WEEK 20

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Friday, 17 May 2024

Rudi's View: ANZ, AUB, Beach Energy, CSL, Flight Centre & Newmont

Premium ARB Corp Keeps Delivering The Goods

Treasure Chest: Xero

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FNArena
Financial News, Data & Analysis

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AUSTRALIA

The Market In Numbers - 11 May 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	10 May 2024	Week To Date	Month To Date (May)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
NZ50	11755.170	-1.53%	-1.69%	-2.89%	-0.13%	-1.35%
All Ordinaries	8022.70	1.59%	1.14%	-1.61%	2.47%	8.39%
S&P ASX 200	7749.00	1.57%	1.11%	-1.87%	2.08%	7.58%
S&P ASX 300	7701.40	1.56%	1.10%	-1.87%	2.20%	7.60%
Communication Services	1507.90	1.70%	0.36%	-4.51%	-5.06%	-1.92%
Consumer Discretionary	3421.50	-0.52%	-0.31%	-5.39%	5.60%	16.23%
Consumer Staples	11698.40	0.86%	-2.12%	-5.34%	-4.97%	-12.00%
Energy	10507.50	4.34%	2.37%	-2.47%	-1.09%	-2.96%
Financials	7324.20	1.50%	1.78%	-1.80%	9.02%	17.76%
Health Care	42475.80	0.79%	0.26%	-2.22%	0.32%	2.87%
Industrials	6961.40	1.35%	0.94%	-3.06%	1.39%	2.42%
Info Technology	2256.30	2.40%	3.08%	-0.91%	23.10%	23.33%
Materials	18129.80	1.67%	0.44%	1.05%	-6.98%	0.54%
Real Estate	3652.00	2.48%	3.16%	-4.83%	9.09%	19.98%
Utilities	9042.70	4.79%	4.19%	9.15%	10.55%	3.53%
A-REITs	1657.30	2.41%	3.08%	-4.95%	10.31%	22.34%
All Technology Index	3067.50	1.70%	1.75%	-0.91%	13.86%	26.93%
Banks	3047.00	1.09%	2.19%	-1.23%	9.62%	22.04%
Gold Index	7718.60	3.46%	-1.32%	6.58%	4.76%	16.63%
Metals & Mining	5944.90	1.61%	0.08%	1.77%	-8.07%	-1.86%

The World

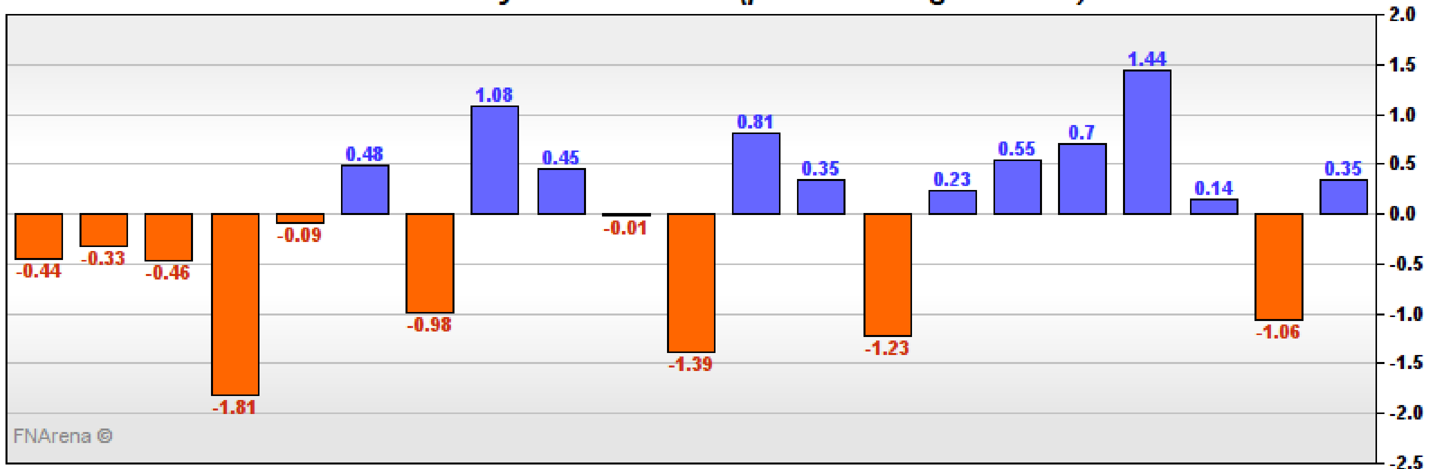
Index	10 May 2024	Week To Date	Month To Date (May)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
FTSE100	8433.76	2.68%	3.56%	6.05%	9.06%	11.98%
DAX30	18772.85	4.28%	4.69%	1.52%	12.07%	16.26%
Hang Seng	18963.68	2.64%	6.76%	14.64%	11.24%	0.25%
Nikkei 225	38229.11	-0.02%	-0.46%	-5.30%	14.24%	15.19%
DJIA	39512.84	2.16%	4.49%	-0.74%	4.84%	14.84%
S&P500	5222.68	1.85%	3.71%	-0.60%	9.49%	17.35%
Nasdaq Comp	16340.87	1.14%	4.36%	-0.24%	8.86%	18.52%

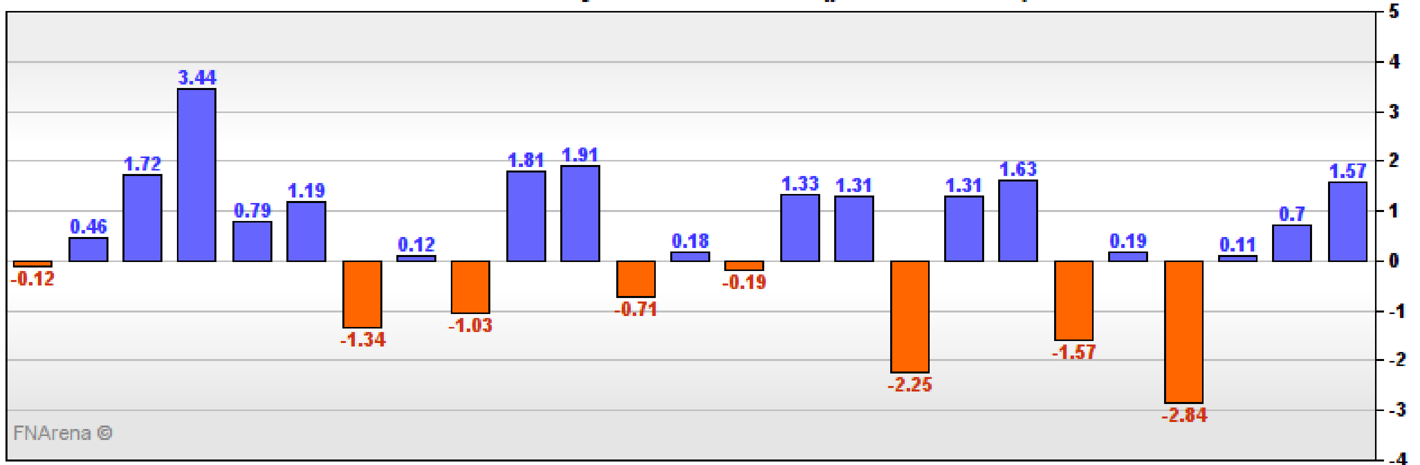
Metals & Minerals

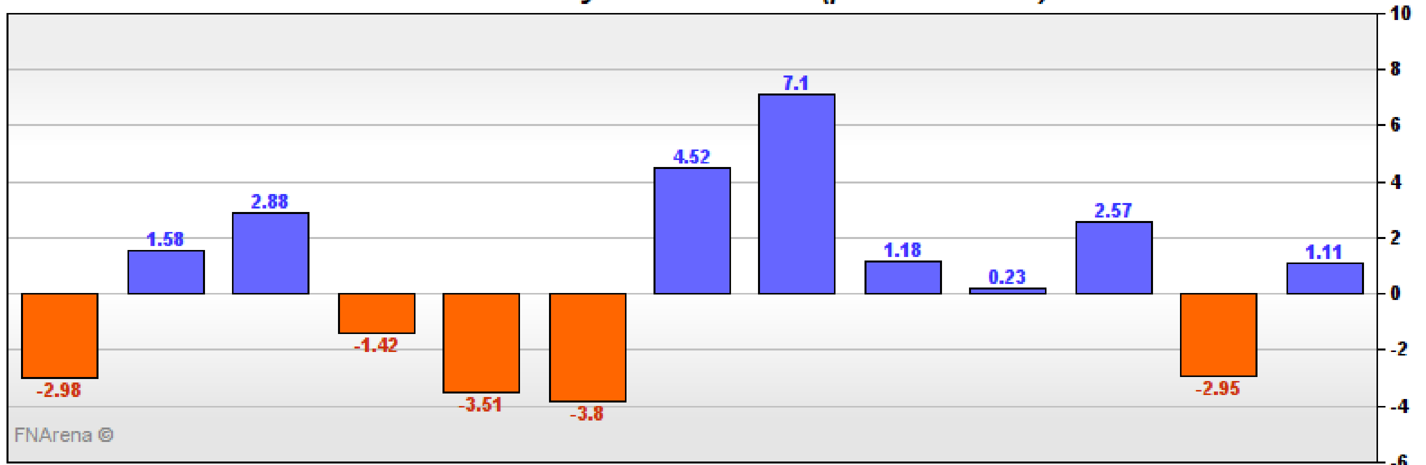
Index	10 May 2024	Week To Date	Month To Date (May)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
Gold (oz)	2345.90	1.85%	0.45%	6.92%	14.74%	22.94%
Silver (oz)	28.31	6.23%	4.50%	15.17%	16.12%	25.65%
Copper (lb)	4.4825	1.55%	-2.08%	12.28%	17.71%	20.60%
Aluminium (lb)	1.1579	1.26%	-0.76%	11.49%	19.09%	20.89%
Nickel (lb)	8.5963	1.65%	-0.94%	14.78%	15.59%	-3.41%
Zinc (lb)	1.3113	0.11%	-1.25%	19.04%	16.60%	25.05%
Uranium (lb) weekly	92.15	5.50%	5.50%	4.72%	7.15%	63.97%
Iron Ore (t)	116.96	-0.95%	5.81%	15.11%	-15.39%	2.68%

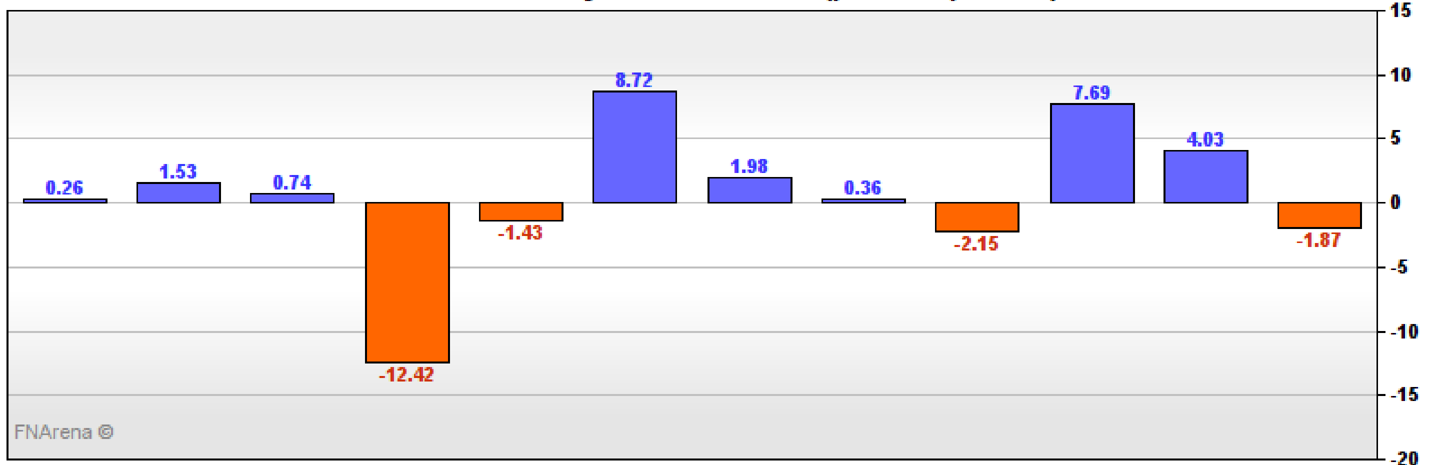
Energy

Index	10 May 2024	Week To Date	Month To Date (May)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
West Texas Crude	79.26	0.39%	-4.08%	-3.01%	7.38%	13.46%
Brent Crude	84.14	0.59%	-4.95%	-2.56%	6.16%	13.23%









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

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FNArena welcomes comments and suggestions at info@fnarena.com

ESG FOCUS

ESG Focus: The Little Big Things - 15-05-2024

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

Little Big Things - 07-05-2024

The stellar rate of decarbonisation has yielded astonishing step-changes in recent months across the green transition board as several key markets hit parity with fossil fuels; expensive retrofits are making properties obsolete, says Morgan Stanley; and Jarden picks out social winners on the data compliance and psychosocial safety fronts.

-Expensive retrofits are making properties obsolete
-Gas-fired DRI/EAF steel is now at parity with coal blast furnaces
-Forecast gas glut could put DRI/EAF well ahead
-Green hydrogen prices to hit parity with grey hydrogen in 2026
-EV charging times approach parity with petrol re-fuelling
-Battery recycling barrelling down
-Beyond the short-term quagmire, analysts like Sims' long-term prospects
-Data compliance costs to rise but Jarden sees plenty of opportunity

Compiled by Sarah Mills

Morgan Stanley Issues Property Warning

Morgan Stanley posits higher interest rates are boosting capital risks in commercial property, a trend being amplified by sustainability challenges.

Given buildings account for 30% of global energy consumption, the analyst observes the industry will be unable to avoid expenditure on retrofits if the world is to meet net-zero targets.

Morgan Stanley predicts EUR2.8trn investment in energy renovation will be required by 2030, and EUR5trn long term.

The upshot is many property assets could become obsolete as the costs to improve energy performance outweigh the renovation benefits, says Morgan Stanley.

The analyst believes listed landlords have higher quality assets given most have set targets to reduce carbon dioxide emissions in their portfolios.

But it’s not all bad news. On the flipside, the analyst reveals the winners to be the banks and building materials sectors.

Morgan Stanley estimates EUR400bn to EUR800bn will be required in Europe and Britain over the next five to 10 years, and one assumes similar investments will be necessary in other nations.

The analyst says the expenditure offers an opportunity for banks, many of which have also committed to substantially cut emissions intensity in their real-estate portfolios by 2030.

This being the case, 2024 might be a good year to get cracking on solar given a forecast solar panel glut.

Among offshore companies to benefit from these trends, Saint Gobain is the broker's top pick.

DRI and EAF Steel Fall To Parity With Blast Furnaces

UBS observes the cost of gas-fired and hydrogen-fired DRI/EAF steel is falling relative to blast furnaces.

The analyst notes in 2022 the forecast cost of H2EAF production was more than double that of blast-furnace steel based on Platts' hydrogen prices after gas prices skyrocketed in response to the Ukraine conflict.

But prices have normalised, and UBS calculates gas-fired DRI now appears a touch cheaper than blast-furnace steel, and blue-hydrogen fired DRI is just a touch more expensive.

When it comes to green hydrogen, UBS says on current assumptions, green steel investments are starting to earn their cost of capital (including government subsidies).

UBS says green hydrogen costs are still US$60-US$80 a tonne higher than blast-furnace coal, but after factoring in the removal of free allocation of CO2 by 2034, the tables turn, so investors will be keeping a keen eye on CO2 allocation progress.

The broker says its calculations do not include lower cost green power and possibly gas, nor green premiums.

Forecast LNG Could Cut Gas-Fuelled DRI Further

IEEFA is forecasting a flood of LNG supply amid sluggish demand.

The analyst expects global LNG supply capacity to increase 40% by 2028 as Europe, Japan and South Korea slash imports (together they constitute half of the world's gas imports) through to 2030.

Lacklustre demand-growth combined with a huge wave of new export capacity will push global liquefied natural gas (LNG) markets into oversupply within two years, says IEEFA, noting demand-growth from emerging economies is not guaranteed even in an oversupplied market.

Other analysts observe a LNG glut in Asia and estimate a global -30% downside risk to 2025-2026 futures.

Green Hydrogen Prices At Parity With Grey Hydrogen

UBS also expects in Europe the levelised costs of green hydrogen will hit parity with grey hydrogen by 2026, noting it is now cheaper than both grey and blue hydrogen in the US after tax credits.

The analyst shifts to a bullish position on green hydrogen and hydrogen technology generally as result.

Fortescue ((FMG)) opened Australia's first commercial-scale hydrogen electrolyser manufacturing facility in Gladstone last month.

CCUS Prospects Poor, Says IEA

Despite Cop28 approving toxic, exorbitant nuclear energy and ineffective carbon capture utilisation and storage, the market may have its own thoughts now green costs have fallen so sharply.

IEEFA's Simon Nicholas puts the kybosh on the use of CCUS in particular, observing environmental risks (fracking) from geological storage and potential leaks; the low rate of capture and the fact that costs haven't fallen in decades (in comparison to gas-fired DRI costs which are now on par with blast furnaces); low availability of storage; and permitting.

The analyst estimates the percentage of global emissions captured by the broader CCUS by 2035 from all sectors to be a tiny 1.1%; plus that steel CCUS will constitute a minuscule 1% to 2% of that.

The world's only commercial CCUS plant - Al Reyadah's gas-fired Direct Reduce Iron plant in the UAE - captures just 19% to 26% of the plant's emissions and the captured product is used for enhanced oil recovery, which Nicholas observes is not very prospective.

The plant is now moving to green hydrogen starting this year and there are no plans to use CCUS for coal-based plants anywhere in the world, says the analyst.

