyncratic".

Key positive picks:

-Life360 ((360))
-Codan ((CDA))
-Collins Foods ((CKF))

Do note Collins Foods reports on a different cycle and will release FY24 financials in July.

Fast food chain Guzman y Gomez ((GMG)) has been selected as a prime Sell as the analysts cannot reconcile what they believe is an overly ambitious expansion plan with an elevated valuation, on top of overhang from shareholders coming out of escrow in March and August, respectively opening up 13% and 40% of total capital possibly up for sale.

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Portfolio managers at **UBS** decided to downgrade the local Energy sector to Underweight led by poor earnings results released by the sector in February, as well as an equally poor macro picture overhanging the sector's outlook.

UBS also highlighted its fundamentals based view for an Underweight allocation to Australian banks was, simply put, vindicated in February. The broker's model portfolio retains an Overweight allocation to Insurers, TMT (Technology, Media and Telecommunication) and to Industrials.

The local Heathcare is also Underweighted, as are Small Caps.

As far as individual stocks are concerned, UBS's list of **Most Preferred Exposures** has witnessed the inclusion of six names:

-BHP Group ((BHP))
-Lifestyle Communities ((LIC))
-Collins Foods ((CKF))
-Medibank Private ((MPL))
-Light & Wonder ((LNW))
-Life360 ((360))

Are no longer on the broker's Most Preferred list:

-Cleanaway Waste Management ((CWY))
-NextDC ((NXT))
-Rio Tinto ((RIO))
-Santos ((STO))
-Suncorp Group ((SUN))

The switch in preference for BHP over Rio Tinto is due to BHP's higher quality iron ore operation in the Pilbara, but also because of less risks from tariffs, explains the broker.

UBS's selection of **Least Preferred exposures** currently consists of:

-APA Group ((APA))
-Aurizon Holdings ((AZJ))
-ASX Ltd ((ASX))
-Bank of Queensland ((BOQ))
-CommBank ((CBA))
-IDP Education ((IEL))
-JB Hi-Fi ((JBH))
-Reece ((REH))
-Sonic Healthcare ((SHL))

Have been removed from the negative selection:

-Cochlear ((COH))
-National Australia Bank ((NAB))
-Scentre Group ((SCG))

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With February one of the most volatile seasons ever observed, analysts at **Morgans** believe the observation should act as a reminder to investors it's best to take an active approach to portfolio management and allocation.

Have been added to Morgans selection of **Best Ideas**:

-Corporate Travel Management ((CTD))
-DigiCo Infrastructure ((DGT))
-Guzman y Gomez ((GYG))
-Light & Wonder ((LNW))
-Megaport ((MP1))
-Orica ((ORI))

No longer included:

-Camplify Holdings ((CHL))
-NextDC ((NXT))
-PolyNovo ((PNV))
-The Lottery Corp ((TLC))

Morgans' Best Ideas now comprises of 34 ASX-listed companies, also including the likes of Collins Foods ((CKF)),

WH Soul Pattinson ((SOL)), QBE Insurance ((QBE)), ResMed ((RMD)), and WiseTech Global ((WTC)). The full list will be included in next week's edition.

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Athena Kospetas, research analyst at **Ord Minnett** has equally drawn some key conclusions from the February results season and reviewed the broker's **most preferred sector exposures.**

At its core, the suggestion made to investors is maybe, at least for the time being, preference companies with strong balance sheets, leading market positions and positive earnings momentum.

Those are the key principles that underpin Ord Minnett's updated sector allocations and preferences.

-Financials; the preference is for Judo Bank ((JDO)) and Macquarie Group ((MQG)) and if you must own one of the Big Four, the preference goes out to ANZ Bank ((ANZ)).

Elsewhere, the preference lays with Insurance Australia Group ((IAG)), as well as with insurance brokers AUB Group ((AUB)) and Steadfast Group ((SDF)), and with Medibank Private ((MPL)).

-Resources; Northern Star ((NST)) has been chosen as a large cap gold exposure, while Vault Minerals ((VAU)) has been selected among smaller caps. BlueScope Steel ((BSL)) is equally viewed positively (tariffs are ultimately a positive, the broker predicts).

-Consumer Stocks; Ord Minnett's three favourites are Metcash ((MTS)), Coles Group ((COL)), and Aristocrat Leisure ((ALL)).

-Real Estate; Dexus ((DXS)), Vicinity Centres ((VCX)), and Waypoint REIT ((WPR)) are preferred.

-Energy and Utilities; Most preferred are Karoon Gas ((KAR)), Santos ((STO)), APA Group ((APA)) and Origin Energy ((ORG)).

-Healthcare; the three sector favourites are CSL ((CSL)), ResMed ((RMD)), and Regis Healthcare ((REG)).

-Communication Services and IT; Xero ((XRO)), SiteMinder ((SDR)), Telstra ((TLS)), and Aussie Broadband ((ABB)) are the favourites (all for very different reasons).

-Industrials; Ord Minnett favours Brambles ((BXB)), Qube Holdings ((QUB)), and Qantas Airways ((QAN)).

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Jarden publishes a list of High Conviction Calls, dubbed **Best Ideas**, for investors looking to invest in **ASX-listed smaller cap companies**. That list, updated post February, now carries 17 Best Ideas.

In order of prospective total shareholder return, the following seven stand above the corn field (in order of return potential):

-Dicker Data ((DDR))
-GQG Partners ((GQG))
-Qualitas ((QAL))
-SiteMinder ((SDR))
-Universal Store Holdings ((UNI))
-EVT Ltd ((EVT))
-Temple & Webster ((TPW))

Apart from those seven, the following have been selected:

-Genesis Energy ((GNE))
-Harvey Norman ((HVN))
-Integral Diagnostics ((IDX))
-Ingenia Communities ((INA))
-Jumbo Interactive ((JIN))
-Karoon Energy ((KAR))

-Michael Hill ((MHJ))
-Pepper Money ((PPM))
-Superloop ((SLC))
-Vault Minerals ((VAU))

In terms of changes made, all of Nick Scali ((NCK)), Pointsbet Holdings ((PBH)) and Regis Healthcare ((REG)) are no longer selected, while both Dicker Data and Jumbo Interactive have freshly joined.

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Macquarie's post-February update on Australia's **industrials companies** centres around the following statement:

"In an uncertain macro and market context, we are preferring defensive positioning, where growth visibility is above-average."

Macquarie in particular likes Amcor ((AMC)), Brambles ((BXB)), Cleanaway Waste Management ((CWY)), and James Hardie ((JHX)).

Still not liked remains Fletcher Building ((FBU)).

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UBS's smaller cap favourites ("**Key Picks**") post February are:

-Codan ((CDA))
-Dicker Data ((DDR))
-Hansen Technologies ((HSN))
-Life360 ((360))
-MA Financial Group ((MAF))
-NextDC ((NXT))
-Ridley Corp ((RIC))
-Superloop ((SLC))
-Web Travel Group ((WEB))
-Zip Co ((ZIP))

In addition, the UBS team covering 'Emerging Companies' also highlights a positive stance on Corporate Travel Management ((CTD)), Megaport ((MP1)), Imdex ((IMD)), and oOh!media ((OML)). They are cautious regarding ARB Corp ((ARB)).

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A post-season update on **financial services** by stockbroker **Morgans** has resulted in the following Key Sector Calls (in order of preference):

-QBE Insurance ((QBE))
-Suncorp Group ((SUN))
-Generation Development ((GDG))
-MA Financial ((MAF))

And while February overall provided a rather mixed bag from the local **Healthcare** sector, Morgans' team of sector analysts maintains sector fundamentals are strong and valuations attractive. Risk/reward is seen as pointing to upside.

Morgans' sector favourites: CSL ((CSL)), ResMed ((RMD)), Avita Medical ((AVH)), and Imricor Medical Systems ((IMR)).

Staying with the Healthcare sector, **Jarden** analysts were certainly disappointed overall, but equally believe market responses throughout February for the sector were often too punitive and too harsh.

Jarden's sector favourites are CSL ((CSL)), ResMed ((RMD)), Telix Pharmaceuticals ((TLX)), and among smaller cap companies, Integral Diagnostics ((IDX)) and Regis Healthcare ((REG)).

Back to **Morgans** where ALS Ltd ((ALQ)) and Monadelphous ((MND)) have been nominated for exposure to **contractors**.

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See also:

https://fnarena.com/index.php/2025/03/06/rudis-view-to-sell-or-not-to-sell-2/

https://fnarena.com/index.php/2025/02/20/rudis-view-best-ideas-conviction-calls/

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

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

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

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SMALL CAPS

Future Looks Bright For Generation Development

Generation Development Group could well prove to be in the right places at the right time.

-Generation Development Group's interim beats consensus estimates
-Upcoming managed account synergies for Evidentia and Lonsec
-Investment bonds a key focus, but annuities could become the next growth engine
-Risks include regulatory changes and slowing net inflows

By Mark Woodruff

It has been a busy period for Generation Development Group (GDG), a specialist provider of "innovative, tax-effective investment solutions" with a dominant market position in Australia across investment bonds, annuities, and managed accounts.

Last Friday, the group was included in the ASX300 as part of the March quarterly rebalance. One week prior, released interim results beat consensus profit and EPS forecasts by 10%, with strong contributions across all business areas.

Management commentary implied to Morgan Stanley strong momentum for all segments has continued into the second half.

In early-February, Generation Development also announced the acquisition of Evidentia Group Holdings Pty Ltd for -$320m, one of Australia's leading providers of investment management and tailored managed account solutions.

Shortly thereafter, the group raised $233.3m from institutions, as well as $54.8m via a retail offer to fund the purchase.

At the time, management stated the acquisition and subsequent merger with Lonsec Investment Solutions (LIS) "will bring together two of the leading and fastest growing managed account providers as the undisputed leader in the market, with a combined total of over $25bn in funds under management (FUM)".

Since August last year, the group holds full ownership of Lonsec (encompassing Managed Accounts and Research) after increasing its stake from the initial 37% acquired in September 2020.

Model managers like Lonsec assist with managing portfolios to meet objectives such as growth and income for the managed account.

Providing structural tailwinds, financial advisers need platforms and model managers to use managed accounts, which have been a key driver in FUM growth for platforms like Hub24 ((HUB)) and Netwealth Group ((NWL)).

While sharing common tailwinds, a valuation discount is warranted for managed accounts given platforms are not exposed to underlying portfolio performance, explains Morgan Stanley.

Unlike mutual funds, managed accounts are tailored to meet customers' specific financial objectives, risk tolerance, and time horizon.

Under such a structure, individual securities are owned in the customers' portfolio (e.g. stocks, bonds), which may offer tax advantages and more control over investments.

Management further noted the Evidentia acquisition will build on Generation Development's presence in the rapidly expanding managed accounts market, currently valued at over $200bn and estimated to grow at approximately 15% per annum to $474bn by 2030.

Reducing the risk of cannibalisation, Morgan Stanley points out Lonsec is dominant in the off-the-shelf segment of the market, while Evidentia is stronger in the tailored segment. The union now makes Generation Development the clear number one player in managed accounts, with around 12% market share.

Evidentia positions its services as an "outsourced Chief Investment Officer" for large wealth managers, notes the broker, offering customised investment portfolios.

Making its funds under management (FUM) more secure and long-term, observe the analysts, Evidentia is deeply integrated with clients given consulting services are also provided.

Management expects the acquisition will be low double-digit EPS accretive in the first full year of ownership (FY26 exclusive of synergies) and deliver other material benefits.

Generation Development also owns Generation Life, which markets Investment Bonds and Annuities.

Appealing to individuals with higher marginal tax rates, investment bonds can hold a broad range of asset classes, with earnings and distributions taxed at a maximum effective rate of 30%, but the actual effective tax rate incurred can be substantially lower, due to tax credits and active tax management strategies.

Investment Bonds are a core focus for the group, notes Morgan Stanley, driving outsized share gains (more than 50% of industry inflows), noting FUM is very sticky given the tax benefits from customers holding for greater than 10 years.

The group holds the number one position in inflows with a 52% market share in investment bonds and ranking second in total FUM at 32%, highlights Moelis.

Separately, investment-linked lifetime annuities provide income linked to market performance while guaranteeing payouts for life.

While failing to gain traction so far, Morgan Stanley suggests the opportunity could be even bigger for Annuities than for Investment Bonds given the material shift of money moving into retirement phase over the next decade.

For perspective, Managed Accounts, Investment Bonds, Research, and Annuities currently comprise 61%, 36%, 14% and 1%, respectively, of Morgan Stanley's sum-of-the-parts base case valuation.

Interim result

On a pro forma basis, based on 100% ownership of Lonsec, revenue in the first half jumped by 23% to $65.6m.

Morgan Stanley highlights profit/EPS beats were driven by higher revenue margins and a stronger contribution from Lonsec.

The Life business also delivered a better revenue margin coupled with the number of bonds written trending significantly upwards on an annualised basis, highlights Petra Capital.

