WEEK 41

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Friday, 11 October 2024

WiseTech In Global Supply Chain Sweet Spot

Australian Banks: When The End Of The Trend?

Rudi's View: Market Reflects Risk & Opportunities

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FNArena
Financial News, Data & Analysis

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AUSTRALIA

The Market In Numbers - 5 Oct 2024

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

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

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

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

Australia & NZ

Index	05 Oct 2024	Week To Date	Month To Date (Oct)	Quarter To Date (Oct-Dec)	Year To Date (2024)	Financial Year To Date (FY25)
NZ50	12619.940	1.30%	1.58%	1.58%	7.22%	7.70%
All Ordinaries	8416.60	-0.71%	-1.43%	-1.43%	7.50%	5.03%
S&P ASX 200	8150.00	-0.76%	-1.45%	-1.45%	7.37%	4.92%
S&P ASX 300	8091.00	-0.75%	-1.44%	-1.44%	7.37%	4.97%
Communication Services	1598.70	0.04%	0.36%	0.36%	0.66%	6.49%
Consumer Discretionary	3742.60	-2.55%	-2.51%	-2.51%	15.51%	6.58%
Consumer Staples	12293.60	-1.59%	-1.38%	-1.38%	-0.14%	-0.68%
Energy	9495.20	6.73%	4.01%	4.01%	-10.61%	-5.35%
Financials	8029.80	-1.97%	-2.33%	-2.33%	19.52%	4.87%
Health Care	44580.20	1.55%	1.15%	1.15%	5.29%	0.73%
Industrials	7358.10	-0.60%	-1.19%	-1.19%	7.17%	8.02%
Info Technology	2659.00	-1.43%	-2.15%	-2.15%	45.07%	13.56%
Materials	17760.50	-1.33%	-3.04%	-3.04%	-8.87%	5.23%
Real Estate	4067.10	0.84%	0.39%	0.39%	21.49%	14.14%
Utilities	9060.30	0.89%	0.86%	0.86%	10.77%	-2.42%
A-REITs	1855.50	0.88%	0.40%	0.40%	23.50%	14.23%
All Technology Index	3461.90	0.49%	-0.35%	-0.35%	28.50%	10.33%
Banks	3345.20	-2.22%	-2.78%	-2.78%	20.35%	4.69%
Gold Index	8616.10	-3.10%	-1.21%	-1.21%	16.94%	17.11%
Metals & Mining	5809.40	-1.29%	-3.04%	-3.04%	-10.16%	4.66%

The World

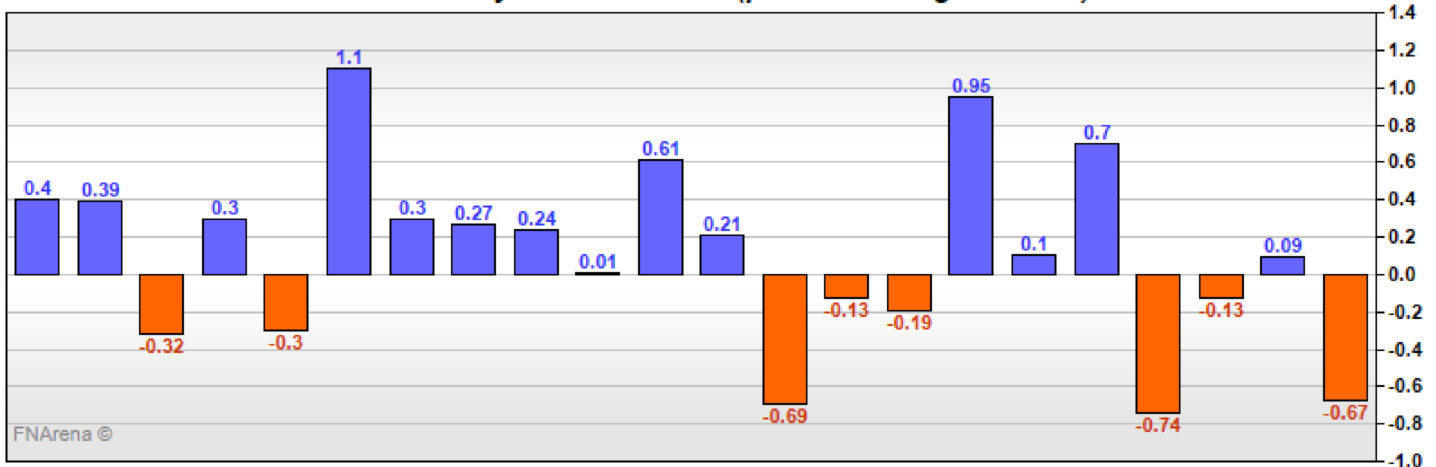
Index	05 Oct 2024	Week To Date	Month To Date (Oct)	Quarter To Date (Oct-Dec)	Year To Date (2024)	Financial Year To Date (FY25)
FTSE100	8280.63	-0.48%	0.53%	0.53%	7.08%	1.43%
DAX30	19120.93	-1.81%	-1.06%	-1.06%	14.14%	4.86%
Hang Seng	22736.87	10.20%	7.59%	7.59%	33.37%	28.32%
Nikkei 225	38635.62	-3.00%	1.89%	1.89%	15.45%	-2.39%
DJIA	42352.75	0.09%	0.05%	0.05%	12.37%	8.27%
S&P500	5751.07	0.22%	-0.20%	-0.20%	20.57%	5.32%
Nasdaq Comp	18137.85	0.10%	-0.28%	-0.28%	20.83%	2.29%

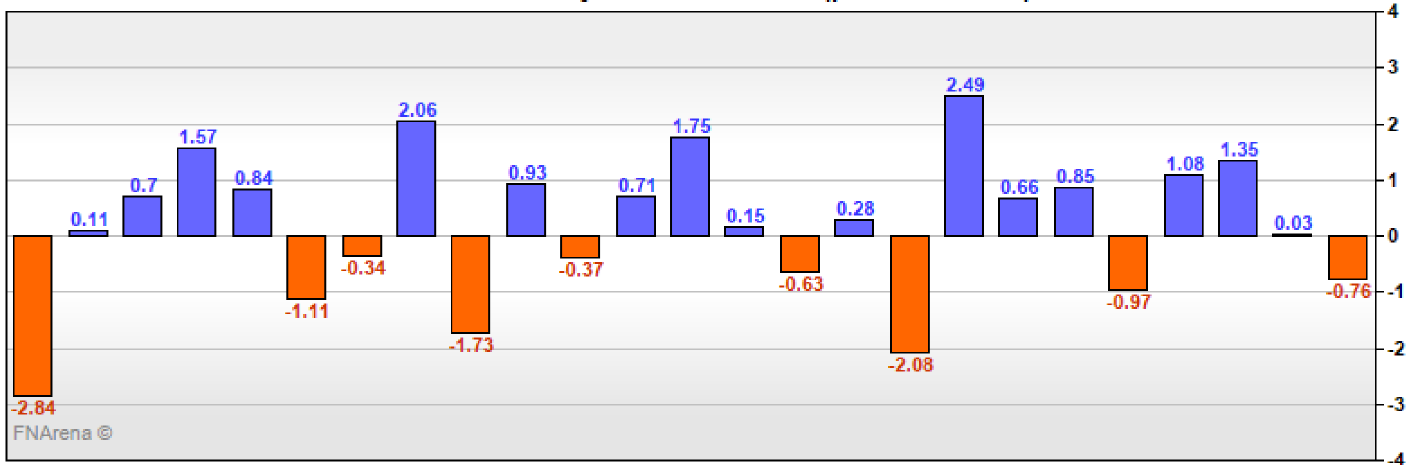
Metals & Minerals

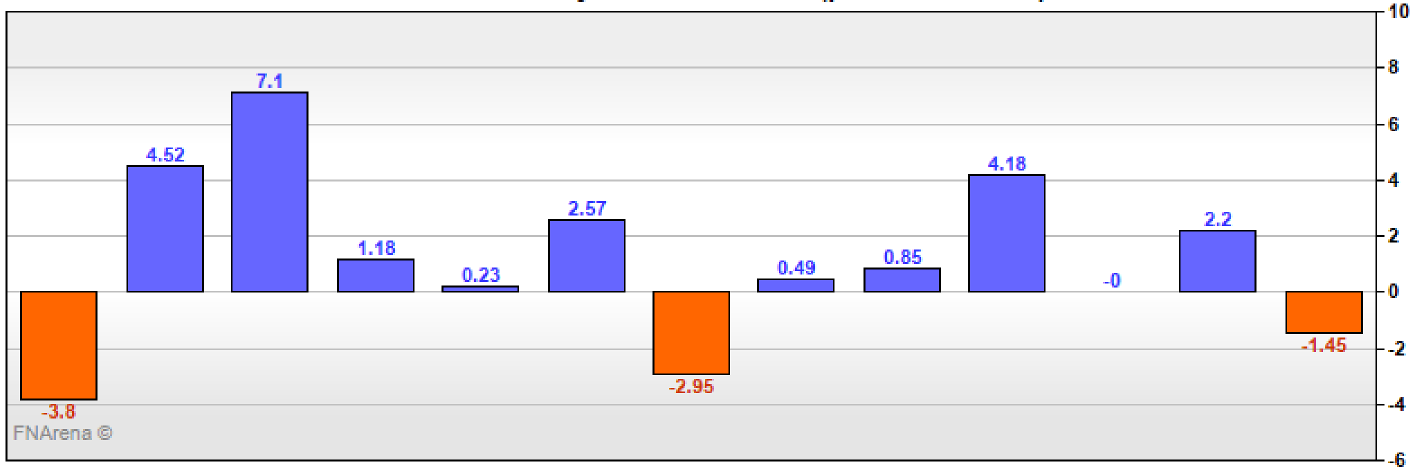
Index	05 Oct 2024	Week To Date	Month To Date (Oct)	Quarter To Date (Oct-Dec)	Year To Date (2024)	Financial Year To Date (FY25)
Gold (oz)	2675.90	-0.71%	-0.21%	-0.21%	30.88%	14.45%
Silver (oz)	32.29	-0.03%	1.19%	1.19%	32.44%	10.39%
Copper (lb)	4.5450	1.72%	-1.16%	-1.16%	19.35%	4.88%
Aluminium (lb)	1.1880	0.73%	0.12%	0.12%	22.18%	5.65%
Nickel (lb)	8.0213	6.06%	4.60%	4.60%	7.86%	3.13%
Zinc (lb)	1.4040	0.68%	1.30%	1.30%	24.84%	5.87%
Uranium (lb) weekly	82.	3.47%	0.00%	0.00%	-4.65%	-1.50%
Iron Ore (t)	108.31	17.04%	16.49%	16.49%	-21.65%	1.69%

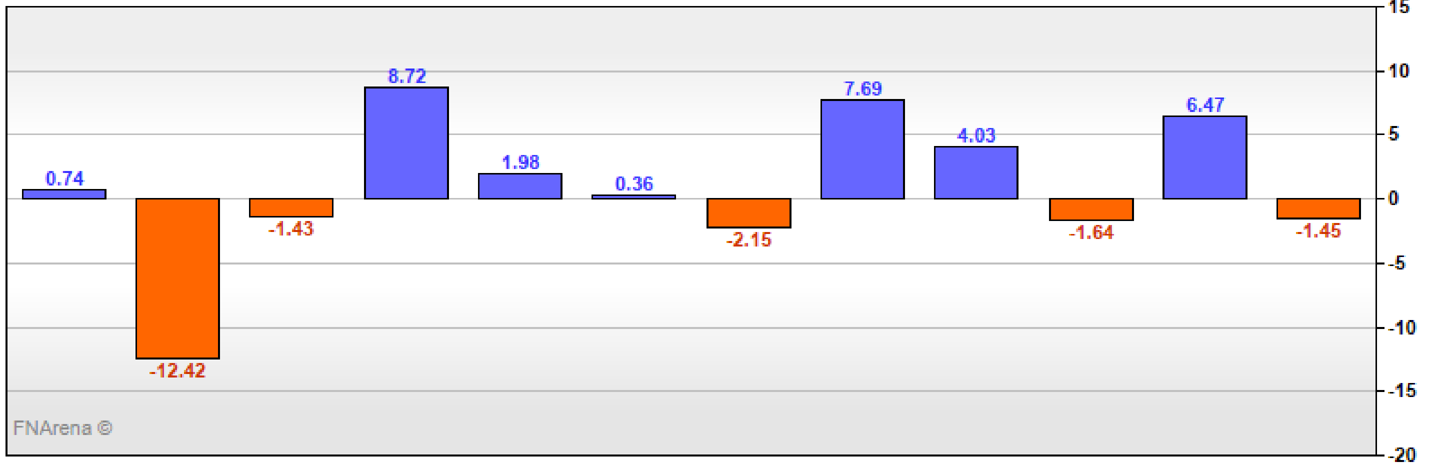
Energy

Index	05 Oct 2024	Week To Date	Month To Date (Oct)	Quarter To Date (Oct-Dec)	Year To Date (2024)	Financial Year To Date (FY25)
West Texas Crude	73.69	9.27%	7.36%	7.36%	-0.16%	-9.98%
Brent Crude	77.64	9.54%	8.53%	8.53%	-2.04%	-9.13%









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

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AUSTRALIA

The Case For Charter Hall

RBA rate hikes have weighed heavily on Australia's property market, but since a better than expected FY24 result, and the assumption the RBA is soon to cut, brokers believe Charter Hall shares have seen the trough.

-August saw better-than-expected FY24 result from Charter Hall
-Signs of a pick-up and an earnings trough
-Guidance typically conservative
-Central banks now cutting rates

By Greg Peel

In late September, Morgan Stanley reversed its "rather bearish" assumptions to formulate a revised price target for Charter Hall Group ((CHC)). The broker took its target to $18.50 from $15.80.

This put Morgan Stanley's target well ahead of the pack, but the broker's update is the most recent from said pack. Six brokers monitored daily or frequently by FNArena cover Charter Hall.

Charter Hall Group is a property developer and property fund manager operating across the core real estate sectors of Industrial & Logistics, Office, Retail and Social Infrastructure. The group offers both unlisted and listed real estate investment trusts (REIT) the latter including Charter Hall Retail REIT ((CQR)), Charter Hall Social Infrastructure REIT ((CQE)), and Charter Hall Long WALE REIT ((CLW)).

The Retail REIT is a landlord to retail businesses (shopping centres). Social Infrastructure can include childcare centres and education facilities, health and transport assets and government services (e.g. justice and emergency facilities). Long WALE (weighted average lease expiry) offers the security of longer-dated tenancy.

Charter Hall was flying high in late 2021, trading over $20 per share, when the spectre of runaway inflation loomed over the Australian and global economies. The share price began to drop in January 2022 as the market anticipated the first RBA rate rise, which was duly implemented in May.

The last RBA rate hike was in November 2023, to 4.35%, where it has remained ever since. In October 2023, shares in Charter Hall bottomed out under $9.00. Higher cash rates lead to higher government bond rates. While REITs typically yield above bond rates, they are risk assets, and they do not attract dividend franking.

Relief Ahead?

Treasurer Jim Chalmers goes to bed every night dreaming of the day Michele Bullock announces the first RBA rate cut. The RBA has been a laggard in the rate cutting game, given the ECB, Bank of England, RBNZ, and the central banks of Canada, Sweden and Switzerland, among others, have all now done so, along with, most importantly, the US Federal Reserve last month.

Since the Fed cut its rate by -50 basis points, the S&P500 and the ASX200 have both hit new all-time highs. Bullock has remained stubborn, but economists assume the first RBA cut will come if not by the end of this year, at least by early next year. It is important to note most of the above central banks had hiked to peak rates above that of the RBA.

The anticipation of a sooner rather than later RBA rate cut, along with a better than expected FY24 earnings result announced in August, has sent Charter Hall's share price back up from its October 2023 trough to around $15.70 currently. The result alone triggered a 20% jump in share price on the day.

Trough Earnings?

UBS noted post the result release the quality of management's earning's guidance is better than expected with no performance fees assumed, and a bullish tone suggests the property valuation cycle is near its nadir, with transactions to pick up again in FY25.

Higher interest rates have led to falling property valuations over the RBA's rate hike cycle.

Despite UBS' positive view, the broker saw the day's share price jump as overdone, and as a result downgraded its rating on Charter Hall to Sell from Neutral. All other brokers retained their Buy or equivalent ratings. The common view among brokers was that Charter Hall had now reached an earnings trough, that there were signs of a pick-up in activity and investment opportunities, and the devaluation cycle was also nearing its nadir.

Charter Hall surprised the market with stronger than expected FY25 operating earnings guidance, despite asset under management headwinds. Jarden believes this suggests management is seeing signs of transactional activity and investment opportunities pick up. This, combined with cost discipline, an attractive and well managed development pipeline and operating leverage, should set the group up for a strong earnings recovery over the next two to three years, in Jarden's view.