UBS notes the International Energy Agency appears to have shifted its long-term view on CCUS generally, the agency observing slow take-up and poor result and dubbing forecast policy settings as "inconceivable".

CCUS is an "essential technology for achieving net-zero emissions in certain sectors (such as building materials) and circumstances, but it is not a way to retain the status quo," says the IEA.

Morgan Stanley remains a CCUS fan.

Analysts Like Sims Long-Term Prospects

Jarden says Sims ((SGM)) offers "tremendous" exposure to the circular economy as the transition to EAFs accelerates, but doesn't see this kicking in any time soon.

The analyst expects the recycler, which turned in a poor first half, is likely to see more of the same this half if

the poor performance of north American competitors is anything to go by. (North America represents 50% of group revenues).

On the upside, Jarden observes strong pricing across non-ferrous markets. The broker is hoping the new C-suite can realise cost savings, provide greater earnings transparencies and develop more predictable earnings streams.

Macquarie holds an Outperform rating, believing that even should the company's recovery be extended, now is a good entry point.

UBS holds a Buy rating, as does Citi.

The forecast fall in gas prices could also prove a boon for electric arc furnace steelmaking.

EV Charging Times Plummeting

Perhaps the most astonishing progress of the transition in the past few months has been in the area of EV charging.

Huawei Digital Power has rolled out ultrafast EV chargers in China, with plans to install 100,000 units, competing with Tesla.

Nikkei Asia notes a charging station in Huawei's home city of Shenzhen is advertising a 1km range for every second of charging (bringing it to parity with gas-fuelling times) at 600kW, says the journal.

This equates to 8 minutes on an 80kW battery with 600km range (depending on weather and remaining battery capacity) and compares with Tesla's 250kW battery, which would take 19 minutes.

Meanwhile, Bloomberg observes China's energy giant Contemporary Amperex Technology Co (CATL) has upgraded its battery capacity for roughly the second time in just over six months – this time by 50%. Its Shenxing battery pack can power a car up to 600km from just a 10-minute charge. A lithium-iron phosphate battery is capable of 1000km on a full charge.

Tesla's CEO Elon Musk has pointed out the batteries have a long runway of innovation.

Morgan Stanley has upgraded CATL to Overweight (the shares are down -50% off 2021 highs), believing the worst of price competition has passed, the impact from IRA subsidies has been priced in; the company is improving capital expenditure efficiency as new production lines scale; and the company is experiencing improved energy storage economics as China ramps renewable and storage capacity.

Bloomberg also spied a game-changing upgrade to EV chargers at the Beijing auto show, where an exhibitor said its chargers had been successfully tested at levels as high as 800kw, enough to transmit all the power a Tesla Model 3 can hold in less than five minutes!

Combine fast chargers with fast-charging batteries and EVs is starting to look amped. EV prices are the next frontier and EV-makers around the world are already slashing prices and planning the launch of a range of budget cars.

Battery Recycling Appears Ready To Rock

The final frontier for EVs (as well as grids) will be battery recycling, an innovation that will not only slay the naysayers who point out the hefty environmental burden of battery production, but have huge impacts on demand for critical minerals and metals and the geopolitics of their production.

That transition to recycling appears to be rapidly approaching.

A recent report from Stanford shows Redwood Materials' (founded by Tesla co-founder JB Straubel) recycling process produces up to -80% fewer emissions than carbon-dioxide-based supply chains, while bringing the breakeven mileage point down to 21,000km from 41,000km, depending on the electricity source (green power is rapidly getting cheaper).

The Stanford research showed Redwood's recycled batteries used -79% less energy and resulted in -55% fewer carbon emissions than traditional refining, while providing the added benefit of localising supply chains.

Bloomberg observes once the factory can produce one battery per minute (the run-rate for a vehicle in a Tesla factory), it will be able to rival traditional mining operations.

The journal notes battery design currently directs battery recycling methods, but expects this to reverse within the not-too-distant future, resulting in a greater simplicity in EV battery design.

Bloomberg NEF observes China controls 70% of lithium refining capacity and 95% of other critical minerals,

suggesting it would have the most to lose in that transition.

Mandatory Reporting Postponed

The Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill introduced in late March has postponed the start date for large companies reporting on mandatory climate disclosures to January 2025 from July 2024, giving Australia's biggest companies time to get their reporting act into gear.

Big Compliance Costs Looming On Data

Jarden says proposed changes to privacy laws and rising fines will translate into huge compliances costs for big companies, which will be forced to redesign internal procedures for information management.

The analyst also spies an AI opportunity.

Jarden believes the health ecosystem can better utilise its data for preventative health and believes Medibank Private ((MPL)), nib Holdings ((NHF)), Wesfarmers ((WES)), and Worley ((WOR)) are best positioned to benefit.

Jarden expects Capitol Health ((CAJ)), Healius ((HLS)), Integral Diagnostics ((IDX)), Ramsay Health Care ((RHC)), and Sonic Healthcare ((SHL)) should also enjoy opportunities.

But the biggest opportunity, says the analyst, lays with large loyalty programs, and nominates Coles Group ((COL)), Qantas Airways ((QAN)), Super Retail ((SUL)), Woolworths ((WOW)), and Wesfarmers ((WES)) in this respect.

Jarden says these companies should be able to use "social licence" to build brand trust and to expand into adjacencies.

Retail REITs, including Scentre Group ((SCG)) and Vicinity Centres ((VCX)), as well as consumer REITs such as Charter Hall Retail REIT ((CQR)), Homeco Daily Needs REIT ((HDN)), National Storage REIT ((NSR)), and Region Group ((RGN)) should also be able to profit.

Back To Psychosocial Safety

Jarden expects companies will need to gird their loins as employees are encouraged to speak up and checked out the performance of the financial sector on this front.

The analyst observes a SuperFriend survey of 10,000 Australian employees lists the three biggest drivers of psychological harm in the workplace as:

-Inappropriate workloads
-Poor change management
-Lack of recognition

The survey also found higher workloads correlated with lower job performances, which also meant the overburdened employees would then be denied a pay rise.

Jarden praised AMP Ltd ((AMP)) as an example of good practice on this front, after the company launched a safety and wellbeing framework that improved identification of psychosocial hazards and risk control.

Jarden also called out of Bendigo & Adelaide Bank ((BEN)) and Bank of Queensland ((BOQ)) for implementing Employee Assistance Programs (EAP).

Macquarie Group ((MQG)) provides a psychological support service, Suncorp Group ((SUN)) offers a free wellbeing app and Insurance Australia Group ((IAG)) also offers an EAP. Commonwealth Bank ((CBA)) and Westpac ((WBC)) also provide support services.

Still, the vernacular of risk management and control and hazard identification all appear a tad obfuscating, making the issue more complex than it is.

Fair pay is not hard to implement, nor are appropriate workloads, appropriate recognition or safe workplaces. Change management can be tricky, but that simply requires companies employ and pay talented change managers and look outside comfortable "approved" supplier relationships.

In a separate paper on physical safety, Jarden finds no connection between staff turnover and fatalities to date, but notes available data are poor, and intends to examine this closely in future.

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

Part Three: Generative AI, Investing in the 21st Century Megatrend

How are global Generative AI tailwinds impacting on Australian companies, and which stocks are in the sweet-spot to benefit?

-Tailwinds from BigTech earnings
-NextDC and Goodman Group are just two of the winners
-Key takeaways from Global Portfolio Manager at Alphinity Investment Management

By Danielle Ecuyer

The story below is the third installment in a series on Generative AI. The first installment was published on 2 May 2024
https://fnarena.com/index.php/2024/05/02/generative-ai-investing-in-the-21st-century-megatrend-part-one/

The second installment was published on 9 May 2024
https://fnarena.com/index.php/2024/05/09/part-two-generative-ai-investing-in-the-21st-century-megatrend/

Stock prices only tell part of the macro story

Differentiating between the stock price moves of companies associated with artificial intelligence versus the growth and potential size of the total addressable markets will be an ongoing challenge for investors.

Comparisons can be drawn between previous secular trends such as electrification, mobility, telephony, the internet, and industrialisation, but like most historical precedents, the present circumstances are similar but different.

The clean energy transition is a case in point. Despite the billions of dollars being committed to the transition, including major incentives such as the US Inflation Reduction Act, the top-down secular growth in clean energy/decarbonisation has been far from a straightforward investment proposition for investors.

FY24 results for Macquarie Group ((MQG)) highlight the short term versus longer term challenges of investing in a megatrend. Demand for the clean energy assets owned by Macquarie Asset Management is proving to be more cyclically impacted than forecasts due to the higher interest rate environment.

Tesla is also case in point. As the electric vehicle market grew, competition, particularly from the subsidised Chinese manufacturers commoditised the product.

Secular megatrends do not grow in a straight line. Electric vehicles will ultimately replace internal combustion engines, however, the path to transition is likely to exhibit some of the normal cyclical demand and supplier drivers.

Top-down analysis of a total addressable market (TAM) to company specifics makes for a strong narrative, but ultimately the driver of stock prices will be revenue and earnings growth, alongside strong cashflow generation to support new investment.

The question of whether earnings are pulled forward or front loaded into the present should also be at the forefront of investors' minds. The market will set earnings expectations and compare against actual results. Strong growth can be either rewarded or punished depending on expectations and recent performance.

"We encourage investors to do thorough due diligence on the technology underpinnings of these companies and differentiate real AI winners from the short-term AI beneficiaries likely to end up short in the long term." The quote is from *RBC ImagineTM: The Software Investor's Handbook to Generative AI*

Big Tech's latest earnings offer insights into artificial intelligence investment trends

The latest quarterly results for the Magnificent 7 revealed impressive 43% growth in earnings compared to 14%

a year ago, which includes the not so hot Tesla and META earnings, and also includes forecast earnings from Nvidia (to be released on May 22).

RBC Capital Markets analysis of the recent US big tech companies' quarterly results extrapolates the trend to Australia's data centre and ancillary service companies, noting hyperscalers are emerging from a period of consolidation and re-entering a growth phase.

Amazon Web Services (AWS), owned by Amazon, is the world's largest hyperscaler with revenues split 60% from America, 23% internationally and 17% for AWS.

AWS reported better than expected 1Q24 results including revenue growth of 17% on the previous corresponding period, with a 400-basis point acceleration in growth via its AI expansion.

Management guided to ongoing growth between 7% to 11% in net sales growth for 2Q, or US$144bn to US$149bn.

Amazon's commentary confirmed the company's ongoing commitment to artificial intelligence through multiple levers, including Amazon Q, an AI powered assistant for software development; the flywheel effect from AWS growth and demand, and 'over 100,000 of Amazon's selling partners are using one or more of their GenAI tools'.

Microsoft also delivered 1Q standout results. Revenue was split 43% from the "Intelligent Cloud", 32% from Productivity and Business Processes, and 25% Personal Computing.

Microsoft's Azure is the second largest cloud operator/hyperscaler after AWS and reported 31% growth versus consensus expectations of 28%, against the previous corresponding period.

Revenue growth for 'Intelligent AI' rose 21% to US$26.7bn. Looking ahead management expects revenue to expand between 19% and 20% in constant currency.

Like its competitors, capital expenditure will continue to be driven by strong demand. Azure has continued to take market share and recently announced a US$1bn plus multi-year deal with Coca-Cola, with 88% year-on-year (yoy) growth in US$100m-plus sized Azure contracts, plus a doubling in the US$10m-plus segment.

Github reported 45% growth yoy and over 90% of the Fortune 500 is using the product.

The third largest hyperscaler after AWS and Azure is the Google Cloud Platform from Alphabet.

Alphabet generates 78% of revenue from Google Advertising, 11% from Google Cloud, and 11% from other sources.

Google Cloud reported 1Q revenue growth of 28% on the previous corresponding quarter to US$9.6bn, 2.4% above market consensus, and up 26% on the December quarter.

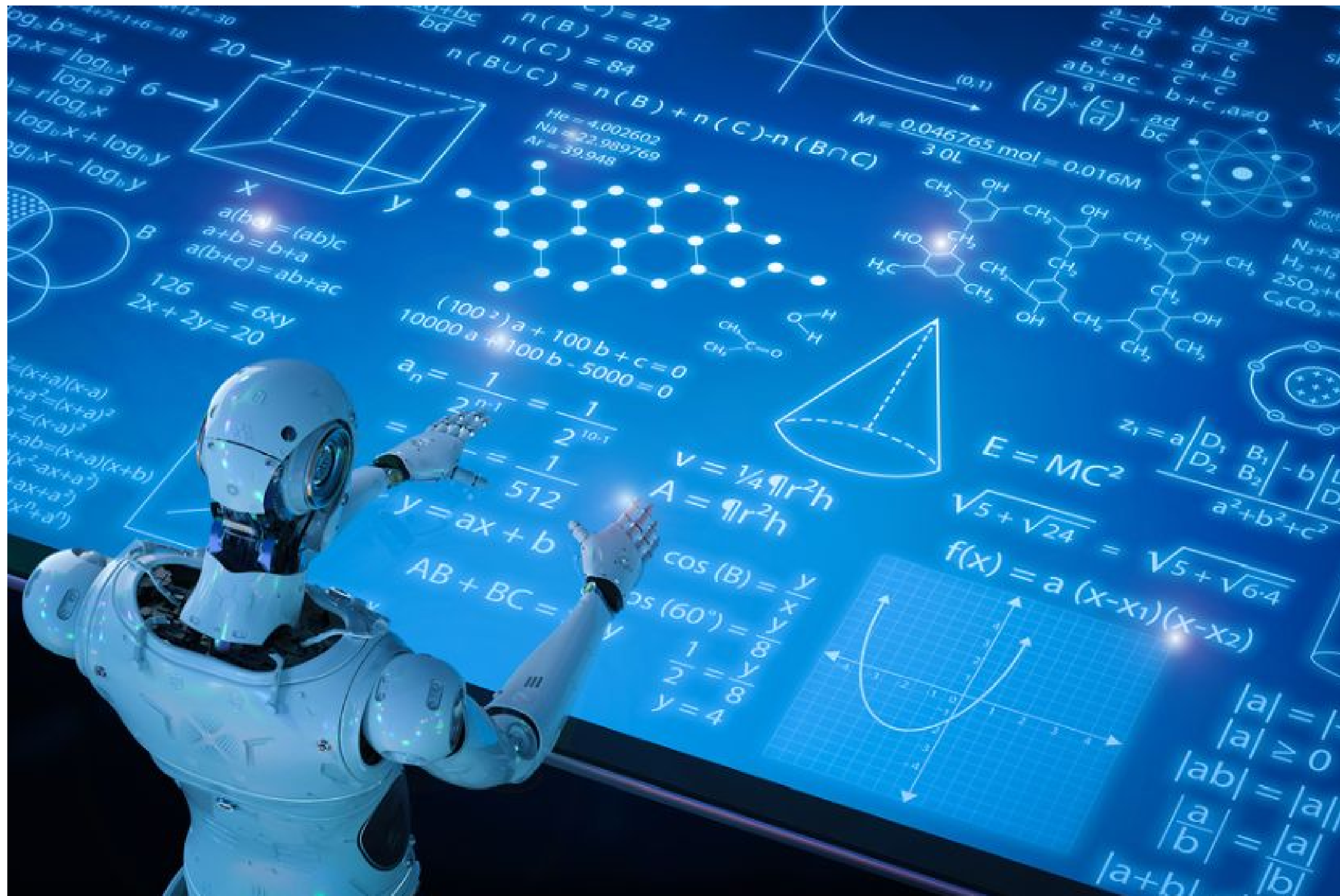
Management noted a doubling of capital expenditure to -US$12bn from -US$6bn compared to the previous corresponding quarter, driven by data centre demand.

Google is working across multiple artificial intelligence platforms including Nvidia GPUs with Google's own TPU or application-specific integrated circuit (ASIC) in its neural networks; it added AI features to pixel, photos, Chrome, messages as well as Gemini (formerly Bard, the LLM) via a Gemini App on Android and the Google app on IOS.

"We have developed new AI models and algorithms that are more than 100 times more efficient than they were 18 months ago."

In reference to Meta, this company reported a 12% rise in capital expenditure to -US$37.5bn for FY24 from -US$33.5bn previously, due to rising investment in AI related infrastructure.

RBC research concludes that even a snapshot from the 1Q big tech results are all **positive tailwinds for Australia's data centre exposed companie**s, as the trickle-down impact from higher investment feeds through.



Catching the Big Tech cloud investment tailwinds, which Australian companies are in the sweet-spot?

Morgan Stanley takes a more in-depth and nuanced approach to the domestic data centre industry in its research.

With a base case of an 8% compound annual growth rate (CAGR) out to 2030 for the Australian data centre market, and a bull case of a 20% CAGR, the outlook looks structurally robust.

Australia is already the fifth largest data centre operator globally, in line with London (after US, Europe, Northern Virginia and Beijing/Shanghai). The market is forecast to expand from 1050MW currently to 2500MW by 2030, at a 13% annual rate.

Citi observes Australia has circa 1GW of live data centre capacity. Sydney is the largest market locally having expanded 2.5 times in the last 5-years and is in the top 20 globally.

Melbourne capacity has doubled in the same period and the research indicates Melbourne has little available capacity.

The demand from government for the digital and cloud first strategy, as well as data sovereignty requirements, are driving the forecast 14% compound average growth to 2030 of some 2.5GWs.

Morgan Stanley estimates there could be revenue uplift of between $5.6bn to $8.4bn p.a. on the back of an estimated total spend between $21bn to $28bn in data centre development over the next 8 years.

Against such a favourable backdrop, how does the earnings outlook shape up for NextDC ((NXT)), Megaport ((MP1)), and Goodman Group ((GMG))?

Some highlights from Morgan Stanley's analysis:

-**NextDC** has a domestic and growing international presence as an owner and operator of data centres and is one of the largest domestic players, alongside of US operator Equinix, AirTrunk (unlisted), Digital Reality, Global Switch (not listed), Canberra Data Centres (not listed), Macquarie Technology ((MAQ)) and hyperscalers Microsoft and Amazon.

