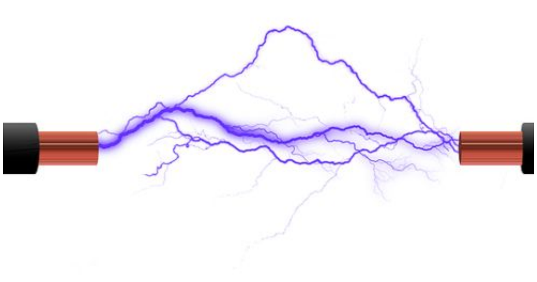
WEEK 30

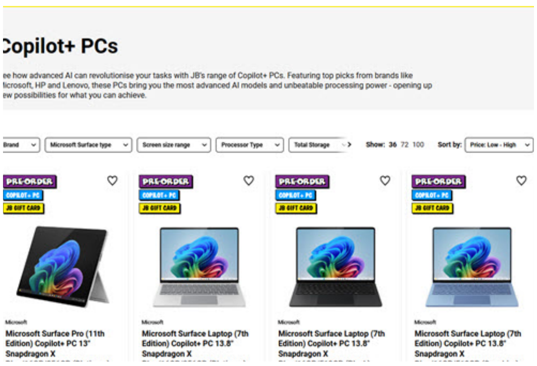
STORIES TO READ FROM FNArena

Friday, 26 July 2024

Rudi's View: How To Invest Allan's $300k



It's Electric Under The Southern Cross



Treasure Chest: JB Hi-Fi

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AUSTRALIA

The Market In Numbers - 20 Jul 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	20 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
NZ50	12325.600	1.57%	5.19%	5.19%	4.72%	5.19%
All Ordinaries	8209.20	0.04%	2.44%	2.44%	4.85%	2.44%
S&P ASX 200	7971.60	0.15%	2.63%	2.63%	5.02%	2.63%
S&P ASX 300	7908.30	0.13%	2.60%	2.60%	4.94%	2.60%
Communication Services	1550.40	0.73%	3.28%	3.28%	-2.38%	3.28%
Consumer Discretionary	3693.20	1.10%	5.17%	5.17%	13.98%	5.17%
Consumer Staples	12714.50	1.44%	2.72%	2.72%	3.28%	2.72%
Energy	10343.60	-0.52%	3.11%	3.11%	-2.63%	3.11%
Financials	7887.30	0.78%	3.01%	3.01%	17.40%	3.01%
Health Care	45762.60	1.12%	3.40%	3.40%	8.08%	3.40%
Industrials	6968.60	1.01%	2.31%	2.31%	1.50%	2.31%
Info Technology	2301.20	-1.81%	-1.72%	-1.72%	25.55%	-1.72%
Materials	16948.60	-2.24%	0.42%	0.42%	-13.04%	0.42%
Real Estate	3798.00	1.74%	6.59%	6.59%	13.45%	6.59%
Utilities	9083.70	-0.33%	-2.17%	-2.17%	11.05%	-2.17%
A-REITs	1734.40	1.95%	6.78%	6.78%	15.44%	6.78%
All Technology Index	3098.20	-0.78%	-1.27%	-1.27%	15.00%	-1.27%
Banks	3310.70	0.47%	3.61%	3.61%	19.11%	3.61%
Gold Index	8099.10	0.59%	10.08%	10.08%	9.93%	10.08%
Metals & Mining	5533.50	-3.09%	-0.31%	-0.31%	-14.43%	-0.31%

The World

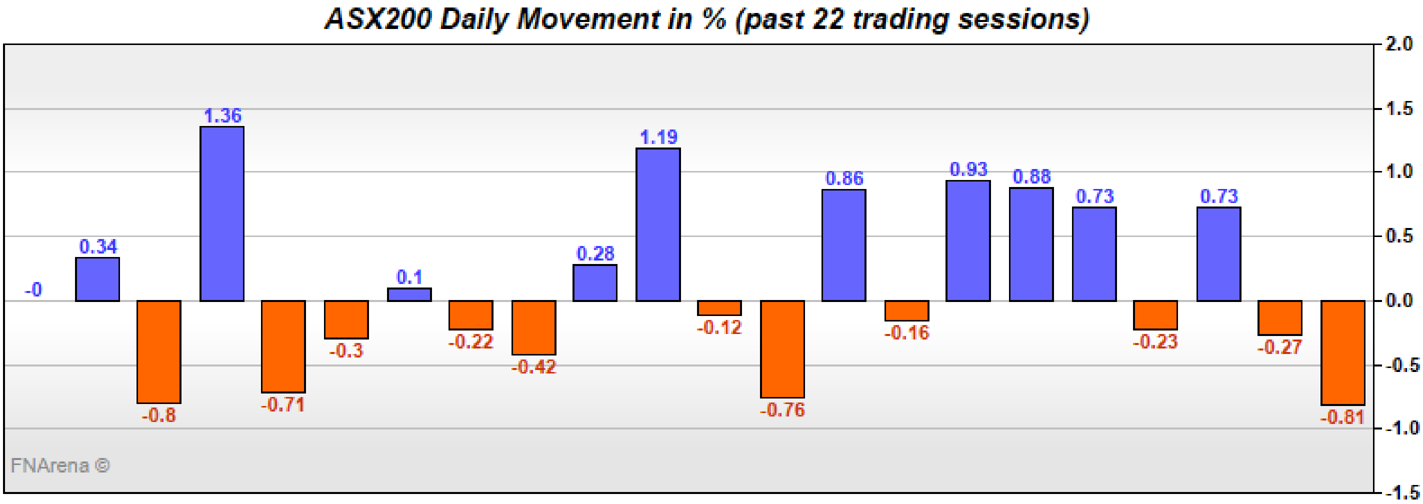
Index	20 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
FTSE100	8155.72	-1.18%	-0.10%	-0.10%	5.46%	-0.10%
DAX30	18171.93	-3.07%	-0.35%	-0.35%	8.48%	-0.35%
Hang Seng	17417.68	-4.79%	-1.70%	-1.70%	2.17%	-1.70%
Nikkei 225	40063.79	-2.74%	1.21%	1.21%	19.72%	1.21%
DJIA	40287.53	0.72%	2.99%	2.99%	6.89%	2.99%
S&P500	5505.00	-1.97%	0.82%	0.82%	15.41%	0.82%
Nasdaq Comp	17726.94	-3.65%	-0.03%	-0.03%	18.09%	-0.03%

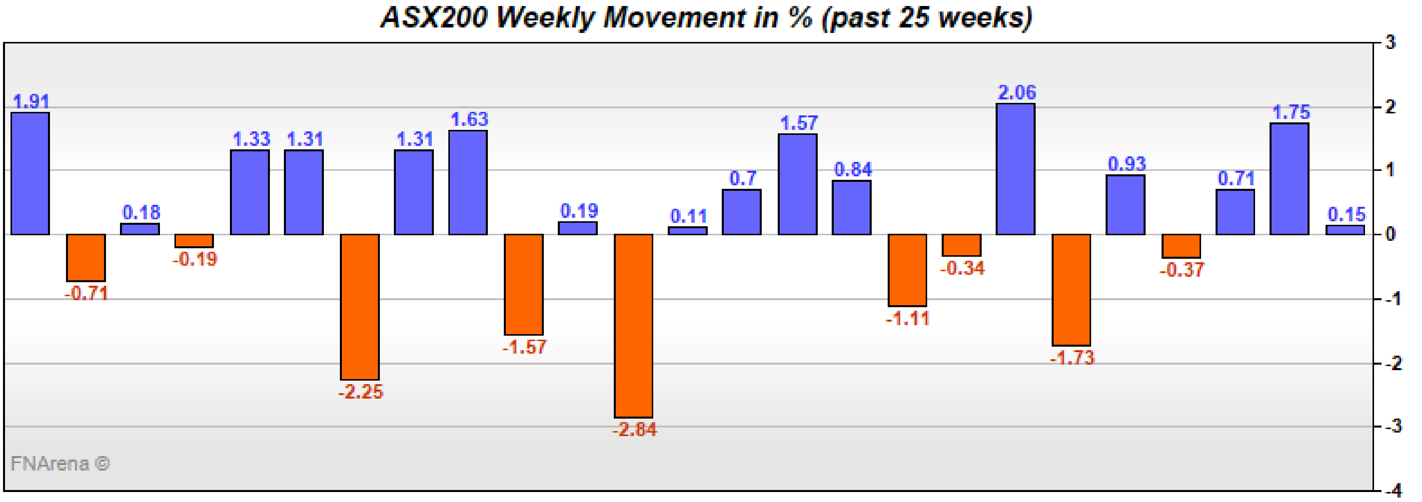
Metals & Minerals

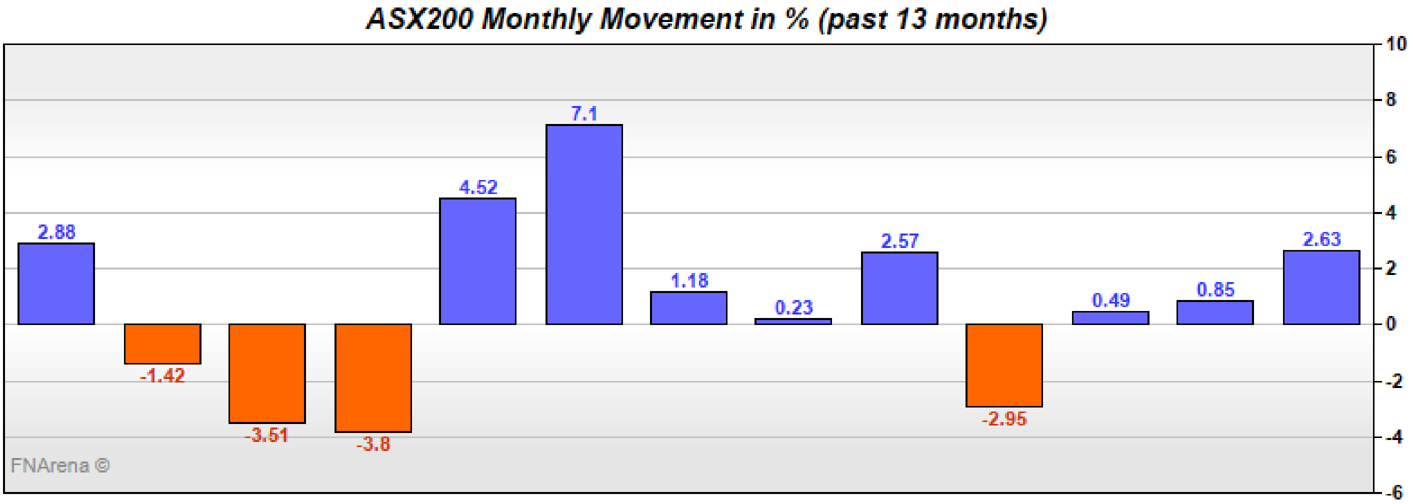
Index	20 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
Gold (oz)	2447.90	1.12%	4.70%	4.70%	19.73%	4.70%
Silver (oz)	30.02	-4.00%	2.63%	2.63%	23.13%	2.63%
Copper (lb)	4.2665	-5.79%	-1.55%	-1.55%	12.04%	-1.55%
Aluminium (lb)	1.0751	-3.51%	-4.39%	-4.39%	10.57%	-4.39%
Nickel (lb)	7.4110	-2.36%	-4.72%	-4.72%	-0.35%	-4.72%
Zinc (lb)	1.2650	-4.90%	-4.61%	-4.61%	12.48%	-4.61%
Uranium (lb) weekly	86.00	1.18%	3.30%	3.30%	0.00%	3.30%
Iron Ore (t)	108.73	-0.78%	2.08%	2.08%	-21.34%	2.08%

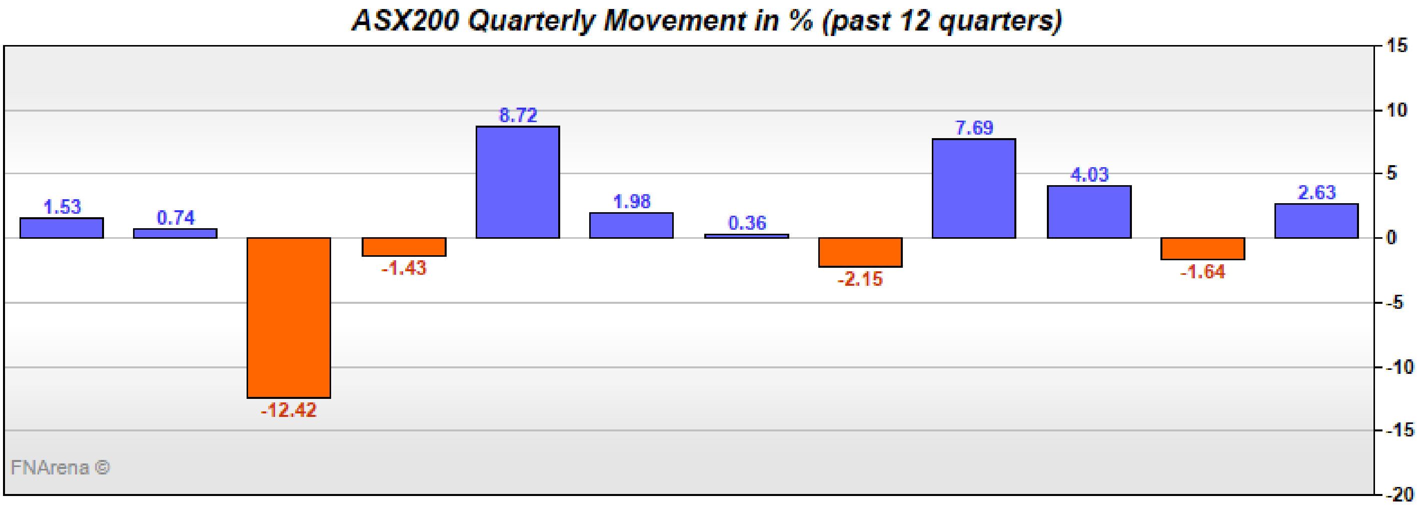
Energy

Index	20 Jul 2024	Week To Date	Month To Date (Jul)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
West Texas Crude	80.83	-2.54%	-1.26%	-1.26%	9.51%	-1.26%
Brent Crude	84.74	-0.92%	-0.82%	-0.82%	6.91%	-0.82%









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

FNArena is not responsible for any glitches, omissions or data errors. This feature is not investment advice. It is offering a quick status on raw price movements for information purposes only.