Underlying profit of $12.4m beat the consensus estimate for $11.3m, with profit for the Lonsec business of $8.8m coming in ahead of Ord Minnett's $7.6m forecast, with the Research gross margin expanding to 59% from 56.1% the year prior.

This Lonsec segment continues to be a key driver of growth, highlights Moelis, with FUM reaching $12.7bn, delivering a 78% four-year compound annual growth rate (CAGR).

Managed Accounts are benefiting from rising adviser adoption, boosting productivity and efficiency, while Investment Bonds gain from growing demand for tax-efficient growth and alternatives to superannuation, explains the broker.

Even if mooted tax hikes for superannuation are not implemented, Morgan Stanley thinks the process highlights ongoing rule changes, which should be a tailwind for the more predictable IBs.

The board declared a fully franked interim dividend of one cent.

Notwithstanding restricted cash required for regulatory capital (around 25 basis points of FUM), Petra Capital believes management has ample capacity to increase the payout ratio during FY26, along with retiring inherited borrowings from Lonsec.

Outlook

Petra Capital raises its assumed terminal growth rate for Generation Development to 3.5% from 3.0% given strong mandated flows into superannuation, growth of the in-retirement segment, plus the Evidentia growth profile.

As the group reinvests further, Morgan Stanley anticipates a widening scale advantage across product, technology, sales and adviser support.

For both recent acquisitions, Lonsec and Evidentia, this broker sees scope for revenue synergies via cross-selling with Investment Bonds and cost synergies relating to corporate overheads.

Morgan Stanley still sees an opportunity for more bolt-on M&A in the Managed Accounts space.

According to Morgan Stanley, risks include a slowing in net inflow momentum, unfavourable regulatory changes, and rotation away from high-growth, high-multiple stocks in a risk-off environment.

From among brokers monitored daily by FNArena, Overweight-rated Morgan Stanley raised its target to $6.30 from $4.90, while Morgans (Add) is yet to refresh its research following the interim results.

Outside of daily monitoring, Petra Capital increased its target by 40 cents to $5.58 and upgraded to Buy from Hold, while Moelis is currently under research restriction, after being appointed as a joint-lead manager for the equity raising.

The average target of Morgan Stanley and Petra Capital is $5.94, suggesting nearly 20% upside to the closing share price of $4.97 on March 10.

The author owns shares in Generation Development Group.

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SMALL CAPS

Propel Funeral Partners: Defence (& Offense) In Volatile Times

Analysts highlight Propel Funeral's defensive attributes, with upside potential from organic revenue growth and M&A.

-Propel Funeral Partners' interim result slightly missed expectations in February
-Analysts highlight defensive attributes and M&A upside
-Management noted "materially higher" total volumes in January

By Mark Woodruff

Following a volatile February reporting season for ASX-listed companies, Morgan Stanley has shone the limelight on the defensive characteristics of Propel Funeral Partners ((PFP)), the second largest provider of (the macabre sounding) death care services in the A&NZ region.

Owning and operating funeral homes, cemeteries and crematoria, Propel's structural exposure to long-term growth in death rates and non-discretionary spending, along with management's capacity to raise prices at least in line with inflation, should appeal to investors, is the suggestion made.

And did anyone mention the falling share price? In line with the unusually volatile February results season, and the Trump Slump continuing in March, the shares are off some -14% in less than four weeks.

According to Bell Potter, Propel Funeral's pricing power is better than other consumer facing businesses in Australia. Plus there is significant scope for offence, setting aside circa $40m per annum for M&A, which Morgan Stanley points out is typically EPS accretive. More acquisitions is seen providing the most likely source of near-term consensus upgrades.

Already, the company has grown to 202 locations from just the one in 2013, garnering around 9% market share.

In a positive environment for acquisitions, the company operates in a space where it competes with a market leader, InvoCare, which has been losing share, plus a long tail of independent operators.

While Propel's first half revenue and earnings (EBITDA) missed consensus expectations, Moelis agrees with Morgan Stanley on the positive outlook, and has upgraded its rating to Buy based on the company's defensive characteristics, recent share price weakness, and valuation support.

(Although the latter has yet to kick in).

Interim results

First-half underlying earnings (EBITDA) grew by 9% year-on-year to $29.9m, yet missed the consensus estimate by -4% on lower-than expected organic volumes and average revenue per funeral (ARPF), explains Macquarie.

The underlying earnings margin declined by -60bps on the year prior to 26%, primarily due to executive remuneration changes, while opex/funeral growth proved in line with inflation.

Rising by 12% year-on-year, first-half revenue of $115m was supported by around 4% organic growth and 8% growth from acquisition contributions.

Revenue increased by 11.5% in the first half supported by 8.6% growth in funerals conducted, 1.5% growth in average revenue (ARPF), and 22% growth in sales through cemetery/crematoria.

Moving into the second half, total revenue in January rose by more than 10%, driven by a return to positive comparable funeral volume growth, plus growth in organic volumes and a higher ARPF.

In the trading update provided with the interim results, management noted "materially higher" total volumes in January due to M&A.

Management anticipates organic volumes have largely rebased post-pandemic and expects growth to align with long-term industry trends in 2025.

Macquarie concurs, noting organic earnings have now stabilised and thus is projecting Propel's organic revenue growth to increase to around 5% from 4% over the medium-term, contingent on fluctuations in death rates.

M&A

Over the last 18 months, global M&A activity in the deathcare industry has been heightened, observes Moelis, with takeovers of InvoCare in Australia, Dignity in the UK, and Park Lawn Corp in Canada.

Highlighting Propel's potential attraction to a suitor, this broker points to predictable cashflows and an outlook supported by both demographic tailwinds and a long runway for accretive acquisitions, given the 70% of market share owned by independent entities.

In FY24, $100m in acquisitions were undertaken by Propel, and at interim results management announced the first acquisition for FY25, a -$7.3m cash/script-based acquisition of two businesses in New Zealand. These collectively perform circa 600 funerals per annum, generating around $3.7m in yearly revenue.

As part of the transaction, Propel will acquire seven properties, including three cremation facilities.

Propel's total freehold property portfolio, valued at around $240m, is a strong hedge to the net gearing level, suggests Bell Potter.

At the end of the first half, net debt of $124m was down from $175m in the previous corresponding period, representing leverage of 1.9x times, well below the 5x times covenant.

The board declared an interim dividend of 7.4 cents, a rise of 2.8% year-on-year.

Outlook

Propel's long-term fundamentals remain attractive, in Macquarie's view, with M&A continuing to represent material upside risk.

As organic volumes continue to be positive, and around $144m in funding capacity is deployed, Moelis expect top-line growth and modest operating leverage to drive EPS growth across FY25-27 of 4%, 15%, and 9%, respectively.

There are four brokers monitored daily who conduct research on Propel Funeral Partners in the FNArena database, three have Buy ratings (or equivalent), while Accumulate-rated Ord Minnett is yet to refresh its research for interim results.

Post results, the average target of the four brokers fell to $6.39 from $6.66, which suggests 23.5% upside to the $5.17 closing price on March 11.

Outside of daily coverage, Moelis has lowered its target to $6.10 from $6.20 and upgraded to Buy from Hold.

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SMALL CAPS

America Not The Main Game For Brickworks

While a weak performance from Brickworks' North American building products division was disappointing, brokers agree the company's property and equity investments are a more important driver.

-Brickworks' North American building products earnings deteriorate more than feared
-Australian building products performed positively
-Stabilisation in property valuations underpins

By Greg Peel

Brickworks ((BKW)) released an earnings update on Tuesday, ahead of its first half earnings result due on March 20. Pre-announcements typically are not good news, Jarden notes.

Shares in the building products, equity and property investment company fell -6.9%, albeit amidst weak general market sentiment. This is not a great time for releasing bad news.

Brickworks revealed a -13% first half decline in North America building products revenues compared to consensus expecting -7% and significantly lower earnings, driven by challenging market conditions and winter weather in key operating regions, on top of market share loss given strong competition in the retail segment.

Plant closures to manage inventories have reduced margins significantly while benefits from plant rationalisation are delayed due to weak markets. Uncertainty on the timing of the market recovery remains.

No doubt on again, off again tariffs and growing US recession fears will not help in the second half.

Brickworks has taken at -$74m impairment on its North American business, or -$55m post-tax, having already taken a post-tax impairment in September last year of -$68.8m.

Fortunately for Brickworks, North American building products is not its sole operating business.

Mixed Bag

As Brickworks' US building materials business softened progressively in the half, the Australian equivalent is performing ahead of consensus with earnings stable despite lower volumes, reflecting the work done by management to rationalise the business in a downturn and positioning it well, UBS suggests, for when volumes

turn.

Jarden considers a similar earnings contribution year on year in Australia a positive operational performance, reflecting a strong controllables focus including price hikes, cost-outs and plant rationalisation. Jarden would expect the first half to represent a trough in Building Products Australia earnings, with residential construction activity seemingly "on the turn".

Yet, brokers agree Brickworks' building materials businesses are not the primary drivers of the company's value.

Brickworks offers exposure to Western Sydney industrial property via its trusts managed by property fund manager Goodman Group ((GMG)), and an indirect equity investment portfolio via its cross-ownership with WH Soul Pattinson ((SOL)).

Whilst Jarden remains cautious regarding the core bricks business, with material substitution and higher for longer energy costs providing structural headwinds, operating assets represent only 25% of Brickworks' total asset values.

Property

While Brickworks' Oakdale East development in Sydney's southwest, the company's own design centre showcasing its building products, will contribute some 250ksqm of additional gross lettable area, the first half represents a gap between Oakdale West completion and Oakdale East contribution over the next five years, UBS notes.

As a result, first half development profits are minimal, but total Oakdale East development profit is unchanged and likely to be delivered on a consistent basis across FY26-29. With development income to be minimal, rental income is the primary source of divisional earnings in the first half, Morgans notes.

Across the total property portfolio, Brickworks guided to higher earnings year on year following a significant loss in the first half 2024. Management noted capitalisation rates have stabilised (valuations have stopped falling) and expects no significant change to the value of property trust assets, in line with Macquarie's expectations.

Brickworks' property portfolio underpins its valuation, UBS suggests, at some 50% sum-of-the-parts. Despite industrial rent growth normalising, rental income appreciation remains robust given old lease agreements continue to expire. Previously, this coincided with an increasing cap rate environment, but with the Australian cap rate increase cycle now complete, UBS is positive and sees the risk pendulum now in favour of valuation uplifts rather than any decreases.

Citi agrees the property division is a much bigger driver of Brickworks' value than building products and thus sees the negative share price reaction on the day as being unwarranted.

Morgans, on the other hand, believes the primary driver of value remains Brickworks' $3.1bn interest in WH Soul Pattinson which, ex of net debt, is worth $16 per share on the broker's estimation, but comes with a $6 per share deferred tax liability and would likely trade at an appropriate listed investment company (which is basically what Soul Pattinson is) discount of around -10%.

Sum of the Parts

Given Citi suggests the negative share price response on Brickworks' earnings update to be overdone, believing the property division to be the much bigger driver, the broker retains a Buy rating, while cutting its target to $32.50 from $36.60.

While the US building products impairment and near-term earnings declines will dominate an immediate response, ultimately the valuation drivers are largely unchanged, UBS suggests, and the main changes to this broker's earnings forecasts are timing-related (an inherent risk given the nature of how they are booked).

UBS retains Buy, lowering its target to $29.00 from $30.50.

Jarden has upgraded its rating to Overweight from Neutral on valuation grounds. Jarden's sum-of-the-parts valuation of $25.60 assumes what the broker considers a conservative -24% conglomerate discount on Brickworks' Soul Pattinson holdings and a -30% discount for its property trust net asset valuation of $1.5bn, noting that applying an undiscounted property trust net asset valuation would imply a further $4.50 per share.

Whilst Jarden admits the stock is lacking catalysts, the share price sell-off to negative news appears overdone. With no pending near-term catalysts, Jarden considers Brickworks one for those with a longer investment horizon. This broker's target falls to $25.60 from $29.10.

At the current price, the stock looks fair value to Morgans, and while the broker acknowledges the discount to

inferred net tangible asset valuation, Morgans sees little cause for the gap to completely close.

Morgans values the Soul Pattinson interest at a -10% net tangible asset discount, adopting an enterprise value to earnings multiple of 8x for the materials businesses and a -20% discount to net tangible assets on Property. Through the cycle, Morgans sees some upside to the brick businesses, with Property to trade at a more modest discount.

It is on this basis Morgans has a Hold rating and a target price of $25.00, down from $28.75, derived by a sum-of-the-parts valuation.

Building product demand in Australia and North America remains soft, Macquarie suggests. While valuation pressures in Property have eased, with cap rates having stabilised and long-term growth looking solid, this broker believes more macro support is likely necessary to underpin a more optimistic thesis.

Macquarie retains a Neutral rating with a target of $26.90, down from $27.30.

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SMALL CAPS

Codan's Growing Communications Segment

Optimism dominates the outlook for Codan, also due to a robust pipeline of work.

