WEEK 15

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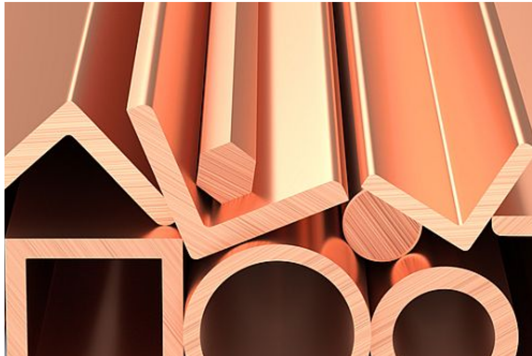
STORIES TO READ FROM FNArena

Friday, 12 April 2024



Material Matters: Bullish Copper, Bearish Lithium

Is AI All It's Cracked Up To Be?

Rudi's View: Lessons & Observations From ASX All-Weathers

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AUSTRALIA

The Market In Numbers - 6 Apr 2024

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

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

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

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

Australia & NZ

Index	05 Apr 2024	Week To Date	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
NZ50	12012.240	-0.77%	-0.77%	-0.77%	2.05%	0.80%
All Ordinaries	8026.00	-1.57%	-1.57%	-1.57%	2.51%	8.44%
S&P ASX 200	7773.30	-1.57%	-1.57%	-1.57%	2.40%	7.91%
S&P ASX 300	7726.10	-1.55%	-1.55%	-1.55%	2.52%	7.95%
Communication Services	1543.70	-2.24%	-2.24%	-2.24%	-2.80%	0.41%
Consumer Discretionary	3509.10	-2.97%	-2.97%	-2.97%	8.30%	19.21%
Consumer Staples	12128.30	-1.86%	-1.86%	-1.86%	-1.48%	-8.77%
Energy	10917.30	1.33%	1.33%	1.33%	2.77%	0.83%
Financials	7353.50	-1.41%	-1.41%	-1.41%	9.45%	18.23%
Health Care	42197.30	-2.86%	-2.86%	-2.86%	-0.34%	2.20%
Industrials	7082.60	-1.37%	-1.37%	-1.37%	3.16%	4.21%
Info Technology	2168.70	-4.76%	-4.76%	-4.76%	18.32%	18.54%
Materials	17890.90	-0.28%	-0.28%	-0.28%	-8.21%	-0.78%
Real Estate	3684.40	-3.98%	-3.98%	-3.98%	10.06%	21.04%
Utilities	8395.40	1.34%	1.34%	1.34%	2.64%	-3.88%
A-REITs	1674.10	-3.99%	-3.99%	-3.99%	11.43%	23.58%
All Technology Index	2982.80	-3.65%	-3.65%	-3.65%	10.72%	23.43%
Banks	3048.50	-1.19%	-1.19%	-1.19%	9.68%	22.10%
Gold Index	7545.20	4.18%	4.18%	4.18%	2.41%	14.01%
Metals & Mining	5854.50	0.22%	0.22%	0.22%	-9.47%	-3.35%

The World

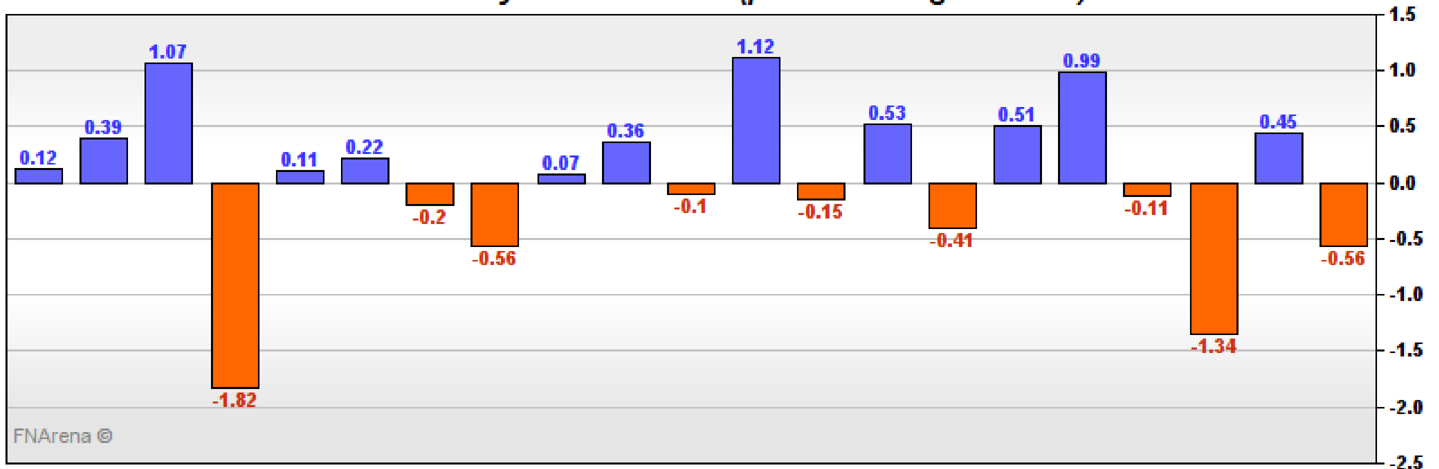
Index	05 Apr 2024	Week To Date	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
FTSE100	7911.16	-0.52%	-0.52%	-0.52%	2.30%	5.04%
DAX30	18175.04	-1.72%	-1.72%	-1.72%	8.50%	12.55%
Hang Seng	16723.92	1.10%	1.10%	1.10%	-1.90%	-11.59%
Nikkei 225	38992.08	-3.41%	-3.41%	-3.41%	16.52%	17.48%
DJIA	38904.04	-2.27%	-2.27%	-2.27%	3.22%	13.07%
S&P500	5204.34	-0.95%	-0.95%	-0.95%	9.11%	16.94%
Nasdaq Comp	16248.52	-0.80%	-0.80%	-0.80%	8.24%	17.85%

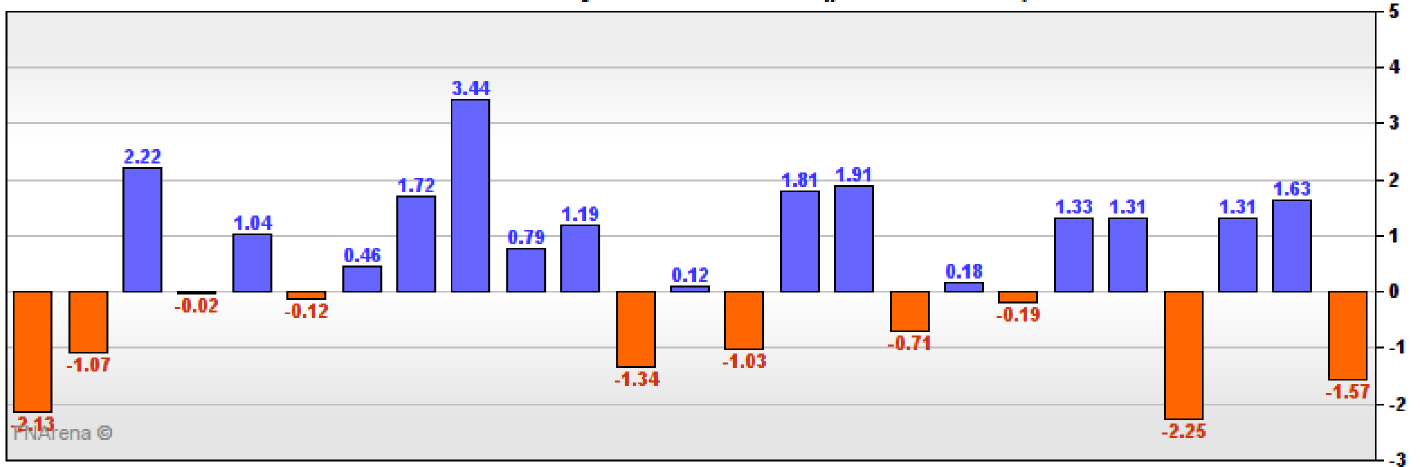
Metals & Minerals

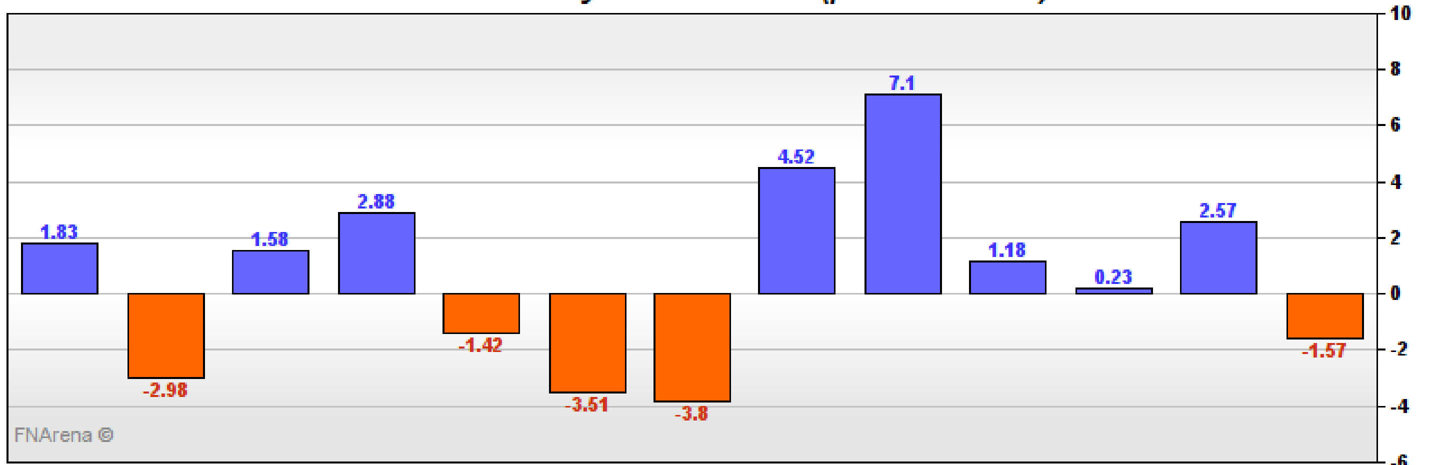
Index	05 Apr 2024	Week To Date	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
Gold (oz)	2290.00	4.37%	4.37%	4.37%	12.01%	20.01%
Silver (oz)	26.81	9.07%	9.07%	9.07%	9.97%	19.00%
Copper (lb)	4.2223	5.76%	5.76%	5.76%	10.88%	13.60%
Aluminium (lb)	1.1020	6.10%	6.10%	6.10%	13.34%	15.06%
Nickel (lb)	7.9416	6.04%	6.04%	6.04%	6.78%	-10.77%
Zinc (lb)	1.1875	7.80%	7.80%	7.80%	5.59%	13.25%
Uranium (lb) weekly	86.25	-1.99%	-1.99%	-1.99%	0.29%	53.47%
Iron Ore (t)	99.89	-1.69%	-1.69%	-1.69%	-27.74%	-12.31%

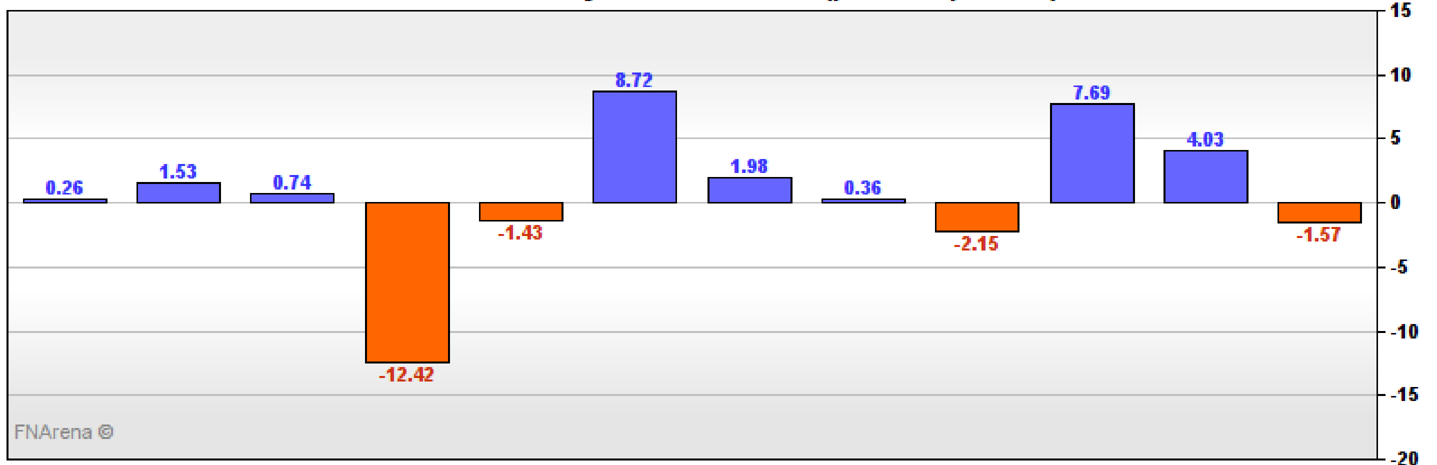
Energy

Index	05 Apr 2024	Week To Date	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
West Texas Crude	86.75	6.16%	6.16%	6.16%	17.53%	24.18%
Brent Crude	90.91	5.28%	5.28%	5.28%	14.70%	22.34%









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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COMMODITIES

Material Matters: Bullish Copper, Bearish Lithium

Bullish outlook for copper prices; bear market not finished for lithium; and value among rare earths miners.

-Bullish copper price forecasts
-Bear market not over for lithium, Goldman Sachs declares
-Valuation upside for rare earths miners

By Mark Woodruff

Bullish forecasts for the copper price

Twenty years ago, copper's first secular bull market this century was led by China's urbanisation and industrialisation, and Citi believes the red metal's second secular bull market is taking hold. Investors are advised to build long exposures in the coming months or risk missing out.

The copper price has rallied by 15% since mid-February, as the narrative and price continue to gather momentum, observes Morgan Stanley. This broker also remains bullish as persistent supply challenges widen the market deficit forecast for 2024.

Citi attributes the recent copper price rise to a surge in net bullish investor positioning, coinciding with a rebound in key manufacturing indicators.

On the demand side, the market is focusing on the positive impact impact of data centres, according to the analysts. While this represents a small share of copper demand for now, data centres demand is growing fast and attracting new investors to the sector, and also boosting the requirement for grid investment.

Citi also points to the new and exciting (mainly US-centric) AI/data centre kicker on top of the decarbonisation-related demand growth via renewables, the grid, and electric vehicles.

This broker also highlights improving manufacturing indicators in the US and China, which suggest a turn in the manufacturing cycle. Looming central bank interest rate cuts are also expected to provide a cushion against further economic deterioration.

Demand for copper out of China is equally robust. The country's apparent copper demand was strong in January and February, observes Morgan Stanley, with refined imports up by 27% and refined output rising by 13%.

Mine supply disruptions around the globe have been accelerating, notes the broker, which has resulted in material falls for spot concentrate treatment charges. As a result of these lower charges, China smelters are expected to cut back output during the second quarter, which will likely weigh on refined output.