The broker further suggested while many REIT peers are trying to build (new) fund management capabilities, Charter Hall's strong track record will allow it to outperform, which is not reflected in valuation.

Valuation heading into the FY24 result was at a 14x PE compared to a long term average of 17x, Macquarie noted, which informed the broker's Outperform rating at the time. The subsequent share price rally had taken the PE to 20x by Morgan Stanley's late September update.

Aside from the result itself, and rate cut anticipation, Charter Hall received an added boost in early September by being included in the FTSE EPRA Nareit Global Real Estate Index. That index was rebalanced in late September leading to additional shares being purchased by funds tracking the index. This phenomenon was also witnessed for shares in Goodman Group ((GMG)) earlier.

Too Expensive Now?

As noted, UBS saw Charter Hall as overvalued on the back of its result rally. The stock's long term average PE is 17x but Charter Hall has more recently traded at 20x, based on management's guidance of 79c earnings per share in FY25. Yet, as Morgan Stanley highlighted, from early 2019 to early 2022 the stock traded on 25-26x multiples.

Through that period, the market had anticipated around a 10% compound annual growth rate for assets under management and earnings per share growth. At present, Morgan Stanley points out, the market is not substantially lower at 7-8%.

Conservatively, in Morgan Stanley's words, assuming 15% of assets under management is a fair representation of deals per year through-cycle, plus some very modest performance fees, the broker estimates 86cps is a fair normalised earnings per share number, under current operating conditions. So from a top-down perspective, 22-23x PE, on 86c EPS, translates to a valuation of $19-20 per share, which is broadly in line with the broker's revised bottom-up driven $18.50 price target.

Morgan Stanley has an Overweight rating.

Another common theme among brokers is to point out Charter Hall has a track record of posting conservative guidance. Between FY17 and FY23 guidance upgrades averaged 20%, Macquarie notes, and that includes only 4% in FY23 as RBA rates were on the rise.

To Sum Up

Brokers agree Charter Hall has likely now seen a trough in earnings, and that management's guidance may well prove conservative, as has typically been the case. Property valuations may have further to fall, but by the second half of FY25 should be back on the rise again, courtesy of expected RBA rate cuts.

Having updated on the August result, Macquarie (Outperform) set a target of $14.30, Ord Minnett (Accumulate) $14.50, and Jarden (Overweight) $14.50. UBS (Sell) was the outlier on $12.80.

Citi (Buy) had set a $14.70 target, which it retained when Charter Hall was added to the above-mentioned global REIT index.

Morgan Stanley (Overweight; $15.80) has posted the most recent update. At the time of writing, the stock is trading at $15.70.

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AUSTRALIA

WiseTech In Global Supply Chain Sweet Spot

New research highlights WiseTech Global's software will be in demand to help supply chains recover and meet new e-commerce requirements.

-WiseTech Global's upside from disrupted supply chains
-Rising e-commerce also requires cheaper, agile solutions
-Benefits of customer consolidation and new product releases
-Brokers' views on FY24 results and the outlook

By Mark Woodruff

Over several years, disruptions to supply chains have resulted in organisations increasing inventories and seeking suppliers closer to home, reversing years of just-in-time optimisation and globalisation.

The cumulative impact of covid, natural disasters, trade disputes, and ongoing geopolitical conflict has exposed this supply chain fragility, explains RBC Capital Markets.

In addition, the 'Amazon effect' is raising consumer expectations for visibility and shorter delivery times, and the rise of e-commerce in general has disrupted how business-to-consumer (B2C) companies organise their supply chains by making real-time visibility an essential feature.

Software is a key part of the solution to help supply chains recover, suggests the broker, and will increase supply chain agility, while also reducing costs.

Already, global supply chains are undergoing end-to-end digital transformations.

Across RBC Capital Markets' global coverage, WiseTech Global ((WTC)) is identified as one company set to benefit from this increased demand for software over the next several years.

Providing cloud-based logistics software, primarily to freight forwarders and third-party logistics (3PL) providers, WiseTech counts 11 of the top 25 global freight forwarders as CargoWise software customers and is the clear global leader in the Transport Management System (TMS) market.

CargoWise makes up the bulk of WiseTech's revenues.

All up, 87% of total revenue in the first half of FY24 was organic, points out RBC, with 97% of this organic revenue recurring in nature.

RBC's deep dive into industry dynamics suggests adjacencies are also ripe for disruption, noting management is aiming to expand the customer proposition and addressable market beyond WiseTech's core competency of international freight forwarding into warehousing, landside logistics, customs, and compliance.

Overall, the analysts are positive on the company's market position, growth runway and class leading software platform.

Positives include a technological product advantage with over 20 years of large R&D spend and expansion into new adjacencies. The analysts also point to pricing power, along with multiple global reference customers with low levels of churn.

Industry background and main players

The fastest growing market in the enterprise software segment, according to leading research company Gartner, is the US$29bn supply chain management (SCM) sector, which is growing at a 16% compound annual growth rate (CAGR).

Around 30% of this growth is expected to come from end-to-end supply chain and orchestration platforms.

Large ERP players SAP and Oracle typically bundle SCM into large ERP contracts, explains RBC, which provides

a significant sales advantage over third party providers.

On the flipside, SCM is a relatively small portion of total revenue for these incumbents, and consequently is less of a focus in terms of innovation compared to pure-play vendors like WiseTech, highlights the broker.

WiseTech primarily competes against in-house platforms, which often lack functionality such as customs clearance, warehousing, and international eCommerce, which CargoWise can provide.

Rising demand exists for next-generation SCM software providers that offer more flexible, interoperable solutions. This is because many large companies, (especially those that grow through acquisitions) often have multiple ERP systems from different vendors, which require manual workarounds.

Further, 3PLs are increasingly demanding platforms that can support such features as real-time tracking, automation and advanced data analytics.

Growing via customer consolidation

In mid-September, the number three global freight forwarder, Denmark-based DSV (a CargoWise customer) agreed to acquire the number four player DB Schenker located in Germany, highlighting how leverage can play to WiseTech's advantage.

DSV's air and freight volumes will rise with the absorption of DBS, which is not a WiseTech customer.

This outcome partly demonstrates Morgan Stanley's investment thesis for WiseTech, which also relies upon the ability of key customers to grow their businesses faster than the industry average due to higher organic growth from greater efficiencies, which enables bids for new customers and contracts.

Upside from new products

Management plans to release CargoWise Next, Container Transport Optimisation, and ComplianceWise in the first half of FY25 (current half).

Jarden recently stated new product development is perhaps the most under-appreciated lever for growth, noting key drivers also include new customer growth and higher penetration of existing customers.

Along with global roll-outs for the likes of DB Schenker, Citi recently highlighted WiseTech's near-term growth is underpinned by these new products/enhancements, and suggested management's earnings margin guidance looks conservative.

Goldman Sachs believes Phase 1 of ComplianceWise will be a more meaningful near-term revenue contributor given less barriers to adoption.

On the other hand, this broker views Container Transport Optimisation as the most exciting product launch, though sees some challenges in terms of adoption cadence and ultimate success. This product is considered a significant medium-term opportunity as it helps resolve a well-entrenched industry problem of container inefficiency.

The product will be rolled-out first in Australia, and then the West Coast of the US, the timing of which implies to Jarden further upside from other geographies in FY26.

WiseTech will share in an (unspecified) percentage of the hundreds of dollars saved per global container movement, highlight the analysts at Goldman.

FY24 results

Back on August 21, WiseTech reported FY24 revenue growth of 28% compared to FY23, with 33% growth for CargoWise.

FY24 earnings came out in line with consensus forecasts and grew by 28%, reflecting the benefit of price increases and operating leverage, partly offset by increased investment in product development, explained Ord Minnett.

Morgans highlighted cost-efficiency gains across the business in FY24 drove better than expected margins. Further leverage is anticipated over FY25 consistent with "solid" EBITDA growth guidance of between 33%-41%.

UBS highlighted management's strong control of both opex and capex, with the combined second half number of 7% better-than-expected.

UBS remained confident adjusted EBITDA margins would expand to 34% in FY25 and then 44% by FY27, up from 29% in FY24.

Management's guidance for re-acceleration of organic CargoWise One growth to 31-37% in FY25 from 15% in FY24 kept this Buy-rated broker confident on its projections for the company's future.

Outlook

Given the lack of high-quality global software companies in the ASX00 index, Bell Potter argues WiseTech should be well supported due to its strong growth outlook, in an environment where global interest rates are easing.

This broker recently updated its Rule of 40 measure for WiseTech, which requires the sum of revenue growth and free cash flow (FCF) margin to exceed 40%.

Passing with flying colours, the analysts forecast numbers of 63%, 68% and 69%, respectively, for the company across FY25-27, up from the already impressive 60% registered in FY24.

Of the seven brokers monitored daily researching WiseTech Global in the FNArena database, five have Hold (or equivalent) ratings while UBS and Morgan Stanley both have Buy-equivalent ratings. In most cases, the high valuation deters analysts from moving beyond a Neutral rating.

The average target price is $121.96 while the shares are trading around $134. Citi has the highest target price, at $138.

Outside of daily coverage, Jarden and Goldman Sachs have Neutral ratings with respective targets of $101 and $138.

RBC Capital Markets has a $115 target and a Sector Perform rating.

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ESG FOCUS

ESG Focus: The Little Big Things - 08-10-2024

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

The European Union gets tough on PFAS and deforestation; Australian companies updating ESG goals, plus: green hydrogen, not so fast folks.

-James Hardie & BHP up the ESG credentials
-Hydrogen more bust than boom
-EU targets PFAS & deforestation exposure
-Data centres: risks & opportunities

By Danielle Ecuyer

James Hardie in ESG focus

Jarden took a deep dive into **James Hardie Industries'** ((JHX)) ESG framework which was recently released. Management focused on "four pillars", notably, zero harm, planet, innovation and communities including employees, and supply chains.

The company also announced a step up in ambition for its goals. These were highlighted by the broker as follows:

-A reduction of -42% in absolute emissions by 2030 from a 2021 base line, with all testing and monitoring to align with the Paris Accord
-Zero manufacturing waste to landfill by 2035 (including recycled water and materials waste)
-Recycle an additional 30m cubic feet of water by 2030 versus 2019 baseline
-Women in management targeted to reach around 25% from 23% currently and 19% last year

James Hardie also provided an update on the company's ESG profile, highlighting a decline of -10% in scope1 & 2 emissions versus the 2023 baseline; completion of risk mapping for tier 1 suppliers; zero harm month commenced last October with a focus on mental health and an improved percentage of women in management.

"*Over time, James Hardie believes sustained building practices should prove advantageous to its value proposition, particularly amid increasing climate events (e.g. hurricanes, bush fires, etc.).* "

Jarden has a Buy rating with a $54 target price.

BHP Group in ESG focus

Macquarie outlined **BHP Group's** ((BHP)) 2024 Climate Transition Action Plan with a vote to be held on Oct 30 at the AGM.

The broker pointed to several targets:

-Scope1 & 2 emissions: Target to reach net zero by 2050. Management expects 85% of the target to be achieved and the balance will be accounted for by carbon offsets. A reduction in greenhouse gas emissions of -30% by FY30 versus FY20 baseline. The targets are expected to require up to US$4bn in capital to achieve the 2030 commitments with the majority weighted to diesel replacement in the latter years of the 2020's

-Scope 3 emissions: Target to support an emissions intensity reduction of -40% of BHP's chartered shipping of products, as well as support the industry to develop steel production technology allowing a reduction of -30% in greenhouse gas emission intensity relative to conventional blast furnace steel making

Macquarie highlights the net present valuation for BHP Group under a 1.5-degrees Celsius warming scenario is approximately the same as the current base case of its planning range.

The company's strategic move to copper, potash and nickel assets relative to the base case is viewed as positive and offsetting downside risks from steel making coal. The broker notes there are no impairments from the 1.5-degree scenario to the iron ore business.

Hydrogen fuel, it's not easy being green

The Australian government released the *2024 National Hydrogen Strategy* on September 13 to assist in the acceleration of the domestic hydrogen industry using existing renewable energy resources.

Macquarie notes global demand for hydrogen stands at around 70m tonnes p.a. and the broker estimates the range for global demand between 2m and 9m tonnes in 2030 and between 20m to 230m tonnes in 2050.

Australia has a target to achieved 15m tonnes of production of renewable energy hydrogen annually with possibility 30m tonnes by 2050.

The broker considers Australian hydrogen could avoid emissions of between -92m and -186m tonnes of CO2 p.a. by 2050.

Current production costs stand at $5-$10kg and need to be lowered to between $2kg and $3.25kg, particularly for transport and industrial uses.

Since 2015, the government has committed over $146m to hydrogen projects along the supply chain, around $68m in R&D, around $5m in feasibility studies, $5m in demonstration and $69m in pilots.

Currently, the country represents around 20% of all hydrogen export orientated projects globally with a pipeline valued at $225bn-plus.

Since the government's announcement, **Origin Energy** ((ORG)) reported it was ceasing its hydrogen development plans in the Hunter Valley Hydrogen Hub in NSW. The company pointed to a slower pace of development in the market, ongoing cost risks and technology issues. Overall, the project had become too capital intensive and risky.

Origin had received $70m from the Australian Government Regional Hydrogen Hubs program, $45m from the NSW Hydrogen Hubs initiative and was shortlisted for possible funding from the Commonwealth government's $4bn Hydrogen Headstart Program.

The company's CEO is instead concentrating on renewables and storage, believed to be more advantageous for decarbonisation and energy security.

Fortescue ((FMG)) and **Woodside Energy Group** ((WDS)) are also reported as scaling back or ceasing hydrogen projects.

Hands off my personal information

Macquarie also reports on the introduction of the first stage of the of the Privacy Act to parliament. The broker observes, if passed the new legislation will address 23 out of the 25 proposals that government agreed to in response to the Privacy Act Review Report.

Improved transparency of privacy and the consent mechanism may limit the collection of personal information. The analyst points to several stocks which may be impacted, including ARN Media ((A1N)), Nine Entertainment ((NEC)), News Corp ((NWS)), oOh!Media ((OML)), Seven West Media ((SWM)) and Southern Cross Media Group ((SXL)).

EU says goodbye to PFAS

Macquarie states on September 19 the EU gave the final approval to restrict the sale and use of PFHzA, a sub-class of PFAS in consumer textiles, food packaging, personal, household care products and firefighting foam products.

The new rule mandates a maximum concentration of 25 parts-per-billion for sum of PFHxA and its salts or 1000 parts-per-billion for the sum of PFHxA in several uses.

From October 2026, the restriction will apply to textiles, leather, furs and hides in clothing and related accessories for the public, including footwear, paper and cupboard used as food contact materials, and cosmetic products.

From Oct 2027, the list will be extended to include other forms of textiles.

In the US, if the *No PFAS in Cosmetics Act* is enacted it would require the FDA to ban the use of "intentionally added PFAS" in cosmetics and enforce this. It is currently in the introductory stage and has been since November 2023.

I don't know about you, but the thought that PFAS is knocking around in so many products is hardly making my day!

Taking on the challenges of deforestation

Morgan Stanley reported the European Commission's further guidance for EU deforestation regulations have been deferred for a further 12-months to allow companies to prepare.

The regulations are subject to approval by the European Parliament and Council, and if instated, the deadline for compliance is slated for December 30, 2025. For small and micro-sized businesses the deadline will be June 30, 2026.

The new regulations are designed to implement a no deforestation policy and will oblige companies importing/trading cocoa, soy, palm oil, cattle, natural rubber and wood to prove their operations have not contributed to deforestation from 2020 onwards.

The consumer staples, paper/packaging and tyre makers have the highest exposure to these agricultural commodities.

The aim, the broker highlights, is *"a balanced solution to support operators around the world in securing a smooth implementation from the start."*

Growth in data centres challenges sustainability targets

With all the interest in growth in data centre demand, Morgan Stanley highlights where investors interests lay when it comes to "Dynamics Surrounding Gen.Ai "

The broker points to the cumulative carbon footprint at an estimated 2.5 giga-tons (or billion tonnes) through to 2030, with 60% relating to the buildings' power needs (operational carbon) and 40% to embodied carbon (emitted in manufacturing construction materials and equipment for the facility).

These estimates are generated from the expected US data centre build out and the broker believes the carbon footprint is much bigger than appreciated which presents considerable adjacent opportunities for the likes of renewable energy exposed companies.

Interestingly, for the fan boys and girls of chip makers, the estimated shortage of US data centre capacity infers a mismatch between new data centre builds in 2025 versus the ability to absorb the volume of generative AI chips been sold, at over 10GWs versus data centre under construction demand of under 6GWs.