-Codan's interim results aligned with consensus expectations
-Share price in a sharp downtrend since
-Earnings margin expands, robust pipeline for Kagwerks acquisition
-Management focusing on Communications for growth

By Mark Woodruff

February saw Australian technology company Codan ((CDA)) unveiling interim results in line with consensus expectations, with organic revenue growth in the key Communications segment exceeding management's 10-15% guidance.

Codan develops and manufactures innovative electronic solutions around metal detection, as well as for communications such as high-frequency and land mobile radio systems for military uses and emergency response systems.

First half revenue and earnings (EBIT) grew by 15% and 20%, respectively, year-on-year to $305.6m and $65.8m, with earnings growth in the Communications and Metal Detection segments of 31% and 9%.

In Communications, earnings (EBIT) margins expanded by 200bps to 27% with the company reiterating long-term margins should reach more than 30%.

Management continues to target 10%-15% organic revenue growth in this segment, with total revenue growth expected to exceed this range due to the -$36m Kagwerks acquisition in FY25.

This transaction aims to transform the military communications business into a full solutions provider, given Kagwerks is a leader in tactical operator-worn communications technologies.

So, what explains the negative share price reaction to interim results?

Explanations vary. Bell Potter blames the absence of a material update regarding potential acquisitions, while UBS felt management's unchanged growth expectation for the Communications segment implied to the market a material second-half slowdown.

Such fears are unfounded, suggests UBS, given the 26% increase on the previous corresponding period in the Communications order book to $231m.

Analysts at Canaccord Genuity agree, believing forward commentary for the Communications segment should be assessed in conjunction with organic order book growth, which implies segment revenue growth for the year well in excess of 15%.

By undertaking acquisitions in Communications, the company has reduced its reliance on the Metal Detection/Minelabs segment, highlights Bell Potter, with the revenue split transitioning to 40%/60% (Metal Detection: Communications) in FY24 from 75%/25% in FY21.

Previously, covid disruptions and political instability in the key Metal Detection market of Africa resulted in a substantial fall in revenue, explains the broker, and exposed the company's over-reliance on this region.

Today, Codan has a higher proportion of revenues from North America and Europe (70% combined), with a lesser 15% exposure to Africa and a greater number of high-quality customers, including government organisations and large corporates.

Other customers include defence, small-scale miners and individual customers.

Communications segment

The Communications segment consists of two separate divisions: Tactical Communications and Zetron.

Tactical Communications offers solutions to a wide range of markets, including military, unmanned systems, law enforcement, intelligence, broadcast, commercial, and non-government organisations, while Zetron provides comprehensive command and control software, specialising in mission-critical data processing and response management.

Zetron's Land Mobile Radio (LMR) solutions ensure reliable communication across all terrains.

Bell Potter notes the predictability of earnings in the Communications segment is largely supported by Zetron, as a significant portion of revenue is derived from long-term support contracts.

True to form, Zetron was a key driver of first-half performance, highlights Moelis, with growth underpinned by a contract with the US state of Iowa, where the Net Generation 911 ("NG911") services are now provided to more than 90% of 911 calls.

The overall Communications division delivered 31% earnings growth, off the back of 22% organic revenue growth and very strong margin expansion, explains UBS.

The first three months of ownership of Kagworks have been positive, notes Macquarie with strong integration progress, a robust sales pipeline, and a $16m order book.

Regarding the overall Communications segment, this broker observes the outlook is supported by a strong order book of $247m, a rise of 35% year-on-year, driven by a robust Tactical Communications order intake.

Around 72% of the company's total engineering investment is now directed towards Communications, consistent with management's future growth strategy, explains Macquarie.

Metal detection (Minelab) segment

Codan has elevated Minelab above its competitors as a global leader in hand-held metal detection, explains Bell Potter.

Across FY15-FY20, Africa was a major market for Minelab, but political instability in the broader region and a post-covid reduction in demand has contributed to a significant fall in African-related revenues.

Elsewhere, the analysts note markets in Rest of World have remained resilient, supported by new product releases and an expanding retail footprint.

Interim Detection revenue of $115m was up by 5% year-on-year due to increased African revenue, with Minelab Africa revenues rising by 48% to $45m.

A mix shift toward Africa versus Rest of World helped deliver favourable margin outcomes, explains Moelis.

Dividend and balance sheet

The board declared a fully franked interim dividend of 12.5 cents, a rise of 19% year-on-year.

Net debt increased by $48.7m to $124.1m on the back of acquisition funding and working capital build, explains Canaccord.

UBS posits Codan's robust balance sheet and new $200m debt facility also provides support for cash EPS/valuation accretive M&A.

Outlook

Macquarie points out Management at Codan continues to pursue acquisition opportunities, and is well funded to do so.

This broker anticipates medium-term earnings growth courtesy of new products, expansion into new markets, strengthening global distribution, and improved operating leverage.

While Metal Detection's first half revenue run-rate offers a resilient baseline for growth, Petra Capital anticipates Communications will remain the key driver of Codan's earnings growth.

There are three daily monitored brokers in the FNArena database generating one Buy rating and two Holds (or equivalent).

Following first half results, the average target price increased by around 10% to $17.63, suggesting circa 22% upside to the latest share price.

Outside of daily coverage, Canaccord Genuity and Moelis have both Buy ratings, while Petra Capital is Hold-rated.

The average target of these three is $17.52.

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SMALL CAPS

Eagers: Peer Outperformance & Margin Upside

Eagers Automotive's guidance for strong revenue growth in 2025 and outperformance relative to peers in 2024 is underpinning optimism.

-Eagers Automotive's 2025 revenue guidance lifts shares
-FY24 results show cost containment and stabilising margins
-The order bank remains healthy, highlights Macquarie

By Mark Woodruff

Automotive retailer Eagers Automotive's ((APE)) scale and diversity, both in terms of brand and location, give the dealership a unique positioning in markets across A&NZ, highlights Macquarie, with new entrants facing challenges in quickly replicating its retail and aftersales infrastructure and dealer partnerships.

With the top ten car brands controling 70% of the market, Eagers isn't just in the mix, it's the biggest dealer for 13 of the top 20 brands in Australia, after expanding its portfolio by 36% to 49 brands in 2024.

UBS points to Toyota and hybrid exposure, a broad OEM base, and BYD vehicle distribution as key reasons for the company's standout performance last year.

Revolving around owning and operating motor vehicle dealerships, the core business also offers full-service facilities, including new and used vehicle sales, servicing, spare parts, and consumer finance facilitation.

Management surprised the market when releasing 2024 results, notes Ord Minnett, by providing guidance for a 9% increase in revenues, or circa $1bn (around half being organic), implying a $12.2bn total for 2025.

Driving this acceleration? A second-half 2024 acquisition adding $450m, organic expansion of the independent used car business Easyauto123 contributing $100m, and a $400m boost from the BYD retail joint venture.

Citi sees even more fuel in the tank, expecting upside to revenue guidance as Eagers eyes M&A opportunities both in Australia and offshore, teaming up with existing and new partners.

At the very least, following 2024 results, UBS feels the market has gained confidence that downside for the stock price is limited.

UBS and Citi agree short sellers scrambling for cover helped fuel a 20% rally on results day.

Despite industry-wide cost inflation and inventory challenges, UBS points out Eagers outmaneuvered the competition with its superior ability to squeeze costs and manage stock levels. The result? A pre-tax profit margin of 3.3%, a stark contrast to the 1.2% industry average.

Also materially outperforming sector peers, highlights Macquarie, Eagers' underlying profit (PBT) of $371m proved 2.6% better than consensus forecast, though it still weakened by -14% year-on-year.

Over 2025, revenues for New Vehicles, Used Vehicles, Parts, and Service rose by respectively 16% to $7,604m, 4% to $1,728m, 13% to $1,175, and 16% to $619m.

Canaccord Genuity anticipates lower new vehicles sales in 2025 compared to 2024, partly because most brands and models have provided sufficient supply to meet their previous backlog of orders.

Overall, robust revenue growth and management commentary on stable gross margins into 2025 addressed market concerns on the resilience of margins, Jarden suggests.

Even in the face of declining industry numbers, this broker notes a number of ways Eagers can grow revenue, the most notable being increased BYD sales and the contribution from acquisitions.

Certainly, the company expects demand in the new car market to remain resilient, driven by a substantial order bank and positive industry and macro-economic dynamics.

Margins

Prior to interim results, the margin debate was divided, says Morgan Stanley, with bears arguing the pre-tax profit margin would settle at around 3% while bulls felt 4% could be maintained.

Now, the broker believes margins more than 4% are achievable in the long-term.

Positively for the margin outlook, suggests Ord Minnett, management is pointing towards a greater earnings contribution from the BYD joint venture, as well as the independent used car business (Easyauto123), plus from recent acquisitions.

Certainly, management sees "material upside to margins with ongoing execution of Next100", the long-term plan to expand the company's operations and market share through digital transformation, improved customer experiences, and enhanced operational efficiency.

More cautiously, Neutral-rated UBS feels a margin floor is now priced into the stock price and suggests circa 400m of PBT in 2025 still requires a flat gross margin year-on-year, which is not guaranteed.

Citing uncertainty in the new car demand environment from regulatory changes, rising competition from new entrants, and the upcoming federal election, Moelis assumes gross profit margin compression lays ahead for 2025.

Operating expenses were well contained, notes UBS, with another year of negligible like-for-like cost growth.

Corporate net debt increased by 210% on 2023, driven by investing cash flow associated with acquisitions and higher property purchases, explains Wilsons.

Moelis adds: despite increased interest costs in the second half, management was able to provide an offset via cost savings.

The total ordinary dividend based on FY24 earnings was 74 cents, fully franked, after the board declared a final 50 cent payment.

Order book

Orders written exceeded vehicle deliveries by around 10% in the second half, observes Macquarie, noting the order bank remains circa five times greater than in pre-pandemic times.

Morgans agrees the order bank remains healthy at around 2.5 months of supply, with order write continuing to outstrip deliveries by 10% through the second half of 2024.

Outlook

Should management achieve its medium-term target, Macquarie sees material upside to margins, supporting an

expansion in the company's price earnings multiple back towards pre-pandemic averages of around 18x times, with interest rate cuts providing a further tailwind.

Macquarie points out every -25bps reduction in rates provides a $6.3m per year saving for Eagers.

Given the perception of Eagers as "just a dealer" versus the structural opportunity, Morgan Stanley believes the stock can outperform consensus expectations for earnings and growth duration over the longer-term.

Scale provides multiple levers, notes Morgans, listing medium-term structural growth initiatives including consolidation; strategic industry alliances; leading the electric vehicle transition; sales channel optimisation; used vehicles; and new offshore markets.

While Jarden (Neutral) can see upside risks to its EPS forecast depending on brand-mix benefits, consumer demand and further cost optimisation, the analysts also see downside risks due to election uncertainty, new emission standards, and the sizeable Chinese OEM supply set to enter the market in the next few years.

On the back of the positive outlook for 2025 around revenue and margins, Bell Potter increases its valuation multiples and raises its target to $15.25 from $13.65. This broker has downgraded to Hold from Buy on valuation.

For the same reason, Ord Minnett also downgraded to Accumulate from Buy. Accumulate sits in between Buy and Hold on this broker's ratings ladder.

Conversely, Citi and Macquarie have upgraded their respective ratings to Neutral and Outperform.

After this flurry of ratings changes, there are now three Buys (or equivalent) and four Holds in the FNArena database for the seven brokers monitored daily who conduct research on Eagers Automotive.

The average target price of $15.56, up from $11.96 prior to 2024 results, with the weakening share price now opening up a gap of circa -5.5%.

Outside of daily monitoring, there is one Buy rating and three Holds with an average target of $15.32.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 07-03-25

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 March 3 to Friday March 7, 2025
Total Upgrades: 9
Total Downgrades: 7
Net Ratings Breakdown: Buy 60.00%; Hold 32.92%; Sell 7.08%

For the final week of the reporting season ended Friday, March 7, 2025, FNArena tracked nine upgrades and seven downgrades for ASX-listed companies from brokers monitored daily.

Rises and falls in analysts' average earnings forecasts and target prices were broadly equal as can be seen in the tables below.

All material changes in these tables were triggered by reporting season results, also covered in FNArena's Corporate Results Monitor, which summarises all the misses and beats as well as outlooks for companies at https://fnarena.com/index.php/reporting_season/

Standout rises in average targets for Generation Development Group and Life360 matched earnings beats listed in the Monitor, while the largest percentage fall in average target for IDP Education can be traced back to the company's interim result disappointing ('miss').

On the other hand, Tyro Payments received the second largest fall in target but results were mostly in line, according to the Monitor, with management maintaining FY25 guidance.

Life360 also appeared second on the earnings upgrade table behind Bubs Australia. The latter's interim result was broadly in line with brokers' expectations and the large percentage increase in average earnings resulted from the very small forecast numbers involved.

While appearing fourth on the earnings upgrade list, TPG Telecom's FY24 result slightly missed expectations, with the key disappointment for analysts being a fall in postpaid mobile subscriber numbers.

Brokers remain cautious on TPG, yet a new regional expansion deal could double cash flow in 2025, according to management.