FNArena welcomes comments and suggestions at info@fnarena.com

COMMODITIES

Patriot Battery Minerals: The Long Game

Despite weak views on near term lithium pricing, brokers line up with Buy ratings for Patriot Battery Minerals given the size and quality of its resource.

-Near term price weakness anticipated to prevail for lithium
-Patriot Battery Minerals' project is nevertheless impossible to ignore
-North America a clear demand driver
-Buy ratings all round

By Greg Peel

The trajectory for lithium prices in the near term remains uncertain, given ongoing growth in global supply meeting falling demand. While analysts remain of the view longer term growth in electric vehicle demand will eventually rebalance the market, timing is up for dispute.

An industry response to low lithium prices is anticipated shortly, with mine shutdowns and/or halting of expansion projects expected due to unprofitability, but so far evidence has been limited. Some analysts believe a price floor is near, while others are less convinced at this stage. (See: *Awaiting The Next Lithium Upswing*, July 17). (https://fnarena.com/index.php/2024/07/17/awaiting-the-next-lithium-upswing/)

In late June, UBS reduced lithium price forecasts by -10% and -7% for 2024 and 2025, alongside -4% in 2026 and -10% for 2027. The broker believes lithium markets will remain "well-to-over supplied" and expects prices to remain lower for longer. Compared to consensus, UBS sits -20% below market forecasts, and remains Underweight the sector.

At the same time, Macquarie reiterated its Underweight recommendation for lithium miners, noting forecast price declines have a material impact on the broker's earnings forecasts and valuation for stocks under coverage in the sector.

Yet, UBS retains a Buy rating for lithium miner Patriot Battery Minerals ((PMT)), and Macquarie retains Outperform.

No Little Corvette

Patriot's Corvette spodumene project in Northern Quebec is one of the largest and highest-grade lithium pegmatite deposits globally. The project has the hallmarks of a tier one deposit, Citi suggests, in term of location, size and grade, and the company boasts an experienced team.

The broker expects ongoing exploration success to support resource upgrades. As it is, the inferred resource can support some 800ktpa of production for decades, which could underpin a sizeable multi-train 100ktpa chemicals facility. This would place Corvette in the top ten lithium mines by lithium carbonate equivalent (LCE) globally, Citi notes.

Corvette will underpin a significant lithium project ideally positioned and timed to feed the burgeoning North American battery supply chain by the end of the decade, Shaw and Partners suggests.

Corvette is already the largest lithium pegmatite in the Americas, this broker notes, and the eighth largest globally, with significant exploration potential remaining. Large spodumene crystals will allow for a simple process flowsheet and high recoveries.

Corvette will be the largest spodumene supplier in the Americas by the end of the decade, which is "superb timing", Shaw notes, given the nascent 600GWh North American battery supply chain being built out by then.

Fighting the Dragon

While lithium prices have fallen from peak levels over the past 18 months, Shaw continues to forecast robust demand driven by the energy transition and, increasingly, resource nationalism as pressure builds on western EV and battery makers to diversify supply chains for all battery metals, including lithium, away from China.

Starting this year, the US will increase the tariff rate on lithium-ion batteries and battery parts from 7.5% to 25%, which will make prices of Chinese cells imported higher than those produced in the US, Shaw notes. The US imports a lot of Chinese batteries, but hardly any EVs, so the tariffs are largely pre-emptive.

The Big Three US car manufacturers are all on the EV bandwagon, although recent sales trends have disappointed and production has been cut back. Cost of living pressures are one reason. Also limiting production is Tesla, albeit US-based Tesla remains, for now, the world's largest seller of EVs.

The tariff signal itself is important, Shaw believes. The US is doubling down on building out its own clean energy industries and showing it is willing to tie hundreds of billions of dollars in domestic subsidies with overt protectionism to do it, even with the Democrats still in office.

If Trump wins office, he has pledged to place a 10% tariff on every good imported into the US, and 60% on anything from China. Never mind the inflation implications.

Corvette's location is a key positive, Citi suggests, in proximity to the Quebec battery hub, and with expected favorable tax incentives from the Canadian government. Access to hydropower would also support a mid-stream option.

Indigenous Involvement

One of the key uncertainties for the market is Corvette's environmental and First Nation approval process. There are three key approvals required and Patriot has a well-defined path to each over an assumed two-year timeframe, Shaw notes. All approvals can run in parallel although the Environmental and Social Impact Assessment is the focus. Management has been collecting environmental data for the past two years in anticipation.

Patriot Battery Minerals has a quality management team, Shaw believes, led by Ken Brinsden, who brings significant pedigree in lithium, was formerly with Pilbara Minerals, and is now Canada-based. Engagement with Traditional Owners has been a focus from project inception and relations with local community and stakeholders are acknowledged as a critical business activity.

More Buy Ratings

Citi has initiated coverage of Patriot Battery Minerals with a Buy rating and 75c target price. The broker applies a 50% risk factor and assigns a High Risk rating to account for the early stage, noting the project carries study, exploration and funding risk.

Citi assumes an equity raise of around CA$600m which it factors into the share count, with CA$800m of debt to fund a CA$1.05bn capex assumption. At the group level this provides a CA$7.07/share valuation, which rounds to A75c for the ASX-listed CHESS Depository Interest on which Citi bases its target price.

Citi expects the lithium price to trade sideways to lower over the next three to six months until supply cuts rebalance the market. A depressed pricing environment (and Patriot's share price at more than a one-year low) is favorable for acquisitions and Patriot's scale, progress on permitting and location could make it attractive to a major.

Citi's target nevertheless sits well below consensus.

Shaw and Partners initiated coverage with a Buy recommendation and $1.80 price target, also applying a High Risk caveat. This broker recommends an Overweight exposure to critical minerals, with Patriot Battery Metals considered a core holding.

Canaccord Genuity noted earlier this month Patriot's (northern) winter drilling program had found the highest lithium grade to date and the summer-fall program has commenced, focusing on infill drilling to upgrade resources for the Feasibility Study, which is targeted for the second half of 2025.

Canaccord has a Speculative Buy rating and a $1.70 target.

Aforementioned updates in June from UBS and Macquarie regarding lithium price downgrades led to UBS reducing its target to $1.00 from $1.30 and Macquarie to $1.50 from $1.90, with both retaining Buy or equivalent ratings as noted.

INTERNATIONAL

Investors Are Seeking The Right Answers To The Wrong Questions

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

Key points:

-Are investors asking the right questions?
-Rate cuts are not a panacea for broken businesses
-What really matters are fundamentals

Are these the right questions?

Following the inflation ambush in 2022, elevated inflation prints have fallen, as has the volatility of inflation, which has whipsawed investors.

In late April, I wrote about how the then-recent inflation readings were higher than market expectations, which was not a surprise to those who buy groceries or pay utility bills.

A similar pattern has played out in the last few weeks, but this time in the other direction, with direct and indirect inflation figures surprising to the downside. As a result, talk of US Federal Reserve rate cuts has been revived.

I am not dismissing the growing probability the market is assigning to a rate cut in September or the months after. But as the title of this piece suggests, I think investors may be asking the wrong questions.

Are "When will the first rate cut be" and "How many times will the Fed cut in 2024" the right questions? Do the answers really matter? In 2028, when you're digesting a five-year attribution analysis of a portfolio, will the timing of that first rate cut be a factor?

Better questions to consider

Perhaps a more relevant question could be why might the central bank need to loosen monetary policy?

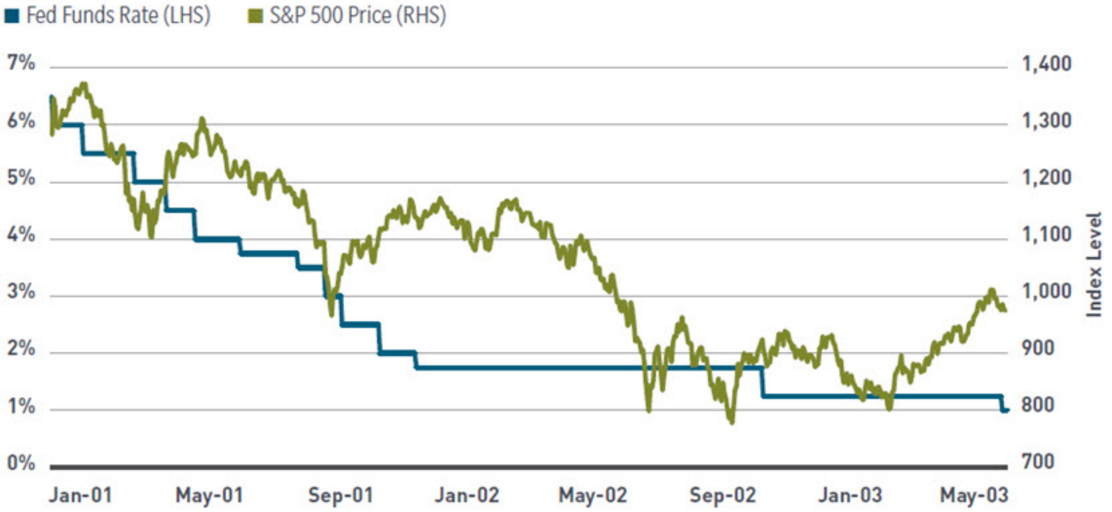
More importantly, if prices of goods and services are falling, whose revenue is being negatively impacted? Are their costs falling too? What will this mean for corporate profits compared with what has been discounted in stock prices?

So, while the market is happily applying a higher multiple to risk assets because of a potentially lower discount rate, it's ignoring what mounting weakness may tell us about company fundamentals, and that's what matters most to asset values.

Let's look at what happened during the interest rate cutting cycle that followed the end of the technology boom in the 1990s.

In early 2001, fed funds peaked at 6%. Caught by surprise by a sharp growth slowdown, the Fed cut rates aggressively over the next 18 months to 1%. While the equity market troughed before the Fed's penultimate cut, as profits had already bottomed and were poised to improve on the back of massive cuts to costs, the S&P 500 index fell almost -40%.

Exhibit 1: Rate cuts didn't help stocks after the dot-com bubble burst...



Source: Bloomberg. Daily data from 2 January 2001 to 30 June 2003.

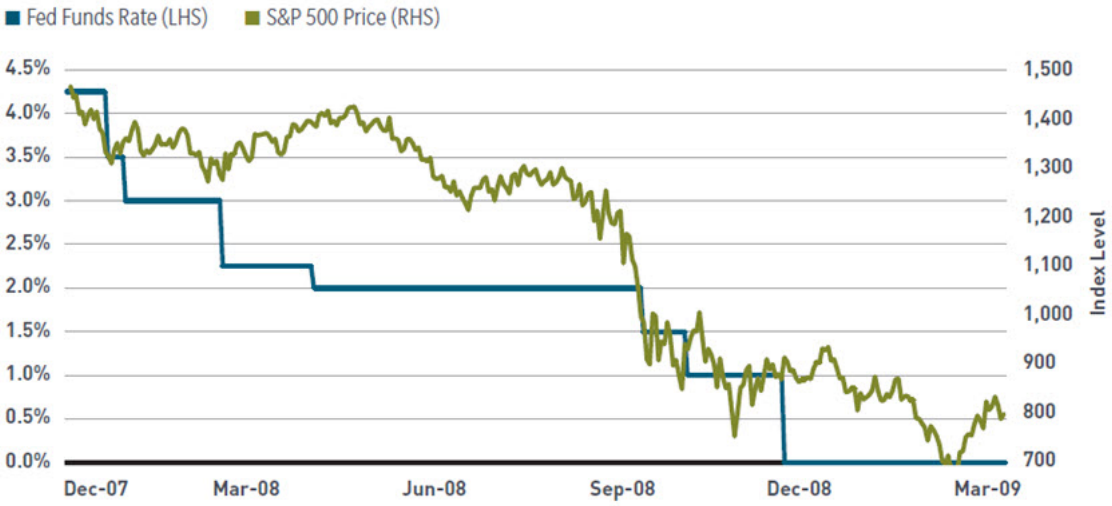
A pushback to this is that valuations aren't as elevated today as they were then. Which is correct, and why I'm not suggesting we're facing a drawdown of that magnitude. I'm merely pointing out that central bank interest rate cuts are not a near-term panacea for disappointing operating results.

So, while valuations are not at 1990s extremes which were the highest in US history analysts' expectations are for high, single-digit profit growth. Anything that comes in below that will prove disappointing to investors who have alternatives beyond the equity market.

We can also look at what happened during the rate-cutting cycle following the mid-2000s expansion and housing bubble, since stock valuations were not expensive heading into that recession.

As the chart below shows, fed funds peaked at 4.25% in early 2008 and then collapsed to 0% before the year was finished. At the same time, the S&P 500 was nearly cut in half.

Exhibit 2: ...Or after the collapse of the housing bubble



Source: Bloomberg. Daily data from 31 December 2007 to 31 March 2009.

<u>What matters</u>

Ever since 2022, inflation and central bank policy has been fresh on everyone's minds. Or, arguably, even longer, dating back to the days of zero interest rate policy and quantitative easing, which produced a 5,000-year low in borrowing costs.

