WEEK 49

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FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Friday, 6 December 2024

Metcash's Earnings Geared To Housing Recovery

Rudi's View: A Cautious Preview Into 2025

Dicker Data's Pick And Shovel AI Strategy

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AUSTRALIA

The Market In Numbers - 30 Nov 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	30 Nov 2024	Week To Date	Month To Date (Nov)	Quarter To Date (Oct-Dec)	Year To Date (2024)	Financial Year To Date (FY25)
NZ50	13066.920	0.19%	3.39%	5.18%	11.01%	11.52%
All Ordinaries	8699.10	0.76%	3.29%	1.88%	11.11%	8.55%
S&P ASX 200	8436.20	0.51%	3.38%	2.01%	11.14%	8.61%
S&P ASX 300	8367.50	0.57%	3.29%	1.93%	11.04%	8.55%
Communication Services	1691.60	1.17%	5.40%	6.20%	6.51%	12.68%
Consumer Discretionary	3942.70	1.91%	6.74%	2.70%	21.68%	12.28%
Consumer Staples	11710.00	1.54%	1.00%	-6.06%	-4.88%	-5.40%
Energy	8601.20	-3.14%	-0.67%	-5.78%	-19.03%	-14.26%
Financials	8987.30	-0.79%	5.87%	9.32%	33.77%	17.37%
Health Care	45740.60	3.13%	2.87%	3.78%	8.03%	3.35%
Industrials	7667.50	0.10%	5.72%	2.96%	11.68%	12.57%
Info Technology	2866.90	3.16%	10.38%	5.50%	56.41%	22.44%
Materials	16891.20	0.62%	-2.72%	-7.78%	-13.33%	0.08%
Real Estate	4044.90	2.19%	2.51%	-0.16%	20.83%	13.52%
Utilities	9089.70	0.03%	9.07%	1.18%	11.13%	-2.10%
A-REITs	1846.30	2.02%	2.48%	-0.10%	22.89%	13.67%
All Technology Index	3964.00	3.21%	12.56%	14.11%	47.14%	26.33%
Banks	3774.20	-1.42%	5.69%	9.69%	35.79%	18.12%
Gold Index	8928.70	-0.97%	-7.20%	2.38%	21.19%	21.36%
Metals & Mining	5475.10	0.55%	-4.04%	-8.62%	-15.33%	-1.36%

The World

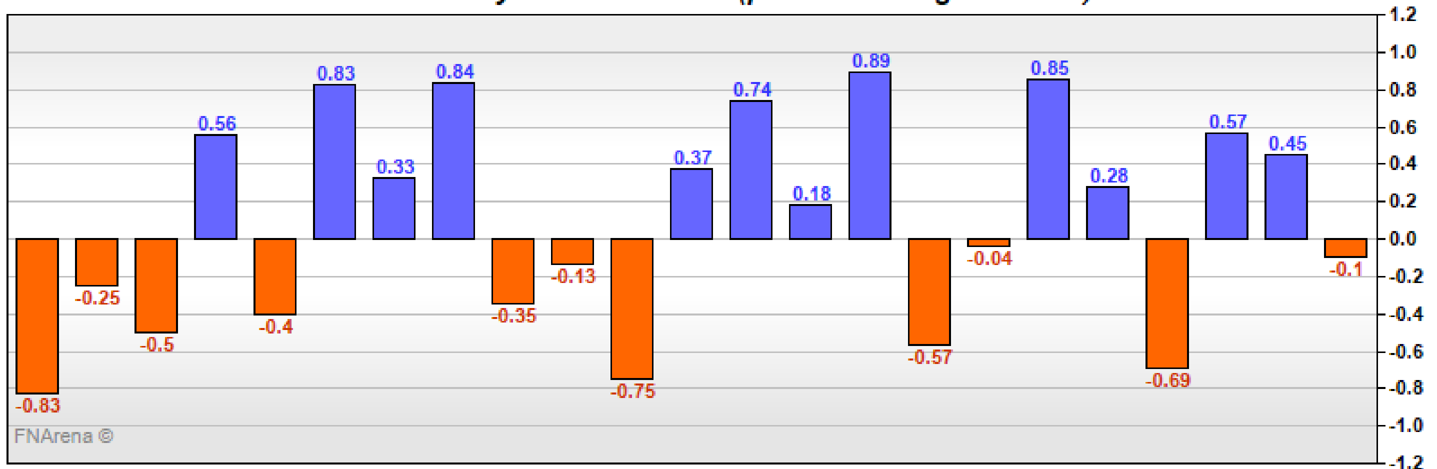
Index	30 Nov 2024	Week To Date	Month To Date (Nov)	Quarter To Date (Oct-Dec)	Year To Date (2024)	Financial Year To Date (FY25)
FTSE100	8287.30	0.31%	2.18%	0.61%	7.16%	1.51%
DAX30	19626.45	1.57%	2.88%	1.56%	17.16%	7.63%
Hang Seng	19423.61	1.01%	-4.40%	-8.09%	13.94%	9.62%
Nikkei 225	38208.03	-0.20%	-2.23%	0.76%	14.18%	-3.47%
DJIA	44910.65	1.39%	7.54%	6.10%	19.16%	14.81%
S&P500	6032.38	1.06%	5.73%	4.68%	26.47%	10.47%
Nasdaq Comp	19218.17	1.13%	6.21%	5.66%	28.02%	8.38%

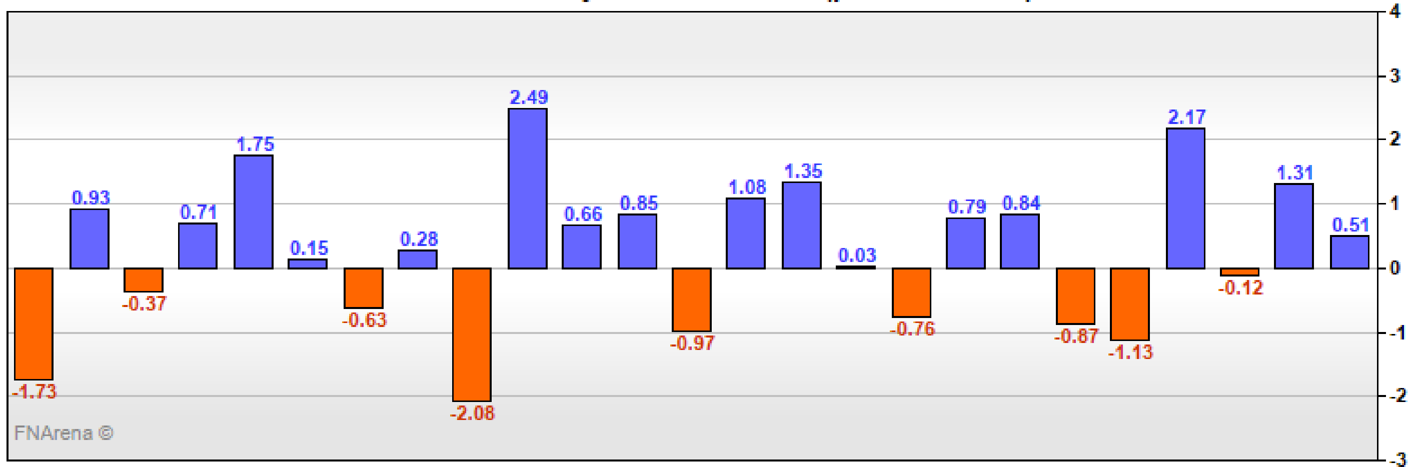
Metals & Minerals

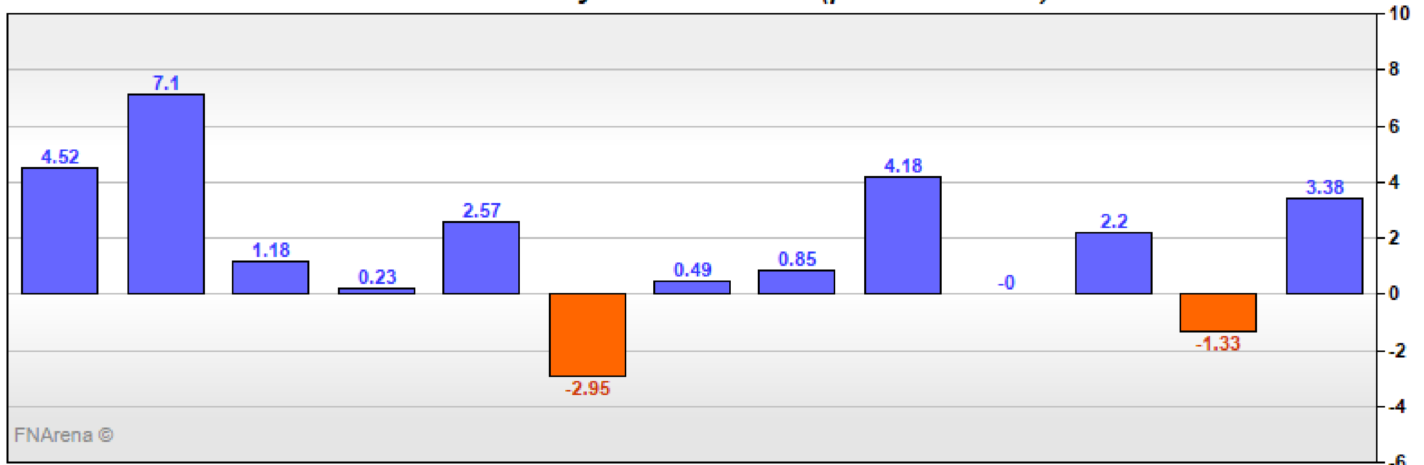
Index	30 Nov 2024	Week To Date	Month To Date (Nov)	Quarter To Date (Oct-Dec)	Year To Date (2024)	Financial Year To Date (FY25)
Gold (oz)	2661.80	-0.45%	-4.88%	-0.73%	30.19%	13.85%
Silver (oz)	30.68	-0.61%	-9.61%	-3.85%	25.84%	4.89%
Copper (lb)	4.1315	0.49%	-5.24%	-10.16%	8.50%	-4.66%
Aluminium (lb)	1.1674	-1.52%	-0.88%	-1.62%	20.07%	3.82%
Nickel (lb)	7.2534	2.61%	1.89%	-5.41%	-2.47%	-6.75%
Zinc (lb)	1.3731	1.53%	-1.32%	-0.93%	22.10%	3.54%
Uranium (lb) weekly	77.50	-6.63%	-4.32%	-5.49%	-9.88%	-6.91%
Iron Ore (t)	103.35	1.30%	-0.70%	11.15%	-25.23%	-2.97%

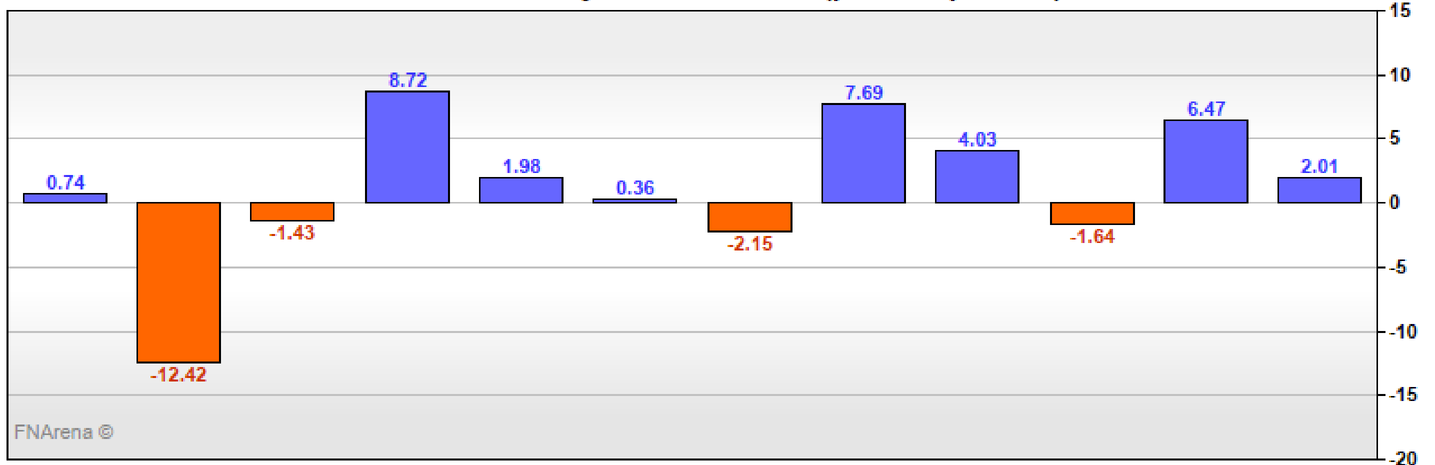
Energy

Index	30 Nov 2024	Week To Date	Month To Date (Nov)	Quarter To Date (Oct-Dec)	Year To Date (2024)	Financial Year To Date (FY25)
West Texas Crude	68.88	-1.92%	-0.30%	0.35%	-6.68%	-15.86%
Brent Crude	72.68	-2.29%	-0.04%	1.59%	-8.30%	-14.93%









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

Diverging Margins In Webjets' Results

Following interim result releases, brokers remain keen on Webjet Group's potential but are concerned over the decline in Web Travel's margins.

-Web Travels' result not as bad as feared
-Margin decline still causing concern
-Webjet Group to benefit from economic recovery and pick-up in domestic leisure travel demand
-Webjet Group result included margin surprise

By Greg Peel

Web Travel Group ((WEB)), the B2B wholesale hotel bed booking business (WebBeds) demerged from the original Webjet in September, posted a first half FY25 result described by analysts variously as "weak", "better than expected", "a relief" and "messy". The clue to divergence lays in the latter: The result was messy due to the demerger and change in accounting standard.

Total transaction value (TTV) rose 25% year on year, revenue was up 1%, underlying earnings declined -11% and profit was down -6%. The group earnings margin fell to 41.1% versus 45.0% a year ago. Overall, the result beat consensus expectations, Morgans notes, due to a change in the accounting standard, lower corporate costs (timing issue) and lower than expected D&A, net interest and tax.

In line with guidance, cashflow was weak, however Web Travel finished the first half with a strong net cash position of $279.7m, with no term debt but $250m of convertible notes outstanding.

Marginal Worries

In FY23 and FY24, when the two divisions were still part of the one company, the B2B division delivered revenue margins above 8%, which were in line with pre-covid levels. At the company's March strategy day, management offered FY25-26 revenue margin guidance of 7.0-7.5%. At the AGM in August, margin guidance of 7.0% was provided. Last month, first half FY25 guidance was lowered to 6.4%.

Web Travel achieved a revenue margin of 6.6% in the first half, and management is confident the margin will stabilise in FY26 at 6.5%.

Management reiterated the three drivers of lower margins in Europe specifically, which it had outlined in October, with Europe previously the company's highest margin region. Increased competition is an issue, as are volume rebates paid to customers.

Those rebates, known as "overrides", are expected to continue through to FY26. Overrides are payments made to WebBeds' customers once they hit certain volume/TTV thresholds. Override agreements with customers are renegotiated every 6-18 months which leaves a revenue drag of rising financial incentive payments to customers as TTV grows.

The other driver was a tough June-July period in Europe when WebBeds was impacted by tour operator FTI filing for insolvency, the European Football Championships and the Olympics. Lower directly-contracted hotels and more third-party providers also impacted margins. WebBeds' earnings margin was further impacted by increased costs.

In regard to FY26, management believes the revenue margin will stabilise at around 6.5% and its earnings margin will increase to around 50%. If achieved, this would result in very strong earnings growth in FY26, Morgans notes.

However, margin guidance is being questioned. It implies operating costs only increase by 4.9% in FY26 versus 12.3% in FY25. Web Travel nevertheless stressed efficiency measures are in place. Moving forward, the customer overrides will remain, but near term there is potentially upside from the one-off issues in Europe in FY25.

Importantly for Morgans, management has implemented greater pricing controls. Increasing the mix of directly contracted hotels will also increase margins. Management said its new customers are generally smaller and therefore higher margin. However, the offset is geographic mix and higher booking growth from lower margin regions which dilutes the margin, the broker notes.

Are We Confident?

Web Travel's result caught the market a little by surprise, Ord Minnett suggests, in that it appeared odds-on just last week that the "downgrades come in threes" scenario could play out. The market appears to have been somewhat relieved this did not eventuate, the broker notes, notwithstanding the material step down in revenue margins from the 8.1% levels reported just 12 months ago.

With regard the aforementioned reasons for margin decline, Ord Minnett's industry analysis suggests although there is little doubt all these factors had a negative impact, there has not been a sector-wide reduction in revenue margins of this magnitude. This suggests to the broker some of these factors are Web Travel-specific and within the company's control.

In these circumstances, the pendulum could go either way, but Ord Minnett's sense is as these issues are "worked through" over the next 12-18 months, then risks lay to the upside.

Goldman Sachs believes management addressed sufficiently the different factors driving the significant decline in WebBeds' revenue margin to 6.6% from 8.1% and gave clear guidance for FY25-26 to deliver a cautiously optimistic outlook.

Web Travel's revenue margin in the second quarter came in at 6.4%, so the first half average of 6.6% implied some recovery.

This margin recovery provides an initial level of comfort, but showing stable, or better still increased, margins over the next two halves should help restore confidence and drive a potential re-rate, UBS suggests.

The key downside risk are increased overrides, Macquarie believes, with the key upside risk an improved supplier mix. Around 50% of Web Travel's inventory is via direct contracts with hotel chains (15%) and third-party providers (35%). Opex growth will be required to support staff increases, Macquarie notes, as the company grows volumes in less-established regions.

The bedbank market has long been in a structural decline, Shaw and Partners notes, with rising direct bookings and online travel agents (OTA) taking market share. However, the transition towards hoteliers cutting the number of suppliers and viewing WebBeds, Hotelbeds, and Expedia as platforms via scale and technology differentiation is expected to continue to consolidate the industry.

Web Travel delivered 25% TTV growth for 1% revenue growth in the first half, Morgan Stanley notes. Over the same period, Expedia B2B delivered 20% revenue growth off a base more than an order of magnitude larger. Unfortunately, this broker does not get a sense for relative margins.