A more comprehensive analysis of the TPG result and outlook is available at https://fnarena.com/index.php/2025/03/06/tpg-telecom-pins-hopes-on-2025/

Turning to falls in average earnings forecasts, here most listed in the table below corresponded to earnings disappointments in February, apart from an in-line interim result from second-placed Bellevue Gold.

Separately, Bellevue's average earnings forecast benefited last week from a post results season review by Ord Minnett of stocks under coverage in the Mining sector, which included increased forecasts for gold and silver prices.

Focusing on gold mining at its Bellevue Gold Project in Western Australia, Bellevue was most impacted by Ord Minnett's increase in gold price forecast across 2025 to 2029 to US$2,900/oz from US$2,700/oz, and the increase in the long-term price forecast to US$2,500/oz from US$2,300/oz.

As a result of these changes, the broker's EPS forecasts for Bellevue Gold increased across 2025-27 by 11.8%, 18.4%, and 20.3%, respectively.

Arcadium Lithium's average earnings forecast fell by -17% after Citi revised its forecasts, though its fourth quarter net loss is largely irrelevant given the company was recently acquired by Rio Tinto.

Following a first-half revenue miss against the consensus expectation, SiteMinder suffered a -16% fall in average earnings forecast from brokers last week.

As explained further at https://fnarena.com/index.php/2025/03/06/is-siteminders-re-rating-just-a-matter-of-time/, analysts still anticipate a boost from new products and maintain faith in the company's longer-term strategy.

Total Buy ratings in the database comprise 60.00% of the total, versus 32.92% on Neutral/Hold, while Sell ratings account for the remaining 7.08%.

Upgrade

AUSTRALIAN FINANCE GROUP LIMITED ((AFG)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/0/0

Australian Finance Group reported 1H25 cash EPS which declined -6%, and missed Macquarie's forecasts by -11%, due to higher operating expenses and a -73% drop in Thinktank earnings.

Residential lodgements rose 26% year-on-year in January, with AFG Securities settlements up 31%, offsetting a -7% decline in AFG Home Loan lodgements, the broker details.

AFG's loan book grew 23% to $5.1bn, with net interest margin improving.

The analyst upgrades the rating to Outperform from Neutral, citing positive earnings momentum and stabilising margins.

Target price increases -2.4% to $1.68, with valuation supported by circa 7% dividend yield and an attractive valuation.

BELLEVUE GOLD LIMITED ((BGL)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 3/1/0

Bellevue Gold's operational challenges in 2024 appear resolved, prompting Ord Minnett to upgrade its rating to hold from lighten and raise the target price to $1.20 from $1.15.

The broker notes improved underground development since September, following new ventilation installations, suggesting stronger production from the March quarter onwards.

Ore grades in January indicated an exceptional 5.0g/t, though confirmation is needed over the next two quarters before revising model assumptions.

Bellevue has the ability to produce over 200,000oz annually at an all-in-sustaining-cost of $2,000/oz, generating $350m in cash flow at a $4,500/oz gold price.

Ord Minnett raises EPS forecasts by 0.7% for FY25 and 0.2% for FY26-27.

COCHLEAR LIMITED ((COH)) Upgrade to Buy from Neutral by Citi .B/H/S: 1/4/0

Citi raises its target for Cochlear to $300 from $290 and upgrades to Buy from Neutral following a -14% decline in share price following the 1H results miss and guidance downgrade.

While acknowledging uncertainty pending the launch of new devices by mid-2025, the broker raises its outer-year EPS estimates by 1-2% on a higher margin outlook, keeping FY25-26 unchanged.

INTEGRAL DIAGNOSTICS LIMITED ((IDX)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/0/0

Citi upgrades its rating for Integral Diagnostics to Buy from Neutral following a -25% share price slump, citing a compelling valuation relative to transactions in the sector.

The broker is expecting strong revenue growth and margin improvements in FY26 partly due to de-regulation of partial MRIs, which should drive industry growth, and potential synergies after the merger with Capitol Health.

The analyst also references a material potential lung cancer screening contract win. The $2.70 target is unchanged.

NEWMONT CORPORATION REGISTERED ((NEM)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 4/1/0

Ord Minnett has reviewed mining sector coverage post-results season, the broker explains, with changes to gold and silver forecasts and assumptions.

The gold price forecast for 2025 to 2029 lifts to US$2,900/oz from US$2,700/oz, and the long-term forecast rises to US$2,500/oz from US$2,300/oz.

The silver price forecast for 2025 to 2029 lifts to US$42/oz from US$30/oz, and the long-term price rises to US$30/oz from US$27/oz.

Ord Minnett names Newmont Corp as the preferred gold stock, along with Capricorn Metals and West African Resources.

The analyst raises EPS forecasts by 20.4%, 21.1%, and 22.2% for 2025 to 2027.

The stock is upgraded to Buy from Accumulate, with a higher target price of $92.50 from $77.

PALADIN ENERGY LIMITED ((PDN)) Upgrade to Buy from Neutral by UBS .B/H/S: 6/1/0

Through multiple sector updates, UBS analysts have expressed their bullish view, longer term, for the uranium sector.

Price target for Paladin Energy has been lowered, shorter term, to $9.70 from $10. Forecasts have received the chainsaw treatment.

Rating has been upgraded to Buy from Neutral.

RESMED INC ((RMD)) Upgrade to Buy from Neutral by Citi .B/H/S: 5/0/0

Citi raises its target for ResMed to $44 from $41, while leaving forecasts unchanged, and upgrades to Buy from Neutral.

The broker cites a "reasonable valuation", strong EPS growth and free cash flow (FCF) generation, along with no debt by the end of FY25.

GLP-1s have had no impact on the company's business as yet, highlights the broker, and management continues to believe both GLP-1s and wearables will gradually bring more patients into the funnel.

SERVICE STREAM LIMITED ((SSM)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 3/0/0

Service Stream secured an extension of its contract with NBN Co for $1.9bn over five years, and has now rolled over all major and material customer agreements, Ord Minnett highlights.

The broker had assumed the NBN contract in its forecasts, so the confirmation is a de-risking event. The broker reckons the company's earnings trajectory is positive for the 2H and into FY26.

Target price rises to $1.94 from $1.78. Rating upgraded to Buy from Hold.

STRIKE ENERGY LIMITED ((STX)) Upgrade to Speculative Buy from Hold by Bell Potter .B/H/S: 2/1/0

Bell Potter lowers its target for Strike Energy to 26c from 27c following interim results and upgrades to Speculative Buy from Hold after recent share price weakness.

The company reported a first half result weaker-than-expected by the broker, with underlying earnings (EBITDAX) of $15.6m, missing the broker's estimate of $23.5m, and a net loss of -$15.5m, compared to a forecast profit of $10.2m.

This discrepancy was largely driven by a non-cash -$20.1m depletion and depreciation charge related to the acquired Talon Energy interest in Walyering, explain the analysts.

The company ended the half with cash of $33m and net debt of $16m.

Bell Potter notes Strike is leveraged to the Western Australia energy market where prices are expected to remain supportive.

Downgrade

ARB CORPORATION LIMITED ((ARB)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/2/1

Citi lowers its target for ARB Corp to $39.54 from $51.20 and downgrades to Neutral from Buy on increasing near-term caution after February's Australian new car sales data revealed an acceleration in the rate of decline relative to January.

The new data are negative for the company's 2H Australian Aftermarket sales, and the broker's new forecasts assume weakness will persist over 2025.

Additionally, the BYD Shark 6 is taking material share of the 4x4 category, highlights Citi.

CLINUVEL PHARMACEUTICALS LIMITED ((CUV)) Downgrade to Speculative Buy from Add by Morgans .B/H/S: 2/0/0

Clinuvel Pharmaceuticals posted a first half result that was largely in line with forecasts. Material costs were wound down to almost zero, Morgans notes, delivering net profit that was ahead.

The broker fails to find much in the results to fire up investors and the stock falls short of "set-and-forget", given the risk around alternative therapies as a potential generic competition.

While there is no immediate threat to cash flow in the next few years, Morgans believes investors should expect competition to rear up in the next decade. Target is reduced to $15 from $17 and the rating is downgraded to Speculative Buy from Add.

HARVEY NORMAN HOLDINGS LIMITED ((HVN)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 3/1/1

Harvey Norman reported 1H25 earnings slightly above market expectations, with an interim dividend exceeding consensus, Ord Minnett observes. Australian franchise margins benefited from lower lease depreciation, while property earnings were strong due to portfolio revaluations.

Trading conditions improved in early 2H25, with like-for-like sales growth accelerating from 2.1% in January to 7% in February. Among international stores, Ireland and Asia saw strong profit growth, while Croatia, Slovenia, and the UK underperformed.

The broker lowers EPS forecasts by -3% for FY25, -1% for FY26, due to franchise gains, higher depreciation, UK losses, and further property revaluations.

Target price increases to $4.50 from $4.40, but the broker's rating is downgraded to Lighten from Hold, citing better opportunities elsewhere and continued market share losses to JB Hi-Fi ((JBH)) and Wesfarmers' ((WES)) Officeworks.

NRW HOLDINGS LIMITED ((NWH)) Downgrade to Buy, High Risk from Buy by Citi .B/H/S: 3/1/0

NRW Holdings faces a challenging near-term outlook due to the ongoing OneSteel administration process, highlights Citi, with around $106m in overdue receivables, expected to impact market sentiment.

Management remains cautiously optimistic about recovering some of these amounts through secured guarantees and first-ranking security, explains the broker.

Despite this uncertainty, the analysts note the company's earnings growth trajectory remains intact, with 95% of its FY25 revenue secured and a solid order book.

The broker's target falls to $3.85 from $4.05, reflecting lower earnings. The rating is downgraded to Buy/High Risk from Buy.

SUPPLY NETWORK LIMITED ((SNL)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 1/0/0

Supply Network's 1H25 result confirmed the company is gaining market share, with 17.8% y/y sales growth well above competitors Maxiparts ((MXI)) and Bapcor ((BAP)) who reported 4% and 0.8% respectively.

Operating margin rose 150bps y/y and operating cash flow was strong, resulting in a fall in gearing to 6.1% from 9.3% in June. The broker notes the company expects to achieve $350m in sales in FY25 vs $171.2m in 1H, one year ahead of its three-year plan.

Target price rises to $36.3 from $33.0. Rating downgraded to Accumulate from Buy following share price gains.

SOUTHERN CROSS MEDIA GROUP LIMITED ((SXL)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 1/2/1

Following "relatively solid" interim results for Southern Cross Media, which owns the Triple M and HIT networks and the LiSTNR digital business, Ord Minnett downgrades its rating to Accumulate from Buy on valuation grounds, while retaining a 70c target.

The company is now an audio-only business following the divestment of its TV assets to the Paramount-owned Network 10 and Australian Digital Holdings, explains the broker.

Ord Minnett lowers its EPS forecasts across FY25-27 by -36%, -22% and -15%, respectively, to reflect the sale of the company's
TV assets.

TYRO PAYMENTS LIMITED ((TYR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/1/1

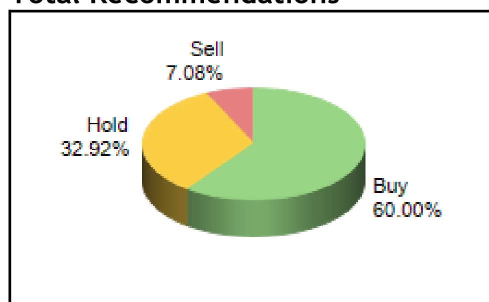
Macquarie observes Tyro Payments' 1H25 result was slightly above the broker's expectations, with gross profit exceeding by 2.3% and earnings (EBITDA) by 5%.

The analyst believes the company can achieve FY25 guidance, and management reiterated the Rule of 40 target for FY26.

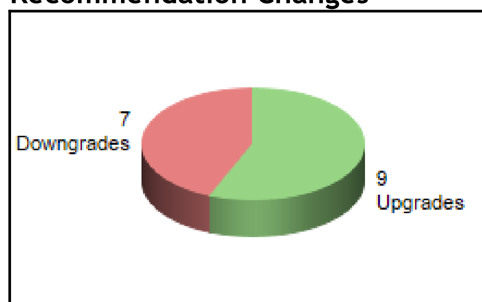
Macquarie lifts EPS forecasts by 18% for FY25 and 11% for FY26, but medium-term earnings are downgraded by -15% to -20% due to higher customer loss assumptions and competitive pressure on margins.

The stock is downgraded to Neutral from Outperform. Target price falls to 82c from $1.40.