Recency bias, along with other cognitive biases, can be dangerous. In our brains, the biases can sometimes usurp, or at the least dilute, what is material, which in the case of investing, are fundamentals and future cash flows.

The right answers to the right questions, I think, rhymes with terminal value. What does the company do? How are they managing rising labor costs against falling prices for their goods? While artificial intelligence may bring efficiencies and savings, does it open the door to competitors with fresh entrants coming to market faster with equal or better products? Does AI introduce obsolescence risk to their business? How much debt do they need to roll in the next few years, and at what cost? Is that in equity analysts' models?

I believe we're careening toward the point where fundamentals drive valuations rather than discount rates or maneuvers by policymakers. Central banks cannot fix businesses that are broken.

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RUDI'S VIEWS

Rudi's View: How To Invest Allan's $300k

In this week's Weekly Insights:

-More Coverage In Stock Analysis
-How To Invest Allan's $300k
-FNArena Video
-Special Report on Ai

By Rudi Filapek-Vandyck, Editor

More Coverage In Stock Analysis

Some among you may have already discovered this, but FNArena's Stock Analysis has an additional tab EXTRA COVERAGE.

Click on it and you'll discover which additional brokers from BC Extra are covering the stock you are researching.

The Stockbroker Research history is still limited to the eight sources we monitor daily, but the next step will be to add history to the EXTRA COVERAGE too.

Enjoy, while we continue to make our service better and better.

How To Invest Allan's $300k

Last week, one of FNArena's many loyal subscribers, let's call him Allan, sent in the following question: (I am paraphrasing) *Rudi, I've sold a commercial property. Now have $300k in the bank. I want to invest, but can you provide me with some inspiration?*

We all know where Allan's reticence stems from. The ASX200 is weakening, but has been on a tear lately, setting a fresh all-time record high less than one week ago.

Lot's of talk around of 'bubbles' and inflated share prices, as well as about The Great Rotation into share market laggards that haven't had much momentum over the past 18 months or so.

First Things First

I can see a lot of similarity with late 2014-early 2015 when shares rallied hard, in particular those that offered yield at that time. There we were, starting up the FNArena-Vested Equities All-Weather Model Portfolio, having 100% cash ready to invest, and already battling with our very first Grand Dilemma.

It is from this experience I can share my first piece of advice: do not put any pressure on yourself. If you do, you will make mistakes and the one thing you should aim for is to not force yourself into anything you might come to regret later on. I know this is not easy, but try to dislocate from what happens in the share market right now.

Irrespective of that money sitting idle in the bank, you should be in no hurry, no hurry at all. Give yourself six months (I am not kidding), longer if circumstances require so, and be the patient decision-maker with a longer term horizon. You'll thank yourself for it whenever you are able to reflect back.

Back in 2015, that strong rally came unstuck after less than six months. By July banks and cyclicals were in a fierce draw-down that would last until February the following year, and then still required another seven months to grab market leadership from what by then had become known as the Expensive Defensives.

I am not suggesting the playbook for 2024 looks similar, but things can change in a matter of weeks, or even days. Share markets, at least at face value, have performed above expectations for the first seven months of 2024. The Great Rotation is, at this point, not more than a fictional scenario for which the necessary building blocks are not in place.

Advice number one: take a cold shower if necessary. Block those eternal bulls on X (formerly Twitter). Convince yourself you are about to take the first steps in a journey that will involve thousands more steps. Do not hurry!

I am genuinely looking forward to sharing this exercise with Allan and all readers of Weekly Insights, but first I must share the basics that underpin my own research and investment approach, to make sure everybody understands the How and Why of my considerations and choices.

Quality Above Value

There will always be room for disagreement and different personal preferences, of course, but sharing my observations and conclusions first might lead to a better understanding when we arrive at my various ideas and choices.

First up; while just about everyone is constantly focused on figuring out where the next 'cheaply priced' opportunity is hiding, my personal observation is, over a longer-term horizon, **corporate quality is much more important.**

In simple terms: your typical value investor will always tell us to find an asset that is worth $1 and buy it when it is on sale for 30c (or something similar).

The problem I find with that type of investing, is most of the time the value won't grow beyond $1, not even if we let time do its work. Thus while the upside seems pretty straightforward, once achieved it is time to move on, and that's assuming the market will ever push that share price to its full value.

This becomes even more questionable in case of low quality business models, in particular when heavily reliant on the economic cycle. Low quality businesses tend to generate more disappointing newsflow, which might well push out the recovery further, or lead to a much lower share price first.

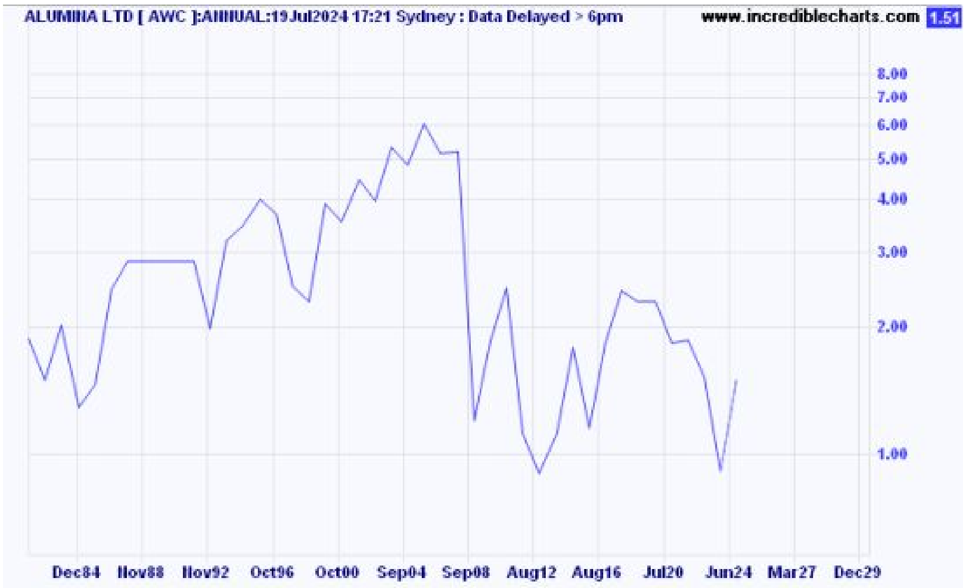
Bye Bye Alumina

One ASX-listed company that is heavily dependent on the commodities cycle is Alumina Ltd ((AWC)).

Alumina is one of the longest listed companies on the local bourse, and it is about to disappear with partner Alcoa Inc acquiring the business in full shortly.

This provides me with one last chance to illustrate what the price history of Alumina shares looks like (before it disappears from all price systems' memory).

The price chart below depicts the annual share prices for Alumina Ltd going back to the early 1980s. It can be argued, because these are annual prices, a lot of the in-between noise is absent and what is left is the long-term trend in its roughest format.



Let's be brutally honest about this: apart from temporary rallies, there's no uptrend. Investing in Alumina shares has been all about picking bottoms and getting out before the next downturn announces itself.

The Grand Super-Cycle -Higher-for-longer, remember?- was a great time for shareholders, but the shares never recovered from the subsequent fall from grace.

To show the difference, I am not even countering that observation with one of my personal favourites. I've simply applied the same annual price dynamic to CommBank ((CBA)) shares since the early 1990s when it listed on the ASX.

I think we can all agree the trend on display looks fundamentally different. The banks in Australia are not without their own pitfalls, and the valuation of CommBank in particular is a constant trigger for debate, but at the very least everyone can see that buy and hold for CBA shareholders has worked really well over the past thirty years.

Plenty Of Examples

Lower quality versus higher quality is not by default a pitch of cyclicals versus others. I have long made similar observations between Domain Australia Holdings ((DHG)) and REA Group ((REA)) and between ANZ Bank ((ANZ)), National Australia Bank ((NAB)) and Westpac ((WBC)) versus the aforementioned CommBank.

If the past two decades have shown us one thing it is that a cheaply priced, lower-quality stock can certainly outperform in the here and now, but it is unlikely to do so over a longer period of time.

This also applies when a sector goes through a severe downturn. Just look at the differences in set-backs for Sonic Healthcare ((SHL)) and Healius ((HLS)). While shareholders in Sonic haven't had much to crow about post-2021, they would never swap places with those holding shares in Healius.

There has been an equally obvious proposition among upcoming disruptors in the local financial platforms industry. Previously, this was the territory of large, established financial entities, but the past two decades have seen smaller-sized disruptors emerging to steal clients and market share.

In particular the past ten years have seen this process accelerate and all and sundry are now talking about a trend that is likely to last for a lot longer. Again, investors who saw this process unfold and jumped on board have done exceptionally well... as long as they did not fall for the 'cheaper priced is better' fallacy.

When Vested and FNArena decided to launch the All-Weather Model Portfolio we chose one of the smaller platforms to align us with; Praemium ((PPS)). This gave me first-hand experience into a small business that clearly could not cope with the growth it was exposed to.

It was mayhem and chaos at times, not helped by the fact staff turnover was extremely high in those days. The All-Weather Portfolio no longer runs on Praemium. I assume their service is much better these days, but even without my personal experience, I never felt Praemium is even close to the quality and solidity offered by Netwealth Group ((NWL)) and Hub24 ((HUB)).

It is difficult to argue with that when comparing key financial metrics for all three operators. Simply look at the steady increases achieved by Netwealth in terms of revenues, EPS, and dividends (all available through Stock Analysis on the website) or the -literally- growth explosion for Hub24 in recent years. And these are businesses of $5.5bn and $3.7bn in market caps, respectively, offering many more years of fast growth.

In the opposite corner we find the likes of Insignia Financial ((IFL)), that on Monday surprised through faster and more rigorous cost cutting, but which has been on the receiving side in this industry for many years now. And there's Praemium, of much smaller size, but nowhere near the market grabbing forces as represented by Netwealth and Hub24.

In contrast, Praemium's key financial metrics are all over the shop with a zig-zagging net profit margin the obvious stand-out. What Praemium does offer is a 'cheap' valuation and this might, one day, lead to that rally that outperforms its better-positioned peers. Because it looks 'cheap' it might also more likely attract a suitor.

Fact remains, on a longer term price chart Praemium shares look more like the heart beat of a terminally ill patient, with the occasional big spike, but otherwise a flat pattern. Investment returns are 100% correlated with picking the bottoms and knowing when to jump ship.

Strictly taken, there's nothing wrong with picking bottoms in cheaply priced stocks and then ride the next rally, whenever it arrives. Whoever managed to get in at the low in early 2020 is still up more than 100% today. In practice, though, investors might find it easier to own higher quality alternatives for which more time owned usually results in more returns accumulated.

Over the past two years, Hub24 shares have rallied 129% and Netwealth shares 82%. Over the past financial year both shares are up respectively 82.9% and 60.2%. After such strong gains, it seems but logical a period of consolidation must follow. There might even be a pullback at some stage.

This might give Praemium and Insignia the chance to finally shine in comparison. The longer horizon in mind, however, I stick with the proven quality, because stronger growth from a better quality company is what wins the marathon, time and again.

August Is Beckoning

Another thing to keep in mind is quality growth in time only accumulates more and more value for shareholders, unlike the Alumina Ltds, the Praemiums and the Insignias mentioned previously.

Within this context I can still vividly remember the mental barrier I had to overcome to add Xero ((XRO)) shares to the All-Weather Portfolio. From memory, I bought the shares below $30. They're around $135 today and have been as high as $150. In similar fashion, Wesfarmers ((WES)) shares looked 'expensive' above $30, and definitely when they crossed $40. Today, these shares are trading above $70.

I am by no means suggesting these shares cannot fall, or they can never be too expensively priced, but it's great comfort for the mind to understand these share prices can go a lot higher, in time. It places any short-term anxiety duly in perspective. NextDC ((NXT)) shares are likely *en route* to $30 and beyond. CSL ((CSL)) shares are laying the ground works for $400-$500. Others have already done the calculations, as reported previously.

(Xero shares are no longer held in the All-Weather Portfolio, but this might be a temporary absence as the shares most definitely remain on the radar).

Equally important is to understand that, as analysts are in the process of updating their projections and assumptions, in preparation of the August reporting season, in most cases this translates into additional valuation upside (as this is how continued growth accumulates into added valuation when put through modeling).

Within this context, I note UBS, Citi and Morgans all increased their price target for Car Group ((CAR)) recently. Hub24's targets were raised by Citi, Morgans and Ord Minnett. There will be a lot more of that happening once the August results are out (assuming no disasters).

With all these things in mind, the next step is to actually put together a hit list of stocks you can buy at current prices, and another selection of stocks you might want to add at cheaper levels in the months ahead.

That part will appear on the website on Thursday morning, so stay tuned (something to look forward to).

FNARENA VIDEO

Dani and I have put together a video to explain our focus (and enthusiasm as investors) for GenAi, the fourth industrial revolution:

https://fnarena.com/index.php/fnarena-talks/2024/07/15/investing-in-genai-the-fourth-industrial-revolution/

SPECIAL REPORT

Earlier this month, FNArena published a 78 pages Special Report on **GenAi, the fourth industrial revolution** with lots of in-depth insights, forward projections, and useful links to companies for investors in the Australian stock exchange.

This Special Report remains exclusive for paying subscribers. Download your copy via the Special Reports section on the website.

Model Portfolios, Best Buys & Conviction Calls

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

FNArena Subscription

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

(This story was written on Monday, 22nd July, 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: How To Invest Allan's $300k, Part 2

By Rudi Filapek-Vandyck, Editor

Part Two of this week's Weekly Insights should be read in conjunction with Part One, published on July 24th: https://fnarena.com/index.php/2024/07/24/rudis-view-how-to-invest-allans-300k/

Dear Allan,

if one is an investor in Quality and Growth, as am I, there is always the danger of a brutal swing in market momentum to the other side where our portfolio has no exposure. The key reason for this happening is usually related to market positioning.