-Higher development and land costs are expected to push down the internal rate of return (IRR) on its development pipeline from over 20% to between 10%-12%. The IRR is forecast to exceed the expected average cost of capital (estimated at 7.7%).

-Longer term increased competition has the potential to push down pricing, but for now demand remains robust.

-Traditionally, NextDC has traded at a premium valuation to international peers, like Equinix and Digital Realty Trust, which the analysts attribute to the higher growth rates and the very regulated domestic markets. Post an adjustment for growth, the valuation is relatively not as high.

-NextDC has a total build capacity of 960MW of which 420MW are incorporated into the broker's core earnings forecasts and 560MW from the land bank.

-The target price is lifted to $20 from $17, accounting for a $16 per share valuation for the existing data centres and those under construction, plus $4 per share for the future land bank.

Citi is also a fan of NextDC and considers it as the optimal direct investment play in the artificial intelligence in APAC, due to its strength and leadership in the market.

Although the recent equity raising was sooner than expected, the cash raised frees up development opportunities and removes the overhang of further equity requirements.

The broker estimates contracted utilisation (MW) to expand almost twice in the next three years. Citi has a Buy rating with a $20.10 target price on the stock.

-**Goodman Group** revealed in August last year a 3.6GW portfolio of industrial sites with power either secured or close to secured, referred to as a power bank, with another 1-2GW in different planning stages.

-Morgan Stanley estimates the 3.6GW power bank, depending on how Goodman decides to advance the assets, could realise another $20bn in valuation for the group versus the current market capitalisation of $64bn.

-The flexibility of the business model allows for three forms of earnings accretion including development profits, rental income on the completed assets, and management fees for the Goodman funds.

-Currently the group has a $4bn exposure to data centres versus the $79bn portfolio. Morgan Stanley forecasts this could grow to $28bn by 2030 as a base case.

-Importantly, capital expenditure can be funded by cashflow or, if necessary, some smaller asset sales.

-Management recently upgraded guidance, noting the upside potential for the data centre business pipeline which has increased to 3.9GW from 3.6GW.

Goodman Group is rated Overweight with a $36.65 target price by Morgan Stanley.

<u>Powering the growth in domestic data centres</u>

The lastest update from Morgan Stanley research reveals Australia has sufficient capacity in its existing power system for the data centre developments up until 2030. Data centre power demand is forecast to expand to 8% of the grid's generation capacity by 2030 from 5% currently as a base case.

<u>Water usage is also important.</u>

The growth in data centres is viewed as macro tailwind for both AGL Energy ((AGL)) and Origin Energy ((ORG)) via power prices on the back of higher energy demand and the development of renewable energy projects.

<u>Other companies set to benefit</u>

The artificial intelligence tailwinds are not exclusively for the above-mentioned cloud/data centre beneficiaries, **Pro Medicus** ((PME)) has been highlighted by both RBC and Goldman Sachs as a potential AI winner.

Goldman Sachs initiated coverage on Pro Medicus with a Buy rating and $134 target price on the growing significance of Gen AI enhanced software services from the cloud-based radiography diagnostics specialist.

The broker sees multiple opportunities for Pro Medicus. AI is expected to reach 9% of the company's revenue by FY30 from less than 1% in FY25. Revenue is already being produced from the Visage breast density AI algorithm. The analyst also envisages the company has scope to diversify into Cardiology.

Megaport ((MP1)) is also a slated beneficiary by RBC from the growth in data centres, with its software solutions offering business connections and access points for data transferal in and within data centres.

Citi is also positive on Megaport as a global leading data centre and cloud-on-ramp service provider. The broker views the growth in inference workload as offering more upside potential than artificial intelligence

connectivity. There is a Buy rating and a $16.05 target price.

Let's not leave **Macquarie Technology** ((MAQ)) out of the mix with the hyperscalers as anchor tenants of its five data centres. Management is expanding the capacity of the Macquarie Park Data Centre Campus to reach 56MW from 50MW with power availability up to 63MW.

Also: NZ-headquartered **Infratil** ((IFT)) is a major shareholder in Canberra Data Centres ((CDC)). Macquarie Group and **Global Data Centre Group** ((GDC)) are equity owners of AirTrunk.

Addendum: Key takeaways on Generative AI from Global Investment Manager, Trent Masters at Alphinity Investment Management

"In terms of Ai, as the saying goes “history doesn’t repeat itself, but it often rhymes”. I think we are seeing this in Ai with the parallel being the Internet era starting in 2010. There we saw stock outperformance begin with the enablers like semiconductors, then saw it shift into infrastructure/devices before the final move into software and services. In terms of stocks, this saw the outperformance start with Qualcomm/ARM before shifting to device makers such as Samsung and Apple before the enormous value creation in software enabled businesses such as Google and Amazon.

"Comparing that to today, the leading enablers this time are Nvidia, AMD and memory players such as SK Hynix and Micron. We have seen significant outperformance already wash through these businesses, and I think there is still some room to run. In terms of the infrastructure level, we are seeing this emerge particularly in cloud players (the recent results for Azure, AWS and GCP were all strong) while the devices element around Ai on device for PC’s and smartphones is just starting to emerge. In software and services, it is still very early and trying to pick winners in this area given the speed of evolution in Ai can be fraught. We’ve seen companies such as Adobe and SNOW swing from potential winners to losers in quick time as the landscape rapidly shifts.

"What I think is different this time at the software and services level is that the Internet era created fertile ground for disrupters to create completely new business models. The foundational tech of the internet was largely free, and an avenue for companies like Google and Amazon to create new businesses and disrupt incumbents. But with Ai, given the inherent cost in compute requirements this will at least in the initial stages see the benefits flow to incumbents until some real breakthrough use cases emerge.

"In terms of stocks, where this leaves us is more comfortable where we can touch and feel the earnings inflection. This is in the enablers such as Nvidia where the size of the accelerator market continues to be revised up as evidenced by the robust capex spend from cloud players in recent results. Companies such as memory business SK Hynix also benefit from High Bandwidth Memory requirements for Ai.

"In the Infrastructure layer, it really is all about the cloud players at this stage, with Microsoft as the standout. Not only is Microsoft Azure taking share due to their Ai capabilities, but Microsoft also has the potential software and services inflection from being able to distribute Ai services into a 450m commercial customer base.

"Also benefiting in the infrastructure layer is network business Arista networks, along with some signs of inflection in what are considered “old world” businesses such as Dell.

"In software and services, as discussed it is still early (true software and services company outperformance only emerged around 3yrs into the Internet era) and fraught to try and pick early winners. As such the preference remains for those companies that can push Ai product extensions into a broad existing customer base. It isn’t so much about having the “best model” but about the application created from it and the channel through which to distribute it in the initial stages. However this software and services area is where potentially the next Google or Amazon for the AI era could emerge"

The author owns shares in Goodman Group, NextDC and Pro Medicus.

For more in depth analysis please refer to FNArena’s Stock Analysis and the associated stories.

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

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

RUDI'S VIEWS

Rudi's View: More Positives Than Negatives

In this week's Weekly Insights:

-More Positives Than Negatives
-New Market Leadership?
-2024 The Year Of Gold Miners?
-All-Weathers Welcome Soul Pattinson
-Model Portfolios, Best Buys & Conviction Calls

By Rudi Filapek-Vandyck, Editor

More Positives Than Negatives

Judging from corporate updates, both internationally and locally, the general context has created a tricky framework for investors, as also yet again confirmed by Fletcher's Building's ((FBU)) disappointing trading update on Monday.

It's not as if management and shareholders look over their shoulders feeling lots of excitement, but on Monday the shares dived yet another -10% for a total loss in capital since August 2021 in excess of -60%. The fact the New Zealand builder regularly pays out a dividend hardly compensates for the suffering endured.

Last week offered similar experiences from Sims ((SGM)), GrainCorp ((GNC)), Baby Bunting ((BBN)), Lindsay Australia ((LAU)), and Tourism Holdings ((THL)), among others.

Yet, the impact on consensus profit forecasts in Australia has almost been negligible. That's because for every disappointing market update there seems to be another one that manages to surprise on the upside. Think of REA Group ((REA)), Orica ((ORI)), and AGL Energy ((AGL)), but also Westpac ((WBC)) and National Australia Bank ((NAB)), and others.

The out-of-season results reporting in Australia is about to hit the accelerate button with companies including CSR ((CSR)), Aristocrat Leisure ((ALL)), and Incitec Pivot ((IPL)) scheduled to release operational financials this week, followed by ALS Ltd ((ALQ)), Elders ((ELD)), James Hardie ((JHX)), Nufarm ((NUF)), TechnologyOne ((TNE)), Webjet ((WEB)), and Xero ((XRO)), among others, before the end of the month.

Add-in the fact Australian companies are increasingly updating through quarterly trading updates and there's a fair argument to be made investors locally nowadays are subjected to semi-quarterly reporting seasons a la Wall Street.

Face value experiences to date are mixed at best, see also the examples mentioned, but analysts and market strategists, both here and in the USA, are nevertheless of the view things are looking better than previously forecast.

Earnings forecasts in the US have risen as a result of March quarterly corporate updates. The underlying picture in Australia remains more volatile, also because mining operations and agricultural businesses have been impacted by bad weather, but so far it appears the balance is tilted towards more positives than negatives.

On Morgan Stanley's assessment, consensus is still forecasting average EPS to fall for the ASX200 by -6.8% for FY24, then to rise by 4.7% and by 4.6% in respectively FY25 and FY26. These numbers have only changed minimally over recent weeks.

While concerns over inflation, bond yields and delayed interest rate cuts, in combination with markets trading on above-average multiples, are dominating sentiment and financial news headlines, corporate updates have likely contributed to the cautiously optimistic tone that has returned post April's correction (if we can call it that).

Analysts at Macquarie have come to the same conclusion having witnessed 114 companies presenting and updating over three days the week prior (7-9 May) at the **Macquarie Australia Conference**. This year marks the 26th edition of what has arguably become Australia's most important corporate event.

Retail proved the stand-out negative surprise of this year's conference, suggest Macquarie analysts, as market updates from the likes of JB Hi-Fi ((JBH)), Temple & Webster ((TPW)), Endeavour Group ((EDV)), Super Retail ((SUL)), Coles

Group ((COL)) and Vicinity Centres ((VCX)) either implied market forecasts won't be met, or confirmed Australian households are spending less or buying cheaper alternatives.

But net-net this year's conference was positive, concludes Macquarie, with companies including AGL Energy, HMC Capital ((HMC)), AUB Group ((AUB)), and Medibank Private ((MPL)) lifting their guidance, while trading updates from the likes of PolyNovo ((PNV)), Pinnacle Investment Management ((PNI)) and Regis Healthcare ((REG)) proved better-than-expected.

Macquarie's forecast is for the net positive trend for Australian companies, that looks to have started in the last AGM season in late 2023, to continue into the August results season. Daily evidence suggests, however, there remains plenty of room for disappointments, reflective of the polarised dynamics that nowadays characterise the global economic picture.

As far as the outlook for the share market goes, I am still siding with the optimists, as I have since October last year, though I also believe investors should be prepared for a lot more volatility.

Anticipating exactly where the next corporate disappointment might come from is a mug's game, so it's probably best portfolios have exposure to companies that should perform well medium-to-longer term, irrespective of the potential for an unexpected short-term set-back.

I'd be inclined to think my recent writings offer plenty of background and ideas:

-https://fnarena.com/index.php/2024/05/09/rudis-view-arcadium-lithium-goodman-group-paladin-pexa-treasury-wine/

-https://fnarena.com/index.php/2024/05/08/rudis-view-opportunity-in-data-centres/

-https://fnarena.com/index.php/2024/05/01/rudis-view-quality-reigns-and-how-to-identify-it/

FNArena's Corporate Results Monitor only covers actual financial results, and we do our best to keep up with the pace throughout the rest of the month: https://fnarena.com/index.php/reporting_season/

At the macro-level, I remain of the view that the prospect of interest rate cuts, delayed or otherwise, remains a positive carrot for markets, unless economies stumble into recessions.

Below are some of the more interesting views and research updates I came across recently. Things to consider?

New Market Leadership?

Longview Economics has observed something's happening that hasn't been seen for quite a while... the S&P500 index as the equal-weighted S&P500 index are pretty much moving at similar pace in 2024.

In years prior, led by the Magnificent Seven and a small cohort of GLP-1 and AI beneficiaries, the equal-weighted index has significantly underperformed. Longview therefore suggests what we are experiencing this year is a new phase in the equities up-trend, one that is no longer singularly dependent on a small group of extraordinary achievers only.

In other words: the up-trend is broadening. It's time for the rest of the market, for the laggards to catch up.

In the slipstream of this observation, Longview highlights US equities already are no longer the best performing in 2024. The suggestion made is investors are starting to position for looser policies from central banks around the globe (this in contrast to some of the views that are still being aired by some in Australia and in the USA).

If Longview's assessment proves accurate, it won't be long before all major central banks are cutting interest rates, thereby fueling the next economic upswing. The world shall witness a fresh consumer spending boom and above average nominal GDP growth. This shall translate into sector leadership switching back to the old economy and 'value' sectors that dominated in the nougthies.

Think commodities, consumer cyclicals, banks, and small and mid-cap companies generally.

2024 The Year Of Gold Miners?

Commodities analysts at **UBS** think gold prices are likely to rise as the Federal Reserve starts cutting interest rates, exact starting date as yet unknown.

The added observation is it hasn't been easy for investors to accumulate positive experiences from investing in gold mining stocks, and that checkered picture has continued into 2024 with unpredictable weather impacts and delays in Fed rate cut forecasts leaving their mark on share prices.

Nevertheless, gold miners are cheaply priced, maintains the broker, and with gold prices likely to rally as those rate

cuts come through, 2024 might well turn into the year of the gold miners. History shows when gold bullion experiences a bull market, shares in gold miners perform even better, also because shares have to play catch-up from undervalued levels.

For good measure: UBS acknowledges there remains risk for further disappointment as inflation, operational uncertainties and capex budgets are all cum updates with the end of FY24 approaching. On the broker's projections, the sector in Australia is trading on a free cash flow yield of 6% over FY24/25, with this number to increase to 10% when measured through the present spot price.

UBS has upgraded Bellevue Gold ((BGL)) to Buy (target $2) and already had Buy ratings for Evolution Mining ((EVN)), DeGrey Mining ((DEG)), and Gold Road Resources ((GOR)). There's only one Sell rating in the broker's research universe; Regis Resources ((RRL)).

All-Weathers Welcome Soul Pattinson

The question has landed in my inbox quite frequently in recent months: *Rudi, why is Washington H. Soul Pattinson ((SOL)) not included in your selection of All-Weather Stocks?*

It is a great question, and to my own embarrassment, my responses were looking less and less convincing, and I knew it too!

For those not familiar with 'Soul Patts', the company finds its origin in a single pharmacy store in Sydney's Pitt Street in 1886 and has been listed on the ASX since 1903. Today, its market cap is approaching $12bn and the business is a truly diversified asset manager, combining listed with unlisted assets, including corporate credit, coal, telecommunication, and more, alongside a controversial cross-ownership with Brickworks ((BKW)).

Soul Patts is a member of the ASX100 and in possession of one of the strongest dividend payment profiles to match that achievement. Management's ability to create value for shareholders over the years has been nothing but admirable.

Washington H. Soul Pattinson is now part of my selection of All-Weather Performers on the ASX, where it joins Wesfarmers ((WES)) and Macquarie Group ((MQG)), equally two of the best asset managers on the local exchange. I think there's a message in there, both for myself and for investors following my research: asset managers can be an excellent source of enduring, sustainable rewards over a long period.

This, of course, is not to be applied across the board. Look, for example, at the long-winded shrinkage that has befallen shareholders in Perpetual ((PPT)).

Infratil ((IFT)), which is an $8bn asset manager, specialised in infrastructure and headquartered in New Zealand, also features regularly in questions received. Infratil has been listed on the ASX since 2010, but I never heard its name, in questions received or otherwise, until recently.

I have a strong suspicion growing interest locally is directly related to Infratil's 47.99% ownership in Canberra Data Centres (CDC), one of the largest operators of data centres in Australia (as also mentioned in Weekly Insights on data centres last week).

This is not dissimilar from awakening investor interest in Global Data Centre Group ((GDC)), which is part owner of AirTrunk, alongside Macquarie Group.

While Infratil is nowhere near to be included as an All-Weather Performer, it does offer investors an alternative for exposure to the strong growth story for data centres in the years ahead.

Model Portfolios, Best Buys & Conviction Calls

A dedicated update on Model Portfolios, Top Picks and Best Buy ideas, and other calls made with Conviction will be published on the FNArena website every Thursday morning around 10am.

Last week's update:
https://fnarena.com/index.php/2024/05/09/rudis-view-arcadium-lithium-goodman-group-paladin-pexa-treasury-wine/

All Weekly Insights and Thursday updates are grouped together under **Rudi's Views**, with past updates going back as far as 2006: https://fnarena.com/index.php/analysis-data/rudis-views/

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(This story was written on Monday, 13th May, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

the direct messaging system on the website).