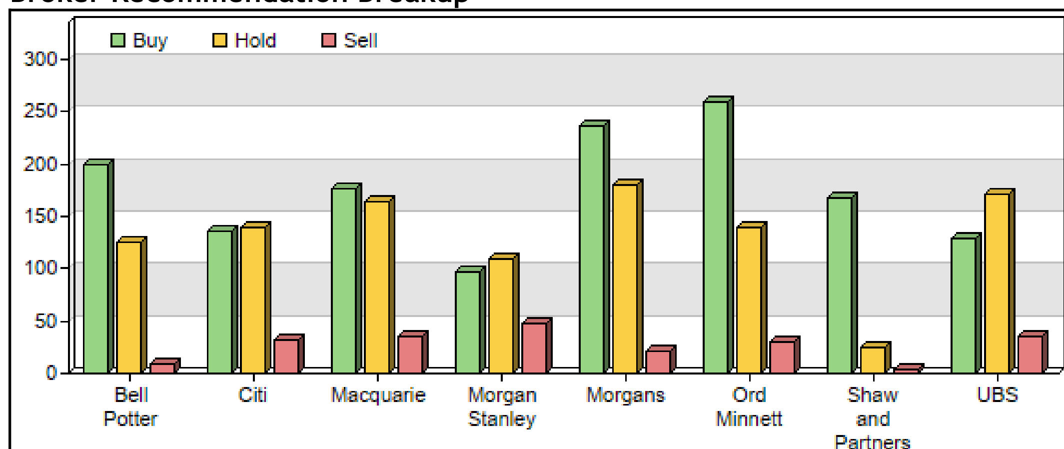
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	AUSTRALIAN FINANCE GROUP LIMITED	Buy	Neutral	Macquarie
2	BELLEVUE GOLD LIMITED	Neutral	Neutral	Ord Minnett
3	COCHLEAR LIMITED	Buy	Neutral	Citi
4	INTEGRAL DIAGNOSTICS LIMITED	Buy	Neutral	Citi
5	NEWMONT CORPORATION REGISTERED	Buy	Buy	Ord Minnett
6	PALADIN ENERGY LIMITED	Buy	Neutral	UBS
7	RESMED INC	Buy	Neutral	Citi
8	SERVICE STREAM LIMITED	Buy	Neutral	Ord Minnett
9	STRIKE ENERGY LIMITED	Buy	Neutral	Bell Potter
Downgrade				

10	ARB CORPORATION LIMITED	Neutral	Buy	Citi
11	CLINUVEL PHARMACEUTICALS LIMITED	Buy	Buy	Morgans
12	HARVEY NORMAN HOLDINGS LIMITED	Sell	Neutral	Ord Minnett
13	NRW HOLDINGS LIMITED	Buy	Buy	Citi
14	SOUTHERN CROSS MEDIA GROUP LIMITED	Buy	N/A	Ord Minnett
15	SUPPLY NETWORK LIMITED	Buy	Buy	Ord Minnett
16	TYRO PAYMENTS LIMITED	Neutral	Buy	Macquarie

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	GDG	GENERATION DEVELOPMENT GROUP LIMITED	5.617	4.883	15.03%	3
2	360	LIFE360 INC	27.160	25.297	7.36%	4
3	MPL	MEDIBANK PRIVATE LIMITED	4.595	4.333	6.05%	6
4	HVN	HARVEY NORMAN HOLDINGS LIMITED	5.175	4.900	5.61%	6
5	CMM	CAPRICORN METALS LIMITED	8.147	7.747	5.16%	3
6	APE	EAGERS AUTOMOTIVE LIMITED	15.556	14.956	4.01%	7
7	NEM	NEWMONT CORPORATION REGISTERED	86.300	83.000	3.98%	5
8	LNW	LIGHT & WONDER INC	201.333	193.833	3.87%	6
9	A1N	ARN MEDIA LIMITED	0.528	0.510	3.53%	4
10	BGL	BELLEVUE GOLD LIMITED	1.738	1.688	2.96%	4

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	IEL	IDP EDUCATION LIMITED	15.625	17.600	-11.22%	4
2	TYR	TYRO PAYMENTS LIMITED	1.234	1.350	-8.59%	5
3	LOT	LOTUS RESOURCES LIMITED	0.488	0.533	-8.44%	4
4	NWH	NRW HOLDINGS LIMITED	3.450	3.768	-8.44%	4
5	ARB	ARB CORPORATION LIMITED	40.950	42.893	-4.53%	6
6	OCL	OBJECTIVE CORPORATION LIMITED	16.083	16.767	-4.08%	3
7	STX	STRIKE ENERGY LIMITED	0.267	0.277	-3.61%	3
8	EDV	ENDEAVOUR GROUP LIMITED	4.675	4.835	-3.31%	6
9	IRE	IRESS LIMITED	9.568	9.893	-3.29%	4
10	DRR	DETERRA ROYALTIES LIMITED	4.270	4.410	-3.17%	5

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	BUB	BUBS AUSTRALIA LIMITED	0.550	-0.050	1200.00%	3
2	360	LIFE360 INC	57.025	34.459	65.49%	4
3	PXA	PEXA GROUP LIMITED	5.750	4.467	28.72%	5
4	TPG	TPG TELECOM LIMITED	18.975	15.550	22.03%	4
5	A1N	ARN MEDIA LIMITED	6.950	6.250	11.20%	4
6	LOT	LOTUS RESOURCES LIMITED	-0.300	-0.333	9.91%	4
7	AIS	AERIS RESOURCES LIMITED	7.200	6.567	9.64%	3
8	RIO	RIO TINTO LIMITED	1134.383	1036.155	9.48%	6
9	COH	COCHLEAR LIMITED	630.550	576.650	9.35%	5
10	TYR	TYRO PAYMENTS LIMITED	3.160	3.020	4.64%	5

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	STX	STRIKE ENERGY LIMITED	-0.700	0.450	-255.56%	3
2	BGL	BELLEVUE GOLD LIMITED	6.667	9.133	-27.00%	4
3	BOE	BOSS ENERGY LIMITED	6.017	7.333	-17.95%	7
4	LTM	ARCADIUM LITHIUM PLC	11.650	13.975	-16.64%	6
5	SDR	SITEMINDER LIMITED	-4.740	-4.080	-16.18%	5
6	CMM	CAPRICORN METALS LIMITED	35.650	40.250	-11.43%	3

7	RDY	READYTECH HOLDINGS LIMITED	4.450	4.950	-10.10%	4
8	IEL	IDP EDUCATION LIMITED	40.050	43.800	-8.56%	4
9	DGL	DGL GROUP LIMITED	5.033	5.400	-6.80%	3
10	RPL	REGAL PARTNERS LIMITED	23.367	24.867	-6.03%	3

Technical limitations

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WEEKLY REPORTS

Uranium Week: Capitulation Near The Bottom?

Tariff uncertainty, geopolitics and a global risk off tone all weighed down uranium market activity last week.

-Could the years ahead see supply overwhelming demand for yellow cake?
-Geopolitics, tariffs and Risk Off sentiment rumble the spot uranium market
-(Most) analysts agree uranium stocks on the ASX are undervalued

By Danielle Ecuyer

Spot Price and Long-Term Uranium Market

The dislocation between the short-term weakness in the uranium spot price and the longer-term outlook for demand/supply against what is often described as the "nuclear (energy) renaissance" came yet again into focus last week.

UBS expects nuclear power generation to expand strongly due to robust demand dynamics for clean energy. COP28 detailed a scenario under which nuclear power would triple out to 2050, necessitating over 30 new reactors per annum from 2030.

The last time this level of development occurred was during the Cold War. UBS anticipates nuclear generation to rise over 87% by 2040 from 2023 levels, which will require uranium supply of around 50kt by 2035.

To support the broker's forecast, there are around 70 proposed projects spread across the globe with an inferred uranium incentive price of US$77/lb.

While positive on the longer-term outlook and post an upgrade in the U308 price forecast by 10% to US$77/lb, UBS is more sanguine on near-term dynamics. Despite a decline in the price by around -30% to circa US$65/lb, the broker believes supply looks poised to exceed demand until the early 2030s.

Supply increases are attributed to the ramp-up of numerous large projects, the restart of existing projects such as **Paladin Energy**'s ((PDN)) Langer Heinrich mine, and three new projects in development, including **NexGen Energy**'s ((NXE)) Rook project.

Diverging Views on the uranium market

Ord Minnett has a different perspective on the outlook as this broker initiates coverage on the sector with the view that a structural supply deficit has emerged and will not be resolved until 2034.

Unlike UBS, which has downgraded its short-term U308 price outlook by -17%, Ord Minnett believes the price can be maintained above US$85/lb from 2026-2030, including a peak at US$101/lb by 2028 due to supply shortfall and utilities' need to rebuild inventories.

While uranium market aficionados might appreciate the structural aspects of the demand/supply cycle, the layperson's understanding might benefit from a brief overview of how the market works.

Ord Minnett explains long-term uranium suppliers do not consider the spot U3O8 market as representative of true market dynamics. Spot transactions are one-off deals, usually in relatively small volumes, that are settled within six months.

Trading is often light, and some 80% of the buyers are investors (funds), small miners, and intermediaries rather than consumers. Prices can be volatile and more sensitive to economic or geopolitical news rather than the underlying demand from utilities.

Yet, it is the stock market observers who watch the spot price, and often trading positions and stock prices will trade more akin to the U308 spot price than the underlying fundamentals of the commodity across a more medium-term outlook.

E&P (also known as Evans & Partners) is another broker to initiate coverage on uranium stocks and the sector and, like UBS, this broker anticipates a "modest" supply surplus to develop in the next few years, but much is

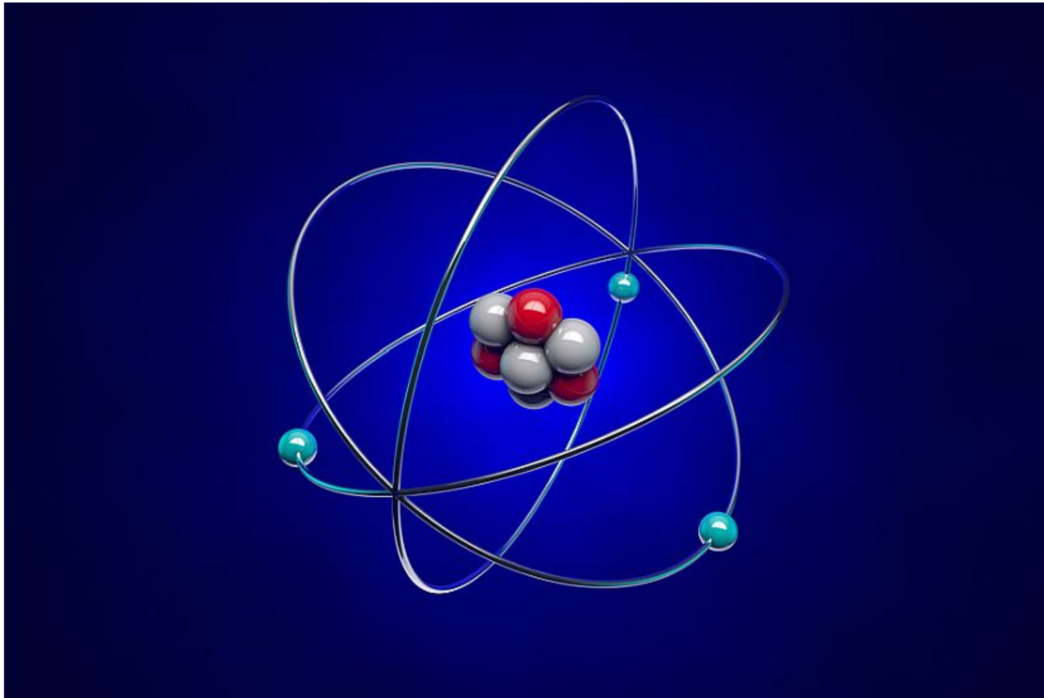
dependent on the ramp-up of new supply from Kazakhstan and Africa between 2025-2027.

The two regions are expected to represent around 70% of additional primary supply over the next two years. Kazatomprom is the main supplier, with E&P forecasting an additional 6mlbs of U3O8 in 2025 plus an additional 8mlbs in 2026, with supply from Inkai and Budenovskoye. These forecasts are not without potential challenges, including shortages of sulphuric acid used in the production process.

Turning to the demand factor, E&P embraces the "nuclear renaissance" narrative with a dose of reality. The analyst depicts challenges for new builds and the five-to-ten-year development timeline, while restarts are relatively "limited" in number.

The great nuclear generation hope, small modular reactors, are most likely a 2030s story due to an absence of commercial technology at this stage.

E&P incorporates a US$70/lb long-term uranium target price, which is highlighted as US$5/lb-US$10/lb higher than long-term demand prices were around three to five years ago. The revised forecast reflects inflation costs for uranium supply and a more upbeat outlook on nuclear energy supply and demand.



Retail investors give up on uranium stocks

Petra Capital believes retail investors have "capitulated" on uranium stocks, with the spot price down -40% from the high of US$107/lb in February 2024. General pessimism has not migrated onto the long-term uranium price, which has risen by 8% over the same period.

Like Ord Minnett, Petra draws a sharp contrast between the long-term contracts (market) and the spot market, with volumes of 102mlbs for the former versus 36.7mlbs for the latter, or 26% of the volumes sterm from the spot market.

Negativity around the sector is not believed to be representative of the true outlook and state of the uranium market. Commentary from Cameco infers to the broker only 7mlbs of purchases in the spot market were undertaken by utilities, not more than 6% of total utility volumes.

