WEEK 17

STORIES TO READ FROM FNArena

Friday, 26 April 2024

Orora Awaiting The End Of Destocking

Rudi's View: A Market Narrative Delayed

Dr Boreham's Crucible: 4D Medical

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AUSTRALIA

The Market In Numbers - 20 Apr 2024

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

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

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

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

Australia & NZ

Index	19 Apr 2024	Week To Date	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
NZ50	11796.210	-1.13%	-2.55%	-2.55%	0.22%	-1.01%
All Ordinaries	7817.40	-2.89%	-4.12%	-4.12%	-0.15%	5.62%
S&P ASX 200	7567.30	-2.84%	-4.17%	-4.17%	-0.31%	5.05%
S&P ASX 300	7518.90	-2.89%	-4.19%	-4.19%	-0.23%	5.05%
Communication Services	1484.00	-2.97%	-6.02%	-6.02%	-6.56%	-3.47%
Consumer Discretionary	3380.90	-3.15%	-6.52%	-6.52%	4.34%	14.85%
Consumer Staples	11744.00	-1.79%	-4.97%	-4.97%	-4.60%	-11.66%
Energy	10576.60	-2.07%	-1.83%	-1.83%	-0.43%	-2.32%
Financials	7063.50	-3.09%	-5.30%	-5.30%	5.14%	13.57%
Health Care	40624.80	-3.77%	-6.48%	-6.48%	-4.05%	-1.61%
Industrials	6958.70	-2.94%	-3.10%	-3.10%	1.35%	2.39%
Info Technology	2100.80	-3.23%	-7.74%	-7.74%	14.62%	14.83%
Materials	18010.80	-2.17%	0.38%	0.38%	-7.59%	-0.12%
Real Estate	3471.50	-3.80%	-9.53%	-9.53%	3.70%	14.05%
Utilities	8652.40	0.14%	4.44%	4.44%	5.78%	-0.94%
A-REITs	1576.40	-3.77%	-9.59%	-9.59%	4.93%	16.37%
All Technology Index	2930.40	-3.24%	-5.34%	-5.34%	8.78%	21.26%
Banks	2931.20	-2.95%	-4.99%	-4.99%	5.46%	17.40%
Gold Index	7893.60	-0.12%	8.99%	8.99%	7.14%	19.27%
Metals & Mining	5938.80	-2.01%	1.66%	1.66%	-8.16%	-1.96%

The World

Index	19 Apr 2024	Week To Date	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
FTSE100	7895.85	-1.25%	-0.71%	-0.71%	2.10%	4.84%
DAX30	17737.36	-1.08%	-4.08%	-4.08%	5.88%	9.84%
Hang Seng	16224.14	-2.98%	-1.92%	-1.92%	-4.83%	-14.23%
Nikkei 225	37068.35	-6.21%	-8.18%	-8.18%	10.77%	11.69%
DJIA	37986.40	0.01%	-4.57%	-4.57%	0.79%	10.40%
S&P500	4967.23	-3.05%	-5.46%	-5.46%	4.14%	11.61%
Nasdaq Comp	15282.01	-5.52%	-6.70%	-6.70%	1.80%	10.84%