RUDI'S VIEWS

Rudi's View: ANZ, AUB, Beach Energy, CSL, Flight Centre & Newmont

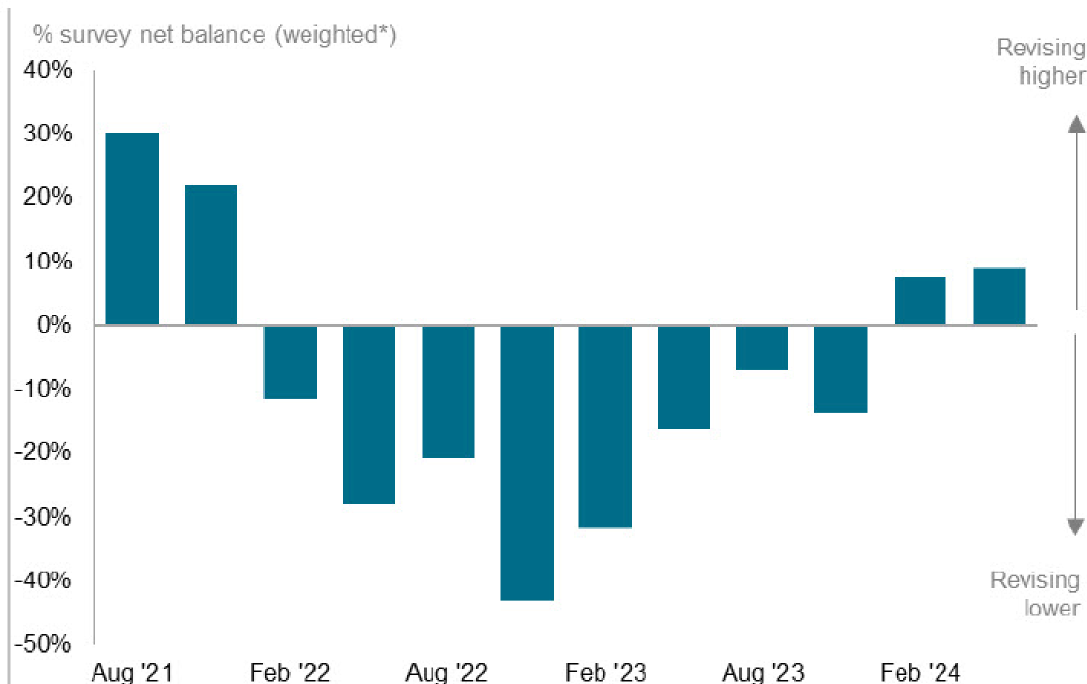
By Rudi Filapek-Vandyck, Editor

It is the eye-catching recurring theme in investment strategy reports and investor surveys this month: investors have become more confident about the medium-term outlook, despite delays to future rate cut expectations.

And as I highlighted in my Weekly Insights earlier this week, corporate results and market updates have made a crucial contribution to this boost in general market sentiment.

The graphic below is taken from the latest **investment managers survey** organised by **S&P Global**, which, unsurprisingly, shows global risk appetite has rapidly recovered from the April confusion to its highest level since late 2021.

The graphic shows how expectations have turned into a net positive on the basis of quarterly corporate financial releases in the USA. Weekly Insights this week suggested, arguably, the underlying picture/trend for Australia is a net positive too.



Post this week's Federal Budget, which yet again has amped up the public debate about inflation versus growth, **Macquarie strategists** stated the following:

"With more than 50 countries around the world holding elections in 2024 (incl Biden vs Trump), Australia is unlikely to be the only government that delivers a pro-growth budget as they look to re-election.

"All this pre-election spending should support the growth cycle and corporate earnings. The risk to markets is higher bond yields as inflation remains higher for longer and delays rate cuts.

"At this point, downside risks to growth are more likely in 2025 when governments would be expected to deliver some typical post-election discipline."

And that, as the Devil's Advocate would suggest, sums it up quite nicely.

For what it's worth, I view the latest $300 power bill compensation as announced by Treasurer Chalmers as simply the government playing the rules of the game. It will reduce official CPI readings by an estimated -0.5%, simply because that's the way these things are measured and included in the CPI calculation.

As wealthy Australians are less likely to spend the extra benefit, or maybe they will do it overseas, that statistical trickery might actually outweigh the spending by less-wealthy households. With cost-of-living pressures continuing, nobody was seriously thinking any government was simply going to watch disasters unfold and do nothing?

Model Portfolios, Best Ideas & Conviction Calls

Meanwhile, about that other 'hot' topic in Australia, **Wilsons** strategists remain undeterred in their "challenged for longer" outlook for Australian banks, despite a not-as-bad-as-feared results season from the sector.

Wilsons portfolio positioning therefore remains Underweight the local banking sector. In line with many other sector analysts and local market strategists, Wilsons sees lower earnings for the banks in FY25 and that makes current valuations "stretched".

ANZ Bank ((ANZ)) is preferred and the sole bank stock that is enjoying an Overweight allocation in the **Focus Portfolio**.

****

Evans and Partners' Best Ideas have seen a number of changes recently. The broker's ideas (essentially Conviction Calls) are spread over several categories, and **Quality stocks** is one of them.

Current Quality ideas are:

-Aristocrat Leisure ((ALL))
-Brambles ((BXB))
-Flight Centre Travel Group ((FLT))
-Macquarie Group ((MQG))
-Rio Tinto ((RIO))

Flight Centre was moved from the list of Tactical Recommendations to the Quality basket given the broker's anticipation of ongoing growth and sustainable, attractive returns on invested capital.

Best Ideas in the **Growth** category:

-Block Inc ((SQ2))
-Mineral Resources ((MIN))
-NextDC ((NXT))

Block was recently added with the company expected to enjoy strong growth for many more years.

Best Ideas for investors looking for **dividend yield**:

-APA Group ((APA))
-Arena REIT ((ARF))
-Qantas Airways ((QAN))

-Telstra ((TLS))

Qantas Airways was moved out of Tactical Recommendations to the yield category with Evans and Partners expecting significant fully-franked dividends over the medium term.

Tactical Recommendations:

-Beach Energy ((BPT))
-Monadelphous Group ((MND))
-Tabcorp Holdings ((TAH))
-Treasury Wine Estates ((TWE))

Beach Energy and Tabcorp were recently added to the list.

****

Post the 26th Macquarie Australia Conference, which took place in the first week of May, **Macquarie** analysts have listed their preferences among **A-REITs** as follows:

Among large caps: Charter Hall ((CHC)), Mirvac Group ((MGR)) and Goodman Group ((GMG))
Among smaller caps: Qualitas ((QAL)) and Centuria Industrial REIT ((CIP))

****

Morningstar's Best Equity Ideas for ASX-listed stocks currently contains 14 inclusions. Morningstar's approach is centred around 'cheap value', more so than around 'growth':

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

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

****

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

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

****

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

-ANZ Bank
-CommBank ((CBA))

-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-Macquarie Group
-QBE Insurance
-Suncorp Group
-Goodman Group
-Scentre Group ((SCG))
-Stockland ((SGP)
-Aristocrat Leisure
-Car Group
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-James Hardie ((JHX))
-Orica ((ORI))
-Coles Group ((COL))
-Treasury Wine Estates
-CSL
-ResMed ((RMD))
-AGL Energy ((AGL))
-Origin Energy
-Telstra
-Transurban Group ((TCL))
-BHP Group ((BHP))
-Newmont Corp
-Rio Tinto
-South32 ((S32))
-Paladin Energy
-Santos ((STO))
-Woodside Energy

****

Wilsons' list of Highest Conviction Investment Ideas has seen the allocation increase to Woodside Energy, Xero ((XRO)) and Netwealth Group (NWL)).

Other Most Preferred Ideas are Aristocrat Leisure and Collins Foods ((CKF)).

More ideas come with "long term growth" profiles:

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

Among Resources stocks, there are two favoured ideas:

-Beach Energy
-Liontown Resources ((LTR))

And there's a Speculative basket too:

-Immutep ((IMM))
-Clarity Pharmaceuticals ((CU6))

****

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

(underweight iron ore).

In terms of individual stocks, the Focus Portfolio encompasses the following:

Consumer Discretionary
Aristocrat Leisure, IDP Education ((IEL)), Lottery Corp, Collins Foods, Breville Group ((BRG)), Webjet ((WEB))

Energy
-Woodside Energy

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

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

Industrials
-Worley ((WOR))

Information Technology
-Xero

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

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

****

Macquarie Wealth's recommended **Growth Portfolio** currently includes the following stocks:

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

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

-Suncorp Group
-Telstra
-National Australia Bank
-Westpac Bank
-ANZ Bank
-BHP Group
-CommBank
-Premier Investments ((PMV))

-Coles Group
-Viva Energy
-Atlas Arteria ((ALX))
-Aurizon Holdings
-APA Group
-GPT Group ((GPT))
-Deterra Royalties ((DRR))
-Metcash ((MTS))
-GUD Holdings ((GUD))
-Charter Hall Retail REIT ((CQR))
-Amcor

Weekly Insights this week: https://fnarena.com/index.php/2024/05/15/rudis-view-more-positives-than-negatives/

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

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

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

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SMALL CAPS

Dr Boreham's Crucible: Invion

Invion is an old company on a new mission.

ASX Code: ((IVX))

Market cap: $32.1m

Shares on issue: 6,424,532,206

Chief executive officer (and executive chair): Thian Chew

Board: Mr Chew (chair), Alan Yamashita, Rob Merriel, Alistair Bennallack

Financials (December half 2023): Revenue (effectively reimbursement from RMW Cho Group) $2.2m (up 15%), loss of -$714,000 (previous deficit -$831,000)

March quarter 2024: receipts nil, operating cash outflows -$554,000, cash $1.387m, quarters of available funding: 2.5

Identifiable shareholders: RMW Cho Group/Michael Cho 14.3%, Polar Ventures (Thian Chew) 8.5%, Shengli Wang and associates 6.4%

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By Tim Boreham, Editor, The New Criterion

Invion chief Thian Chew says investors often ask him why the cancer and anti-infectives house has been largely silent about the company's progress.

"Over the last couple of years, we have been doing the essential - but, from the market's view, very uninteresting – pre-clinical work such as safety and toxicology studies," Mr Chew says.

"We could have made more announcements for announcements' sake, but what's the point if it's not … relevant to investors?"

Indeed! Other biotechs could take a leaf out of Invion's minimalist book and refrain from trivial disclosures. They know who they are.

In recent months, however, Invion's news flow has intensified as the company firms up plans to conduct human cancer trials, including for non-melanoma skin cancer and ano-genital cancers (which don't exactly inspire Pink Ribbon Day campaigns).

At the heart of Invion's quest is Photosoft, a novel photodynamic therapy (PDT).

Before PDT was injected into the company in late 2017, Invion had many assets and a history more tortuous than a medieval dungeon

"It's an old company with a new story," Mr Chew says.

Shining a new light on an old technique

By combining oxygen and light, photodynamic therapies are known to kill malignant cells and shut down tumors, with evidence they also stimulate the immune system.

PDT sounds like a new thang, but Danish physiologist Prof Niels Finsen got on to the idea in 1903 and snagged a Nobel Prize for his work.

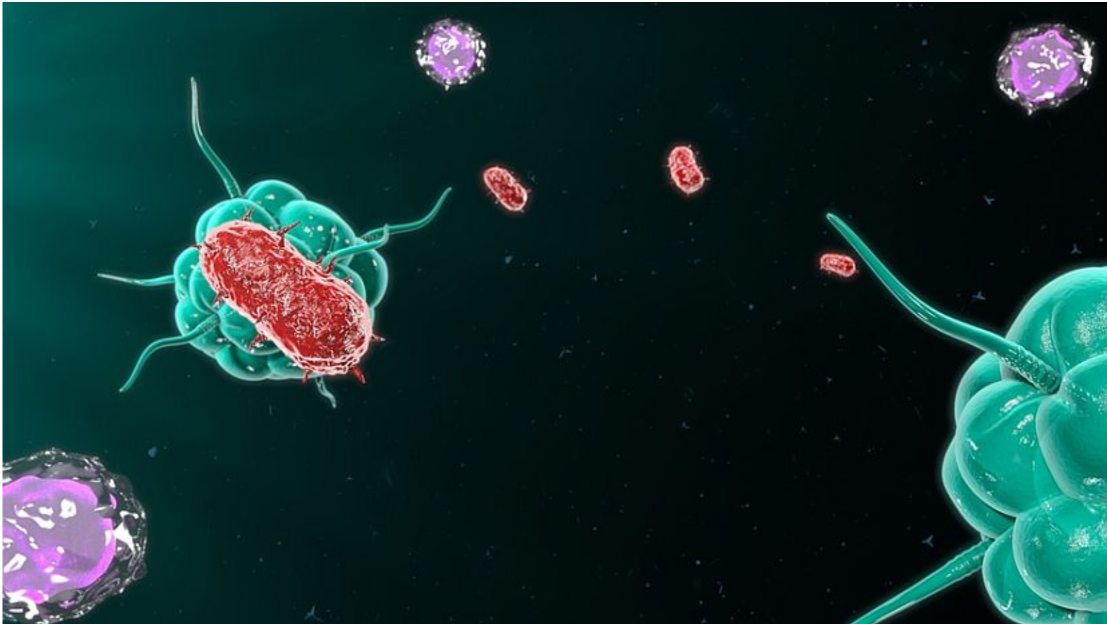
Since then, at least 500 PDT trials have been carried out, with the Russians proving especially interested. But advancement was hampered by "off target" issues including toxicity and lack of solubility.

Eventually, the US Food and Drug Administration approved a PDT treatment for oesophageal cancer, in 1995. In 2017, Israel's Steba Biotech won European approval for its PDT prostate cancer treatment, Tookad.

A 'next-generation' PDT, Photosoft was developed over a decade ago by the RMW Cho Group, the vehicle of Melbourne businessman Michael Cho.

Photosoft is chlorophyll (plant) based and only accumulates in the cancer cells.

By adding conjugates to enhance selectivity, safety and potency, Invion aims to overcome the shortcomings of the old treatments.



About Invion

Invion started out as Cbio, which listed on the ASX in 2010 with an ultimately unsuccessful rheumatoid arthritis (lupus) program.

The company changed its name to Invion in August 2012 on the back of a smoking cessation aid, but a lack of partner interest stubbed that one out.

In 2013, director Dr James Campbell brought in Dr Greg Collier, former head of leukaemia drug developer Chemgenex, as CEO.

In a back-door listing deal in late 2017, Invion entered an exclusive distribution and licence agreement to develop Photosoft.

In 2019, the Hudson Institute said it would partner with Invion to research and develop PDTs, while in the same year Melbourne's Peter MacCallum Cancer Centre announced a collaboration to research ano-genital cancers.

Dr Collier retired in October 2019 and was replaced by chief operating officer Craig Newton in April 2018 (Mr Newton left in October 2020).

A former executive director of the investment bank Goldman Sachs, Mr Chew met Mr Cho by chance and the rest - as they say - is history.

Expanding boundaries

Under the initial 2017 deal, Cho Group agreed to fund all research and Invion was granted exclusive dibs on Australia and New Zealand.

In 2021-'22, the arrangement was tweaked with Invion becoming licencee for Asia Pacific (excluding China) for cancer and inflammatory diseases.

Invion also has rights to infectious diseases in the US, Canada and Hong Kong.

The US$3bn South Korean oncology market is of particular interest, given its rising cancer incidence.

In return for contributing $900,000 to RMW Cho Group for prior development costs, Invion expects half of all upfront fees, milestone payments and royalties from sub-licencing the technology in the 'good' half of the

peninsula.

Across the board, Invion will finance 75% of future clinical work, with Cho Group bearing the other 25%. With non-clinical costs, the burden flips the other way.

Invion's pre-clinical work to date has centred on its Peter MacCallum Cancer Centre and Hudson Institute collaborations.

This included mice study results for triple-negative breast cancer showing no disease recurrence - and some protective immunity.

This was followed up with in-vitro studies to treat atherosclerosis and infectious diseases, including Zika virus, dengue fever, fungi and Sars-Cov-2.

In the clinic (skin cancer)

Invion's first human trial is an open-label study in non-melanoma skin cancer (NMSC), the most prevalent cancer - although not the deadliest. The skin cancer capital of the world, Australia, is an easy patient recruiting ground.

The company expects to enrol between 18 and 174 subjects - probably from one site in Queensland - who will be treated with topical ointment.

There's a twist to the tale, in that there's already an approved PDT NMSC therapy: Galderma's Metvix.

The primary standard of care - surgery or cryosurgery - also works well.

So what problem is Invion seeking to resolve? The answer lies in increased comfort (less pain) and aesthetics (less scarring).

"Metvix has been around for a long time," Mr Chew says. "It doesn't work as well as surgery but has better cosmetic results. Because it's painful, 10% of patients can't finish treatment."

Mr Chew says the trial will be open-label and adaptive in terms of dose optimisation and the like.

Biotech greybeards will recall that the ASX-listed Peplin was sold to Denmark's Leo Pharma for US$287m ($440m) in 2009.

Peplin's lead product was a CSIRO-developed, topically-applied liquid skin cancer treatment derived from the milky sap of a common weed.

In the clinic (ano-genital cancers)

The trouble with penile and anal cancers is that sufferers are too embarrassed to see their doctor until it's too late. Former Charlie's Angel Farrah Fawcett became a poster child for the rare disease after succumbing to it in 2007, aged only 62.

In March 2024, the company reported what Peter MacCallum investigator Prof Rob Ramsay dubbed "exceptional" and "consistent" anal squamous cell carcinoma mice trial results.

Across the 40 diseased mice, 80% of tumors treated with a combined INV043/immune checkpoint inhibitor (ICI) therapy showed tumor control, with 70% showing no tumor volume.

The more typical response rate for immune checkpoint inhibitor alone is 12%.

Furthermore, 10% of tumors increased in volume, but the culprit was pus rather than cancer.

Two earlier Hudson Institute combination trials for triple negative breast cancer showed a 65% improvement in tumor volume versus standalone ICI therapy.

Look out for the patent cliff

Immune checkpoint inhibitors are blockbuster cancer drugs but many are reaching the end of their patent life, some in four short years.

For example, Merck derived US$25bn of revenue from Keytruda last year - 42% of its total sales.

Combining an ICI with a PDT raises the prospect of delaying a nasty fall down a patent cliff, with even a one-month extension adding meaningful value.

Meanwhile Mr Chew notes the versatility of INV043, in that it can be applied topically, intravenously, sublingually or via injection straight to the tumor.

Infectious diseases and all the rest

Invion's interest in infectious diseases centres on microbial resistance - rated by the World Health Organisation as one of the top threats to humanity.