Ord Minnett believes utilities have been running down inventories, and contracting activity will accordingly pick up towards the end of the decade.

Petra has a longer-term uranium incentive price target of US$95/lb.

U308 spot market impacted by uncertainty

Industry consultants TradeTech point to another quiet week in the U3O8 spot market, with four transactions undertaken for 400klbs in volume. The consultant's spot price indicator declined by -US$1.25/lb to US$63.25/lb, against the Mid-Term price indicator at US$71/lb, and the Long-Term price indicator at US$80/lb.

The risk-off tone in US equity markets and uncertainty over the direction of the Trump administration's tariffs and escalating global trade tensions are not assisting sentiment in the spot market. President Trump's position

on Russia is also seen as offering mixed signals to the markets.

Both buyers and sellers are not disposed to adopting a position until there is more clarity around how tariffs on Canada and possibly sanctions on Russia impact imports of nuclear fuel to the US.

Translating a positive macro outlook to stocks

From a bird's eye view, two more brokers initiating coverage could be signaling a growing appetite to embrace uranium stocks and the sector.

E&P articulates the situation, stating, *"it is difficult to call the exact bottom in uranium equities, but we view further weakness as an opportunity*", specifically for the broker to add or start a position in **Boss Energy** ((BOE)), with a positive rating and $3 target price.

Boss is viewed as having fewer operational risks at its Honeymoon project compared to Paladin Energy's Langer Heinrich ramp-up. The latter is ascribed a negative rating and $5.70 target price.

UBS' reduction in the near-term U3O8 price leads to a cut in the target price for Boss by -6% to $3.20 but Boss remains Buy-rated.

The broker lowers its target price for Paladin by -4% to $9.70 and upgrades the stock to Buy as Langer Heinrich continues to "de-risk". The company's balance sheet has strengthened post the Fission acquisition, and after the share price decline of -16% year-to-date, value is believed to be emerging in the stock.

Ord Minnett also favors Boss, calling it the preferred stock pick for "asset quality." This broker anticipates Honeymoon will become the lowest-cost producer with all-in-sustaining costs of US$38/lb on the ASX.

With an initiation of coverage, Boss is ascribed a Buy rating and a $4.85 target price. The analyst likes the diversification of assets across two "well-respected" mining jurisdictions, as well as the potential to offer robust cash flow and high margins.

Canaccord Genuity has lowered Alta Mesa production forecasts (30% owned by Boss) and increased opex and capex assumptions due to the latest updates from enCore Energy (operator and 70% owner of the asset).

Canaccord has reduced Boss Energy's target price to $5.35 from $5.65. The stock is ascribed a Buy rating (Speculative).

Petra Capital also views uranium sector stocks as closer to a bottom. This broker suggested the market waits for a pickup in the replacement cycle rate in the contracting market.

Petra prefers the following Buy-rated stocks: **Aura Energy** ((AEE)), **Alligator Energy** ((AGE)), **Bannerman Energy** ((BMN)), **Lotus Resources** ((LOT)), and **NexGen Energy** ((NXG)).

FNArena produces a weekly Uranium update, for more reading check out:

https://fnarena.com/index.php/2025/03/04/uranium-week-lets-wait-see-what-happens/

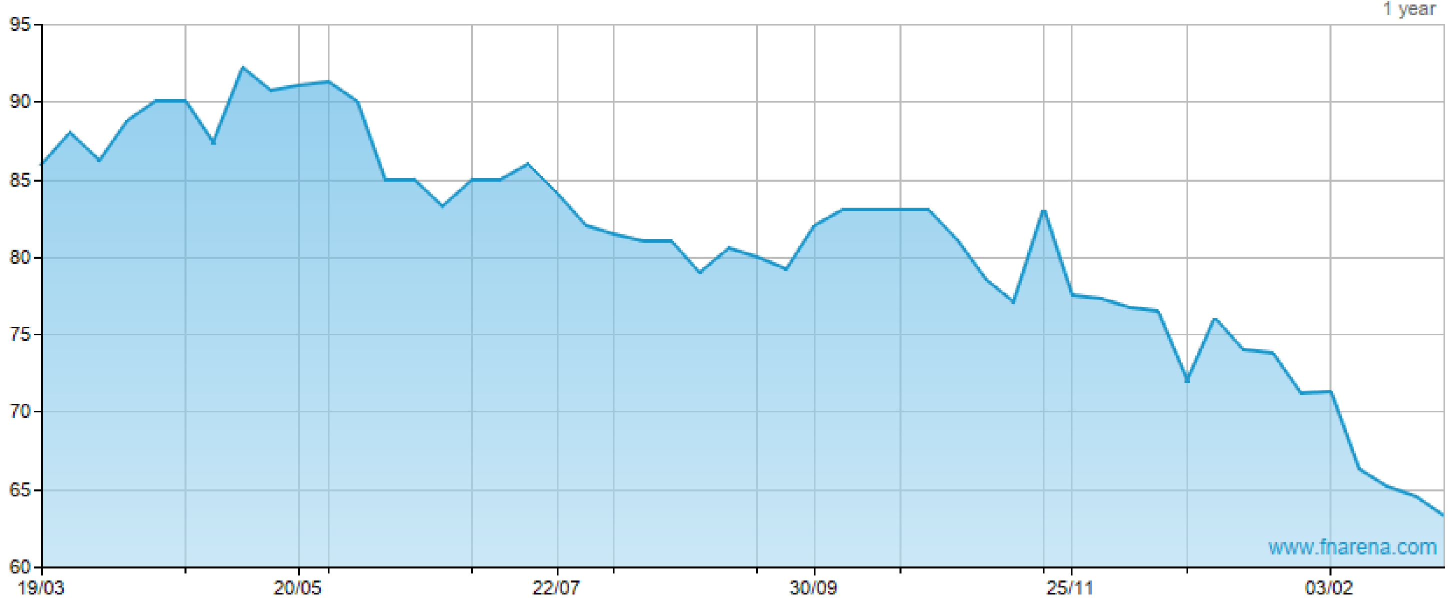
https://fnarena.com/index.php/2025/02/25/uranium-week-russia-come-back-uncertainty/

https://fnarena.com/index.php/2025/02/18/uranium-week-confusing-spot-weakness/

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	07/03/2025	0.0400	0.00%	$0.13	$0.03			
AEE	07/03/2025	0.1100	▼- 8.33%	$0.25	$0.11			
AGE	07/03/2025	0.0300	▼- 6.67%	$0.07	$0.03		$0.100	▲233.3%
AKN	07/03/2025	0.0100	0.00%	$0.04	$0.01			
ASN	07/03/2025	0.0600	▼- 1.72%	$0.17	$0.05			
BKY	07/03/2025	0.3750	▼- 3.10%	$0.45	$0.27			
BMN	07/03/2025	2.1200	▼- 9.28%	$4.87	$1.90		$7.400	▲249.1%
BOE	07/03/2025	2.2400	▼-12.88%	$5.99	$2.21	38.1	$3.986	▲77.9%
BSN	07/03/2025	0.0160	▼-15.79%	$0.15	$0.02			
C29	07/03/2025	0.0500	0.00%	$0.13	$0.03			
CXO	07/03/2025	0.0800	▼- 4.65%	$0.22	$0.08		$0.090	▲12.5%
CXU	07/03/2025	0.0100	0.00%	$0.05	$0.01			

DEV	07/03/2025	0.0800	▼- 4.88%	$0.45	$0.07			
DYL	07/03/2025	0.9800	▼- 6.51%	$1.83	$0.91	-367.5	$1.810	▲84.7%
EL8	07/03/2025	0.2100	▼- 8.70%	$0.62	$0.21			
ERA	07/03/2025	0.0020	0.00%	$0.06	$0.00			
GLA	07/03/2025	0.0100	0.00%	$0.03	$0.01			
GTR	07/03/2025	0.0030	▲50.00%	$0.01	$0.00			
GUE	07/03/2025	0.0700	0.00%	$0.13	$0.05			
HAR	07/03/2025	0.0500	▲ 4.17%	$0.17	$0.03			
I88	07/03/2025	0.3100	▼- 5.71%	$1.03	$0.14			
KOB	07/03/2025	0.0600	0.00%	$0.18	$0.05			
LAM	07/03/2025	0.6000	0.00%	$1.04	$0.48			
LOT	07/03/2025	0.1700	▼- 2.86%	$0.49	$0.16		$0.488	▲186.8%
MEU	07/03/2025	0.0500	▼- 4.08%	$0.06	$0.04			
NXG	07/03/2025	7.7200	▼- 7.09%	$13.66	$7.62		$16.600	▲115.0%
ORP	07/03/2025	0.0300	▼-25.00%	$0.12	$0.03			
PDN	07/03/2025	6.3200	▼- 9.01%	$17.98	$6.34	148.7	$11.171	▲76.8%
PEN	07/03/2025	0.7400	▼-11.49%	$2.70	$0.74		$4.810	▲550.0%
SLX	07/03/2025	3.8500	▼- 6.22%	$6.74	$3.35		$6.900	▲79.2%
TOE	07/03/2025	0.1800	0.00%	$0.52	$0.19			
WCN	07/03/2025	0.0200	▼-20.00%	$0.03	$0.01			



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WEEKLY REPORTS

The Short Report - 13 Mar 2025

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

Summary:

Week Ending March 6th, 2025 (most recent data available through ASIC).

10%+

BOE	21.86%
PDN	17.81%
PLS	12.51%
IEL	12.48%
DYL	12.07%
SYR	11.40%
MIN	10.82%
DMP	10.75%
CTT	10.49%
LTR	10.36%
KAR	10.34%

Out: SGR

9.0-9.9%

LIC	9.81%
LYC	9.59%
SGR	9.21%

In: SGR

8.0-8.9%

MP1	8.48%
RIO	8.04%

In: RIO
Out: DRO

7.0-7.9%

ADT	7.73%
SLX	7.49%
GMD	7.42%
STX	7.03%

In: STX
Out: SEK, RIO, CUV, AD8

6.0-6.9%

LOT	6.85%
JLG	6.79%
CIA	6.79%
DRO	6.72%
IMU	6.42%
PNV	6.26%
TWE	6.21%
IGO	6.18%

In: DRO, PNV, TWE, IGO
Out: STX, BGL, EDV, CHN

5.0-5.9%

CHN	5.92%
NHC	5.87%
INR	5.83%
SFR	5.59%
WEB	5.52%
CUV	5.42%
BMN	5.41%
NCK	5.32%
GYG	5.28%
FLT	5.15%
PWH	5.10%
CTD	5.09%
BGL	5.06%
KLS	5.00%

In: CHN, CUV, FLT, PWH, BGL, KLS
Out: TWE, PNV, RFF, IGO

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.5	0.5	NAB	0.8	0.7
ANZ	0.5	0.5	QBE	0.2	0.1
BHP	0.5	0.5	RIO	8.0	7.8
CBA	1.2	1.1	STO	0.5	0.4
COL	0.5	0.5	TCL	0.8	0.9
CSL	0.5	0.5	TLS	0.2	0.2
FMG	1.3	1.4	WBC	0.7	0.6
GMG	0.6	0.3	WDS	2.6	2.2
JHX	0.8	0.7	WES	0.5	0.5
MQG	0.6	0.6	WOW	0.7	0.6

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

FNArena has offered this qualified explanation of the vagaries of short stock positions as a warning to

subscribers not to jump to any conclusions or to make investment decisions based solely on these unqualified numbers. FNArena strongly suggests investors seek advice from their stock broker or financial adviser before acting upon any of the information provided herein.

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WEEKLY REPORTS

In Brief: Telcos, Gaming & Building Materials

Home grown focus on telcos offers respite from tariff turmoil, while analysts dig into trade impacts and cyclical challenges for gaming and building material companies.

-Trump tariffs shrink Canadian slot machine market
-Telcos take a bow
-Building materials, down but not out

Quote of the week comes from Tim Murray, Capital Markets Strategist, Multi-Asset Division at T. Rowe Price.

"The growing skepticism about the U.S. earnings outlook stands in sharp contrast to an incrementally more positive environment for non-U.S. stocks, particularly in Europe. The potential combination of economic acceleration and a more supportive interest rate environment has been particularly encouraging for Europe's banking sector, which has been out of favor with investors for much of the past two decades."

Caught in tariffs crossfire

While markets have been shooting first (selling stocks) on tariff concerns, analysts will be increasingly looking into the weeds for those Australian companies with US exposure to determine what, if any, impacts might be forthcoming.

Jarden has conducted such an exercise into **Light & Wonder** ((LNW)) and **Aristocrat Leisure** ((ALL)), possibly not the two companies that would spring to mind with potential tariff impacts.

The broker emphasises tariffs can also result in a smaller addressable market via tariff retaliations and points to recent media reports. Canadian provinces, including Alberta's Gaming and Liquor Commission and Lotteries and Gaming Saskatchewan, are reported as halting the purchase of US slot machines that were due to be upgraded this year.