Lots of investors like to 'hide' in the Winners, while plenty of others like to curse the Winners and hide in the Laggards instead. Sometimes the Winners have been on a winning streak for too long and momentum reversal becomes the easiest way forward.

There have been multiple of such attempts over the past ten years or so, and when you're in the midst of it happening it's incredibly frustrating, but it's always good to keep in mind these momentum switches have tended to be temporary phenomenons only. The longest duration I can remember was about four months, late in 2016.

Most investors don't think in the same way as I do, but my view remains that, given the multiple strong megatrends at work in the current era, Growth and Quality are never going to remain out of favour for long. The post-GFC era thus far is proving exactly that.

Now that I've explained the basic pillars underneath my personal views and investment approach, let's take a closer look into what I would do if I were in your position.

Healthcare & All-Weathers

The covid pandemic has thrown the healthcare sector into a multi-year bear market. Who would've thunk it? This is not an Australian phenomenon, it applies all around the globe, with a select group of exceptions like GLP-1 innovators Novo Nordisk and Eli Lilly.

Given the quality of companies in this sector, and ongoing robust growth profiles, this is not a sustainable set-back for this industry and recent price movements suggest the **Quality Growth companies in the healthcare sector** are coming back to life. This is extremely exciting, if you're a similar enthusiast as I am for this type of companies.

My five cents worth is the Quality in healthcare will start performing first, and the rest might catch up at a delay. A lot will depend on corporate margins and profits, but it's more than feasible, I think, the August reporting season locally might mark the turnaround for the likes of Cochlear ((COH)), CSL ((CSL)) and ResMed ((RMD)).

There's a good argument to be made those share prices are performing already with CSL shares back at $310 and ResMed's above $31. I'd definitely be looking to get on board this new uptrend (if I weren't already). They all have pros and cons and ResMed's threat from GLP-1s is probably the most obvious (I understand not everyone is comfortable with it).

If you're the type that can only find comfort in buying into stocks that haven't performed as yet, I'd suggest taking a look at Sonic Healthcare ((SHL)) and/or Ebos Group ((EBO)). Shares in Fisher & Paykel Healthcare ((FPH)) have rallied hard already and it's everyone's guess when Pro Medicus ((PME)) runs out of puff, so I'd keep both on my Wish List, for now.

On the more speculative side of the sector, assuming you have the stomach and the patience for it, Telix Pharmaceuticals ((TLX)) seems destined for wonderful things, and so does PolyNovo ((PNV)).

I am absolutely no fan of Ramsay Health Care ((RHC)) or Healius ((HLS)), no matter how cheap those share prices become. You'd know by now, I don't engage in bottom-of-the-barrel fishing.

One extra thing you might take on board: when investing in a new exposure, you don't have to move in with a full allocation immediately. Nobody likes to start off with a negative feeling, which is what happens when a share price weakens after we bought in. The alternative is to cut your average allocation into halves, thirds or even quarters.

If you start off with a small allocation, you're on board, so step one is in the bag. If the share price does weaken, you have plenty of allocation left to improve on the situation. If the share price runs away from you, you're already making a profit.

My research into All-Weather Stocks is not limited to the healthcare sector, of course, and I'd be giving the full list some serious consideration. Very bullish sentiment is once again building for Macquarie Group ((MQG)), for example.

The one caution I have relates to Seek ((SEK)), for which the end of negative newsflow may not yet be in sight. This probably also explains why the share price is hovering above $20.

<u>Gen.Ai & Megatrends</u>

Modern day Megatrends have more than proved their wealth creation capabilities, and no Megatrend is currently as dominant as is Gen.Ai. I sincerely think every serious investor has no choice but to get on board. The most obvious phase one beneficiaries on the ASX, Goodman Group ((GMG)) and NextDC ((NXT)), have -understandably- run extremely hard, but there should be a lot more upside in the years to follow.

How and when you get on board, assuming you currently are not, is more of a personal choice. Do you wait for the pullback that eventually will happen, or do you take a small bite and observe further developments?

Other beneficiaries include Macquarie Technology ((MAQ)), Infratil ((IFT)), Global Data Centre Group ((GDC)) and Southern Cross Electrical Engineering ((SXE)). There will be many others as this process will migrate into phase two, and three, etc.

Download FNArena's Special Report on **Investing in Gen.Ai, the Fourth Industrial Revolution** and make sure this exciting new development holds no obvious secrets from you. Make sure you keep reading and following what comes next.

My five cents worth is those who sell the new revolution to small businesses and consumers will be outed as the next obvious beneficiaries in the not too distant future. Think JB Hi-Fi ((JBH)), but also Wesfarmers ((WES)), Dicker Data ((DDR)) and Data#3 ((DTL)).

The aforementioned healthcare sector looks like an obvious beneficiary from Ai, but it'll be a number of years still before any material benefits show up on bottom lines. Unless things move quicker than anticipated, of course.

Equally important: there will be hiccups. This is a long-term phenomenon. Better to treat it as such.

<u>Small Caps</u>

Small caps do not by definition offer higher returns. *Some* small caps do, but it's a lot harder to identify those than one is made to believe. I don't specifically focus on small caps, because I like to identify sustainable growers and All-Weathers and part of that assessment includes a successful track record.

Unless you're looking for a quick pounce-and-run type of investment style, I like to focus on smaller capitalised companies that come with a lot of promise under the belt and a proven track record. Names that come to mind include Breville Group ((BRG)), Steadfast Group ((SDF)) and PWR Holdings ((PWH)).

Again, share prices in strong performers have already outperformed this year, but there's no question there's a lot more growth on the horizon for the likes of Life360 ((360)), Hub24 ((HUB)) and Netwealth Group ((NWL)).

Among this year's laggards I still very much like Audinate Group ((AD8)), while I also continue to believe IDP Education ((IEL)) will come good.

<u>A Punt For The Punters</u>

If you are a true Australian, you obviously like to include the occasional higher-risk punt. After all, pulling it off successfully is what makes investing fun, no matter what the left hand side of the brain tells us!

However, if you're the kind of person that feels the adrenaline pumping before you jump off that bridge or off the roof of a 14 floors tower, you're way, way, way out of my league.

One wild water rafting trip on a sunny day is more than sufficient for my little heart. I seem to have a natural dislike of losing money for frivolous reasons, including inside a casino.

Hence, for more risky positioning with potentially much higher rewards, my attention would go out to smaller cap resources, with each of gold, uranium and lithium to be put under the microscope. The FNArena-Vested Equities All-Weather Model Portfolio prefers to have exposure to gold, not to gold producers, and that has worked out well over the years past.

But a time will come when those lagging producers will outperform in significant fashion.

Uranium is back in a multi-year uptrend. You're not noticing it thus far in 2024 because the price of uranium is deflating somewhat after that strong rally from last year. But this will reverse in due course, plus companies like Paladin Energy ((PDN)) and Boss Energy ((BOE)) will soon ramp up the volumes (fingers crossed they do not encounter too many operational challenges).

The really big rewards will come when lithium reverts back to its prior uptrend. Admittedly, that might still take a while as the industry is moving through a period of too much optimism with too much production available while demand is no longer growing.

In all three cases, I'd recommend you try to identify the higher quality exposures with less risk of painful failures. FNArena's Stock Analysis might be the ideal starting point.

Equally important: in all three cases I'd highly recommend smaller proportions in allocations.

One important consideration to make is whether putting all of the $300k in the share market is the best strategy long term. Diversification outside of equities is probably worthwhile exploring, including credit (corporate bonds), government bonds, unlisted alternatives and even real assets. (You can add cryptos to that as well).

ETFs are a viable option as well, including for foreign equities, but never forget rule number one: do your homework first! ETFs can also be used for a lower-risk exposure to the three commodities mentioned.

A man has to know his limits and for those alternatives I suggest you best seek advice elsewhere. I nevertheless enjoyed this little exercise, and I hope you get lots and lots of "inspiration" out of it.

From next week onwards, FNArena will shift into corporate earnings mode. There are multiple reasons to suspect this year's August results might prove more important than in previous years. More to follow next week (and beyond)!

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

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

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

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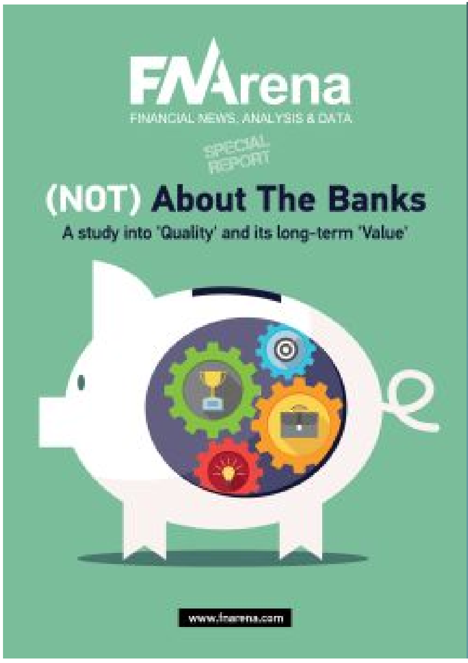

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FNArena is proud about its track record and past achievements: Ten Years On

SMALL CAPS

It’s Electric Under The Southern Cross

Brokers are effusive over the opportunity the electrification of Australia offers to Southern Cross Electrical's group of companies servicing diverse sectors of operation.

-Southern Cross Electrical boasts a diverse conglomerate of subsidiaries
-Opportunity abounds in data centres, battery storage, transport and supermarkets
-Strong earnings growth forecast
-Long run opportunities

By Greg Peel

Southern Cross Electrical Engineering ((SXE)) was established in Western Australia in 1978, and during the ensuing decades the group has grown from a resources-focused electrical contractor into a national leader in electrical, instrumentation, communication, security, and maintenance services.

The group has "deep" expertise, Moelis points out, in the diverse core market sectors of resources (28% of first half FY24 revenue), commercial (31%) and infrastructure (41%). Southern Cross' long-dated track record of strategic acquisitions has contributed to the expansion of its capabilities and geographical reach.

Many Fingers

Infrastructure includes government and private investment in transport (road, rail, airports, ports), defence, data centres, education, agriculture, water, energy, utilities, health and aged care.

Transport includes Western Sydney International Airport, the largest revenue contributor in FY24. Incumbency has led to subsequent awards including for fuel farm and Border Force fit-out packages. The company expects a long-term pipeline of works, with further airport expansion and in surrounding region for logistics, commercial, accommodation, and infrastructure opportunities.

There is little need to expand here on the opportunity data centres provide. Southern Cross' twenty-first century exposure nevertheless extends to battery energy storage systems (BESS). The recently awarded Collie BESS is a record initial award for the group and energy storage systems are a key segment of growth in Moelis's view to support energy transition and renewable targets.

Earlier this month, Southern Cross Electrical was awarded a further contract with Collie BESS to deliver the switch-yard package.

There were 27 large scale batteries under construction at end-2023, with further capacity announced and proposed to reach the storage capacity the CSIRO suggests is required by 2030.

Supermarket upgrades are an appealing demand driver in the commercial segment, Moelis believes. Major supermarkets Woolworths Group ((WOW)) and Coles Group ((COL)) are estimated to represent some 2% of Australia's total power consumption daily across 2,000-plus stores. Given the scope of their consumption, there is a consistent electrical upgrade cycle occurring nationally as small efficiency gains can have a material impact from a financial and ESG perspective.

Southern Cross is now less reliant on the resources sector and large project awards. Activity in the resources sector is expected to be stable in the second half with a number of opportunities emerging beyond FY24, absent major project awards. Recent contract wins highlight ongoing awards with Tier 1 clients such as Newmont Corp ((NEM)), BHP Group ((BHP)) and Rio Tinto ((RIO)).

The New World

Moelis is particularly excited about Southern Cross Electrical's involvement in electrification and the energy transition. The broker sees significant structural tailwinds from electrification drive, and in particular the growing renewable supply mix in energy sourcing to drive electrical work, especially in battery storage systems.

Significant tailwinds and growth potential over coming years come from storage capacity which is anticipated to grow 30-fold, grid scale wind and solar by 9-fold, distributed solar photo-voltaic by 5-fold, and electricity usage to almost double by 2050. Storage capacity investment is critical, Moelis notes, to an electricity grid system that will have a growing mix of renewable energy supply source to ensure system reliability.

In late June Moelis initiated coverage of Southern Cross Electrical with a Buy rating and $1.94 target.

Moelis joined Shaw and Partners in covering the stock. Shaw suggested earlier this month that despite the recent share price rally, Southern Cross remains attractively priced versus comparable ASX-listed peers. The company was then trading on an FY25 consensus PE of 14.0x (at a trading price $1.69) versus comparable companies trading at around 17.1x, and Southern Cross is forecast by Shaw to deliver materially higher earnings growth in FY25.

Shaw has a Buy rating and $2.00 target.

Upside Risk

Bell Potter expects Southern Cross Electrical will deliver earnings per share growth of 41.3% in FY25, consistent with the company's guidance. This broker sees upside risk to this outlook if the company can continue to convert strongly on its tender pipeline.

Southern Cross is tendering on or positioning for in excess of $500m of work to be awarded in the next two years for multiple data centre builds and extensions. The company is a leading provider of electrical services to the data centre sector, and Bell Potter expects it to win a significant portion of this tender pipeline.

At the Western Sydney Airport, conversion of tendered work for the cargo handling facilities, command centre and metro stations represent opportunities to expand activity at the site and region.

Echoing Moelis, Bell Potter this week noted Southern Cross brings key small cap exposure to several emerging and structural themes, including the proliferation of data centre construction across Australia, decarbonisation of the Australian economy, electrification of industries, and the build-out of large-scale critical infrastructure.