Morgan Stanley believes there are sustainability benefits of re-purposing bitcoin mining sites to AI data centres, highlighting two positive factors.

AI is viewed as more of a net positive to society versus bitcoin mining, when considering the ability to improve healthcare services, education, drug development, and advanced climate change efforts.

Secondly, the asset for a bitcoin mining facility is the connected power through the existing interconnection rather than the mining itself.

Morgan Stanley stresses the market is under-appreciating the growth in large scale renewables as it relates to generative AI and the potential for new natural gas generation and what it means for hyperscalers to achieve sustainability goals.

Last week, the CEO of Google Sundar Pichai outlined the company's conflicts of meeting the 2030 emissions targets against the goal to develop hyperscale capacity for Gen.AI. Morgan Stanley argues it is debatable whether hyperscalers will be able to reach their sustainability 2030 net carbon goals by 2030.

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ESG FOCUS

Quality Ore Elevates A Champion

Rising grades at Champion Iron's operations raise broker expectations for a higher price premium against the iron ore benchmark.

-Rising product grades support earnings for Champion Iron
-New high-grade concentrate project underway, another planned
-Concentrate reduces carbon emissions, as does hydropower supply
-Premium realised prices in prospect

By Mark Woodruff

After Champion Iron ((CIA)) completes plant upgrades in FY26 at its Bloom Lake Mining Complex in Canada, nearly half of iron ore production will contain an iron content essential to producing high-quality steel, paving the way for an even higher realised price premium against the 62% iron (Fe) iron ore index.

While the mine and mill at Bloom Lake (near the border of Quebec and Labrador, Canada) generate around 15mtpa of high grade (66% Fe) iron concentrate, management has taken a final investment decision (FID) on the high-grade direct reduction pellet feed (DRPF) project to upgrade around 8mt of Bloom Lake product to 69% Fe from the second half of FY25.

At the end of September, the DRPF project was 36% complete. Once a 69% direct reduction grade is achieved, the company's concentrates can supply direct reduction iron to electric arc furnace steel producers.

The electric arc process is estimated to reduce carbon emissions by -2-7x times compared with traditional blast furnace methods.

Promisingly for the new project, on a recent investment tour of Bloom Lake analysts at Goldman Sachs came away impressed by management's project execution capabilities, along with the operating performance of existing assets.

For Jarden, the prospect of higher-quality ore underpins the broker's positive stance on Champion Iron, with the low impurity DRPF product a strategic differentiator helping to achieve materially improved prices.

Building on the overall green theme, management has committed to greenhouse gas emission reductions at site of -40% by 2030 and carbon neutrality by 2050, aided by renewable hydropower supplying more than 50% of energy consumed.

Potentially, the next step by management will be to upgrade all production to the upcoming higher grade at the DRPF project, suggests Bell Potter.

And, waiting in the wings, the nearby Kami project could add a further 9mtpa of DR-grade production, according to a prefeasibility study in January this year. Management is currently advancing Kami towards both a feasibility study and a partnering process.

Adding to the investment case for some shareholders, Bell Potter expects earnings will continue to support the payment of dividends.

Overall, this broker predicts a lift in product grade for the company will support average realised prices, earnings and dividends amid a consensus view of iron ore prices trending lower.

<u>The pricing mechanism and potential valuations for Kami</u>

Higher grades translate to higher prices relative to the 62% iron (Fe) iron ore index.

Further, as emission policies such as the EU Carbon Border Adjustment Mechanism become more acute, these premiums will likely expand to capture emission reduction economic benefits, Bell Potter highlights.

Over the last two years, Champion's gross realised price has averaged around US$15/t above the 62% index, and the analysts estimate DR-grade concentrate could fetch a further premium of around US$25/t.

Reaching even higher, Goldman Sachs assumes a US$75/t premium over the 62% Fe Index for Champion's 69% Fe product.

The recently released pre-feasibility study (PFS) for Kami assumes a 25-year mine life, capex of circa -US$3bn and a modest valuation (according to Goldman) of US$400m, at a long run price of around US$155/t for the high-grade product.

Goldman's project valuation increases to US$1.7bn at a long-run price of circa US$185/t, including a US$35/t premium for DR feed.

Management has indicated first production may be possible in 2031.

In the meantime, the broker has excluded the Kami project from its base case scenario as progress is contingent on a joint venture partner, FID, permitting, and financing agreements, as well as power allocation from Newfoundland.

Back in early-August, Macquarie also removed Kami from its forecasts due to iron ore market uncertainty and potential political uncertainty in North America surrounding increases for green project subsidies, both in Canada and the USA.

Returning to the present, Jarden recently downgraded the stock to an Overweight rating from Buy after the analysts forecast a price realisation for 66.2% Bloom Lake concentrate of US$120.8/dmt compared to the US$126.1/dmt average for the June quarter.

All three brokers monitored daily researching Champion Iron in the FNArena database have Buy (or equivalent) ratings.

The average target price is $7.12, which suggests just under 8% upside to the latest share price.

Outside of daily coverage, Goldman Sachs (target $7.60) has a Buy rating, while Jarden recently downgraded to Overweight from Buy and has a target of $6.91.

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FEATURE STORIES

Australian Banks: When The End Of The Trend?

Australian banks have run up to historically high valuations, well above expectation. But the tide is beginning to turn, and brokers warn of several factors conspiring to affect a period of bank underperformance.

-Bank valuations reached historical highs
-Super inflows a prime driver
-Competition intensifying
-Signs of housing boom easing
-Rotation into resources

By Greg Peel

Six brokers monitored daily by FNArena cover the four major banks. Between them, they currently have fifteen Sell or equivalent ratings across the four, with seven Holds, and all but two Buys; one each for ANZ Bank ((ANZ)) and National Australia Bank ((NAB)).

Elsewhere, the two regionals Bendigo & Adelaide Bank ((BEN)) and Bank of Queensland ((BOQ)) attract nil Buy ratings, two Holds and nine Sells.

In contrast, Macquarie Group ((MQG)) and Judo Capital ((JDO)) enjoy more Buy ratings than Sell ratings, as does Suncorp Group ((SUN)), which has no Sell ratings, but is in the process of divesting of its banking division to ANZ Bank to become a pure insurance company.

The Australian bank index has risen 38% over the past twelve months, led by the majors. The largest bank, Commonwealth Bank ((CBA)), has risen 33% despite attracting only Sell ratings from brokers, and having done so for some time. The sector has generated an extraordinary total return of 50% over the last twelve months, Wilsons notes, despite a tepid earnings growth outlook and increasingly extreme valuations.

Major offshore banks have also posted strong gains over the last twelve months, Wilsons points out, which have been supported by the Fed's pivot towards an easing bias in late 2023, and expectations that lower interest rates would support "soft landings" across developed economies.

This dynamic has been quickly priced into bank valuations, both on the ASX and globally. In an absolute sense, the ASX200 bank sector's forward PE multiple has never been higher, led by index heavyweight CBA.

Perplexingly to Wilsons, CBA trades on double the PE multiple of JP Morgan which is arguably the highest quality bank in the world, while having a lower return on equity and offering a similar level of earnings growth.

So why have the banks just kept on rising? Clearly no one's paying any attention to bank analysts. In the face of broker warnings, who just keeps buying?

You

...is the simple answer to that question.

New data which has been analysed by Macquarie shows domestic superannuation funds were the standout major buyers of bank shares in the twelve months to June. The data offer a breakdown between super funds and domestic investment funds (ie non-super investments) as well as households, offshore buyers and other sectors.

Super funds increased their ownership of the sector by 1.6% over the period to 29%. This equates to $6.4bn of investment over twelve months and $2.1bn in the June quarter alone. As the banks have not been issuing new capital, someone has to be on the sell-side. Macquarie notes selling has largely come from investment funds (who might be paying more attention to bank analysts) and offshore investors (who may be looking through a

more global lens).

So why have super fund managers ignored said bank analysts and just kept on buying? The data, Macquarie notes, indicate super funds have not been increasing their allocations to the banks and indeed remain largely neutral on a mere 0.4% overweight. The reality is super funds have increased holdings to domestic equities overall by 18% over the year, whereas the market overall has increased holdings by 9%.

This implies it is fund inflows, not fund manager strategy, that is driving increased bank buying. The banks are such a significant lump of the ASX200 market cap that super funds, most of which are passive, have no choice but to increase their bank holdings as more funds flow in.

And there is no end in sight. In July this year, the government-mandated super guarantee increased by 0.5% to 11.5% of income and will increase again to 12% in July next year.

Rates Don't Matter

When the RBA started hiking rates in 2022 it was assumed demand for credit would suffer, offsetting the benefit banks enjoy in margin improvement from higher interest rates. Mortgage stress in particular would lead to a collapse in house prices of some -10-20%, depending on whom you asked.

It hasn't happened. The RBA made its last rate hike last October to 4.35%. In the year to August, private sector credit rose 5.7%. Within that, business credit rose 7.7% and housing rose 5.0%. Overall, credit growth remains resilient and is actually picking up modestly. This is likely to continue, Morgan Stanley believes, particularly if expectations of the first RBA rate cut grow stronger.

The twist in the tale is ongoing strength in housing could actually be an impediment to near-term rate cuts, Citi warns.

Despite the impediment of higher for longer rates, anything housing related continues to "hum," Citi notes. House prices continue to rise, and credit growth continues to be resilient. The broker has oft been questioned recently as to how long this can be sustained, given an already considerable household debt burden and mortgage rates in excess of 6%?

The debt burden is ultimately a reflection of the income supporting it and Citi sees a considerable shift towards higher income earners being active in the housing market, which likely reflects inflation working through incomes in a tight labour market. The recent cohort of borrowers is of a higher quality than that of the previous housing peak in 2022, Citi finds, largely reflecting improved household incomes.

With an inability to meaningfully lift housing supply, Citi suggests it is likely housing credit will remain resilient along with house prices. The broker is nonetheless Sell-rated on the banks and, in a relative comparison, prefers the retail-exposed banks. CBA and Westpac ((WBC)) are the biggest mortgage lenders.

Will house prices just keep on rising?

Other than a slight early wobble, Australian average house prices have only continued to rise in the face of effectively seventeen RBA rate increases (each of 0.25%) since May 2022. Sydney and Melbourne initially led the charge, but more recently have lagged, allowing the smaller capital cities to pick up the ball and run.

This reflects an affordability shift Australians looking outside the two big cities for more affordable prices. As to when affordability or the lack thereof reaches a nationwide red line is unclear.

National prices increased again in September, to 6.7% year on year growth. That did represent a slight annual slowdown, Morgan Stanley notes. Auction clearance rates remain in the low 60%s, which is consistent with slight positive growth, but have been falling since the beginning of 2024.

The rental market also looks to be softening, from extremely tight levels. Listings have increased with the vacancy rate rising in the past three months, to 1.3% nationally. Morgan Stanley notes this has resulted in an easing of "asking rent" growth, which has flattened out in the past few months, with annual growth slowing to 6.8% year on year.

These weaker conditions imply some headwinds for the broader housing market, Morgan Stanley suggests, but will take some time to flow through to CPI inflation given lags - asking rents are still up 40% versus pre-covid but CPI rents are only up 15%.

The above would imply a peak has been seen. but the issue is supply. You may have heard this is a bit of an issue in parliament of late.

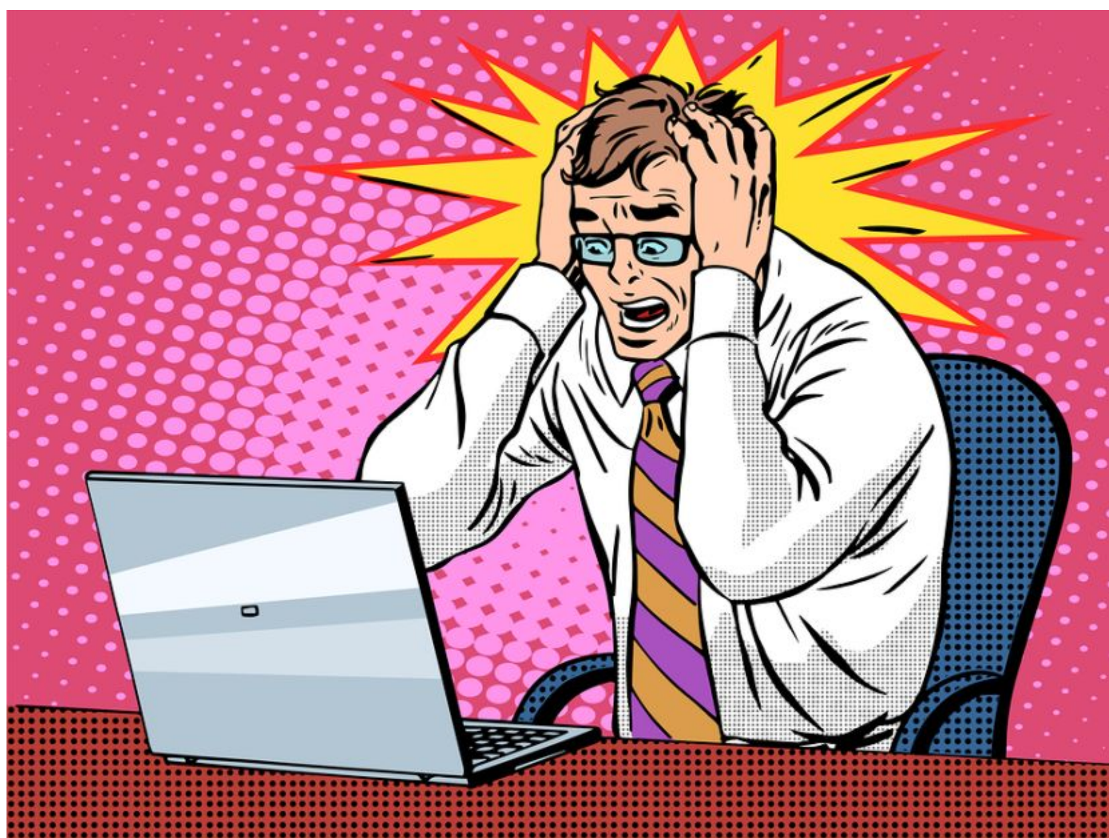
Weakness in construction continued in August as building approvals declined by -6.1% month on month, reversing July's improvement and falling below expectations, driven by apartments. Approvals looked to have

troughed (up 4% from a year ago) but at very low levels, Morgan Stanley notes, and with limited upward momentum.

The broker expects sustained improvement in building activity from here will be challenging prior to rate cuts being delivered.

Morgan Stanley suggests current housing conditions are likely to persist through the rest of this year. While an expected slowing in migration rates should reduce some of the housing under-build, the broker does not expect enough of a decline to completely offset this, which should see prices somewhat supported. Affordability remains a key overhang to activity and construction, and this is unlikely to meaningfully improve until rate cuts come through, something Morgan Stanley does not forecast until May next year.

Other forecasters are anticipating the first RBA cut in February. A few are toying with the idea the monetary loosening could start before Christmas this year.



What could derail the banks?

Rising house prices even in the face of higher for longer interest rates are a gift for the banks. But only if they behave themselves.

Deposit competition among the banks is not intensifying as Macquarie had expected, and may even be easing. Instead, it appears banks are competing on the lending side again. While lending competition generally favours banks versus non-banks, it still comes at the expense of returns, the broker notes.

Macquarie's Lendi Mortgage Pricing Index appears broadly stable, but anecdotal evidence suggests banks are beginning to offer cashbacks again for select refinance deals. Also, some banks are competing more aggressively for larger mortgages.

With mortgage growth again diverging between the majors (ANZ and CBA continue to grow above system while NAB and WBC's growth is weak), Macquarie suspects banks will need to pull the price lever again to avoid market share losses. Furthermore, based on feedback, similar pricing dynamics also occur for SME loans.

In Macquarie's view, this potentially creates downside risk to broadly flat consensus net interest margins in FY25, which do not appear to incorporate lending competition pressures and the impact of potential rate cuts in 2025.

To pick up on noted bank divergence, Australian mortgage system growth was 5.5% in August, broadly in line with recent months, Morgan Stanley notes. But Macquarie Group (+19%), Bendelaide (+9.5%), ANZ (+7.0%) and CBA (+6.5%) grew mortgages above a bank average of 4.5%, NAB only managed 1.0% growth while

Westpac (-0.5%) and Bank of Queensland (-5.5%) went backwards.

While competition among banks remains ever present, the breakout of mortgage wars for the sake of market share is a tide that sinks all boats, in terms of net interest margins.

That's one issue that could derail the banks.

Earlier, Macquarie pointed out recent bank buying in the face of advice to the contrary has been driven simply by increased flows into super.