If part of the attraction of bedbanks for hotels is to diversify distribution, as Web Travel suggests, it strikes Morgan Stanley as strange that one of the largest OTAs should be having so much traction. The broker can't help but think one million-plus directly contracted hotels and exclusive wholesale distribution agreements with some of the world's largest hotel chains could translate to supply and distribution advantages for market leaders.

Morgan Stanley's core concern, namely that margins could come under further pressure, remains, as Web Travel's offer is substitutable and lacks relative scale.

The Value Factor

One positive piece of news was an announced $150m share buyback, due to spare balance sheet capacity, which will be used to offset future dilution from the $250m in convertible notes due in 2026.

Not positive enough for Morgan Stanley nonetheless. On margin concerns, this broker retains an Underweight rating.

For other brokers, there is an element of giving management the benefit of the doubt to some degree due to the -32% fall in share price post the weak September update.

While UBS recognises concerns around potentially shifting competitive dynamics, this broker believes Web Travel shares have been oversold and the balance of risk is to the upside. UBS retains a Buy rating.

Ord Minnett has increased its revenue margins assumptions from 6.3% to 6.5- 6.6% into perpetuity but sees upside risk to these numbers, also retaining Buy.

Shaw and Partners' Buy rating is supported by a view that FY25 is a rebasing year with around 20% earnings growth to resume from FY26.

While there are question marks over its margins and earnings growth profile, Web Travel deserves to trade on a similar multiple to its domestic peers, Morgans suggests. But given earnings uncertainty remains, this broker maintains a Hold rating.

Longer term, Macquarie expects Web Travel will successfully grow TTV, but remains cautious on its ability to drive operating leverage as it scales. Structurally lower revenue margins make the company more reliant on cost control, the broker notes, and higher capitalisation may reduce earnings quality. Macquarie retains Neutral.

Citi also retains Neutral following a first-glance review.

That leaves three Buy or equivalent ratings among brokers monitored daily by FNArena covering Web Travel, three Hold and one Sell. The consensus target has risen to $5.55 from $5.26 but the range is significant, from $3.70 (Morgan Stanley) to $6.80 (Shaw).

Goldman Sachs retains a Buy rating with a target increase to $7.00 from $6.70.

Webjet Group

Webjet Group ((WJL)), the B2C online travel agency demerged from the original Webjet in September, is a much smaller entity than its B2B cousin, and is yet to draw much in the way of broker coverage.

Webjet Group's first half result was in line with Morgans' expectations despite the underperformance of GoSee. The highlights of the result were (wouldn't you know) higher earnings margins and a stronger than expected balance sheet.

FY25 earnings guidance is in line with expectations and could prove conservative, Morgans suggests, if bookings continue to improve. Importantly, management has made great progress in a short period of time on its strategic priorities which are expected to accelerate earnings growth from FY26 onwards.

The broker has upgraded forecasts for GoSee's restructuring program which will result in meaningful cost savings.

The Webjet OTA grew earnings by 3% on an improved business mix, however, top line growth was subdued and TTV fell -8% due to lower airfares. Bookings were down -7% reflecting cost of living pressures.

GoSee continues to disappoint but it is only a small business, Morgans notes. Importantly, management has moved quickly to improve its performance with -$4m of cost savings targeted on an annualised basis.

Morgans believes Webjet's growth will come from leverage to an economic recovery and a pick-up in domestic leisure travel demand, the ongoing penetration of online bookings and from implementing its strategic priorities. The strategic priorities are centred on customer acquisition, revenue optimisation, international share and operational excellence.

While it is only early days, management is making good progress on these initiatives, Morgans believes. In early 2025, the Webjet OTA will have a brand refresh with marketing campaigns centred on selling more higher margin international airfares and other ancillary products (hotels, insurance, car hire, activities).

Morgans retains an Add rating and $1.05 target.

Webjet.com.au has grown from a technology start up to the largest OTA in Australia over the last twenty years, Ord Minnett notes, driven largely by its matrix-style consumer-centric booking fee model. Even though some 80% of bookings are domestic in nature, prior to the pandemic the business increased earnings every year except for FY14, when the website was re-engineered.

The business emerged from covid with its wings clipped, Ord Minnett notes, as airlines reduced international commissions/overrides and domestic airline competition declined materially. The opportunity to increase share of the Outbound Leisure market has never been more important, the broker suggests, given the material upside impact on earnings.

The key from the broker's perspective is that Webjet Group could have "the keys to the kingdom" with its multi-trip (Trip Ninja) outbound offering. Ord Minnett's industry analysis suggests this a quality solution but remains relatively unknown amongst B2C customers.

Ord Minnett initiates coverage with a Buy rating and $1.32 target, noting it expects short term headwinds to slowly abate and the outlook to improve.

Webjet Group has, in Jarden's view, been set up to succeed as a demerged entity. This broker says this for three reasons: a balance sheet providing significant optionality for potential M&A; a large and under-utilised customer base; and the opportunity to take costs out and margins to lift.

First half earnings were up just 1%, reflecting a weaker macro backdrop and the demerger. Looking forward, Jarden sees the outlook as improving, with second half to-date TTV up, and guidance for flat underlying FY25 earnings conservative in this broker's view, if current trends were to continue.

GoSee cost-out should underpin 7% growth into FY26, with upside risk to Jarden's forecasts if the company is able to continue lifting international mix and attachment rates via the proposed brand re-fresh in 2025.

Jarden retains an Overweight rating and $1.10 target.

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AUSTRALIA

Metcash's Earnings Geared To Housing Recovery

Having set the stage with downgraded earnings expectations, Metcash's first half earnings results delivered some welcome surprises.

-Metcash's H1 performance not as bad as feared
-Hardware disappoints but shows green shoots
-Food delivers a margin boost
-Liquor boosts market share, shame about the margins
-What the broker's think

By Danielle Ecuyer

Housing has the potential to unlock earnings leverage

Post Metcash's 1H25 earnings guidance downgrade at the end of October, investors likely breathed a sigh of relief when the actual results came in as expected, approaching the upper end of management's downgraded guidance.

The tough trading conditions marking FY24 results continued into 1H25, with the hardware division, representing around 30% of earnings, squarely in the eye of the housing storm, or more precisely: feeling the lack of activity.

Macquarie noted the "key disappointment" for Metcash came from hardware, with like-for-like sales falling -5.6% over the previous corresponding period. The decline accelerated from -2.7% in FY24 results and was worse than expected.

The falling cycle has directly impacted the operating leverage for the hardware division, with earnings before interest and tax margins slipping around -110bps to 5.1% from 1H24.

As UBS highlights, the hardware division is the "most cyclical" of Metcash's three divisions, including food as the largest segment at circa 44% of earnings, and liquor at around 26%.

Trading activity impacting hardware has softened in each of the recent updates, including the company's AGM on September 13 and the guidance downgrade on October 25.

Following successive downgrades in 2H24 and 1H25 guidance for Total Tools and Metcash's Independent Hardware Group, J.P. Morgan remarks there are some positive signs emerging. UBS confirms Metcash has indicated the rate of decline in trade has "steadied" since October 25, while the pipeline for frame and truss orders has extended.

Macquarie is less convinced by the idea of green shoots appearing in the beleaguered housing sector, with the analyst stressing uncertainty around whether the building cycle has bottomed. Weak housing indicators continue to suggest an "anemic market."

Citi also weighs into the housing/hardware debate, believing exposure to small and medium businesses means the division is most exposed to the detached housing market and sees this as a potential "driver of demand."

The Citi analyst explains private sector detached housing approvals bottomed in the March quarter this year and have progressed to a rate of circa 9,600 per month in September, around the 10-year average.

Detached private sector housing starts appear to have bottomed in the June quarter, aligning with the typical three-month lag between approvals and starts in the industry.

Citi is upbeat on the outlook for hardware and expects momentum in the private sector dwelling market to ramp up toward the end of FY25. The broker forecasts around 9% growth in hardware earnings for the current

fiscal year.

Morgan Stanley gleaned from the earnings call that management is experiencing an uplift in demand for frame and truss, with a positive "lengthening of the pipeline."

Ord Minnett also believes the hardware division is well-positioned for a recovery when the RBA cuts interest rates.

Goldman Sachs, in contrast, is more circumspect regarding the hardware division. This analyst highlights a -3.7% decline in sales for the independent hardware group, excluding the Alpine and Bianco acquisitions, compared to a year earlier.

Home improvement advanced 0.5%, while retail scan sales from 358 stores fell -1.2% in the do-it-yourself segment and -9.2% in trade, compared to positive sales growth reported by Bunnings at the Wesfarmers ((WES)) AGM for 1Q25 in both segments.

Supermarket sales held up despite tough conditions

Metcash's largest earnings contributor, food, reported sales growth of 10% year-on-year, boosted by the Superior Foods acquisition, volume growth for wholesale, and price inflation, Macquarie details.

Compared to 1Q25 sales growth for Coles Group ((COL)) at 2.4% and Woolworths Group ((WOW)) at 2.3%, IGA sales rose 2.2% excluding tobacco.

Macquarie highlights Superior Foods is winning new customers. UBS concurs with Macquarie, pointing to strong sales growth of 6.1% since Superior Foods became part of Metcash on June 3, 2024, although earnings margins came under pressure in 2Q25.

J.P. Morgan commends Metcash for managing costs well in a challenging operating environment, evidenced by a lift in supermarket and convenience margins by 12bps to 2.27% in 1H25. This broker highlights a greater annual margin uplift for underlying supermarket margins by 22bps to 2.79% once tobacco, convenience, and joint venture earnings are excluded.

Macquarie's observations around tobacco reveal a decline in sales of -16.5% against 1H24, with tobacco representing around 19% of total food segment sales compared to around 25% in 1H24.

Management highlighted tobacco is a very low-margin product, accounting in part for the improvement in the food division's margins.

Ord Minnett and Morgan Stanley also observed food and grocery earnings margins came in better than expected, which was viewed as a positive result.

Moderating inflation has also boosted volume growth, according to Morgan Stanley.

Chasing liquor volumes depresses margins

Turning to the liquor division, Metcash has benefited from growth in market share for independents in the retail space. J.P. Morgan highlights off-premise and contract customers grew by 2.4% in 1H25 and 5% in November.

The results exceeded those from Endeavour Group's ((EDV)) retail sales, which rose 0.8% in 4Q24 and 0% in 1Q25, and Coles Liquor, whose annualised sales slipped -0.4% in 4Q24 and to 0% in 1Q25.

Management's decision to focus on volume growth came at the expense of margins in liquor, which fell by -10bps year-on-year to 1.9%.

Macquarie flagged liquor earnings were below estimates by -7% and expects a further contraction in margins by -16bps to 2% for FY25.

Regarding costs, management reiterated -$15m in cost savings, Goldman Sachs notes, while also providing updated capex guidance for Project Horizon. Macquarie points to 1H25 capex of -$71m, with FY25 guidance at -$205m, below the previous guidance by -$30m, partly due to delayed spending.

Not all brokers are Metcash converts

Metcash's lack of private labels for the cash strapped consumer has not dissuaded J.P. Morgan from maintaining one of the most upbeat target prices for the stock at $4.20 with an Overweight (Buy-equivalent) rating.

Citi believes hardware has likely bottomed, upgrading the stock to Buy from Neutral and raising the target price to $3.70 from $3.40, noting the company is trading at a "reasonable valuation".

UBS and Ord Minnett are also Buy-rated, with target prices of $3.50 and $4.10, respectively. Morgan Stanley and Macquarie are more cautious, with Hold-equivalent ratings and target prices at the lower range of $3.45 and $3.30, respectively.

Goldman Sachs retains concerns over the organic growth in both food and hardware versus industry competition. This broker is equally sanguine on the outlook for housing starts which remain in decline. Sell rated with $3.10 target price.

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AUSTRALIA

November In Review: Valuation Concern Trumped

Australian equities underperformed US peers in November but outperformed most of the rest of the world, led by Technology and Financials.

-Trump's election victory triggers rally for US stocks
-Australia gains too, but Europe and EMs pull back
-Commodities had a hard time, yet again
-Smaller Caps catch a bid
-Investor sentiment might be too euphoric

By Rudi Filapek-Vandyck

November 2024 opened amid general investor trepidation.

Equities had performed above expectations and valuations, in particular in the US, were seen as "full", if not worse, generally and there was that election nobody genuinely knew what to expect from.

But Donald Trump won all the swing states and life was good and glorious and another rally ensued.

Traditionally, November is the best performing month both for US equities and for the local ASX, but this time November proved a really good month for both markets.

Compensating for a slight retreat in October, the ASX200 returned 3.8% in November (total return), despite closing the month on a slight negative footing. Outperformers, yet again, were local technology stocks, partially on mirroring moves in the US, partially on strong results released by the likes of TechnologyOne ((TNE)) and Xero ((XRO)).

Pro Medicus ((PME)) kept announcing new contract wins and its shares rallied by 29.29% in the month. That wasn't even good enough to be the number one best performer for the market or the sector, go figure!

NZ-based Gentrack Group ((GTK)) also released a stronger-than-forecast result and its shares jumped by 42%. Weebit Nano ((WBT)) shares gained close to 36%. EML Payments ((EML)) shares surged more than 50%. Catapult International ((CAT)) saw its shares appreciate by more than 40%.

Needless to say, despite all the trepidation about elevated valuations for growth stocks, investor portfolios with exposure had an excellent time in November, both locally and in the US.

Sigma Healthcare shares surged no less than 47% on news the regulator would not block the merger with Chemist Warehouse. That "merger" (read: reverse take-over) still requires approval from shareholders and the Federal Court.

Commodities Out Of Favour

Not so pleased were those investors who'd piled into energy and commodities companies on expectation that China would have brought out the big stimulus bazooka by now. It didn't and resources stocks were among the big losers for the month, as they have been for most of 2024 to date.

Gold producers, uranium, battery materials, iron ore, rare earths and mineral sands; none of them offered much to smile about in November.

Year-to-date Energy and Materials are the worst performing sectors in Australia, by a mile, with Consumer Staples the only other sector that is still in the negative for calendar year 2024. Agriculture outperformed in November.

Behind Technology, local Financials --both banks and insurers-- turned in the second best performance last month.

Global Performance Is Mixed

Alas, Australia's performance in November was yet again handsomely beaten by equivalent indices in the US, and in Canada too. The S&P500 added 5.9% for the month, with Consumer Discretionary the strongest performing sector.

The positive news is most other international markets performed a whole lot worse. Europe continues to struggle with its economic recovery and democratic institutions, while Emerging Markets retreated on the prospect of Donald Trump's America First policy approach, a firming US dollar, and the absence of more stimulus from China.

Smaller cap stocks sprang to life after the US election, with smaller cap growth stocks outperforming in the US.

The MSCI Europe retreated by -1.7% in November, dragged down by political uncertainty in France where the CAC40 dropped by -4.2%. Japan's Topix only gained 1.2%. Markets in Brazil (-7.2%), Korea (-5.2%) and China (-0.3%) were all worse off.

What About Valuations?

The USD Index, nicknamed Dixie (DXY), surged to a two-year high in November. In response, copper turned into one of the biggest losers. The Australian dollar entered December above US65c but has come under pressure since.

Quant analysis conducted by analysts at Morgan Stanley suggests equity valuations for the S&P500 might be stretched the most at this point in time when measured against the index's range over the past twelve months.

No surprises, Emerging Markets equities, materials stocks and value companies are all trading well off from their twelve month's range highs.

Financials, not technology, is currently the sector valued the highest on the same measurement, which won't surprise anyone who has been observing banks in Australia.

Price charts for respective indices picture a continued uptrend for US equities into year-end, whereas Europe and Japan seem to be flatlining instead, with Emerging Markets equities trending lower.

On a simple forward-looking PE, the S&P500 is now trading above 22x with comparable multiples between 11-14x for Europe, Japan and EMs. The ASX200 has entered December equally on an historically elevated 18x FY25 EPS forecast (consensus).

Not widely publicised is that analysts' forecasts are now exhibiting a negative trend for all regions, including the US (albeit in much milder form than elsewhere).

Consensus forecasts in Australia see FY25 EPS growth below 1% currently (0.9% to be precise) but Macquarie's forecasts, which are more downbeat for the Resources sector, see the average EPS slumping by -4.8% for the running financial year, which would be a worse outcome than the -4.3% recorded for FY24.

Throughout all the volatility, US ten year yields are around 4.20% (1.90% in real terms, i.e. when corrected for inflation). Global bonds marginally outperformed Australian bonds, as measured by Morgan Stanley. With the RBA stoically on hold, the local market is not pricing in any moves until much later in 2025.

The Aussie ten year yield sat at 4.34% by the end of the month.

With various measurements of investor sentiment suggesting the overall mood could be described as "bullish", maybe even as "euphoric", Morgan Stanley's proprietary Market Sentiment Indicator has turned negative.

Macquarie's FOMO Meter, designed to measure market sentiment, has risen to 119, suggesting, in Macquarie's own words "'little scope for more bullish sentiment to lift equities".

Seasonality suggests the Australian share market should outperform US indices in December and January, so that will be an interesting development to watch, in particular if the US market would temporarily stumble.

History suggests, under such a scenario, Australian equities might still underperform, regardless.