The company enters FY25 with a record order book and a tender pipeline that could support further growth. Southern Cross' blue-chip clientele and high proportion of recurring work (37% of FY23 group revenue) provides some stability to operations and financials and reduced counterparty risk, Bell Potter points out.

Bell Potter has initiated coverage of Southern Cross Electrical with a Buy rating and $2.10 target.

TREASURE CHEST

Treasure Chest: JB Hi-Fi

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

By Rudi Filapek-Vandyck

Whose Idea Is It?

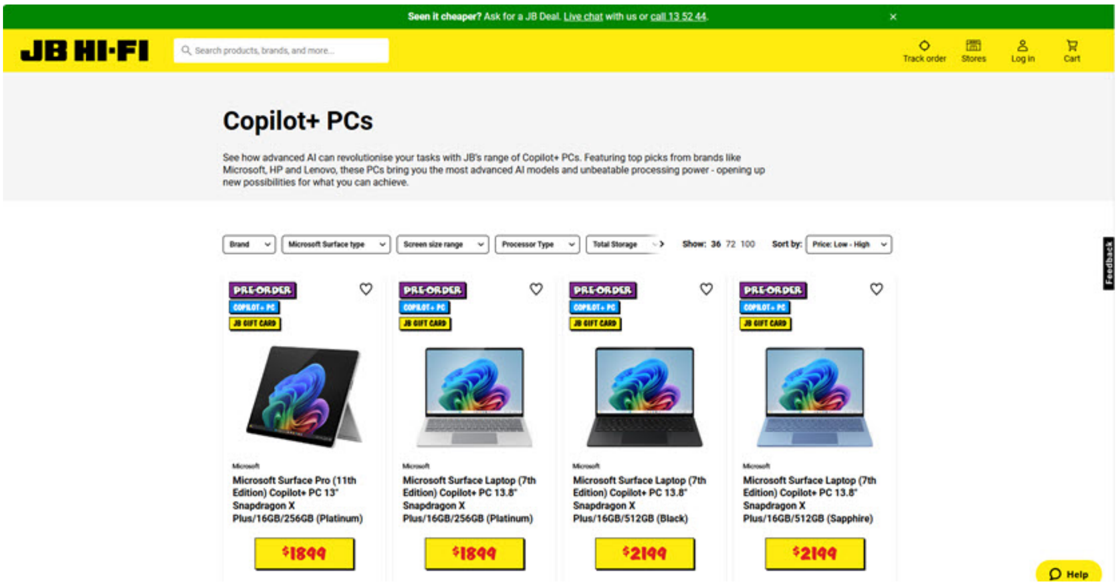
Analysts at Citi

The subject:

Following two years of double-digit declines in PC sales, 2025 is shaping up as a year of strong upward momentum. Citi has upgraded its price target for JB Hi-Fi ((JBH)) to $74 in anticipation. JB Hi-Fi is the market leader in the Australian computer market.

The thesis

Citi analysts have identified multiple drivers to underpin a strong recovery for PC sales in 2025, including Microsoft ceasing support for Windows 10, the replacement cycle kicking in from peak sales in 2021 (covid lockdowns) and the fresh new series of products with artificial intelligence embedded.



More info:

JB Hi-Fi is the market leader for PC sales and adjacent electronics in Australia and should thus be a major beneficiary of next year's upswing in PC sales. Another identified beneficiary is Harvey Norman ((HVN)).

On Citi's assessment, the next industry upturn will include both increased volumes and higher pricing as AI-PCs carry a higher price tag. All top consumer PC brands have announced a series of AI PCs to be released over 2024, the broker notes.

The expectation is that PC sales will experience a mild uptick in 2024 (low to single digit market growth) with growth to accelerate to 8-10% in 2025. Some experts estimate AI PC's could command 5-15% higher prices.

Beyond AI-enabled PCs, there are other technologies that are equally benefiting from being AI enabled, the analysts highlight, including gaming PCs powered by Nvidia gaming chips and smartphones, such as the Samsung S24 Galaxy.

It is the broker's observation this upside potential is not yet reflected in consensus forecasts. The implication is the re-rating of JB Hi-Fi shares since November last year has at least another chapter in it on enlarged growth potential in FY25-FY26.

Citi has reiterated its Buy rating with an increased price target of $74, which catapults the broker to the top of the market in FNArena's universe. If we ignore laggard Ord Minnett, targets set by Citi's peers are currently in the high $50s-mid-$60s.

The suggestion that a new upswing awaits for sellers of PCs, smart mobiles and related hardwares is not new. Already, FNArena's Special Report on **Investing in Gen.Ai, The Next Industrial Revolution** mentions companies like Wesfarmers ((WES)), through Officeworks, Dicker Data ((DDR)) and Data#3 ((DTL)) as other potential beneficiaries.

Analysts at Macquarie earlier calculated if Gen.Ai is to shorten the average renewal cycle for computers by one year (to five instead of six) this would increase the market overall by 34% in 2025, also assuming an average price increase of 15%.

Paying subscribers can download their copy of this Report via the SPECIAL REPORTS section on the website.

Citi's latest research update has more promising input for JB Hi-Fi shareholders: on top of the anticipated recovery in PCs, industry feedback suggests appliances are doing better and the TV market is flattening after a period of significant decline post the covid peak.

The five daily monitored brokers (ex Citi) are either Hold/Neutral or Sell rated on JB Hi-Fi but Citi seems fairly confident they will cross the boundary to the 'other side'. Two brokers not daily covered are Goldman Sachs and Jarden, both with a price target of $50.

JB Hi-Hi shares fell towards $56 in late May, but have since recovered strongly and are this week trading in the mid-$60s. This time last year they were languishing in the low-$40s.

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

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

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 19-07-24

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 July 15 to Friday July 19, 2024
Total Upgrades: 9
Total Downgrades: 6
Net Ratings Breakdown: Buy 58.68%; Hold 32.63%; Sell 8.68%

For the week ending Friday July 19, 2024, FNArena recorded nine ratings upgrades and six downgrades for ASX-listed companies by brokers monitored daily.

The tables below show percentage upgrades by brokers to average earnings forecasts were larger than downgrades, while changes in average target prices were broadly equal if the increase for Zip Co is excluded.

All three covering brokers in the FNArena Database raised Zip Co's target price dramatically, lifting the average to $1.92 from $1.50.

The June-quarter market update pleased Citi as customer spending in the US rose by 43% year on year, helping to contain bad debts to below target in a tough operating environment.

In a highly accretive move for cash earnings per share, management simultaneously announced (and then later completed) a $217m equity placement. Proceeds will be used to retire a $130m corporate debt facility, along with associated exit fees.

UBS raised its forecasts given $23m of annual interest savings and an improved cash earnings margin profile as management continues to focus on operating leverage.

Zip Co was also placed second on the earnings upgrade table below, behind Patriot Battery Metals.

Citi initiated research coverage on lithium hopeful Patriot Battery Metals last week with a Buy, High Risk rating and a 75c target price.

Patriot's Corvette project in Quebec is a tier 1 deposit due to its location, size, and grade, making the company an attractive acquisition target despite tough short-term lithium fundamentals, explained the broker.

The inferred resource can support 800ktpa of production for decades, which could underpin a sizeable 100ktpa chemicals facility, according to Citi, which would place Corvette in the top-ten lithium mines by lithium carbonate equivalent globally.

FNArena has prepared a dedicated story on Patriot Battery Metals, which is due for publication later today.

Next on the earnings upgrade table we find Nanosonics, Polynovo, and Cooper Energy.

Ord Minnett highlighted a "strong" finish to FY24 by Nanosonics with stronger-than-expected second half earnings guidance. Group revenue of $90.4m for the second half beat the analyst's forecast for $87m.

While installations of the flagship Trophon device were fewer-than-expected by the broker, a wider gross margin and higher sales of consumables provided a greater offset.

Regulatory approval for the Coris device is the next likely share price catalyst, suggested Bell Potter. After the broker's carrying value for this device was increased following a regulatory submission, and after other minor forecast earnings changes, the target was raised to $3.45 from $3.00.

FY24 results are due on August 27 for Nanosonics where Morgans is hoping for an early FY25 trading update.

PolyNovo's FY24 result is due on August 23, prompting Morgans to refresh research in anticipation.

Solid revenue growth achieved in the first half is set to continue into the second half and for the next three years, suggested the analyst. The target was raised to $2.50 from $2.22 on a valuation roll-forward of the broker's financial model which captured an additional year of growth.

For Cooper Energy, Macquarie raised earnings forecasts following fourth quarter sales and gas price realisation numbers which beat the broker's forecasts by 4% and 15%, respectively.

In line with Ord Minnett's forecast, the company produced 950,000 barrels of oil equivalent for the quarter, leaving the total for FY24 in the middle of management's guidance range.

The Sole pipeline is now functioning at its regular pressure level, and operations will return to normal within a fortnight, stated management. Next quarter, an increase in production is expected at Orbost following recent enhancements at the plant.

Cooper Energy's FY24 capital expenditure, as well as decommissioning costs for the Basker Manta Gummy (BMG) subsea oil development (located in the Gippsland Basin) should meet guidance, suggested Bell Potter.

On the flipside, Kelsian Group received the largest, and sole material downgrade by brokers to average earnings forecast in the FNArena database last week.

The ongoing shuffle of research coverage continues at Ord Minnett. In-house analysis of Kelsian Group has been transferred to a "retail research partner" and the stock is now rated a Buy (from Hold previously), with a $6.60 target price.

The share price has lost nearly one third of its market value in just five months partly due to investor fears over squeezed margins in the company's Australian operations and increasing capital intensity, explained the analyst.

Such concerns should be allayed in FY25, according to the broker, and earnings should rise over the FY25-28 forecast period due to new contract wins and successful execution of the US strategy.

Total Buy ratings in the database comprise 58.68 % of the total, versus 33.63% on Neutral/Hold, while Sell ratings account for the remaining 8.68%.

Upgrade

ACROW LIMITED ((ACF)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 3/0/0

Ord Minnett raises its earnings estimates for Acrow to reflect "strong" new hire contract momentum reflected in the July 2 trading update.

The broker's target is increased to $1.31 from $1.25 (which includes a valuation-roll-forward) and the rating upgraded to Buy from Accumulate.

New hire contracts grew by around 16% to $78.3m in FY24, providing a strong base for growth in FY25, in the analyst's view.

BLUESCOPE STEEL LIMITED ((BSL)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/0/1

Citi revises the outlook for BlueScope Steel on the back of anticipation of bottoming of US steel prices as an "uptick" is expected as the Fed eases monetary conditions.

Domestically, the risk of another RBA rate hike could impact on volumes.

The broker adjusts earnings forecasts to the lower end of 2H24 guidance at $620m, but is more upbeat on improved Asia export spreads and volumes for North Star in FY26.

The target price decreases to $23.70 from $24 and the rating is upgraded to Buy from Neutral with the valuation for prospective earnings in FY27 at a low.

CAR GROUP LIMITED ((CAR)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/2/0

Citi upgrades CAR Group to Buy from Neutral with a target price lift to $39.80 from $34.70.

While acknowledging some forex headwinds and a risk of another rate rise domestically, the broker points to the strength of the company's position and expected robust growth even with macro headwinds.

Overseas, Citi believes falling interest rates will provide tailwinds for Brazil and the US.

Over the medium-term, double-digit earnings growth is forecast by Citi, with the potential for "bolt-on' acquisitions and mergers.

EPS estimates are tweaked by 0.5% in FY24 and -3.9% for FY25.

FLIGHT CENTRE TRAVEL GROUP LIMITED ((FLT)) Upgrade to Buy from Neutral by UBS .B/H/S: 5/0/0

UBS raises its target for Flight Centre Travel to $27.80 from $21.30 after raising FY25-28 EPS forecasts by between 19-21%, and the rating is upgraded to Buy from Neutral.

According to the broker's proprietary airfare tracker, Australian international airfares continue to fall which should result in growing volume.

A UBS consumer survey also indicates consumers continue to prioritise travel. Further, Flight Centre's Leisure demographic is skewed towards older customers with lower mortgages and higher deposits, while Corporate is still delivering new business wins.

IRESS LIMITED ((IRE)) Upgrade to Add from Hold by Morgans .B/H/S: 2/2/0

Morgans reviews the financial services sector to reflect broad improvements in equities the June half, as well as fund flows.

Iress has also upgraded FY24 guidance by 4% after bringing forward transformation benefits thanks to strong cost discipline and focus on the core business.

Management is expected to report on the divestment of UK Mortgages soon, says the broker.

Morgans upgrades Iress to Add from Hold to reflect growing confidence in the prospects of a turnaround. Target price edges up to $9.85.

KELSIAN GROUP LIMITED ((KLS)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 3/0/0

Ord Minnett has transferred coverage of Kelsian Group to its "retail research partner" and the stock is now rated a Buy from Hold previously, with a $6.60 target price.

The broker expects the concerns over margin pressures at the domestic operations, which have resulted in a -30% decline in the stock price, will be alleviated in FY25.

EPS growth of 24% is forecast by Ord Minnett with potential upgrades to expectations through to FY28 from new contracts.

Buy. $6.60 target price.

NICKEL INDUSTRIES LIMITED ((NIC)) Upgrade to Buy from Neutral by Citi .B/H/S: 5/0/0

Post the -14% fall in the share price for Nickel Industries over the last 10-weeks, Citi upgrades the company to Buy (High Risk) as the only pure play nickel producer on the market.

The broker considers 1H24 EBITDA earnings as the trough and expects some earnings growth momentum going forward with the probability of consensus earnings improvements.

Nickel Industries' 55% owned nickel leach project should start production in 3Q25. Buy (High risk) rating and $1.10 target price.