While super fund contributions and flow are likely to continue, Macquarie doesn't see this driving ongoing outperformance of banks relative to the market as they are already broadly neutral. The broker sees the next potential flow catalyst being offshore selling, likely on macro sentiment, which would result in bank sector underperformance.

The China Syndrome

It has already been happening. In the last week of September, the banks underperformed the ASX200 by -6.5%.

Morgan Stanley's earlier assumption had been that bank outperformance this year was partly due to a "safe have"' status within the Australian market, and that it's been better to sell mortgages and deposits rather than iron ore or oil and gas. At the same time, the broker's Macro team noted a firmer consensus of a soft landing and potential improvement in commodity signals could be catalysts for rotation out of banks.

When China's economy got itself into trouble, largely due to a collapse in the Chinese property market, Beijing responded with little more than tweaks around the edges in terms of providing economic stimulus, even as experts cried out for more. The issue was China's extensive debt burden.

Things have only gotten worse, so finally Beijing has bitten the bullet. The government has announced more significant stimulus measures, resulting to a turnaround in what were weakening commodity prices.

Banks and resources are the two biggest chunks of Australia's market cap (some 60% between them), hence any step-up in investment in one typically leads to selling in the other. The money has to come from somewhere. Hence over history, the banks and resource sectors have tended to rise and fall in opposition to each other.

Add in the recent -50 basis point rate cut by the Fed, with the expectation of more to come and swiftly, and offshore factors are conspiring to lead to a switch to bank underperformance.

The average major bank PE multiple has recently fallen from a peak of 18.5x to 17.5x, Morgan Stanley notes, but is still above the ten-year average, the three-year post-covid average, and pre-2022 rate hike levels. The outperformance of banks versus resources has been significant.

Indeed, as at end September the banks were trading individually at 20-45% premiums above the ten-year historical relative PE despite having a poor earnings outlook, Macquarie notes.

When Things Go Bad

A key trend from August results, trading updates and disclosures from the banks is the extraordinarily low levels of credit impairment charges the banks are currently taking, this despite worsening underlying asset quality trends. Credit impairment charges at some 8bps in UBS' view are low, with consensus expecting around 13bps and 14bps in FY25/FY26.

The debate continues about the sustainability of low impairment charges, with consensus increasingly accepting a structural change of lower impairments. While losses will likely stay low for longer, Macquarie believes it is too early to write off the possibility of higher bad and doubtful debts (BDD) charges.

Macquarie believes the flow-on impacts of covid continue to impact banks' impairments. For example, the broker estimates impairment charges would have been up to $270m higher per half than reported if banks didn't unwind the overlays they built during the covid period.

Macquarie finds it difficult to reconcile that just in a few years, banks' risk assessment has changed, and adverse scenarios that banks presented (which underpinned their substantial loan losses in FY20) are no longer relevant. While banks still have more provisions than they can utilise, there has been a sizable drawdown over the last twelve months despite the economic outlook slowing.

If macro conditions deteriorate, banks will potentially need to retain their provisions and possibly rebuild them. This will adversely impact expected BDD charges, which are currently extrapolating a very benign period of credit losses for the foreseeable future.

Macquarie believes as the economy slows, impairments will rise, and risk-weighted assets will increase. In past

cycles, banks started to build their provisions earlier in the cycle, but this time provisions are already in place, and write-offs tend to come when the economy begins to show signs of stress.

On the other hand, if wrong, the broker believes lending spreads will decline more than expected over the medium term and sees risk to pre-provision estimates in FY26 and beyond, coupled with the likely de-rating from current multiples that are more than three standard deviations away from their long-term average.

Relief from credit stress will no doubt come when the RBA begins to cut rates. However, rate cuts will put pressure on bank net interest margins. Macquarie estimates -5-9bps of margin impact from -100bps of rate cuts.

Banks trade at a steep premium to their historical averages, which differs from cycles, Macquarie notes, and could impact their performance.

Consensus

In Macquarie's view, valuations and fundamentals are not conducive to continued outperformance in the banks, and the broker sees material downside risk to share prices from current levels, particularly as the economy slows and rates decline, supporting an Underweight sector stance.

Citi is Sell-rated on the banks but does prefer the retail-exposed banks.

Major banks' operating trends have been better than expected in 2024, and investors have paid much higher multiples for their strong balance sheets and "safe haven" status. Morgan Stanley has lifted its price targets, but retains a negative stance given share prices imply nothing goes wrong in 2025.

With bank earnings multiples at all-time highs and the outlook for earnings growth still tepid at the best, Wilsons remains comfortable retaining a significant Underweight to the Big Four banks within its Focus Portfolio.

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	4/2/0	17.93	18.72	**4.41**	13.2	13.7	83.0	**4.9**	7.7	- 8.3	70.7	**4.5**
MQG	2/2/1	224.91	209.62	**- 6.80**	18.2	8.2	63.9	**3.1**	10.5	8.1	62.5	**3.3**
JDO	3/1/1	1.64	1.64	**- 0.12**	16.5	N/A	0.0	**0.0**	63.6	N/A	0.0	**0.0**
BEN	0/1/4	11.42	10.45	**- 8.49**	- 13.0	2.1	76.7	**5.6**	- 1.1	2.6	79.6	**5.8**
BOQ	0/1/5	6.12	5.41	**- 11.68**	100.0	- 15.9	79.0	**5.6**	0.0	2.0	80.5	**5.7**
ANZ	1/2/3	29.64	27.37	**- 7.65**	- 5.4	- 5.8	73.6	**5.6**	- 1.8	1.2	75.9	**5.6**
NAB	1/1/4	36.43	32.94	**- 9.59**	- 5.2	0.4	74.8	**4.6**	2.5	1.7	74.2	**4.7**
WBC	0/4/2	30.14	27.76	**- 7.90**	- 7.1	16.7	86.9	**5.5**	1.6	- 5.3	81.0	**5.2**
CBA	0/0/6	132.74	101.23	**- 23.74**	4.7	2.2	80.0	**3.6**	3.0	2.8	79.9	**3.7**

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RUDI'S VIEWS

Rudi's View: Market Reflects Risk & Opportunities

In this week's Weekly Insights:

-Market Reflects Risk & Opportunities
-All-Weather Model Portfolio

By Rudi Filapek-Vandyck, Editor

Market Reflects Risk & Opportunities

It is easy, probably too easy, to be deterred by what looks like richly priced asset prices, but if the years past have shown one key message for investors, it is that present 'valuation' is only one aspect of the investment proposition.

It is much more difficult to understand the broader context in the background and why a valuation that looks beyond 'normal' can still be an attractive investment. I think this is one reason as to why the adage of bull markets climbing a wall of worry equally applies today.

Markets are forward looking. All investors understand the basic principle, but not so much when forward-looking translates into above-average valuation multiples in anticipation of better times ahead.

The last time we were all confronted with seemingly eye-watering PE multiples happened after covid temporarily closed down societies.

Those voices warning about an impending market crash based on historically outsized PE multiples have long gone silent as they ignored the one key reason why valuations at that time had to be well-above the long-term average: the subsequent recovery in earnings and cash flows would automatically pull back multiples to more moderate levels, and that's exactly what happened in 2021.

It is true large parts of highly-valued equities experienced a tough time throughout most of 2022, but that was a consequence of bond markets resetting from exceptionally low yields, with follow-on impact on equity multiples, irrespective of where those multiples were at.

The carrot of rate cuts

Since this time last year, equities are at it yet again, rallying hard to push average market multiples well above long-term averages, simply because central banks were preparing for rate cuts. That process has now well and truly begun. The RBA will join-in at some stage, exact timing still unclear.

But equities have not subsided, not even when the historical pattern of seasonal weakness in September would have suggested this might happen. So, is this the mother of all bubbles, as some narky observers have declared it is, or is there a better, more accurate explanation, just as was the case back in 2020 and 2021 (as it equally applied back in 2009 and in 2001)?

The first thing to note is that if/when rising bond yields impose a negative correction on equity valuations generally, then the opposite happening allows for valuations to rise again.

This process becomes even more 'logical' when those benefiting from lower yields are also benefiting from the newest megatrend on the menu, one that most likely will stick around for much longer and plausibly will re-shape the decade ahead for businesses and economies.

That's simply par for the course, or, to put it differently: normal investor behaviour. Shares in Goodman Group ((GMG)) and NextDC ((NXT)) and the likes are now expressing general investor confidence that many billions in investment will be made in new data centres and this should -all else remaining equal- translate into above-average growth for such beneficiaries for multiple years into the future.

There is another, equally important factor in play: lower yields support and stimulate economic activity.

The broadening of the market rally

The larger part of Australian businesses listed on the ASX has had a tough time since 2022, as yet again proven throughout the recent August results season, which ranks among the worst locally post 2013 (that's how far the FNArena data history stretches).

History suggests what usually follows a coordinated global tightening cycle is economic recession, in which case today's market 'exuberance' would look painfully misplaced. But that is clearly not what equity markets are reflecting. Instead, general confidence is rising that central banks, and governments, might be able to pull off that rather rare outcome: a 'soft' landing.

Recent economic data, including Friday's non-farm payroll upside surprise have only further strengthened general confidence in a different outcome this time around.

There are, of course, no guarantees. If/when the economic picture deteriorates to the point where such a favourable outcome becomes less plausible, valuations will have to shrink and today's prices and multiples will be judged as utter fantasy in the months to follow.

The fact authorities in China are now actively stimulating their sluggish domestic activity levels adds further credence to the 'soft' global landing scenario, though, admittedly, still does not guarantee such a favourable outcome.

One of the dangers with the market's forward-looking optimism is there remains plenty of potential for mishaps and disappointment until rate cuts and lower bond yields start positively impacting on economic activity. Witness, for example, the numerous 'punishments' that have occurred in August locally.

Australia's AGM season

The upcoming AGM season in Australia, which increasingly acts like a mini-results season for the ASX, might well deliver more of the same. Last week, analysts at Macquarie lined up their favourites and better-be-careful warnings for upcoming AGM trading updates.

Companies expected to deliver a positive catalyst for their share price include Amcor ((AMC)), Charter Hall ((CHC)), Flight Centre ((FLT)), JB Hi-Fi ((JBH)), Qantas Airways ((QAN)), Treasury Wine Estates ((TWE)) and Worley ((WOR)).

Outside the Top100, Macquarie is equally optimistic for Auckland International Airport ((AIA)), Propel Funeral Partners ((PFP)) and Harvey Norman ((HVN)).

Companies expected to potentially surprise negatively include Dexus ((DXS)), Vicinity Centres ((VCX)) and WiseTech Global ((WTC)).

Outside the Top100, Macquarie preaches caution towards Domain Holdings Australia ((DHG)), Domino's Pizza ((DMP)), Global Lithium Resources ((GL1)), Jumbo Interactive ((JIN)), Nine Entertainment ((NEC)), Star Entertainment ((SGR)), and Seven West Media ((SWM)).

Note how Macquarie's analysis mentions more smaller-cap companies and REITs on the 'potentially negative' list for the months ahead. Both segments are considered integral to the market's broadening momentum upwards in anticipation of next year's economic recovery, but this does not remove the associated risks in the shorter-term.

Equally noteworthy, the mentioning of local star-(out)performer WiseTech Global has coincided with a 90 pages in-depth study released by analysts at RBC Capital in which the observation is made that supply chains are 'evolving' post covid-interruptions, with software playing a central role in creating more agility and flexibility for companies, while also lifting productivity and reducing costs.

Supply chain software is projected to outgrow the software market generally in the years to come, with Gartner forecasting 16% CAGR by 2028. Key beneficiaries of this new trend should be sector giants SAP and Oracle, but also ASX-listed WiseTech Global.

Post a tremendous share price rally thus far in 2024 (up circa 75%), RBC Capital sticks with a Sector Perform rating for WiseTech, awaiting a better entry point, but common sense tells me if Gartner's projections prove correct, and management at WiseTech continues to execute on plans and promises, a much lower share price might well remain a pipedream, or turn into a very brief phenomenon in case misfortune does happen.

A similar logic is likely to apply to another local star stock, with Pro Medicus ((PME)) announcing on Monday a sizable contract renewal from Mercy Health. The most remarkable characteristic of the announcement is the price for ongoing services in the next eight years is 172% higher than the two previous contracts.

It has led to analysts at RBC Capital commenting as follows: "The improved terms on the contract in conjunction with increased volume reinforce the thesis that Visage delivers strong ROI for clients."

The same observation has been made in the past about WiseTech services and lasting benefits for its clients in global logistics.

The market doesn't need any additional confirmation that companies such as WiseTech and Pro Medicus are growing strongly, and will continue to do so for much longer. And we might as well throw in Macquarie Group ((MQG)), Car Group ((CAR)), REA Group ((REA)), Hub24 ((HUB)), Aristocrat Leisure ((ALL)) and TechnologyOne ((TNE)) as well, among others.

But what about the likes of ALS Ltd ((ALQ)), Charter Hall ((CHC)), Dicker Data ((DDR)), NRW Holdings ((NWH)), Objective Corp ((OCL)), Seek ((SEK)), Strike Energy ((STX)) and Whitehaven Coal ((WHC)) among many, many others?

Those are the questions that need to find a conclusive answer in the months ahead.

Reasons for optimism

If we take an optimistic approach, and there will be no economic recession, a bigger war in the Middle East or resurgence in inflation, there seems to be plenty on the horizon to genuinely get excited about, including several megatrends that should stick around for much longer, and make their impact felt across large parts of the business community.

The positive outlook from megatrends does not simply stop with Gen.Ai, but also still includes the electrification of everything, the energy transition, the digitisation of business and decarbonisation/clean energy. All require investments and virtually guarantee a sizable pick-up in capex. In the US, the reshoring of manufacturing adds a specific additional capex and growth driver.

One extra positive surprise that is not necessarily on many an Australian investor's radar might well be located

across the Tasman Sea, where the RBNZ is believed to be contemplating a sharp easing cycle in order to kickstart the domestic economy back in gear. By early next year the official cash rate in New Zealand (currently 5.25%) is projected to be below that in Australia.

A recovery in the Kiwi economy should also benefit ASX-listed companies with sizable exposures. Recent research by Morgan Stanley has highlighted ANZ Bank ((ANZ)) and National Australia Bank ((NAB)) among the banks, alongside Insurance Australia Group ((IAG)), Dicker Data, Fleetpartners ((FPR)), Harvey Norman, and Ampol ((ALD)), in addition to most NZ-headquartered businesses, of course, including Fletcher Building ((FBU)), Sky Network Television ((SKT)) and Spark New Zealand ((SPK)).

Among emerging economies, a new credit cycle is seen for countries including India, Indonesia, Malaysia and Brazil, driven by both public and private investments, while also benefiting from the West de-coupling from China.

Even without the growing demand for data centres, most countries are in need of substantial investment in resilient electrification infrastructure and renewables.

Reasons for caution

In terms of risks, there remain plenty, as is pretty much always the case. One year after Oct 7, Israel sees a future at war, the Wall Street Journal headlined on Monday. One strategist at Morgan Stanley reported: "Clients are asking how much upside this shift could provide to Chinese growth and whether we are entering a new cycle. I have quipped that we are hopeful but not yet confident."

It goes without saying, if a recovery in the global economy puts a rocket under commodity prices, the upside for producers and explorers in mining and energy can be beyond investors' wildest expectations, potentially.

Even without economic recession, global growth can still disappoint to the downside before resuming an upward trend. And let's not forget the upcoming US presidential election on November 5.

Investors' attention seems very much focused on the differences in policies between the two main candidates, but I worry Republicans around Trump have put so many preparations in place that can support them in reversing or challenging unfavourable outcomes at the ballot box.

The next shock might well show up in the days immediately after the US political contest.

In terms of current market forecasts, the ongoing debate in the US is all about whether forecasts are not too high, in particular for 2025 when a number of present tailwinds might be no more or might turn into headwinds instead. The Q3 US results season starts on Friday.

In Australia, the opposite debate is opening up.

Post the disappointing August results season, the local FY24 consensus EPS forecast has tumbled to a negative -5.4% while the prospect for EPS growth in FY25 has now shrunk below 2%. Might this be the bottom in the cycle?

Strategists at UBS think the answer is 'yes'. UBS can see the ingredients forming for a renewed up-cycle in analysts' expectations with average EPS growth more likely to end at 6% by mid-2025 instead of the current dismal, below-trend and below long-term average number that has resulted from ongoing downgrades implemented by analysts up until today.

Taking a leaf from history, UBS posits the year post the Federal Reserve starting to lower interest rates is usually beneficial for Australian equities, as long as no economic recession follows. Those forthcoming upgrades to earnings projections should alleviate some pressure off valuations, say the strategists.