Citi forecasts global copper mine supply growth of just 0.7% in 2024 compared to the 2.3% growth the broker projected in December. This lower supply growth reflects weaker guidance by major listed producers and the closure of the Cobre Panama project, one of the world's largest open-pit copper mines.

The project was forced to shut down after Panama's top court ruled its contract was unconstitutional, following nationwide protests opposed to its continued operation.

Morgan Stanley forecasts a -700kt deficit in 2024 and **a fourth quarter copper price of US$10,500/t**, suggesting 12% upside from the current price.

The energy transition demand by itself is driving total copper consumption according to trend, explains Citi, so AI and a cyclical upturn for the global economy represent the additional cream on top, driving a total deficit of -1m tonnes over the next three years.

Only higher prices will solve these deficits, in this broker's opinion.

Citi raises its 0-3 month price forecast to US$9,700/t from US$9,200/t, and suggests sub-US$9,500/t is "cheap" on a six-month to two-year view. Prices are expected to trend higher and average US$10,000/t by the fourth quarter of 2024, and average US$12,000/t in 2026.

This base case scenario for US$12,000/t assumes only a small uptick in cyclical demand growth over the course of 2025 and 2026. In the event of strong cyclical growth, **explosive price upside is possible over the next two to three years**, with prices potentially rising by more than 66% to US$15,000/t, if Citi's bull case scenario plays out.

Under this scenario, the broker believes copper's bull market may cost unhedged consumers such as automakers, developers and power companies up to -US$320bn over the next three years, or around 0.4% of global GDP.

While maintaining a high conviction regarding rising copper prices in the coming years, Citi cautions the journey could be choppy in response to swings in cyclical growth sentiment and rate cut expectations.

Bear market not over for lithium, according to Goldman Sachs

Further supply rationing of lithium is needed to reduce the 2024 and 2025 market surplus, in Goldman Sachs' opinion, and **the recent rally in lithium prices should not be interpreted as the end of the bear market.**

Indeed, on a recent road trip to Perth, the analysts noted corporate positioning for lower lithium prices for longer.

Globally, many lithium producers remain reasonably well capitalised and may be prepared to wear weaker margins for longer-than-anticipated periods to avoid being among the first to curtail supply, explains the broker.

Producers may also find other ways of reducing spodumene volumes without full deferral. For example, they may process lower-grade material (potentially from stockpiles), which would reduce mining needs/costs.

So far, a material number of announced lithium volume reductions have related to projects at the lower end of the global lithium cost curve, or with compelling economics, observes Goldman, rather than from higher-cost assets curtailing capacity.

It seems companies' **lithium supply considerations often extend beyond the upstream cost curve**. For example, vertical integration/committed offtake agreements and competing strategic priorities around higher returning projects are also contemplated, explain the analysts.

Goldman forecasts a 2024 lithium surplus of 150kt, down from 225kt previously, which largely reflects a trend of delays to ramp-up paths, meaning little to no impact on the supply path post-2024. A larger surplus of 336kt

is now expected in 2025, up from 288kt.

The broker's preferred lithium exposure is Buy-rated IGO Ltd ((IGO)) due to undervaluation and a positive free cash flow outlook. Liontown Resources ((LTR)) is granted a Neutral rating, while Pilbara Resources ((PLS)), Core Lithium ((CXO)) and Mineral Resources ((MIN)) are assigned Sell recommendations.

After Goldman updates its forecasts to reflect lithium/nickel pricing updates and company specific changes, the 12-month target for IGO falls to $7.50 from $8.00.

The analysts highlight the company's Greenbushes operation is one of the lowest-cost lithium assets. Further expansion of this project is also considered one of the most economically compelling brownfield lithium projects, with a breakeven/incentive long-term spodumene price of around US$400-500/t.

The broker's targets for Liontown Resources and Core Lithium fall by -10 cents to $1.35 and by -1 cent to 12 cents, respectively, while the valuations for Pilbara Resources and Mineral Resources are unchanged at $2.90 and $48, respectively.

Valuation upside for rare earths miners

Macquarie believes there is valuation upside for miners with rare earths exposures, even though prices have been on a downward trend and reached a multi-year low of US$48/kg in early-March this year.

The broker points to emerging signs of price stabilisation, along with indications that plant utilisation rates at light rare earths producers have increased and are approaching installed capacity limits. Such limits have the potential to limit supply growth in the absence of capital for greenfield or brownfield expansions, explains Macquarie.

Recently, China Northern Rare Earth (Group), one of the major light rare earths producers, kept its April neodymium and praseodymium (NdPr) price guidance flat month-on-month at around US$50.6/kg after three consecutive monthly price guidance cuts, notes the analyst.

Over the last two years, China has restructured its rare earths production and processing industry to retain its dominance in the sector, explains the broker. The number of major companies fell to two from six leaving China Northern Rare Earth and China Rare Earth Resources and Technology, which each mainly produce light and heavy rare earths, respectively.

While a consolidated industry would make production plans easier to co-ordinate, Macquarie believes larger companies are also better able to navigate market downturns.

Compared to the second quarter of FY24, Macquarie's third quarter forecast is -14% weaker, with an average realised NdPr price of US$52/kg expected. Dysprosium (Dy) and terbium (Tb) projected prices are also -7% and -10% weaker at US$303/kg and US$876/kg, respectively.

The broker's preferred rare earths exposure is Outperform-rated Lynas Rare Earths ((LYC)), which has a 12-month target price of $7.00. Management is expected to continue prioritising NdPr production and sales, which are both higher quarter-on-quarter.

The analyst has the same ($7.00) target for Neutral-rated Iluka Resources ((ILU)) which has upcoming share price catalysts around progress and a funding solution for the Eneabba refinery in WA.

The broker has modeled lower mineral sands sales at Iluka, with a -40% drop in synthetic rutile (production at SR1 kiln in WA remains offline) offset by higher zircon output.

Macquarie anticipates average realised prices for zircon/rutile/synthetic rutile (Z/R/SR) will be 8% higher quarter-on-quarter at A$2,280/t, which is -2% below the consensus estimate.

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COMMODITIES

The 2024 Gold Enigma

US bond yields have rallied back hard, which would typically send the gold price lower. So why has gold rallied hard too?

-US ten-year yield has rallied back to 4.5% from under 4%
-Yet the USD gold price has rallied solidly
-Physical demand as a safe haven
-Can gold keep going?

By Greg Peel

Before March, 2022, the Fed began hiking its funds rate in a desperate catch-up attempt with the runaway rate of inflation, sending the US ten-year bond yield from around 2.50% to over 4%. In late 2021, gold was trading around US$2000/oz. By mid-2023, gold was trading around US$1600/oz.

It was around that time the US ten-year yield peaked at over 5%, as the Fed threatened further rate hikes in the face of elevated inflation. But inflation had begun to recede. Only then did the Fed "pivot" towards a more dovish stance, and markets began to price in the first rate cut.

By January this year, the market was pricing in six rate cuts in 2024. The US ten-year yield fell back to under 4%. Gold rallied once more to US$2000/oz.

The moral to this story is that the gold price is beholden to US yields, notwithstanding its "safe haven" status. But since mid-February, a funny thing has happened.

The Fed's more dovish stance was more to do with not hiking again than it was to do with cutting rates in any hurry. Gradually, the market began to price in fewer and fewer rate cuts in 2024 – from six, to three, and now to two or even one. Or even none. The US ten-year yield rallied back once more and it has kept rallying, all the way to 4.5% today, but the gold price has also rallied, all the way to US$2350/oz.

Stop, you're going the wrong way.

US ten-year yield %:

USD gold price/oz:

Geopolitics

The war in Europe, underscoring Russia's imperialist intentions, the war in Gaza, making the Middle East a cauldron of potential conflict, China's threat to (one day) invade Taiwan, and concern over who might be the next US president, have led to gold's safe haven status trumping (pardon the pun) movements in US yields.

At the end of the day, the gold price is dependent on a balance of demand and supply, and with respect to the above, global central banks have been the major buyers in 2024.

Central banks purchased 39t of gold in January, ANZ Bank economists note, setting a strong base for demand. Heightened political and geopolitical risks will keep the backdrop conducive for official purchases in the 750-800t range.

There are no supply issues to explain higher prices, suggests Rosenberg Research, total gold production is up, and elevated marginal production costs are putting a floor on the price.

On the other side of the price equation, physical demand accounts for a good portion of the recent price action, Rosenberg notes. Central banks are actively increasing gold reserves as the global political economy evolves, and there is strong retail demand in key emerging markets. Gold's role in microchip production is also providing a healthy bump in demand.

Beyond physical demand, elevated uncertainty over geopolitics, the shaky global real economy, and the developed world's "thumping fiscal hangover" are supporting precautionary and speculative demand.

With an easing cycle on the horizon, global growth weak and looking weaker, and inflation on its last leg of decline, Rosenberg is of the view the tailwinds blowing gold to new highs are about to get a lot stronger.

Further to Go?

While the sharp run-up in the gold price is showing a degree of overvaluation at present, if Rosenberg includes a baseline Fed cutting cycle to a neutral rate in its model, the outlook for gold is up a further 10%.

But that's assuming a global "soft landing." If Rosenberg models the harder landing the analysts believe is coming, to an average-sized recession, they have gold moving easily 15% higher, up to US$2550/oz.

And that's before one considers any other potential supports, such as geopolitical tension, election risk, fiscal issues, or further supply constraints. The materialisation of any of those risks on top of the easing cycle puts US$3000/oz in play.

Any well-diversified portfolio should contain gold, says Rosenberg, and at present the analysts recommend an "aggressive overweight". That will act as a hedge against geopolitical and fiscal risks, offer a safe harbour

against a breakdown in the equity bull-run, and give positive exposure to the coming easing cycle and period of US dollar weakness.

While speculators have increased their bullish bets recently, positions are not matching the intensity of the latest price rally, ANZ's economists note. Moreover, disinvestment in gold-backed exchange-traded funds has been continuing.

A lean level of investment in gold should be seen as a potential driver, suggests ANZ. This not only limits scope for a heavy liquidation, but also leaves ample room for fresh buying. Investment demand will be crucial this year to mitigate any physical demand losses due to higher prices.

While physical gold demand has been holding up well since 2021, ANZ believes the sharp price rally is likely to temper discretionary gold buying in 2024.

The recent price rally lifted well above ANZ's forecast, so a retracement is likely in the short term, the economists believe. Having said that, they reiterate a long-term positive view and adjust their year-end price target to US$2300/oz from US$2200/oz.

A look at the technicals suggests an overbought price level, hence ANZ suggests recent consolidation could end in a healthy price correction towards US$2100/oz.

Morgan Stanley acknowledges the current trendline for gold implies less sensitivity to real yields, but a rising safe haven premium leaves the price at a higher absolute level.

Gold looks fairly priced for now, says Morgan Stanley, but as we get closer to Fed rate cuts, the analysts believe the direction is more likely up than down.

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For more on gold: https://fnarena.com/index.php/2024/03/27/rudis-view-facts-fiction-about-gold/

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FEATURE STORIES

Is AI All It’s Cracked Up To Be?

AI is a game-changer, analysts agree, but there remain questions over predicted productivity gains, potential job losses, costs, power requirements and how long AI adoption will take.

-Large language models and GPUs
-2024 a year of investment
-Disagreement over job losses
-Massive increase in power requirement
-Macro impact still years off

By Greg Peel

"The combination of accelerating AI technology development and the widespread productivity challenge underscores our view that AI is the most important investment theme of this decade. We view 2024 as an investment year that will be followed by measurable productivity improvements beginning in 2025. Like other major technologies, AI likely follows Amara's Law', which states that the market overestimates the potential of a technology in the near term but underestimates it in the long term."

This was the view of Morgan Stanley's North America quant analysts, expressed in January.

So what exactly is AI? Wilsons had a novel approach to answering that question. Ask AI. Technically, artificial intelligence is based on a "large language model". Wilsons asked ChatGPT the service that arguably kicked off the whole AI phenomenon with its launch in late 2022 to define itself.

Straight from the horse's mouth:

"A Large Language Model refers to a type of artificial intelligence model designed to generate human-like text and understand natural language. These models are trained on massive amounts of text data and employ deep learning techniques, specifically using neural networks with many layers. Large language models, such as OpenAI's GPT-3 are known for their impressive capabilities in tasks like text generation, translation, summarization, question answering, and more.

"The applications of large language models are diverse and range from chatbots and virtual assistants to content creation, language translation, sentiment analysis, and more. They have the potential to revolutionize numerous industries, including customer service, content generation, and language processing tasks."

Back in the 1970s, there was a brief "speed reading" craze. Proponents touted that the average human could be taught to read a full page of text by scanning it in a matter of seconds, take it all in and be able to summarise and answer questions.

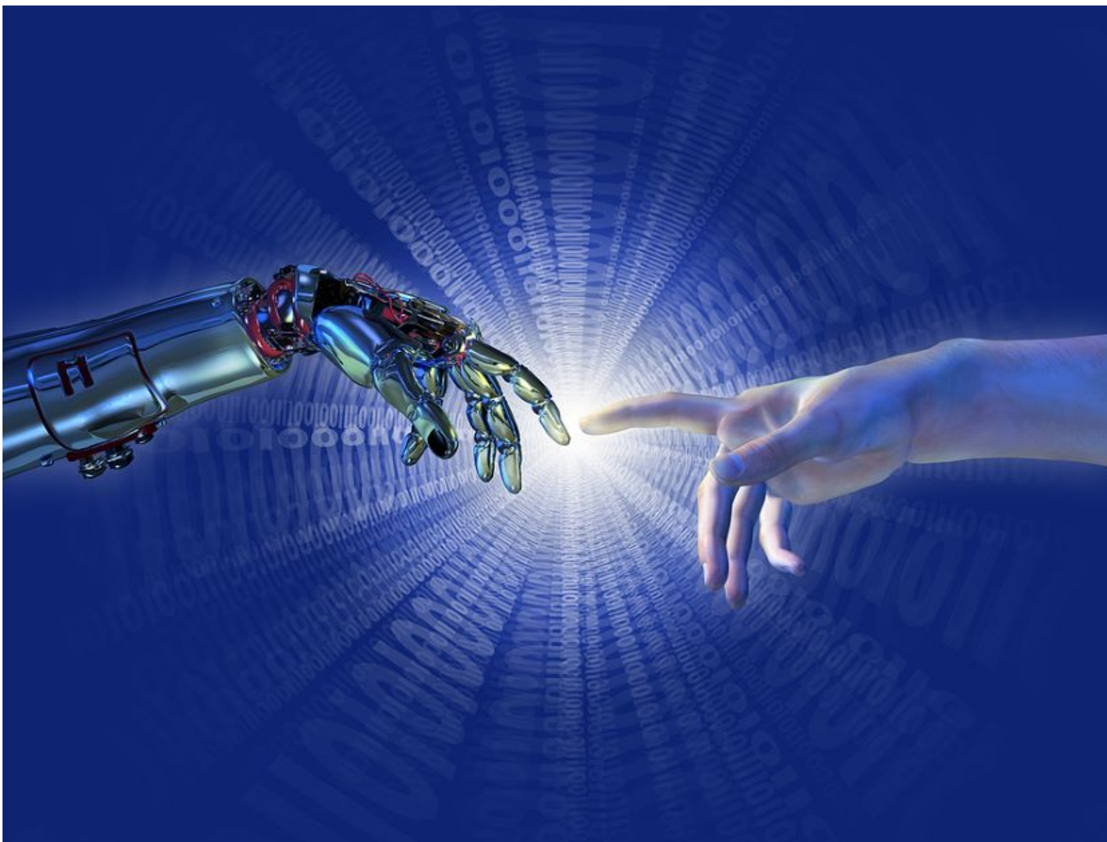
It was all debunked fairly swiftly, but the bottom line is large language models speed-read. Rather than being able to read a page of text in seconds, however, they can read the entire contents of the internet in the blink of an eye.