Canada is a "*meaningful*" market that has been historically dominated by US-domiciled International Game Technology with a 45% market share for slots. Light & Wonder and Aristocrat are underweight in the market with respective shares of 20% and 18%.

Jarden believes both ASX-listed companies can and will "work around" as per the covid experience, given their global reach and scale of diversification. Light & Wonder noted in its 4Q 2024 trading update the potential impact of "single millions of dollars." The stock remains Buy-rated with a $200 target price. Aristocrat carries a Hold-equivalent rating with a $67 target price.

Telco stocks leading on growth and dividends

As of December 2024, the Australian broadband market had four major players representing 80% market share, but smaller providers have been taking share away.

Aussie Broadband ((ABB)) has lifted its market share to 7.8% in the latest December data, up from 5.7% in December 2021, Wilsons details.

Superloop ((SLC)) has increased to 6.2% from 1.7% over the same period. The Challenger market share rose to 19.8% in December 2024 from 9.9% in December 2021.

Management at Superloop believes Challenger market players could achieve a collective 30% share over the longer term based on international market trends. The broker views this as achievable.

Over the second half of 2024, compared to the first half, Superloop's NBN market share rose to 6.2% from 4%, or 152k NBN connections, while Aussie Broadband's share fell to 7.8% from 9%, a loss of -136k connections, as the transition of Origin Energy ((ORG)) customers to Superloop progressed. The most impact of the migration transition occurred in the September quarter and was completed in October.

Adjusting for the migrations, Wilsons' analyst points to net additions of 38k for Aussie Broadband and 37k for

Superloop.

Both players have a higher proportion of customers with over 100Mbps speed plans compared to the overall NBN market at 27.6%. Superloop has a higher tendency to better consumer gross margins, as it has a higher weighting to faster speeds, and there is less price competition than the 50Mbps plan, which is popular across the market, Wilsons explains.

The three major players, **Telstra Group** ((TLS)), **TPG Telecom** ((TPG)), and Tangerine (Vocus), continue to lose market share.

Jarden has a Buy-equivalent rating on both Superloop (target price $2.50) and Aussie Broadband (target price $4.35).

FNArena's consensus target price for Superloop stands at $2.613 with four Buy-equivalent ratings, and the consensus target price for Aussie Broadband is $4.523, also with four Buy-equivalent ratings.

Cash flow is king for major players

Turning to the incumbents, Jarden's deep dive into cash flow concludes both Telstra and TPG can "sustainably" grow their free cash flows out to FY28.

Ex-spectrum, the broker forecasts Telstra's free cash flow to advance to $3.654bn, or 33.2c per share, by FY28 from $2.16bn in FY24, or 18.7c per share, at a compound average growth rate of 15% per annum.

For TPG, ex-spectrum free cash flow is estimated to achieve a compound average growth rate of 22% to $865m, or 46.5c per share, in FY28 from $391m, or 21.1c per share, in FY24.

The major factors underpinning the growth in profitability and free cash flow are the maintenance of a *"relatively rational mobile market",* operating cost controls, margin expansion opportunities, and limited uptick in business-as-usual capex.

Jarden believes Telstra can pay a mid-20c dividend per share by FY28 and buy back over $2.25bn from FY25-FY28.

TPG, by comparison, is challenged by its current dividend framework and requires a reset, with the intended sale of its fibre assets and fixed enterprise, government, and wholesale business to Vocus seen as a great opportunity.

A special dividend of $1.23 could be paid if the Vocus transaction completes. Both stocks carry a Buy-equivalent rating, with a target price of $4.30 for Telstra and $5.10 for TPG.

FNArena's consensus price target for Telstra is $4.238 with three Buy-equivalent ratings, two Hold-equivalent, and one Sell rating.

TPG's consensus target price is $4.778, with one Buy-equivalent, two Hold, and one Sell-equivalent rating. Macquarie is on research restriction.

Building materials navigating cyclical hurdles and tariff

Post-earnings season, Goldman Sachs shines a torch on building materials companies.

After a rally of around 15% in **Fletcher Building**'s ((FBU)) share price, with a concurrent downward revision in consensus FY25/FY26 earnings before interest and tax forecasts of -3%, the broker highlights the company remains **"cyclically challenged"**.

The stock is downgraded to Sell with a $2.85 target price.

SGH Ltd ((SGH)), the renamed Seven Group Holdings, should continue to benefit from Boral's earnings momentum "despite a lack of macro support," the analyst says. Through WesTrac, Coates, and now 100% owned Boral, Goldman Sachs likes the exposure to Australia's mining, infrastructure, construction, and energy sectors. The stock remains Buy-rated with a $59.30 target price.

Reece ((REH)) has experienced a challenging share price de-rating over the last 12 months, falling -42% and down -29% over the last month. The stock remains at a higher valuation than its peers, the broker highlights, and as the recent result showed, the US opportunity is not "linear," with the valuation offering no room for short- to medium-term negative surprises as the North American housing cycle struggles to recover.

A Sell rating is retained, and the target price is lowered by -14% to $16.80 due to a slowing growth outlook, currently set at 4% over the next four years versus 14% over the last four years.

By contrast, Goldman Sachs sees **James Hardie Industries** ((JHX)) and **Reliance Worldwide** ((RWC)) as already

"priced for worse" in terms of tariff impacts, either direct or indirect, and ongoing uncertainty around the US housing cycle.

James Hardie is Buy-rated with a $59.45 target price, and Reliance is also Buy-rated with a $6 target. The broker believes the latter business is exhibiting US resilience, with UK uncertainty the key 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 - 14-03-25

Broker Rating Changes (Post Thursday Last Week)

Upgrade

BRICKWORKS LIMITED ((BKW)) Upgrade to Overweight from Neutral by Jarden.B/H/S: 0/0/0

Ahead of 1H25 result, Brickworks released an earnings update expecting a -13% y/y fall in North American revenues that compared with Jarden's forecast for a -8% decline. The company also flagged a significant fall in North America's EBITDA margin.

For the Australian business, the broker expects 1H to be a trough for building products, with residential construction looking poised for a rebound.

The broker cut EPS estimates by an average -6%, with lower US building product profits largely offsetting an improved Australian business.

Target price falls to $25.60 from $29.10. Rating upgraded to Overweight from Neutral on valuation grounds.

FLEETPARTNERS GROUP LIMITED ((FPR)) Upgrade to Buy from Hold by Canaccord Genuity.B/H/S: 0/0/0

Canaccord Genuity explains it is not upgrading FleetPartners Group to Buy from Hold because of higher earnings growth ahead.

One of the issues that has made the broker cautious previously has been a period where earnings have generated the equivalent of super profits, courtesy of a post-covid boom.

The upgrade is based on the fact this is a well-run company with relatively defensive and predictable earnings and one the largest fleet managers in a rational market that could experience further consolidation.

Canaccord Genuity believes the stock has become too cheap to ignore and maintains an unchanged target at $3.40.

HMC CAPITAL LIMITED ((HMC)) Upgrade to Overweight from Underweight by Jarden.B/H/S: 0/0/0

Jarden upgraded the rating on HMC Capital to Overweight from Underweight following the significant share price fall over the last three months.

The broker acknowledges ongoing challenges remain with its listed funds - HealthCo Healthcare & Wellness REIT ((HCW)) and Digico Infrastructure Reit Stapled Unit ((DGT)) but the price decline is still overdone.

The broker cut the target price to $8.65 from $9.95 to account for the risks in the uncertain macro environment but highlights a 17.5% upside risk if its 19% compounded growth for underlying EPS (FY25-28) comes to pass.

RELIANCE WORLDWIDE CORP. LIMITED ((RWC)) Upgrade to Overweight from Neutral by Jarden.B/H/S: 0/0/0

Jarden upgrades its rating for Reliance Worldwide to Overweight from Neutral, following recent share price underperformance. The $5.60 target is unchanged.

In the broker's view, Reliance remains well-positioned with exposure to large, fragmented global markets,

particularly in non-discretionary plumbing repair sectors, which provide significant growth opportunities.

Despite sluggish housing markets, the analysts note management's guidance for FY25 includes flat sales in the Americas and modest growth in the APAC region, with positive operating leverage expected in the medium term.

The company's margin resilience, strong product innovation, and strategic focus on core plumbing applications should support mid-to-high single-digit revenue growth and continued margin expansion, suggests Jarden.

SEEK LIMITED ((SEK)) Upgrade to Neutral from Sell by Goldman Sachs.B/H/S: 0/0/0

Goldman Sachs notes the Seek Employment Index rose 5.1% sequentially in January, marking the biggest jump since October 2021. While Seek had factored it in FY25 guidance, the broker reckons this could lead to a stronger volume trajectory in FY26.

The broker pushed the FY26 growth forecast by 1%, leading to a 3% rise in EBITDA estimate.

Target price rises to $25 from $24. Rating upgraded to Neutral from Sell following share price weakness.

Downgrade

CAPRICORN METALS LIMITED ((CMM)) Downgrade to Overweight from Buy by Jarden.B/H/S: 0/0/0

Most of Capricorn Metals' 1H numbers were pre-reported, so the main surprise for Jarden was the net profit of $43.1m missing its forecast, mainly due to hedge accounting of non-cash charges.

Cost of goods sold was also higher but this was due to the expensing of growth capex for Mt Gibson project, the broker explains.

Target price lifts to $8.14 from $7.99 based on the company's cash flow (cash was $355m in December and $363m including bullion). Rating downgraded to Overweight from Buy for valuation reasons.

The broker reiterates its preference for Capricorn as a core holding, noting its valuation would rise 70% if spot gold and forex prices are adopted in forecasts.

MEDADVISOR LIMITED ((MDR)) Downgrade to Hold from Buy by Canaccord Genuity.B/H/S: 0/0/0

Canaccord Genuity notes MedAdvisor's -24% y/y 1H25 revenue decline was pre-reported but the EBITDA beat didn't translate to higher cash flow.

The revenue decline was attributed to several factors and while the company showed conviction about improvement, the broker isn't confident about customer and pipeline conversion.

The broker would like to see a sustainable pathway to revenue growth, combined with the positive impact of Transformation 360.

The analyst lowered near-term revenue and earnings outlook. Target price cut to 19c (was 57c in November).

Rating downgraded to Hold from Buy.

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

Jarden comments NRW Holdings' 1H25 underlying net profit after tax of $58m missed consensus by -10%, impacted by an outstanding $113m creditor claim against OneSteel.

The broker notes management maintained FY25 earnings (EBIT) guidance of $205m-$215m, implying 2H25 margin improvement in mining and strength in mining, energy & tecnolology and civil.

Mining earnings margins will likely decline post-OneSteel, with an estimated -150bps impact requiring contract wins to offset.

Jarden's EPS forecasts are lowered by -3% for FY25 and -9% for FY26 due to revised assumptions on OneSteel recovery.

Target price cut to $3.10 from $3.85. Rating downgraded to Overweight from Buy.

PANTORO LIMITED ((PNR)) Downgrade to Hold from Buy by Moelis.B/H/S: 0/0/0

Pantoro's 1H25 result was mixed in Moelis' view with EBITDA beating its forecast but D&A coming at $56.2m vs the broker's $40.8m estimate.

The broker made minor revisions to forecasts with the key one being higher D&A and higher interest rate

assumption on leases.

No change to the 15c target price. Rating downgraded to Hold from Buy following recent share price gains.