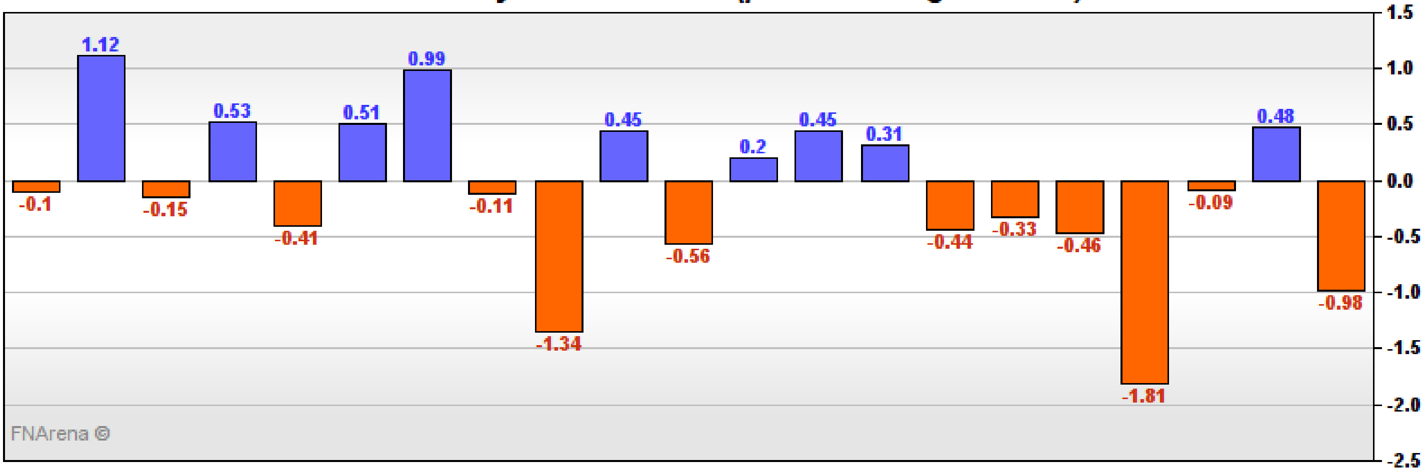
Metals & Minerals

Index	19 Apr 2024	Week To Date	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
Gold (oz)	2377.90	0.27%	8.38%	8.38%	16.31%	24.62%
Silver (oz)	28.17	-0.39%	14.61%	14.61%	15.55%	25.03%
Copper (lb)	4.3857	3.13%	9.85%	9.85%	15.17%	17.99%
Aluminium (lb)	1.1776	5.39%	13.38%	13.38%	21.11%	22.95%
Nickel (lb)	8.4676	6.09%	13.06%	13.06%	13.86%	-4.86%
Zinc (lb)	1.2838	2.25%	16.54%	16.54%	14.16%	22.43%
Uranium (lb) weekly	90.00	1.41%	2.27%	2.27%	4.65%	60.14%
Iron Ore (t)	107.95	3.09%	6.24%	6.24%	-21.91%	-5.23%