And it's not just text. AI can take in images, videos and, importantly, numerical calculations just as quickly. AI is based on "machine learning". Teach a program a task, and that program will complete that task in seconds when a human might have taken days, or longer. And know what to do the next time.

That is why the great beneficiary of AI is seen as "productivity".

AI is not new. It did not begin with ChatGPT. Siri's been around for a while, for example, and is a form of AI, albeit a simplistic form in the context (and often annoying). So why did ChatGPT supposedly signal the AI revolution?

Wilsons puts it down to the convergence of two factors: computer chips and the internet.



<u>The Chip</u>

The SIM card in your mobile phone was once the size of a postage stamp, but is now so small you almost need a microscope to insert it. That is one example of the technological advancement of the silicon chip.

The introduction of ChatGPT also shone the spotlight on a chipmaking company called Nvidia, which prior to that time was just another chipmaker as far as anyone was concerned, but came to notice given its first-mover advantage in the field of AI chips on the basis of its graphic processing units (GPU), a step up from the standard central processing unit (CPU).

So what's the difference? Let's ask industry stalwart Intel:

"The CPU is suited to a wide variety of tasks, especially those for which latency or per-core performance are important for tasks such as web browsing. A powerful execution engine, the CPU focuses its smaller number of cores on individual tasks and getting things done quickly. This makes it uniquely well equipped for jobs ranging from serial computing to running databases.

"GPUs began as specialized ASICs (Application-Specific Integrated Circuits) designed for a specific purpose such as accelerating specific 3D rendering tasks. Over time, these fixed-function engines became more programmable and more flexible. While graphics and hyper-realistic gaming visuals remain their principal function, GPUs have evolved to become more general-purpose parallel processors as well, handling a growing range of applications, including AI."

Here's an idea: what if we combined the two?

"CPU/GPUs deliver space, cost, and energy efficiency benefits over dedicated graphics processors. Plus, they provide the horsepower to handle processing of graphics-related data and instructions for common tasks. Processors with built-in graphics are a great choice for immersive gaming, 4K streaming, video editing, and exploring the web with lightning-fast connectivity."

In June last year, Nvidia announced a new GH200 Grace Hopper "superchip", which combines CPU and GPU and is "specifically created for large-scale AI applications". Wilsons notes the Hopper chip generated results that were 4.5x better than its prior chip, and with this new chip, Nvidia expects "to dramatically accelerate AI and machine-learning applications in both training (creating a model) and inference (running it)".

When ChatGPT was launched in November 2022, Nvidia shares were trading around US$170. At the time of writing, they are trading around US$890, or 425% higher. There are now only two US companies with a greater market capitalisation; Microsoft and Apple. Falling in line behind Nvidia are Google, Amazon and Meta.

But for the Hopper superchip to be effective, it needs access to a wealth of data. As Wilsons notes, the world's data availability is "incredibly large", and AI models have the chance to perform better with more diverse data.

The proliferation of mobile devices, higher quality Wi-Fi that facilitates streaming and the expanded use of electric vehicles, which both create and consume large quantities of data, have all contributed to a wide body of data.

The convergence of ongoing knowledge of, and research into, AI, the order-of-magnitude improvement in computational power and the world's data almost tripling over the four years to 2022 have all contributed to advances in AI, Wilsons notes.

Just a Passing Fad?

The progress in the recent developments in artificial intelligence has attracted strong interest from many firms aiming to integrate content generation and decision making in their processes, Citi reports. Citi cites a 2022 AI report released by IBM, which measured the proportion of firms that have already deployed and plan to use AI in the coming year.

China and India were leading in these metrics with 58% and 57% of the firms having already deployed AI respectively, followed by Italy and Singapore. Overall, the report found the vast majority (more than 70%) of firms are expected to use AI in the coming years.

That was in 2022.

More recently, Morgan Stanley's chief information officer survey (US) suggested 2024 is a year of investment for AI.

The survey showed generative AI continues to gain mind and wallet share with CIOs -- 68% of CIOs indicated AI-related impacts to their IT budgets in the December quarter 2023, an increase from 66% in the September quarter and 56% in the June quarter. Further, AI/machine learning emerged as the top CIO IT priority in December.

This development is further supported by recent AI-related data centre expansions as Morgan Stanley's analysts now forecast US hyperscaler data centre capex to grow some 40% year on year in 2024, up from around 30% before US December quarter earnings results.

Data centres provide the massive computing power required to drive AI systems in the cloud.

In terms of early adopters, Morgan Stanley analysts see efficiency/productivity gains occurring within Software/Internet first before the broader market/economy. That will be the 2024 story, with the broader market following in 2025.

AI and You

Throughout history, various technological revolutions have led to the end of old-fashioned jobs (in the context of that time) and the creation of new jobs. In between, some workers have been able to adapt their existing skills to the new technology or be reskilled. Others have simply become unemployed.

The explosion of AI has rekindled this fear yet again: Will I lose my job?

Utilising a new dataset covering skills and tasks across occupations, Jarden has estimated an AI Disruption Index across more than 1,200 occupations. Jarden found on average 54% of employee time is spent on tasks that could be disrupted by AI, with one-third of employees in occupations in which more than 70% of their tasks could be disrupted.

Importantly, Jarden views AI disruption as not necessarily replacing labour but likely augmenting workers and potentially driving increased productivity.

AI is also likely to drive shifts in demand for labour, Jarden suggests There will be an initial increase in demand for workers with the technical skills to implement AI, but in time a relative increase in demand for those physical skills which cannot be replaced, such as construction and care workers.

For companies, Jarden believes those firms in highly exposed industries, such as financial services, will likely face higher costs as they adopt and invest in new technological capabilities, but in time will benefit from improving productivity and potentially lower labour costs. Meanwhile, those companies not exposed to AI disruption are likely to face persistently higher labour costs.

Based on its AI Disruption Index across occupations, Jarden can map the potential impact across income, industries and geography.

Jarden finds (1) higher-paid occupations are generally more exposed to AI disruption; (2) the industries most exposed to disruption are financial services, professional services, IT and media, while mining, construction and agriculture are the least exposed; and (3) capital cities, in particular Sydney and Melbourne, are likely to see the greatest impact, with exposure to disruption outside capital cities generally limited.

Interestingly, says Jarden, in the professional services industry, we are already seeing significant developments and application of AI, which could drive meaningful improvements in productivity and potentially reduce labour needs.

Citi lists industry sectors from most likely to be impacted by AI to least likely.

In descending order of impact are financials and fintech, consumer services, healthcare services, industrial technology & mobility, real estate, and natural resources and climate technology. The least impacted of all is, of course, technology & communications, as this is the "enabling" sector.

This list is pretty basic. Within each of those sectors there can still be room for AI use and possible job disruption.

Jarden noted care workers (aged, child), for example, as an occupation unaffected by AI, but healthcare services are high on Citi's list. Indeed, advances in medical discoveries driven by AI adoption may lead to less lab workers being needed. AI could take over (some of the role) of doctors. But it will surely be a long time before a machine performs a heart transplant without supervision.

The management of medical records is nevertheless well open to AI.

Mining employs lots of workers, but already we've seen advances such as self-driving tip-trucks in massive iron ore mines putting truck drivers out of work.

Agricultural requires lots of labour, but again we see self-driving harvesters, for example. Soil testing and crop management could surely be assisted by AI.

In real estate, can a machine talk you into buying a house?

And so on and so forth.

To further complicate matters, Citi cites a paper released in 2023 which looked into the productivity results of adding generative AI to customer support agents.

The authors found the employees with access to this tool managed to increase their productivity by 14%, measured by the number of issues they resolved per hour. The results on the distributional impact of AI seem to align with the ones on college-educated professionals, as the study also found the greatest productivity impact was on novice and low-skilled workers, with minimal effects on experienced and highly skilled workers.

The authors found the AI model disseminated potentially tacit knowledge of more able workers and helped newer workers move up the experience curve. In addition, they showed AI assistance improved customer sentiment, reduced requests for managerial intervention, and improved employee retention.

Hang on, earlier we learned from Jarden's research that "higher-paid occupations are generally more exposed to AI disruption". This paper suggests "minimal effects on experienced and highly skilled workers," which one assumes are the more highly paid.

Consensus, it seems, is lacking, when it comes to AI. We might simply conclude that different industries will be impacted in different ways.

Consensus is also lacking on the subject of productivity gains.

Productivity

The greatest beneficiary of AI, all agree, will be productivity, or GDP per man-hour.

We already discussed the productivity question at length (and the pitfalls of AI) in *Rise of the Machines: AI Has Arrived* (https://fnarena.com/index.php/2023/11/16/rise-of-the-machines-ai-has-arrived/) published last November. But just to reiterate:

In recent decades we've seen the introduction of the web, the cloud, the smart phone and also the Internet of Things. Why, then, has global productivity been on a downward trend? It's been almost a decade since the first reports began to predict an AI-led surge in productivity growth. If pandemic impacts are extricated, G7 productivity in the past two years has been below the average since 2005.

The productivity boost from past transformative technologies has generally been drawn out and less dramatic

than might have been expected given the importance of the inventions. Economists have been puzzled, Capital Economics noted, over why the digitalisation of the economy over the past two decades has been accompanied by such weak productivity growth.

There is as yet no evidence of any productivity boost from AI.

The famous quip, Citi notes, by Paul Krugman, Nobel Laureate in Economics, that "productivity isn't everything, but in the long run it is almost everything" runs at the heart of every innovation. Despite its importance and the impressive technological change that has taken place in the recent past, productivity growth has been slowing down for decades across advanced economies.

It is not surprising industry leaders and academics often refer to the potential of AI technologies as a way to end this downward trend, Citi suggests. While there is still no definitive answer, several researchers suggest this new wave of large language models is very promising, based on preliminary results from their studies.

Oxford Economics points to emerging evidence AI will lead to strong productivity growth in at least some sectors. But in the absence of widespread adoption, and large-scale innovation from using AI, the economic gains could be narrow for some time.

And there's another issue.

The Power of AI

No, not the capacity of AI to do your job, but the amount of energy required to power the massive data centres that will facilitate AI adoption.

In Morgan Stanley's base case, GenAI power demand grows from an average of less than 15 terawatt hours (TWh) in 2023 to 46 TWh in 2024 to 224 TWh in 2027.

A terawatt is one thousand gigawatts, or one trillion watts.

Morgan Stanley believes its projected growth may still be conservative as the broker expects users of GenAI hardware will have strong incentives to maximise the utilisation rate of this equipment. Using a GPU/Custom Silicon utilisation rate of 60% in its base case, Morgan Stanley estimates 2027 GenAI power demand will be equivalent to more than 75% of the total global data center power use in 2022.

In its bull case, for which GPU/Custom Silicon utilisation rate is increased to 90%, the broker estimates 2027 GenAI power demand equals 116% of 2022 total data center power usage.

That said:

"*Contrary to consensus, we expect the net Sustainability impacts of GenAI to be positive. We think the impact on global carbon emissions is likely to be small, while the Sustainability benefits of GenAI are likely to be large*".

We note both Google and Microsoft have recently disclosed they are contemplating building their own nuclear facilities to provide requisite power.

No Rush

US investment in AI-related hardware has surged, Goldman Sachs' global economists note, with revenues of semiconductor manufacturers rising by over 50% since early 2023 and company-level revenue forecast revisions implying an incremental US$250bn in annual AI hardware investment (1% of US GDP) through 2025.

This increased investment is not yet visible in official national accounts data that are relevant for GDP, but shipments for some AI-related components have recently picked up.

However, actual adoption of AI has only modestly increased so far, the economists found, with less than 5% of companies reporting use of generative AI in regular production. And while adoption is higher in industries that Goldman Sachs estimates will benefit the most from AI -- including computing and data infrastructure, information services, and motion picture and sound production -- and is expected to rise going forward, adoption remains well below levels necessary to see large aggregate productivity gains.

Low adoption has limited the labor market impact. Preliminary evidence suggests AI is modestly raising labor demand while driving negligible job losses, thereby creating a slightly positive impulse to net hiring.

Yet emerging evidence from early adopters points to large increases in labor productivity. While early estimates should be interpreted cautiously given selection and reporting biases, Goldman warns, recent academic studies imply an average 25% increase in labor productivity following AI adoption, with anecdotal company reports suggesting similarly large efficiency gains.

The sizable increase in AI-related investment and large productivity gains among early adopters adds to Goldman Sachs' confidence that generative AI poses meaningful economic upside, however, the slow adoption pace suggests any sizable macroeconomic impacts are still several years off.

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

RUDI'S VIEWS

Rudi's View: Lessons & Observations From ASX All-Weathers

In this week's Weekly Insights:

-Lessons & Observations From ASX All-Weathers
-Conviction Calls & Best Buys
-June Index Rebalancing

By Rudi Filapek-Vandyck, Editor

Lessons & Observations From ASX All-Weathers

The Global Financial Crisis of late 2007-March 2009 changed my life as an investor.

Those who have remained with us since no doubt still remember how FNArena rose above the parapet, declaring what was to unfold next was not your garden variety share market correction.

Sell the banks was not a popular opinion back then, but it proved extremely prescient, as was sell China (oil and gas and the miners) later in the same year of 2008.

For more reflections on what happened back then:
https://fnarena.com/index.php/2018/10/03/rudis-view-ten-years-on-the-world-is-still-turning/

But what really (and truly) enlightened my understanding of how financial markets operate was the change in focus in my own research and market observations that started during those dour times.

It all began by asking that all-crucial question: why is it certain companies seem better suited to weather the darkest of times for your average stockmarket investor, while so many other share prices fall by -40%, -50%, -80%, and more?

This new journey eventually led to the concept of All-Weather Performers on the ASX; a small selection of companies that are, simply put, of a much higher level of corporate quality than your standard ASX listing, and thus exceptionally well-equipped to create shareholder value and benefits over an elongated period of time, irrespective of the ups and downs in the economy, interest rates, and bond yields along the way.

To your average value investor, and that's the large majority in Australia, be they retail or institutional, my quest looked incredibly silly. We all know successful investing starts with buying low and selling high, right? As if I could possibly identify something that hadn't already been considered and dismissed by the historic greats in the industry!

Yet, here we are, 1.5 decades later and the All-Weather Model Portfolio, which is based upon my specific research, has generated in excess of 10% per annum before fees since inception in early 2015. Over the past three years, total return pre-fees has been 13.84% on average, for the past twelve months up until March 31st that percentage is 19.17%.