Meanwhile, the forward-looking PE ratio for the ASX200 has now surged above 18x, a number not seen since covid or the dot com boom. The index composition has changed over time, and analysts' EPS projections are still declining, which in combination with rising share prices leads to what looks like a very unfavourable average PE multiple.

UBS is projecting the ASX200 at 8500 by mid next year.

See also last Thursday's:
https://fnarena.com/index.php/2024/10/03/rudis-view-agl-gpt-james-hardie-qantas-pilbara-xero/

And Weekly Insights one week ago:
https://fnarena.com/index.php/2024/10/02/rudis-view-ten-highflyers-with-more-upside-potential/

All-Weather Model Portfolio

The switch in market momentum in September has meant the All-Weather Model Portfolio could not keep up with the local index, but that's not such a bad thing in light of the significant gap in performance over the year past.

Among the positive contributors for the Portfolio in September were WiseTech Global, Goodman Group, Aristocrat Leisure, Macquarie Group, TechOne and gold. All these positive contributions have accumulated over multiple years, which fits in well with the underlying philosophy as well as the core of my personal research.

Period Ending 30/09/2024

Name	Code	Type	1 mth	3 mths	6 mths	1 year	3 years
All Weather Portfolio	M00701	Capital	0.87%	7.36%	9.34%	28.72%	9.90%
All Weather Portfolio	M00701	Income	0.50%	0.72%	1.07%	2.09%	1.81%
All Weather Portfolio	M00701	TR	1.37%	8.08%	10.41%	30.81%	11.71%

Model Portfolios, Best Buys & Conviction Calls

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

FNArena Subscription

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

(This story was written on Monday, 7th October, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

RUDI'S VIEWS

Rudi's View: China Scepsis, Energy Preferences & The US Election

By Rudi Filapek-Vandyck, Editor

"[...] feedback from our recent investor meetings across New York and London suggests positive commodity and share price momentum may continue near term but most investors are looking to fade the rally in the Dec quarter."

That quote from a recent **Goldman Sachs** research update on the status and outlook for bulks, base metals and steel illustrates the ruling skepsis around the globe about China's intentions and the related outlook for commodities.

Many believed shares in BHP Group ((BHP)), Rio Tinto ((RIO)) and others across the sector had been sold down too far, but a swift rally on institutional portfolio switching and China stimulus enthusiasm has poured cold water over too high expectations for what may follow next.

Those previously under-valued share prices have quickly rallied by double-digit percentages. Maybe it all went too quickly?

As far as Goldman Sachs is concerned, the analysts see little reason to still be optimistic about iron ore when the price is near US$110/tonne, but they do like prospects for metallurgical coal, with their constructive view confirmed during a recent India trip.

No respite is still seen for battery-related materials, which might well need another 12-24 months to get on a sustainable up-trend yet again, suggests Goldman Sachs.

In a broad sense, Goldman analysts argue the supply side has done most of the heavy lifting in 2024. The onus is now on demand to pick up and fundamentally improve conditions for miners and developers, and adjacent services providers.

Are currently Buy rated:

-Rio Tinto
-BHP Group
-South32 ((S32))
-Coronado Global Resources ((CRN))
-Champion Iron ((CIA))
-Deterra Royalties ((DRR))
-Lynas Rare Earths ((LYC))
-Iluka Resources ((ILU))
-BlueScope Steel ((BSL))

Both Fortescue ((FMG)) and New Hope Corp ((NHC)) are rated Sell.

****

Wilsons' Focus Portfolio has replaced Woodside Energy ((WDS)) with Santos ((STO)) shares and the reason why might catch investors' attention.

Previously, Woodside had been chosen because of its discipline in capital allocation, less onerous capex requirements, and less project-specific risks, in addition to a more attractive free cash flow yield outlook.

Wilsons believes that thesis no longer holds.

Recent capital investments made are seen as of "questionable" merit with the anticipated internal rate of return "uncertain at best". Wilsons bemoans the fact this money would have been better spent on buying back shares in the company (as that would have been guaranteed beneficial for shareholders).

Woodside's free cash flow outlook has deteriorated due to a greater capex burden, argue the analysts. Even if management would find a buyer for 50% of the equity in Driftwood, Wilsons still believes Santos offers the superior free cash flow outlook.

In contrast, Santos' attractiveness has improved with key projects de-risked over the past six months.

Santos has also been added to **Morgan Stanley's Asia-Pacifix Ex-Japan Focus List**, "for its positive exposure to an upside surprise in energy prices". Other factors mentioned are, indeed, an increasingly appealing free cash flow outlook while decarbonisation initiatives look "promising".

Morgan Stanley's least preferred ASX-exposure to the Energy sector is Beach Energy ((BPT)).

The most recent update of **Global Energy Best Ideas** by analysts at **RBC Capital** still includes Woodside. RBC's Top30 Global Ideas for 2024 includes one ASX-listing; Brambles ((BXB)). The broker's list of Global Mining Best Ideas for Q4 has added Northern Star ((NST)) and Bellevue Gold ((BGL)).

De Grey Mining ((DEG)) has been removed while retaining its Outperform rating (Buy equivalent).

****

The US presidential election is officially still too close to call, but if we can rely on client-brokers discussions on Wall Street, it seems two possible outcomes in particular have investors' attention:

-Kamala wins with a divided congress
-Trump wins in a landslide giving him a Republican majority in both chambers

As per recent **JP Morgan** commentary, investors who'd like to see little changes happening throughout the next presidential term prefer the first option. Major changes will require bipartisan agreement, and that virtually guarantees nothing much will change.

Trump winning with a majority in Congress, however, seems like a recipe for upheaval and lots of volatility. As per JP Morgan: "it would be a more meaningful departure from current policy".

What about Kamala's plan to increase corporate taxes to 28% from the current 21%?

JP Morgan acknowledges, if put in practice, this could halve the gain in corporate profits in 2026. But given the low chance of the Democrats grabbing majority in the Senate, this is also a low-chance outcome.

The latter reason also explains why strategists at **ClearBridge** see a landslide victory by Trump as a net positive for US equities; it preserves corporate tax treatment and builds on tax elements that have expired. A Harris win, with divided Congress, is labelled as "mildly negative".

ClearBridge does emphasise, underlying the trajectory of the economy is and remains the most important driver for equity markets. The advice to investors is to take the lead from the Fed cutting interest rates. That's a good thing for the economy (and thus for the share market too).

****

Strategists at UBS have gone the extra mile and put together five distinctive scenarios that have the capability to re-shape the outlook for financial markets:

-the Republicans sweep the upcoming US elections
-the Democrats sweep the upcoming US elections
-a significant increase in global tariffs
-economic recession in the USA

-no landing, implying central banks have been cutting interest rates prematurely

The heaviest impact, potentially, could stem from US tariffs on Chinese and other imports, but UBS can also think of scenarios whereby US growth remains positive.

An economic recession generates the widest move in global policy rates, with six central banks, but not the ECB or BOE, returning to extremely low rates.

If, in contrast, central banks need to fully reverse cuts implemented thus far, as will be the case in the 'no landing' scenario, UBS sees a correction happening for equity markets in 2025.

Under all these three scenarios, equity markets both in the US and elsewhere are expected to be 'weak'.

It is the broker's assessment that any sweep by either of the two parties in the US should be beneficial for US equities, with a Republican sweep seen as slightly more beneficial. A Republican majority should see US equities outperform the rest of the world, the opposite is seen happening when the Democrats grab the presidency and the majority in both chambers of the US Congress.

In the broker's baseline scenario, US earnings growth is around trend in 2025 but around zero in Europe. UBS has lifted its target for the S&P500 to 6400 for next year, with a target of 6850 for 2026.

Equally interesting, considering how we started this story, is that UBS's base case expectation is that Chinese growth will remain weak and any more stimulus announcements must be of much greater magnitude than what has been indicated to date to change that outlook.

****

As reported last week, **Goldman Sachs's APAC Conviction List** is now including Life360 ((360)) but excluding Qantas Airways ((QAN)) and Lynas Rare Earths ((LYC)).

The only other ASX-listing still included in the list is Xero ((XRO)).

****

The full list of UBS's Most Preferred Best Stock Ideas:

In Resources:

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

In Financials:

-AUB Group ((AUB))
-Dexus ((DXS))
-Medibank Private ((MPL))
-QBE Insurance ((QBE))
-Suncorp Group ((SUN))

Industrials:

Brambles ((BXB))
-Car Group ((CAR))
-Coles Group ((COL))
-NextDC ((NXT))
-REA Group ((REA))
-Telstra ((TLS))
-Telix Pharmaceuticals ((TLX))
-Treasury Wine Estates ((TWE))

-Worley ((WOR))
-Xero ((XRO))

The list of **Least Preferred exposures**:

-APA Group ((APA))
-Aurizon Holdings ((AZJ))
-ASX ((ASX))
-Bank of Queensland ((BOQ))
-CommBank ((CBA))
-Cochlear ((COH))
-Domain Holdings Australia ((DHG))
-JB Hi-Fi ((JBH))
-Reece ((REH))
-Scentre Group ((SCG))

****

Morgan Stanley's Macro+ Focus List in Australia is currently made up of:

-AGL Energy ((AGL))
-GPT Group ((GPT))
-James Hardie ((JHX))
-Santos ((STO))
-WiseTech Global ((WTC))

Plus:

-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-Macquarie Group ((MQG))
-Paladin Energy ((PDN))
-Suncorp Group ((SUN))

****

Morgan Stanley's Australia Macro+ Model Portfolio is currently made up of the following:

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
Westpac ((WBC))

-Macquarie Group ((MQG))

-Suncorp Group ((SUN))

-Goodman Group ((GMG))
-GPT Group ((GPT))
-Scentre Group ((SCG))
-Stockland ((STG))

-Aristocrat Leisure ((ALL))
-CAR Group ((CAR))
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-WiseTech Global ((WTC))

-James Hardie ((JHX))

-Orica ((ORI))

-Coles Group ((COL))

-CSL ((CSL))
-ResMed ((RMD))

-AGL Energy ((AGL))
-Origin Energy ((ORG))
-Telstra ((TLS))
-Transurban ((TCL))

-BHP Group ((BHP))
-Newmont Corp ((NEM))
-Rio Tinto ((RIO))
-South32 ((S32))

-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy ((WDS))

****

Stockpickers at **Crestone** have equally communicated their selected list of **Best Ideas in Australia**:

-Ampol ((ALD))
-APA Group ((APA))
-Aristocrat Leisure ((ALL))
-Beach Energy ((BPT))
-Brambles ((BXB))
-CSL ((CSL))
-Goodman Group ((GMG))
-IGO Ltd ((IGO))
-James Hardie ((JHX))
-Macquarie Group ((MQG))
-Metcash ((MTS))
-Monadelphous Group ((MND))
-REA Group ((REA))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-The Lottery Corp ((TLC))
-Xero ((XRO))

****

Stockbroker **Morgans'** list of **Best Ideas**.contains the following 33 ASX-listed companies:

-Acrow ((ACF))
-ALS Ltd ((ALQ))
-Amotiv ((AOV))
-Beacon Lighting ((BLX))
-BHP Group ((BHP))
-Camplify Holdings ((CHL))
-Cedar Woods Properties ((CWP))
-ClearView Wealth ((CVW))
-CSL ((CSL))
-Dalrymple Bay Infrastructure ((DBI))
-Dexus Industria REIT ((DXI))
-Elders ((ELD))
-Flight Centre Travel ((FLT))
-GQG Partners ((GQG))
-HomeCo Daily Needs REIT ((HDN))
-Karoon Energy ((KAR))
-MA Financial ((MAF))
-Maas Group ((MGH))
-Mach7 Technologies ((M7T))
-NextDC ((NXT))
-PolyNovo ((PNV))

-QBE Insurance ((QBE))
-Qualitas ((QAL))
-Reliance Worldwide ((RWC))
-ResMed ((RMD))
-Rio Tinto ((RIO))
-South32 ((S32))
-Superloop ((SLC))
-The Lottery Corp ((TLC))
-Treasury Wine Estates ((TWE))
-Universal Store Holdings ((UNI))
-WH Soul Pattinson ((SOL))
-Woodside Energe ((WDS))

****

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

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

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

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

****

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

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

****

Macquarie's ASX Quality Compounders:

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

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

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

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

****

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

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

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

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

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

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

Property Group ((GDI))

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

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

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

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

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

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

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

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

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

****

Morningstar's selection of **Best Buys** on the ASX:

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

****

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

-Alliance Aviation Services ((AQZ))
-ARB Corp ((ARB))
-Cosol ((COS))
-EQT Holdings ((EQT))
-Electro Optic Systems Holdings ((EOS))
-Lindsay Australia ((LAU))
-Pinnacle Investment Management ((PNI))
-Qoria ((QOR))
-Red 5 (RED)
-Regis Healthcare ((REG))
-SiteMinder ((SDR))
-SRG Global ((SRG))
-Stanmore Resources ((SMR))
-Waypoint REIT ((WPR))

In addition, research analyst Athena Kospetas, recently communicated the following Key Preferred Ideas per sector:

Financials
-Westpac ((WBC))
-Judo Bank ((JDO))
-Insurance Australia Group ((IAG))
-Medibank Private ((MPL))
-nib Holdings ((NHF))
-Pinnacle Investment Management ((PNI))
-EQT Trustees ((EQT))

Resources
-Rio Tinto ((RIO))
-Newmont Corp ((NEM))
-Red 5 ((RED))

Energy & Utilities
-Santos ((STO))
-Strike Energy ((STX))
-AGL Energy ((AGL))

Healthcare
-ResMed ((RMD))
-CSL ((CSL))
-Regis Healthcare ((REH))

Consumer stocks
-Qantas Airways ((QAN))
-ARB Corp ((ARB))

Communication Services & Technology
-Xero ((XRO))
-Seek ((SEK))
-Telstra ((TLS))

Industrials
-James Hardie ((JHX))
-Brambles ((BXB))
-Alliance Aviation ((AQZ))
-SRG Global ((SRG))
-Qube Holdings ((QUB))

Real Estate
-Vicinity Centres ((VCX))
-Waypoint REIT ((WPR))

****

Jarden's Best Ideas among **emerging companies** (small and mid-cap):

-IPH Ltd ((IPH))
-Temple & Webster ((TPW))
-EVT Ltd ((EVT))
-Dicker Data ((DDR))
-Universal Store ((UNI))
-Nick Scali ((NCK))
-AUB Group ((AUB))
-Webjet ((WEB))
-Integral Diagnostics ((IDX))
-Capricorn Metals ((CMM))
-Michael Hill ((MHJ))
-NRW Holdings ((NWH))
-Light & Wonder ((LNW))
-Pointsbet ((PBH))

-National Storage ((NSR))
-Ingenia Communities ((INA))
-Karoon Gas ((KAR))
-Domain Holdings Australia ((DHG))
-Pepper Money ((PPM))
-Telix Pharmaceuticals ((TLX))

****

Barrenjoey's Top Picks:

-Insurance Australia Group ((IAG)) among financials, as well as GQG partners ((GQG)) and Westpac ((WBC))
-Xero ((XRO)), Pexa Group ((PXA)) and Dicker Data ((DDR)) in the technology sector
-Vicinity Centres ((VCX)) and Abacus Storage King ((ASK)) among REITs
-South32 ((S32)), Lynas Rare Earths ((LYC)) and Perseus Mining ((PRU)) among miners and Strike Energy ((STX)) in the oil&gas sector
-ResMed ((RMD))
-Metcash ((MTS))
-Aristocrat Leisure
-Reliance Worldwide ((RWC))
-Brambles ((BXB))
-Seven Group ((SVW))

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

Weekly Insights this
week: https://fnarena.com/index.php/2024/10/09/rudis-view-market-reflects-risk-opportunities/

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SMALL CAPS

Audinate's Recurring Revenue Opportunity

Following disappointment in August, new research highlights upside potential from new market opportunities for Audinate Group.

-Upside from Audinate Group's new revenue model
-Dante Director seen providing value beyond network installation
-Dante Media Encryption software also due for release
-FY24 results and FY25 outlook

By Mark Woodruff

New research highlights not only the current competitive advantage of Audinate Group's ((AD8)) Dante solution, with the largest footprint across audio and video networking solutions combined, but also upside potential from new market opportunities.

Having established a dominant lead in audio networking and using that base to establish a presence in Video networking, the newly released Dante Director launches the group into **a new market** providing software services directly to enterprises **under a recurring revenue model**, explains Moelis.

Management's strategy is to offer services across the growing ecosystem of six million Dante enabled devices, unlocking revenue streams from fresh customers, and expanding into new markets.

The Dante platform distributes digital audio and video signals over computer networks and is designed to bring the benefits of IT networking to the professional audio-visual (AV) industry.

As well as hardware and software to connect AV devices, the group also provides network management software tools.