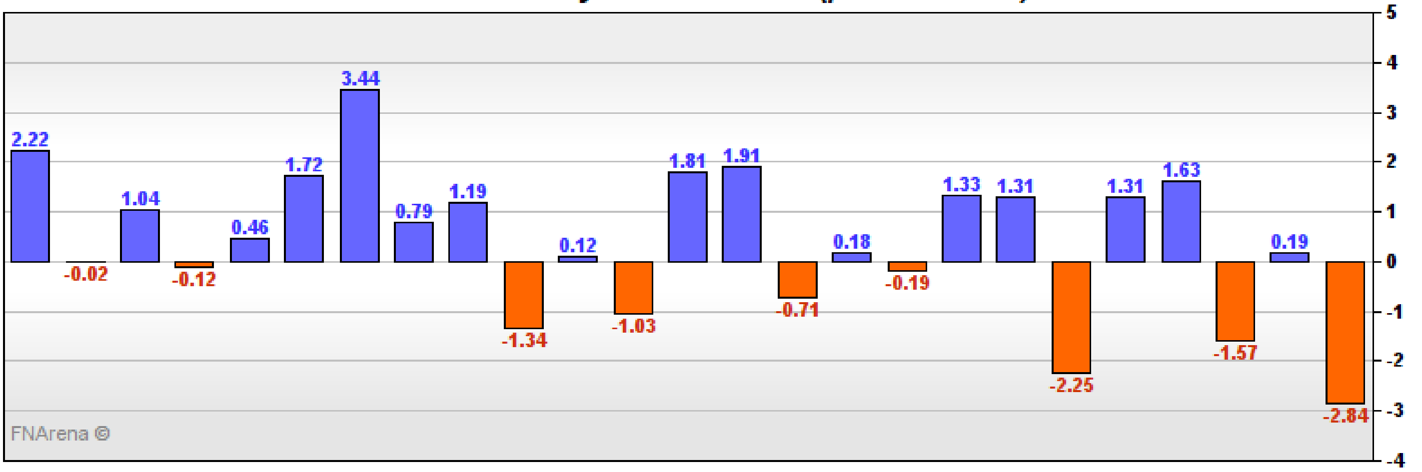
Energy

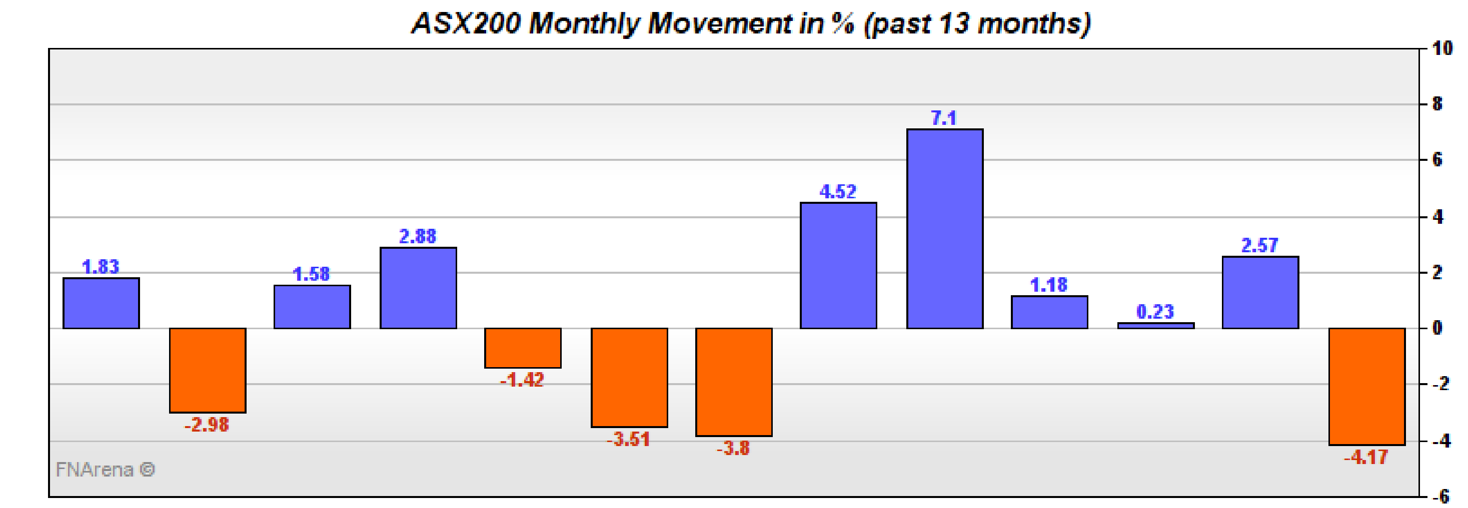
Index	19 Apr 2024	Week To Date	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
West Texas Crude	82.73	-2.69%	1.24%	1.24%	12.09%	18.42%
Brent Crude	86.97	-3.61%	0.72%	0.72%	9.73%	17.04%

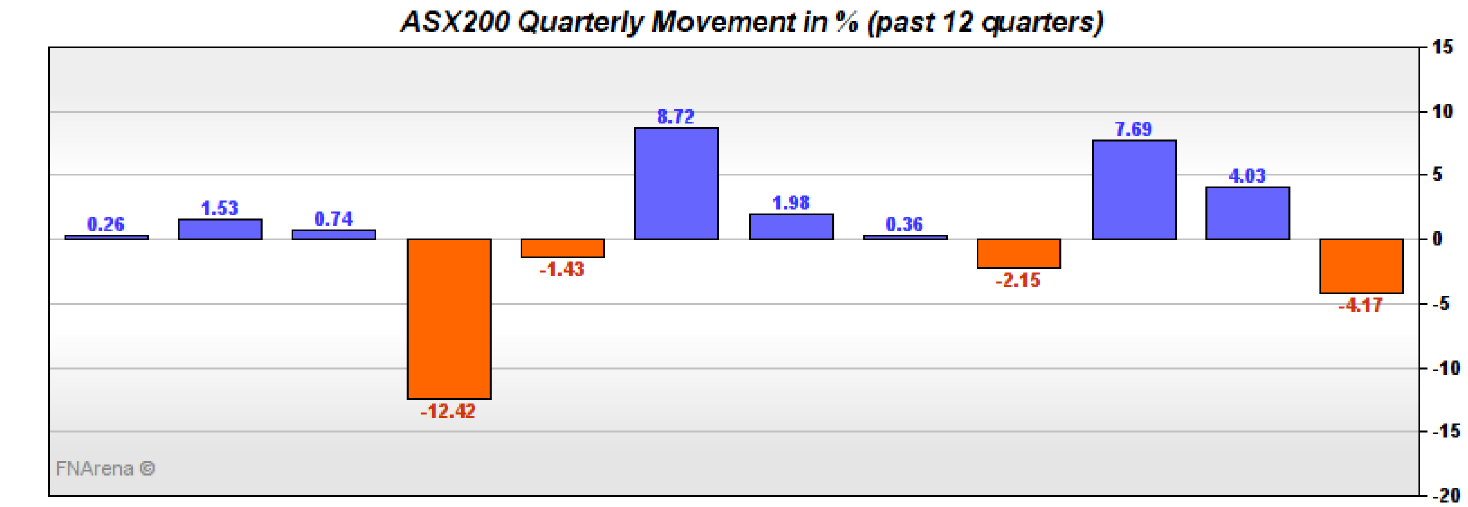
ASX200 Daily Movement in % (past 21 trading sessions)



ASX200 Weekly Movement in % (past 25 weeks)







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

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AUSTRALIA

Orora Awaiting The End Of Destocking

Global packaging business Orora continues to struggle in the near term, but brokers agree the company's prospects in the longer term do look promising.