Period Ending 31/03/2024							
Name	Code	Type	1 mth	3 mths	6 mths	1 year	3 years
All Weather Portfolio	M00701	Capital	0.79%	8.16%	17.72%	17.06%	12.26%
All Weather Portfolio	M00701	Income	0.30%	0.65%	1.02%	2.10%	1.58%
All Weather Portfolio	M00701	TR	1.09%	8.81%	18.74%	19.17%	13.84%
S&P/ASX Blended Equity and Bond - Conservative Index - Primary	CONSERVINDX	TR	1.87%	2.32%	7.89%	5.19%	1.66%
S&P/ASX 200 Accumulation Index - Secondary	XJO	TR	3.26%	5.28%	13.94%	14.03%	9.38%
S&P/ASX Bank Bill Index - RiskFreeRateIndex	SPBDABBT	TR	0.37%	1.08%	2.16%	4.19%	-3.40%

Admittedly, the Model Portfolio doesn't run multiple billions of dollars, which might have played to its benefit at certain times, but in the same vein, the strategy is very much Buy-and-Hold, which underpins the validity of the research and the specific companies selected.

Not About The Share Price

Let's be frank about this: it only takes one brief look at price charts for the likes of Aristocrat Leisure ((ALL)), Car Group ((CAR)) and REA Group ((REA)) to know owning these stocks has been extremely beneficial over the decade past.

And while the contribution from the likes of CSL ((CSL)) and ResMed ((RMD)) on balance has been non-existent post 2020, theirs was a completely different story in the years prior.

The noticeable loss of upward momentum for healthcare stocks generally, in underlying trend terms, has triggered the obvious questions from subscribers and investors alike whether such companies should remain in my selection and whether others with better recent performances should not be included instead?

To me, this simply highlights how much investor perceptions, and views, are being influenced by recent share price moves. Prior to 2021, virtually nobody dared to question the proven quality and track record of CSL. Three years of a less stellar trend on price charts later and general appreciation has deflated substantially.

This is an important observation for what makes an All-Weather Performer is not what happens to a company's share price, it's about what management achieves operationally. Difficult to understand it may be, but both do not by definition always run parallel to each other.

Divergences do occur, and they happen quite regularly because sentiment is all-important in the short term, and market influences are many.

Some companies have strong growth in the here and now. Others grow strongly over a number of years. But to be labeled an All-Weather Performer, it requires that extra level of 'special'; a moat, a defensible number one market position, a customer base that is sticky and growing naturally, the ability to find new growth time and again.

Needless to say, the list of true All-Weathers in Australia is a rather limited selection, and it hasn't changed much or often since I embarked on my research. Equally important; the concept of finding All-Weathers is easily discredited in case of too many disappointments or errors, so it's vital not to include any accidental performer less they undermine the quality of the core selection.

However, we are living through tumultuous times, with technologies and innovations disrupting moats and status quos. This not only increases the risks for All-Weathers, it also creates a whole new battery of high-quality, strong growing, emerging new market leaders.

<u>Technology & Innovation</u>

My research equally tries to identify which ones among those strong performers carry that extra level of corporate quality; the ability to perform better over a prolonged period of time, potentially creating a longer-term platform that, one day, might even lead to be included into the small selection of true blue All-Weathers.

My curated lists thus also include 'Emerging New Business Models' and 'Prime Growth Stories', where I grab the chance to highlight companies such as Audinate Group ((AD8)), Hub24 ((HUB)), NextDC ((NXT)), and Pro Medicus ((PME)).

There is no guarantee that by the middle of the 2030s any of these names will still be part of one of my selections, but for the years ahead growth is slated to be strong, as it has been for a number of years already.

Let's get this straight: the positive outcome of my research post the GFC is partially derived from my quest to identify the highest quality performers on the ASX, with the other part coming from the fact I also identified the current new era of technological transformation and incorporated this in my research.

When the world transitions, so do economies and individual companies. For investors this means: embrace the change. Don't cling on to the past. Tomorrow's new future should be your oyster.

Eventually, even some of yesterday's star performers might find themselves on the wrong side of societal changes. This outcome has been on my mind constantly, and it has previously led to the removal of Ramsay Health Care ((RHC)) from the core selection, but also the removal of Bapcor ((BAP)) from the list of 'Potential All-Weathers'.

More recently, I decided more changes needed to be made. I have thus created a new list; 'Trusty Defensives'. I no longer believe Amcor ((AMC)) or Brambles ((BXB)) deserve to be labeled All-Weathers, but they can definitely still serve a function as a defensive holding in a long-term, diversified portfolio.

Others, including Ansell ((ANN)) and Orora ((ORA)), have been removed altogether.

One lesson I have come to appreciate over the past decade or so is that, when it comes to sustainability and reliability of growth, company size matters. Smaller-cap companies are less robust in general terms because their operations are smaller.

The one obvious exception to this rule remains bull bar manufacturer ARB Corp ((ARB)) whose market

capitalisation of only $3.25bn truly stands out against CSL's $135bn or Macquarie Group's ((MQG)) $74bn, or even in comparison to TechOne's ((TNE)) $5bn market cap, but maybe this simply shows how truly exceptional this decade-plus-long achiever is?

Gold & Dividends

All investing is ruled by narratives, rightly or wrongly, and I believe a portfolio portion should be reserved for gold. I also believe every portfolio deserves to have a section dedicated to income. In the share market, investing for income usually translates to buying weaker, lower-quality, more vulnerable stocks.

This is because the available yield is equally determined by the PE multiple a stock is trading on, and robust, strong, quality growers tend not to trade on low PE multiples. This section of my lists I find the hardest, it's also the selection that undergoes the most changes over time.

This is also a specific part of the portfolio that allows for specific, well-timed opportunities. In early 2021, Telstra ((TLS)) shares were trading a smidgen above $3 with the promise of asset sales and better industry conditions ahead. The inclusion of Telstra has been a profitable decision, but ownership of the shares remains under review.

Even though dividends seem poised for further increases in the years ahead, we shall not hesitate when we spot a better opportunity that offers more corporate quality and the promise of better and steadier growth.

Last year, we also jumped on Dicker Data ((DDR)) and HomeCo Daily Needs REIT ((HDN)). The latter's performance remains leveraged to future interest rate cuts and a fall in bond yields. Dicker Data's attractive yield, on the other hand, has shrunk as the share price has rallied post September.

Dicker Data has now been added to the list of 'Emerging New Business Models' because the operational momentum from megatrends including AI and cybersecurity is tangible and real, as also experienced by Goodman Group ((GMG)) and NextDC, and this should support Dicker Data's outlook for the years ahead.

Active Portfolio Management

When it comes to managing the All-Weather Model Portfolio, I remain of the view that limiting losses, if possible, remains an important feature of active management. The first nine years have only witnessed negative returns in 2022 when by June 30th the portfolio remained -2.59% in the red and by December 31st the losses had accumulated to -7.51%.

It was the global reset in bond yields that determined the direction of equities that year, in particular the higher-valued quality and growth stocks. The All-Weather Portfolio significantly increased its allocation to cash and gold that year and by doing so limited the losses that occurred.

While that decision also meant part of the subsequent upside was never included, the hard cold fact remains that a higher starting point implies better returns medium term. This too has contributed to the positive averages reported above.

Possibly the most important experiences and conclusions drawn from the past nine years include:

-a low PE does not equal great opportunity, while a high PE does not by default scupper further upside

-quality never trades cheaply and is equally never understood by your typical value-seeker

-using one universal valuation metric across all companies listed is, simply put, not very smart

-valuation is not a static concept; what looks 'expensive' right now can still be a bargain further out

-great companies have a tendency to surprise to the upside

-impatience is every investor's worst enemy

-know what you own, and why you own it

-investing is about growth, all the rest is second fiddle, at best

-positive share market momentum is good for the soul, but don't allow it to poison your head

-be an investor or a trader, make up your mind, don't confuse yourself

Probably the biggest challenge as an investor is to overcome one's inner resistence when attempting to get on board of some of the greatest and the best the ASX has to offer.

It takes lots of conviction, belief and experience, and that first big leap of faith, to buy into a stock that is trading at a significant premium to the majority of stocks listed on the exchange.

In my personal case, lots of reading, researching and market observations, plus a generally positive outcome from the Portfolio, certainly helped.

I also remain an avid user of the tools FNArena offers me and subscribers, and I try to use them in the most intelligent way possible by, for example, omitting the laggards when it comes to putting a price target on Goodman Group and the likes.

One harsh lesson I had to learn the disappointing way is it is much easier to be on board, and to stay on board, than to get on board.

So be careful when you decide it's time to sell. Might be better to at least keep half an allocation going (even if this means enduring more weakness short term). You might be praising your genius decision later on.

Instead of focusing on 'price' and 'cheap' valuation, I firmly believe most investors would do themselves a humongous favour by identifying first which companies are of the rarest kind. That will prove invaluable with identifying true bargain opportunities.

The All-Weather Model Portfolio considers Woolworths Group ((WOW)) a core long-term holding, and recently increased its allocation.

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Paying subscribers have 24/7 access to a dedicated section on the website:
https://fnarena.com/index.php/analysis-data/all-weather-stocks/

See also:

-https://fnarena.com/index.php/2024/04/04/rudis-view-in-search-of-the-holy-grail/

-https://fnarena.com/index.php/2024/03/06/rudis-view-investing-is-about-the-future/

-https://fnarena.com/index.php/2024/02/19/rudi-interviewed-ongoing-potential-in-technology-growth/

-https://fnarena.com/index.php/2024/02/05/rudi-interviewed-megatrends-a-go-go/

Conviction Calls & Best Buys

Morningstar has added insurance broker AUB Group ((AUB)) to its selection of **Best Buy ideas** in Australia.

The network connected to AUB is estimated to write circa 10% of all premiums written by intermediaries in Australia with Morningstar suggesting brokers are likely to increase market share as consumers are incentivised to shop around for better deals.

Remain selected:

-ASX ((ASX))
-Aurizon Holdings ((AZJ))
-Bapcor ((BAP))
-Domino's Pizza Enterprises ((DMP))
-Fineos Corp ((FCL))
-Lendlease Group ((LLC))
-Newmont Corp ((NEM))
-Pexa Group ((PXA))
-ResMed ((RMD))
-Santos ((STO))
-a2 Milk Co ((A2M))
-TPG Telecom ((TPG))

-Ventia Services Group ((VNT))

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Morgan Stanley's Australia Macro+ Focus List was last changed in early November last year.

The ten stocks included:

-Altium ((ALU))
-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-CSL ((CSL))
-Goodman Group ((GMG))
-Macquarie Group ((MQG))
-QBE Insurance ((QBE))
-Telstra ((TLS))
-Treasury Wine Estates ((TWE))
-Woodside Energy ((WDS))

Portfolio-wise, Morgan Stanley is of the same view as just about everyone else that share prices in Australian banks have undeservedly priced in a very positive outlook for the sector on the prospect for RBA rate cuts.

Morgan Stanley's portfolio preference therefore resides with an Overweight allocation to miners and energy companies (with a preference for the latter) in combination with an Underweight exposure to the banks.

Over in the USA, Morgan Stanley market strategists have identified biotechnology stocks as a major beneficiary of Fed rate cuts.

"Assuming rates trend on a downward trajectory, new innovation delivers, and M&A continues, we see the potential for another cycle of sustained outperformance for the industry."

June Index Rebalancing

A lot can still happen, and probably will, between now and the **upcoming index rebalancings** by Standard & Poor's in June, but a preliminary preview by analysts at **Wilsons** is suggesting a number of (potentially) intriguing index changes.

South32 ((S32)) is shaping up as a strong candidate to get booted out from the ASX20, Wilsons believes, with James Hardie ((JHX)) the most likely replacement.

For the ASX50, WiseTech Global ((WTC)) stands ready to make its entrance, but which current member should go?

Wilsons finds there are no strong candidates to exit the Top50, but if one will be replaced to allow for WiseTech's addition, the onus will most likely fall upon Endeavour Group ((EDV)) to lose its inclusion.

Both Nine Entertainment ((NEC)) and Liontown Resources ((LTR)) screen as strong candidates to lose their spot inside the ASX100, alongside AMP Ltd ((AMP)), and Wilsons nominates Viva Energy ((VEA)), Paladin Resources ((PDN)) and Sandfire Resources ((SFR)) as plausible replacements.

The official cut-off of what makes a small cap company in Australia (for institutional investors) is whether a stock sits inside or outside the ASX100, but history doesn't suggest significant impacts from such changes.

More can be expected from future inclusions in the ASX200 with announcements about new inclusions and exclusions to be made on Friday, June the 7th.

Wilsons has identified Domain Holdings Australia ((DHG)) as a strong candidate to be booted out from the ASX200, with Charter Hall Social Infrastructure REIT ((CQE)) and Strike Energy ((STX)) also considered possible removals.

In their place could arrive Judo Bank ((JDO)), Codan ((CDA)) and McMillan Shakespeare ((MMS)).

The next rebalance for the ASX 300 is not until September.

FNArena Subscription

A subscription to FNArena (6 or 12 months) comes with an archive of Special Reports (20 since 2006); examples below.

(This story was written on Monday, 5th April, 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).

SMALL CAPS

Dr Boreham's Crucible: Race Oncology

By Tim Boreham

ASX code: Race Oncology ((RAC))

Shares on issue: 164,778,179

Market cap: $237.3m

Financials (December half 2023): revenue nil, loss of -$5.66m (-$4.41m deficit previously), cash of $13.7m (down -48%). During the period the company received a $4m research and development tax incentives and $461,428 in interest

CEO: Dr Daniel Tillett

Board: Mary Harney (chairman), Dr Pete Smith, Phillip Lynch (Dr John Cullity resigned in August 2023)

Major identifiable shareholders: Dr Daniel Tillett 9.9%, Dr John Cullity 4.1%, Phillip Richard Perry 3.7%, Mark Juan 3.5%, Merchant Opportunities Fund 2.7%

The home of the repurposed cancer drug bisantrene, Race Oncology has been settling down after doing some ‘repurposing’ of its own - management-wise.

In August last year new CEO Damian Clarke-Bruce described the company’s quest for a new “North Star”: pursuing an oncology program based on its lead indication metastasized breast cancer (MBC).

For the navigationally challenged, a North Star symbolizes direction, guidance, stability and purpose - due to its fixed position relative to other stars.

Two weeks later Mr Clarke-Bruce – appointed only in February of that year - was gone and the company was consulting its compass again.

The befuddling strategy revamp saw the return of Dr Daniel Tillett, the company’s biggest shareholder and former chief scientific officer, as CEO. Dr Tillet in effect runs the company with Dr Peter Smith, who has changed from non-executive to executive director.

Amid the upheaval, the new – or perhaps that old – guard maintains that the Race story essentially remains the same: developing bisantrene as a cardio-protective tool to enhance the efficacy of existing cancer drugs.

A key change is that the intended metastasized breast cancer trial has changed from an envisaged US program to a local study of broader solid cancers.

Race is also pursuing a treatment for acute myeloid leukaemia (AML).

“[The strategy] is evolution, not revolution,” Dr Tillett says.

Pimping up an old drug

Race was founded in 2013 when US physician and entrepreneur Dr William Garner reviewed medical literature about bisantrene, which was approved by French authorities for acute myeloid leukaemia (AML) in 1988.

AML is an aggressive cancer, with only one-third of patients surviving beyond a year.

The drug was developed in the 1980s by French group Lederle Laboratories as an anthracycline - a chemo-therapeutic – but without the common cardio-toxicity that results in many cancer patients dying of heart failure.