ASX100 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
PME - PRO MEDICUS LIMITED	29.29	PDN - PALADIN ENERGY LIMITED	-25.49
SQ2 - BLOCK INC	23.84	PLS - PILBARA MINERALS LIMITED	-16.14
TNE - TECHNOLOGY ONE LIMITED	23.66	MIN - MINERAL RESOURCES LIMITED	-14.64

CPU - COMPUTERSHARE LIMITED	20.89	LYC - LYNAS RARE EARTHS LIMITED	-9.47
TLX - TELIX PHARMACEUTICALS LIMITED	18.20	NEM - NEWMONT CORPORATION REGISTERED	-8.27

ASX200 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
SIG - SIGMA HEALTHCARE LIMITED	47.45	PDN - PALADIN ENERGY LIMITED	-25.49
PME - PRO MEDICUS LIMITED	29.29	BGL - BELLEVUE GOLD LIMITED	-21.23
WEB - WEB TRAVEL GROUP LIMITED	27.79	BOE - BOSS ENERGY LIMITED	-21.22
SQ2 - BLOCK INC	23.84	WAF - WEST AFRICAN RESOURCES LIMITED	-17.39
TNE - TECHNOLOGY ONE LIMITED	23.66	SGR - STAR ENTERTAINMENT GROUP LIMITED	-16.67

ASX300 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
SIG - SIGMA HEALTHCARE LIMITED	47.45	RSG - RESOLUTE MINING LIMITED	-46.34
GTK - GENTRACK GROUP LIMITED	42.03	PMT - PATRIOT BATTERY METALS INC	-29.49
VUL - VULCAN ENERGY RESOURCES LIMITED	37.60	INR - IONEER LIMITED	-27.59
WBT - WEEBIT NANO LIMITED	35.96	WC8 - WILDCAT RESOURCES LIMITED	-27.27
MSB - MESOBLAST LIMITED	34.09	SYR - SYRAH RESOURCES LIMITED	-26.67

ALL-TECH Best and Worst Performers of the month (in %)

Company	Change	Company	Change
EML - EML PAYMENTS LIMITED	50.75	NXL - NUIX LIMITED	-13.44
GTK - GENTRACK GROUP LIMITED	42.03	4DX - 4DMEDICAL LIMITED	-13.21
CAT - CATAPULT GROUP INTERNATIONAL LIMITED	40.46	DUG - DUG TECHNOLOGY LIMITED	-10.22
WBT - WEEBIT NANO LIMITED	35.96	OFX - OFX GROUP LIMITED	-9.25
PME - PRO MEDICUS LIMITED	29.29	FND - FINDI LIMITED	-7.66

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

Australia & NZ

Index	30 Nov 2024	Month Of Nov	Quarter To Date (Oct-Dec)	Year To Date (2024)
NZ50	13066.920	3.39%	5.18%	11.01%
All Ordinaries	8699.10	3.29%	1.88%	11.11%
S&P ASX 200	8436.20	3.38%	2.01%	11.14%
S&P ASX 300	8367.50	3.29%	1.93%	11.04%
Communication Services	1691.60	5.40%	6.20%	6.51%
Consumer Discretionary	3942.70	6.74%	2.70%	21.68%
Consumer Staples	11710.00	1.00%	-6.06%	-4.88%
Energy	8601.20	-0.67%	-5.78%	-19.03%
Financials	8987.30	5.87%	9.32%	33.77%
Health Care	45740.60	2.87%	3.78%	8.03%
Industrials	7667.50	5.72%	2.96%	11.68%
Info Technology	2866.90	10.38%	5.50%	56.41%
Materials	16891.20	-2.72%	-7.78%	-13.33%
Real Estate	4044.90	2.51%	-0.16%	20.83%
Utilities	9089.70	9.07%	1.18%	11.13%
A-REITs	1846.30	2.48%	-0.10%	22.89%
All Technology Index	3964.00	12.56%	14.11%	47.14%
Banks	3774.20	5.69%	9.69%	35.79%
Gold Index	8928.70	-7.20%	2.38%	21.19%
Metals & Mining	5475.10	-4.04%	-8.62%	-15.33%

The World

Index	30 Nov 2024	Month Of Nov	Quarter To Date (Oct-Dec)	Year To Date (2024)
FTSE100	8287.30	2.18%	0.61%	7.16%

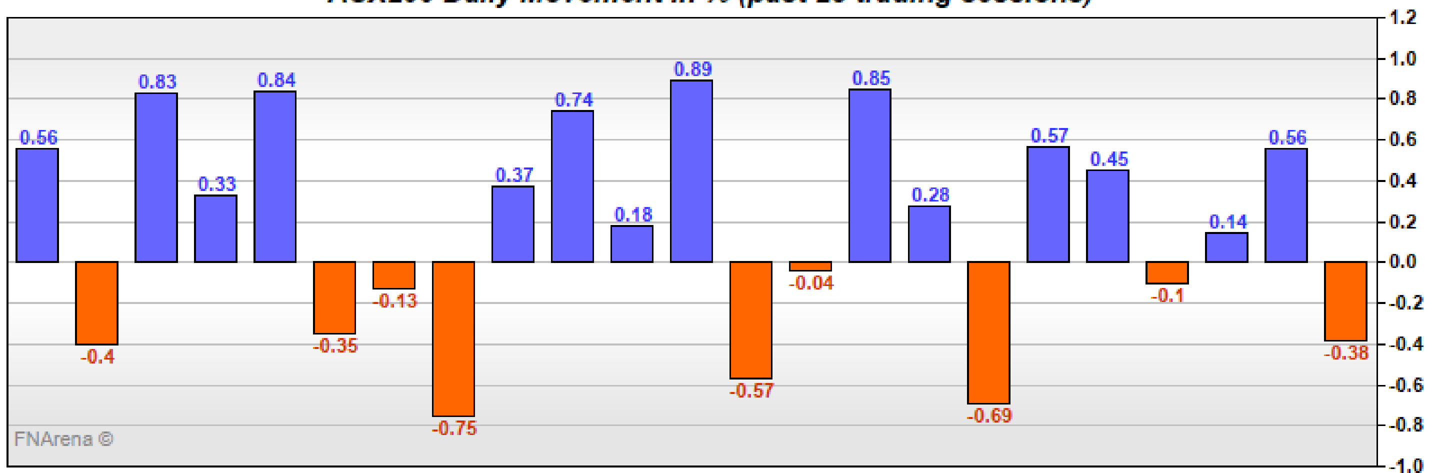
DAX30	19626.45	2.88%	1.56%	17.16%
Hang Seng	19423.61	-4.40%	-8.09%	13.94%
Nikkei 225	38208.03	-2.23%	0.76%	14.18%
DJIA	44910.65	7.54%	6.10%	19.16%
S&P500	6032.38	5.73%	4.68%	26.47%
Nasdaq Comp	19218.17	6.21%	5.66%	28.02%

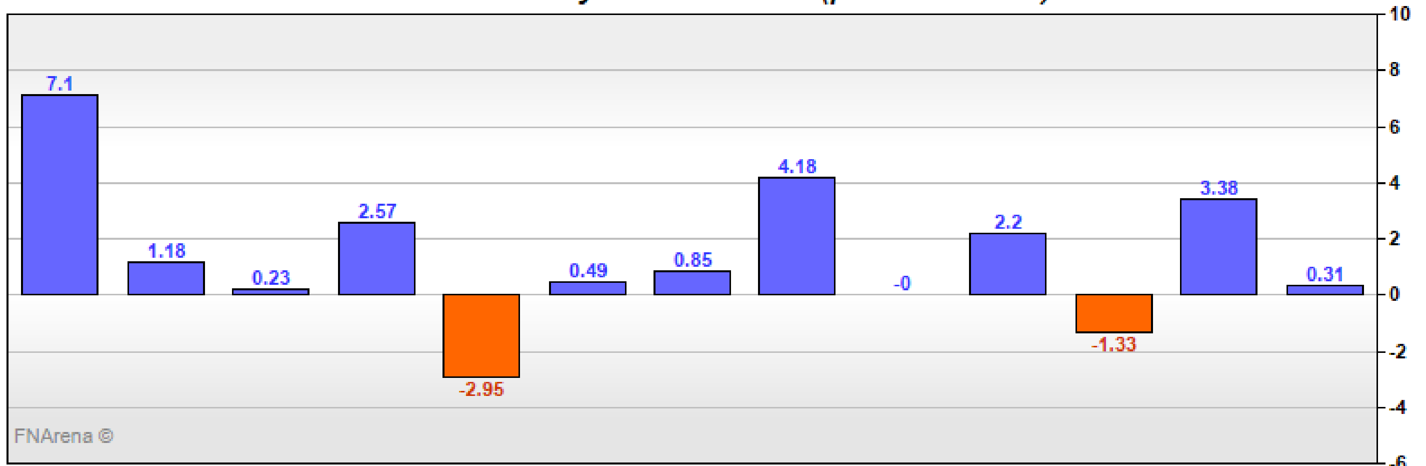
Metals & Minerals

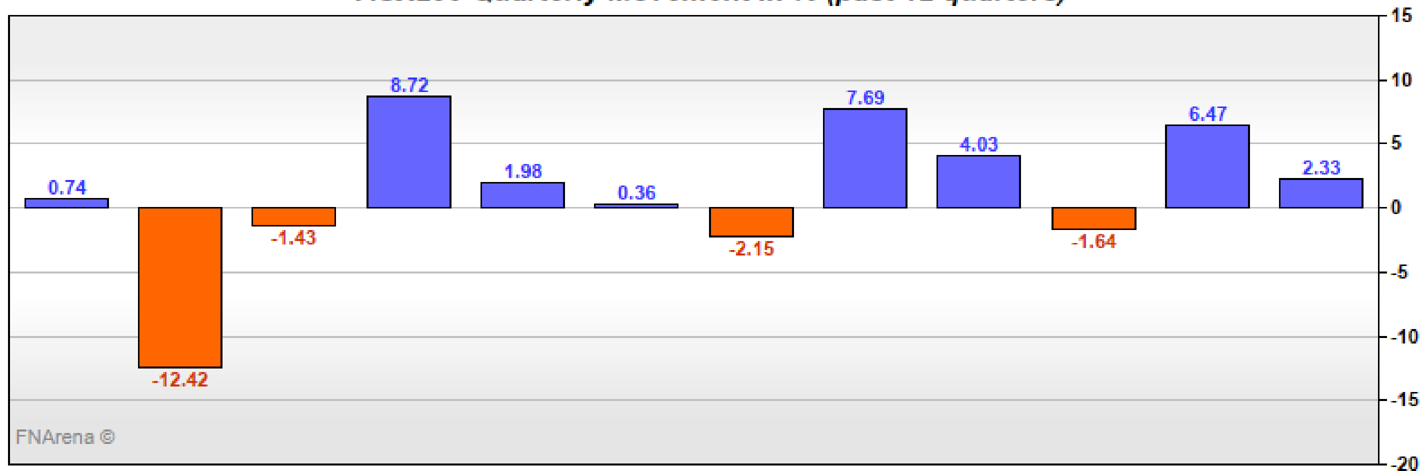
Index	30 Nov 2024	Month Of Nov	Quarter To Date (Oct-Dec)	Year To Date (2024)
Gold (oz)	2661.80	-4.88%	-0.73%	30.19%
Silver (oz)	30.68	-9.61%	-3.85%	25.84%
Copper (lb)	4.1315	-5.24%	-10.16%	8.50%
Aluminium (lb)	1.1674	-0.88%	-1.62%	20.07%
Nickel (lb)	7.2534	1.89%	-5.41%	-2.47%
Zinc (lb)	1.3731	-1.32%	-0.93%	22.10%
Uranium (lb) weekly	77.50	-4.32%	-5.49%	-9.88%
Iron Ore (t)	103.35	-0.70%	11.15%	-25.23%

Energy

Index	30 Nov 2024	Month Of Nov	Quarter To Date (Oct-Dec)	Year To Date (2024)
West Texas Crude	68.88	-0.30%	0.35%	-6.68%
Brent Crude	72.68	-0.04%	1.59%	-8.30%







Technical limitations

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

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AUSTRALIA

Collins Foods, The Earnings Comeback Kid?

Collins Foods' navigation of a challenged consumer positions the company for an earnings rebound with cost deflation offering 2025 tailwinds.

-Margins to the FY24 earnings rescue
-KFC same store sales growth improving
-Digital offering provides cost and efficiency benefits
-Collins Food leveraged to a consumer upswing

By Danielle Ecuyer

Rising to the challenge of a soft consumer

Collins Foods ((CKF)) is another victim of high interest rates and a challenged consumer, with investors snubbing the shares following the release of 1H25 results.

Morgan Stanley sums up the groan of disappointment well, suggesting the company's exposure to global quick-service restaurant (QSR) brands, usually associated with consistent same-store sales growth (SSSg), has led to "major concern" around soft results and earnings de-leveraging.

Not all analysts shares this downbeat view, depending on forecast positioning into the results. The numbers speak for themselves. Group revenue rose 1.2% in 1H25 over the previous year, while earnings before interest and tax fell -6.6% and net profit slid by -23.8%.

Given management provided a guidance update at the August AGM, Morgans emphasises the weak results still revealed some positives. The decline in net profit was better than consensus expected by around 5%, and margins were higher than the recent market update.

The broker also points to strong cash flow generation at $75.3m, including a 108% conversion rate, helping reduce net debt to $158.9m compared to $173m in 1H24. An 11c per share dividend was broadly in line with market expectations.

KFC SSSg in Europe declined -3.8% in 1H25 compared to 8.8% growth in the previous year, dominated by weakness in the Netherlands and Germany.

Citi gleaned from the earnings call that the Middle East conflict might be impacting SSSg in the Netherlands, while the new store roll-out in Europe remains challenged.

Green sales shoots offer earnings hope

As highlighted by Morgan Stanley, Morgans also noted the sluggish KFC SSSg over the period, describing it as not so "Finger Lickin' Good!"

However, there are signs of an improving sales trend. The analyst estimates SSSg rose to 0.3% for weeks 17-24 from 0.1% for weeks 8-16 of 1H25, with growth advancing to approximately 0.8% for the first seven weeks of 2H25.

Morgans also takes heart from the relative out-performance of KFC over peer QSR brands, suggesting market share has picked up.

Macquarie finds more reasons to be optimistic, noting an improving commodity outlook for KFC, which may not bode well for supplier Inghams Group ((ING)).

UBS explains the rolling nature of cost of goods sold contracts, particularly chicken, creates scope for cost deflation, which the company flagged at between -1% and -2% for 2H25. The analyst believes this deflation could surprise to the downside, potentially increasing into FY26.

Morgan Stanley highlights wage inflation of 3-4% and ongoing energy price inflation as offsets to the improving

outlook for cost of goods sold. By comparison, Europe is experiencing more stable input costs and slowing wage growth.

On balance, this analyst believes indicators point to low single-digit cost growth. A return to SSSg is expected to underpin operating leverage and margin expansion, and is viewed as a "realistic" outcome for FY26.

Growth in digital channels continued to be a bright spot for Collins Foods, with 35% of sales generated, up from 28% the previous year. UBS notes digital channels enhance margins through higher average order values and a better product mix.

Citi explains the growth in digital sales underpins larger basket sizes, as consumers have more time to browse the menu. This also reduces costs to serve and marketing spend.

<u>Poised for a Comeback</u>
Collins Foods will be cycling easier comps as it moves through 2H25, with improving sales growth appearing in Australia, particularly if the RBA starts the rate cutting cycle.

"The release of another quarter of tepid AU GDP has resulted in the Australian interest rate market pulling forward a first 25bp RBA rate cut into April from May", highlights Tony Sycamore from IG

Management's earnings margin guidance on current trading suggests the company can meet the upper end of expectations.

While the brokers' earnings forecasts were downgraded, four out of six FNArena daily monitored brokers maintained a Buy-equivalent rating, with an average target price of $9.597. Morgan Stanley is the standout at $11.60, while Citi and Macquarie remain the most conservative with Hold-equivalent ratings and target prices of respectively $7.88 and $8.20.

Wilsons believes a valuation re-rating for the stock depends on increasing KFC store openings in Europe, notably in the Netherlands and Germany. Optimising the Taco Bell brand will also be a focus for management, capitalising on the growing appetite for Mexican food in the QSR segment.

UBS hints at potential upside surprises in 2025, with management suggesting a strategy day could be on the cards for the new CEO following an operational review before the end of April.

Collins Foods retains *"strong leverage to an improving consumer and cost environment,"* which Morgans believes positions the company for a return to growth in FY26. UBS concurs, even with downgraded earnings expectations, forecasting a "solid" 43% year-on-year growth.

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COMMODITIES

Material Matters: Iron Ore; Gold, Critical Minerals & LNG

A glance through the latest expert views and predictions about commodities: iron ore price movements, gold miner preferences, critical minerals supply and LNG production growth.

-Ups and downs for the iron ore price
-Macquarie's gold miner preferences
-China limits critical mineral exports to the US
-LNG production growth significant, but delayed

By Greg Peel

Iron Ore Price

China's high-frequency steel production data have shown a substantial recovery, JPMorgan notes, with output now above the 2022-23 seasonal level. This has been driven by a recovery in steel margins and low steel inventory at traders.

Despite October steel net exports setting a fresh high, apparent demand growth has recovered but remains down year to date. Heading into 2025, should US tariffs on China imports be implemented at 60%, this would likely trigger new stimulus.

JPMorgan economists' base case assumes China tariffs are implemented in the second quarter, coupled with a devaluing renminbi, and this is likely to sustain high steel export volumes into the first quarter. Outside China, rest-of-world steel production is flat year to date.

As Rio Tinto's ((RIO)) Simandou mine ramps up, and China continues to reduce its steel demand, the market will reduce its reliance on marginal iron ore tonnes significantly, JPMorgan notes, flattening the cost curve. The broker's supply/demand model shows the most severe impact after 2027, suggesting there are still two years before prices need to adjust materially lower.

In the nearer term, 2025 should see around an extra 30mt produced, mostly from Mineral Resources' ((MIN)) Onslow mine and Vale.

A pushback against rising iron ore prices into year-end has been the relatively high level of port stocks in China, Morgan Stanley notes, resulting in an elevated stock-to-consumption ratio. While port stocks have yet to move into decline, looking at total steel inventory this broker finds that although stocks were tracking in line with 2020-23 levels until mid-year, port inventories have now started to drop (now close to lows seen in 2019).

As such, into year-end Morgan Stanley sees a possibility that mills and traders may need to start replenishing steel inventories, in turn increasing demand for iron ore, which could come at a time we usually see restocking, in turn helping support prices. Any additions to stimulus in China, which could come as a reaction to heightened trade competition practices, could add further upside.

Morgan Stanley's preferred iron ore play is Mineral Resources (Overweight). The broker is also Overweight on Rio Tinto and BHP Group ((BHP)), while Equal-weight on Fortescue ((FMG)) as green energy and cost pressures create risks to consensus free cash flow forecasts.