-Orora reiterates downgraded guidance
-Analysts invited to tour Saverglass facilities
-Destocking continues, but Saverglass customers are sticky
-Innovation will drive future earnings

By Greg Peel

In late 2013, global packaging giant Amcor ((AMC)) spun off its Australasian packaging business into the separately listed Orora ((ORA)), leaving Amcor to focus on making flexible- and rigid-plastic packaging and tobacco packaging, mostly for overseas markets.

Orora has since become a (smaller-sized) global company in its own right, expanding into North America and Europe.

It's been a bumpy road for Orora, trading just under $4 five years ago, the share price fell to around $3.35 by September last year and is currently trading at $2.18. That recent de-rating was sparked by the company's acquisition of French-based glass packaging manufacturer Saverglass, which services customers globally with a history going back beyond a century.

The issue for Saverglass has been one of customer destocking. This has been exacerbated by packaging price deflation in North America, and led Orora to downgrade earnings guidance earlier this month. Amcor has suffered similar issues post-covid, and has also seen its share price creep lower.

But confident in the longer term prospects for Saverglass, Orora last week took analysts to France for a tour of the Saverglass facilities, and provided an update on current trading conditions.

<u>The Future Looks Bright</u>

…perhaps in the longer term, but not so much in the here and now.

In France, management reiterated guidance provided earlier, expecting Saverglass volumes to be down -11% in the second half FY24, consistent with the first half.

Underlying consumer demand remains mixed with customer destocking continuing. Importantly, suggests Goldman Sachs, visibility into the end of the destocking cycle is limited, even with emerging signs of positive depletions in key markets like the US, which accounts for roughly 50% of end-market sale.

To the extent that Orora warehouses sold customer inventory, management stated stock levels continue to normalise. Yet the prevailing uncertainty was reflected in the group's recent order profile. Specifically, management stated the February order book had strengthened but a number of orders were subsequently pulled or delayed.

Saverglass has seen no indications of improvements in demand or ordering and the North American Orora Packaging Services (OPS) business saw no volume improvement from February into March despite the period normally benefitting form a pre-summer seasonal uplift in consumption.

Despite weak expectations already, Jarden sees further downside risk to the FY25 outlook if improvements in demand are not forthcoming in the months ahead.

Strategically, the OPS business is focused on growing its Mexican presence, investing in its sales team to more than double the sales rep count. This aligns with the objective to invest in the OPS sales force more generally, with Orora focused on continuing to expand its earnings margins.

OPS is accelerating cost actions in response to the current environment and absence of a seasonal uplift via management of suppliers and operating cost discipline to right-size costs.

<u>Innovation</u>

In the longer term, Orora is confident in its product innovation, and the stickiness of its customers. Management highlighted the complexities of developing a new product for a customer, which makes customers much stickier than may be the case for more commoditised packaging products. This means softer volumes obviously impact the business but don't see the double impact of meaningful price competition or customer switching, Morgan Stanley notes.

It also means Orora is protected by barriers to entry.

Management continued to express confidence in category premiumisation and that its network and design capability is well suited to capitalise on this trend. For instance, notes Goldman Sachs, Orora showcased its acid etching machine that was internally designed and allows a frosted look in a continuous manufacturing process.

In terms of ongoing innovation, Orora demonstrated its “decoration configurator” that allows customers to virtually iterate designs, and other digital platforms that allow Saverglass to optimise mould performance in a simulated machine environment. These types of initiatives allow the business to improve efficiency while maintaining a premium design that is a key part of the customer’s brand identity.

Goldman Sachs believes the business should also benefit from customer product innovation, with a pipeline in place of over 190 new product launches versus a “normal” 150. Saverglass’ catalogue business is particularly well suited for any potential customer product innovation, the broker suggests, and more broadly for customers that would not otherwise have scale to order bespoke designs needed at premium price points, such as premium craft distillers.

Downunder

Orora’s A&NZ can business is well positioned with 60% market share in relatively strong growth categories that benefit from substrate shift, Goldman notes, complemented by growth of multi-size formats. Management stated the capital investment program in the business remains on time and on budget with a target return in excess of 15%.

The glass business continues to face weak demand for Australian commercial wine, with the benefit from China wine exports anticipated from FY25.

Management is expecting 85-95% of total volumes across FY24-28 will be under contract, giving solid revenue security medium term. The Revesby (Sydney) can line is on track for commissioning in the March quarter FY25, and will deliver a greater than 10% increase in capacity.

Show Me the Money

An end to destocking and demand softness remains elusive, and these conditions have persisted longer than management anticipated. Management expressed a view that December half volumes should improve, albeit this is based more on opinion than data and Morgan Stanley expects the market will wait for empirical evidence before being convinced.