Depending on the FDA's requirements, the company's first trial will be periodontal (tooth implant recipients).

About a quarter to half of implant recipients get an infection such as peri-implantitis or mucositis, sometimes so seriously the procedure has to be redone.

The company is also eyeing a program for HPV, the most prevalent sexually transmitted disease in the world despite the good work of Gardasil vaccine co-creator Prof Ian Frazer.

In March 2024, South Korea's Dr I&B Co said it would conduct Photosoft human safety and efficacy tests, including proof-of-concept human trials for HPV. Invion retains all rights to the tech.

Given DR I&B funds the trials, there's little downside for Invion.

Asian cancers pose a medical mystery

Invion is also interested in lung cancer, especially given the rising incidence of the disease among Asian women who have never smoked.

No one knows why. One theory being inhalation of vaporised cooking oil.

Also, 86% of the incidence of the back-of-the-nose nasopharyngeal cancer is in Asia, particularly in southern China. Hence the disease in known as 'Cantonese cancer'.

Gastro-oesophageal cancers are highly prevalent in Korea and Japan, possibly because of high consumption of cured meats and pickled vegetables.

These mysteries are being probed by Stanford Medicine's Center for Asian Health Research and Education, which Mr Chew recently joined as an advisory board member.

Finances and performance

With $1.9 m in the bank as of the end of December, Invion needs to use its funds prudently and seek non-dilutive sources for more of the readies.

"We are very open to collaborations and licencing," Mr Chew says.

He says there's more shareholder value in advancing multiple trials across more than one cancer, rather than pursuing a single narrow indication all the way to regulatory approval.

Meanwhile, Cho Group's Invion holding has been reduced from its initial 70%, to around 14% as a result of share distributions to prior collaborators.

Via his Polar Ventures, Mr Chew holds 8.5 %, while insiders and prior Cho Group collaborators account for about half of the register.

Over the last 12 months Invion shares have traded thinly between 0.4 cents and 0.8 cents. Post the 2017 back-door listing, the shares peaked at 4 cents in April 2018.

Dr Boreham's diagnosis:

With the two human cancer trials pending and more in the pipeline, Invion finally looks to be gaining traction.

But with a $38m market cap, the stock is valued more like a university spin-off than a clinical-stage company.

Previously, Invion in effect was a contract research organisation for Cho Group with rights only to the local and NZ markets. With its turf now covering Asia Pacific and North America, Invion is closer to controlling its own destiny.

Mr Chew admits Invion's corporate structure needs to be further streamlined and liquidity improved, so that investors can focus on the clinical development.

"It is complicated, but it can be solved," Mr Chew says.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. They say that sunlight is a disinfectant, but he prefers Pine O'Cleen.

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SMALL CAPS

More Life Left In Life360

Life360 has doubled in share price since its March earnings result, but brokers believe further re-rating is still on the cards.

-Life360 beats on earnings
-Record quarter for monthly active users
-Further re-rating expected
-US listing pending

By Greg Peel

Life360 ((360)) is a California-based, ASX-listed company that operates a technology platform to locate people, pets, and objects in North America and internationally, plus some more extensive services, via a range of free and pay-for apps.

Using Life360's technology, one can keep track of the whereabouts of a young child, a dotty grandmother, a wayward dog, and a mobile phone, for example.

The company offers "paying circles" which allow family members to collectively keep track of whomever or whatever they wish to.

When Life360 reported second half earnings at the beginning of March, the share price quickly jumped 50%. Aside from posting beats on revenues and earnings, the company announced a move into advertising (to its non-paying database) that brokers saw as the main highlight.

Since then, the share price has now as good as doubled. Last Friday, the company provided a quarterly update which led to only a muted share price response, given the key metrics had already been pre-reported.

Conservative Guidance

Life360's quarterly update showed a slight miss on consensus revenue forecasts, but a beat on adjusted earnings. Growth in monthly active users and paying circles were a record in the quarter.

Management noted it is "seeing that higher growth level continuing" with regards to the late quarter rise in monthly active users and paying circles.

Despite the strong result, 2024 guidance was left unchanged, even though management highlighted this year's result will be more second half-weighted than usual due to the ramp-up in advertising revenue over the year.

Goldman Sachs continues to see upside to Life360's 2024 earnings guidance at future results given (1) subscription revenue from March quarter net adds will begin to be recognised through the June quarter; (2) the company is yet to hit its seasonal peak in the September quarter with back-to-school; (3) high-margin advertising revenue is still expected to begin flowing in the second half, as well as seasonal Hardware revenue; and (4) Goldman does not expect a material step-up in the cost base as management focuses on operating leverage.

In other words, notes the broker, Life360's core subscription business is performing ahead of expectations even before advertising dollars begin to ramp up, creating the possibility for continued guidance and consensus upgrades as the year progresses.

Ord Minnett makes the point that with some 65% of earnings coming in the second half, on the broker's estimates, any hesitation to upgrade guidance this early in the full year is but understandable.

US Listing

The company also announced a non-binding letter of intent to partner with Hubble Network in the US, which offers similar services, and plans for a US IPO. Details of both nonetheless remain scarce.

Life360 will look to list in the US on the Nasdaq Global Select Market. Any IPO will consist of a primary/secondary issue, with the primary component not to exceed US$100m. The stock will remain listed on the ASX. All other details remain scarce, but on balance, Ord Minnett sees this as a positive.

Goldman Sachs does not expect Life360's investment in Hubble Network to materially alter the near-term financials or investment case (given an initial investment of only single-digit USD millions). However, in this broker's view it does provide some longer-term optionality to drive greater returns from the earlier Tile acquisition.

Bell Potter has increased the multiple it applies in its enterprise value-to-revenue valuation to 6.5x from 5.5x given the proposed US listing and potential re-rating of the stock due to higher multiples for comparable companies.

Positive Views

Subscription growth, operating leverage and cash generation are all on track versus expectations, Morgan Stanley notes. The broker feels the market will still seek clarity on the timing and magnitude of the advertising contribution, but retains an Overweight rating and has lifted its target to $17.50 from $16.50.

Key potential catalysts for the stock, suggests Bell Potter, include another strong quarter of paying circle growth in the June quarter (April was another good month), a potential upgrade to 2024 guidance sometime in the second half, and a US listing at some stage in the next 12 months.

Bell Potter has a Buy rating and has lifted its target to $17.75 from $16.25.

Ord Minnett feels it is a mistake to look at the Hubble Network deal in isolation. Life360 is a family safety platform, this broker notes, with new verticals able to be continuously offered to a global network of some 66m users.

For Ord Minnett, "this is the story."

Ord Minnett has a Buy rating and has lifted its target to $16.68 from $15.20.

As Life360's profitability scales, Goldman Sachs expects investors to compare the company to larger Australian/US peers, which should be supportive of a continued valuation re-rating, in this broker's view.

Goldman has a Buy rating and has lifted its target to $16.05 from $14.20.

At the time of writing, Life360 shares are trading at $14.90.

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SMALL CAPS

FleetPartners Green Outlook Is Electrifying

Following a strong run over the last year, brokers see further upside for shares of FleetPartners following first half results.

-Analysts raise targets for FleetPartners after first half results
-High used car prices drive higher end-of-lease income
-Margins disappoint, but Citi expects a rebound
-Tailwind from electric vehicle uptake

By Mark Woodruff

In a world striding towards electrification, FleetPartners ((FPR)) is finding a niche with a strategic focus on electric vehicles and a new green bond initiative.

After a powerful run from $2.08 a year ago to recent highs of $3.84, the company's share price retraced around -9% since delivering first half results earlier this week, despite two covering brokers in the FNArena database setting materially higher 12-month targets.

Morgan Stanley insists valuation multiples for the company remain undemanding when one contemplates the strong trajectory for new business writings (NBW) amidst resilient fleet demand, elevated backlogs, and supply improvements.

Acting as catalyst for higher outsourcing, fleet electric vehicles (EV's) are an emerging tailwind globally. For FleetPartners, electric vehicles now comprise 51% of Novated new business writings (NBW), hitting a high of 63% in March this year.

FleetPartners provides vehicle fleet leasing, fleet management, and diversified financial services. The Australian commercial segment provides vehicle fleet leasing and management, along with commercial equipment finance and leasing.

Novated leasing and salary packaging is supplied via the Novated segment, while the New Zealand Commercial division specialises in fleet leasing and management and operates under the trading names of fleetPlus and fleetPartners.

Impressively, year-on-year growth for NBW and assets under management or financed (AUMOF) jumped by 39% and 10%, respectively, in the first half.

Also, profit exceeded Macquarie's forecast by 12% as **ongoing high used car prices drove higher end-of-lease (EOL) income**, exceeding the consensus estimate by 28%.

In a short-term setback, according to the broker, lower margins weighed on net operating earnings (NOI) -pre EOL and provisions- which only increased by 1% year-on-year.

These lower margins were partly due to a mix-shift to Novated (a lower margin than Fleet) and the timing of profitability on new operating leases, explains the analyst. Also, Novated insurance commissions are weighted to the second half, and income is generated over the lease term for the higher proportion of NBW.

A rebound for margins?

While Morgan Stanley concedes the consensus forecast for second half NOI pre-EOL will likely be lowered, this broker makes a case that $81.5m can be earned for the period, higher than the $76.1m achieved in the first half.

Morgan Stanley analysts expect not only ongoing NBW strength, but also some catch-up in H2 from second half FY23 operating lease profits. Strong Australian asset backed securitisation (ABS) issuance is also expected with a $1m benefit into and from the second half.

As announced in early-May, management successfully priced a $400m ABS, which is backed by Australian operating, finance and novated finance lease receivables originated by FleetPartners.

The company is expected to be **the first fleet management organisation to issue a green ABS tranche** under the International Capital Markets Association Green Bond Principles.

This green tranche will exclusively fund leases for electric vehicles and has been certified as a "Climate Bond" by the Climate Bonds Initiative, which is accepted globally as the leading certifier of green bonds.

The order pipeline

The outlook for NBW, explains Macquarie, is supported by the order pipeline, which remains elevated relative to history.

At the end of March, the Novated order pipeline was 3.8x times pre-pandemic levels, which is still down from the lofty 4.6x times of last-September during onerous supply constraints.

Fleet New Zealand provided a relative weak spot, highlights Macquarie, with NBW up by 8% compared to the 31% for Fleet Australia.

While NBW for Fleet Australia and Novated in the first half fell short of forecasts, Citi attributes this outcome to a seasonally softer January month.

This broker believes order activity has remained robust and FleetPartner's healthy order pipeline will support AUMOF growth.

On the capital management front, the company announced a $27m share buyback for the second half, making the cumulative buyback more than $200m, which Macquarie points out is approaching -30% of issued shares cancelled since May 2021.

The average target price for FleetPartners of four covering brokers in the FNArena database rose to $3.68 from $3.35 following the first half results, suggesting 9%-plus upside to the latest share price.

Ord Minnett (Buy; $3.00 target), one of the four brokers, is yet to refresh following the result release.

Macquarie downgraded its rating to Neutral from Outperform after the recent share price rally, while Citi and Morgan Stanley have recommendations of Buy and Overweight, respectively.

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SMALL CAPS

Premium ARB Corp Keeps Delivering The Goods

ARB Corp's third-quarter performance showcased why shares continue to trade at a premium to the Small Industrials Index.

-Analysts raise targets for ARB Corp post Q3 results
-Positive sales momentum across three key divisions
-The US strategy is improving, according to Citi
-Recent US investments performing well

By Mark Woodruff

To the avid observer, shares in ARB Corp ((ARB)) are trading at a noticeable premium to most small cap industrial companies in Australia, and they have been for the past decade. Analysts suggest ARB's recent market update provided yet more evidence as to why this relative valuation premium remains justified.

Management at the company is proud of regular investments made into R&D with analyst commentary post the recent trading update suggesting ARB Corp’s consistent valuation premium compared to the Small Industrials Index reflects a longstanding reputation for quality and innovation in four-wheel drive accessories.

The company continues to grow and diversifying its distribution footprint, most notably in the US, where sales returned to growth in the third quarter. This expansion is coupled with a bullish outlook from management on near-term trading conditions.

The combination of positive third quarter sales growth plus a positively trending order book suggests potential for growth in new business, according to Wilsons. This broker forecasts a further near-term acceleration in Export sales growth.

ARB Corp develops, manufactures, distributes, and retails four-wheel drive vehicle accessories, necessitating manufacturing and warehousing facilities in Australia and Thailand, and an ARB-branded retail store network in Australia. There is also third-party distribution in Australia, the US and numerous other export markets. The company's first retail outlet in Seattle is on course to open its doors for business in Q4 this calendar year.

Ord Minnett recently upgraded ARB to Buy from Accumulate following third quarter results, while, yesterday, Macquarie moved to a Neutral recommendation from Underperform.

Revenue in the third quarter rose by 6% compared to the previous corresponding period, as US sales grew in a flat market due to improved inventory, distribution, and a new eCommerce platform, explained management.

Momentum was positive across Australian Aftermarket, Export and OEM (the three key segments), with sales up on the previous corresponding period by 7%, 2% and 24%, respectively.

Reflecting the growing importance of the OEM division, the company has split in two the management structure in the US, with new heads of Aftermarket and OEM.

Sales in Australian Aftermarket for the quarter benefited from record new vehicle sales in FY24, and increased investment in the ARB store network, observed Ord Minnett. Additional staff were also employed to improve fitting capacity.

Improving new vehicle supply in the UK and Europe, and a return to sales growth in the US, lifted Export sales, explained the analysts, while OEM sales were boosted by purchases from both new and existing customers.

As third quarter trading was in line with Macquarie’s expectations, this broker’s upgraded rating was solely due to a change in valuation method to reflect the company’s consistent history of trading at a premium to the market.

The share price has traded at a 20% average premium to the Small Industrials Index over the last ten years, reflecting a quality business with offshore growth optionality, in the broker's view.

Improved inventory, enhanced distribution through the Dallas distribution centre, and the addition of eCommerce combined to deliver third quarter growth, explained Macquarie. Longer-term growth options include the second quarter FY25 opening of the Seattle retail site, and new products which will be factory-fitted to Toyota Trailhunter models of the Tacoma and 4Runner.

ARB has a long and successful history of product development, noted Wilsons, and the current Old Man Emu (OME) MT-64 suspension product is looking promising, in the broker's opinion.

Citi highlighted a greatly improved US strategy as management takes greater control over distribution, gains richer customer insights from its new website, and begins a promising partnership with Toyota.

US Investments

Talking of US strategy, Morgans noted both of ARB's US investments, acquired in the 1H of FY24, are exceeding expectations.

Nacho LED (cutting-edge lighting solution) won its first major contract with US-based Fox Factory Holding Corp, and Off Road Warehouse (accessories) signed its eleventh site with further locations under review.

Management also highlighted various initiatives have been put in place to optimise the company's Toyota USA brand association.

In a further potential accelerant for growth, Citi highlighted ARB's balance sheet optionality to make further acquisitions.

Outlook

After Australian Aftermarket sales grew by 4.6% in the nine months to the end-of-March, Macquarie feels the division is well positioned for growth, with domestic vehicle supply trending positively, and given the ongoing rollout of new stores.

Fitter capacity is also on the improve, noted the broker, while the Ford Australia License Accessories by ARB (FLA) program remains a positive, with Ford websites promoting and offering an extensive range of the company's products.

Ord Minnett also highlighted improving supply of new vehicles in Australia, along with upside from the accelerated investment in the ARB store network. It's also felt the strong order book bodes well for ARB's Australian Aftermarket revenue growth in the second half.

The Export division is starting to trend positively, according to Morgan Stanley, though the analysts cautioned this trend is subject to volatile quarter-to-quarter swings.

Morgans also warned ARB Corp remains subject to numerous consumer-facing headwinds such as cost of living pressures and a cyclical operating market. This broker retained a Hold rating with a 12-month target of $39.10, up from $38.30.

The average target price of five covering brokers (updated daily in the FNArena database) has increased to $40.58 from $37.80 over the past week, suggesting 3.5% upside to the latest share price.

Analysts currently have three Hold (or equivalent) ratings and two Buy recommendations.

Outside the database, Overweight-rated Wilsons lowered its target to $44.39 from $45.69 following the third quarter trading update.

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TREASURE CHEST

Treasure Chest: Xero

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

Whose Idea Is It?

Jarden

The subject:

Xero ((XRO))

More info:

Xero is a global cloud accounting software-as-a-service company with exposure in Australia/New Zealand, UK. North America and (some) South-East Asian markets.

Following a change in analyst coverage, Jarden has re-modeled the outlook for Xero with a specific focus on longer term strategic growth opportunities and projected trends for the company over the decade ahead.

The new analyst in charge highlights Xero is undergoing a major corporate transition from being a start-up to a self-funding business model which has the potential to unlock substantial shareholder returns via improved capital management while balancing growth and profitability.

Future success hinges on the company's ability to produce "meaningful" cash flow as operating leverage improves.

At the outset of today's research report, Jarden emphasises the remodelling has a longer term focus and acknowledges short term forecasts could be subject to volatility in terms of both earnings beats and misses.

Breaking down the divisions by geography, Australia and New Zealand represent the more mature markets with Xero commanding a 53% market share in Australia and around 74% in New Zealand.

The forecast compound average growth rate (CAGR) for revenues between FY24 and FY34 is 9.5% in Australia and 8.4% in New Zealand.

Internationally, future growth opportunities could offer considerable more upside with market shares of around 35% in the UK and only 5% in North America.

Due to the less developed nature of these markets, a base case CAGR of 13.2% and 15.3% for the UK and North America, respectively, are assumed for the ten years ahead, with the Rest of the World given a 14.5% CAGR forecast.

Jarden's new analyst in charge has upgraded Xero to Overweight from Neutral with a $141 target price.

Cashflow Translates Into Dividends?