Gold Miner Preferences

The Macquarie Commodities Strategy team has upgraded its mid-term gold outlook, now expecting an average quarterly cycle peak of US$2,800/oz in the second quarter of 2025, while maintaining a long-term gold price assumption of US$2,000/oz (real).

Macquarie's base case into 2025 is for gold to initially face ongoing pressure from US dollar strength but to be supported by improved physical buying and steady central bank demand. Thereafter, the broker expects another investor boost as the Fed brings rates down towards 4%.

If Chinese investor buying returns, or markets fear that President Trump's policy proposals could deliver a material deterioration in the US fiscal outlook, the price could quickly challenge US$3,000/oz, Macquarie suggests, with any breaks above October's high liable to be reinforced by systematic momentum buying.

Among the majors, Macquarie has switched its preference to Newmont Corp ((NEM)), noting it is restricted on Northern Star Resources ((NST)) as the latter looks to acquire De Grey Mining ((DEG)).

In mid-caps, Macquarie's top pick is Vault Minerals ((VAU)) as a cash flow growth stock, while Genesis Minerals ((GMD)) is the broker's Australia-focused mid-cap pick, with a growth outlook only exceeded by Capricorn Metals ((CMM)).

Perseus Mining ((PRU)) is Macquarie's top West African pick given strong cash generation.

Critical Minerals

China has reportedly banned exports to the US of critical minerals including gallium, germanium and antimony. The Chinese Ministry of Commerce has also requested stricter review of end use for graphite items shipped to the US.

Macquarie believes the restriction could reignite the concerns of supply security, improving market sentiment for ex-China critical minerals companies.

Syrah Resources ((SYR)) is the only natural graphite producer of scale outside China, though current production (campaign mining) at Balama is well below 350ktpa capacity due to industry headwinds. The broker believes Syrah could benefit from increased ex-China demand and the ramp-up of Vidalia.

Macquarie suggests Talga Group's ((TLG)) location in Sweden is a key market differentiator, allowing the company to leverage EV demand and battery growth in Europe.

Lynas Rare Earths ((LYC)) is the largest separated rare earths producer outside of China, which would allow Lynas to command a premium associated with its processing capabilities, in Macquarie's view. The company will start to produce separated dysprosium and terbium from its LAMP facility in 2025, a near-term catalyst for the company.

Macquarie continues to see upside to Iluka Resources ((ILU)), with the EP3 project update a key near-term catalyst. Either securing additional government funding or project cancellation would present valuation upside to Iluka, in the broker's view.

Meteoric Resources ((MEI)) is an emerging rare earths company, Macquarie notes, with a pre-feasibility study due in first quarter 2025 a near-term catalyst for the company.

Next Wave of LNG

High prices over the last few years have triggered a new cycle of investment in LNG, Morgan Stanley notes, with more than 150mtpa of capacity under construction. For a market that is currently some 400mtpa, this is significant supply growth.

Global demand has surprised to the upside while a series of project delays have pushed out the timeline for new capacity. This has deferred "peak" oversupply risk to the second half of 2027 or 2028 versus 2026 prior, the broker suggests, and it is possible more project delays and/or strength in demand ultimately end up pushing this out even further.

Delays at key projects around the world, including in the US and Middle East, have moderated the rate of supply adds over the next few years. While Morgan Stanley continues to forecast some 175mtpa of global capacity additions throughout 2024-30, average annual additions for 2025-26 are now around 23mtpa -- more in-line with historical expansion cycles.

Global demand (ex-Europe) has grown more in 2024 than during the prior three years combined**.** Non-EU LNG demand growth averaged 3% annually over the 2021-23 period. So far in 2024, this has accelerated to 10%, led by Asia. Looking ahead, demand growth should slow somewhat, Morgan Stanley believes, but remain strong versus history.

Prices should still soften, in the broker's view, but with less downside.

Morgan Stanley's 2025 base case reflects a -50% year on year decline of Russian pipeline flows into the EU due to the pending expiration of the Russia-Ukraine transit agreement. This would leave the TurkStream pipeline as the only remaining Russian gas route to the EU.

If the agreement instead gets extended, it would push the broker's 2025 global LNG balance from -3mt undersupplied to a 5mt surplus, creating more downside risk to prices. A ceasefire in Ukraine, if it creates a path to bring more Russian supply back to market, is also a risk.

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RUDI'S VIEWS

Rudi's View: A Cautious Preview Into 2025

By Rudi Filapek-Vandyck, Editor

Traditionally, the final weeks of each calendar year trigger educated predictions about what the year ahead might have in store for investors and financial assets, and this year is no exception.

What is different, however, is most predictions this time around are overwhelmingly dominated by restraint and caution, mostly because of historically high valuations for American equities.

No surprise thus, the most preferred scenario is for the current bull market driven by AI and large cap growth stocks to broaden out towards lagging cyclicals and smaller cap companies, with Europe and emerging markets ready to narrow the gap with the Almighty USA.

Not everyone is on par with that scenario. Certainly not everyone thinks US markets cannot continue to lead the rest of the world for another year, or longer.

President Trump's America First policy approach draws a long shadow over next year's prospects for non-US markets, with further China stimulus likely on hold until more clarity is gained on US import tariffs.

In Australia, the absence of RBA rate cuts and very little on offer in terms of earnings growth (current consensus 0.9% EPS growth) probably means direction and momentum for the ASX will be even more dependent on what happens in both major global policy centres.

While many a forecaster feels uncomfortable with current valuations for US equities, the lack of earnings growth in Australia doesn't make the local market any cheaper, with similar observations being made about the local banks.

So what should investors expect? Is the future upside from central bank rate reductions and from AI-driven

productivity already reflected in this year's share market rally? Will Donald Trump's additional stimulus reverse the bond market and crash today's multiples? Are import tariffs the poison that ends global momentum?

Simple is not always correct

A lot of this year's anxiety revolves around share market valuations. Last week, Robin Griffiths, Editor of US-based investment newsletter The Adaptive Asset Allocation Report announced he'd pulled out all his personal money from US equities to go all-in for gold instead.

"My nerves cannot handle it."

Valuing equities isn't that simple, however, as those investors who have failed to participate in this year's rally because of perceived too high multiples can confirm.

Back in 2020, when PE multiples were as high as today, markets did not correct until 2022 and only because bond yields triggered a valuation reset on the back of central banks reversing policies.

This time around, central banks are cutting rates, not increasing them, though there is a lot of debate going on whether markets will need to scale back their projections for further reductions next year. The RBA locally hasn't even started yet.

Hence, the first conclusion needs to be that simply isolating high PE multiples and declaring share markets overvalued and ready to fall into a deep black hole is, at the very minimum, an incomplete assessment; sorry, Mr Griffiths.

Potential for 2025 upside

You don't have to be an uber-bull a la Edward Yardeni to discover that sometimes the broader context supports these high valuations, and continues to accommodate ongoing gains.

Yardeni sees multiple years of strong gains ahead on the back of accelerated corporate earnings growth from deregulation, less taxation, economic recovery and higher profit margins from AI-driven efficiencies.

But ignore the 'everything will be perfect' scenarios and US equities might still have another year of double-digit return in front of them, predict strategists at Morgan Stanley with ongoing economic growth, falling inflation, central banks continuing to cut and extra stimulus from the Trump administration combined creating a favourable background for US equities.

Other commentators maintain the view that simple share market averages are heavily skewed because of a small group of technology mega companies that justifiably trade on premium valuations, while the broader market ex these leaders is less stretched valuation-wise.

In the same breath, these outlook statements also highlight how the equities bull market might stumble in 2025:

-inflation stops falling
-bond yields rising
-central banks policy pivots in the opposite direction
-economic recovery weaker than expected
-returns and efficiencies from investments in AI disappoint
-corporate earnings growth loses momentum
-high and broad-based US import tariffs (?)

US correction overdue?

Irrespective of all of the above, global equity markets have performed unexpectedly well this year and high valuations, justified or otherwise, do make market participants more nervous.

Australia's ASX200, for example, is trading on 18x-plus FY25 EPS estimate with large market sections, the banks included, enjoying very little if any upward earnings momentum.

That might change by the second half of next year, but a lot can happen in between, and markets do not

necessarily have the patience to wait until better things arrive, as they may not.

An average multiple this high has only been recorded during the late 1990s-early 2000s and during covid-lockdowns in 2020. Most importantly: the exact same situation applies to US equities too (with the key differences of much better earnings growth and a central bank that is loosening).

Thus far in 2024, the local market has taken most of its leads from US equities (see also banks and technology stocks) so it's probably wise to look over there for any signals of a pending market correction.

Such a 'correction', it has to be said, if it eventuates, should still only be a blip in an ongoing uptrend given the broader favourable background, as described earlier.

One popular method to predict the next correction is by measuring the time since the last occurrence and currently US equities are two years running without a serious pullback.

History suggests such uninterrupted rallies seldom stretch beyond three years, hence the year ahead, from a statistical point of view, should see equities correct to the downside at least once.

While interesting, this doesn't provide investors with much insights into what might trigger a notable risk-off period, other than an as yet unknown event or the as always unpredictable tariffs-loving Donald Trump.

<u>It's the economy, stupid!</u>

Recent analysis by Macquarie suggests a strong correlation between US economic data surprising positively and US equities rallying higher. In average performance terms, the S&P500 tends to perform materially better when data surprise to the upside than during times when they are not.

The difference between both scenarios is 14.4% versus 6.2% respectively in annualised performance terms. Macquarie's data gathering also confirms the Australian share market usually manages to keep up with US momentum during the good times, but it underperforms noticeably when things get tougher.

The correlation is not 100% and doesn't always result in a pullback for the share market, but in the current context it might add further trepidation for a market that already is keeping a number of participants near the edge of their seats.

On Macquarie's assessment, positive momentum in US economic indicators might have peaked in mid-November, implying the weeks/months ahead might become trickier for US equities that are up some 28% year-to-date, following a return of 24% in 2023.

That argument for more caution might look even more apposite when we realise the up-cycle from July until mid-November has added nearly 9% to the ASX200, with the local index outperforming the 7% return of US equities during that period.

Macquarie's FOMO Meter has returned above 1 (at 1.18), indicating investor sentiment is yet again very bullish.

Macquarie strategists have turned more defensive for the weeks ahead, shifting preferences to Healthcare (CSL ((CSL)) and ResMed ((RMD)), Gold (Newmont Corp ((NEM)) and Northern Star ((NST)) and REITs (Mirvac Group ((MGR)) and Charter Hall ((CHC)).

Among sectors that could be negatively affected, including from lower bond yields, are the banks, insurers and yield beneficiaries including Computershare ((CPU)) and Challenger ((CGF)).

The FNArena-Vested Equities All-Weather Model Portfolio, as reported previously, had increased its cash holding ahead of the US presidential election and is in no hurry to re-allocate it back into the local share market.

While we do not expect to see major mayhem ahead for equities, we are prepared to wait for opportunities opening up, also keeping in mind another reporting season is due to start in February.

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Today's Weekly Insights is the final one for 2024. The next update will be for late-January, ahead of the

February results season.

I hope you've all enjoyed my writings as much as I enjoyed writing them, but now it's time for recharching the battery and enjoying some of the finer things in life.

FNArena will continue its service up until Christmas Day. For ongoing updates on Conviction Calls and Model Portfolios, including the All-Weather, see my upcoming writings on Thursdays.

All-Weather Model Portfolio

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

Prior years:

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

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

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

Video: Why FNArena & All-Weather Stocks

I've used my participation to the InvestmentMarkets' conference in July to explain how/why FNArena started & what investors get out of it, including research in All-Weathers and Gen.Ai

The video: https://bit.ly/3A1pLuz

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, 2nd December, 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: In Santa We Trust (?)

By Rudi Filapek-Vandyck, Editor

If this wasn't December, would you rather sell some shares and/or take profits?

Rummaging through the pile of strategy reports and market updates these past number of weeks, it appears the majority of professional investors would say 'yes' to the question.

But it is December and there's a common sense no major upheaval should be expected in the closing four weeks of the calendar year. So let's all relax, celebrate Christmas, the holidays, and reconsider plans and intentions in the new year.

Goes without saying, none of this means there will be a serious correction come early 2025. Markets are never *that* predictable.

Chris Watling, CEO and Chief Market Strategist at Longview Economics, offered his clientele a similar warning this week, titled *This Bull Run (since Oct'22) is Tiring!*, followed by the subtitle *But Stay Tactically Overweight (for now)*.

Watling does think a major pullback is coming for US equities, and it will reverberate through global markets. Could happen in early next year, or a little later, as covered by "probably in the first half of 2025".

Looking at a variety of market timing signals, Watling observes evidence of a tiring bull market is accumulating (poor participation, poor breadth and poor volumes) with some of Longview's indicators starting to generate Sell signals. But it's a process in development and some signals are still indicating more upside is possible.

One of the reasons to stay in current markets is the annual Santa Rally which Longview predicts will also happen this year, irrespective of valuations and growing suspicion of too much exuberance creeping in.

But then, the first half next year is increasingly looking like a challenge. This could be quite ironic given the next president of the US likes to measure his personal approval through the performance of the US share market.

****

Market strategists at **Canaccord Genuity** offer a less dramatic warning, instead preparing investors for what could be a period of much lower returns from equities.

Canaccord's reasoning is the avoidance of economic recession has led to outsized returns from equities in 2024, but markets now face the consequences from economies that never went downhill fast, probably translating into higher inflation and higher bond yields.

When measured against elevated valuations for equities, this could well translate into serious headwinds for future returns, or so is the suggestion made.

Trump's extra-stimulatory intentions might well add more stimulus to inflation next year, and thus inadvertently feed further into the valuation headwind for the US share market, suggest the strategists.

It is Canaccord's view the situation for the Australian share market is not fundamentally different.

In terms of portfolio positioning, the strategists advocate being moderately overweight cash and moderately

underweight equities "in the face of potentially somewhat tougher markets".

****

Now that we've mentioned Trump 2.0, twice, **Ord Minnett's lists of preferred stocks on the ASX** has undergone a number of changes recently, with research analyst Athena Kospetas reporting potential policies by the new US administration next year have been taken into account when making the various adjustments.

With import tariffs likely to stimulate US growth, but hurting the rest of the world, Ord Minnett sees BlueScope Steel ((BSL)) and James Hardie ((JHX)) as potential beneficiaries.

Bond yields are now expected to remain higher, but preference among banks and financials remains with Westpac ((WBC)), Macquarie Group ((MQG)), Judo Bank ((JDO)), Insurance Australia Group ((IAG)) and Medibank Private ((MPL)).

Higher bond yields also makes investing in REITs and other bond proxies a tad trickier, but the broker still likes Waypoint REIT ((WPR)), Dexus Convenience Retail REIT ((DXC)), and Vicinity Centres ((VCX)).

Aristocrat Leisure ((ALL)) remains a favourite too for investors concerned about consumer spending next year, through Ord Minnett also likes ARB Corp ((ARB)) and Qantas Airways ((QAN)).

In the healthcare space, CSL ((CSL)) shares are seen as undervalued as the market worries too much about what Robert F Kennedy Jr might do to vaccines, with further preferences for ResMed ((RMD)) and Regis Healthcare ((REG)).

In Technology, the advice for investors is to opt for high-quality exposures such as WiseTech Global ((WTC)) and Xero ((XRO)), while SiteMinder ((SDR)) is seen favourably as well.

Resources have not been a pretty place to be invested in this year, but Ord Minnett still likes Rio Tinto ((RIO)), Lynas Rare Earths ((LYC)), Vault Minerals ((VAU)) and Stanmore Resources ((SMR)).

As far as portfolio changes go, AGL Energy ((AGL)) has now been removed from the Core Blue Chip Portfolio, with BlueScope Steel added. The Value/Income portfolio has seen the removal of GQG Partners ((GQG)), with Qantas Airways added. The Growth portfolio no longer includes Newmont Corp ((NEM)), with Judo Capital and Lynas Rare Earths now added.

In small caps, the aforementioned GQG Partners has now been included, with Pinnacle Investment Management Group ((PNI)) removed.

All this now leads to the following selections:

CORE BLUE CHIP

-BlueScope Steel ((BSL))
-Brambles ((BXB))
-CSL ((CSL))
-Insurance Australia Group ((IAG))
-James Hardie ((JHX))
-Santos ((STO))\
-Telstra ((TLS))
-Westpac Bank ((WBC))

VALUE (INCOME)

-Dexus Convenience Retail REIT ((DXC))
-Medibank Private ((MPL))
-Metcash ((MTS))
-Qantas Airways ((QAN))
-Rio Tinto ((RIO))
-Vicinity Centres ((VCX))
-Ventia Services Group ((VNT))

SMALL CAPS

-Alliance Aviation ((AQZ))
-ARB Corp ((ARB))
-Cosol ((COS))
-Electro Optic Systems ((EOS))
-EQT Holdings ((EQT))
-GQG Partners ((GQG))
-Lindsay Australia ((LAU))
-Qoria ((QOR))
-Regis Healthcare ((REG))
-SiteMinder ((SDR))
-SRG Global ((SRG))
-Stanmore Resources ((SMR))
-Vault Minerals ((VAU))
-Waypoint REIT ((WPR))

GROWTH

-Aristocrat Leisure ((ALL))
-Hub24 ((HUB))
-Judo Capital ((JDO))
-Lynas Rare Earths ((LYC))
-Qube Holdings ((QUB))
-ResMed ((RMD))
-WiseTech Global ((WTC))
-Macquarie Group ((MQG))
-Xero ((XRO))

****

RBC Capital's selection of Global Best Ideas in the Energy sector still includes Woodside Energy ((WDS)).

****

Market strategists at Crestone stand out with a more "constructive" view on equity markets in 2025. While acknowledging the multiple risks and uncertainties, Crestone seeks solace in earnings resilience in the US and in the fact that after two years of dismal EPS growth in Australia, surely a recovery must be on the cards later in 2025?

Having enjoyed two years of fantastic returns (20%-plus each) maybe the year ahead might prove more of a "normal" year, suggests Crestone. Reading through the asset manager's recently updated strategy report, the suggestion is that "normal" might be something in the vicinity of 7% return.