The broker does believe softness has been cyclical rather than structural but, again, evidence will be required to see these proven out.

The investment thesis has clearly been more difficult than contemplated, Morgan Stanley admits, when it moved to an Overweight stance in November. That said, this broker believes Saverglass will prove to be a quality asset. An end to destocking and a resumption of cyclical growth remains the key catalyst.

Morgan Stanley has a $2.90 price target.

Looking beyond FY24, UBS thinks investors are focused on the potential for Saverglass to add a third growth platform to Orora's existing A&NZ beverage and North American distribution units, however, at this point the broker retains Neutral on valuation, noting the company's leverage guidance is elevated and increasingly in focus given the uncertain earnings growth outlook.

UBS has a $2.56 target.

Given investor concerns about leverage, Orora mentioned capex into Mexican expansions and repair of furnaces can be delayed from FY25 to better protect the cash profile of the business during a period of subdued volumes. The company is set to focus near term on delivering cash flow and earnings improvement, which would provide additional support to the balance sheet. Jarden models a dividend payout ratio of 64% for FY24, within the target range of 60-80%.

Jarden is Overweight with a $2.50 target.

Goldman Sachs has a Buy rating and $3.00 target.

Yesterday, Orora shares closed at $2.18.

Not choosing to update on the trip to France, to date (or maybe they weren’t invited), Macquarie had an Outperform rating post the April guidance downgrade with a $2.75 target, while Citi had Buy and $2.86.

Morgans was on Hold with $2.30.

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AUSTRALIA

Brambles' Divisive March Quarter

A negative reaction to Brambles' March quarter update suggests more was expected, but brokers, while split, are largely positive.

-Brambles sees slowing sales growth
-Destocking both a drag and a benefit
-Free cash flow improvement expected
-Diverse views among brokers

By Greg Peel

Brambles' ((BXB)) March quarter group sales grew by 2% in constant-currency terms on slowing-but-positive price growth of 3% and continued negative volumes, down -1%.

Management reiterated guidance for FY24 sales growth of 6-8% in constant currency, and 13-15% of earnings growth, but Macquarie's expectation is that FY24 will be towards the bottom half of guidance. Price was a major driver in first half, and this has virtually disappeared in the US, up only 1% and down to 4% in Europe, Middle East & Africa (EMEA).

In the first half, price increases offset the impact of the destocking and the effect of contract loss, Macquarie notes. March quarter revenue in America was down -1%, EMEA up 2%, with only Australia improving materially, up 6%.

The destocking cycle, which was well flagged to investors, released around three million pallets. This is dampening growth, the broker suggests, not just with existing customers, but is also slowing conversions to CHEP, as the white wood secondary market is also over-supplied (with lower pricing).

For CHEP this destocking cycle should run its course in FY24, albeit it is hard to see the signs of growth rebounding, Macquarie warns.

<u>All in the Price</u>

Brambles has continued to navigate a challenging operating environment well, Morgan Stanley suggests, with price realisation the key driver of revenue growth. This broker notes, however, slowing price momentum from 11% growth in the first half to 8% in the March quarter.

As was the case in the first half, new price initiatives contributed 3%. Morgan Stanley is also seeing a slowdown in the trajectory of sales growth within group revenue. September quarter sales growth was 22% year on year, the December quarter saw 4% and the March quarter faded to 3%.

Net new business growth has still not accelerated. Brambles thinks this is a reflection of a "slower than expected ramp up" in new customer volumes but also a result of some volume loss due to a shift to dual sourcing (customers using two pallet suppliers instead of just the one). Morgan Stanley thinks the lower net new wins demonstrates that competitive activity remains.

However, it is encouraging that at this stage, price discounting is not evident. The broker continues to view this as the biggest risk.

UBS notes sales guidance now requires 3-11% growth in the June quarter, implying an improvement from the March growth rate. This broker believes it's reasonable for June growth to step up from March based on the easier comparable period a year ago, particularly due to volumes. June quarter FY23 volume was unusually weak (-7%), likely due to destocking at the time.

Brambles expects FY24 overall volumes to be flat year on year, implying to UBS roughly 3% growth in the June quarter.

Benefits of Destocking

While customer destocking of pallets has been a drag, there is a benefit.

The positive of the destocking cycle, notes Macquarie, is that the release of pallets saves on capex demands, improving cycle times and improving loss ratios. Hence, Brambles' reiteration of 8-10 basis points improvement in capex-to-sales, and strength in margins.

The latter is moderated by higher operating costs (inflation) and transport costs in Europe. Cash flow however benefits, with guidance reiterated, and combined with low leverage as it is a matter of when capital management will be adopted -Macquarie suggests– maybe with the full-year result.