The broker sees a higher output forecast of 100koz from 90koz pushing valuation to 20c/share.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	BRICKWORKS LIMITED	Buy	Neutral	Jarden
2	FLEETPARTNERS GROUP LIMITED	Buy	Neutral	Canaccord Genuity
3	HMC CAPITAL LIMITED	Buy	Sell	Jarden
4	RELIANCE WORLDWIDE CORP. LIMITED	Buy	Neutral	Jarden
5	SEEK LIMITED	Neutral	Sell	Goldman Sachs
Downgrade				
6	CAPRICORN METALS LIMITED	Buy	Buy	Jarden
7	MEDADVISOR LIMITED	Neutral	Buy	Canaccord Genuity
8	NRW HOLDINGS LIMITED	Buy	Buy	Jarden
9	PANTORO LIMITED	Neutral	Buy	Moelis

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
A1N	ARN Media	$0.60	Canaccord Genuity	0.95	1.20	-20.83%
ALK	Alkane Resources	$0.61	Petra Capital	1.30	1.04	25.00%
ALQ	ALS Ltd	$15.50	Goldman Sachs	17.75	14.85	19.53%
APE	Eagers Automotive	$15.15	Canaccord Genuity	17.00	11.00	54.55%
			Moelis	15.23	11.51	32.32%
AUE	Aurum Resources	$0.31	Petra Capital	0.93	0.59	57.63%
AZY	Antipa Minerals	$0.43	Canaccord Genuity	0.95	0.07	1257.14%
BC8	Black Cat Syndicate	$0.86	Petra Capital	1.62	1.10	47.27%
BGL	Bellevue Gold	$1.27	Canaccord Genuity	2.20	2.25	-2.22%
BHP	BHP Group	$38.24	Goldman Sachs	47.30	46.80	1.07%
			Goldman Sachs	47.40	46.80	1.28%
BKW	Brickworks	$22.53	Jarden	25.60	30.00	-14.67%
BMN	Bannerman Energy	$2.04	Canaccord Genuity	4.08	4.33	-5.77%
BOE	Boss Energy	$2.21	Canaccord Genuity	5.35	5.85	-8.55%
CMM	Capricorn Metals	$7.84	Goldman Sachs	7.70	7.55	1.99%
			Jarden	8.14	7.99	1.88%
CRD	Conrad Asia Energy	$0.75	Wilsons	1.52	2.03	-25.12%
CU6	Clarity Pharmaceuticals	$2.62	Wilsons	8.25	8.48	-2.71%
DSE	Dropsuite	$5.74	Petra Capital	6.75	5.90	14.41%
DUR	Duratec	$1.53	Taylor Collison	N/A	1.87	-100.00%
FEX	Fenix Resources	$0.27	Petra Capital	0.39	0.40	-2.50%
HMC	HMC Capital	$7.26	Jarden	8.65	9.95	-13.07%
HVN	Harvey Norman	$4.97	Goldman Sachs	4.30	4.00	7.50%
INR	ioneer	$0.15	Canaccord Genuity	0.27	0.40	-32.50%
KLS	Kelsian Group	$2.86	Canaccord Genuity	5.60	6.10	-8.20%
LOT	Lotus Resources	$0.17	Canaccord Genuity	0.37	0.42	-11.90%
MDR	MedAdvisor	$0.13	Canaccord Genuity	0.19	0.57	-66.67%
MEK	Meeka Metals	$0.13	Petra Capital	0.19	0.14	35.71%
MVF	Monash IVF	$1.15	Wilsons	1.43	1.46	-2.05%
NDO	Nido Education	$0.85	Wilsons	1.04	1.13	-7.96%
NEU	Neuren Pharmaceuticals	$11.03	Canaccord Genuity	28.12	29.00	-3.03%
			Wilsons	26.50	30.94	-14.35%
NWH	NRW Holdings	$2.70	Canaccord Genuity	3.55	3.82	-7.07%
			Jarden	3.10	3.85	-19.48%
NXD	NextEd Group	$0.16	Canaccord Genuity	0.35	0.34	2.94%
PEN	Peninsula Energy	$0.68	Canaccord Genuity	2.18	2.50	-12.80%

PNR	Pantoro	$0.15	Petra Capital	0.22	0.18	22.22%
QAN	Qantas Airways	$8.82	Goldman Sachs	11.80	8.05	46.58%
QBE	QBE Insurance	$20.59	Goldman Sachs	23.00	22.50	2.22%
QUB	Qube Holdings	$3.71	Goldman Sachs	4.65	N/A	N/A
RIO	Rio Tinto	$115.99	Goldman Sachs	143.50	143.70	-0.14%
RMS	Ramelius Resources	$2.15	Canaccord Genuity	2.90	3.25	-10.77%
SBM	St. Barbara	$0.20	Petra Capital	0.85	0.64	32.81%
SEK	Seek	$22.53	Goldman Sachs	25.00	24.00	4.17%
SHA	Shape Australia	$3.00	Petra Capital	3.50	3.59	-2.51%
SMI	Santana Minerals	$0.55	Canaccord Genuity	1.33	1.22	9.02%
SMP	SmartPay	$0.54	Canaccord Genuity	1.20	1.40	-14.29%
SNL	Supply Network	$36.33	Goldman Sachs	36.40	34.20	6.43%
SSM	Service Stream	$1.73	Canaccord Genuity	1.95	1.68	16.07%
STN	Saturn Metals	$0.25	Petra Capital	0.98	0.79	24.05%
SUN	Suncorp Group	$18.76	Goldman Sachs	24.67	21.00	17.48%
TLS	Telstra Group	$4.09	Jarden	4.30	4.20	2.38%
TPG	TPG Telecom	$4.42	Jarden	5.10	5.20	-1.92%
VAU	Vault Minerals	$0.44	Petra Capital	0.56	0.51	9.80%
			Petra Capital	0.68	0.51	33.33%
WGX	Westgold Resources	$2.64	Petra Capital	4.36	3.25	34.15%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

APE EAGERS AUTOMOTIVE LIMITED

Automobiles & Components Overnight Price: $15.23

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

Canaccord Genuity notes new vehicle sales was -7.9% y/y lower in February which was consistent with its view that sales will be lower in 2025 vs 2024's record 1.23m.

The broker reckons lower sales matter less for Eagers Automotive given expectations of increased BYD sales in FY25 and anticipated contribution from acquisitions.

The broker also notes the company's 2H24 result showed improved efficiency which will help offset margin pressure in the industry.

Buy rating and target price of $17.

This report was published on March 5, 2025.

Target price is **$17.00** Current Price is **$15.23** Difference: **$1.77**
If **APE** meets the Canaccord Genuity target it will return approximately **12%** (excluding dividends, fees and charges).
Current consensus price target is **$15.56**, suggesting downside of **-0.0%**(ex-dividends)

Forecast for FY25:

Current consensus EPS estimate is **100.9**, implying annual growth of **25.8%**.
Current consensus DPS estimate is **71.4**, implying a prospective dividend yield of **4.6%**.
Current consensus EPS estimate suggests the PER is **15.4**.

Forecast for FY26:

Current consensus EPS estimate is **106.1**, implying annual growth of **5.2%**.
Current consensus DPS estimate is **71.2**, implying a prospective dividend yield of **4.6%**.
Current consensus EPS estimate suggests the PER is **14.7**.

Market Sentiment: **0.5**

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

AUE AURUM RESOURCES LIMITED

Gold & Silver Overnight Price: $0.28

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

Petra Capital raised its forecast for the gold price by 11% to US$2,580/oz for 2025-2029, and by 15% to US$2,300 post-2029 on expectations of continued demand for gold for risk diversification and as a currency alternative to the US dollar.

This resulted in an upgrade to earnings and valuations for gold stocks under coverage. The broker remains overweight on the sector.

Aurum Resources is one of two preferred emerging stocks. The broker assumes a $25M equity raise in FY26 via 62.5m shares at 40c/share and a $50m equity raise in FY28 via 125m shares at 40c/share.

Target price rises to 93c from 59c. Buy maintained.

This report was published on March 7, 2025.

Target price is **$0.93** Current Price is **$0.28** Difference: **$0.645**
If **AUE** meets the Petra Capital target it will return approximately **226%** (excluding dividends, fees and charges).

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

AZY ANTIPA MINERALS LIMITED

Mining Overnight Price: $0.39

Canaccord Genuity rates ((AZY)) as Speculative Buy (1)

Antipa Minerals has retained full ownership of the Wilki Project, notes Canaccord Genuity, after Newmont Corp ((NEM)) decided to withdraw from its farm-in agreement.

This withdrawal allows Antipa to fully control a vast expanse of land, with several exciting greenfield targets, including the Parklands and Jezabeel prospects, highlights the broker.

Management plans to undertake up to 16,000m of drilling in 1H 2025, with Parklands as the primary focus.

Canaccord has raised its target price to 95 cents from 70 cents, reflecting the increased value from the full retention of Wilki and reduced forecast dilution. The Speculative Buy rating remains unchanged.

This report was published on March 5, 2025.

Target price is **$0.95** Current Price is **$0.39** Difference: **$0.56**
If **AZY** meets the Canaccord Genuity target it will return approximately **144%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

> Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 3.00** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 13.00**.

Forecast for FY26:

> Canaccord Genuity forecasts a full year **FY26** dividend of **0.00** cents and EPS of **minus 3.00** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 13.00**.

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

JDO JUDO CAPITAL HOLDINGS LIMITED

Business & Consumer Credit Overnight Price: $1.94

Jarden rates ((JDO)) as Initiation of coverage with Buy (1)

Jarden has initiated coverage on Judo Capital Holdings with a Buy rating and target price of $2.60.

The broker notes new customer lending spreads have now returned to at least 450bps spread over 1-month BBSW (had dropped to less than 400bps) reflecting the bank's positioning in the niche SME lending of $250k-10m range.

The analyst believes there is potential to boost the net interest margin by 30bps via a move to a liquidity coverage ratio from the minimum liquidity holding model.

The broker assesses the bank's specialist SME lender position is unlikely to be threatened by big four banks as they typically don't venture below $15m, and scaling up only means 2-3% of market share in both assets and liabilities.

Judo Capital also has IT advantage given no legacy/tech debt. A key negative is any funding market disruption could hurt the bank's ability to stay liquid.

This report was published on March 5, 2025.

Target price is **$2.60** Current Price is **$1.94** Difference: **$0.66**
If **JDO** meets the Jarden target it will return approximately **34%** (excluding dividends, fees and charges).
Current consensus price target is **$2.15**, suggesting upside of **11.8%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

> Jarden forecasts a full year **FY25** dividend of **0.00** cents and EPS of **8.00** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **24.25**.
>
> How do these forecasts compare to market consensus projections?
>
> Current consensus EPS estimate is **7.8**, implying annual growth of **23.6%**.
> Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
> Current consensus EPS estimate suggests the PER is **24.6**.

Forecast for FY26:

> Jarden forecasts a full year **FY26** dividend of **0.00** cents and EPS of **14.00** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **13.86**.
>
> How do these forecasts compare to market consensus projections?
>
> Current consensus EPS estimate is **12.0**, implying annual growth of **53.8%**.
> Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
> Current consensus EPS estimate suggests the PER is **16.0**.

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

PEN PENINSULA ENERGY LIMITED

Uranium Overnight Price: $0.68

Canaccord Genuity rates ((PEN)) as Speculative Buy (1)

Canaccord Genuity has delayed its forecast for the first U308 production at the Lance Project to the September quarter from June which compares with Peninsula Energy's forecast for the June quarter (pushed back from March).

The broker's reasons include issues hiring skilled labour, restructuring delays with change in management, and general conservatism following new-end processing capacity.

The company had US$49.9m cash balance in December and announced it is in discussions for additional funding with the US government and international financiers.

Target price cut to $2.18 from $2.50. Speculative Buy maintained.

This report was published on March 11, 2025.

Target price is **$2.18** Current Price is **$0.68** Difference: **$1.5**
If **PEN** meets the Canaccord Genuity target it will return approximately **221%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

> Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 7.80** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 8.71**.

Forecast for FY26:

> Canaccord Genuity forecasts a full year **FY26** dividend of **0.00** cents and EPS of **5.36** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **12.70**.

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

WGX WESTGOLD RESOURCES LIMITED

Gold & Silver Overnight Price: $2.44

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

Petra Capital raised its forecast for the gold price by 11% to US$2,580/oz for 2025-2029, and by 15% to US$2,300 post-2029 on expectations of continued demand for gold for risk diversification and as a currency alternative to the US dollar.

This resulted in an upgrade to earnings and valuations for gold stocks under coverage. The broker remains overweight on the sector.

The broker's preferred stock in the producer space is Westgold Resources. Target price rises to $4.36 (was $3.25 on February 17).

Buy maintained.

This report was published on March 7, 2025.

Target price is **$4.36** Current Price is **$2.44** Difference: **$1.92**
If **WGX** meets the Petra Capital target it will return approximately **79%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

> Petra Capital forecasts a full year **FY25** dividend of **2.50** cents and EPS of **22.10** cents.
> At the last closing share price the estimated dividend yield is **1.02%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **11.04**.

Forecast for FY26:

Petra Capital forecasts a full year **FY26** dividend of **10.00** cents and EPS of **48.30** cents.
At the last closing share price the estimated dividend yield is **4.10%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **5.05**.

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

WJL WEBJET GROUP LIMITED

Travel, Leisure & Tourism Overnight Price: $0.65

Wilsons rates ((WJL)) as Initiation of coverage with Overweight (1)

Wilsons initiated coverage of Webjet Group with an Overweight rating and target price of 97c.

The broker notes the company has expanded its EBITDA margin to 45% in FY24 from 40% in FY19 despite headwinds from weakness in domestic flight bookings and constraints from global motorhome supply.

Looking ahead, the broker sees near-to-medium-term growth opportunities from domestic flight booking recovery, further growth in international flight bookings, including other related services, and potential recovery in GoSee. The broker also sees an opportunity for online channel growth.

The analyst forecasts FY25 EBITDA of $38.8m compared to the company's guidance of around $39.1m. For FY26, the broker estimates 11% lift in EBITDA on cost-out in GoSee and growth in international bookings.

Key risks include loss of market share and macro weakness.

This report was published on March 12, 2025.

Target price is **$0.97** Current Price is **$0.65** Difference: **$0.32**
If **WJL** meets the Wilsons target it will return approximately **49%** (excluding dividends, fees and charges).
The company's fiscal year ends in March.

Forecast for FY25:

Wilsons forecasts a full year **FY25** EPS of **5.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **13.00**.

Forecast for FY26:

Wilsons forecasts a full year **FY26** dividend of **3.40** cents and EPS of **6.00** cents.
At the last closing share price the estimated dividend yield is **5.23%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.83**.

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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