For Australian investors, the outlook might look tougher as elevated valuations currently mix with rather dismal growth in earnings. Nevertheless, Crestone has no qualms in being overweight equities in the US, Japan and domestically.

The strategists do admit they are keeping a watchful eye out for any changes in the forward-looking dynamics.

Crestone's freshly updated **Best Sector Ideas** are an attempt to identify the best in breed business models for major industry group sectors for long-term oriented investors. Anticipated performance over the next three years is part of the key considerations.

The selection consists of 17 companies (no changes made since the prior update):

-Aristocrat Leisure ((ALL))
-Ampol ((ALD))
-APA Group ((APA))
-Beach Energy ((BPT))
-Brambles ((BXB))
-CSL ((CSL))
-Goodman Group ((GMG))
-IGO Ltd ((IGO))

-James Hardie Industries ((JHX))
-Lottery Corp ((TLC))
-Macquarie Group ((MQG))
-Metcash ((MTS))
-Monadelphous Group ((MND))
-REA Group ((REA))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-Xero ((XRO))

Crestone's selection of **sustainable dividend growers** consists of 22 names, with equally no changes made since the prior revision. Historically, the stock pickers remind investors, companies that grow dividends consistently can offer superior long-term return for those who own them.

-Amcor ((AMC))
-Ampol ((ALD))
-APA Group ((APA))
-Atlas Arteria ((ALX))
-Beach Energy ((BPT))
-BHP Group ((BHP))
-Car Group ((CAR))
-Coles Group ((COL))
-Dalrymple Bay Infrastructure ((DBI))
-Iress Ltd ((IRE))
-Lottery Corp ((TLC))
-Macquarie Group ((MQG))
-Metcash ((MTS))
-Mirvac Group ((MGR))
-Pro Medicus ((PME))
-QBE Insurance ((QBE))
-RAM Essential Services ((REP))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-Tabcorp Holdings ((TAH))
-Telstra ((TLS))
-Westpac Banking ((WBC))

Part One of Weekly Insights this week: https://fnarena.com/index.php/2024/12/04/rudis-view-a-cautious-preview-into-2025/

Best Buys & Conviction Calls

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

-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))
-Ramsay Health Care ((RHC))
-IDP Education ((IEL))

****

Ord Minnett's list of **Conviction Calls:**

-Alliance Aviation Services ((AQZ))
-ARB Corp ((ARB))
-Cosol ((COS))
-EQT Holdings ((EQT))
-Electro Optic Systems Holdings ((EOS))
-GQG Partners ((GQG))
-Lindsay Australia ((LAU))
-Qoria ((QOR))
-Regis Healthcare ((REG))
-SiteMinder ((SDR))
-SRG Global ((SRG))
-Stanmore Resources ((SMR))
-Vault Minerals ((VAU))
-Waypoint REIT ((WPR))

****

Jarden's recent update on smaller cap ASX-listed companies ("emerging companies") has led to the release of **20 Best Ideas**, lined up in order of anticipated total return (potential):

-IPH Ltd ((IPH))
-Temple & Webster ((TPW))
-Universal Store Holdings ((UNI))
-Nick Scali ((NCK))
-SiteMinder ((SDR))
-EVT Ltd ((EVT))
-AUB Group ((AUB))

The above are all picked by the broker's Emerging Companies research team. The following stock picks have been selected by respective sector analysts:

-Inghams Group ((ING))
-Monadelphous ((MND))
-Champion Iron ((CIA))
-Domain Holdings Australia ((DHG))
-Genesis Energy ((GNE))

And then there's another list of stocks that have equally been selected with High Conviction:

-Pointsbet Holdings ((PBH))
-Telix Pharmaceuticals ((TLX))
-Integral Diagnostics ((IDX))
-National Storage ((NSR))
-Ingenia Communities Group ((INA))
-Karoon Gas ((KAR))
-Pepper Money ((PPM))
-Michael Hill International ((MHJ))

****

Wilsons' Australian Equity Focus Portfolio:

-CAR Group ((CAR))
-Aristocrat Leisure ((ALL))
-WEB Travel Group ((WEB))
-Lottery Corp ((TLC))
-Collins Foods ((CKF))
-Breville Group ((BRG))
-Santos ((STO))
-ANZ Bank ((ANZ))
-National Australia Bank ((NAB))
-Macquarie Group ((MQG))
-Westpac Bank ((WBC))

-Hub24 ((HUB))
-Steadfast Group ((SDF))
-CSL ((CSL))
-ResMed ((RMD))
-Telix Pharmaceuticals ((TLX))
-Worley ((WOR))
-Xero ((XRO))
-TechnologyOne ((TNE))
-BHP Group ((BHP))
-James Hardie ((JHX))
-Evolution Mining ((EVN))
-South32 ((S32))
-Metals Acquisition ((MAC))
-Sandfire Resources ((SFR))
-HealthCo Healthcare & Wellness REIT ((HCW))
-Goodman Group ((GMG))
-WiseTech Global ((WTC))

****

Wilsons Highest Conviction investment ideas:

-Santos ((STO))
-Car Group ((CAR))
-James Hardie
-Hub24 ((HUB))
-Aristocrat Leisure ((ALL))

Among Research Ideas, the following six names are seen as **Long Term Growth ideas**:

-Flight Centre ((FLT))
-Ridley Corp ((RIC))
-Universal Stores ((UNI))
-ARB Corp ((ARB))
-Neuren Pharmaceuticals ((NEU))
-Siteminder ((SDR))

For those with a more speculative mindset, Wilsons puts forward PYC Therapeutics ((PYC)). In the Resources sector, the choice is Beach Energy ((BPT)).

****

Goldman Sachs's APAC Conviction List includes Life360 ((360)) and Xero ((XRO)).

****

The full list of **UBS's** <u>Most Preferred Best Stock Ideas:</u>

<u>In Resources:</u>

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

<u>In Financials:</u>

-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))

****

Crestone's 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**:

-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))

****
Ord Minnett's research analyst Athena Kospetas has 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))

****

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/

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

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

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

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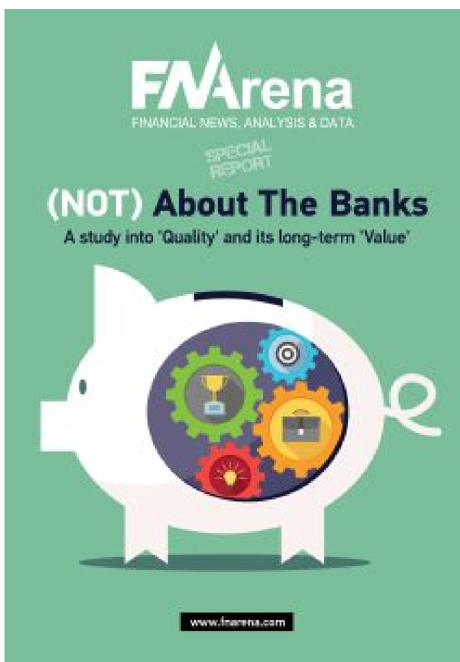

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SMALL CAPS

Dicker Data's Pick And Shovel AI Strategy

New research suggests Dicker Data is set to benefit by providing tools enabling business access into the rapidly expanding generative AI market.

-New research on Dicker Data highlights PC upside
-Demand to lift via PC refresh, AI-enabled devices, Windows 11 upgrades
-Macroeconomic backdrop to delay benefits, says Wilsons
-Recent upbeat technology vendor commentary

By Mark Woodruff

Recognising a significant opportunity in the growing generative AI market, management at IT distributor Dicker Data ((DDR)) regards the business as a picks and shovels' provider with the launch of AI-enabled PCs set to supersize the upcoming refresh cycle following heightened purchasing by customers during the pandemic.

After peaking at $16 in August 2021 during this period of amplified demand, the company's share price has steadily declined and is currently trading at around $8.40.

AI-enabled PCs have been introduced this year on the back of, for example, Intel's new 14th generation Core Ultra Processor. Also, the new iPad Pro now includes a new Apple chip, called M4, designed for AI computing.

In new research coverage this week by broker Wilsons, the analysts suggest the end of Windows 10 support in October 2025 should provide a further catalyst for the return of PC growth as old PCs ineligible for a Microsoft 11 upgrade will need to be replaced assuming users want to retain Windows support.

In Australia, Microsoft has estimated around 4.4m ineligible PCs, which compares to the 4.2m of PCs purchased in 2023, a fall of -10% from 2022 due to the normalisation of sales post covid.

For now, the macroeconomic backdrop is challenging, and will likely remain so for some time, notes Wilsons, anticipating the company's core customers of Corporates, Commercial and Enterprises will defer purchasing as they focus on returns.

These risk-averse customer segments may take time to evaluate GenAI, its potential value, and how the technology integrates with their existing IT systems, suggests the broker.

Dicker Data stands out with significant economies of scale compared to its peers, holding approximately 35% market share in the Australian corporate, commercial, and enterprise IT market, and 29% in New Zealand.

Operating across both regions, the company serves as a wholesale distributor of computer hardware, software, cloud solutions, access control, surveillance systems, and other technologies.

The Dicker Access and Surveillance (DAS) business (greater than 20% gross profit margin) is a significant segment of the company, observes Goldman Sachs, focusing on the distribution of access control and surveillance products.

Following first half results for Dicker Data in late-August showing pre-tax profit (PBT) margins of between 3-4%, this broker forecast likely 10% gross profit margins in coming years, based upon growth in the DAS business and a cyclical recovery in SME IT spending.

Noting higher profit and earnings margins in Australia, Wilsons anticipates an easy win should management leverage learnings derived from its Australian business and apply them in New Zealand.

Courtesy of more than 12,300 partners, the company distributes a wide range of products from the world's leading technology vendors including Microsoft, Dell, HP, Cisco, and Lenovo.

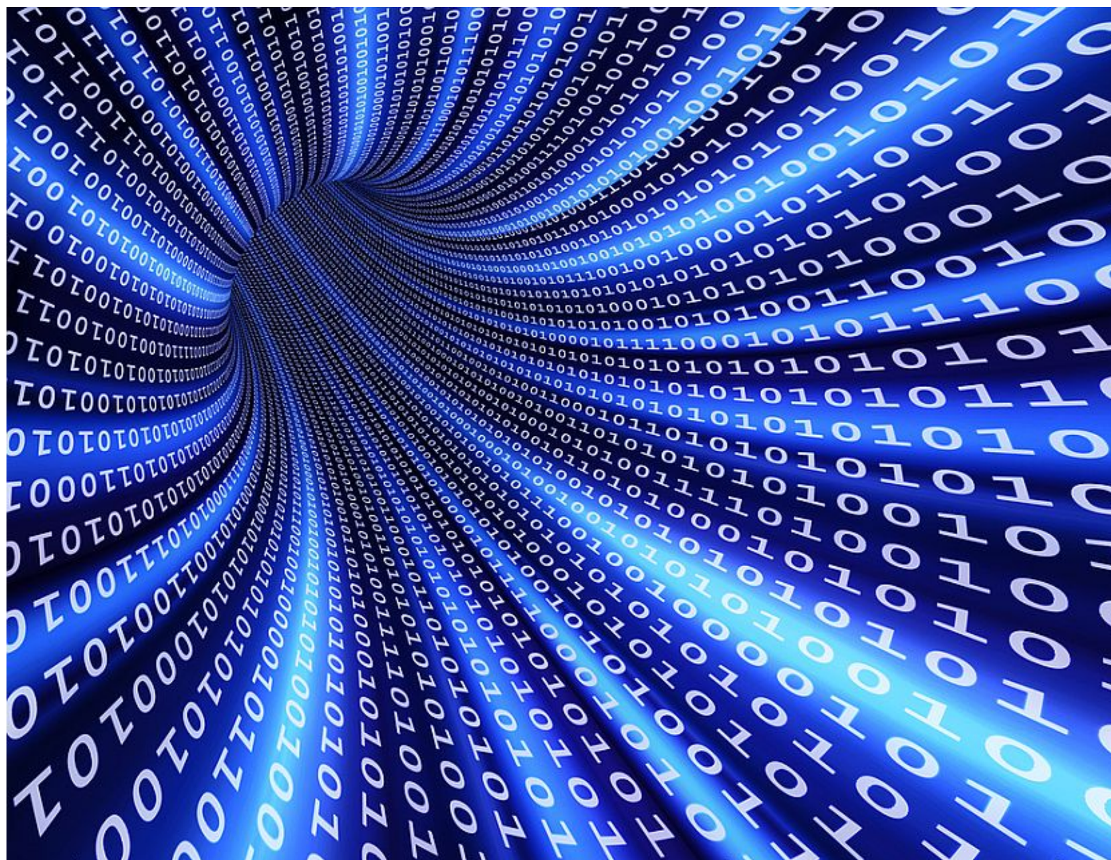
Recent commentary from management of these vendors (apart from Cisco) was upbeat during quarterly reporting, notes Wilsons.

This broker suggests rebounding demand for Dicker Data's products could be implied from such vendor observations as stronger device growth, the APAC region becoming the strongest geography, and rising growth for the Commercial segment.

According to Goldman Sachs, new vendors signed through the first half of FY24 (including Adobe in Software) should also add incremental revenue into the end of 2024.

Dicker Data's revenue growth in 2023 fell below the overall Information and Communications Technology (ICT) industry largely because of the company's greater weighting to PC sales, notes Wilsons, which were negatively impacted by the pull-forward of demand during the pandemic.

Wilsons forecasts the decline in PC shipments will ease within the next twelve months, enabling the company's revenue growth to accelerate above trend as the pull-forward headwind shifts to a tailwind with the onset of the PC refresh cycle.



First half results

Increased headcount investment to support major new vendor wins plus a circa -$2m higher-than-expected provision expense caused the first half profit to miss forecasts, explained UBS.

Excluding bad debt provisioning, earnings would have aligned with Morgan Stanley's expectations.

Despite overall results coming in slightly below consensus forecasts, the analysts at UBS gained more confidence in the top-line growth trajectory into both the second half and FY25.

Supporting management's expectation for second half profit growth, this broker noted falling headcount investment in the second half of 2024 should support operating expenses as a percentage of sales easing to 5.4% from 5.7% in the first half.

Petra Capital also pointed to a second quarter growth rate of 8.3% reflecting increasing demand across several product categories and further market share gains.

Certainly, management expects both revenue and profits will return to growth, driven by the much-anticipated PC refresh.

Positively, Citi noted management did not resort to discounting in an effort to generate sales, and, agreeing with Petra Capital, highlighted strong second quarter gross sales indicated demand was returning.

Ratings and targets

There are three daily covered brokers in the FNArena database conducting research on Dicker Data. UBS and Citi have Buy ratings and Morgan Stanley is Equal-weight.

The average target price of $10.57 suggests 25% upside to the latest share price.

After the addition of Overweight-rated Wilsons, there are now four brokers outside of daily coverage, with two Buy ratings at Jarden and Petra Capital and a Neutral at Goldman Sachs.

Wilsons new $11.29 target raises the average target to $10.60.

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

TECHNICALS

As Good As It Gets For Australian Equities

By Daniel Goulding

With the S&P/ASX 200 (ASX200), Australia's benchmark share market index, on the cusp of breaching 8500, the risk-reward profile is now skewed to the downside.

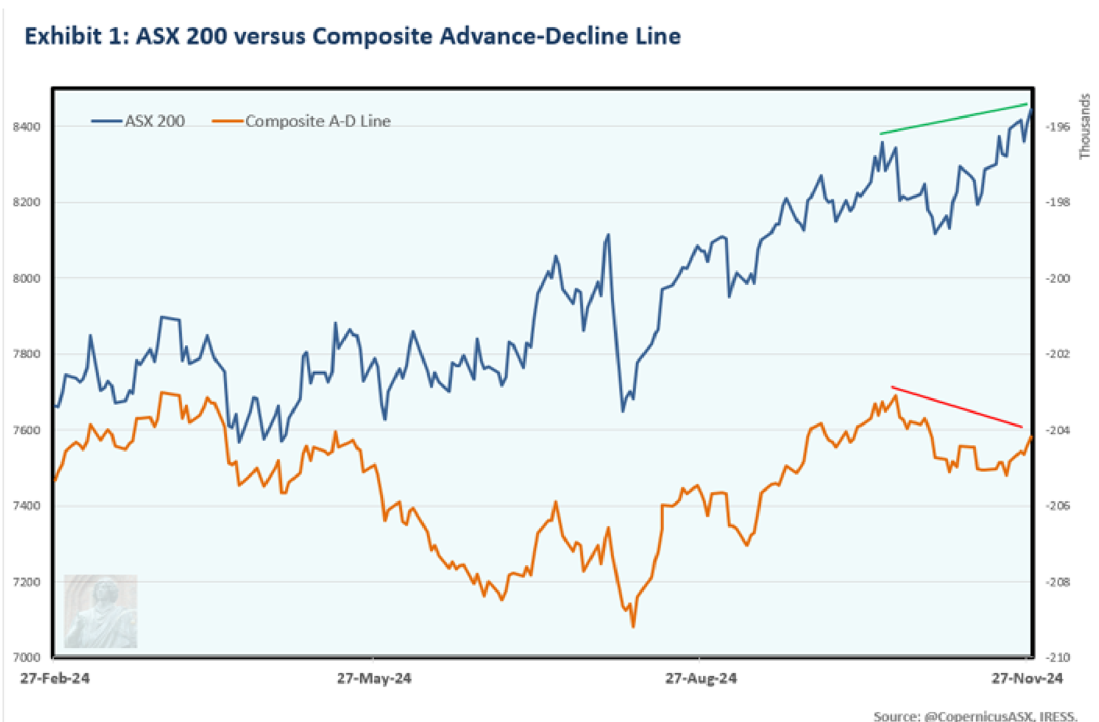
Earlier this year when the ASX200 was around 7600 points, I wrote the following:

The ASX200 will likely breach 8000 this year and could head as high as 8500 to 8700 Eventually the index will return to current levels by late 2024 or 2025.

[A New Bull Market For The ASX200, FNArena, 01 February 2024].