Jarden suggests focusing on monthly revenue run-rates is far too narrow and is missing the slowdown in the rate of returning pallets, which should see "inventory optimisation" moderate as a revenue/volume headwind into the June quarter and FY25.

In this broker's view, the market is looking for the causes of deleverage/lower margin growth into FY25 but it is missing the opportunity from "cycle time decreases in all regions", which not only help free cash flow, but should also provide support for declining Irrecoverable Pooling Equipment Provision charges into the second half.

Jarden estimates a "normalisation" in IPEP costs could contribute 139 basis points of underlying earnings margin to CHEP Americas and 31bps to CHEP EMEA into the future.

Valuation

Brambles' March quarter result lacks the green shoots of volume growth, Macquarie laments, but increased efficiency and improved cash generation creates value, hence capital management is likely by end of year. Evidence of volume growth will ignite further upgrades.

At 16.6x forecast FY25 PE, versus a long-run 19x, the stock looks attractive in Macquarie's view, hence the broker retains Outperform.

The result modestly lowered UBS' constant-currency earnings forecasts, but it hasn't changed the investment view. This broker expects growing confidence in Brambles' free cash flow recovery will drive re-rating of the PE multiple.

Brambles is trading on a multiple -24% below the average of ASX industrials, which UBS thinks is too low and suggests disbelief in the sustainability of earnings and free cash flow. The broker thinks the market is currently too focused on top line/cyclical momentum when more attention should be placed on margin stability and free cash flow improvement.

UBS retains Buy.

With like-for-like volume trends set to improve as destocking headwinds abate, Jarden sees consensus revenue growth of 4% as achievable into FY25, all else remaining equal. This broker's review of consensus CHEP

Americas' underlying earnings margin shows only 35bps growth of margin expectation in forecasts, which could be underpinned entirely by an ability to unwind half of the IPEP margin headwind relative to history.

Jarden maintains Overweight.

Brambles noted three million pallet returns from destocking which has halved relative to the first half, Barrenjoey notes. The company highlighted it is now cycling destocking in the second half with the flow-on effects to operating costs and pooling capex also moderating.

In addition, the impact of dual sourcing is also moderating. Lastly, the company highlighted it is seeing cycle times decrease in all regions and lower loss rates.

Barrenjoey retains Overweight.

The March quarter update points to a continuation of trends flagged in the first half and all guidance items were maintained. That said, Morgan Stanley feels the market was looking for upside. Net new contract wins remain elusive pointing to competition, the broker suggests, whether via dual sourcing or other means. This remains a key risk to Morgan Stanley's view, hence an Equal-weight rating.

Brambles is a global, defensive business with strong market positions which continues to demonstrate an ability to pass higher costs onto customers through increased pricing, notes Morgans. However, price rises are moderating and while the company continues to extract operating efficiencies, the underlying consumer demand environment in the US and Europe remains soft.

Given the uncertain global macroeconomic outlook, this broker believes the stock is trading near fair value and maintains a Hold rating.

Yesterday's market update was in line with Ord Minnett's expectations, and this broker has maintained forecasts. An FY24 revenue growth forecast of 8% year on year is at the top end of company guidance. With Brambles trading at only a modest premium to Ord Minnett's fair value estimate, the broker upgrades to Hold from Lighten.

Not everyone is of a similar view nonetheless.

Overall, Citi expects investors were largely looking for an upgrade, driven by bottom-up initiatives to offset rapidly falling sales growth. While guidance was maintained, Citi's view is the lack of upgrade implies profit growth is slowing, and with FY25-26 cycling tough pricing comparables, growth could become tougher.

Ultimately, Citi believes Brambles, while structurally a better business now, was still a cyclical beneficiary of the pandemic, and after years of outsized returns is likely due for a period of consolidation. Hence, a Sell rating.

Goldman Sachs also retains Sell.

Among the six brokers covering Brambles monitored daily by FNArena, there are two Buy or equivalent ratings, three Hold and one Sell. The consensus target is unchanged at $15.44, but ranges from $14.00 (Ord Minnett) to $17.30 (UBS).

Barrenjoey (Buy) has a target of $17.90, Jarden (Buy) $15.70 and Goldman Sachs (Sell) $14.45.

ESG FOCUS

ESG Focus: Counting Psychosocial Costs On ASX

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

Counting Costs Of Psychosocial Failure And Compliance

Companies are expected to ramp up their psychosocial safety strategies in 2024 following a slew of legislation and legal precedents in 2023 and ahead of new disclosure standards this year – and the ASX's December-half reporters show corporations have been getting their house in order.