The new analyst is upbeat that Xero will be able to pay off the NZ$1.18bn convertible notes (maturing December 2025) with existing cash reserves. Future mergers and acquisitions will be paid for via debt with the capacity to make acquisitions up to NZ$3.4bn in cash under a new debt/equity structure of new debt to 3.0x FY26 EBITDA (forecast).

Updated cash flow assumptions suggest there is scope for the company to start paying out dividends to loyal shareholders. Jarden thinks dividend payments are possible from as early as FY25 (next financial year).

FY24 Earnings Expectations

Xero is due to report FY24 earnings on May 23 and Jarden is looking for 21% revenue growth and net profit of NZ$162m versus NZ$155m consensus.

Key issues the broker will be looking out for is commentary around the US market regarding partnerships and subscriber growth; the change in ARPU depending on the removal of inactive subscribers, and the FX/geographic mix, as well as any guidance on costs.

Macquarie recently reiterated an Outperform rating on Xero with a more bullish target price of $154.60 on the back of flagged price increases to both the Partner and Business edition for Australian subscribers commencing July 1.

Earnings forecasts were revised by 3% for FY24 and -5% for FY25 and FY24. Macquarie is keeping an eye out for more insights on product and partnership announcements at the FY24 results.

Goldman Sachs has also adopted an upbeat view on the latest Xero pricing plans in Australia and views the streamlining of the company's product ladder as positive. The changes should also drive revenue benefits from improved ARPU growth. Similar pricing plans are forecast to be rolled out in the UK/New Zealand and the US markets, although the extent of the price rises remains unclear.

Goldman Sachs is expecting FY24 revenue growth of 22% and net profit of NZ$158m with this broker's focus firmly on operating expenses in the 2H24 and the FY25 outlook, as well as subscriber growth in the UK and North America, and ARPU trends.

The broker has a Buy rating and a target price of $156m, and notes risks include increased competition, and possibly weaker UK momentum on the back of macro headwinds for SME businesses. Looking beyond the short term, Goldman Sachs considers Xero is well positioned to take advantage of global digitalisation of SMEs, with an estimated total addressable market of over 100m worldwide.

Citi calculates a 2% increase to FY25 forecast ARPU for Xero on the back of the recent pricing and packaging changes. Pricing in Australia rose 9% for a starter plan, 8% for a standard plan, and 6% for Premium 5.

Citi's currently has a Buy rating and $159 target price.

Of the six brokers monitored daily by FNArena, four rate the stock positively, despite a firm share price performance over the past twelve months. The two remaining -Morgans and Ord Minnett- sit on Hold and Sell respectively. Ord Minnett whitelabels research from Morningstar where the analyst in charge is not a fan of Xero's business model, resulting in a value assessment that is consistently miles below the share price.

FNArena's consensus price target effectively combines all six to sit on $127.25, below today's share price (which is running hard on the day). Excluding Morningstar/Ord Minnett the average of the five brokers rises above $137.

Jarden and Goldman Sachs are not included in FNArena's daily monitoring, and neither is RBC Capital which rates the shares Sector Perform with a $130 price target.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 10-05-24

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 May 6 to Friday May 10, 2024
Total Upgrades: 4
Total Downgrades: 7
Net Ratings Breakdown: Buy 55.61%; Hold 34.90%; Sell 9.49%

For the week ending Friday May 10, 2024, FNArena recorded four ratings upgrades and seven downgrades for ASX-listed companies by brokers monitored daily.

The tables below show percentage downgrades by brokers to average earnings forecasts and average target prices were only slightly larger than upgrades.

The average FY24 earnings forecast for Sims fell by over -160% as the two divisions which had been driving growth, A&NZ and SA Recycling (in the US), stumbled. Morgan Stanley pointed out the poor sentiment in global steel markets is flowing through to weakness in scrap markets.

Management had previously guided for underlying earnings growth in the second half of FY24, but now expects a decline versus the first half. Weakness in A&NZ has been driven by impacts from increased China ferrous exports, explained Macquarie, while SA Recycling experienced margin compression from a sudden fall in selling prices, along with unfavourable inventory levels.

More positively, the broker believes EPS recovery potential is high, supported by management's cost-out program, which remains on track. Citi concurred, suggesting the time is right to pick-up shares in Sims as earnings are currently at cyclical lows and should lift beyond FY24.

UBS also retained a Buy rating, citing upcoming cost-out initiatives and potential for the UK metals business to be sold as part of a strategic review, with proceeds likely to exceed book value.

The next three largest downgrades to average earnings forecasts were directed at Baby Bunting, Tourism Holdings Rentals, and Lindsay Australia. All three unpleasantly surprised with a profit warning. All three feature in the target price table below for the three largest percentage falls.

Ord Minnett downgraded Baby Bunting to Hold from Accumulate and reduced its target to $1.60 from $2.00 after sales activity deteriorated in the second half, with comparable store sales falling by -7.7%. Management attributed weak trading to ongoing cost of living pressures afflicting young families (the company’s core customers), and declining average transaction values as consumers trade down.

The year-to-date gross profit margin contracted to 36.9% from 37.2% in the first half as management invested

over March and April to generate higher sales activity, explained the analysts.

The second-hand market has emerged as a temporary headwind to sales, noted Overweight-rated Morgan Stanley, while Citi will need further evidence Baby Bunting's scale can be leveraged to respond in an effective way to heightened competition in the nursery category before upgrading from a Neutral recommendation.

For Tourism Holdings Rentals, Ord Minnett (Buy) lowered its target to NZ$3.13 from NZ$5.34 following management's new FY24 guidance for profit of between NZ$50-53m, down from NZ$75m previously.

Weakness in demand and pricing for used recreation vehicles in A&NZ markets was behind the downgrade, explained the broker, which are cyclical (not structural) factors. Based on history, conditions are expected to normalise (for the better).

Morgans, which slashed its target to $1.94 from $4.70, also downgraded to Hold from Add in the belief difficult fourth quarter trading conditions are likely to continue into FY25 and lead to a very weak first half FY25 result.

The company has significant leverage to improved economic conditions, but for now the market won't be in an accommodating mood to give management the benefit of the doubt, predicted the broker.

Wet weather impacts weighed on Lindsay Australia's operations over the March quarter, leading to a downgrade in FY24 earnings guidance to $88-$94m from $102-$108m.

Ord Minnett explained reasons for the downgrade included: flow on weather impacts in Far North Queensland; rail outages on the key East-West line during March and April; cyclical softness in the rural segment; and subdued volumes post-Easter.

The weather impacts in Queensland and rail outages are largely abnormal events, noted the analyst, and the East-West rail line is now back in operation.

This broker reduced its target to $1.31 from $1.52, but maintained a Buy rating, noting potential for a cyclical upswing in industry conditions following the weather impacted year.

Morgans (Add) believed recent negative events for the company are likely one-off factors, yet the analyst chose to be more conservative around the recovery in horticulture volumes and utilisation rates and reduced its target to $1.20 from $1.45.

The average earnings forecast for GrainCorp also fell by around -17% last week after management lowered FY24 earnings guidance to between $250m-$280m from $270m-$310m, and net profit to $60m-$80m from $65m to $95m.

The company’s significant operating leverage can make forecasting difficult, noted UBS. In prior years leverage worked in favour of upside surprises, this time around the pendulum has swung to the other side.

UBS attributed the downgrade to softer grain and oilseed export margins in April, together with the change-in-mix impact from stronger crop volumes out of southern regions. Bell Potter’s best guess/explanation was downward pressure on margins from interest holding costs and weaker oilseed crush margins in recent weeks.

There was generally only a slight trimming of GrainCorp target prices by the four covering brokers in the FNArena database (the fifth, Morgans is yet to update research after management's new guidance). It was the second profit warning by the company in 2024.

Looking out to FY25, Macquarie noted winter crop production should benefit from higher-than-average soil moisture and a potential La Nina. This broker is forecasting 24.9mmt against a 10-year average of 21.7mmt.

News Corp also featured in both the negative change to average earnings and target price tables below, following third quarter earnings which came in -5% below the consensus forecast. Earnings for News media and subscription video fell by -24% and -3%, respectively, which effectively eliminated the 8% increase in earnings for Dow Jones.

Management intends to increase marketing and product development spending for Move, which is a negative development, according to Macquarie, due to increasing competition from a new entrant. Ord Minnett is not complimentary of Move, describing the asset as “the digital real estate poor cousin” to the 61%-owned REA Group in Australia.

Management is currently reviewing the company’s corporate structure with the aim of maximising shareholder value. This includes the possibility for a sum-of-the-parts value realisation, which Macquarie listed as a potential positive share price catalyst in the next year, along with the signing of new AI contracts.

Buy-rated UBS highlighted management's strategic focus on digital transformation, which remains a key growth driver for News Corp. An improved performance in digital assets is expected to drive long-term margin expansion.

On the flipside, there was a lift of over 10% in average earnings forecasts for Syrah Resources, Macquarie Group, and HMC Capital last week. The appearance of Aeris Resources in the earnings upgrade table below should be ignored due to the small forecast numbers involved.

A data entry glitch was most likely behind the earnings lift for Syrah Resources, as the sole (UBS) research update in the FNArena database was categorically negative for the company.

UBS reduced its target price to 80c from $1.00 following a general sector update on graphite following the recent release by the US Treasury and IRS of final guidance on the clean vehicle provisions for the Inflation Reduction Act (IRA). This guidance weighed on the broker's forecasts and valuations for companies with graphite exposure.

In a negative for ex-China graphite and anode materials producers, manufacturers were granted a two-year transition rule (to 2027) to adhere to foreign entity of concern (FEOC) requirements for what policymakers deem "impracticable-to-trace" battery minerals.

For the time being, manufacturers can keep sourcing graphite from China. As a result, UBS doesn't anticipate market conditions improving for graphite in the near-term.

Brokers' earnings forecasts for Macquarie Group generally rose last week following "solid" FY24 results, according to Morgans, in a year that has seen multiple guidance downgrades from management.

Morgan Stanley reduced its FY25 EPS forecast by -7.5% largely due to weaker margins in Banking & Financial Services (BFS), and in the expectation of a slower investment gains recovery in the MacCap division. However, the broker still forecast 22% profit growth for FY25 and suggested there could be an upside surprise from operating leverage due to a capital markets-led revenue recovery.

UBS raised its earnings forecasts for the group and highlighted significant cost reductions and ongoing capital management.

On the other hand, Citi, which has the lowest ($176) target in the FNArena database, felt management's outlook commentary implied downgrades to FY25 expectations, and noted a more muted recovery for green investments.

Earnings for Macquarie Group may have troughed post their FY23-peak, yet this broker remaited its Sell recommendation. While deal-related activity should improve from here, the timing still presents risks for current management guidance, in the analyst's view.

Total Buy ratings in the database comprise 55.61% of the total, versus 34.90% on Neutral/Hold, while Sell ratings account for the remaining 9.49%.

Upgrade

ARB CORPORATION LIMITED ((ARB)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 2/2/1

ARB Corp reported a 6.4% rise in 3Q24 sales with 9-month sales up 2.1%.

Breaking down the divisions, Ord Minnett notes domestic aftermarket sales lifted 6.8% in the 3Q and export sales fell -8.8%, with OEM up 25.5% over the quarter.

New vehicle sales underpinned growth in aftermarket sales, according to the analyst, and the company is expected to benefit from the investment in its network.

Target lifts to $44 from $42.50 and the rating is upgraded to Buy from Accumulate.

BRAMBLES LIMITED ((BXB)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/2/1

Ord Minnett raises its target for Brambles by 36% to $19.00 and upgrades the rating to Accumulate from Hold.

A new analyst at Ord Minnett takes over the research on the company and expects a higher mid-cycle operating margin of 21%, up from the 16% previously forecast.

The broker now assumes prices are increased broadly with inflation and volume gains will occur due to rising consumer spending, leading to market share gains in both existing and new markets.

For the firm's largest segment in the US, Ord Minnett predicts average volume growth of 2% (up from 1%) over the forecast period.

REA GROUP LIMITED ((REA)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/4/1

Following the March quarter release, UBS upgrades REA Group to Buy from Neutral, with a new price target of $214, up from $184.40.

The upgrade reflects stronger than expected residential yield growth and a positive outlook on volume growth.

REA Group's strategic pricing and product enhancements are expected to sustain double-digit yield growth, supporting margin expansion over the medium term.

Estimates have been upgraded.

SUPER RETAIL GROUP LIMITED ((SUL)) Upgrade to Neutral from Sell by UBS .B/H/S: 2/2/1

UBS upgrades Super Retail Group to Neutral from Sell with a new price target of $13, down from $13.75 following the release of March quarter trading numbers.

The broker states the adjustment reflects a balanced risk/reward scenario after a significant share price decline. Earnings estimates have been reduced.

Downgrade

AUSSIE BROADBAND LIMITED ((ABB)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 2/0/0

Aussie Broadband reconfirmed FY24 earnings guidance at the March quarter trading update where 33,159 subscribers were added, which is marginally below the Ord Minnett forecast of 34,704.

Around 132,000 customers are expected to migrate from the Origin White ((ORG)) label by October 2024, while the NBN market share lifted to 6.8% with 14,788 subscribers added over the quarter. Singapore results from Symbio should be earnings positive.

Ord Minnett forecasts EBITDA at $118.8m at the midpoint of management's EBITDA guidance of $118m-$121m.

The rating is downgraded to Accumulate from Buy and the target is lifted marginally to $4.19 from $4.16.

ANZ GROUP HOLDINGS LIMITED ((ANZ)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 0/4/2

ANZ Bank served up a mixed 1H24 earnings report with higher expenses offseting a slightly better than forecast cash profit according to Morgan Stanley, although this met consenus expectations as a result of lower loan loss provisions.

Notably, the dividend at 83c per share was 2 cents better than forecast and the $2bn on-market buyback $0.5bn above the analyst's estimate.

Headline margin declined by -9 basis points with a -7 basis point impact from markets.

Expenses were greater by 0.5%, 2% above consensus, due to what appears to be higher restructuring costs and 'strategic investments' ANZ Plus and the cloud.

Management didn't offer guidance. The broker's FY25 EPS forecasts are raised by 2% for FY24, due to lower loan losses and FY25 EPS lowered by -3%.

The rating is downgraded to Equal Weight from Overweight, due to the strategic challenges for the bank, which makes earnings upgrades challenging, says the broker.

Target price is lowered to $27.70 from $27.90. Industry view: In-Line.

BABY BUNTING GROUP LIMITED ((BBN)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 2/3/0

Ord Minnett downgrades its rating for Baby Bunting to Hold from Accumulate and reduces the target to $1.60 from $2.00 after sales activity deteriorated in the 2H, with comparable store sales falling by -7.7%.

Management attributed weak trading to ongoing cost of living pressures afflicting young families (Baby Bunting's core customers), and declining average transaction values as consumers trade down.

The year-to-date gross profit margin contracted to 36.9% from 37.2% in the 1H as management invested over March and April to generate higher sales activity, explain the analysts.

Ord Minnett expects household expenditure will remain under pressure in the near-term.

IMDEX LIMITED ((IMD)) Downgrade to Neutral from Buy by Citi .B/H/S: 2/2/0

Citi analysts have downgraded to Neutral from Buy in response to Imdex shares rallying by some 30% since the release of interim financials.

Citi suspects rising prices for gold and copper are responsible as they feed into expectations of progressive improvement in exploration activity levels.

Citi, however, has seen no evidence that step-up in exploration is actually occurring. With typical lead time of 6-9 months between junior fund raisings and exploration, the broker believes could still be in excess of 12 months before such a meaningful contribution from juniors can be witnessed.

Target price has lost -5c to $2.20.

JUMBO INTERACTIVE LIMITED ((JIN)) Neutral by Macquarie .B/H/S: 2/1/0

Jumbo Interactive's trading update at the Macquarie conference revealed a 38% rise in Lottery retailing year-to-date against the broker's forecast of 29% for FY24.

The Macquarie analyst, however, retains a cautious outlook for May/June and the forecasts are retained.

Management highlighted that participation rates are high in the lower jackpots with 50% of players in the $200m jackpot having played again.

Strategically, Managed Services remains a priority for Jumbo Interactive with three acquisitions of -$50m already in hand. Looking ahead, expansion will be disciplined and a special dividend in lieu of no corporate activity is seen as unlikely.

Neutral rating and $17.15 target remain unchanged.

PSC INSURANCE GROUP LIMITED ((PSI)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 4/1/0

In what Ord Minnett considers a "strong offer" and an excellent outcome for shareholders, global insurance broking platform, Ardonagh, has proposed to acquire PSC Insurance for $6.19/share in cash.

The broker's rating is downgraded by two notches to Hold from Buy and the target clipped by -1c to $6.19, to align with the offer price.

The board has unanimously recommended shareholders vote in favour of the deal, in the absence of a superior offer.

TOURISM HOLDINGS LIMITED ((THL)) Downgrade to Hold from Add by Morgans .B/H/S: 2/1/0

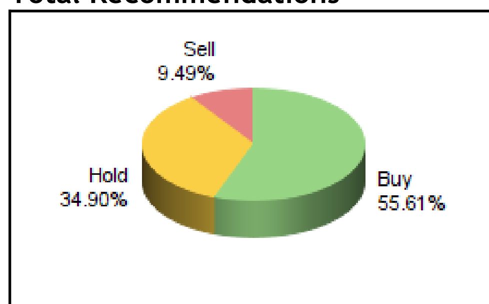
Tourism Holdings Rentals issued a nasty profit warning and the share price got pummeled in response. Morgans has lowered its rating to Hold from Add.

The broker believes the difficult 4Q trading conditions are likely to continue into FY25 and lead to a very weak 1H25 result.