The initial part of this forecast has come to fruition, and the technical evidence suggests that the second part is also likely to materialise.

Exhibit 1 compares the ASX200 with the Composite Advance-Decline Line (A-D Line).



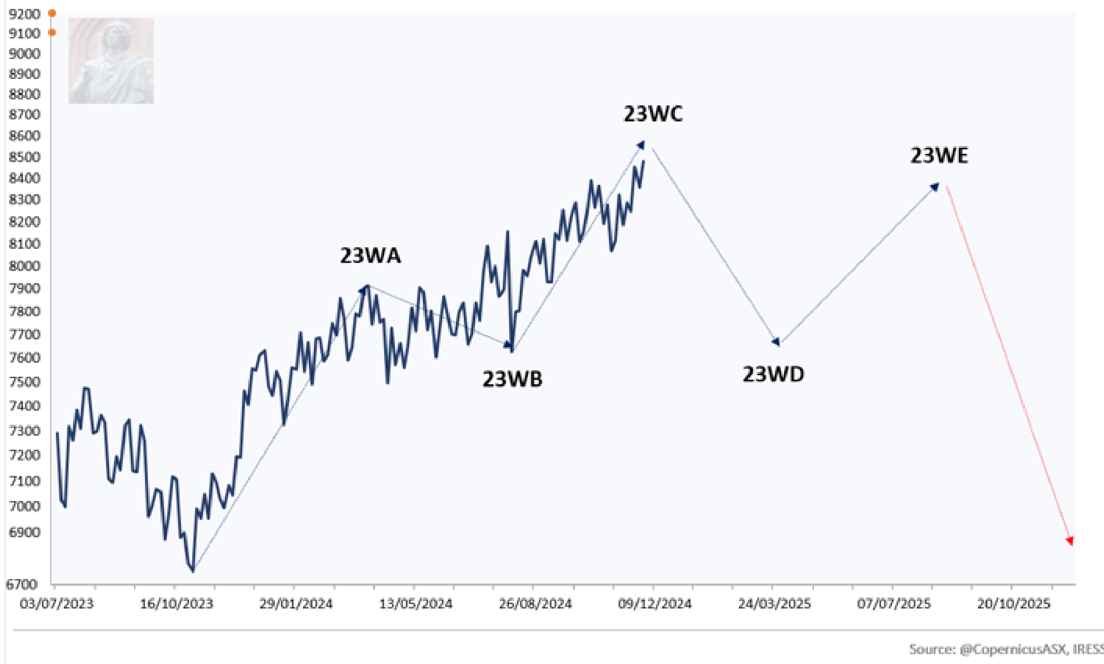
The A-D Line measures the cumulative total of stocks that are advancing (closing higher) minus those that are declining (closing lower) on a daily basis.

This metric is a strong indicator of the overall health of a market trend. The more stocks that participate in the upward or downward movement, the greater the likelihood that the trend will continue in the foreseeable future.

The AD Line peaked on October 21. With fewer stocks participating in the market advance, the market is swimming outside the flags and risks being caught in an underlying rip current.

Wave Structurehow various market advances and declines relate to one another from a psychological or quantitative viewpointsuggests the same conclusion. The price action since late 2023 is consistent with a NEoWave Contracting Triangle, a price pattern comprised of five corrective segments or waves.[1] [2]

Exhibit 2 illustrates the current price pattern and the expected trajectory for the ASX200.



The current market advance, designated 23WC3, appears to be in its final stages.[3] Short-term Wave Structure suggests the peak could occur in the next few trading days, possibly as high as 8643.

The forthcoming wave, identified as 23WD, is expected to start soon and will likely retrace most, if not all, of the previous advance. The target range for 23WD is projected to be between 7500 and 7700 over the next four months.

Caveat emptor!

Disclaimer: I have started selling non-core holdings. I will be hedging the remainder of portfolios associated with me on any additional strength going forward. I expect to take profits on levered longs and go short the ASX200 in trading accounts next week.

Daniel Goulding is a technical analyst with over 20 years of experience. He is the publisher of The Goulding Letter on Substack and, previously, The Sextant Market Letter. His Twitter handle is @CopernicusASX. He previously worked as an Authorised Representative of the Townsville branch of RBS Morgans, and later Grow Your Wealth Financial Services Townsville.

This material was prepared by Daniel Goulding and represents the views and opinions of the author. It does not constitute investment advice. My work is didactic in nature. You should consult a licensed financial adviser if you require professional assistance with your portfolio.

Footnotes

1. NEoWave stands for Neely Extensions of Elliott Wave.
2. At the core of Elliott Wave and NEoWave is the belief that financial time series are not random but instead exhibit self-affine characteristics. Self-affinity refers to a condition of fractals where a shape appears similar at different scales, although it does not maintain exact proportionality across those scales. This means that while the overall structure remains consistent, the finer details may vary. Both local randomness and global determinism coexist in this framework. In economics, this perspective is captured by the Fractal Market Hypothesis, the main contender to the Efficient Markets Hypothesis.
3. 23WC is the terminology for Wave-C of the price pattern that commenced in 2023.

Technical limitations

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

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

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

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 29-11-24

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday November 25 to Friday November 29, 2024
Total Upgrades: 5
Total Downgrades: 10
Net Ratings Breakdown: Buy 59.01%; Hold 33.08%; Sell 7.91%

For the week ending Friday November 29, 2024, FNArena recorded five upgrades and ten downgrades for ASX-listed companies by brokers monitored daily.

As was the case in the prior week, downgrades to average earnings forecasts exceeded upgrades, while average target price increases slightly outpaced declines, as highlighted in the accompanying tables.

Average targets for the two larger companies in the ASX Technology Index, WiseTech Global and Pro Medicus, rose by 18% and 16%, respectively.

Following a blaze of negative media publicity surrounding former CEO Richard White and a downgrade in revenue and earnings guidance, brokers refocused on WiseTech's positive longer-term prospects.

As covered in https://fnarena.com/index.php/2024/11/28/targets-jump-for-embattled-wisetech/, Macquarie, Ord Minnett, and Morgans last week upgraded ratings for the company.

Average earnings for WiseTech fell by nearly -5%, whereas Pro Medicus received a 1.5% lift from brokers after landing its biggest ever contract.

Following this "shockingly large" $330m deal over 10 years, Morgans raised its target to $225 from $139, believing the magnitude of the transaction would raise the company's profile even more versus competitors.

This Hold-rated broker felt the short period of time since the prior record contract win ($140m, 10-year contract with Baylor Scott & White Health in September last year) suggests such outcomes may not just be a once every five-year event.

As the contract with Trinity Health was announced towards the end of last week, only two of five covering brokers in the database had time to issue new research, and one of them, Ord Minnett, is awaiting more details before adjusting its target.

This broker agreed with Morgans the deal may open the door to contract wins with other major players in the US health-care system.

While Ord Minnett kept its $140 target for now, the contract size compares to the analyst's total contract value

(TCV) forecasts for Pro Medicus of $189m and $201m in FY25 and FY26, respectively, implying imminent earnings upgrades are likely.

On the day prior to the Trinity win, management announced a $24m upgrade of services by existing client NYU Langone Health to the full stack of the company's offering, adding the Archive and Worklist modules out to 2029, and extending the existing seven-year contract for Viewer by one year to the same date.

Highlighting potential upside to Sell-rated Citi's target price in the coming week, this $24m upgrade was the first new contract for Pro Medicus in FY25 and the broker decided to keep its forecast for $30m in new business in FY25 (in research released prior to the $330m win).

Next on the positive change to target price table is Gentrack Group after management continued the half-yearly tradition over the last few years of exceeding market expectations, as market fears around falling non-recurring revenue proved unfounded.

Supporting a more optimistic market outlook on long-term margin potential, earnings beat the consensus forecast by 5% due to higher-than-expected hardware sales in the airports division.

For a more detailed explanation of FY24 results and the outlook for Gentrack, which designs, develops, implements, and supports specialist software solutions for electricity, gas, and water utilities, as well as airports see https://fnarena.com/index.php/2024/11/28/higher-margins-underpin-gentracks-ambitions/

Gentrack also placed second on the table for the largest increase in average earnings forecast last week, behind De Grey Mining.

UBS continues to see value across the ASX gold sector after raising gold price forecasts from 2026 onwards to reflect diversification/haven flows and likely price resilience in an environment of higher macroeconomic volatility and geopolitical tension.

While the broker's long-term gold price forecast last week remained unchanged at US$1,950/oz, across 2025-28 estimates are adjusted by -3%, 3%, 4% and 4%, respectively, to US$2,800/oz, US$2,850/oz, US$2,700/oz and US$2,400/oz.

As a result of these updated price forecasts, earnings estimates for De Grey Mining rose, and the target was raised to $2.20 from $2.15, alongside a Buy rating.

Bell Potter also has a Buy rating for De Grey and a $1.82 target after a review of its gold sector coverage following the Trump election win.

This broker views gold as an increasingly attractive store of wealth amid concerns over US dollar currency debasement driven by rising debt service and repayment obligations.

Reduced tax revenue and higher inflation are expected to significantly expand the already massive US budget deficit, positioning gold as a key inflation hedge.

Bell Potter anticipates further gold price consolidation before macroeconomic factors drive the price higher and sees the outperformance of silver versus gold as a positive indicator for gold sentiment.

As mentioned previously, forecast earnings downgrades by brokers were more dominant last week than upgrades led by Star Entertainment and Strike Energy.

Management at Star disclosed an unaudited earnings (EBITDA) loss of -$27m for the first four months of FY25, excluding significant items, prompting Macquarie to lower its target price to 20c from 24c and downgrade to Underperform from Neutral.

The analyst expressed doubts over management's ability to stabilise operations and achieve near-term profitability after the Chairman stated at the company's AGM "near-term liquidity challenges, and the broader overall financial viability of the business, will remain the largest concerns for the Board and executive team".

The lower estimates for Strike Energy are heavily impacted by the small numbers involved.

After management announced a positive final investment decision (FID) for the company's South Erregulla Peaking Gas Power Station in WA, Bell Potter estimated the project will generate annual revenue of $50-55m, up from prior $40-50m guidance, and plant utilisation of 30%, up from 18.8%.

The power station will be supplied by the company's South Erregulla field at a rate of around 2PJpa.

Bell Potter retained its Speculative Buy rating and 26c target price.

Superloop's lower average earnings forecast (-22%) came after Citi initiated coverage with a Buy rating but

with earnings forecasts lower than the average of three existing covering brokers in the FNArena database.

Analysts at Citi expect Superloop will capture additional share from incumbent telco players as it is well-positioned to exceed market growth due to competitive pricing, its own network infrastructure, and superior speed/latency performance.

Average earnings forecasts for Autosports Group also fell by around -15% last week after management's first half profit before tax guidance missed forecasts by circa -24%.

Management's decision to reduce vehicle inventory contributed to the downgrade, according to UBS, with like-for-like new car volumes flat year-on-year but outperforming the industry declines.

The analysts noted discounting and promotions to clear inventory suggested a decline in gross margin of -200bps year-on-year in the first half of FY25.

Interest rate cuts are a key catalyst for demand to return and ease margin pressures, yet the economists at Citi identified the risk of deferred cuts until August 2025, posing a potential challenge for the industry amid oversupplied OEM brands and ongoing cost-of-living pressures.

As a result of this outlook, the analysts lowered FY25 and FY26 profit (PBT) forecasts by -8% and -22%, respectively, reflecting first half guidance and a conservative view on when gross margins recover.

Total Buy ratings in the database comprise 59.01% of the total, versus 33.05% on Neutral/Hold, while Sell ratings account for the remaining 7.91%.

Upgrade

AMCOR PLC ((AMC)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/5/0

Macquarie upgrades Amcor to Outperform from Neutral as the Berry acquisition, with synergies, gives the broker confidence in 8% compound earnings growth to FY29.

Amcor has a good record on cost synergy delivery, but Macquarie's new forecasts do not include potential revenue synergies at this stage. The broker finds that after a period of near-term consolidation, Amcor's share price did well during the synergy realisation period for both the Bemis and Alcan acquisitions.

Target rises to $18.04 from $16.30.

LOVISA HOLDINGS LIMITED ((LOV)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 2/4/1

Ord Minnett assesses a disappointing FY25 trading update by Lovisa Holdings as cash-constrained consumers spent less on discretionary items and the rollout of new stores missed market expectations.

Like-for-like sales increased by only 1% in the first 20 weeks of FY25, while the addition of new stores lifted total sales by 10%, with Black Friday timing likely impacting sales growth, observes the analyst.

Management anticipates an acceleration in the store rollout pace, highlighting opportunities in the US and Canadian markets.

The broker lowers the target price to $29.20 from $30 and upgrades the rating to Hold from Lighten, following a -9% share price decline in November.

WISETECH GLOBAL LIMITED ((WTC)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Add from Hold by Morgans and Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 7/0/0

Macquarie upgrades WiseTech Global to Outperform from Neutral and raises the target price by 53% to $152.70.

The broker notes delays to new products have led to FY25 revenue guidance being revised down -6% at the midpoint and earnings down -7% at the midpoint. ComplianceWise has been released as expected, while Container Transport Optimisation has been delayed to 2H25 due to media disruptions.

The analyst emphasises no evidence of misconduct has been found, describing recent media stories as "short-term noise." Industry insights suggest CargoWise has potential to expand beyond freight forwarding to Beneficial Cargo Owners, which represent the other 50% of global manufactured trade volumes. WiseTech is also increasing sales per customer.

Macquarie lowers EPS forecasts by -7% for FY25 and -4% for FY26.

The analyst highlights WiseTech's "unassailable competitive advantage" through its CargoWise data set and views Container Transport Optimisation as a "whitespace opportunity" with no competitors.

Morgans raises its target for WiseTech Global to $135.30 from $114.20 and upgrades to Add from Hold, despite a downgrade to FY25 guidance at the AGM.

The broker rolls forward its multiple-based valuation to FY26 to better reflect the ramp-up of the company's new products.

The launch of the Container Transport Optimisation product will be delayed to 2H25 from 2Q25, due to recent distractions faced by founding CEO Richard White and the product's large and globally complex nature, explains the analyst.

Guidance indicates FY25 earnings (EBITDA) of $600-660m, representing growth of 21-33% but an approximate -7.4% downgrade to the midpoint of prior guidance, notes Morgans.

WiseTech Global has lowered FY25 operating earnings (EBITDA) growth guidance to 21-33% from 33-41%, citing delays in the commercial launch of its Container Transport Optimisation module due to organisational changes and recent media distractions.

Ord Minnett upgrades its rating to Accumulate from Hold, noting potential upside following the recent share price decline.

The target price rises to $137 from $120, reflecting the broker's positive outlook on WiseTech's products and its strong position in the logistics industry.

Downgrade

ADACEL TECHNOLOGIES LIMITED ((ADA)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 0/1/0

Bell Potter lowers its target price for Adacel Technologies to 43c from 70c and downgrades the rating to Hold from Buy following the approval of a special resolution to delist from the ASX, effective January 8, 2025.

While no changes are made to forecasts, the broker's valuation falls due to a shift in methodology, focusing solely on near-term earnings.

The analysts suggest fundamentals are no longer applicable and highlight abnormal selling pressure from shareholders unwilling to hold the stock post-delisting. This selling is expected to persist.

AVJENNINGS LIMITED ((AVJ)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 0/1/0

Bell Potter reports that Proprium Capital Partners and AVID Property Group have submitted an unsolicited, incomplete, and non-binding proposal to acquire all shares in AV Jennings for 67c per share.

The AV Jennings Board has granted exclusivity until the end of January and intends to recommend and vote in favour of the offer, observes the broker.

Bell Potter raises its target price to 67c from 45c to reflect the offer price but downgrades its rating to Hold from Buy following a substantial share price rally.

GQG PARTNERS INC ((GQG)) Downgrade to Hold from Add by Morgans .B/H/S: 4/1/0

Shares in GQG Partners have declined by approximately -20% due to exposure to Adani vehicles, notes Morgans, with management currently reviewing details of charges against Adani executives in relation to fund holdings.

The company disclosed over 90% of funds under management (FUM) are unrelated to Adani vehicles, implying group exposure in the 5-10% range, according to the broker.

Morgans suggests fund flows may face pressure due to reputational damage and potential adverse effects on near-term investment performance for the EM fund.

The target price is reduced to $2.47 from $3.10, and the rating is downgraded to Hold from Add.

HUB24 LIMITED ((HUB)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 2/5/0

Despite lower EPS forecasts due to higher-than-expected D&A charges revealed at Hub24's investor day, Ord Minnett raises its target to $73 from $68 and downgrades to Hold from Accumulate after recent share price strength.

The broker's key takeaway from the investor day is the upside potential from the company's low account balance platform, Discover, as the target market is substantial and incumbent providers lack product features and flexibility.

HARVEY NORMAN HOLDINGS LIMITED ((HVN)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/2/1

UBS has downgraded Harvey Norman shares to Neutral from Buy with an unchanged target price of $5. While the performance of franchisees has improved, the broker highlights competitors have been outperforming.

Plus Retail New Zealand remains challenged.

The broker sees a subdued outlook for revenues and this triggers a more cautious stance, as the prospect for significant margin expansion has reduced.

The shares have outperformed year-to-date, UBS highlights.

INSURANCE AUSTRALIA GROUP LIMITED ((IAG)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 3/3/0

Ahead of next week's investor day, Ord Minnett raises its EPS estimates for Insurance Australia Group, driven primarily by increased bond yield forecasts.

The target price increases to $8.90 from $8.40, but following a 9% stock rally in November, the broker downgrades the rating to Accumulate from Buy.

The broker believes rising premium rates over recent years will enable the group to build a more comprehensive reinsurance program, lower its underlying loss metrics, and strengthen its capital position.

MEGAPORT LIMITED ((MP1)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 3/3/0

Ord Minnett maintains its $8.00 target price for Megaport but downgrades the rating to Hold from Accumulate following disappointing FY26 growth guidance provided at the AGM. FY25 guidance for revenue and earnings was reiterated.

The broker reduces FY26 and FY27 EPS forecasts by -20% and -28%, respectively, while raising the FY25 forecast slightly.