-February reporting season reveals safety focus
-How much will it cost?
-New legislation puts companies on notice
-Corporations prepare for disclosure standards
-Legal cases setting precedents
-Strategic approaches
-Fatalities, TRIFRS and LTFRS in spotlight

By Sarah Mills

As the era of the "Renaissance Man-ager" dawns, Australia's corporate chiefs are preparing to prove their metal as all-round managers, to prove their ability to extract value from all areas of the business, including human capital, by attracting top talent, keeping that talent, reducing sick days and legal suits, and getting the best performance and productivity from staff and by natural extension, their strategic investments.

While this was theoretically always the case, no real attempt has ever been made to measure many of these costs and, as the old saying goes, you can't manage (or reward) what you can't measure. Typically human value has gone by the wayside as managers focused on more reportable metrics.

All that is about to change, as corporations face off at the human-value corral having had the stage set through legislation and legal precedents and incoming disclosure standards, which will allow investors to see for the first time how well companies compete in this arena.

Investors will be able to see who are using their staff efficiently rather than engaging in false economies.

ASX companies started getting their houses in order in 2023.

Safety, both physical and psychosocial, proved the "social" standout in the February 2024 reporting season, the latter garnering particular attention as companies started counting the potential costs of failures on this front to the corporation and shareholders.

Some companies set themselves up in opposition, choosing to focus on the compliance costs of rising to this challenge, which somewhat missed the point, given the proven cost to companies of poor retention and attraction of staff.

BHP Group ((BHP)), for example, estimated the cost of Same Job-Same Pay Legislation at $1.3bn while apologising for underpaying 30,000 staff for years and paying the $280m owed (just as well given federal legislation on wage theft).

Either way, compliance costs or losses through poor management of strategy and operations, these costs are significant.

I am yet to see data on the full estimated compliance costs for the social imprimatur on corporate Australia, but based on BHP's estimated loss from one piece of legislation, it appears we are looking at hundreds of billions of dollars.

The cost of staff turnover was a bit easier to get a handle on. Based on turnover of 1.3m people in the year to February 2023, according to the Australian Bureau of Statistics, multiplied by $100,000 (which appears conservative given estimates of the cost of replacing a staff member is said to be three times their salary – although this figure varies widely), we come up with a figure of $130bn.

And this is just the tip of the iceberg. Toxic environments breed lost productivity, sick days, poor work outcomes and strategic failure or under-achievement – and it all adds up.

Some of this is unavoidable, but a good percentage is avoidable and these are the dollars investors are targeting.

Three Decades Of Ignoring Human Capital

Underlying the "social" push is the implication that human capital inefficiency has been rising sharply (albeit masked by other productivity growth factors such as technology) due to poor management (overworked workers, for example, tend to underperform, so gains in payroll achieved by longer hours may be a false economy).

The expectation is that the targeted redressing of social themes will raise corporate performances, and at the very least make visible the psychosocial costs to an organisation and investors of human capital issues such as staff retention and attraction.

One good example of a psychosocial opportunity is change management.

The bungling of change management costs the corporate sector untold billions while creating unnecessary stress on employees. It is hard to count the number of companies that spend big on IT investments, the benefits of which are largely lost due to poor change integration. Not only is a great deal of the IT investment squandered but the collateral damage to human capital and organisational strategy can be hefty.

Psychosocial investment is expected to drive management focus to extract such strategic efficiencies, and rein in the potential for ever-devolving corporate chaos.

Modern Slavery And Governance Get A Look In

Elsewhere in the February reporting season, companies continued to flock to the Indigenous theme while the Modern Slavery theme tended to focus on tidying up supply chain reporting in anticipation of reporting standards.

Governance also attracted attention, the number of remuneration strikes and intensity of those strikes rising sharply.

We will discuss these social themes in a separate story.

Disclosure To Help Investors Count Costs

As disclosure standards roll out along with the green transition, major Australian companies are recognising the strategic importance of the physical and psychosocial safety remit.

Incoming disclosure standards (Australian reporting standards are expected to land in July) will introduce increased transparency on big dollar issues such as staff attraction and retention, as well as reputation, legal and compliance risks.

Across Macquarie's ASX coverage, average voluntary staff turnover improved to 16.2% from 17.7% in FY22, but this is still well above FY21 levels of 13.4%.

Of all of Macquarie's coverage, 49 companies now report on voluntary turnover, down from 68 in FY22, suggesting reporting reticence.

Generally, labour tightness improved in the December half, resulting in lower employee turnover across several companies, including Ampol ((ALD)), Cleanaway Waste Management ((CWY)), Iluka Resources ((ILU)), Rio Tinto ((RIO)) and Ventia Services ((VNT)), observes the analyst.