Extensive clinical trials covering 1,800 patients in 46 trials confirmed both the drug's cardio-protective and anti-tumor activities.

Lederle was taken over by American Cyanamid, which had no interest in the drug.

Bisantrene ended up in the hands of the Nevada-incorporated Update Pharma, owned by Dr Garner, pharmaceutical scientist Dr John Rothman and Dr Peter Molloy (see below).

Race listed in July 2016 via a resources company shell, raising $4.3m at 20c apiece.

So who's in charge here?

Best known as head of the erstwhile ASX-listed influenza drug developer Biota, Dr Molloy resigned from Race to devote his attention to anti-infectives house Firebrick Pharma (which listed on the ASX in January 2022).

Race was then run by executive chair Dr John Cullity and Dr Tillett, before the latter resigned in March 2023 after a disagreement on strategy.

A former executive at Johnson & Johnson's consumer division, Phillip Lynch took over as CEO in May 2020, to be replaced by Mr Clarke-Bruce in February 2023.

Dr Smith was appointed to the board in June, replacing Daniel Sharp. In April, Mary Harney was appointed chair, replacing Dr Cullity who resigned from the board in August.

With three decades' experience in drug development, Dr Smith was the former CEO of the ASX-listed Alchemia and Amrad.

Earlier, Dr Garner was a director and Race's biggest shareholder. He quit the board in October 2020 and sold down his shareholding in the latter part of 2021.

Great for cancer, not for the heart.

Derived from bacteria, anthracyclines are widely used to treat many types of solid and blood cancers.

They work okay, but the trouble is that after six years, about half of the metastatic breast cancer patients on these drugs will develop cardiac problems such as arrythmias, left ventricular disfunction and full heart failure.

"Literally millions of patients around the world are damaged by these drugs every year," Dr Smith says. "There aren't alternatives and probably won't be for a long time."

A classic case of the cure being worse than the disease?

The company is in the throes of reformulating bisantrene as RC220, enabling a more convenient delivery via infusion through veins in the arm, rather than a main artery.

Last month, Race said that its contract manufacturer, Ardena NV had produced 2,600 vials of RC220 to the "exacting standards" of local, European and US regulators. The key significance here is that the drug is now ready for use in trials.

Where's the proof?

Race's acute myeloid leukaemia (AML) program is focused on an estimated 16,000 patients classed as unfit for current treatments (relapsed or refractory) and awaiting a bone marrow transplant.

The company also targets extra-medullary AML, when tumors escape from the bone marrow, enter the surrounding bodily tissue and behave like solid tumors.

Currently, the AML program is focused on an ongoing investigator-led, phase II, open label trial at Israel's Chaim Sheba Medical Centre.

In December last year, Race reported results from the first 15 evaluable relapsed or refractory AML patients treated with bisantrene and in combination with the standard-of-care fludarabine and clofarabine

Six patients - 40% of them - responded, with five complete responses and one partial response. The complete responders were able to be bridged to a stem cell transplant within three months of treatment.

Emulating earlier findings, the data was presented to last December's jamboree of the American Society of Hematology.

"To see such meaningful clinical responses in a group that would typically be receiving palliative care is striking," Dr Smith said. "It is also encouraging that the safety profile was manageable, even for this advanced patient population."

On the back of the "stunning" results, Dr Smith says Race has been approached by an "experienced haematologist" who wants to do an investigator-sponsored phase I/II trial in Australia.

Costed at up to -$4m, the trial would target up to 60 patients and would kick off in late 2024 or early 2025.

Meanwhile, Race last month announced that bisantrene showed "potent anti-cancer activity" in diverse cell and animal models for acute myeloid leukaemia, in combination with the chemotherapy drug decitabine.

The results were presented in a poster to the New Directions in Leukemia research conference in Adelaide. While pre-clinical in nature, the announcement appeared to spark a strong share surge (or at least coincided with one).

We'll take all comers

The company had intended to do a metastatic breast cancer trial in the US, comparing bisantrene with the standard-of-care doxorubicin.

But the phase Ia/Ib trial would have been costly and would not have met the company's honed strategy of achieving things with existing resources.

The trial will now be carried out in Australia, enrolling 25 to 50 patients at 10 sites. The cost is expected to be -$11m, about one quarter to one third less than a US trial (and that's before the Federal Research and

Development Tax Incentives).

The trouble is, not enough breast cancer patients can be recruited here because doxorubicin is not so much used because of the cardio-toxicity issues.

The solution? Open the trial to patients with other relevant solid cancers where doxorubicin is used, such as sarcomas and ovarian cancers.

Dr Smith says Race's original approach is "completely intact", because bisantrene historically has been effective against a range of solid cancers.

"It's just a question of where we do it and how it is funded."

The trial is expected to start later this year. Pending the results, the company plans a -$32m follow-on trial of up-to 120 patients, focusing on cardio protection.

Finances and performance

Race held cash of $13.7m at the end of December 2023, the remnants of a $30m raising in a share purchase program in November 2021 (just before the sector's nuclear winter set in).

While the company recorded no revenue it pocketed a research and development tax incentive of $4m and $461,428 in bank interest.

Bizarrely for a biotech, post-raising Race launched a share buyback of up to four million shares. In the early days of his short reign, Mr Clarke-Bruce called it off in favor of investing in the advertised clinical programs - which sounds reasonable.

In an unusual 'buy now, pay later' fund raising, in November 2023, Race announced two tranches of bonus options, aimed at raising up to $36.7m.

The one-for-20 options are exercisable at 75c each, up to June 2024. For each option exercised, punters get three 'piggyback' options exercisable at $1.25 by May 2026.

Dr Smith says management structured the raising partly as cost-of-living relief, in that investors didn't have to shell out in the cash-sapping pre-Christmas period.

In any case, the company doesn't need the money until the trials start.

With Race shares climbing from their 12-month low of 67c on February 6 this year to $1.69 on March 18, all these options are in-the-money and a trickle of them have been exercised already.

Race shares peaked at $3.70 (March 2021) and traded as low as 5c, in mid-2019.

Meanwhile, Dr Tillett says he is "already overweight" - financially, not metabolically speaking - but nonetheless will take half of his salary as well out-of-the-money options (at a strike price of $4.25).

No offence, Fatso

Speaking of weight, Race also has an interest in the fat mass and obesity associated protein (FTO), which is overexpressed in a diverse range of cancers, including melanomas and clear-cell carcinomas.

Naturally, it's known as Fatso.

Because it regulates cancer stem cells, Fatso plays a critical role in cancer development and progression.

Research at Los Angeles' City of Hope hospital identified two small molecules that appeared to suppress tumor growth in multiple cancers, when other treatments failed.

No prizes for guessing that one of them was bisantrene.

In July 2023, Race and the City of Hope struck an exclusive licencing deal pertaining to the hospital's Fatso intellectual property.

Dr Boreham's diagnosis:

The Race story is a familiar one in Australian biotech: a solid scientific story lacking a commercial vision, resulting in management resets, confusing strategic U-turns and a sagging share price.

But these companies plug away and eventually investors will take another look - as last month's 150% share spurt attests.

As with other drug repurposers such as Pharmaust and Paradigm Biopharmaceuticals, Race has the benefit of the big dollars the former owners sunk into the drug candidate.

“Our strategic plan now provides a clear regulatory pathway,” Dr Smith says.

As Dr Tillett notes, the drug was approved in the 1980s for acute myeloid leukaemia and there’s little doubt it works.

“It’s finding the right way to bring it forward commercially and get the best returns for shareholders.”

Ah! That’s always the tricky but, but at least the compass bezel at Race HQ looks to be aligned with true North.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. Forever navigationally challenged, his new North Star is Google Maps and Siri.

This column first appeared in Biotech Daily

Biotechdaily.com.au

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 05-04-24

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 April 1 to Friday April 5, 2024
Total Upgrades: 1
Total Downgrades: 6
Net Ratings Breakdown: Buy 55.48%; Hold 35.37%; Sell 9.15%

For the week ending Friday April 5, 2024, FNArena recorded one rating upgrade and six downgrades for ASX-listed companies by brokers monitored daily.

The tables below show percentage upgrades by brokers to average earnings forecasts and average target prices were broadly similar to downgrades.

For those few remaining companies that reported results last week, the reader may refer to FNArena's daily Corporate Results Monitor (https://fnarena.com/index.php/reporting_season/) which currently provides a summary of broker research on all companies that have reported results post February.

Victorian gas producer Cooper Energy's average target price rose by around 10% following a research update by Macquarie, after management updated the market on decommissioning at the Basker Manta Gummy (BMG) subsea oil facilities, as well as initiatives through the Orbost Improvement Project.

The company has two gas plants: the Orbost plant which processes gas from the Sole field; and the Athena plant which is processing gas from various Otway fields. The BMG facilities in the Gippsland basin were acquired by Cooper from the previous joint venture partner back in 2014.

Cooper Energy has turned the corner, in Macquarie's opinion, with the decommissioning at BMG nearing completion and because of improving production at the Orbost gas plant.

Orbost is delivering structurally rising production rates and management has reduced by -$10m the anticipated cost of a third absorber, the installation of which is expected to increase the overall production rate, explained the analyst.

The broker also highlighted the company's Athena plant is one of few options for locally sourced gas in Victoria as it is cheaper, more certain and generates lower emissions compared to LNG imports. The Outperform rating was retained and the target price increased by 35% to 27c largely because of the broker's increased valuation for the Otway operations.

On the flipside, the average target price for Orora fell by nearly -10% after five covering brokers in the FNArena database reacted to downgraded second half earnings guidance by management for the base business

and the recently acquired French glass bottle maker, Saverglass.

Orora designs, manufactures, and supplies packaging products and services to the grocery, fast moving consumer goods, and industrial markets in A&NZ, the US, and internationally.

The trading update implied to Morgan Stanley consensus will need to make mid-to high-single-digit forecast earnings downgrades due largely to softness in North America and the Saverglass business. Weaker volumes were ongoing through the March quarter driven by Distribution and price deflation, explained the broker, along with ongoing de-stocking by customers of Saverglass.

The performance of Saverglass since acquisition has been underwhelming, in Morgans view, and the overall operating outlook remains weak.

More positively, Macquarie noted signs of cyclical improvement in the North American box market while spirits volumes are bottoming out, though timing for the end of destocking is uncertain. Citi concurred, cautiously suggesting this should be the last downgrade by management due to an increasing amount of industry data showing sequential improvement/stabilisation in conditions for both paper and glass.

The two top ten earnings change tables below show 17 of the 20 positions were filled by resources companies. This domination was largely due to a report out by the Morgan Stanley commodities team containing new price forecasts.

This report also suggested investors focus on stocks with exposure to commodities that will benefit from lower interest rates and either supply discipline or supply disruptions. For a full summary of Morgan Stanley's latest views the reader may refer to
(https://fnarena.com/index.php/2024/04/04/material-matters-pressure-on-dividends-steel-iron-ore/).

In terms of material changes to average earnings forecasts last week, the Morgan Stanley report was responsible for the appearance in the tables below of Regis Resources, Syrah Resources and 29Metals for positive earnings changes, and Alumina Ltd, which received the largest percentage downgrade to average earnings forecast last week.

Tailwinds are in place to support gold prices, according to the broker, with Evolution Mining, Regis Resources and Northern Star Resources the preferred exposures. The target for Regis Resources was increased $2.45 from $2.40 and the Overweight rating remained unchanged.

Later in the week, brokers also reacted to management's claim of substantial progress towards completion of the definitive feasibility study (DFS) for the McPhillamys gold project.

Regis now estimates a McPhillamys' pre-production capital cost of -$960-1,055m, materially exceeding Macquarie's prior estimate of -$650m and higher than the consensus range of between -$550-650m.

As a result of the update, Macquarie projected McPhillamys could have a negative net present value, and the project was removed from the analyst's base case valuation for Regis. This move had little impact on the broker's valuation as the prior valuation for the project was small.

There is now a hurdle for the project's near-term development, in Macquarie's view, and management's focus will likely return to the existing operations. Citi felt the project was an expensive option for what is a relatively modest-grade greenfield project in the upper half of the global cost (AISC) curve.

Irrespective of difficult economics, Citi still believes the project will get the go-ahead, partly because production at both the Duketon and Tropicana mines is poised for decline.

Morgan Stanley raised its target for vertically integrated natural graphite and battery anode company Syrah Resources, to 45c from 39c and retained an Equal-weight rating. On the same day, Shaw and Partners (Buy, High Risk) lowered its target to $1.10 from $1.30.

This broker was updating research for Syrah's March 25 FY23 results and equity placement (on March 13) to raise $98m to preserve operating mode optionality at Balama and fund operating costs for the Vidalia downstream active anode material facility in the United States. Proceeds are also to support Vidalia's ramp-up and progress.

With no production at the Balama graphite operation in Mozambique since April 2023, Syrah reported a FY23 total loss after tax of -$84m compared with a -$26.8m loss in the previous corresponding period. Shaw's lower target was due to the equity dilution and a six-month delay in first revenue from the Vidalia plant.

The increase in average earnings forecast for 29Metals was solely due to Morgan Stanley's new commodities forecasts. For base metals, the broker preferred copper and nickel on supply tightness and revealed an order of preference for Evolution Mining (copper/gold), Nickel Industries, 29Metals and South32. The broker's target for

29metals was increased to 55c from 50c.

For Alumina Ltd, Citi noted the share price was trading at a 45% premium to the broker’s discounted cash flow valuation thanks to a share price surge for Alcoa in the US. In the analyst’s view, a positive for Alumina Ltd is the share price disconnection from alumina pricing, and linkage to Alcoa's current scrip offer price.

Morgan Stanley downgraded its rating for Alumina Ltd to Equal weight on valuation, while increasing its target to $1.30 from $1.10.

The second largest decrease in average earnings forecast for Paladin Energy was untainted by the omnipresent Morgan Stanley commodities report.

The company’s Langer Heinrich mine in Namibia has produced the first drums of U3O8 (uranium concentrate) and Bell Potter noted this was in line with March quarter guidance provided by management.

This inaugural production is "an important milestone", in the broker’s view, as well as the first step towards targeting a 6mlb per annum run rate. The company will now start building inventory for the next three months.

Bell Potter has incorporated a slower rate of sales for Paladin, which increased the broker’s loss forecast for FY24 by quite some margin, though the target did increase to 65c from 60c due to the restart of production. Management will provide FY25 guidance in July.

Total Buy ratings in the database comprise 55.48% of the total, versus 35.37% on Neutral/Hold, while Sell ratings account for the remaining 9.15%.

Upgrade

ELDERS LIMITED ((ELD)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/2/1

Macquarie raises its target for Elders to $10.45 from $7.12 and upgrades its rating to Outperform from Neutral after adopting profit forecasts around 10% ahead of consensus over FY24 and FY25.

These higher forecasts are based on a more positive view on both the seasonal outlook and livestock prices. Above average rainfall at the end of 2023 on the east coast of Australia is expected to result in a strong winter plant over April to June.

Also, the National Oceanic and Atmospheric Administration (NOAA) in the US is suggesting a 62% probability of La Nina conditions emerging later in the year, providing the analyst with confidence for the 2024/25 season.

Livestock prices have rebounded from depressed levels, and Macquarie expects strong demand for Australian beef (particularly out of the US as slaughter rates decline) will underpin prices over FY24/25.