QANTAS AIRWAYS LIMITED ((QAN)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/3/0

Qantas Airways shares have rallied by some 70% over the year past and UBS, in response, has now downgraded to Neutral from Buy.

The broker does believe general confidence in the sustainability of earnings post covid is allowing the share price to re-rate.

Price target lifts to $9. Adjusting for capex, the broker argues the PE multiple has now reached a mid-cycle level.

RESOLUTE MINING LIMITED ((RSG)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 1/1/0

Ord Minnett lowers its target for Resolute Mining to 50c from 90c and downgrades to Hold from Accumulate after allowing for a material increase in sovereign risk for the Syama gold mine in Mali.

Management has agreed to settle alleged tax and other claims (for -US$160m) made against the company by the governing military junta.

A new mining code allows the state to take up to 30% in new projects and removes tax exemptions for miners, explains the broker.

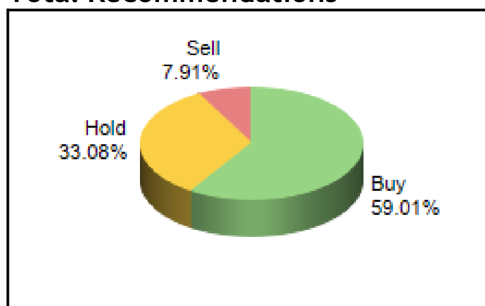
STAR ENTERTAINMENT GROUP LIMITED ((SGR)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 0/2/2

Macquarie lowers its target price for Star Entertainment to 20c from 24c and downgrades its rating to Underperform from Neutral following management's disclosure of an unaudited earnings (EBITDA) loss of -$27m for the first four months of FY25, excluding significant items.

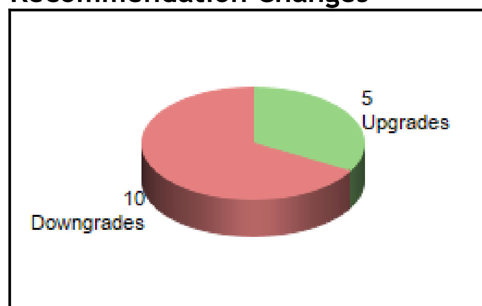
At the AGM, the Chairman highlighted "near-term liquidity challenges, and the broader overall financial viability of the business, will remain the largest concerns for the Board and executive team".

Macquarie expresses doubts over management's ability to stabilise operations and achieve near-term profitability.

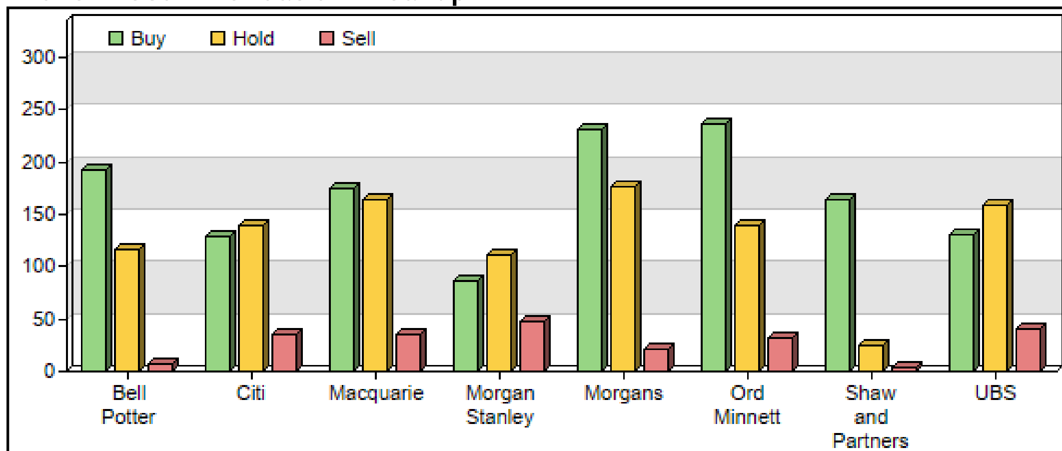
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	AMCOR PLC	Buy	Neutral	Macquarie
2	LOVISA HOLDINGS LIMITED	Neutral	Sell	Ord Minnett
3	WISETECH GLOBAL LIMITED	Buy	Neutral	Ord Minnett
4	WISETECH GLOBAL LIMITED	Buy	Neutral	Morgans
5	WISETECH GLOBAL LIMITED	Buy	Neutral	Macquarie
Downgrade				
6	ADACEL TECHNOLOGIES LIMITED	Neutral	Buy	Bell Potter
7	AVJENNINGS LIMITED	Neutral	Buy	Bell Potter
8	GQG PARTNERS INC	Neutral	Buy	Morgans
9	HARVEY NORMAN HOLDINGS LIMITED	Neutral	Buy	UBS
10	HUB24 LIMITED	Neutral	Buy	Ord Minnett
11	INSURANCE AUSTRALIA GROUP LIMITED	Buy	Buy	Ord Minnett
12	MEGAPORT LIMITED	Neutral	Buy	Ord Minnett
13	QANTAS AIRWAYS LIMITED	Neutral	Buy	UBS
14	RESOLUTE MINING LIMITED	Neutral	Sell	Ord Minnett
15	STAR ENTERTAINMENT GROUP LIMITED	Sell	Neutral	Macquarie

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	WTC	WISETECH GLOBAL LIMITED	139.786	118.779	17.69%	7
2	PME	PRO MEDICUS LIMITED	155.300	134.100	15.81%	5
3	GTK	GENTRACK GROUP LIMITED	13.067	11.433	14.29%	3
4	OCL	OBJECTIVE CORPORATION LIMITED	15.733	14.467	8.75%	3
5	WEB	WEB TRAVEL GROUP LIMITED	5.524	5.260	5.02%	7
6	RRL	REGIS RESOURCES LIMITED	2.631	2.507	4.95%	7
7	IAG	INSURANCE AUSTRALIA GROUP LIMITED	8.035	7.720	4.08%	6
8	SLC	SUPERLOOP LIMITED	2.150	2.067	4.02%	4
9	QBE	QBE INSURANCE GROUP LIMITED	20.570	19.907	3.33%	7

10	KGN	KOGAN.COM LIMITED	5.225	5.067	3.12%	4

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	PMT	PATRIOT BATTERY METALS INC	0.870	0.930	-6.45%	5
2	COG	COG FINANCIAL SERVICES LIMITED	1.450	1.543	-6.03%	3
3	MVF	MONASH IVF GROUP LIMITED	1.453	1.535	-5.34%	4
4	GQG	GQG PARTNERS INC	3.194	3.320	-3.80%	5
5	STX	STRIKE ENERGY LIMITED	0.273	0.283	-3.53%	3
6	SGR	STAR ENTERTAINMENT GROUP LIMITED	0.305	0.315	-3.17%	4
7	ABY	ADORE BEAUTY GROUP LIMITED	1.333	1.373	-2.91%	3
8	ASG	AUTOSPORTS GROUP LIMITED	2.333	2.400	-2.79%	3
9	A2M	A2 MILK COMPANY LIMITED	6.140	6.282	-2.26%	7
10	LNW	LIGHT & WONDER INC	174.833	178.600	-2.11%	6

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	DEG	DE GREY MINING LIMITED	0.250	-1.250	120.00%	4
2	GTK	GENTRACK GROUP LIMITED	16.263	9.738	67.01%	3
3	ABY	ADORE BEAUTY GROUP LIMITED	5.233	4.900	6.80%	3
4	KGN	KOGAN.COM LIMITED	22.533	21.300	5.79%	4
5	QAN	QANTAS AIRWAYS LIMITED	107.340	104.940	2.29%	6
6	QBE	QBE INSURANCE GROUP LIMITED	164.580	161.088	2.17%	7
7	HSN	HANSEN TECHNOLOGIES LIMITED	18.033	17.700	1.88%	3
8	PME	PRO MEDICUS LIMITED	104.300	102.720	1.54%	5
9	PNI	PINNACLE INVESTMENT MANAGEMENT GROUP LIMITED	56.175	55.425	1.35%	4
10	OCL	OBJECTIVE CORPORATION LIMITED	36.667	36.300	1.01%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	SGR	STAR ENTERTAINMENT GROUP LIMITED	-2.900	-1.833	-58.21%	4
2	STX	STRIKE ENERGY LIMITED	0.650	0.900	-27.78%	3
3	SLC	SUPERLOOP LIMITED	5.250	6.700	-21.64%	4
4	ASG	AUTOSPORTS GROUP LIMITED	23.133	27.350	-15.42%	3
5	RRL	REGIS RESOURCES LIMITED	20.300	21.933	-7.45%	7
6	WTC	WISETECH GLOBAL LIMITED	112.583	118.180	-4.74%	7
7	PNV	POLYNOVO LIMITED	1.433	1.500	-4.47%	3
8	MVF	MONASH IVF GROUP LIMITED	7.750	8.075	-4.02%	4
9	MP1	MEGAPORT LIMITED	14.800	15.375	-3.74%	6
10	ALX	ATLAS ARTERIA	32.475	33.250	-2.33%	6

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Gen Ai & Small Modular Reactors

The uranium spot price market was characterised by bouts of volatility before settling into a trading range over the month of November.

-U308 spot price on a roller coaster ride
-Geo-politics the feature for the month
-Microsoft and GE Vernova finding nuclear solutions
-Australian uranium stocks remain a target for short interests

By Danielle Ecuyer

A mismatch between buyers and sellers

Industry consultants TradeTech recorded twenty-eight U3O8 spot transactions in November, totaling 3.2mlbs. Year-to-date spot U3O8 sales have reached 251 transactions, for a combined volume of 24.9mlbs.

The consultants observed "volatility" as a key characteristic of November, driven by the imbalance between sellers aiming for December delivery sales and a lack of support from buyers. Buyers were noted as having largely met their immediate requirements with *"little unspent budget remaining for discretionary purchases before year-end."*

TradeTech's Mid-Term U3O8 price ended November 30 at US$83/lb, down from US$84/lb on October 31, reflecting market volatility and the aforementioned mismatch.

The Long-Term U3O8 price remained flat at US$82/lb compared to the previous month. TradeTech's U308 exchange value fell -US$2.75 to US$77.25/lb during November from October 31.

The U3O8 spot price dropped by -US$0.25 to US$77.25/lb on November 28 compared to November 22.

Following Thanksgiving on November 29, several spot market transactions occurred, including one at US$76/lb for December delivery to Orano's facility in France and another at US$77/lb for delivery to ConverDyn in the US. A further transaction saw a buyer secure 100klbs at US$77.25/lb for delivery to Cameco.

As at November 30, TradeTech highlights 5.2mlbs of U308 equivalent available for sale and 4.2mlbs worth of inquiries to purchase. There's that mismatch again.

November was characterised by geopolitical uncertainty, with the Russian government announcing restrictions on enriched uranium sales to the US in retaliation to US importation restrictions announced earlier in 2024.

Notably, a shipment failed to leave the Port of St Petersburg for the US due to a lack of documentation and export licence. Expectations are for the cargo to be reloaded onto another vessel for delivery to the US later this year.

Growing geo-poltical tensions around supply have focused the mind of producers including Australia's **Paladin Energy**'s ((PDN)) Chairman who commented at the November AGM,

"With limited investment in new uranium mines, there is a growing supply deficit anticipated to exceed 50 million pounds per annum over the next decade. Diversity of supply is also becoming increasingly important in response to recent geopolitical activities, including the US ban on Russian supplies."

Solving the problems to ramp up nuclear energy capacity

GE Vernova, as reported by CNBC, is targeting the development of small modular nuclear reactors across the developed world over the next decade. Nicole Holmes, chief commercial officer of GE Hitachi's nuclear unit, stated, *"Affordability has been the real challenge for nuclear through many years. We're beginning to crack that at this point."*

The company's BWRX-300 reactor is expected to cost US$2bn-US$4bn compared to US$10bn-US$15bn for larger plants due to fewer components and less steel and concrete.

Designed to generate 300MW of electricity, the reactor can meet the needs of over 200,000 US households. With its smaller size, it offers increased flexibility in location. GE Vernova envisions demand for around 57 small modular reactors in markets such as Canada, the US, the UK, and Europe by 2035.

In other corporate news, Microsoft is reportedly collaborating with Terra Praxis to use generative AI to train models that streamline nuclear regulatory and licensing processes. The AI tool is designed to produce early application drafts in hours or days compared to the years it traditionally took.

Short interests show no fear

In Australia, short interest in uranium stocks place Paladin Energy second with a 14.74% short position, up from 13.71% a month earlier as at November 25.

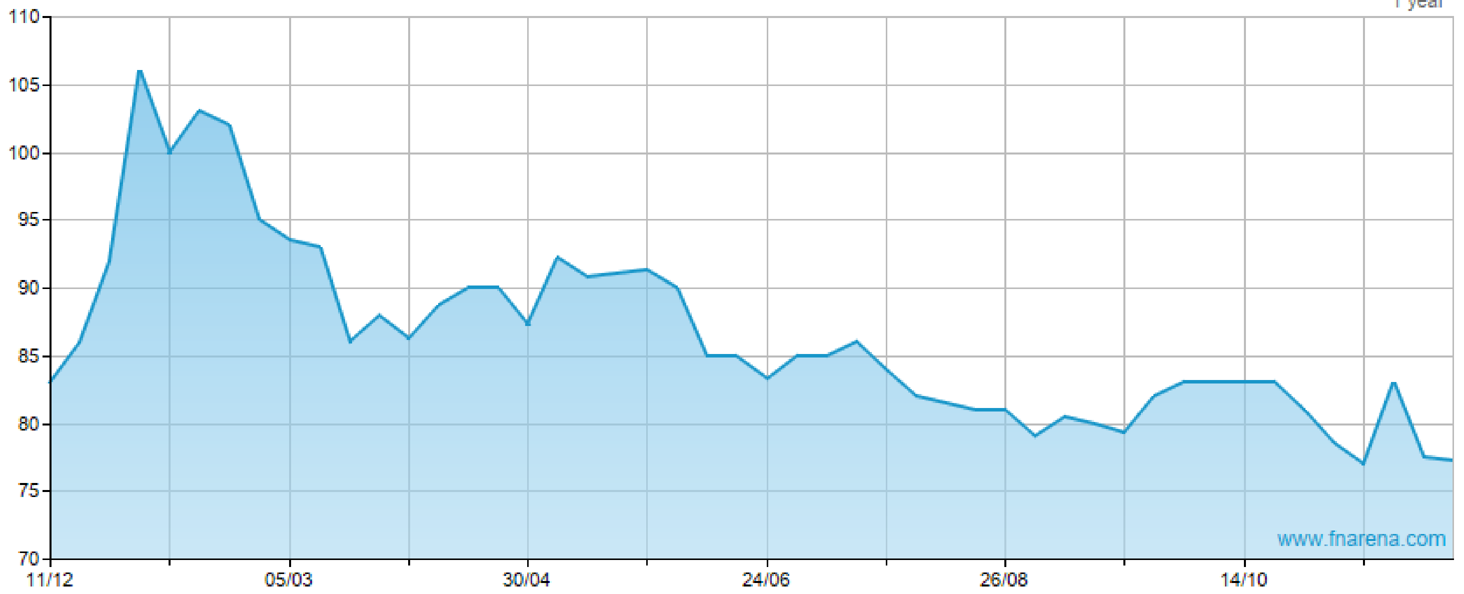
Boss Energy ((BOE)) ranked third, though its short interest declined to 14.63% from 15.36% a month previously, while Deep Yellow ((DYL)) stood eighth with a 10.34% short interest, up from 9.89% a month previously.

Want to learn more about the uranium industry? Check out the latest report from FNArena.

https://fnarena.com/index.php/2024/11/29/uranium-unplugged-nuclear-rebirth-meets-geo-politics/

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	29/11/2024	0.0600	▲20.00%	$0.19	$0.03			
AEE	29/11/2024	0.1600	▲ 3.33%	$0.31	$0.11			
AGE	29/11/2024	0.0400	0.00%	$0.08	$0.03		$0.100	▲150.0%
AKN	29/11/2024	0.0100	0.00%	$0.05	$0.01			
ASN	29/11/2024	0.0600	0.00%	$0.17	$0.06			
BKY	29/11/2024	0.3450	▼- 4.17%	$0.45	$0.26			
BMN	29/11/2024	2.7500	▼- 1.45%	$4.87	$1.90		$7.400	▲169.1%
BOE	29/11/2024	2.7100	▼-10.26%	$6.12	$2.38	18.0	$4.200	▲55.0%
BSN	29/11/2024	0.0200	▼-18.18%	$0.21	$0.02			
C29	29/11/2024	0.0900	▼-18.18%	$0.13	$0.06			
CXO	29/11/2024	0.0900	▼- 4.21%	$0.36	$0.08		$0.090	
CXU	29/11/2024	0.0200	0.00%	$0.06	$0.01			
DEV	29/11/2024	0.1200	▼- 4.17%	$0.45	$0.10			
DYL	29/11/2024	1.2200	▼- 5.88%	$1.83	$0.91	-67.8	$1.900	▲55.7%
EL8	29/11/2024	0.2900	▼- 3.23%	$0.68	$0.26			
ERA	29/11/2024	0.0020	▲50.00%	$0.08	$0.00			
GLA	29/11/2024	0.0200	0.00%	$0.04	$0.01			
GTR	29/11/2024	0.0030	▼-25.00%	$0.02	$0.00			
GUE	29/11/2024	0.0600	0.00%	$0.18	$0.05			
HAR	29/11/2024	0.0500	0.00%	$0.28	$0.03			
I88	29/11/2024	0.5000	▼- 4.17%	$1.03	$0.14			
KOB	29/11/2024	0.0800	0.00%	$0.18	$0.07			
LAM	29/11/2024	0.8450	▼- 1.17%	$1.04	$0.48			
LOT	29/11/2024	0.2400	▼- 4.08%	$0.49	$0.20		$0.547	▲127.8%
MEU	29/11/2024	0.0400	▼- 5.00%	$0.06	$0.04			
NXG	29/11/2024	12.9400	▼- 3.51%	$13.66	$7.89		$16.600	▲28.3%
ORP	29/11/2024	0.0400	0.00%	$0.12	$0.03			
PDN	29/11/2024	7.5500	▼- 8.54%	$17.98	$6.83	39.2	$12.325	▲63.2%
PEN	29/11/2024	0.0570	0.00%	$0.15	$0.05		$0.240	▲321.1%
SLX	29/11/2024	5.7900	▼- 4.92%	$6.74	$3.16		$7.200	▲24.4%
TOE	29/11/2024	0.2500	0.00%	$0.70	$0.01			
WCN	29/11/2024	0.0200	0.00%	$0.03	$0.01			



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WEEKLY REPORTS

The Short Report - 05 Dec 2024

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

Summary:

Week Ending November 28th, 2024 (most recent data available through ASIC).