RIO TINTO LIMITED ((RIO)) Upgrade to Add from Hold by Morgans .B/H/S: 3/3/0

Rio Tinto's June-quarter operational result held, observes Morgans, as high-margin Escondida production outpaced estimates - enough says the broker to offset a medium-term easing in the iron ore prices

The broker spies risks to the timing of Pilbara iron ore mining approvals and trims iron ore forecasts accordingly.

Management advises costs are on the rise due to operational and social expenditure, and expects a -US$0.7bn working capital outflow at the full-year result.

Productivity improved, observes Morgans, and Simandou is on track. Rating upgraded to Add from Hold. Target price eases to $130 from $132.

WOODSIDE ENERGY GROUP LIMITED ((WDS)) Upgrade to Neutral from Sell by Citi .B/H/S: 3/3/0

Citi upgrades Woodside Energy to Neutral from Sell with a $28 target price post a June quarter mark-to-market of forecasts.

The analyst highlights a preference for Santos ((STO)) which is also Neutral rated, due to the structural problem of an "ex-growth" portfolio for Woodside Energy.

Citi's earnings forecast is in line with consensus for the 2Q2024 results, the broker states, and the Sangomar ramp-up is progressing as anticipated.

A better-than-expected ramp-up would potentially raise forecast production, which is currently at the lower end of the guidance range.

<u>Downgrade</u>

AUSTRALIAN UNITY OFFICE FUND ((AOF)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 1/0/0

Ord Minnett notes Australian Unity Office Fund announced a contract to sell 2-10 Valentine Ave, Parramatta for $80.5m, which is circa -15% below the December 2023 valuation and -6% below the draft June 2024 valuation.

The broker considers this to be a reasonable result as Parramatta has a 24% vacancy rate.

Following the settlement of this sale and the earlier sale of 96 York Street, Beenleigh, Ord Minnett lowers the target price to $1.37 from $1.45.

Australian Unity Office Fund retains two assets valued at around $97m as of December 2023, down from eight assets two years ago and the analyst expects it may eventually wind up the fund, subject to approval.

The rating is downgraded to Accumulate from Buy.

CORPORATE TRAVEL MANAGEMENT LIMITED ((CTD)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 5/3/0

Ord Minnett believes the consensus earnings forecast for Corporate Travel Management is way too high relative to industry conditions and the company's positioning within that industry.

The broker's rating is downgraded to Hold from Accumulate and the target is lowered to $13.16 from $14.91 due to lower forecasts for Asia and Europe.

Industry analysis shows the structural decline in volumes for travel management companies compared to pre-covid driven by virtual meetings and sustainability dynamics, notes the broker.

A recent decline in economic conditions worsens the outlook further, explains the analyst.

GENESIS MINERALS LIMITED ((GMD)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/1/0

Fourth quarter gold production and costs (AISC) for Genesis Minerals were in line with the forecasts by UBS. The mid-point of management's FY24 production guidance is set to be achieved, believes the analyst.

The analyst's target rises to $2.25 from $2.15 on higher volume assumptions for the latter half of this decade. The rating is downgraded to Neutral from Buy after the recently strong share price performance.

MYSTATE LIMITED ((MYS)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 1/0/0

Ord Minnett raises its target to $4.20 from $3.98 based on a rising market (and higher bank multiples) but downgrades the rating for Mystate to Accumulate from Buy.

The downgrade follows a strong share price rise and a lower forecast total return over the next 12-months of 9%, explains the analyst.

The FY24 profit result is due on August 22 and Ord Minnett is forecasting a profit of $35.2m, which would be a fall of -9% on the previous corresponding period.

PRAEMIUM LIMITED ((PPS)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 0/1/0

Praemium's June Q update was below Ord Minnett's expectations, with the SMA not growing as fast as forecast and Powerwrap experiencing larger outflows.

The SMA platform is not currently providing sufficient momentum to offset outflows from other areas of the business, the broker notes. OneVue and the new investor-directed portfolio service offer growth opportunities, but not in the short term. OneVue needs to be integrated and the new IDPS needs to be launched.

Praemium is unlikely to post material net new business over the next 12 months, Ord Minnett warns. In that context, valuation is likely to remain discounted. Target falls to 50c from 55c, downgrade to Hold from Buy.

SEEK LIMITED ((SEK)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 4/1/0

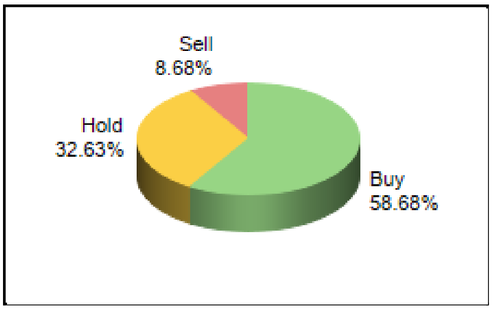
Macquarie observes the -17% decline in the SEEK Job Ad Index in the six months to June, and expects the index remains at these levels through FY25, representing an -8% year-on-year decrease.

The upcoming Seek result could be "messy", states the broker, due to the differences in treatment of Latam (estimated to generate $490m-$530m on sale).

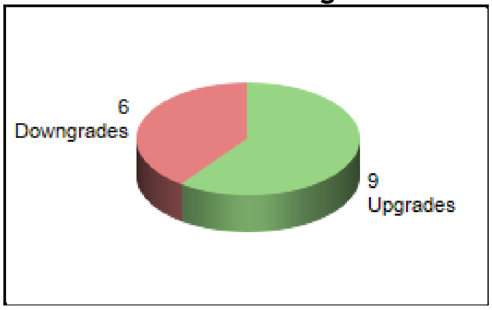
Earnings forecasts are trimmed by -11% for FY24 due to the weak job ads and -26% for FY25 with Macquarie highlighting its estimates sit at -7% and -15% FY24/FY2 below consensus forecasts, respectively.

The target price is sliced by -21% to $23 from $29 and the stock is downgraded to Neutral from Outperform.

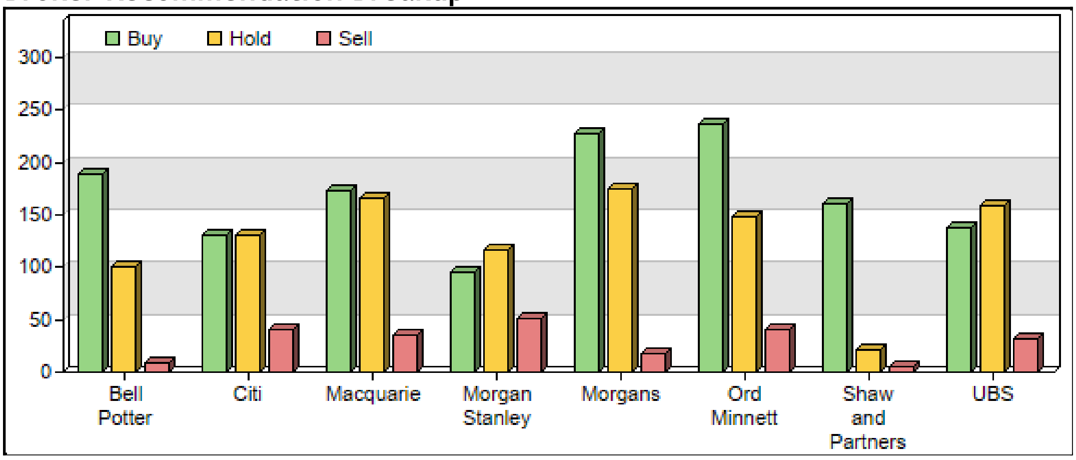
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order		Company	New Rating	Old Rating	Broker
Upgrade					
1		ACROW LIMITED	Buy	Buy	Ord Minnett
2		BLUESCOPE STEEL LIMITED	Buy	Neutral	Citi
3		CAR GROUP LIMITED	Buy	Neutral	Citi
4		FLIGHT CENTRE TRAVEL GROUP LIMITED	Buy	Neutral	UBS
5		IRESS LIMITED	Buy	Neutral	Morgans
6		KELSIAN GROUP LIMITED	Buy	Neutral	Ord Minnett
7		NICKEL INDUSTRIES LIMITED	Buy	Neutral	Citi
8		RIO TINTO LIMITED	Buy	Neutral	Morgans
9		WOODSIDE ENERGY GROUP LIMITED	Neutral	Sell	Citi

Downgrade

10	AUSTRALIAN UNITY OFFICE FUND	Buy	Buy	Ord Minnett
11	CORPORATE TRAVEL MANAGEMENT LIMITED	Neutral	Buy	Ord Minnett
12	GENESIS MINERALS LIMITED	Neutral	Buy	UBS
13	MYSTATE LIMITED	Buy	Buy	Ord Minnett
14	PRAEMIUM LIMITED	Neutral	Buy	Ord Minnett
15	SEEK LIMITED	Neutral	Buy	Macquarie

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	ZIP	ZIP CO LIMITED	1.917	1.500	27.80%	3
2	PNI	PINNACLE INVESTMENT MANAGEMENT GROUP LIMITED	14.330	13.180	8.73%	4
3	FLT	FLIGHT CENTRE TRAVEL GROUP LIMITED	26.282	24.272	8.28%	5
4	GMD	GENESIS MINERALS LIMITED	2.250	2.113	6.48%	4
5	GQG	GQG PARTNERS INC	3.100	2.925	5.98%	4
6	RMS	RAMELIUS RESOURCES LIMITED	2.377	2.243	5.97%	3
7	CAR	CAR GROUP LIMITED	37.783	36.183	4.42%	6
8	HUB	HUB24 LIMITED	45.736	43.896	4.19%	7
9	NWH	NRW HOLDINGS LIMITED	3.117	3.000	3.90%	3
10	JDO	JUDO CAPITAL HOLDINGS LIMITED	1.246	1.202	3.66%	5

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	STO	SANTOS LIMITED	8.292	8.975	-7.61%	6
2	AWC	ALUMINA LIMITED	1.550	1.663	-6.79%	3
3	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	40.333	43.250	-6.74%	6
4	SEK	SEEK LIMITED	27.460	29.200	-5.96%	5
5	RHC	RAMSAY HEALTH CARE LIMITED	54.418	57.518	-5.39%	6
6	KAR	KAROON ENERGY LIMITED	2.480	2.600	-4.62%	5
7	COE	COOPER ENERGY LIMITED	0.260	0.270	-3.70%	4
8	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	17.514	18.045	-2.94%	8
9	ALD	AMPOL LIMITED	35.938	36.975	-2.80%	4
10	IGO	IGO LIMITED	6.350	6.483	-2.05%	6

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	PMT	PATRIOT BATTERY METALS INC	-5.619	-9.555	41.19%	4
2	ZIP	ZIP CO LIMITED	-0.667	-0.867	23.07%	3
3	NAN	NANOSONICS LIMITED	3.033	2.525	20.12%	4
4	PNV	POLYNOVO LIMITED	0.850	0.725	17.24%	4
5	COE	COOPER ENERGY LIMITED	0.667	0.600	11.17%	4
6	SEK	SEEK LIMITED	57.025	53.540	6.51%	5
7	IRE	IRESS LIMITED	29.933	28.200	6.15%	4
8	CAR	CAR GROUP LIMITED	91.600	87.880	4.23%	6
9	GQG	GQG PARTNERS INC	22.374	21.608	3.54%	4
10	STO	SANTOS LIMITED	71.047	68.693	3.43%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	KLS	KELSIAN GROUP LIMITED	28.600	32.900	-13.07%	3
2	ALD	AMPOL LIMITED	258.867	277.700	-6.78%	4
3	RMS	RAMELIUS RESOURCES LIMITED	17.400	18.650	-6.70%	3
4	FMG	FORTESCUE LIMITED	288.749	305.139	-5.37%	7

5	EVN	EVOLUTION MINING LIMITED	23.580	24.760	-4.77%	5
6	TAH	TABCORP HOLDINGS LIMITED	2.680	2.800	-4.29%	5
7	RIO	RIO TINTO LIMITED	1214.179	1260.366	-3.66%	6
8	NWL	NETWEALTH GROUP LIMITED	33.860	34.967	-3.17%	6
9	JDO	JUDO CAPITAL HOLDINGS LIMITED	6.640	6.840	-2.92%	5
10	TPG	TPG TELECOM LIMITED	17.225	17.725	-2.82%	5

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: Paladin's First Shipment

By Rudi Filapek-Vandyck

Australia is the world's fourth producer of uranium, behind Kazakhstan, Canada and Namibia, thanks to BHP Group's ((BHP)) Olympic Dam mine in the heart of the country.

ASX-listed Paladin Energy ((PDN)) is resuming mining at its Langer Heinrich mine and reported shipping its first sale to a customer on July 12th. Paladin's operation is only getting re-started, but even when Langer Heinrich reaches full production, this won't change the world rankings for producing countries.

Langer Heinrich is in Namibia.

None of this should spoil the enthusiasm for uranium exposure among Australian investors. Management at Paladin has grabbed the opportunity to re-iterate guidance for FY25 (current running financial year, with FY24 to be reported in August). Brokers are equally optimistic with all four monitored daily, ex Macquarie which still is under research restriction, plus Canaccord Genuity rating the stock a Buy.

The price of uranium has come under pressure this year, having first rallied steeply from mid-year last year to above US$100/lb, dragging down most share prices for explorers, developers and soon-to-be producers. For Paladin, price targets vary from $15.70 to $16.65; all significantly above today's share price of $12.16.

Optimism Dominates at Petra Capital

A **sector update by Petra Capital** this week highlighted the sector's greenfield developers have been underperforming brownfield developers and producers, even with Bannerman Energy ((BMN)) and Deep Yellow ((DYL)) posting strong rallies throughout the first half of the calendar year of respectively 22% and 23%.

Most share prices have returned negatively over the period which suggests to the broker we are still early in the new up-cycle. The good news is Petra Capital is expecting investor interest to broaden beyond producers in the second half. The three key ETFs covering the industry returned 4% on average.