The broker's target price is also boosted by a multiple re-rate and lower discount applied to earnings thanks to a dissipation of El Nino/weather risk.

Downgrade

ALS LIMITED ((ALQ)) Downgrade to Hold from Add by Morgans .B/H/S: 1/2/1

Morgans raises its target for ALS Ltd to $13.70 from $13.35 after allowing for a slightly softer-than-expected trading update, an increase in Nuvisan ownership to 100% (at nil cost) and two acquisitions costing $225m.

The two acquisitions Life Sciences businesses in north-west US and Western Europe make strategic sense to the analyst though earnings/value accretion may require patience.

The broker rates ALS Ltd very highly but downgrades its rating to Hold from Add on valuation.

ALUMINA LIMITED ((AWC)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 0/4/0

Morgan Stanley's commodities team updates forecasts and suggests investors focus on stocks with exposure to commodities that will benefit from lower interest rates and either supply discipline or supply disruptions.

The analysts see room for a bounce in iron ore prices and believe lithium share price valuations have potential to correct further.

For base metals, the broker prefers copper and nickel on supply tightness and likes (in order of preference) Evolution Mining (copper exposure), Nickel Industries, 29Metals and South32.

Morgan Stanley's rating for Alumina Ltd is downgraded to Equal-weight from Overweight on valuation with a target of $1.30, up from $1.10. Industry View: Attractive.

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

Cettire's last update in February reported sales revenue up 80% year on year for the month of January. Bell Potter's March Q forecasts factor in the strong comparable period and sales revenue growth of 66% year on year.

The broker eagerly looks for updates on the China launch with market entry imminent.

Bell Potter has reduced the target multiple in its relative enterprise valuation, which results in a target price cut to $4.50 from $4.80. The broker considers the share price to now be fair, and downgrades to Hold from Buy.

GOLD ROAD RESOURCES LIMITED ((GOR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/1/0

A timely restart of the Gruyere gold mine in WA is now critical to meet management's 2024 guidance, suggests Macquarie. This comment follows news further rain has caused supply road closures leading to a cessation of processing activities at the mine.

As a result of rain impacts, management expects production and costs (AISC) towards the lower and higher end of the prior respective guidance ranges.

The broker downgrades Gold Road Resources to Neutral from Outperform following a recent share price rally. The $1.70 target is unchanged.

IGO LIMITED ((IGO)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 2/2/1

Morgan Stanley's commodities team updates forecasts and suggests investors focus on stocks with exposure to commodities that will benefit from lower interest rates and either supply discipline or supply disruptions.

The analysts see room for a bounce in iron ore prices and believe lithium share price valuations have potential to correct further.

The analysts believe valuations for the lithium pure-plays on the ASX remain elevated and are cautious around battery supply chain inventories and offline supply which can be restarted. Nonetheless, its thought a floor for lithium prices may be near.

Mineral Resources is the suggested way to play lithium followed by Pilbara Minerals and IGO.

As the current mine plan for IGO's Greenbushes mine continues to be reworked, the analysts see risk around future expansions.

The rating for IGO is downgraded to Underweight from Equal-weight and the target falls to $5.95 from $7.20 Industry view is Attractive.

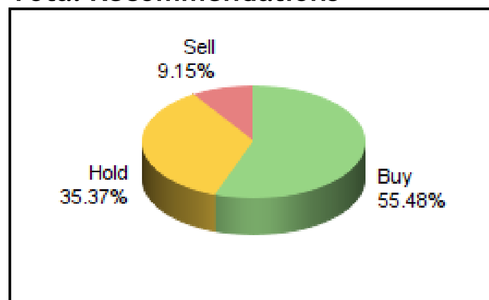
QBE INSURANCE GROUP LIMITED ((QBE)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 4/1/0

Following the recent share price rally, Macquarie downgrades its rating for QBE Insurance to Neutral from Outperform but raises the target to $18 from $17.10 largely due to updated currency forecasts.

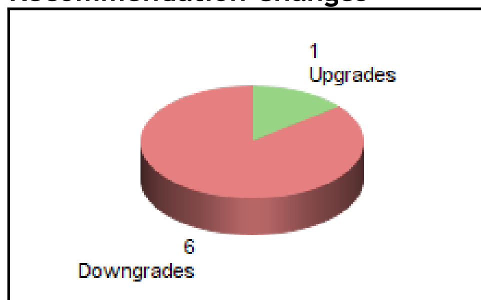
The company is currently trading at a 10.4% premium to weighted international peers on a two-year forward PE multiple compared with the three-year historical average premium of circa 0.5%, explains the analyst.

The broker anticipates the FY24 combined operating ratio (COR) will be 93.8% which compares with management's guidance for 93.5%.

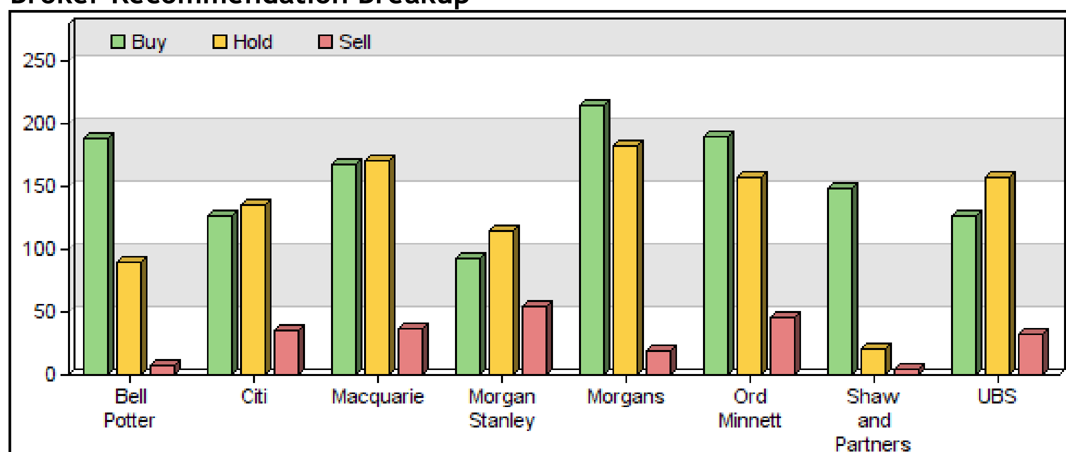
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ELDERS LIMITED	Buy	Neutral	Macquarie
Downgrade				
2	ALS LIMITED	Neutral	Buy	Morgans
3	ALUMINA LIMITED	Neutral	Buy	Morgan Stanley
4	CETTIRE LIMITED	Neutral	Buy	Bell Potter
5	GOLD ROAD RESOURCES LIMITED	Neutral	Buy	Macquarie
6	IGO LIMITED	Sell	Neutral	Morgan Stanley
7	QBE INSURANCE GROUP LIMITED	Neutral	Buy	Macquarie

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	COE	COOPER ENERGY LIMITED	0.250	0.227	10.13%	3
2	ELD	ELDERS LIMITED	9.058	8.503	6.53%	6
3	NST	NORTHERN STAR RESOURCES LIMITED	14.410	13.800	4.42%	5
4	AWC	ALUMINA LIMITED	1.265	1.215	4.12%	4
5	29M	29METALS LIMITED	0.450	0.433	3.93%	3
6	RMS	RAMELIUS RESOURCES LIMITED	2.067	2.000	3.35%	3
7	ALD	AMPOL LIMITED	37.975	36.845	3.07%	4
8	OML	OOH!MEDIA LIMITED	1.890	1.837	2.89%	4
9	SFR	SANDFIRE RESOURCES LIMITED	7.883	7.667	2.82%	6
10	VEA	VIVA ENERGY GROUP LIMITED	3.863	3.785	2.06%	4

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	ORA	ORORA LIMITED	2.734	3.026	-9.65%	5
2	NIC	NICKEL INDUSTRIES LIMITED	1.108	1.160	-4.48%	4
3	PTM	PLATINUM ASSET MANAGEMENT LIMITED	1.104	1.154	-4.33%	5
4	SYR	SYRAH RESOURCES LIMITED	0.863	0.900	-4.11%	4
5	CHN	CHALICE MINING LIMITED	2.950	3.075	-4.07%	3
6	WDS	WOODSIDE ENERGY GROUP LIMITED	32.700	33.867	-3.45%	6
7	IGO	IGO LIMITED	7.430	7.690	-3.38%	5
8	CRN	CORONADO GLOBAL RESOURCES INC	1.770	1.810	-2.21%	5
9	AGL	AGL ENERGY LIMITED	10.383	10.585	-1.91%	4
10	NEM	NEWMONT CORPORATION REGISTERED	71.000	72.000	-1.39%	4

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	RRL	REGIS RESOURCES LIMITED	5.450	4.150	31.33%	6
2	SYR	SYRAH RESOURCES LIMITED	-11.443	-13.722	16.61%	4
3	29M	29METALS LIMITED	-7.400	-8.400	11.90%	3
4	RMS	RAMELIUS RESOURCES LIMITED	14.000	12.967	7.97%	3
5	EVN	EVOLUTION MINING LIMITED	26.475	25.225	4.96%	5
6	PLS	PILBARA MINERALS LIMITED	11.067	10.567	4.73%	6
7	NEM	NEWMONT CORPORATION REGISTERED	316.276	305.104	3.66%	4
8	OML	OOH!MEDIA LIMITED	10.075	9.767	3.15%	4
9	IGO	IGO LIMITED	65.220	63.420	2.84%	5
10	ILU	ILUKA RESOURCES LIMITED	44.820	43.820	2.28%	5

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	AWC	ALUMINA LIMITED	-0.171	4.542	-103.76%	4
2	PDN	PALADIN ENERGY LIMITED	0.076	0.342	-77.78%	4
3	STX	STRIKE ENERGY LIMITED	0.467	0.500	-6.60%	3
4	S32	SOUTH32 LIMITED	12.963	13.798	-6.05%	6
5	NIC	NICKEL INDUSTRIES LIMITED	6.920	7.338	-5.70%	4
6	COE	COOPER ENERGY LIMITED	0.600	0.633	-5.21%	3
7	ORA	ORORA LIMITED	16.920	17.660	-4.19%	5
8	VEA	VIVA ENERGY GROUP LIMITED	28.400	29.625	-4.14%	4
9	PTM	PLATINUM ASSET MANAGEMENT LIMITED	11.220	11.660	-3.77%	5
10	FMG	FORTESCUE LIMITED	323.827	336.484	-3.76%	7

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WEEKLY REPORTS

Uranium Week: Reasons To Be Cheerful

Brokers are increasingly emphasising the global uranium demand/supply imbalance, and getting on board the market.

-SPUT back in buying uranium
-Utilities failing to meet supply requirements
-Production downgrades diminish supply
-Morgan Stanley initiates coverage

By Greg Peel

Physical uranium investment funds have made their mark over the past few years, and none more so than the Sprott Physical Uranium Trust.

During its first year, SPUT purchased an average of 149,000lbs U3O8 per day, industry consultant TradeTech notes. Since then, shares in the fund have traded at a discount to net asset value more often, and this has restricted its buying activity. Since August 2022, SPUT has purchased an average of 14,900lbs per day.

However, share prices entered premium territory for brief periods last week and fund managers were able to capitalise, issuing 1.7m shares and buying 200,00lbs U3O8 in two transactions. SPUT now holds nearly 64mlbs U3O8 and approximately US$47m in cash.

Aside from this activity, sellers continue to hold back given uncertainty over Russian supply. And the collapse of the bridge in Baltimore is expected to add delays and increased costs to shipments destined for North America in the coming weeks and months.

TradeTech's weekly spot price indicator rose US$1.75 last week to US$88.75/lb.

Term Markets

TradeTech's term price indicators remain at US$95/lb (mid-term) and US$80/lb (long).

The uranium price has risen strongly since mid-2023, notes Petra Capital. With spot pricing at historically elevated nominal levels - and having pulled back from a peak of US$107/lb - it is natural to think the bull market is relatively mature, or even over, the broker suggests.

Petra points out term contracts were signed for approximately 160mlbs in 2023, well below the annualised rate suggested by earlier 2023 performance. While the highest level since 2012, this does not reflect replacement rate contracting (utilities' required supply) of 180mlbs.

The uranium bull market cannot be mature if utilities are not even contracting what they currently consume each year, ignoring the needs of future growth, Petra suggests.

Demand/Supply

Nuclear power is increasingly being viewed as critical to global decarbonisation and energy security. At COP28, over 20 countries launched a declaration to triple installed nuclear energy capacity by 2050. This, among other developments, has led Canaccord Genuity to upgrade demand forecasts.

Key drivers of demand include new reactor builds (in China/India), extensions of operating lives, and restarts of idled reactors. Conservatively, Canaccord's forecasts do not include the deployment of small module reactors (SMR), but the broker does, however, highlight recent announcements by major companies like Google and Microsoft that are looking at advanced nuclear as a way to power their AI ambitions.

"We cannot stress enough the fragility of primary mine supply," says Canaccord. This has become particularly clear in the last twelve months, which have been marked by several production downgrades from incumbent producers including majors Kazatomprom and Cameco.

The broker will be closely watching for a revision to Kazatomprom's 2025 production target in August as the

company has already flagged its 2025 target of 81mlbs as "at risk". Canaccord expects a material downgrade.

Given such downgrades, the broker sees a "material risk" that producers will need to re-enter the spot market (as they did back when U3O8 prices were too low to justify production), to fulfill contracted volumes.

Canaccord does not see planned production restarts to date to be sufficient to cover the supply deficit, and thus new production will need to be developed.

Australian-Listed Preferences

When U3O8 prices fell to historical lows post-Fukushima, reactors were shut down and mines put into care & maintenance, brokers abandoned their coverage of the uranium sector. But as prices hit historical highs, and reactors and mines are restarting, there is a rush to get back on board.

Last week, Morgan Stanley initiated coverage of two Australian-listed miners set to restart production; Paladin Energy ((PDN)) and Boss Energy ((BOE)).

Paladin Energy and Boss Energy share prices have risen 40% and 18% respectively year to date, compared to the average share prices of ASX300 miners falling -9%, Morgan Stanley notes. Both are trading on consensus enterprise value to earnings ratios below their one-year averages, and also below the international peer multiple average.

The broker has initiated on Paladin with an Overweight rating and Boss with Equal-weight.

Paladin's Langer Heinrich mine in Namibia has a more defined resource than Boss Energy's Honeymoon mine in South Australia, Morgan Stanley notes. Paladin has a higher proportion of contracted sales, helping de-risk the Langer Heinrich restart, while the broker sees risks to Boss Energy's 2021 Feasibility Study cost savings being realised, especially in an inflationary environment.

Paladin's key growth project is Michelin in Canada, which alongside Langer Heinrich could make the miner a sizeable uranium player versus international peers, Morgan Stanley suggests. Boss Energy's growth is in an early exploration phase (limited reported resources) and will likely be geared toward expanding/extending Honeymoon life.

With regard uranium prices, Morgan Stanley sees supply risk for Kazatomprom production over 2024-25, a slower ramp-up of supply expected to restart, and a Western sanction on Russian uranium could surprise to the upside. Demand risks are longer dated, but a substantial increase in the number of reactors being moved to the planned pipeline from proposed, as uranium potentially becomes a bigger player on the path to net zero emissions, could be positive.