Overall, Audinate benefits from growing demand for AV signals over internet protocol (IP) networks (AVoIP), which generate efficiencies for end-users including universities, corporates, convention centres, theatres, stadiums, theme parks and recording studios.

AVoIP lowers initial outlays for these end users, explains Moelis, providing flexible and fast deployment, as well as software enabled network management.

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

Over FY24, OEM brands licensing Dante technology increased by a record number to 621, and as Canaccord Genuity highlighted at the time of the results, each new design win provides another layer of future recurring revenues.

Illustrating an expanding ecosystem, OEMs in the process of developing a Dante enabled product stood at 161 at FY24's close, the highest level since FY20.

The number of certified AV professionals rose by 22% to 271,000 with the recently launched cloud-based Dante Director targeting these integrators who manage the network.

<u>New markets for Audinate</u>

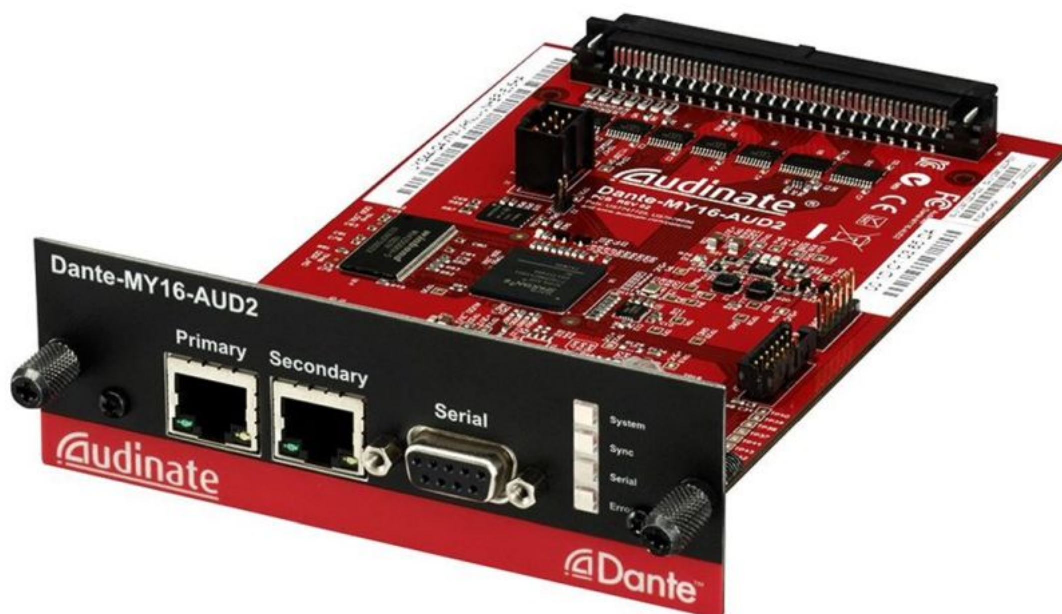
Launched in early-June, Dante Director extends Dante's value proposition beyond network installation, explains Moelis, and provides Audinate with recurring revenue streams direct from enterprises.

Dante Director is a SaaS solution for remote management of Dante networks allowing administrators to configure channel subscriptions, control user access and monitor network security from anywhere.

Director, which replaced Dante Domain Manager (DDM) Silver, is a manufacturer-agnostic, web-based network management platform. Such platforms are increasingly important, Macquarie suggests, as security becomes central to the industry.

Another new market opportunity is the soon-to-be-released Dante Media Encryption.

The underlying premise of providing encryption services to network users rests on Dante's interoperability and broad adoption. The newly released Pro S1 chip (suited for use in nodes such as microphones and speakers) should provide a leading indicator for Dante Media Encryption.



FY24 result

When delivering pre-released FY24 results on August 6, management's disappointing FY25 outlook came as a shock to followers of the stock.

In Macquarie's view, the sharemarket itself was to blame as it whipsawed to capitalising cyclically low earnings from previously treating cyclically high earnings as structural growth.

While the business experienced a contraction in demand after a heightened FY23/24 growth period that proved unsustainable, there were positive signs for the gross margin.

For broker opinions at the time the reader may refer to https://fnarena.com/index.php/2024/08/12/first-shock-of-the-season-whats-next-audinate/

As Macquarie was ahead of other brokers in warning about Audinate's valuation prior to pre-released FY24 results, the analyst's latest thoughts may hold greater weight.

After actual results on August 19, Macquarie noted leading indicators for growth appeared "solid", particularly the metric for units sold per Dante-enabled product in market, which had returned to normal levels in the second half of FY24.

Anticipating "choppy" sales in FY25 as customers work through inventory, the broker also felt the release of new AVIO adaptors in the second and third quarters of FY25 would support ongoing gross profit growth.

Management highlighted a gross margin of 80% should be attained in the near-term thanks to a mix shift to software implementations. Guidance for an 85% gross margin guide in the long-term was also reiterated.

Lower average selling prices (ASPs) in software should help grow the number of Dante-enabled devices in the field, explained Macquarie, by lowering the marginal cost to OEMs of including Dante in products.

For FY25, management reiterated guidance for FY25 gross profit to be "marginally lower than FY24" with a

return to growth and a "more predictable order pattern in FY26".

The outlook

UBS likes the long-term opportunity provided by the structural shift to digital from analogue, the deep moat, and Audinate's strong leadership position, while Morgan Stanley highlights the expanding user software capabilities and monetisation.

Moelis sees significant strategic value and longer-term growth in Audinate's leading solution though expects revenue uncertainty will weigh in the short-term.

Following the pandemic, the shorter-term outlook is being obscured by the ongoing normalisation of supply chains, explains the analyst. It's thought earnings will be skewed to the second half of FY25.

Canaccord Genuity noted the first half of FY25 will be Audinate's toughest period to cycle given the strong previous corresponding period which benefited from supply chain normalisation, resulting in a record backlog unwind.

Of the four brokers monitored daily researching Audinate Group in the FNArena database, both Macquarie and Morgan Stanley have Buy ratings (or equivalent) and UBS and Shaw and Partners are on Hold.

The average target of these four brokers is $11.53 which suggests just over 18% upside to the share price, but price targets range between Macquarie's $14.60 and Shaw and Partners' $9.30.

Outside of daily coverage, Moelis begins research coverage with a Hold rating and Canaccord Genuity rates the stock a Buy, with targets of $10.50 and $12.00, respectively.

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SMALL CAPS

HMC Capital: More Upside Through Private Credit

HMC Capital is an alternative real estate fund manager offering exposure to a rapidly growing segment of global investor interest; the private credit market.

-HMC Capital not you're average REIT
-Private credit market is rapidly growing globally
-HMC has delivered impressive earnings growth
-Goldman Sachs initiates with a Buy rating

By Greg Peel

Australian-listed real estate investment trusts (REIT) have been making a comeback since late 2023. The RBA made its most recent rate hike to 4.35% in October as the pressures of the covid fallout begin to ease. As inflation falls, global central banks have begun cutting rates, and the Fed's -50 point cut last month was the most significant.

While last week's US jobs report has led Wall Street to rethink the speed at which the Fed will continue to cut, expectations remain the RBA will begin to cut some time in early 2025. And that is supportive of yield stocks such as REITs.

Morgan Stanley highlights over the past two years capitalisation rates for listed REITs have increased, but with the stabilisation of global interest rates and the potential for rates to move lower, the broker views risk to the upside for REIT valuations over the next 12-18 months.

A cap rate equates to net operating income divided by property value. As property values increase, cap rates fall. Morgan Stanley forecasts a -20-24bps fall in cap rates and the potential for REIT stock prices to trade nearer to net tangible asset valuations, if not above.

Last week, Ord Minnett upgraded earnings forecasts for REITs under coverage. The broker updated estimates as market interest rates ease in the commercial space and lenders relax their restrictions. It's felt the sector will receive a boost from expected falls in official interest rates in 2025, if not sooner.

Ord Minnett has not specifically provided an updated view on alternative asset manager HMC Capital ((HMC)), other than to reiterate a Sell rating and $6.50 price target. Interestingly, of the 19 REITs and property developers/fund managers that Ord Minnett covers, HMC Capital is the only one to attract a Sell rating.

Ord Minnett's $6.50 target is also well below those of other covering brokers. The other five brokers covering HMC and monitored daily by FNArena have between them an average target of $8.42.

Goldman Sachs is not monitored daily, but this week has set a target for HMC of $8.94, initiating coverage with a Buy rating.

The HMC Alternative

HMC Capital currently manages over $12.5bn of external assets under management (AUM) across real estate and private equity strategies. The group's strategy is to become Australia's leading diversified alternative asset manager with scalable growth platforms across real estate, private equity, energy transition, value-add infrastructure, and private credit.

Goldman Sachs is particularly interested in private credit.

The broker sees four key factors supporting growth in assets under management (AUM), including increased investor allocation to private markets, a positive skew in borrower preferences to private credit, a structural shift in the public markets to larger deal sizes, and an acceleration in commercial real estate credit due to Australia's under-supply of housing stock.

Goldman Sachs believes there is currently a structural shift towards private markets, as investors increase allocations towards both private credit and private equity. The broker draws on analysis suggesting, globally, private markets' AUM will reach US$17.8trn by 2026 (from US$13.5trn at the end of 2023) and that among asset classes, private credit is expected to see the strongest growth, and is forecast to reach US$1.21trn by 2026 to become the second largest private asset class behind private equity/venture capital.

HMC's acquisition of Payton, a specialist commercial real estate private debt fund manager with $1.6bn of AUM (announced 24th May 2024) provided a strong entry into the private credit sector and a platform to build a more diversified credit business, Goldman notes. HMC now plans to scale the Payton platform funds under management to over $2-3bn and then to expand organically into larger and more complex areas of the private credit market including mezzanine finance, corporate loans, private equity/leveraged buy-outs, infrastructure/renewable and structured lending.

Growth Outperformance

When updating on HMC's FY24 earnings result back in August, Macquarie (Outperform) noted the manager's AUM have grown 80% in the last five years, underwriting a 44% compound average growth rate in earnings per share.

Goldman Sachs forecasts a 13% three-year earnings per share compound annual growth rate over FY25-27, driven primarily by revenue growth in annuity-style base management fees as HMC materially ramps up its funds under management to over $20bn in the medium term from $12.7bn currently, as is the group's goal.

That implies more than a 20% funds under management compound annual growth rate over FY25-27.

Within this estimate, Goldman expects HMC's private credit funds under management to increase from $1.6bn as at June 2024 to around $5bn by FY27, which is greater than a 40% compound annual growth rate, and reaching 30% of total fee revenue in FY27 from 0% in FY24.

HMC Capital's share price has increased by 86% over the last twelve months. In so doing, the share price is now above or close to most broker price targets. Hence, all of Morgan Stanley, Bell Potter, UBS, Morgans and Jarden (the latter not monitored daily) currently have Hold or equivalent ratings.

The standout is Macquarie, with its Outperform rating and $9.01 target, exceeding Goldman Sachs' target on initiation of $8.94.

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SMALL CAPS

Strong Growth Prospects For Judo Capital

UBS has initiated coverage of Judo Capital with a Buy rating, echoing the assumptions of other brokers the bank's growth prospects are more than solid. Not all agree, however.

-Judo Capital bounces back from a weak start
-Margin stabilisation and benign bad debts provide confidence
-Consensus of a 40% earnings CAGR over three years
-UBS initiates with Buy, Citi remains sceptical

By Greg Peel

Judo Capital Holdings ((JDO)) is a specialist, pure-play lender to Australian small and medium enterprises (SME). The company listed on the ASX in November 2021 and proceeded to lose -63% of its value through to October 2023.

The timing was unfortunate. Judo began losing value as the market anticipated the first RBA rate hike from 0.10% to fight inflation, and losses accelerated when the RBA first moved in May 2022. The stock bottomed out after the RBA made its final hike to 4.35%, and as hopes grew the next move would be a cut.

A year later, we're yet to see a cut, despite the Fed and other central banks having now made their first moves. Economists expect cutting to begin in the first half of next year, but from that October bottom last year, Judo shares have rallied 100%, to be around three-quarters of the way back to their listing price.

In its earlier years, Judo suffered from an unstable net interest margin (NIM) and perceptions that an economic downturn would lead to a rise in bad & doubtful debts (BDD) among the bank's small business borrowers. With the Australian economy now having slowed to a crawl, fears of a downturn persist, but Judo's FY24 earnings result helped to allay many fears.

Stabilisation

The FY24 earnings result back in August met or exceeded broker expectations. Macquarie acknowledged post the release the company had "delivered on existing promises". Importantly, BDDs grew only slightly.

While Macquarie considered management's FY25 net interest margin (NIM) guidance of 2.8-2.9% to be ambitious, the broker upgraded to Neutral from Underperform.

Morgan Stanley went one better and upgraded to Overweight from Equal-weight. Management commentary and Judo's second half trends provided the broker with greater confidence, leading to a belief operating leverage will drive a step-change in return on equity over the next two to three years.

Morgan Stanley also had less near-term concerns around credit quality after the non-performing loan ratio fell in the fourth quarter.

Morgans (Add) suggested if Judo's targeted return on equity in the low to mid-teens is met, the stock should trade at a price to book value at or above 1x, which at the prevailing share price would generate a double-digit annualised return for investors.

Morgans nonetheless pointed out Judo will not pay dividends while it retains capital to support its loan growth aspirations. As a result, it is still labelled as high risk versus the major banks, given it is a challenger operating entirely in the SME area.

The FY24 result exceeded Ord Minnett's (Buy) forecasts thanks to strong new business struck on stable margins. This broker observed an improvement in asset quality, reversing the trend set in its March quarter deterioration, and that management had controlled costs well.

Non-Believer

Reflecting late last month on Judo Capital's rally over the past twelve months, which saw the bank's shares trade north of book value, Citi suggested the market is likely ascribing a very high probability of management achieving its goal of "metrics at scale".

This confidence was due in part, Citi assumed, from the guided stabilisation and recovery in the NIM, which had a non-linear path to its guided long-term 3%, and was a key reason for the de-rating of the stock last year.

While the market is more comfortable on NIM, Citi remained concerned regarding asset quality. FY25 guidance for a stable BDD charge looked optimistic to the broker, particularly when considering the growth in the loan book, "seasoning" of the last 18 months of strong growth and the impact the slowing economy may have from

here.

Citi has incorporated a higher for longer BDD charge, and revised down FY25-26 cash earnings forecasts. This broker retains a Sell recommendation.

Believers

Goldman Sachs' assessment of Judo's FY24 performance was that the quality of the result was good. Profit beat the broker's forecast on better NIMs and the BDD charge was no more than expected, with measures of asset quality better than expected.

Judo's CET1 capital ratio fell to 14.7% from 16.2% at the end of the first half as capital was deployed into building scale, but Goldman had forecast 14.6%.

While Goldman Sachs took on board a steeper move to NIM's in excess of 3%, consistent with management's at-scale expectations, the broker reduced its earnings forecasts given the offset of lower volumes, more elevated FY25 expenses and a higher tax rate.

Yet, while the broker struggles to reconcile Judo's FY25 profit growth forecast of 15%, Goldman likes the operating leverage in the business, believing this will drive very strong growth in FY26.

In particular, Goldman highlighted management has shown it can maintain growth in its balance sheet (up 20% year on year), and improving front-book lending spreads should bode well for FY26 NIMs, which the broker now forecasts to be greater than 3%.

Asset quality metrics have flattened out or improved and were better than Goldman had expected, hence, despite a forecast of 50% profit growth in FY26, and a return on tangible equity trending to more than 10% by FY27, the stock trades about in line with net tangible asset valuation.

Goldman Sachs retains Buy.

UBS has this week initiated coverage of Judo Capital with a Buy rating and a $2.10 price target. To put that into context, the consensus target among brokers monitored daily by FNArena was $1.64 prior to UBS' initiation. Morgans has nevertheless since lifted its target to $1.92 from $1.65. The new consensus target, with UBS included, is $1.75.

Morgans lifted its Judo target in a report warning clients it retains an Underweight view on the major banks due to stretched valuation metrics. But outside of the Big Four, Morgans remains attracted to Judo Capital's outstanding growth potential.

Judo's current market share is around 1.5%, UBS points out. Ambitions to scale the business appear modest, based on the broker's research, seeking to capture only 3.0% of the market despite current flow share at closer to 5.0%. The challenger bank, on UBS' estimates, is likely to achieve the top end of at-scale guidance by FY29, with an expected return on equity in the low double-digit range (10.9%), something the broker believes the market has not fully priced in.

UBS' positive thesis is underpinned by a forecast 40% three-year earnings per share compound annual growth rate.