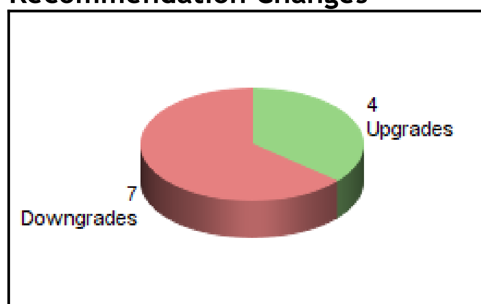
Tourism Holdings Rentals has significant leverage to improved economic conditions, the broker highlights, but for now the market won't be in a mood to give management the benefit of the doubt.

The broker's price target has fallen to $1.94 from $4.70.

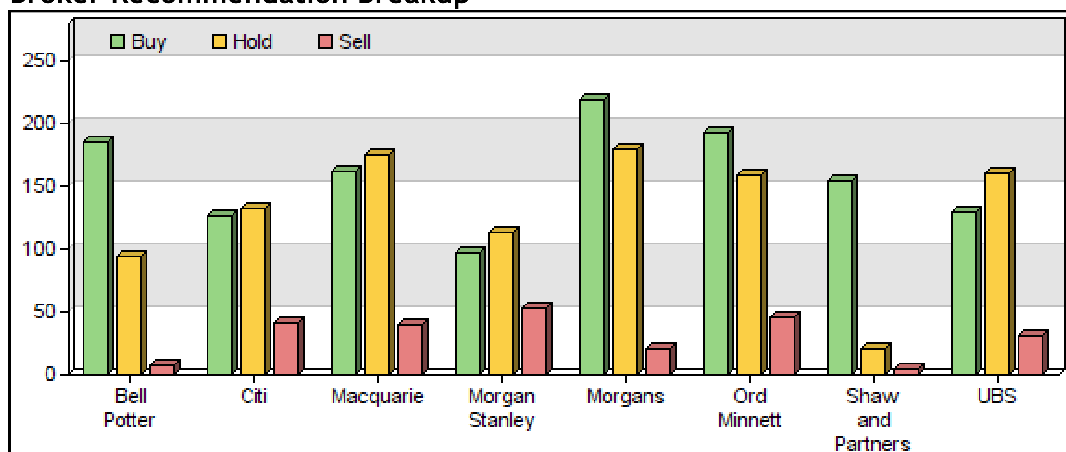
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ARB CORPORATION LIMITED	Buy	Buy	Ord Minnett
2	BRAMBLES LIMITED	Buy	Neutral	Ord Minnett
3	REA GROUP LIMITED	Buy	Neutral	UBS
4	SUPER RETAIL GROUP LIMITED	Neutral	Sell	UBS
Downgrade				
5	ANZ GROUP HOLDINGS LIMITED	Neutral	Buy	Morgan Stanley
6	AUSSIE BROADBAND LIMITED	Buy	Buy	Ord Minnett
7	BABY BUNTING GROUP LIMITED	Neutral	Buy	Ord Minnett
8	IMDEX LIMITED	Neutral	Buy	Citi
9	JUMBO INTERACTIVE LIMITED	Neutral	Buy	Macquarie
10	PSC INSURANCE GROUP LIMITED	Neutral	Buy	Ord Minnett
11	TOURISM HOLDINGS LIMITED	Neutral	Buy	Morgans

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	BXB	BRAMBLES LIMITED	16.275	15.442	5.39%	6
2	REA	REA GROUP LIMITED	184.714	175.343	5.34%	7
3	GMG	GOODMAN GROUP	31.503	30.057	4.81%	6
4	PXA	PEXA GROUP LIMITED	15.240	14.578	4.54%	5
5	WBC	WESTPAC BANKING CORPORATION	25.217	24.217	4.13%	6
6	RRL	REGIS RESOURCES LIMITED	2.227	2.152	3.49%	6
7	ORI	ORICA LIMITED	19.283	18.638	3.46%	6
8	ARB	ARB CORPORATION LIMITED	39.020	37.800	3.23%	5
9	MQG	MACQUARIE GROUP LIMITED	193.080	187.080	3.21%	5
10	SCG	SCENTRE GROUP	3.280	3.182	3.08%	5

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	THL	TOURISM HOLDINGS LIMITED	1.940	4.700	-58.72%	3
2	BBN	BABY BUNTING GROUP LIMITED	1.728	1.930	-10.47%	5
3	LAU	LINDSAY AUSTRALIA LIMITED	1.337	1.490	-10.27%	3
4	NWS	NEWS CORPORATION	37.925	42.083	-9.88%	4
5	SGM	SIMS LIMITED	12.700	14.000	-9.29%	4
6	PPT	PERPETUAL LIMITED	25.250	26.830	-5.89%	5
7	SYR	SYRAH RESOURCES LIMITED	0.813	0.863	-5.79%	4
8	LTM	ARCADIUM LITHIUM PLC	9.633	10.133	-4.93%	3
9	AIS	AERIS RESOURCES LIMITED	0.240	0.250	-4.00%	3
10	IMD	IMDEX LIMITED	2.113	2.175	-2.85%	4

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	AIS	AERIS RESOURCES LIMITED	-0.633	-1.500	57.80%	3
2	SYR	SYRAH RESOURCES LIMITED	-7.264	-11.540	37.05%	4
3	MQG	MACQUARIE GROUP LIMITED	1079.280	921.560	17.11%	5
4	HMC	HMC CAPITAL LIMITED	32.740	28.880	13.37%	5
5	NIC	NICKEL INDUSTRIES LIMITED	8.047	7.265	10.76%	5
6	NEM	NEWMONT CORPORATION REGISTERED	319.366	293.795	8.70%	4
7	IRE	IRESS LIMITED	28.200	25.975	8.57%	4
8	LTR	LIONTOWN RESOURCES LIMITED	-0.466	-0.506	7.91%	5
9	AGL	AGL ENERGY LIMITED	114.525	109.900	4.21%	4
10	NXT	NEXTDC LIMITED	-9.075	-9.467	4.14%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	SGM	SIMS LIMITED	-14.425	23.400	-161.65%	4
2	BBN	BABY BUNTING GROUP LIMITED	4.860	8.460	-42.55%	5
3	THL	TOURISM HOLDINGS LIMITED	21.834	35.173	-37.92%	3
4	LAU	LINDSAY AUSTRALIA LIMITED	10.100	12.367	-18.33%	3
5	GNC	GRAINCORP LIMITED	31.200	37.520	-16.84%	5
6	TPW	TEMPLE & WEBSTER GROUP LIMITED	3.820	4.580	-16.59%	5
7	TPG	TPG TELECOM LIMITED	13.360	15.980	-16.40%	5
8	NWS	NEWS CORPORATION	100.366	115.042	-12.76%	4
9	MP1	MEGAPORT LIMITED	9.233	9.920	-6.93%	6
10	IMD	IMDEX LIMITED	10.725	11.250	-4.67%	4

Technical limitations

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

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WEEKLY REPORTS

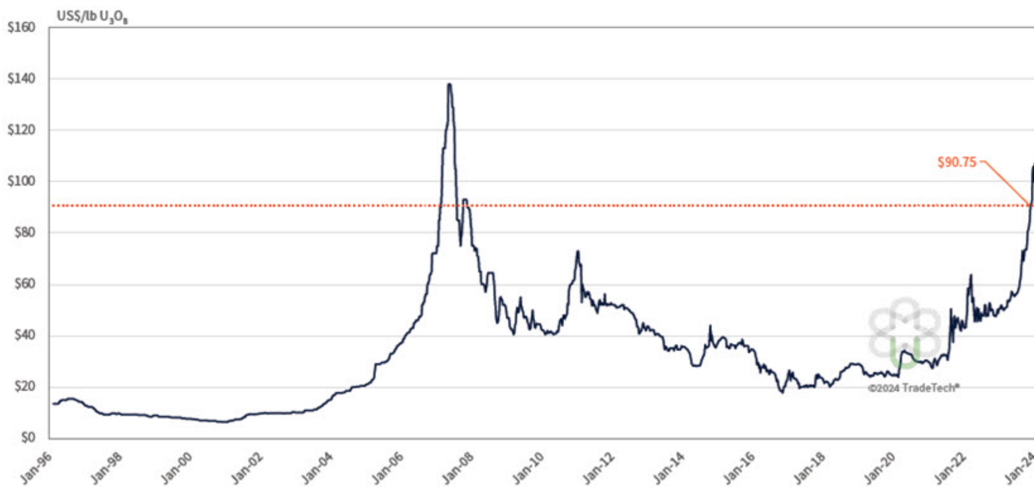
Uranium Week: US Boycott Enthusiasm Fades

NexGen Energy's convertible nuclear deal stole the show in a week that saw market enthusiasm evaporate by Friday.

By Rudi Filapek-Vandyck

Uranium is experiencing its second **Grand Bull Market** in thirty years, with the first one sizzling out post 2007.

To fully appreciate the ups and downs, and the gains enjoyed thus far into this second awakening, we've included an historical price chart from industry consultant TradeTech. FNArena's weekly price graphic near the bottom of this story only shows a limited flash-back.



Last week, TradeTech's weekly U3O8 spot price started off on firm footing as traders got excited about the US Senate -finally- passing the **Prohibiting Russian Uranium Imports Act (H.R. 1042)**, which is aimed at barring uranium imports from Russia.

The bill was officially sent to the White House on May 9 and President Joe Biden is expected to sign off on the new law soon. The bill contains multiple softening waivers, plus there has been no retaliation from Russia, as some might have expected.

TradeTech reports initial enthusiasm saw spot U3O8 rise to US$93.95/lb but sentiment quickly soured and by the end of the week buyers and sellers settled for US$90.75/lb, down -US$1.40 from the week prior. At that price, market participants were able to reach agreement on 100,000 pounds U3O8 to be delivered at Comuhex's facility in France in July.

TradeTech also reports a purchase of 50,000 pounds at US$91/lb, also for delivery in July.

NexGen Energy's Convertible Deal

The week's eye-catching transaction was executed by **NexGen Energy** ((NXG)). The company, listed in Toronto, in New York and on the ASX, signed a binding agreement with MMCap International for the purchase of circa 2.7m pounds U3O8 for an aggregate purchase price of US$250m through unsecured convertible debentures that will be convertible at the holder's option into common shares of the company.

Excluding the NexGen Energy transaction, TradeTech reports the week's volume accumulated to 11

transactions totalling 1 million pounds U3O8. The consultant's mid-term price indicator currently sits on US$95/lb, with the long-term equivalent on US$80.00/lb.

Even though spot uranium peaked above US$100/lb in January, the average spot price thus far in 2024 at US$94.46 per pound U3O8 is still 55% above the 2023 average of US$60.88/lb.

TradeTech has compiled its own global **Stockwatch** selection of listed uranium companies and that list was up an average of 1.73% last week from the week prior. FNArena's selection, which is limited to ASX-listed stocks, shows a more negative bias, see below.

Some of FNArena's recent sector updates provide more details and background about the US's (intention of) boycotting nuclear fuel imports from Russia:

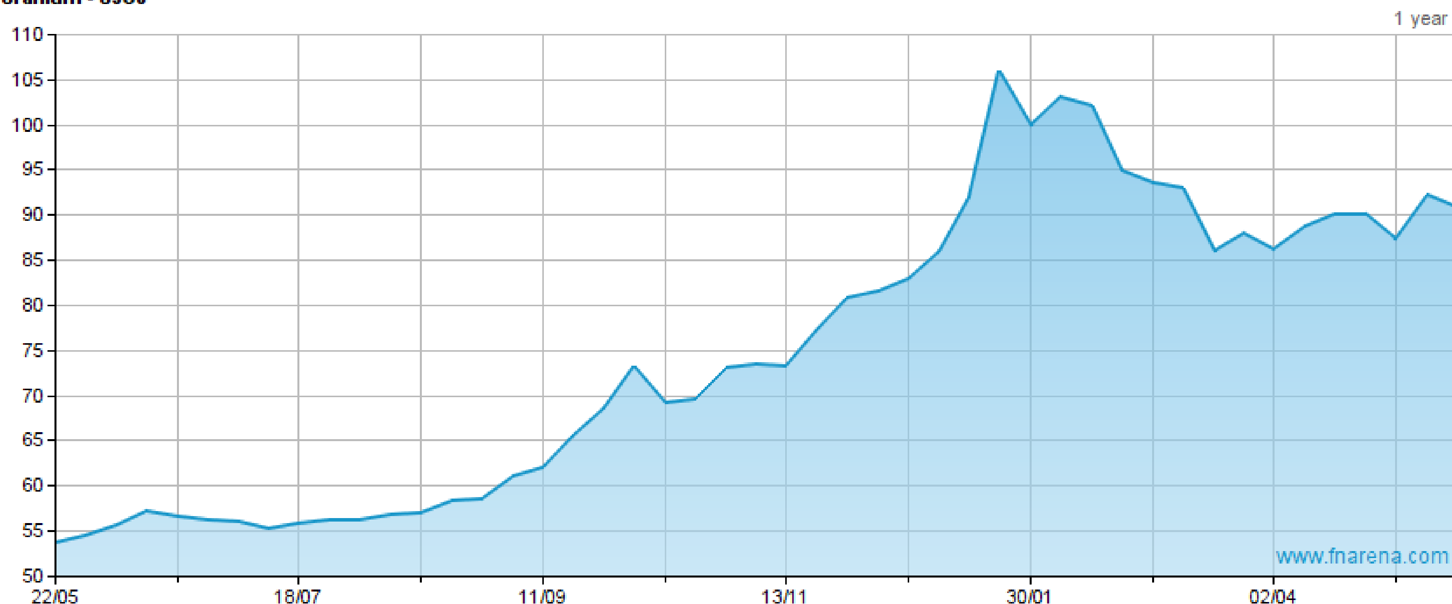
-https://fnarena.com/index.php/2024/05/07/uranium-week-finally-a-ban/

-https://fnarena.com/index.php/2024/04/30/uranium-week-nuclear-power-and-ai/

-https://fnarena.com/index.php/2024/04/23/uranium-week-from-russia-without-love/

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	13/05/2024	0.0800	▼-11.11%	$0.19	$0.05			
AGE	13/05/2024	0.0600	▼- 3.13%	$0.08	$0.03		$0.100	▲66.7%
BKY	13/05/2024	0.4000	▲23.29%	$0.80	$0.26			
BMN	13/05/2024	4.3900	▼- 4.05%	$4.78	$1.19		$7.400	▲68.6%
BOE	13/05/2024	5.6700	▲ 1.25%	$6.12	$2.58	57.7	$5.425	▼- 4.3%
DYL	13/05/2024	1.6500	▼- 0.60%	$1.76	$0.53		$1.770	▲7.3%
EL8	13/05/2024	0.5200	▼- 1.85%	$0.68	$0.27			
ERA	13/05/2024	0.0500	▼- 9.26%	$0.08	$0.03			
LOT	13/05/2024	0.4500	▼- 5.26%	$0.48	$0.17		$0.660	▲46.7%
NXG	13/05/2024	11.0300	▼-17.42%	$13.66	$5.78		$17.500	▲58.7%
PDN	13/05/2024	16.3600	▼- 2.89%	$17.00	$5.15	-335.2	$16.470	▲0.7%
PEN	13/05/2024	0.1200	▼- 4.17%	$0.20	$0.08		$0.310	▲158.3%
SLX	13/05/2024	6.0300	▲ 1.35%	$6.24	$2.92		$7.600	▲26.0%



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WEEKLY REPORTS

The Short Report - 16 May 2024

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

Summary:

Week Ending May 9, 2024 (most recent data available through ASIC).

Weekly short positions as a percentage of market cap:

10%+

PLS 21.6
IEL 16.3
SYR 13.2
FLT 10.6
LTR 10.6

No changes

9.0-9.9%

No stocks

8.0-8.9%

CXO, WGX

In: WGX Out: SYA

7.0-7.9%

SYA, CHN, STX, BOQ, ACL, WBT, ARU

In: SYA, ARU

6.0-6.9%

GMD, LIC, MIN, HLS, LYC

Out: ARU

5.0-5.9%

CUV, VUL, OBL, NAN, A2M, IMU, IFL, WEB, SHV, CTD

In: CTD Out: SGR, BLD

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.3	0.3	QBE	0.5	0.2
ANZ	0.4	0.4	RIO	4.9	4.8
BHP	0.4	0.4	S32	2.0	1.3
CBA	1.5	1.4	STO	1.5	1.3
COL	0.7	0.8	TCL	0.6	0.5
CSL	0.3	0.3	TLS	0.2	0.4
FMG	1.0	0.9	WBC	1.1	1.1

GMG	2.0	2.0	WDS	0.7	0.7
MQG	0.6	0.5	WES	1.3	1.1
NAB	0.7	0.8	WOW	0.3	0.4

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

In Brief: Budget 2024/25, Iron Ore & Milk

Weekly Broker Wrap: impact of the 2024/25 Budget on critical minerals, listed property and healthcare; iron ore pricing; and dairy fundamentals & pricing.

-Budget 2024/25 impact on critical minerals, property & healthcare
-China's declining importance for iron ore prices
-Global dairy fundamentals, rising Australian production

By Mark Woodruff

The 2024/25 Budget: impacts on critical minerals

The Critical Minerals Production Tax Incentive stands out as a potentially the most significant item in the 2024/25 Budget for the Resources sector, suggests UBS, but the broker adds there is a need for more detailed guidance to fully understand which parts of the value chain across different commodities will be eligible for a credit.

Focusing on 'processing and refining', this initiative aims to incentivise investment in further downstream value-added processing to export higher value critical minerals products, explains Wilsons. This compares to critical minerals exports today which largely comprise lower-value intermediate products.

Eligible recipients can obtain a refundable tax offset of -10% of processing for the 31 critical minerals (including nickel, graphite and lithium) currently listed in Australia. The credit will be available for a maximum of 10 years between July 1, 2027 and June 30, 2040.

UBS indentifies Iluka Resources ((ILU)) as potentially the most positively impacted by these incentives. The company owns Australia's first fully-integrated rare earths refinery at Eneabba, in Western Australia.

Iluka is set to become a global material supplier of separated rare earth oxide (REOs), and processing costs are now expected to fall.