Canaccord's preferred global uranium equity exposures are NexGen listed in the US, Kazatomprom listed in the UK, and Paladin Energy and Lotus Resources ((LOT)) in Australia.

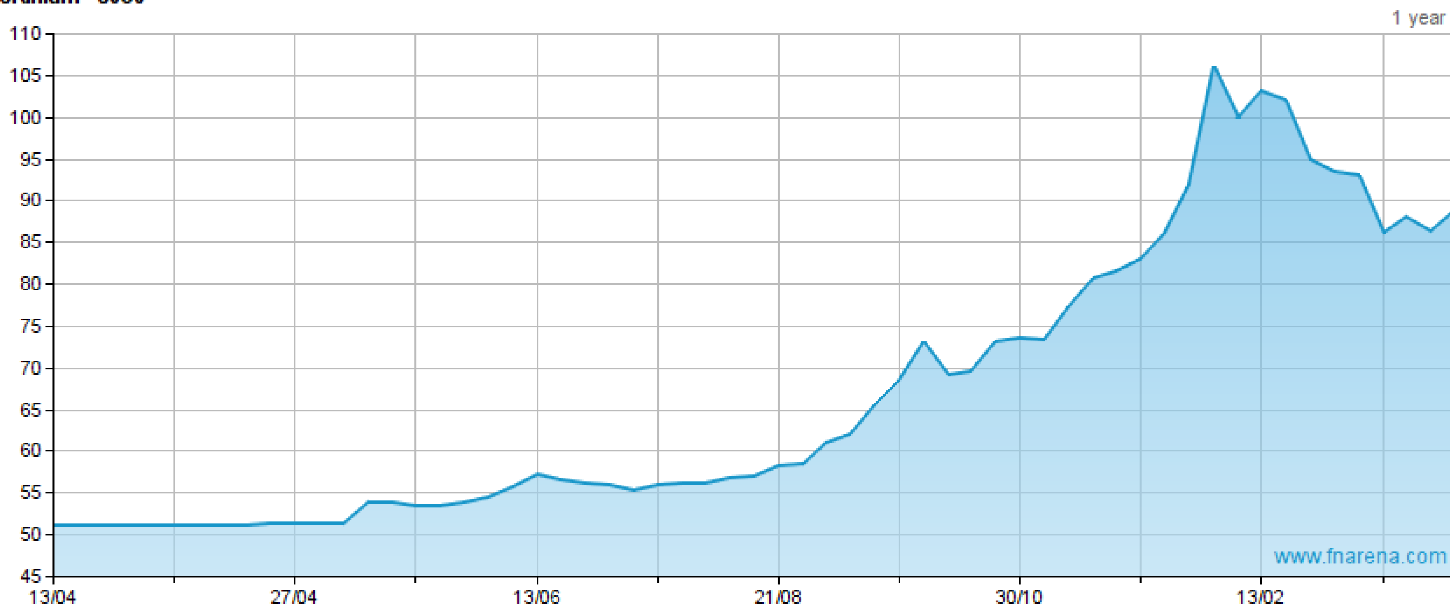
With uranium equity prices largely driven by capital flows, Petra Capital believes the addition of NexGen Energy (Canada) ((NXG)) (Australian listing), Bannerman Resources ((BMN)), Lotus Resources, Aura Energy ((AEE)) and Alligator Energy ((AGE)) to Australian indices is a major positive, joining existing contributors Boss Energy, Paladin Energy, and Deep Yellow ((DYL)).

Lotus Resources, which has 85% of the Kayelekera mine in Malawi previously owned by Paladin, offers compelling value among brownfield peers, in Petra's view.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	08/04/2024	0.1000	▼- 9.09%	$0.19	$0.05			
AGE	08/04/2024	0.0600	▲ 1.61%	$0.08	$0.03		$0.100	▲66.7%
BKY	08/04/2024	0.2850	▲ 1.79%	$0.80	$0.26			
BMN	08/04/2024	3.9000	▲ 3.15%	$4.00	$1.19		$7.040	▲80.5%
BOE	08/04/2024	4.8900	▲ 0.40%	$6.12	$2.23	46.9	$5.422	▲10.9%
DYL	08/04/2024	1.3800	▲ 0.73%	$1.76	$0.48		$1.770	▲28.3%
EL8	08/04/2024	0.5200	▲ 1.96%	$0.68	$0.27			
ERA	08/04/2024	0.0600	▼- 3.45%	$0.08	$0.03			
LOT	08/04/2024	0.4200	▲ 5.00%	$0.44	$0.17		$0.610	▲45.2%
NXG	08/04/2024	12.3900	▼- 1.54%	$13.66	$5.16		$17.500	▲41.2%

PDN	08/04/2024 1.5200	▲ 5.57%	$1.52	$0.52	2434.2	$1.570	▲3.3%
PEN	08/04/2024 0.1300	▲ 4.00%	$0.20	$0.08		$0.340	▲161.5%
SLX	08/04/2024 5.1200	▼- 3.71%	$5.78	$2.92		$7.600	▲48.4%



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WEEKLY REPORTS

The Short Report - 11 Apr 2024

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

Summary:

By Greg Peel

Week Ending April 4, 2024.

Last week the ASX200 hit a new all-time high before crashing back on diminished US rate cut hopes following a strong PMI, leading to diminished RBA rate cut hopes, and the fact we'd hit an all-time high.

There was nothing of any great note among short position movements last week.

Bank of Queensland ((BOQ)) shifted up from the 6% bracket to the 7% bracket ahead of its earnings report next week. But that move was to 7.0% from 6.9%.

Shorts in Australian Clinical Labs ((ACL)) fell to 6.0% from 7.1% on no news.

Shorts in Chalice Mining ((CHN)) fell to 6.1% from 7.1%. Chalice is an explorer/developer in cobalt, as well as copper, nickel, gold and platinum group metals. Metal prices have been on the rise recently and Chalice had enjoyed a 42% share price run from late March.

The Chalice share price is off today, as I write, in the general sell-off, and like lithium miners it is one of the more volatile stocks in the ASX200.

We note Nine Entertainment ((NEC)), the stock price for which has been sinking since March, has snuck into the bottom of the table.

Weekly short positions as a percentage of market cap:

10%+

PLS 20.5
IEL 14.7
SYR 13.8
FLT 10.9
LTR 10.1

In: FLT

9.0-9.9%

No stocks

Out: FLT

8.0-8.9%

CXO

No changes

7.0-7.9%

GMD, LIC, SYA, WBT, BOQ, LYC

In: BOQ Out: DYL, ACL, CHN, STX

6.0-6.9%

STX, MIN, DYL, OBL, ARU, NAN, CHN, ACL

In: STX, DYL, CHN, ACL   Out: BOQ

5.0-5.9%

A2M, VUL, WEB, IMU, NEC

In: NEC   Out: CUV, IFL

Movers & Shakers

Nothing this week.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.4	0.3	QBE	0.2	0.2
ANZ	0.4	0.4	RIO	3.6	3.7
BHP	0.6	0.5	S32	1.2	1.3
CBA	1.4	1.4	STO	1.0	1.1
COL	0.5	0.5	TCL	0.3	0.2
CSL	0.3	0.3	TLS	0.3	0.3
FMG	1.1	1.1	WBC	1.1	1.1
GMG	2.3	2.3	WDS	0.6	0.7
MQG	0.6	0.7	WES	1.0	1.0
NAB	0.7	0.7	WOW	0.3	0.2

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: Pro Medicus, Trump's Trade War & Resi Construction

Aggressive new target price for Pro Medicus; fears of a new Trump-inspired trade war; the best REITs for falling interest rates; and lagging starts figures for residential construction.

-Big new target for Pro Medicus
-The possibility of another Trump-inspired trade war
-Preferred REITs for falling interest rates
-Gloomy outlook for residential construction

By Mark Woodruff

Pro Medicus Adds US Military Potential

While some investors may feel left behind after a withering share price rise, new broker research suggests there may still be time to climb aboard the Pro Medicus ((PME)) juggernaut.

Yesterday, shares in the provider of medical imaging technology closed at $108, up from around $74 just over five months ago and $35 at the beginning of 2021, yet Evans and Partners has now set a new target price of $152.68, well above other brokers.

The company itself has **secured certification to allow targeting of the US military health market**, prompting the analysts to forecast an extra 5% share of the US radiology image viewing market by 2030, bringing the total expected share to 25%.

The Federal Risk and Authorisation Management Program (FedRAMP) certification is government-wide and promotes the adoption of secure cloud services across the US federal government by providing a standardised approach to security assessment, authorisation, and continuous monitoring for cloud products and services.

Management at Pro Medicus has chosen not to announce on the ASX the receipt of FedRAMP High certification status.

There are two arms of the US military health system: the Military Health System (MHS) which operates within the Department of Defense to provide care to those on active duty and some retirees; and the Veteran Health Administration (VHA) which is part of the Department of Veteran Affairs and exclusively treats veterans/older cohorts.

As an illustration of size, the VHA comprises 172 medical centers and 1,138 outpatient sites, making it the largest integrated health care system in the US.

The combined 9.6 million members of the VHA and MHS account for more than 30% of the total US market (by image view volume), and could be worth up to US$500m a year, according to Evans and Partners, which notes tendering for image Viewer contracts is imminent.

Unlike Pro Medicus, none of the main picture archiving and communications systems (PACS) incumbents in the US military health system -AGFA, Philips, General Electric and Siemens- have a truly scalable cloud solution, observes the broker.

However, political considerations are at play in US government decision making, caution the analysts, and Pro Medicus has partnered with various contractors with relevant connections and expertise.

Evans and Partners identifies **several other areas of growth** for Pro Medicus.

Management remains confident AI will eventually add to the revenue pie and has approached the opportunity from two angles: usage of the technology behind the scenes to improve its product offering; and as a discrete offer to customers, be it algorithms developed in-house or via collaboration (e.g. breast density) and/or by

utilising algorithms from third parties.

While the analysts add 5% to each forecast contract for Pro Medicus from FY26 onwards to allow for AI, diagnostic algorithms will only become part of the service rather than a major new revenue line, in the broker's opinion.

In time, customers may also expand contracts to include Archive and Worklist components. Currently, the analysts believe the break-up contract value is split between Viewer, Archive and Worklist by around 60%, 25% and 15%, respectively.

Pro Medicus has also noticed an uptick in enquiries from the corporate sector in recent times, with many joining forces under affiliate arrangements and looking to upgrade systems, explains the broker.

The average target price of five brokers covering Pro Medicus in the FNArena database is $78.90. If the $34.50 outlying target set by Ord Minnett is excluded, the average of the remaining four brokers is $90, well adrift of the $152.68 target set by Evans and Partners.

Worried about another Trump-inspired trade war

The potential for another intense trade dispute between the US and China should Donald Trump become the next US President is beginning to unsettle some global investors, according to investment manager Western Asset.

Disruption may ensue for global growth, financial markets, and supply chains, in the event the new administration pursues aggressive tariff measures against China and other trading partners, suggests Western Asset, part of US-based Franklin Templeton Investments.

According to Robert Abad, product specialist at Western Asset, "another trade war at this juncture in the global macroeconomic cycle, especially one that significantly affects China's growth prospects, could reignite fears of a global recession and raise concerns about the potential inflationary consequences of higher tariffs."

In 2018, global financial markets were blindsided by the government's decision to launch a trade war with China and multiple US allies.

The US equity market experienced a -$1.7trn loss in market value at the height of US-China trade tensions in mid-2019, notes Western Asset, and at the peak of the trade war in 2018/19, China's quarterly gross domestic

product was negatively impacted by as much as -0.8%.

During this period, developed market government bond yields also declined sharply as investors contemplated major central banks implementing more aggressive rate cuts to counteract global growth risks.

Concerns also emerged about a global currency war, notes Western Asset, with the Chinese yuan depreciating to a level not seen since the 2008 global financial crisis, precipitating a selloff in emerging market equity and currency markets.

Thankfully, there are two factors mitigating against such a volatile reaction this time around.

Robert Abad notes markets may be partly inured to formerly-alarming impromptu announcements by Trump on social media. Also, governments and corporations worldwide have put in place contingency plans to manage global trade and supply-chain disruptions via near shoring strategies.

Rather than dwell upon inflationary impacts of a Trump presidency, Abad believes the more critical point to emphasise is the adverse impact tariffs could have on aggregate demand and long-term growth.

Charter Hall for falling interest rates

If history is any guide, Morgan Stanley suggests investors should be positioned in Charter Hall ((CHC)) and/or Dexus ((DXS)) to take advantage of an expansion in valuation multiples when long-term bond yields decline.

The Australian Real Estate sector has traditionally been regarded as a bond proxy because of the long-duration nature of assets and the strong focus on dividend yield, explains the broker.

The Australian 10-year bond yield fell to 0.8% in 2020, and then reached 4.95% on November 1, 2023, and has traded within a 3.9%-4.3% range over the last three months.

Asset devaluation concerns may be easing, suggests Morgan Stanley, with the spread between asset capitalisation rates and Australian 10-year bond yields now broadly in line with the long-term trend.

From among the ASX100 REITs, Charter Hall has the strongest, and the most consistent negative correlation to Australian 10-year bond yields, note the analysts, while Dexus shares also trade in a close relationship with the long-end of the rate curve.

Leaving aside negative correlations and returning to fundamentals, property fund manager Charter Hall is Morgan Stanley’s preferred exposure as it receives an immediate positive impact on earnings from yield compression/rising asset valuations.

The broker explains earnings for Dexus are more driven by passive rental income, and operational cash earnings could potentially remain flat even if asset valuations trends upwards.

Morgan Stanley has an Overweight rating and $13.25 target for Charter Hall. The average target of five covering brokers in the FNArena database is $13.94, suggesting just over 11% upside to the latest share price.

The broker has an Underweight recommendation for Dexus with a $7.65 target, while Macquarie has an Outperform rating and three other brokers in the database are on Hold, or equivalent. The average target for Dexus is $8.55, around -13% shy of the current share price.

No respite for residential construction in Australia

Residential construction starts remain near the lowest level since 2012 and activity is clearly moderating, observes Jarden, with little sign of near-term improvement.

The broker holds this view even though December quarter numbers showing residential starts lifted 1.3% quarter-on-quarter to an annualised pace of 154,000.

Despite a surge of migration driving a record gap between underlying housing demand and supply, the broker believes housing activity will remain subdued through 2024.

Jarden is forecasting a more than -200,000 (or -20%) shortfall against the Australian Government’s 1.2m housing target over five years, which commences from July 1 this year.

As housing affordability is the biggest constraint on new housing activity, Jarden sees is limited upside until interest rates fall and buying power lifts.

Participants in the new housing market are generally skewed towards younger, middle-income first homebuyers, as opposed to the established housing market driven by higher-income buyers, explains the broker.

On the flipside, non-residential construction remains a source of strength, with the pipeline supported by public spending, non-residential building and mining/energy investment of $79bn, $70bn and $32bn, respectively.

While residential developers and building materials companies may be at risk from slowing residential construction, Jarden points out industry structure and consolidation are supporting incumbents.

In addition, the recent surge in migration should support earnings from FY25 onwards once interest rates fall and affordability improves. Earlier or larger-than-expected RBA rate cuts remain the key upside risk to the broker's outlook.