Petra Capital's preferred exposures for Australian investors include Lotus Resources ((LOT)), Bannerman Energy, Nexgen Energy ((NXG)), Aura Energy ((AEE)) and, among explorers, Devex Resources ((DEV)) and Global Uranium and Enrichment Ltd ((GUE)).

Shares that performed positively since January 1 include Silex Systems ((SLX)), Paladin Energy, Lotus Resources, Deep Yellow, Bannerman Energy, Berkeley Energeia, Cauldron Energy, Infini Resources ((I88)), Marmota Ltd ((MEU)), White Cliff Minerals ((WCN)), C29 Metals ((C29)), and Anson Resources ((ASN)).

Quiet Spot Books Another Fall

Meanwhile, industry consultant TradeTech only recorded one spot transaction last week, with spot uranium losing another -US$2/lb to US$84/lb. There were no transactions in term, conversion or enrichment markets.

It was the week of the Nuclear Energy Institute's *Nuclear Fuel Supply Forum* and, clearly, the market went quiet while attendees and participants yet again discussed the new framework for American imports which are aimed at banning Russian material as soon as practically possible.

As per TradeTech, a recent 8-K SEC company filing revealed the US Department of Energy (DOE) has issued a waiver to Centrus on July 18 allowing the company to import low enriched uranium (LEU) from Russia for deliveries already committed by the company to its US customers for the years 2024 and 2025.

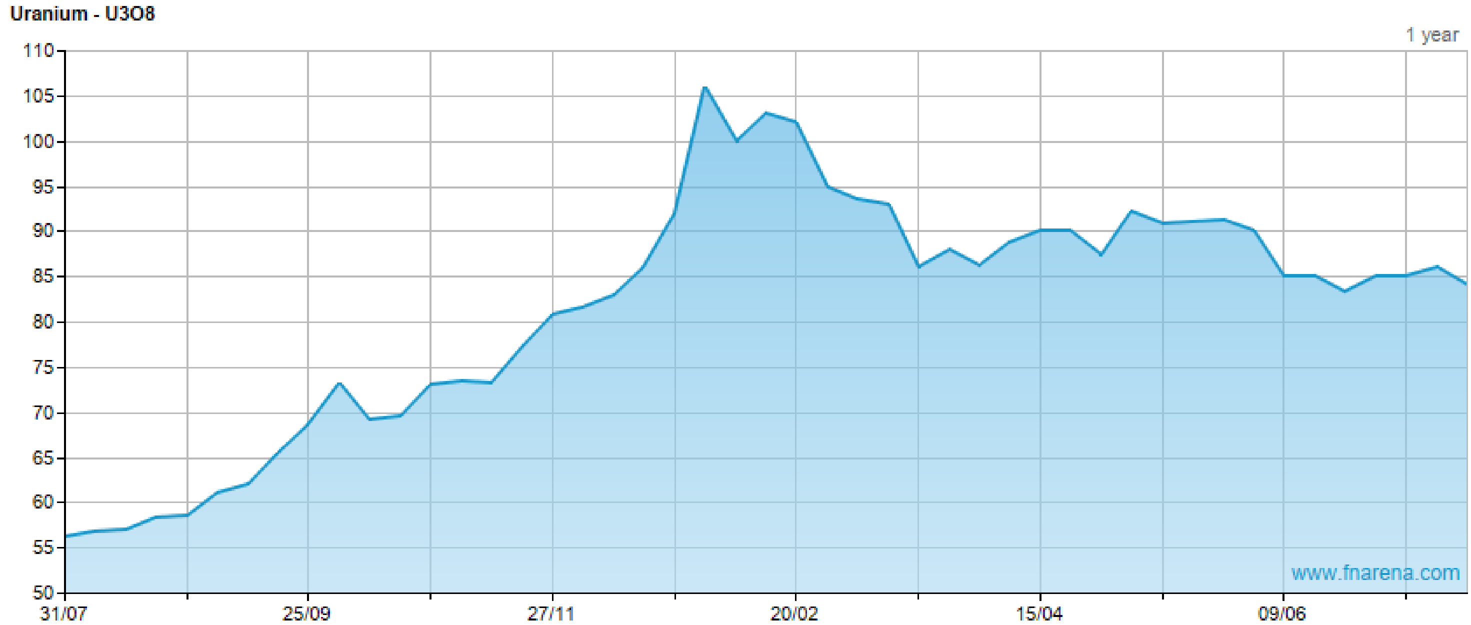
A similar request from Centrus to supply foreign customers is still under DOE review. Centrus has also put in a waiver request for US customers yet to be specifically committed to.

Putting last week's price weakness in perspective, TradeTech points out its weekly spot uranium price is now down some -9% calendar year-to-date, but still 50% up on the price a year ago.

TradeTech's mid-term indicator is currently US$93/lb, while its long-term indicator is US$80/lb. TradeTech's production cost indicator sits at US$57.80/lb.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	22/07/2024	0.0600	▼-33.33%	$0.19	$0.06			
AGE	22/07/2024	0.0500	▼-10.00%	$0.08	$0.03			
BKY	22/07/2024	0.3450	▲ 1.47%	$0.46	$0.26			
BMN	22/07/2024	2.8500	▼- 9.21%	$4.87	$1.44		$7.400	▲159.6%
BOE	22/07/2024	3.7100	▼- 6.73%	$6.12	$2.83	37.6	$5.050	▲36.1%
DYL	22/07/2024	1.2300	▼-12.63%	$1.83	$0.65	-89.3	$1.770	▲43.9%
EL8	22/07/2024	0.3500	▼-11.69%	$0.68	$0.29			
ERA	22/07/2024	0.0400	0.00%	$0.08	$0.03			
LOT	22/07/2024	0.3000	▼-14.49%	$0.49	$0.20		$0.660	▲120.0%
NXG	22/07/2024	9.9000	▼- 8.68%	$13.66	$6.84		$17.500	▲76.8%
PDN	22/07/2024	12.1100	▼- 8.47%	$17.98	$7.25	-96.0	$16.287	▲34.5%
PEN	22/07/2024	0.1000	0.00%	$0.15	$0.08	33.3	$0.260	▲160.0%
SLX	22/07/2024	4.9200	▼- 4.08%	$6.74	$2.92		$7.600	▲54.5%



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

WEEKLY REPORTS

The Short Report - 25 Jul 2024

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

Summary:

Week Ending July 18th, 2024 (most recent data available through ASIC).

10%+

PLS 20.94
QMIX 14.77
IEL 12.96
LTR 11.09

In: QMIX Out: ACL, CHN, FLT, SYR

9.0-9.9%

FLT
SYR
CHN
WGX
SYA
CTT
STX
LYC

In: CHN, CTT, FLT, STX, SYR

8.0-8.9%

WBT

Out: CTT, STX

7.0-7.9%

BOE
HLS
GMD

In: GMD

6.0-6.9%

MIN
ARU
OBL
IFL

Out: BGL, BOQ, GMD, VISM, WEB

5.0-5.9%

WEB
DYL
LIC
CXO

CUV
VUL
NAN
BGL
BOQ
RIO
SFR
SEK
NUF

In: BGL, BOQ, WEB

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.5	0.5	NAB	0.5	0.5
ANZ	0.4	0.4	QBE	0.6	0.7
BHP	0.5	0.5	RIO	5.2	5.1
CBA	1.5	1.6	STO	1.0	1.0
COL	0.4	0.5	TCL	0.8	0.6
CSL	0.4	0.5	TLS	0.5	0.5
FMG	0.9	0.9	WBC	0.8	0.8
GMG	1.1	1.2	WDS	0.5	0.5
JHX	1.1	0.8	WES	1.1	1.1
MQG	0.7	0.7	WOW	0.5	0.5

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

WEEKLY REPORTS

In Brief: Data Centres, Reckon & Consumers

Weekly Broker Wrap: AI exposure on the ASX via data centres; upside potential for Reckon; and is the Australian consumer turning the corner?

-Pure-play AI exposure from data centres
-Potential upside for Reckon
-Is the Australian consumer turning the corner?

By Mark Woodruff

Data centre exposures on the ASX

Data Centre exposures on the ASX are the best pure-play AI beneficiaries, with no evidence of meaningful risk to business models, due to large waves of demand, highlights Evans and Partners in a trading-style report focusing on the ASX Technology sector leading into the August reporting season and beyond.

For data centres, and infrastructure more generally, bullishness is justified as the infrastructure rollout will continue at strength as companies make the required investment in AI just to stay relevant (without necessarily a revenue reward), explain the analysts.

The broker likes the setup leading into FY24 results for **NextDC ((NXT))**, noting industry feedback indicates management has lots of interest from hyperscalers requiring additional data centre space. It's felt the potential for large deals in the shorter-term is high, and market expectations seem currently quite conservative.

For NextDC's FY24 results, consensus is expecting underlying earnings (EBITDA) of $197.2m and capex of -$858m, broadly in line with management guidance.

Evans and Partners also suspects **Macquarie Technology ((MAQ))** will have an easy reporting season and notes this company usually beats guidance at the margin.

As part of an expansion strategy, Macquarie Technology has begun construction of its latest data centre in Sydney, named IC3 Super West, which is designed to support high-density cloud and AI workloads.

Management should soon be able to start negotiating potential contracts with hyperscale customers, in the broker view, with the centre appearing on track to open in 2026.

Consensus is expecting FY24 earnings and profit for Macquarie Technology of $109.8m and $29.5m, respectively.

While **Megaport ((MP1))** will eventually experience leverage to the AI thematic in its numbers, probably not in FY24, suggests the broker. Given a tough networking backdrop, the analysts feel expectations may be too high leading into the reporting season.

Evans and Partners points to broad-based softness in the US networking and cybersecurity market, with the more scaled companies in the space (and in enterprise telecommunications generally) experiencing tough markets for growth.

Driving weakness is the weak macro environment in the US leading to business uncertainty, along with cost-cutting and rationalisation that have led to a slowdown in demand for digital infrastructure services following a post-covid surge and the emergence of work from-home, explains the broker.

The analysts still have a Positive rating for Megaport based on longer-term faith in management's turnaround plans.

Evans and Partners has 12-month targets for NextDC, Macquarie Technology and Megaport of $21.70, $101.10, and $17.21, respectively. These targets are all higher than average targets in the FNArena Database of $20.14, $100, and $14.62.

Potential upside for Reckon

As banks desire accounting software to lock in customers and harvest data, there may be future upside for accounting practice management group Reckon ((RKN)) via white labeling its software product, according to MST Financial.

Reckon customers use business accounting software across Australia and New Zealand, and the company also has a Legal practice management software business in the UK and the US.

To compete with the likes of MYOB and Xero ((XRO)) in Australia, National Australia Bank ((NAB)) has already partnered up with fintech platform Thriday to create a software package named NAB Bookkeeper. This software comes with AI functionality to reduce administration tasks for customers.

The bank's aim is to integrate automated banking, accounting, and tax features into internet banking for NAB's one million small business customers, explains the broker, providing the bank with better quality data it can use to assess customer risk.

The more successful NAB's software strategy becomes, the more other banks will consider white labelling Reckon's software, suggests MST Financial.

Is the Australian consumer turning the corner?

Anticipating a stronger FY25 for the Australian consumer because of slowing inflation, tax cuts and rising wages, Macquarie has raised 12-month target prices for stocks under coverage within the Staples, Discretionary Retail, and Food & Beverage sectors.

The broker's largest percentage target price increases (ranging between 7-14%) are reserved for Coles Group ((COL)) and Woolworths Group ((WOW)) within Staples, and JB Hi-Fi ((JBH)) and Wesfarmers ((WES)) in Discretionary Retail.

While there is a slowing in food inflation for Supermarkets, pressure remains on the cost-of-doing-business (CODB) metric as wages, rents and utilities continue to see higher cost growth than food, explain the analysts. The political backdrop also remains hostile to excess profits for these businesses.

Macquarie lowers the ratings for both Woolworths Group and Endeavour Group to Neutral from Outperform on valuation after recent share price gains.

Within Consumer Discretionary, conditions remain tough for The Good Guys brand (owned by JB Hi-Fi) with consumers cutting back on white goods purchases, but Macquarie's proprietary data show momentum into FY25 has improved for Durables.

In a positive for both JB Hi-Fi and Harvey Norman ((HVN)) sales from AI-ready laptops will provide a potential uplift, note the analysts, and the recent tax cuts should deliver a benefit to consumption growth.

For Wesfarmers, Macquarie notes Bunnings' specialist tool retailer Tool Kit Depot appears to have taken some market share in professional tools.

The broker expects Kmart will continue to be a market leader in discount department stores, noting how Anko delivered amazing growth in a soft category in February results.

On the flipside, lithium prices remain soft, forcing the broker to lower forecasts for the Mt Holland operations in WA, yet again.

Macquarie's only target price change within Food & Beverage, is a small lift for Treasury Wine Estates ((TWE)) due to Penfolds upside on the back of the reopening of trade with China.

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 26-07-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

ACCENT GROUP LIMITED ((AX1)) Upgrade to Overweight from Market Weight by Wilsons and Upgrade to Overweight from Neutral by Jarden.B/H/S: 0/0/0

Accent Group's FY24 trading update pleased Wilsons, earnings (EBIT) guidance outpacing the broker by 13% thanks to stronger like for like sales in the June half.

The broker says this points to strong execution in core retail brands and a resilient consumer backdrop in the face of cost-of-living pressures and higher interest rates.

The closure of 17 underperforming Glue store should also remove a drag on earnings says the broker, noting the company is trading at a discount to peers.

Rating upgraded to Overweight from Market Weight. Target price rises 19% to $2.50 from $2.10.

Jarden raises its target for Accent Group to $2.28 from $2.05 and upgrades to Overweight from Neutral due to 2H like-for-like (LFL) sales growth of 4.1% compared to the 1H and closure of some Glue stores.