Another potential beneficiary, according to Morgan Stanley is IGO Ltd ((IGO)) via its 49%-owned Kwinana lithium refinery, which may now also achieve lower hydroxide processing costs.

The impact on Lynas Rare Earths ((LYC)) and the slew of local lithium producers is open to interpretation, suggests UBS.

This broker questions why copper was not included in the 31 minerals eligible for the production credit given the commodity's continued importance (and scarcity) in a decarbonised world.

The 2024/25 Budget: impacts on listed property

While the cash rate will be the key driver of any improvement in residential sales activity in the near term, Macquarie believes the 2024/25 **Budget housing package**, and measures to increase the number of construction workers, should help reduce development time frames over the medium-term, providing a tailwind for residential developers Mirvac Group ((MGR)) and Qualitas ((QAL)).

The requirement for **universities to build more student accommodation** will also benefit Dexus ((DXS)) and GPT Group ((GPT)), who have recently established a presence in the space, highlights the broker.

Macquarie analysts see a further tailwind for GPT Group, and fellow retail landlords who are more exposed to discretionary categories, such as Scentre Group ((SCG)) and Vicinity Centres ((VCX)), as Macquarie anticipates a **1.5% impact on disposable income** from the budget.

Better transport for Western Sydney, courtesy of an **additional $2bn of infrastructure funding** (including $1.9bn for priority road and rail projects), will be a positive for medium-term completions and tenant demand longer-term. REITS with exposure here are GPT Group, Mirvac Group, Charter Hall ((CHC)) and Goodman Group ((GMG)), points out the broker.

For the REIT sector overall, Macquarie's key picks are the Outperform-rated Charter Hall, Mirvac Group, and Goodman Group.

<u>The 2024/25 Budget: impacts on Healthcare</u>

Jarden has examined changes in funding from the 2024/25 Budget across the numerous healthcare items that are expected to have a bearing on ASX-listed stocks within the Healthcare and Aged Care sectors.

The highly anticipated indexation for **pathology** did not live up to expectations, suggests the broker, while **diagnostic imaging** appears to have been looked after further with additional codes, indexation and increasing access to unlicensed magnetic resonance imaging (MRI).

On the other hand, Citi sees an incremental negative for diagnostic imaging companies in the removal of the licensing requirement for MRI machines, though notes the ultimate impact will depend on the level of service utilisation, actual versus budgeted savings, and fee indexation compared to wage inflation.

Within the diagnostic space, the diagnostic imaging segment remains Jarden's favourite. While various budget initiatives are positive, they favour those providers offering higher imaging modalities, such as Neutral-rated Sonic Healthcare ((SHL)) and Integral Diagnostics ((IDX)), note the analysts. Citi also covers Sell-rated Healius, as well as Integral Diagnostics and Sonic Healthcare which both have Neutral ratings.

Jarden also covers Healius (Underweight) under the diagnostic imaging banner, along with Neutral-rated Capitol Health ((CAJ) and Buy-rated Telix Pharmaceuticals ((TLX)).

While Telix is a small beneficiary of additional funding for the nuclear medicine procedure -positron emission tomography (PET)- and greater nuclear imaging funding, Jarden notes Australia is not a meaningful contributor to the company's revenues.

Healius and Sonic Healthcare fall under both brokers' coverage of pathology companies. In addition, Citi covers Australian Clinical Labs ((ACL)) which is currently rated Buy.

Aged care also benefitted, with a further $65.6m of funding over four years from 2024-25 to attract and retain aged care workers, which will provide a further boost for Regis Healthcare ((REG)) - Overweight; target $3.64- in Jarden's opinion, on top of the government's investment to fund award wage increases last year.

The government is also committing a further $10.8m over two years from 2024-25 to continue to upskill the aged care and primary care workforce to embed palliative care capacity.

While the Budget has dedicated $531.4m in 2024-25 to release 24,100 additional home care packages, the broker believes this measure will have the effect of delaying the entry of elderly into aged care homes, which is incrementally negative for Regis Healthcare.

The commitment to strengthen Australia's **mental health and suicide prevention** system is praiseworthy, but Jarden notes it will have a largely immaterial impact on Ramsay Health Care ((RHC) which is currently assigned a Neutral rating and $63.43 target.

The government will also provide around $304m over two years from 2024-25 to ensure to improve pandemic preparedness and ensure the National Medical Stockpile can continue to respond to health emergencies.

This includes the **stockpiling of various vaccines**, notes Jarden, which has the effect of ensuring the government revenue stream for Overweight-rated CSL ((CSL)) is likely to be ongoing.

China’s declining importance for iron ore pricing

The impact on the price of iron ore from demand outside of China is becoming a greater focus for Morgan Stanley. While China remains easily the largest market in absolute terms, it’s felt the country’s global share has peaked.

Growing demand in India, other Asian countries, and the Middle East is now offsetting **China’s falling consumption of iron ore for its own steel use since 2022**, explains the broker.

Since that time, iron ore has averaged around US$120/t annually, well above where consensus estimated it would be.

Based on where steel (as a proxy for iron ore) is first embedded into an application (e.g. buildings, vehicles, machinery), after accounting for direct trade in steel products, China's share peaked in 2020, and has declined further as its property sector has slowed, explains Morgan Stanley.

Another measure is to look at where steel ultimately finds economic utility. Here, China's share appears even lower, given it is also a large exporter of steel containing goods (i.e. indirect trade) such as machinery and cars.

Given this consequential growth in ex-China demand is encountering a supply base that is relatively flat, Morgan Stanley remains constructive on the iron ore price.

The broker’s third and fourth quarter 2024 forecasts for the iron ore price are US$120/t and US$125/t, respectively.

Increasing Australian milk production, and “somewhat” positive pricing

Subdued growth in global milk supply is poised to bolster an ongoing recovery for the dairy market, leading to better milk prices for dairy producers in most regions worldwide. In Australia, dairy farmers are generally on a strong footing as the 2024/25 season approaches.

Despite constrained supply, the global dairy market may experience a slower price recovery than previously anticipated, particularly as China has less need for dairy imports. These are among the conclusions drawn by Rabobank in recently released sector research.

Earlier expectations of gradual price increases throughout 2024 have been tempered due to weaker global demand and increased domestic milk production in China, which has led to a reduction in imports, according to Rabobank's Q2 **Global Dairy Quarterly**, titled *Searching for Equilibrium*.

The report explains the late-2023 and early-2024 initial milk price surge was largely due to a period of importers' restocking at lower prices, rather than a robust uptick in consumer demand.

Chinese dairy consumption remains subdued on the back of a weak job market and low consumer confidence, yet Radobank's 2024 growth forecast for milk output in China has now increased to 3.2% from 2%, reflecting higher-than-anticipated output due to the lagging effect from the last round of dairy expansions during 2019-2022.

Another factor to watch from both a supply and consumer demand perspective, according to the bank, is the highly pathogenic avian flu which is infecting cows in eight different US states. There has been no measurable reduction in milk supply so far.

For Australia, Radobank forecasts milk production will finish the 2023/24 season 2.9% higher at 8.23bn litres, and predicts a further 1% increase for the 2024/25 season.

Local milk pricing is set to be "somewhat positive" for the new season, Rabobank says, given a well-performing domestic market and healthy competition among dairy companies.

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 17-05-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

COLLINS FOODS LIMITED ((CKF)) Upgrade to Overweight from Neutral by Jarden.B/H/S: 0/0/0

Jarden raises its target for Collins Foods to $10.25 from $10.00 and upgrades the rating to Overweight from Neutral. The company's shares have underperformed peers and the ASX200 by around -15% and -17%, respectively, over the past three months.

For FY25, the broker anticipates input costs will ease, particularly for feed and energy (Germany), and notes the significant roll-out plans by the new KFC master franchisee in Germany.

Also, the analysts believe around $20bn of tax cuts from July 1 should disproportionately benefit the quick service restaurant (QSR) category.

G8 EDUCATION LIMITED ((GEM)) Buy by Moelis.B/H/S: 0/0/0

G8 Education reported a year-to-date increase in occupancy of 1.1% as of April 28, 2024, and a spot occupancy increase of 1.3% compared to the previous year at the AGM trading update.

Cost management remains strong, particularly in wage rostering and reduced agency usage, notes Moelis.

The company has exited 17 centres this year, which, the broker points out, have been a drain on earnings and an additional 14 centres are slated for divestment.

Moelis has adjusted its core occupancy growth forecast for 2024 and EPS forecasts for FY24 and FY25 have been revised by -2.5% and -1.5%, respectively.

As per the broker, G8 Education is focusing on further improving occupancy and daily fee growth, along with additional labour efficiencies, to drive EBIT margin uplift from 10.3% in 2023 to 12%-15% in the medium term.

Buy rating and $1.43 target retained.

QUBE HOLDINGS LIMITED ((QUB)) Upgrade to Buy from Overweight by Jarden.B/H/S: 0/0/0

Qube Holdings upgraded FY24/FY25 guidance of 10%-15% growth compared to 5%-10% previously.

Strength is being generated from NZ Forestry and Agriculture. Patrick remains robust although Jarden points to some possible risks to Bulk Commodities.

The broker's FY24/FY25 EPS are upgraded by 3%.

The rating is raised to Buy from Overweight and the target lifted to $3.70 from $3.60.

Downgrade

QANTM INTELLECTUAL PROPERTY LIMITED ((QIP)) Downgrade to Hold from Buy by Petra Capital.B/H/S: 0/0/0

Qantm Intellectual Property has received a new acquisition proposal from IPH Ltd ((IPH)), challenging the existing bid from Adamantem.

Petra Capital assesses the new offer of $0.291 IPH shares plus a fully franked special dividend of $0.11 per Qantm Intellectual Property share, values the offer at $1.90 per share as at May 7.

This bid is approximately 4.6% higher than Adamantem's all-cash offer of $1.817 per share.

The proposed acquisition is subject to approval from both the Australian Competition and Consumer Commission (ACCC) and the New Zealand Commerce Commission due to potential market share concerns given the size of IPH Ltd.

Rating downgraded to Hold from Buy with a $1.76 target.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	COLLINS FOODS LIMITED	Buy	Neutral	Jarden
2	G8 EDUCATION LIMITED	Buy	Neutral	Moelis
3	QUBE HOLDINGS LIMITED	Buy	Buy	Jarden
Downgrade				
4	QANTM INTELLECTUAL PROPERTY LIMITED	Neutral	Buy	Petra Capital

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
ANZ	ANZ Bank	$28.26	Goldman Sachs	28.15	27.69	1.66%
			Jarden	29.00	28.80	0.69%
APE	Eagers Automotive	$12.50	Canaccord Genuity	16.10	16.00	0.63%
ARB	ARB Corp	$38.97	Wilsons	44.39	45.69	-2.85%
ASG	Autosports Group	$2.42	Moelis	3.40	3.20	6.25%
			Wilsons	3.69	3.85	-4.16%
ASN	Anson Resources	$0.12	Petra Capital	0.41	0.49	-16.33%
BRE	Brazilian Rare Earths	$3.00	Petra Capital	4.29	3.61	18.84%
BRG	Breville Group	$26.20	Petra Capital	24.40	24.00	1.67%
CKF	Collins Foods	$9.52	Jarden	10.25	10.00	2.50%
COF	Centuria Office REIT	$1.26	Moelis	1.88	1.97	-4.57%
DUG	Dug Technology	$2.78	Canaccord Genuity	3.20	2.90	10.34%
EDV	Endeavour Group	$5.21	Goldman Sachs	6.30	6.20	1.61%
			Jarden	6.30	6.40	-1.56%
EVN	Evolution Mining	$3.93	Canaccord Genuity	4.60	4.50	2.22%
			Jarden	3.02	3.16	-4.43%
GEM	G8 Education	$1.25	Moelis	1.43	1.08	32.41%
LAU	Lindsay Australia	$0.97	Wilsons	1.25	1.76	-28.98%
LEL	Lithium Energy	$0.46	Petra Capital	0.75	1.84	-59.24%
LIN	Lindian Resources	$0.13	Petra Capital	0.69	0.59	16.95%
LTR	Liontown Resources	$1.43	Canaccord Genuity	1.30	1.10	18.18%
NAB	National Australia Bank	$34.56	Jarden	34.00	33.80	0.59%
NST	Northern Star Resources	$14.94	Canaccord Genuity	19.15	19.25	-0.52%
			Jarden	13.50	14.10	-4.26%
PNI	Pinnacle Investment Management	$13.16	Wilsons	14.10	13.30	6.02%
PXA	Pexa Group	$14.49	Goldman Sachs	14.20	13.10	8.40%
QUB	Qube Holdings	$3.61	Jarden	3.70	3.60	2.78%
SLR	Silver Lake Resources	$1.60	Canaccord Genuity	1.80	1.75	2.86%
SOM	SomnoMed	$0.27	Wilsons	0.23	0.45	-48.89%
THL	Tourism Holdings Rentals	$1.67	Wilsons	2.12	4.03	-47.39%
TIE	Tietto Minerals	$0.67	Canaccord Genuity	0.68	0.90	-24.44%
VIT	Vitura Health	$0.11	Petra Capital	0.14	0.24	-41.67%
WBC	Westpac	$26.73	Goldman Sachs	24.10	23.41	2.95%
WGX	Westgold Resources	$2.18	Canaccord Genuity	3.35	3.25	3.08%

WOW Woolworths Group	$31.85	Jarden	39.90	40.40	-1.24%
Company	Last Price	Broker	New Target	Old Target	Change

More Highlights

APE EAGERS AUTOMOTIVE LIMITED

Automobiles & Components - Overnight Price: $12.45

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

The Canaccord Genuity analyst notes all states recorded double-digit sales growth in the April VFACTS data which rose 18.3%.

Light vehicle sales rebounded due to a significant backlog and unlocking supply constraints, which the broker expect to support sales through to the end of 2024.

April sales for Toyota's were up 72.7% on the previous corresponding period, positively impacting Eagers Automotive, due to its overweight position to the brand.

There are no changes to forecasts and Canaccord Genuity points to some margin risks, but also believes the structural superiority of Eagers Automotive margins compared to peers puts it in a strong position.

Price target is set at $16.10, with a Buy rating maintained.

This report was published on May 3, 2024.

Target price is **$16.10** Current Price is **$12.45** Difference: **$3.65**
If **APE** meets the Canaccord Genuity target it will return approximately **29%** (excluding dividends, fees and charges).
Current consensus price target is **$15.01**, suggesting upside of **20.6%**(ex-dividends)
The company's fiscal year ends in December.

Forecast for FY24:

Canaccord Genuity forecasts a full year **FY24** dividend of **54.00** cents and EPS of **120.00** cents.
At the last closing share price the estimated dividend yield is **4.34%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.38**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **111.2**, implying annual growth of **0.4%**.
Current consensus DPS estimate is **71.9**, implying a prospective dividend yield of **5.8%**.
Current consensus EPS estimate suggests the PER is **11.2**.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **64.00** cents and EPS of **160.00** cents.
At the last closing share price the estimated dividend yield is **5.14%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **7.78**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **109.9**, implying annual growth of **-1.2%**.
Current consensus DPS estimate is **74.0**, implying a prospective dividend yield of **5.9%**.
Current consensus EPS estimate suggests the PER is **11.3**.

Market Sentiment: **0.6**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

ASG AUTOSPORTS GROUP LIMITED

Automobiles & Components - Overnight Price: $2.58

Moelis rates ((ASG)) as Buy (1) -

Logistics issues and port congestion posed delivery challenges for Autosports Group and impacted on luxury car brands like BMW, Mini, Audi, VW, and Mercedes-Benz, that it supplies for the 2024 period ending April, notes Moelis.

The analyst points to similar problems as highlighted by Qube Holdings ((QUB)) last week. Moelis adds industry sources remain upbeat on the demand for luxury cars.

The broker revises FY24 and FY25 EPS forecasts by -3.2% and 2.8%, respectively, which reflect temporary logistics challenges and an expected resolution to support future growth.

Buy rating and the target lifts to $3.40 from $3.20.

This report was published on May 6, 2024.

Target price is **$3.40** Current Price is **$2.58** Difference: **$0.82**
If **ASG** meets the Moelis target it will return approximately **32%** (excluding dividends, fees and charges).
Current consensus price target is **$3.08**, suggesting upside of **19.5%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Moelis forecasts a full year **FY24** dividend of **18.90** cents and EPS of **36.70** cents.
At the last closing share price the estimated dividend yield is **7.33%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **7.03**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **35.4**, implying annual growth of **8.8%**.
Current consensus DPS estimate is **19.5**, implying a prospective dividend yield of **7.6%**.
Current consensus EPS estimate suggests the PER is **7.3**.

Forecast for FY25:

Moelis forecasts a full year **FY25** dividend of **16.40** cents and EPS of **31.90** cents.
At the last closing share price the estimated dividend yield is **6.36%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **8.09**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **30.7**, implying annual growth of **-13.3%**.
Current consensus DPS estimate is **17.8**, implying a prospective dividend yield of **6.9%**.
Current consensus EPS estimate suggests the PER is **8.4**.

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

BMN BANNERMAN ENERGY LIMITED

Uranium - Overnight Price: $4.38

Petra Capital rates ((BMN)) as Initiation of coverage with Buy (1) -

According to Petra Capital, the world is facing a 1970's style nuclear reactor build program, but likely at a larger scale, better distributed throughout the globe, and lasting throughout the 2030's and 2040's.

The analysts believe the industry is not prepared for the resurgence of demand as the world embraces nuclear energy.

To help meet this demand, the broker reminds investors Bannerman Energy has extensively de-risked the shovel-ready Etango project, which offers value and scale in a Tier 1 uranium jurisdiction.

The Buy rating and $4.93 target are maintained.

This report was published on May 3, 2024.

Target price is **$4.93** Current Price is **$4.38** Difference: **$0.55**
If **BMN** meets the Petra Capital target it will return approximately **13%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **0.00** cents.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 2.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 219.00**.

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

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