Judo has carved out a credible niche in a highly competitive banking sector, UBS notes, characterised by the incumbency of the major banks. Judo's ambitions to scale are likely to be supported by structural drivers within the broader business banking market and further commercial broker channel penetration. UBS forecasts Judo's lending book could double in the next four years to around $20bn.

A lot has changed in terms of the investment case for Judo since the bank listed in 2021, UBS notes. The bank's term funding facilities have rolled off, interest rates have increased by 425bps, offering credit cycle and funding cost implications, while competition has intensified in business banking.

Business lending is a higher margin product segment (more than 60bps above retail) for the banks, although Judo's increased capital allocation is expected to reduce return on invested capital.

Given a consensus forecast of 40% annual earnings growth over the next three years versus 2% for the sector, Judo should trade closer to a 25x PE, UBS suggests, reflecting a scarcity premium around growth in both global banks and the ASX200.

Following UBS' initiation, the six brokers monitored daily by FNArena covering Judo Capital have between them four Buy or equivalent ratings, one Hold and one Sell. The current $1.75 consensus target results from a range between $1.35 (Citi) to $2.10 (UBS).

Goldman Sachs has a Buy rating and $1.71 target.

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TREASURE CHEST

Treasure Chest: IDP Education

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

By Danielle Ecuyer

Whose Idea Is It?

Jarden

The subject:

Jarden has reiterated its Overweight rating on IDP Education ((IEL)) signaling earnings are close or at the bottom of a downgrade cycle.

More info:

IDP Education is a global operator, providing a wide range of services for international students including placement services, English language testing, visa application assistance, as well as adjacent and ancillary services for international students.

Although earnings rebounded from the travel restrictions and pandemic impacts, post covid has brought forth new challenges from politics to changing regulatory/competitive backdrops, with governments in both Canada and Australia targeting study visa permits.

Macquarie points to the Canadian government which expects permits to decline by -10% in 2025 versus 2024 and subsequently remain flat in 2026.

Compared to IDP's forecast of FY25 industry placement volumes to fall by between -20% to -25% year-on-year, made up of Canada down around -28% and Australia falling -19%; the broker believes the announcement from the Canadian government suggests a normalisation of the regulatory environment.

While the announcements of amended student policies in Canada and Australia have alleviated some of the risks for the company, election outcome risks remain in the US, Australia and Canada.

Nevertheless, IDP's competitive advantage in securing market share during more challenging macro conditions has been highlighted by multiple brokers.

Morgan Stanley considers the FY24 results as a case in point. IDP advanced student placement volumes by 17% in FY24 against a market decline of -13%.

Jarden makes similar observations. This broker's regression analysis infers IDP gains market shares when visa volumes contract, with the reverse occurring when visa volumes expand; it is then the company loses market share.

The sensitivity analysis concludes IDP's market share could rise by 1.8% when volumes shrink around -10%, which boosts volumes by circa 9% and thereby offsetting the industry dynamics.

Macquarie explains the quality of the services, particularly visa procurement, product innovation and specific exposure to student cohorts are all attributable factors for the company's resilience in more challenged trading conditions.

Jarden also highlights the company has higher visa approval rates compared to the industry average.

Looking at the student mix, Jarden's research suggests this factor has had a minimal impact on FY24 student placement volumes. IDP is "over-indexed" to Indian students at around 52% of total Indian student placements versus the global market volume at 32%.

In contrast, the company is under weighted to Chinese students at around 11% of volumes versus the global market at circa 20% volumes.

Morgan Stanley identifies the company's shift to a "go-to-market" China strategy as an under-rated opportunity. With a potential total addressable market of $380m, direct access to China's International English Language Testing Systems is expected to diversify and grow revenues for IDP in FY26/FY27.

On balance, brokers seem to agree FY25 might shape up as an earnings trough for IDP with the company well positioned for a recovery in FY26/FY27 as regulatory settings unwind.

Jarden believes there are upside risks to its forecast decline in Australian student volumes of -10% in FY25 and with consensus assuming -15% with similar factors, such as market share gains, coming into play.

Both Jarden and Morgan Stanley have reiterated their Overweight ratings (equivalent of Buy) with respective target prices of $19.60 and $21.50, upgraded from $19.20 on Sept 12, 2024. Macquarie is Neutral rated with a $16 target price.

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WEEKLY REPORTS

Uranium Week: Shorts Versus Growing Demand

By all indications the month of September signaled a reversal in the 2024 "backwardation" trend for the U308 spot price, have the short sellers received the memo?

-Macro factors drive positive backdrop for uranium
-Utilities look to term market
-Will the short sellers get the rough end of the pineapple?

By Danielle Ecuyer

Fake tweet detracts from positive news

Is the fortune of the uranium spot price market finally turning in 2024, after a period of price weakness over the previous months?

While a "fake" news tweet on platform X regarding Nancy Pelosi's husband buying up millions of dollars in uranium stocks is not cause for celebration, industry consultants TradeTech do highlight a reversal of the spot price "backwardation" trend in the month of September.

The TradeTech spot price indicator rose to US$82.25lb as of September 30 against US$79lb on August 31. The spot price marks a 12% increase over a year, despite a fall of -1% monthly, pre-September.

The start of October has maintained some momentum in the spot market with transactions of 600k lbs in the first four days of the month. TradeTech's weekly spot price moved up US$0.50 to US$82.50lb.

The industry consultants highlighted financial entities and traders as the key buyers, along with the Sprott Physical Uranium Trust, which scooped up another 200k lbs bringing its buying to 300k lbs in the last two weeks to 65.8mlbs.

Utilities continue to hold off and are preferring to transact in the term market.

TradeTech's Mid-Term U308 price indicator at the end of last week was US$86lb and the Long-Term U308 price indicator stood at US$82lb. Neither of these indicators shifted over September.

Data centres drive nuclear energy demand

September was characterised by some major macro-economic events, all pointing to rising demand for nuclear energy and hence a more positive backdrop for uranium prices. While the price weakness was arrested, TradeTech believes spot and term price markets fail to reflect the shift occurring inside the nuclear fuel industry.

Notably, the demand for increased power supplies at scale with reliability from burgeoning demand as data centre developments become ever larger, grabbed the headlines in September.

Microsoft announced a 20-year power contract with Constellation Energy which will result in the re-start of Three Mile Island Unit by 2028; Larry Ellison from Oracle was singing from the same song sheet pointing to the deployment of small modular reactors as power sources, although they are a high-cost work in progress at this stage for the industry.

CEO of Google, Sundar Pichai also explained the conflicts of meeting the company's 2030 emissions targets against the growth in power demand for the development of over 1GW data centres.

NextEra Energy flagged the evaluation for the possible re-start of the Duane Arnold Energy Centre, a plant located in Palo, Iowa which was shut down four years ago because of unfavourable economics.

TradeTech observes the US Department of Energy guaranteed a loan of up to US$1.52bn to assist in the restart of the Palisades Nuclear Power Plant, owned by Holtec International in Michigan state. Management indicated a restart in 4Q2025.

Capping off the big month of news was the commitment from 14 major financial institutions to support the tripling of nuclear energy capacity by 2050.

Short squeeze in the making?

Short sellers either haven't received the more bullish macro memo or are choosing to ignore it. Short interest in **Boss Energy** ((BOE)) stood at 12.52% on Sept 27 versus 10.41% on Sept 19 and 8.88% on August 27.

Paladin Energy ((PDN)) exhibits a similar trend with short interest up to 13.49% on September 27 from 9.76% a month earlier and 11.91% a week earlier.

Lotus Resources' ((LOT)) short interest has risen 18% over the month to 7.67% and **Deep Yellow's** ((DYL)) shorts stand at 8.74%, basically flat on the month.

On the geopolitical front, President Putin's comments in September emphasised the possibility of Russia considering a cessation of enriched uranium deliveries to the West in response to the sanctions post the invasion of Ukraine.

TradeTech points to the shift by the US Department of Energy request for proposals for delivery of low-enriched uranium as part of the strategic shift to increase US supply and decrease reliance on Russian supplies.

A casual observer could not be blamed for thinking both the short sellers and the over-arching macro picture can't be right. Or maybe the two narratives can co-exist until something breaks one or the other.

FNArena's The Short Report: https://fnarena.com/index.php/analysis-data/the-short-report/

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	04/10/2024	0.0500	0.00%	$0.19	$0.03			
AEE	04/10/2024	0.1600	▼- 8.82%	$0.33	$0.11			
AGE	04/10/2024	0.0500	▼- 8.00%	$0.08	$0.03		$0.100	▲100.0%
AKN	04/10/2024	0.0100	0.00%	$0.07	$0.01			
ASN	04/10/2024	0.0800	▼- 3.90%	$0.20	$0.07			
BKY	04/10/2024	0.3300	▼- 8.33%	$0.45	$0.26			
BMN	04/10/2024	3.3000	▲ 5.10%	$4.87	$1.90		$7.400	▲124.2%
BOE	04/10/2024	3.3900	▲ 2.13%	$6.12	$2.38	23.9	$4.280	▲26.3%
BSN	04/10/2024	0.0300	▼- 2.86%	$0.21	$0.02			
C29	04/10/2024	0.0700	0.00%	$0.12	$0.06			
CXO	04/10/2024	0.1200	▼-11.54%	$0.41	$0.08		$0.090	▼-25.0%
CXU	04/10/2024	0.0200	0.00%	$0.06	$0.01			
DEV	04/10/2024	0.1400	▼-15.15%	$0.45	$0.11			
DYL	04/10/2024	1.4300	▲ 9.45%	$1.83	$0.91	-78.9	$1.900	▲32.9%
EL8	04/10/2024	0.3900	▼- 5.00%	$0.68	$0.26			
ERA	04/10/2024	0.0100	▲42.86%	$0.08	$0.00			
GLA	04/10/2024	0.0200	0.00%	$0.04	$0.01			
GTR	04/10/2024	0.0040	0.00%	$0.02	$0.00			
GUE	04/10/2024	0.0900	▲28.57%	$0.18	$0.05			
HAR	04/10/2024	0.0400	0.00%	$0.28	$0.03			
I88	04/10/2024	0.4900	▼- 7.84%	$1.03	$0.14			
KOB	04/10/2024	0.1400	▼- 7.14%	$0.18	$0.07			
LAM	04/10/2024	0.7250	▲ 3.57%	$1.04	$0.48			
LOT	04/10/2024	0.2600	0.00%	$0.49	$0.20		$0.540	▲107.7%
MEU	04/10/2024	0.0400	0.00%	$0.06	$0.03			
NXG	04/10/2024	10.0500	▲ 1.25%	$13.66	$7.89		$16.200	▲61.2%
ORP	04/10/2024	0.0500	0.00%	$0.12	$0.04			
PDN	04/10/2024	11.8400	▲ 0.95%	$17.98	$8.15	23.5	$14.160	▲19.6%

PEN	04/10/2024	0.1000	▲4.26%	$0.15	$0.07	33.3	$0.260	▲160.0%
PNX	04/10/2024	0.0040	0.00%	$0.01	$0.00			
SLX	04/10/2024	4.5900	▲4.65%	$6.74	$3.01		$7.200	▲56.9%
TOE	04/10/2024	0.2800	▲14.89%	$0.70	$0.01			
WCN	04/10/2024	0.0200	0.00%	$0.03	$0.01			

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WEEKLY REPORTS

The Short Report - 10 Oct 2024

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

Summary:

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

10%+

PLS 19.19
IEL 14.21
PDN 13.80
BOE 13.30
MIN 13.02
SYR 12.56
LTR 10.47

Out: LYC

9.0-9.9%

LYC
DYL
CTT

In: CTT, DYL, LYC

8.0-8.9%

KAR
LOT
SYA

In: LOT Out: CTT, DYL

7.0-7.9%

SEK
LIC
ADT
NUF
CHN

in: ADT, LIC, NUF Out: LOT, STX

6.0-6.9%

GMD
STX
BGL
WBT
SFR
RIO
DMP
FLT
WEB
IMU

In: DMP, GMD, STX Out: ADT, LIC, NUF

5.0-5.9%

CUV
SGR
IDX
NVX
CTD
DXS
BOQ
SLX
A2M

In: A2M, CTD, SGR

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.4	0.4	NAB	0.7	0.7
ANZ	0.5	0.5	QBE	0.6	0.7
BHP	0.5	0.6	RIO	6.4	6.3
CBA	1.5	1.3	STO	0.9	0.9
COL	0.5	0.6	TCL	0.7	0.7
CSL	0.4	0.4	TLS	0.2	0.2
FMG	0.8	0.9	WBC	0.9	1.0
GMG	0.9	0.9	WDS	2.3	2.1
JHX	0.8	0.8	WES	0.9	0.9
MQG	0.6	0.6	WOW	0.4	0.4

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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

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

WEEKLY REPORTS

In Brief: SKS Tech, Pro Medicus, Domino's & Co

,SKS Technologies a small cap with a punch, Pro Medicus shines bright, OFX builds momentum and Domino's comes up trumps.

-The adjacent tailwinds of data centres
-Visage Viewer an ongoing winner
-Virtual FX cards take on major banks
-Quick Service Restaurants still in focus

By Danielle Ecuyer

Quote of the week comes from Morgan Stanley:

"*In 2025, Cloud Capex spend will equate to the entire Apollo Space program in real terms. Countering rising questions about the ROIC on this spending, our AlphaWise survey shows strong enterprise uptake and that project results are generally meeting or exceeding targets*."

Riding the coat tails of data centres

SKS Technologies Group ((SKS)) could be a diamond in the world of electronics.

With a market cap of $157m, this small cap may have not yet caught the attention of investors. It did, however, catch the eye of the Morgans' analyst, who initiated coverage with an Add rating (Buy equivalent) this week.

SKS Technologies designs and installs electrical, audio visual and communications networking systems in Australia with exposure to data centres, defence, mining, health, retail and commercial buildings.

Notably, the company has experienced a strong uptick in demand since 2020 due to expanding into new customer segments and regions. Work-on-hand grew 91.8% over FY24 with revenues up 50.5%.

The analyst is particularly excited about the exposure to data centres. The Australian market is forecast to double to around $40bn by 2028 from $23bn currently. Think NextDC ((NXT)), Macquarie Technology ((MAQ)) as well as Goodman Group ((GMG)) to name just three listed companies among ASX beneficiaries.

SKS has secured over $190m in data centre contracts since FY23.

Investment in capacity is highlighted as a potential tailwind for over the next three to five years.

Observing management, Morgans emphasise the Jinks family are at the helm, previously from the KLM Group, and they bring forth over 40-years of experience.

Operating leverage should help boost profit before tax margins to around 7.2% in FY27 from 4.8% currently.

Management has guided to 90% revenue growth in FY25 which the broker believes underpins forecast EBITDA growth of 125% and EPS expansion of 75.8%.

Target price is set at $1.80, compared to the current share price around $1.40.

Pro Medicus a cut above the competition

Before you sigh and turn away, just hang on for a few more details and maybe some insights into why this company's valuation makes Nvidia look like a value proposition.

Goldmans Sachs is unashamedly bullish on Pro Medicus, having upgraded the outlook in late September, the analyst probably felt more than vindicated with the latest contract announcement.

The company revealed it had renewed a contract with Mercy Health, one of the largest US health systems, for eight years at a value of $98m including two products, Visage Viewer and Open Archive.

So what?

As always, the devil is in the detail. The terms of this contract were negotiated at a higher rate per transaction cost with an increase in the contract's length from seven years.

The analyst believes the strength and pricing of the contract terms reflects the quality of the Visage product to customers and the ability to generate such high returns on investment.

Mercy Health is also expanding, recently merging with Bon Secours Health System on September 18, to form a larger entity and a more significant health network.

Ongoing organic growth or M&A for Mercy is a potential growth lever for Pro Medicus. The contract also doesn't include any AI or Cardiology which may also present options in the future.

Goldman Sachs is firmly of the belief there is little evidence of competition being "close to matching the Visage solution". Pro Medicus' market share remains at a low 7%.

The broker reiterates **"Stay Buy"** with a $193 target price which was upgraded 30% on September 27.

Changing global financial plumbing

To appreciate the potential implications for OFX Group ((OFX)), Evans and Partners met with Wise plc one of the company's main competitors, which also include Airwallex and Revolut. These digital FX companies are targeting the global banks and the incumbent SWIFT system to compete for global payments and currency transfers.

Like Wise and Revolut for that matter, I fess up being a user, OFX is looking to expand its corporate virtual card business. The broker explains the card is expected to increase revenue per client via increased transactions, with fees charged on the transaction, as well as interest on card balances.

The usual margins will be applied on FX transactions.

OFX' Business card offering allows up to three users per account and is applicable to entities needing simple FX transactions, inclusive of payment collection in the US, EU, UK and Australia with conversion into 37 currencies.