The broker believes closing unprofitable Glue stores will improve earnings (EBIT) by around $3m in FY25, with further upside derived from improving the remaining stores.

There are significant medium-term growth drivers, according to Jarden, as management buys back The Athlete's Foot franchisees, closes unprofitable stores, annualises cost-out, and continues to expand the network.

SANDFIRE RESOURCES LIMITED ((SFR)) Upgrade to Overweight from Neutral by Jarden.B/H/S: 0/0/0

Jarden raises its target for Sandfire Resources to $9.00 from $7.40 and upgrades the rating to Overweight from Neutral. These changes flow from the broker's increased long-term copper price forecast of US$4.00/lb real, up from US$3.50/lb.

The analysts retain a preference for the stock across the base metals universe. Shares represent a low-risk proposition for both FY25 guidance and FY24 financial disclosure relative to the rest of the sector, according to Jarden.

June quarter results are due on Thursday July 25. The broker's FY24 underlying EBITDA forecast of around US$316m sits around -10% below the consensus estimate.

Downgrade

AUSSIE BROADBAND LIMITED ((ABB)) Downgrade to Market Weight from Overweight by Wilsons.B/H/S: 0/0/0

Aussie Broadband upgraded FY24 earnings (EBITDA) to the top end of its range but downgraded FY25 guidance. Wilson's suspects an underestimation of Origin's contribution.

The company also announced the launch of its Buddy brand, the company's digital first brand. The upgrade and downgrade are reflected in EPS-forecast changes.

Rating is downgraded to Market Weight from Overweight. Target price slumps to $3.32 from $4.52.

AUCKLAND INTERNATIONAL AIRPORT LIMITED ((AIA)) Downgrade to Neutral from Overweight by Jarden.B/H/S: 0/0/0

Jarden lowers its target for Auckland International Airport to NZ$8.13 from NZ$8.58 and downgrades to Neutral from Overweight. These changes follow from the Commerce Commission in New Zealand suggesting a lower level of targeted returns compared to management.

The broker makes a -5% reduction in FY26 and FY27 aeronautical pricing forecasts, which results in a modest -2cps reduction in
value.

Also, prior to any price adjustment, the analysts had noted passenger volumes were likely to remain below the company's Price Setting Event 4 (PSE4) forecasts for the next two years. PSE4 covers aeronautical prices for the five-year period from FY23-27.

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

Wilsons downgrades Hub24's rating to Market Weight from Overweight after the company's recent share price rally but raises the target price to $49 from $44.69 after an increase in its FY25 valuation multiple.

FY24 EPS forecasts fall -4% to reflect slower than forecast migration of Equity Trustees ((EQT)) accounts and a slower than expected recovery in Pooled cash.

LYNAS RARE EARTHS LIMITED ((LYC)) Downgrade to Hold from Buy by Canaccord Genuity.B/H/S: 0/0/0

Canaccord Genuity has downgraded Lynas Rare Earths to Hold from Buy as uncertainty has risen around the near-term production outlook and as weak pricing for rare earths has persisted.

The broker's target price has declined by -10% to $6.25.

Lynas Rare Earths' quarterly production report only slightly missed due to shipping delays, but management continued to refer to soft market conditions in China.

The broker has now revised forecasts to a loss in FY25.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ACCENT GROUP LIMITED	Buy	Neutral	Wilsons
2	ACCENT GROUP LIMITED	Buy	Neutral	Jarden
3	SANDFIRE RESOURCES LIMITED	Buy	Neutral	Jarden
Downgrade				
4	AUCKLAND INTERNATIONAL AIRPORT LIMITED	Neutral	Buy	Jarden
5	AUSSIE BROADBAND LIMITED	Neutral	Buy	Wilsons
6	HUB24 LIMITED	Neutral	Buy	Wilsons
7	LYNAS RARE EARTHS LIMITED	Neutral	Buy	Canaccord Genuity

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
A1N	ARN Media	$0.69	Wilsons	N/A	0.92	-100.00%
ABB	Aussie Broadband	$3.01	Wilsons	3.32	4.52	-26.55%
ASX	ASX	$63.77	Goldman Sachs	59.00	55.45	6.40%
AX1	Accent Group	$2.18	Jarden	2.28	2.05	11.22%
			Petra Capital	2.35	2.10	11.90%
			Wilsons	2.50	2.10	19.05%
AZL	Arizona Lithium	$0.02	Petra Capital	0.05	0.06	-16.67%
BSL	BlueScope Steel	$21.22	Jarden	24.00	23.90	0.42%
BVS	Bravura Solutions	$1.11	Wilsons	1.43	1.51	-5.30%
CAR	CAR Group	$34.54	Goldman Sachs	41.40	39.40	5.08%

CIA	Champion Iron	$5.93	Jarden	7.58	7.94	-4.53%
CMM	Capricorn Metals	$5.25	Canaccord Genuity	6.65	6.40	3.91%
EMR	Emerald Resources	$3.82	Canaccord Genuity	4.80	4.60	4.35%
EOS	Electro Optic Systems	$1.89	Petra Capital	1.89	1.50	26.00%
GMD	Genesis Minerals	$2.12	Canaccord Genuity	3.15	2.90	8.62%
GOR	Gold Road Resources	$1.78	Canaccord Genuity	2.15	2.05	4.88%
HUB	Hub24	$47.73	Jarden	44.45	43.80	1.48%
			Wilsons	49.00	44.69	9.64%
KCN	Kingsgate Consolidated	$1.54	Canaccord Genuity	3.20	3.00	6.67%
LOT	Lotus Resources	$0.28	Petra Capital	0.59	0.50	18.00%
NWH	NRW Holdings	$3.37	Moelis	3.56	3.40	4.71%
OBM	Ora Banda Mining	$0.43	Canaccord Genuity	0.52	0.50	4.00%
PPS	Praemium	$0.47	Wilsons	0.55	0.56	-1.79%
PRU	Perseus Mining	$2.58	Canaccord Genuity	3.80	3.60	5.56%
RED	Red 5	$0.40	Canaccord Genuity	0.46	0.43	6.98%
RIO	Rio Tinto	$112.81	Goldman Sachs	136.10	137.00	-0.66%
RNU	Renascor Resources	$0.09	Petra Capital	0.13	0.15	-13.33%
RXL	Rox Resources	$0.13	Canaccord Genuity	0.51	0.50	2.00%
SEK	Seek	$20.20	Goldman Sachs	20.60	23.50	-12.34%
SFR	Sandfire Resources	$8.16	Jarden	9.00	7.40	21.62%
SHM	Shriro	$0.70	Petra Capital	0.99	0.90	10.00%
WGX	Westgold Resources	$2.62	Canaccord Genuity	3.50	3.35	4.48%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

BSL BLUESCOPE STEEL LIMITED

Steel & Scrap Overnight Price: $21.40

Jarden rates ((BSL)) as Overweight (2)

Jarden suspects recent weakness in US benchmark steel spreads could prove the dark before the dawn, observing some forward indicators are starting to improve.

Should spreads remain low throughout the December half, the broker expects BlueScope Steel's earnings could fall -10% to -15% on consensus forecasts, and believes this has already been factored into the share price.

Add the valuation support from the company's $18.24 net tangible assets should prove a floor. Combine this with surplus land assets, and the broker is not too concerned. Dividend forecasts are steady.

FY24 EPS forecasts inch up but FY25 forecasts fall a decent clip. Overweight rating retained. Target price inches up to $24 from $23.90.

This report was published on July 15, 2024.

Target price is **$24.00** Current Price is **$21.40** Difference: **$2.6**
If **BSL** meets the Jarden target it will return approximately **12%** (excluding dividends, fees and charges).
Current consensus price target is **$22.26**, suggesting upside of **4.0%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Jarden forecasts a full year **FY24** dividend of **50.00** cents and EPS of **207.00** cents.
At the last closing share price the estimated dividend yield is **2.34%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.34**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **206.3**, implying annual growth of **-5.1%**.
Current consensus DPS estimate is **50.0**, implying a prospective dividend yield of **2.3%**.

Current consensus EPS estimate suggests the PER is **10.4**.

Forecast for FY25:

Jarden forecasts a full year **FY25** dividend of **50.00** cents and EPS of **162.40** cents.
At the last closing share price the estimated dividend yield is **2.34%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **13.18**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **181.6**, implying annual growth of **-12.0%**.
Current consensus DPS estimate is **50.0**, implying a prospective dividend yield of **2.3%**.
Current consensus EPS estimate suggests the PER is **11.8**.

Market Sentiment: **0.2**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

CMM CAPRICORN METALS LIMITED

Gold & Silver Overnight Price: $5.30

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

Canaccord Genuity anticipates further upside for both the gold price and gold equities supported by pending rate cuts and strong margin growth, respectively.

The broker raises its 2024-29 gold price forecasts by an average of 3.4% and increases the long-term (from 2030) estimate by 5% to US$2,712/oz. For silver, the long-term price is increased by 20% to US$33.58/oz.

Across Canaccord's research coverage of developers and explorers, price targets rise by 3% on average, after FY25 and FY26 earnings (EBITDA) forecasts increase by 2% and 3%, respectively, on the higher gold price estimates.

For Capricorn Metals, the broker increases the target to $6.65 from $6.40 and the Buy rating is kept.

This report was published on July 11, 2024.

Target price is **$6.65** Current Price is **$5.30** Difference: **$1.35**
If **CMM** meets the Canaccord Genuity target it will return approximately **25%** (excluding dividends, fees and charges).
Current consensus price target is **$5.78**, suggesting upside of **9.0%**(ex-dividends)

Forecast for FY24:

Current consensus EPS estimate is **21.3**, implying annual growth of **1705.1%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **24.9**.

Forecast for FY25:

Current consensus EPS estimate is **38.8**, implying annual growth of **82.2%**.
Current consensus DPS estimate is **2.0**, implying a prospective dividend yield of **0.4%**.
Current consensus EPS estimate suggests the PER is **13.7**.

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

GTK GENTRACK GROUP LIMITED

Software & Services Overnight Price: $9.62

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

Wilsons initiates coverage on Gentrack Group with an Overweight rating and $11 target price citing a combination of positive regulatory, macro, micro and competitive movements which should play out well for the company over the medium to long term.

The broker expects the above trends (particularly SAP's ceasing of support for its core platform) will force utilities to Gentrack Group's cloud-native platform.

Add to that a track record up upgrades, quality management, possible near-term index inclusion in the ASX300 and exposure to megatrends, and the broker is upbeat.

Overweight rating and $11 target price.

This report was published on July 18, 2024.

Target price is **$11.00** Current Price is **$9.62** Difference: **$1.38**
If **GTK** meets the Wilsons target it will return approximately **14%** (excluding dividends, fees and charges).
The company's fiscal year ends in September.

Forecast for FY24:

> Wilsons forecasts a full year **FY24** dividend of **0.00** cents and EPS of **11.08** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **86.81**.

Forecast for FY25:

> Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **17.27** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **55.70**.

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

LOT LOTUS RESOURCES LIMITED

Uranium Overnight Price: $0.28

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

Petra Capital has noted greenfield uranium developers have lagged brownfield developers and producers in the first half of the year. Investor enthusiasm for the sector is expected to broaden in the second half of the year.

Only one third of ASX uranium equities delivered a positive return in 1H 2024, the broker notes.

The broker continues to see value in the near-term production of Lotus Resources, rating the shares Buy with a price target of 59c (up from 50c).

Forecasts have been left untouched.

This report was published on July 22, 2024.

Target price is **$0.59** Current Price is **$0.28** Difference: **$0.31**
If **LOT** meets the Petra Capital target it will return approximately **111%** (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 and EPS of **minus 0.40** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 70.00**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.30** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 93.33**.

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

SHM SHRIRO HOLDINGS LIMITED

Overnight Price: $0.68

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

Shriro has decided to outsource subscale parts of its A&NZ business to a third-party distributor and Petra Capital welcomes the move, arguing in combination with the upcoming completion of the ERP upgrade, this should secure a boost for earnings and cash flows.

On this basis FY24 forecasts have been upgraded (slightly reduced for FY25) and Petra Capital re-iterates its Buy rating. The price target lifts to 99c from 90c.

This report was published on July 18, 2024.

Target price is **$0.99** Current Price is **$0.68** Difference: **$0.31**
If **SHM** meets the Petra Capital target it will return approximately **46%** (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 **24.00** cents and EPS of **8.40** cents.
At the last closing share price the estimated dividend yield is **35.29%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **8.10**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **7.50** cents and EPS of **9.70** cents.
At the last closing share price the estimated dividend yield is **11.03%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **7.01**.

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

SMP SMARTPAY HOLDINGS LIMITED

Business & Consumer Credit Overnight Price: $1.16

Wilsons rates ((SMP)) as Overweight (1)

SmartPay has provided a seven-week trading update for FY25: transacting terminals rose by 700; monthly TTV rose 21% on the previous corresponding period and monthly acquiring revenue was up 24%.

Wilsons considers this to be a strong start to the year and expects tax-cut timing should also ameliorate any potential consumer spending withdrawals in the remaining half (the trading update shows consumer spending is hurting the company's "back-book", although this has been more than compensated by the front book, says Wilsons).

Overweight rating and $1.86 target price retained.

This report was published on July 12, 2024.

Target price is **$1.86** Current Price is **$1.16** Difference: **$0.7**
If **SMP** meets the Wilsons target it will return approximately **60%** (excluding dividends, fees and charges).
The company's fiscal year ends in March.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **4.80** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **24.15**.

Forecast for FY26:

Wilsons forecasts a full year **FY26** dividend of **0.00** cents and EPS of **7.76** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **14.95**.

This company reports in **NZD**. All estimates have been converted into AUD by FNArena at present FX values.
Market Sentiment: **0.5**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

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