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 12-04-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

CLOVER CORPORATION LIMITED ((CLV)) Upgrade to Speculative Buy from Outperform by Taylor Collison.B/H/S: 0/0/0

Taylor Collison upgrades its rating for Clover to Speculative Buy from Overweight noting the company is an attractive acquisition target for a larger company, as evidenced by all of its competitors operating as divisions in larger businesses.

Clover is the world leader in the manufacture of micro-encapsulated Docosahexaenoic Acid (DHA), which the broker explains is predominantly sold to infant formula manufacturers.

The company's 1H revenue (results on March 20) of $27.3m was a miss against the analyst's $32m forecast due to issues in the Chinese (change of standards) and Middle Eastern markets (related to inventories from a manufacturer of infant formula).

No target price is mentioned in Taylor Collison's latest research.

HUB24 LIMITED ((HUB)) Upgrade to Overweight from Market Weight by Wilsons.B/H/S: 0/0/0

Wilsons upgrades EPS forecasts for Hub24 by 1-2% driven by mark-to-market upgrades and some small increases to forecasts for gross inflows, reflecting periods of forced migrations from peers.

Over the next two years, the broker forecasts close to $100bn in funds under administration (FUA) will be forcibly moved between incumbent Platforms, providing a tailwind for Hub24 to achieve FUA of over $100bn.

Wilsons upgrades its rating to Overweight from Market Weight and lifts its target to $45.32 from $42.63.

Downgrade

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

Jarden downgrades its rating for Champion Iron to Overweight from Buy and reduces the target to $7.76 from $9.24 largely due to the impact on forecasts of a further softening for iron ore prices.

Management has also telegraphed a soft quarter-on-quarter outcome for the upcoming March quarter release on April 23, as optimisation/maintenance will impact on production.

Jarden continues to like both Champion Iron's strategic differentiation and organic growth optionality. However, iron ore benchmarks are expected to correct further due to both China's economic challenges and the looming Simandou development in the Republic of Guinea.

FLIGHT CENTRE TRAVEL GROUP LIMITED ((FLT)) Downgrade to Sell from Neutral by Goldman Sachs.B/H/S: 0/0/0

Competition in the small and medium enterprise corporate travel segment appears to be intensifying, with potential to drive margin disappointment for Flight Centre Travel shareholders, says Goldman Sachs.

The broker notes there is increasing focus on proprietary technology to drive a competitive advantage.

Coupled with moderating corporate travel, now expected to plateau at around 75% of pre-covid demand, Goldman Sachs has lowered its expectations for Flight Centre Travel's corporate segment, now forecasting profit before tax and total transaction value margins of 2.1% and 2.2%.

The rating is downgraded to Sell from Neutral and the target price decreases to $18.30 from $20.10.

ORECORP LIMITED ((ORR)) Downgrade to Hold from Spec Buy by Canaccord Genuity.B/H/S: 0/0/0

Perseus Mining has won the battle for OreCorp and Canaccord Genuity notes its equity ownership has now risen beyond 50% while the offer has been declared unconditional.

The chances for a competing offer are now considered pretty close to zero.

OreCorp's key asset, the Nyanzaga gold project, located in Tanzania, is seen as one of the higher quality gold developments on the ASX.

Canaccord Genuity has downgraded its rating for OreCorp to Hold from Speculative Buy and lifted the price target to $1.20, in line with the bidder's offer.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	CLOVER CORPORATION LIMITED	Buy	Buy	Taylor Collison
2	HUB24 LIMITED	Buy	Neutral	Wilsons
Downgrade				
3	CHAMPION IRON LIMITED	Buy	Buy	Jarden
4	FLIGHT CENTRE TRAVEL GROUP LIMITED	Sell	Neutral	Goldman Sachs
5	ORECORP LIMITED	Neutral	Buy	Canaccord Genuity

Price Target Changes (Post Thursday Last Week)

Company		Last Price	Broker	New Target	Old Target	Change
3PL	3P Learning	$1.25	Taylor Collison	1.64	1.46	12.33%
A1M	AIC Mines	$0.39	Moelis	0.56	0.52	7.69%
ALK	Alkane Resources	$0.67	Moelis	1.00	0.95	5.26%
			Petra Capital	1.16	1.02	13.73%
AMP	AMP	$1.18	Jarden	1.20	1.15	4.35%
APM	APM Human Services International	$1.24	Canaccord Genuity	1.30	2.00	-35.00%
ASN	Anson Resources	$0.11	Petra Capital	0.49	0.71	-30.99%
ASX	ASX	$63.60	Jarden	62.70	62.10	0.97%
			Jarden	63.30	62.10	1.93%
AUB	AUB Group	$28.98	Jarden	33.85	32.95	2.73%
AVA	Ava Risk	$0.14	Canaccord Genuity	0.30	0.33	-9.09%
			Petra Capital	0.35	0.36	-2.78%
BBN	Baby Bunting	$1.93	Wilsons	2.40	2.00	20.00%
BKT	Black Rock Mining	$0.07	Petra Capital	0.15	0.16	-6.25%
BMN	Bannerman Energy	$3.99	Canaccord Genuity	4.62	3.71	24.53%
BOE	Boss Energy	$4.91	Canaccord Genuity	5.25	4.73	10.99%
			Canaccord Genuity	6.00	4.73	26.85%
BOQ	Bank of Queensland	$5.90	Goldman Sachs	5.04	5.00	0.80%
BPT	Beach Energy	$1.59	Canaccord Genuity	1.65	1.60	3.12%
			Jarden	1.70	1.85	-8.11%
			Wilsons	1.87	1.96	-4.59%
CIA	Champion Iron	$6.83	Jarden	7.76	9.24	-16.02%
CLV	Clover	$0.51	Taylor Collison	N/A	0.95	-100.00%
CMM	Capricorn Metals	$5.35	Jarden	5.07	4.75	6.74%
CNB	Carnaby Resources	$0.61	Petra Capital	1.45	1.50	-3.33%
COE	Cooper Energy	$0.23	Jarden	0.24	0.19	26.32%
CSL	CSL	$280.43	Wilsons	253.29	253.00	0.11%

Code	Company	Last Price	Broker	New Target	Old Target	Change
CU6	Clarity Pharmaceuticals	$2.72	Wilsons	3.12	3.05	2.30%
CXO	Core Lithium	$0.16	Goldman Sachs	0.12	0.13	-7.69%
DVP	Develop Global	$2.24	Canaccord Genuity	4.65	5.00	-7.00%
DYL	Deep Yellow	$1.44	Canaccord Genuity	1.92	1.53	25.49%
EVN	Evolution Mining	$4.02	Jarden	3.12	3.00	4.00%
FLT	Flight Centre Travel	$21.29	Goldman Sachs	18.30	20.10	-8.96%
GMD	Genesis Minerals	$1.98	Moelis	2.20	1.70	29.41%
GOR	Gold Road Resources	$1.80	Moelis	1.70	1.50	13.33%
GQG	GQG Partners	$2.40	Goldman Sachs	2.73	2.40	13.75%
HUB	Hub24	$40.59	Jarden	41.75	38.50	8.44%
			Wilsons	45.32	42.63	6.31%
IAG	Insurance Australia Group	$6.38	Goldman Sachs	6.30	6.00	5.00%
			Jarden	6.80	6.95	-2.16%
IFL	Insignia Financial	$2.50	Jarden	3.00	2.80	7.14%
IGO	IGO	$7.57	Goldman Sachs	7.50	8.00	-6.25%
LEL	Lithium Energy	$0.55	Petra Capital	1.84	1.86	-1.08%
LIN	Lindian Resources	$0.14	Petra Capital	0.59	0.61	-3.28%
LOT	Lotus Resources	$0.43	Canaccord Genuity	0.54	0.45	20.00%
LTR	Liontown Resources	$1.31	Goldman Sachs	1.35	1.45	-6.90%
MFG	Magellan Financial	$9.34	Goldman Sachs	9.10	8.75	4.00%
			Jarden	9.20	8.40	9.52%
MMI	Metro Mining	$0.04	Petra Capital	0.09	0.05	91.49%
MPL	Medibank Private	$3.70	Jarden	3.80	3.75	1.33%
NHF	nib Holdings	$7.65	Jarden	8.00	7.75	3.23%
NWL	Netwealth Group	$19.91	Jarden	17.00	15.55	9.32%
			Wilsons	22.03	20.50	7.46%
OBM	Ora Banda Mining	$0.33	Moelis	0.42	0.35	20.00%
ORA	Orora	$2.19	Goldman Sachs	3.00	3.40	-11.76%
			Jarden	2.50	3.20	-21.88%
ORR	OreCorp	$0.58	Canaccord Genuity	1.20	1.25	-4.00%
PDN	Paladin Energy	$15.30	Canaccord Genuity	1.55	1.30	19.23%
PEN	Peninsula Energy	$0.11	Canaccord Genuity	0.22	0.18	22.22%
PNR	Pantoro	$0.08	Petra Capital	0.17	0.13	30.77%
POS	Poseidon Nickel	$0.01	Petra Capital	0.03	0.08	-60.00%
PPT	Perpetual	$24.91	Jarden	28.10	26.90	4.46%
PRU	Perseus Mining	$2.34	Canaccord Genuity	3.15	2.45	28.57%
QBE	QBE Insurance	$17.69	Goldman Sachs	20.58	18.65	10.35%
			Jarden	20.75	19.10	8.64%
QPM	Queensland Pacific Metals	$0.04	Petra Capital	0.15	0.24	-37.50%
RED	Red 5	$0.42	Moelis	0.48	0.40	20.00%
			Petra Capital	0.47	0.42	11.90%
			Petra Capital	0.49	0.42	16.67%
RFG	Retail Food	$0.07	Petra Capital	0.11	0.11	-4.55%
SFX	Sheffield Resources	$0.56	Petra Capital	1.27	1.26	0.79%
SLR	Silver Lake Resources	$1.35	Moelis	1.70	1.50	13.33%
SLX	Silex Systems	$5.20	Canaccord Genuity	6.21	5.42	14.58%
SMR	Stanmore Resources	$3.23	Petra Capital	5.30	5.52	-3.99%
STX	Strike Energy	$0.24	Petra Capital	0.26	0.31	-16.13%
SUN	Suncorp Group	$16.15	Goldman Sachs	17.54	16.25	7.94%
TIE	Tietto Minerals	$0.65	Petra Capital	1.06	0.75	41.33%
TLG	Talga Group	$0.77	Petra Capital	1.19	2.70	-55.93%
TWE	Treasury Wine Estates	$12.45	Jarden	14.50	12.90	12.40%
WES	Wesfarmers	$66.58	Goldman Sachs	68.80	66.00	4.24%
WGX	Westgold Resources	$2.09	Petra Capital	2.33	2.42	-3.72%
			Petra Capital	3.19	2.42	31.82%
WIN	Widgie Nickel	$0.06	Petra Capital	0.20	0.40	-50.00%

More Highlights

AVA   AVA RISK GROUP LIMITED

Hardware & Equipment – Overnight Price: $0.14

Canaccord Genuity rates ((AVA)) as Buy (1) –

Ava Risk's three-year growth plans suggest revenues are poised to at least double by then, Canaccord Genuity points out. The most positive scenario has even more upside in mind.

The broker has adopted a more conservative approach, placing its forecasts near the bottom end of the suggested trajectory guidance. This, the broker highlights, still suggests "substantial" growth lays ahead.

Buy rating retained while a re-modeling of the fresh input has sliced off -3c from the broker's valuation; price target tumbles to 30c from 33c.

This report was published on April 9, 2024.

Target price is **$0.30** Current Price is **$0.14** Difference: **$0.165**
If **AVA** meets the Canaccord Genuity target it will return approximately **122%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Canaccord Genuity forecasts a full year **FY24** dividend of **17.00** cents and EPS of **minus 0.66** cents.
At the last closing share price the estimated dividend yield is **125.93%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 20.45**.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **1.60** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **8.44**.

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

BMN   BANNERMAN ENERGY LIMITED

Uranium – Overnight Price: $3.85

Canaccord Genuity rates ((BMN)) as Speculative Buy (1) –

The uranium market will remain in a structural deficit through 2027, forecasts Canaccord Genuity. A return to a balanced market will be highly reliant on the advancement of greenfield projects, which the broker points out remain beset with risks.

The broker upgrades its demand forecasts for uranium to incorporate new reactor builds (in China/India), extensions of existing operating lives, and restarts of idled reactors.

The analysts also highlight recent announcements by major companies like Google and Microsoft which are looking at deployment of small modular reactors (SMRs) as a way to power their AI ambitions.

Canaccord Genuity forecasts an average price of US$105/lb over FY24, a 15% increase on the prior estimate, while the long-term price assumption rises to US$90/lb from US$75-$80/lb.

The Speculative Buy rating is maintained for Bannerman Energy and the target increased to $4.62 from

$3.71. Operations are located in a uranium-friendly jurisdiction and the resource is significant (over 200mlb), highlights the broker.

This report was published on April 9, 2024.

Target price is **$4.62** Current Price is **$3.85** Difference: **$0.77**
If **BMN** meets the Canaccord Genuity target it will return approximately **20%** (excluding dividends, fees and charges).

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

DVP DEVELOP GLOBAL LIMITED

Industrial Metals - Overnight Price: $2.28

Canaccord Genuity rates ((DVP)) as Speculative Buy (1) -

Develop Global has updated its mine plan for Woodlawn and Canaccord Genuity highlights low costs, a rapid restart and a significantly de-risked production outlook are all key positives.

The broker seems enthusiastic, also highlighting the majority of the mining, processing, and ancillary facilities are already in place. The plan points to first production by H2 FY25.

Speculative Buy rating retained. The target price has fallen to $4.65 (from $5) on incorporation of the updated plan. At current spot prices, the broker highlights, the price target would increase to $5.05.

This report was published on April 10, 2024.

Target price is **$4.65** Current Price is **$2.28** Difference: **$2.37**
If **DVP** meets the Canaccord Genuity target it will return approximately **104%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

> Canaccord Genuity forecasts a full year **FY24** dividend of **0.00** cents and EPS of **1.00** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **228.00**.

Forecast for FY25:

> Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **11.00** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **20.73**.

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

LRK LARK DISTILLING CO. LIMITED

Food, Beverages & Tobacco - Overnight Price: $1.17

Canaccord Genuity rates ((LRK)) as Initiation of coverage with Speculative Buy (1) -

Canaccord Genuity has initiated coverage of Lark Distilling, producer of a luxury whisky brand in Australia, with a Speculative Buy rating and $1.60 price target.

The broker posits Lark offers a unique investment opportunity on the ASX with a strong medium-term growth profile. A clear strategy by the board and management team could evolve the brand and drive strong adoption in offshore markets, suggests the broker.

On Canaccord Genuity's forecasts, Lark is expected to see strong double-digit revenue growth in FY25, with

international markets potentially accounting for 50% of group sales by FY27.

The broker states the company's unique moat, including a 30-plus year brand history and a 2.4m litre whisky bank, supports the current market capitalisation.

This report was published on April 10, 2024.

Target price is **$1.60** Current Price is **$1.17** Difference: **$0.43**
If **LRK** meets the Canaccord Genuity target it will return approximately **37%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Canaccord Genuity forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 6.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 19.50**.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 6.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 19.50**.

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

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