The second offering is a Business Plus card which costs $15 per user/per month for more "sophisticated users" with optical character recognition for extractions of details from invoice accounting systems such as Xero ((XRO)) and Quickbooks.

Evans and Partners has a valuation price of $2.90 with a Positive recommendations. The broker does not provide targets.

Don't get taco'ed away

Quick-service restaurants are flavour of the month for brokers with RBC Capital Markets the next in line to initiate coverage on some of Australia's favourite restaurant offerings.

Offshore expansion is the extra tasty topping for investors, even though the Australian market is estimated to be growing around a 6% compound rate between 2023 and 2028 with a total size of $23.8bn, currently.

Over time, Australian food preferences have changed to increased health consciousness including plant-based/vegan alternatives with a tilt to sustainability, along flexibility of online and mobile ordering.

Just ask a GenZ who would sooner order Uber Eats than walk 50m to a supermarket.

Think Economics estimates mature brands Subway, McDonalds, KFC and Domino's occupy around 50% market share by percentage of stores with the fastest growing categories in Mexican and Japanese food, including growth of 34% for Sushi Hub, 26% for Guzman Y Gomez ((GYG)) and 25% for Zambrero. Younger generations are driving this trend.

By comparison, Germany is over threefold larger at $96.1bn, France at $60-$70bn, Japan at $89.3bn and the biggest, big burger of them all, the US at $642bn, according to RBC.

Domino's Pizza Enterprises' ((DMP)) share price has been nothing short of ravaged, down around -80% following a series of profit downgrades and cost imposts over the past three years, most of which were driven by offshore markets.

While RBC acknowledges the Japanese and French markets might prove to be longer-term turnaround prospects, the broker believes the multiple strategic changes including improved franchise profitability, menu innovation and localisation, and everyday pricing for a value offering will be part of the mix to improve earnings growth and like-for-like sales improvements over the medium term.

Domino's is the preferred sector exposure with Outperform (Buy equivalent) and a $42 target price.

Australians love of poultry continues to underpin **Collins Foods** ((CKF)) KFC franchisee operations, as the number one brand in Australia for quick service restaurants.

Hard to dispute "It's Finger Lickin' Good" when a KFC premise is now located within 3kms of 71% of Australians. We consume on a per-capita basis more than the global average of poultry. Although, as RBC highlights, the Australian market appears mature.

Expansion in Germany and France by comparison offers growth potential. RBC rates Collins Foods as Sector Perform (Neutral or Hold rating equivalent) with a $9 target price.

When it comes to Guzman Y Gomez, it's not the thrill of breakfast burrito bowl that is turning off the RBC analyst, rather the spicy valuation, which is just too hot-to-handle after an increase of 80% in the share price post IPO.

Comparisons with US peers are believed to be on the racy side of optimistic. The broker considers drawing similarities to high growth US quick service restaurants in a market which is 25x times larger than Australia's is too blue sky' optimistic.

RBC could have a point with 1Q25 results revealing US operations disappointed the market even if they were in line with management's expectations.

The targeted expansion rate of 30 new stores p.a. over the short-term and growing to 40 new stores p.a. in five years, with 85% as a drive through, is acknowledged by the analyst as an "unprecedented" expansion rate in Australia.

Hence, RBC pours some icy cold water on the growth projects and rates the stock as Underperform (Sell equivalent) with a $32 target price.

Goldmans Sachs chipped into the debate, reiterating the quality of the company while raising concerns again about expansion plans domestically, a "stretched valuation" with comparisons to US peers like Chipotle

considered premature.

This broker also highlighted the stock overhang with circa 13% of total shares to be available for sale from escrow in March 2025. Sell rated with a $33.20 target price.

For more recent updates on the quick service restaurants stocks, check out the link below to last week's In Brief.

https://fnarena.com/index.php/2024/10/04/in-brief-collins-food-dominos-guzman-y-gomez-artrya/

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 11-10-24

Broker Rating Changes (Post Thursday Last Week)

Downgrade

CHAMPION IRON LIMITED ((CIA)) Downgrade to Overweight from Buy by Jarden.B/H/S: 0/0/0

Jarden lowers its target for Champion Iron to $6.91 from $7.47 and downgrades to Overweight from Buy.

The target falls due to a - 7% reduction in the broker's FY27 P65 grade (65% iron content) price average forecast, offset marginally by a lower assumed weighted average cost of capital (WACC).

The analysts forecast a price realisation for 66.2% Bloom Lake concentrate of US$120.8/dmt compared to the US$126.1/dmt average for the June quarter.

Underpinning the broker's Overweight rating, is the new DRPF 69% iron project which is progressing well, notes the broker. The low impurity DRPF product is a strategic differentiator helping achieve materially improved prices, explains Jarden.

TECHNOLOGY ONE LIMITED ((TNE)) Downgrade to Neutral from Buy by Goldman Sachs.B/H/S: 0/0/0

Since adding TechnologyOne to a Buy rating on June 26, 2023, Goldman Sachs points to a 61% rally in the share price versus the ASX200 which is up 16%.

The stock has re-rated to a price-to-earnings valuation of 56x from 40x since the May 2024 results. The broker notes the stock is now trading above the upgraded share price target of $24.05, hence the downgrade to Neutral from Buy.

Goldman Sachs explains growth in annual recurring revenue is around mid-teens out to FY30, supporting $1bn in annual recurring revenue. With SaaS margins over 80%, profit before tax growth rate of 15%-20% is viewed as the "new normal".

The broker is looking to FY24 results in November for further indications of momentum in UK or cross-selling of its SaaS.

Order	Company	New Rating	Old Rating	Broker
Downgrade				
1	CHAMPION IRON LIMITED	Buy	Buy	Jarden
2	TECHNOLOGY ONE LIMITED	Neutral	Buy	Goldman Sachs

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
ALD	Ampol	$30.25	Goldman Sachs	35.60	36.80	-3.26%

AMP	AMP	$1.32	Jarden	1.35	1.30	3.85%
ASX	ASX	$65.98	Goldman Sachs	59.50	59.00	0.85%
BMT	Beamtree Holdings	$0.30	Petra Capital	0.56	0.54	3.70%
CGF	Challenger	$6.65	Jarden	7.90	7.80	1.28%
CIA	Champion Iron	$6.74	Jarden	6.91	7.47	-7.50%
CMM	Capricorn Metals	$5.77	Jarden	6.62	6.29	5.25%
CPU	Computershare	$26.27	Goldman Sachs	30.00	31.00	-3.23%
DOW	Downer EDI	$5.44	Goldman Sachs	N/A	5.50	-100.00%
FCL	Fineos Corp	$1.38	Moelis	1.80	2.21	-18.55%
GQG	GQG Partners	$2.70	Goldman Sachs	3.00	3.05	-1.64%
HMC	HMC Capital	$8.77	Goldman Sachs	8.94	N/A	-
HUB	Hub24	$63.53	Jarden	47.30	44.20	7.01%
			Wilsons	74.41	56.20	32.40%
IFL	Insignia Financial	$2.79	Jarden	3.30	2.85	15.79%
JDO	Judo Capital	$1.71	Goldman Sachs	1.71	1.72	-0.58%
KAR	Karoon Energy	$1.55	Goldman Sachs	2.20	2.38	-7.56%
LNW	Light & Wonder	$143.50	Jarden	174.00	175.00	-0.57%
LOT	Lotus Resources	$0.27	Petra Capital	0.36	0.33	9.09%
MAC	Metals Acquisition	$18.40	Wilsons	23.50	24.00	-2.08%
MFG	Magellan Financial	$10.44	Goldman Sachs	10.10	10.00	1.00%
			Jarden	10.00	9.70	3.09%
NWL	Netwealth Group	$27.16	Jarden	18.20	17.20	5.81%
			Wilsons	25.16	21.04	19.58%
PPT	Perpetual	$19.51	Jarden	22.35	21.85	2.29%
PTM	Platinum Asset Management	$1.22	Jarden	0.94	1.00	-6.00%
QUB	Qube Holdings	$3.83	Goldman Sachs	N/A	4.20	-100.00%
SGM	Sims	$12.84	Jarden	12.70	12.50	1.60%
STN	Saturn Metals	$0.28	Petra Capital	0.77	0.78	-1.28%
TCL	Transurban Group	$13.14	Goldman Sachs	N/A	13.10	-100.00%
TNE	TechnologyOne	$24.48	Goldman Sachs	24.05	19.70	22.08%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

BMT BEAMTREE HOLDINGS LIMITED

Healthcare services Overnight Price: $0.30

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

Petra Capital predicts the share price for Beamtree Holdings will re-rate after a symbolic but strategic $0.5m contract win in the Kingdom of Saudi Arabia with the Centre for National Health Insurance (CNHI). Further downstream recurring revenue opportunities are expected.

As the CNHI is effectively the counterparty (payer) to the hospital network, the broker anticipates an on-ramp opportunity to deploy the company's performance indicators for coding quality (PICQ) tool inside around 400 hospitals in the Kingdom.

Target rises to 56c from 54c. Buy.

This report was published on October 4, 2024.

Target price is **$0.56** Current Price is **$0.30** Difference: **$0.26**
If **BMT** meets the Petra Capital target it will return approximately **87%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.30** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 100.00.**

Forecast for FY26:

> Petra Capital forecasts a full year **FY26** dividend of **0.00** cents and EPS of **1.70** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **17.65**.

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

FCL FINEOS CORPORATION HOLDINGS PLC

Cloud services Overnight Price: $1.40

Moelis rates ((FCL)) as Initiation of coverage with Buy (1)

Insurers seeking an edge in a competitive environment from disruptors and private equity look favourably upon what Fineos Corp has to offer, observes Moelis.

The company's software platforms and modules provide Life, Accident and Health (LA&H) Insurers products on SaaS based IT architecture.

These offerings promote agile operations at insurers and the capacity to deliver services to clients at lower cost, explains the broker.

Moelis begins research coverage with a Buy rating and $1.80 target. The broker likes the company's comprehensive product suite, which now includes New Business Underwriting.

This report was published on October 3, 2024.

Target price is **$1.80** Current Price is **$1.40** Difference: **$0.4**
If **FCL** meets the Moelis target it will return approximately **29%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY24:

> Moelis forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 5.42** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 25.82**.

Forecast for FY25:

> Moelis forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 2.63** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 53.25**.

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

HUB HUB24 LIMITED

Wealth Management & Investments Overnight Price: $62.06

Wilsons rates ((HUB)) as Overweight (1)

Wilsons upgrades its funds under administration (FUA) forecasts by 1-2% for Hub24 and Netwealth Group following a strong rally for domestic equities in the latter half of the September quarter. US Indices were more neutral after considering translation impacts.

The improved market sentiment and flow opportunity environment should remain positive, in the broker's view.

Wilsons raises its target for Hub24 to $74.41 from $56.20. The broker's valuation year is rolled-forward to FY26 to better capture the full benefit of what is expected to be another strong year. Overweight.

This report was published on October 9, 2024.

Target price is **$74.41** Current Price is **$62.06** Difference: **$12.35**
If **HUB** meets the Wilsons target it will return approximately **20%** (excluding dividends, fees and charges).
Current consensus price target is **$55.30**, suggesting downside of **-13.7%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **51.00** cents and EPS of **117.30** cents.
At the last closing share price the estimated dividend yield is **0.82%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **52.91**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **109.0**, implying annual growth of **87.4%**.
Current consensus DPS estimate is **51.9**, implying a prospective dividend yield of **0.8%**.
Current consensus EPS estimate suggests the PER is **58.8**.

Forecast for FY26:

Wilsons forecasts a full year **FY26** dividend of **65.00** cents and EPS of **151.40** cents.
At the last closing share price the estimated dividend yield is **1.05%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **40.99**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **130.1**, implying annual growth of **19.4%**.
Current consensus DPS estimate is **63.5**, implying a prospective dividend yield of **1.0%**.
Current consensus EPS estimate suggests the PER is **49.2**.

Market Sentiment: **0.4**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

IEL IDP EDUCATION LIMITED

Education & Tuition Overnight Price: $15.03

Jarden rates ((IEL)) as Overweight (2)

Jarden highlights IDP Education has scope to outperform industry volumes in FY25 with the potential to increase market share to offset the adverse impacts of lower student volumes, replicating the same trend achieved in the FY24 results.

The analyst also believes there is limited downside risks to EPS in FY25 and views the current fiscal year as a trough in the earnings cycle with scope for a recovery in earnings growth over FY26/FY27.

Jarden reiterates Overweight rating and $19.60 target price. There are no changes to the broker's earnings forecasts.

This report was published on October 9, 2024.

Target price is **$19.60** Current Price is **$15.03** Difference: **$4.57**
If **IEL** meets the Jarden target it will return approximately **30%** (excluding dividends, fees and charges).
Current consensus price target is **$18.04**, suggesting upside of **19.5%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

Jarden forecasts a full year **FY25** dividend of **30.50** cents and EPS of **46.90** cents.
At the last closing share price the estimated dividend yield is **2.03%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **32.05**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **47.4**, implying annual growth of **-0.6%**.
Current consensus DPS estimate is **34.2**, implying a prospective dividend yield of **2.3%**.
Current consensus EPS estimate suggests the PER is **31.9**.

Forecast for FY26:

Jarden forecasts a full year **FY26** dividend of **35.70** cents and EPS of **55.00** cents.
At the last closing share price the estimated dividend yield is **2.38%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **27.33**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **53.3**, implying annual growth of **12.4%**.
Current consensus DPS estimate is **39.9**, implying a prospective dividend yield of **2.6%**.
Current consensus EPS estimate suggests the PER is **28.3**.

Market Sentiment: **0.5**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

LNW LIGHT & WONDER INC

Gaming Overnight Price: $143.04

Jarden rates ((LNW)) as Buy (1)

Importantly, suggests Jarden, management has wrested back the narrative heading into the Global Gaming Exhibition, the world's largest trade show. CEO Matt Wilson has issued a statement via video relating to the Dragon Train injunction and mitigating steps.

The potential -5% negative earnings impact of Dragon Train has resulted in a market overreaction, according to the broker, with the share price falling by -24%. Management has confirmed FY25 guidance of US$1.4bn AEBITDA.

Buy rating remains. Target price declines to $174 from $175.

This report was published on October 7, 2024.

Target price is **$174.00** Current Price is **$143.04** Difference: **$30.96**
If **LNW** meets the Jarden target it will return approximately **22%** (excluding dividends, fees and charges).
Current consensus price target is **$169.20**, suggesting upside of **18.0%**(ex-dividends)
The company's fiscal year ends in December.

Forecast for FY24:

Jarden forecasts a full year **FY24** dividend of **0.00** cents and EPS of **444.90** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **32.15**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **448.7**, implying annual growth of **66.3%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **32.0**.

Forecast for FY25:

Jarden forecasts a full year **FY25** dividend of **0.00** cents and EPS of **588.70** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **24.30**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **598.2**, implying annual growth of **33.3%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **24.0**.

Market Sentiment: **0.9**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

OCL OBJECTIVE CORPORATION LIMITED

IT & Support Overnight Price: $15.17

Moelis rates ((OCL)) as Initiation of coverage with Buy (1)

Moelis initiates coverage on Objective Corp with a Buy rating and target price of $17.60, more than 20% above the $14.46 average of three covering brokers in the FNArena database.

The company provides software to help organisations govern, manage and protect data, explains the broker.

The strength of customer relationships and the experience of management is evident, suggests the analyst, from ongoing revenue and earnings growth in a competitive segment.

At the same time, Objective has been managing the transition to SaaS services from on-premise licence sales.

Moelis anticipates near-term earnings growth via new client wins and existing client upsell, while longer-term earnings should emanate from expansion into new lines of business and geographies.

This report was published on October 3, 2024.

Target price is **$17.60** Current Price is **$15.17** Difference: **$2.43**
If **OCL** meets the Moelis target it will return approximately **16%** (excluding dividends, fees and charges).
Current consensus price target is **$14.47**, suggesting downside of **-4.2%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

Moelis forecasts a full year **FY25** dividend of **17.80** cents and EPS of **34.40** cents.
At the last closing share price the estimated dividend yield is **1.17%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **44.10**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **36.3**, implying annual growth of **10.3%**.
Current consensus DPS estimate is **18.4**, implying a prospective dividend yield of **1.2%**.
Current consensus EPS estimate suggests the PER is **41.6**.

Forecast for FY26:

Moelis forecasts a full year **FY26** dividend of **20.70** cents and EPS of **40.20** cents.
At the last closing share price the estimated dividend yield is **1.36%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **37.74**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **41.5**, implying annual growth of **14.3%**.
Current consensus DPS estimate is **20.0**, implying a prospective dividend yield of **1.3%**.
Current consensus EPS estimate suggests the PER is **36.4**.

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

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