10%+

GSBW34 118.09%
PDN 15.08
BOE 14.45
SYR 13.25
IEL 12.90
MIN 11.86
PLS 11.73
DMP 10.64
DYL 10.37

In: DMP

9.0-9.9%

LTR

Out: ADT, DMP

8.0-8.9%

ADT
LYC
KAR
LIC

In: ADT

7.0-7.9%

CTD
JLG
GMD
CTT

In: CTT Out: SYA

6.0-6.9%

SEK
RIO
CUV
AD8
STX
SLX
IMU

In: SEK Out: CTT, FLT

5.0-5.9%

MP1
FLT
CHN
BGL
EDV
LOT
APE
CIA

In: CIA, EDV, FLT, MP1 Out: ALD, DXS, NUF, NVX, SEK

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.2	0.3	NAB	0.7	0.8
ANZ	0.4	0.6	QBE	0.3	0.4
BHP	0.3	0.4	RIO	6.7	6.9
CBA	1.3	1.4	STO	0.9	0.8
COL	1.1	1.0	TCL	1.1	0.7
CSL	0.4	0.4	TLS	0.2	0.2
FMG	1.0	0.9	WBC	0.7	0.8
GMG	0.5	0.6	WDS	2.3	2.1
JHX	0.6	0.9	WES	0.7	0.7
MQG	0.7	0.7	WOW	0.5	0.5

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

Often large short positions can be attributable to a listed hybrid security on the same stock where traders look to "strip out" the option value of the hybrid with offsetting listed option and stock positions. Short positions may form part of a short stock portfolio offsetting a long share price index (SPI) futures portfolio a popular trade which seeks to exploit windows of opportunity when the SPI price trades at an overextended discount to fair value. Short positions may be held as a hedge by a broking house providing dividend

reinvestment plan (DRP) underwriting services or other similar services. Short positions will occasionally need to be adopted by market makers in listed equity exchange traded fund products (EFT). All of the above are just some of the reasons why a short position may be held in a stock but can be considered benign in share price direction terms due to offsets.

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

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

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

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

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

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WEEKLY REPORTS

In Brief: Northern Star, Worley, Bravura & Big River

Northern Star reaches for a tier one asset, Worley suffers from economic/political uncertainty, Bravura ups the earnings ante and Big River runs deep into a cyclical housing downturn.

-Northern Star still shines bright
-Worley reiterates FY25 earnings guidance
-Bravura upgrades earnings guidance
-Big River geared to a housing cycle upswing

By Danielle Ecuyer

Quote of the week comes from Dr Shane Oliver at AMP:

"Just as trees don't grow to the sky, 20% plus returns from global shares are not sustainable. So, we expect good investment returns over 2025, but it will likely be a rougher and more constrained ride than in 2024."

Quality asset extends gold production

Northern Star Resources ((NST)) entered the spotlight this week with an all-scrip takeover offer for **De Grey Mining** ((DEG)) at $2.08 per share, valuing the transaction at approximately $5bn based on last Friday's closing price. The deal grants Northern Star access to the tier-one-rated Hemi gold project.

J.P. Morgan supports the deal, viewing access to Hemi, with a 12-year mine life and expected production of over 530kozpa in the first decade (553koz in the first five years), as a favourable outcome.

Hemi has the potential to increase Northern Star's gold production to 2.5moz as a base case while reducing all-in-sustaining costs over time. Additionally, underground production at Hemi could boost longer-term output to over 800kozpa.

The broker anticipates a final investment decision by mid-2025, with approvals assessed as low risk. Project ramp-up is targeted for FY29, and Northern Star's balance sheet is deemed sufficient to fund the project, with peak capex expected in FY26.

Gold Road Resources ((GOR)), holding a 17.3% stake in De Grey, has yet to comment. Closure of the scrip offer would result in Gold Road holding a circa 3.4% stake in Northern Star.

J.P. Morgan maintains a Buy-equivalent rating on Northern Star, with the target price reduced by -5% to $17.25. Gold Road is downgraded to Hold-equivalent from Buy-equivalent, as the stock is seen as fully valued. The target price increases to $2.10 from $2. De Grey's target price is raised to $2.05 from $1.75.

Investors don't believe earnings guidance

After a decline of -21% in the share price over the last 12 months, Goldman Sachs does not waver in its assessment of the **Worley** ((WOR)).

The recent AGM update confirmed double-digit earnings growth for FY25 guidance while highlighting the impacts of political and economic uncertainty weighing on growth.

On a risk/reward basis, the broker believes the current valuation of around 14.5x consensus FY25 earnings represents a -23% discount to the ASX200 and the company's historical 1% premium over a 10-year period.

Worley is well-positioned to capitalise on the energy transition to more sustainable fuels from fossil fuels, the broker suggests.

The company's expertise in engineering and maintenance services, including solutions for complex energy and chemical projects, is viewed positively. Management has outlined its strategic intent to increase exposure to the energy transition.

However, the market appears cautious about corporate capital expenditure plans in Worley's core markets. General uncertainty regarding major projects and their timing has, in Goldman Sachs' view, contributed to the share price underperformance.

With management reiterating guidance, the broker has considered earnings forecasts and believes the risk/reward profile remains favourable. The stock is rated Buy with an $18 target price.

Now show me the top-line growth

Oh, to be plagued with "*(Yet) An(other) Upgrade*", says Wilsons, as **Bravura Solutions ((BVS))** lifted guidance across financial metrics for FY25 (again!).

If FY24 was the year of stabilisation, then FY25 is viewed as the year for rebuilding confidence, according to the broker, and FY26 will "hopefully" be the year of more contract wins.

The latest upgrade reflects management's ability to execute successfully on strategic targets and led Wilsons to raise earnings forecasts by 10% and increase the target price by 40% to $2.06.

Bravura also reconfirmed its $20m buyback intention and a $73m capital return, or 16.3c per share, to be paid on January 30. Much of the capital return has been generated from a circa $56m one-off license fee from Fidelity.

With a strengthened balance sheet and ongoing cash generation, dividend payments are expected to recommence in February 2025 with the 1H25 results.

Wilsons remains Buy-equivalent rated and believes investors will be looking for a return to top-line growth.

A highly levered earnings play into a building recovery

FNArena reported on **Metcash Holdings** ((MTS)) this week, highlighting challenges in the hardware business due to weakness in the housing/building sector.

A similar theme applies to small-cap **Big River Industries** ((BRI)), which was the focus of Taylor Collison's initiation of coverage.

Big River manufactures and distributes timber products across A&NZ, serving commercial, residential, and civil construction markets with veneer, plywood, and formwork products.

Queensland, NSW, and Victoria generate over 75% of revenue. Direct imports now exceed locally sourced supplies and in-house manufacturing. Detached housing is the largest sector exposure at 39%.

The broker views Big River as a robust player in what it considers a fragmented market. Management has pursued add-on acquisitions to enhance through-the-cycle organic growth, acquiring 15 companies since its 2017 IPO. Incrementally, these acquisitions have boosted revenue by $210m at the time of purchase.

However, the analyst warns against overzealous acquisitions in an increasingly competitive consolidation landscape. Maintaining long-term returns on funds employed between 15%-17% and acquisition costs around 3-5x enterprise value to earnings is deemed critical.

Taylor Collison assigns a Hold rating, citing historically low levels of residential building activity and the need for greater confidence in market stability before upgrading to a Buy-equivalent rating.

While a valuation discount compared to building material peers is warranted, the current -36% discount is considered excessive.

However, further widening of the discount is possible, potentially presenting a more attractive entry point later in FY25. The broker sees the stock as a compelling cyclical play, with the timing being the key question.

For more reading on housing related
company Metcash: https://fnarena.com/index.php/2024/12/04/metcashs-earnings-geared-to-housing-recovery/

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 06-12-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

SOMNOMED LIMITED ((SOM)) Upgrade to Overweight from Market Weight by Wilsons.B/H/S: 0/0/0

SomnoMed is upgraded to Overweight from Market Weight with a higher target price of 45c by Wilsons.

Management announced an upgrade in FY25 guidance to around $105m in revenue and over $7m in earnings at the AGM, resulting from "de-risking" manufacturing in Manila, which freed up a 30% increase in sustainable capacity.

The analyst explains that this intervention has allowed the company to meet the order backlog and recapture previously lost customers from 2H24.

Wilsons sees the positive flow-on impacts as enabling SomnoMed to consider winding back its promotions and possibly implementing a slight price rise in 2H25.

Overweight rated. Target price: 45c.

Downgrade

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED ((FPH)) Downgrade to Market Weight from Overweight by Wilsons.B/H/S: 0/0/0

Wilsons notes Fisher & Paykel Healthcare's first-half results included 19% revenue growth year-on-year, with solid performance in Hospital and Homecare segments.

Gross margin reached 61.9%, exceeding guidance, though the broker anticipates softer improvement ahead with potential headwinds in FY26.

NewApps consumables grew 27%, driven by adoption in new settings such as anaesthesia, while Homecare benefited from mask launches and durable resupply demand, explains the analyst.

Wilsons lowers profit forecasts by between -2% to -4% for FY25-FY27, reflecting expectations for slower gross margin development. The rating is downgraded to Market Weight from Overweight, and the target eases to $34.93 from $35.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	SOMNOMED LIMITED	Buy	Neutral	Wilsons
Downgrade				
2	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	Neutral	Buy	Wilsons

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
AQZ	Alliance Aviation Services	$2.75	Wilsons	4.32	4.22	2.37%
BHP	BHP Group	$40.59	Goldman Sachs	47.40	49.10	-3.46%
BVS	Bravura Solutions	$2.15	Wilsons	2.06	1.47	40.14%
CKF	Collins Foods	$8.07	Jarden	9.20	9.57	-3.87%
CSC	Capstone Copper	$10.37	Moelis	14.50	14.00	3.57%
FPH	Fisher & Paykel Healthcare	$33.67	Wilsons	34.93	35.00	-0.20%
GOR	Gold Road Resources	$2.07	Goldman Sachs	2.35	2.25	4.44%
IAG	Insurance Australia Group	$8.64	Goldman Sachs	7.50	7.20	4.17%
			Jarden	8.05	7.55	6.62%
IPG	IPD Group	$4.12	Taylor Collison	5.15	N/A	-
MGH	Maas Group	$4.96	Wilsons	6.01	5.66	6.18%
MTS	Metcash	$3.31	Jarden	4.10	4.40	-6.82%
MYX	Mayne Pharma	$5.16	Wilsons	5.95	5.93	0.34%
PME	Pro Medicus	$268.00	Wilsons	275.00	145.00	89.66%
PPE	PeopleIN	$0.95	Wilsons	1.03	0.98	5.10%
QBE	QBE Insurance	$19.92	Jarden	21.80	20.90	4.31%
SHV	Select Harvests	$4.30	Wilsons	4.46	4.57	-2.41%
SNL	Supply Network	$33.10	Goldman Sachs	34.20	30.50	12.13%
SOM	SomnoMed	$0.46	Wilsons	0.45	0.42	7.14%
WEB	Web Travel	$4.77	Jarden	5.60	7.10	-21.13%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

AQZ ALLIANCE AVIATION SERVICES LIMITED

Transportation & Logistics Overnight Price: $2.71

Wilsons rates ((AQZ)) as Overweight (1)

Ahead of Alliance Aviation Services completing its fleet expansion by early FY27, analysts at Wilsons have gone through their modeling yet again and the exercise has strengthened their confidence in projected trajectory for cash flows.

As the fleet expansion should result in strong earnings growth, the broker's investment thesis has been re-confirmed.

Price target lifts to $4.32 from $4.22. Overweight.

This report was published on December 5, 2024.

Target price is **$4.32** Current Price is **$2.71** Difference: **$1.61**
If **AQZ** meets the Wilsons target it will return approximately **59%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

> Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **40.00** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **6.77**.

Forecast for FY26:

> Wilsons forecasts a full year **FY26** dividend of **6.80** cents and EPS of **44.20** cents.
> At the last closing share price the estimated dividend yield is **2.51%.**
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **6.13**.

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

CSC CAPSTONE COPPER CORP.

Copper Overnight Price: $10.51

Moelis rates ((CSC)) as Buy (1)

Moelis highlights Capstone Copper's recent site tours of Chilean projects including Mantoverde, Mantos Blancos and Santo Domingo, showcasing strong operational progress and organic growth potential.

The Mantoverde sulphide project is now complete, notes the analyst, with commercial production declared and commissioning milestones achieved, supporting robust 2025 guidance of 111kt copper production at $1.83/lb costs (AISC).

The broker notes the Mantos Blancos upgrades, which have resolved prior operational issues, enabling sustainable processing rates. Exploration efforts at Mantoverde and adjacent areas are set to expand reserves, securing long-term production stability.

Moelis raises the target price to $14.50 from $14.00 and retains a Buy rating, citing a positive cash flow trajectory and potential value from the Santo Domingo project.

This report was published on November 29, 2024.

Target price is **$14.50** Current Price is **$10.51** Difference: **$3.99**
If **CSC** meets the Moelis target it will return approximately **38%** (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 **26.55** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **39.59**.

Forecast for FY25:

> Moelis forecasts a full year **FY25** dividend of **0.00** cents and EPS of **88.39** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **11.89**.

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

DDR DICKER DATA LIMITED

Hardware & Equipment Overnight Price: $8.60

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

Wilsons initiates coverage on Dicker Data with an Overweight rating and a $11.29 target price.

The analyst highlights the company is the largest IT distributor in the corporate, commercial, and enterprise market in Australia and the second largest in the consumer, large national retail, corporate, commercial, and enterprise market in NZ.

Wilsons expects the company to return to growth in 2H25 as Windows 10 support ends in October 2025, with approximately 2.4m Australian PCs deemed "too old" to receive the Windows 11 update. The hardware refresh cycle following the "unified" pandemic upgrade event is also seen as a positive.

The analyst believes there is scope for the valuation to move higher over the June and September 2025 quarters.

Overweight rated. Target price $11.29.

This report was published on December 2, 2024.

Target price is **$11.29** Current Price is **$8.60** Difference: **$2.69**
If **DDR** meets the Wilsons target it will return approximately **31%** (excluding dividends, fees and charges).
Current consensus price target is **$10.57**, suggesting upside of **22.9%**(ex-dividends)
The company's fiscal year ends in December.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **45.70** cents and EPS of **44.20** cents.
At the last closing share price the estimated dividend yield is **5.31%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **19.46**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **45.0**, implying annual growth of **-1.3%**.
Current consensus DPS estimate is **47.0**, implying a prospective dividend yield of **5.5%**.
Current consensus EPS estimate suggests the PER is **19.1**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **49.50** cents and EPS of **51.30** cents.
At the last closing share price the estimated dividend yield is **5.76%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **16.76**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **51.4**, implying annual growth of **14.2%**.
Current consensus DPS estimate is **50.6**, implying a prospective dividend yield of **5.9%**.
Current consensus EPS estimate suggests the PER is **16.7**.

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

EGL ENVIRONMENTAL GROUP LIMITED

Industrial Sector Contractors & Engineers Overnight Price: $0.27

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

Moelis initiates coverage with a Buy rating and 35c target for environmental solutions and industrial services provider, Environmental Group. A "solid" earnings growth profile is supported by strong industry tailwinds and mandated demand in regulated industries,

Recurring revenue now accounts for over 50% of total group revenue, providing more visible earnings certainty, highlight the analysts. Solid growth is set to continue in core operating segments, while commercialising water treatment technology provides potential upside.

An "exciting" option, according to Moelis, is the company's highly effective, safe, and cheap option to treat per- and polyfluoroalkyl substances (PFAS) contaminated water.

This report was published on November 28, 2024.

Target price is **$0.35** Current Price is **$0.27** Difference: **$0.078**
If **EGL** meets the Moelis target it will return approximately **29%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

Moelis forecasts a full year **FY25** dividend of **0.00** cents and EPS of **1.50** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **18.13**.

Forecast for FY26:

Moelis forecasts a full year **FY26** dividend of **0.00** cents and EPS of **1.90** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **14.32**.

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

MGH MAAS GROUP HOLDINGS LIMITED

Building Products & Services Overnight Price: $4.95

Wilsons rates ((MGH)) as Overweight (1)

Maas Group's 1H trading update reconfirmed FY25 underlying earnings (EBITDA) guidance of $215-245m, with a 40/60 1H:2H split due to renewable energy project delays and land sale timing., explains Wilsons.

Management announced three acquisitions in construction materials for -$252m, contributing FY25 pro forma revenue of $174-199m and earnings (EBITDA) of $34-38m.

Synergies from internalising volumes and cost efficiencies are expected to drive medium-to-long-term upside, in the broker's view.

Wilsons raises FY25 earnings (EBITDA) by 6% and FY26 by 16%, with EPS accretion of 5% from FY26 onwards. The target is increased to $6.01 from $5.66. Overweight rating.

This report was published on November 29, 2024.

Target price is **$6.01** Current Price is **$4.95** Difference: **$1.06**
If **MGH** meets the Wilsons target it will return approximately **21%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **9.00** cents and EPS of **28.10** cents.
At the last closing share price the estimated dividend yield is **1.82%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **17.62**.

Forecast for FY26:

Wilsons forecasts a full year **FY26** dividend of **12.50** cents and EPS of **39.20** cents.
At the last closing share price the estimated dividend yield is **2.53%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **12.63**.

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

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