Companies are also expected to get their supply chains under control to ensure the psychosocial can isn't being kicked further down the chain to contractors.

Given psychosocial safety is widely being viewed as a benchmark for the quality of management and returns going forward, investors and companies can expect more of such cases as governments set higher standards of corporate behaviour.

Legislation Precedes Disclosure

Legislation was introduced in 2023 in anticipation of "social" disclosure.

Last year, the Respect@Work Act was introduced placing a new positive duty on employers to eliminate workplace sex discrimination and sex-based harassment.

Jarden expects many companies will struggle to fully meet these obligations, which at some stage is likely to result in expensive court cases.

Under the act, the Australian Human Rights Commission is tasked with monitoring and assessing compliance as of December 12, 2023, and publishing compliance notices once it detects a breach.

Poor performance in these respects could also attract the attention of the Sex Discrimination Commissioner.

Same Job Same Pay legislation has also placed the cat among the pigeons.

The Australian government also advised wage theft would become a federal offence under its Closing Loopholes bill. Wage theft appears to be rife in both ASX organisations and the broader business arena.

Legal Precedents Setting The Stage

In a shot across the bow, several ASX-listers were dragged before the courts on psychosocial issues in 2023, setting precedents and standards for future actions.

National Australia Bank ((NAB)), for example, agreed last year to pay employees an extra 17.5% over four years and to allow flexible work arrangements in a settlement with the Finance Sector Union, which sued the bank in the Federal Court for creating an environment in which people were forced to work between 55 to 80 hours a week over several years.

The union was demanding compensation for damages to the individuals' health and family life.

The bank was also ordered to open up its payroll data after a black, female trader sued on the basis of being underpaid and discriminated against because of her race and gender.

In October, NAB was again sued in the Magistrates' Court for allegedly contravening Victoria's Long Service Leave Act.

Already, in February, the Federal Court hit Commonwealth Bank ((CBA)) with a record $10m fine for wage theft (a slap on the wrist given the bank's profitability).

Westpac ((WBC)) also faced a test case last May after being sued by a senior manager claiming he was owed more than $300,000 in back pay and damaged for working up to 100-hour weeks for as much as 32-days straight after the bank ignored under-staffing concerns.

Identifying Psychosocial Safety Issues

Psychosocial safety covers a broad range of corporate responsibilities.

Jarden observes psychosocial safety goes beyond the duties laid out in the act and from an investors perspective encompasses "hazards" such as inadequate reward and recognition (often the case with female and ethnic employees), poor support, and unreasonable job demands, most of which come under the remit of leaders.

Inadequate reward and unreasonable job demands can constitute wage theft, for example.

The analyst lists as other common hazards: low job control, lack of role clarity, poor organisational change management (this can prove extremely expensive to a company not to mention stressful to staff if mismanaged), poor organisational justice, traumatic events, remote or isolated work, poor physical environment, violence and aggression, bullying, and conflict.

Sex and racial discrimination and harassment and mental health issues also fall under this heading.

February Reporting Season Shows Companies Getting In Gear

While it's early days yet for corporations, Jarden gave Australian companies a broadly favourable physical and psychosocial safety report card after the February reporting season.

The analyst observed companies clearly stated any fatalities, unlike the June season, albeit the number of fatalities rose sharply, illustrating the importance investors are placing on transparency at this stage of reporting development.

Jarden found that of 40 companies under its coverage which reported a safety statistic, 31 improved (63%), 17 worsened (35%) and one (2%) was steady.

All up, 20 companies mention psychosocial issues, mostly resources and industrial companies, and broader well-being measures were mentioned.

Fortescue Metals ((FMG)) appears to have taken the metric very seriously and moved beyond reporting to investment.

The company announced spending of $147m to deliver 10 activities to enhance psychosocial safety after agreeing its Enforceable Undertaking with Worksafe.

Worley ((WOR)) piloted an approach for identifying, assessing and treating workplace psychosocial hazards.

Cleanaway rolled out a company-wide cultural-change program Respect@Cleanaway and mandatory training – culture is a sensible place to start a series of change programs given it enhances the prospects of success of operational change programs.

It would be interesting to see what approaches such as Worley's and Cleanaway involve and what constitutes best practice.

Psychosocial Reporting To Ramp Up

Jarden expects approaches to psychosocial safety in particular to ramp up in FY24.

Macquarie agrees.

Macquarie observes companies to include psychosocial risk assessments, training, enhanced frameworks and other well-being programs in the December half included Adbri ((ABC)), AGL Energy ((AGL)), Ampol ((ALD)), ARN Media ((ARN)), Aurizon Holdings ((AZJ)), Emeco Holdings ((EHL)), GUD Holdings ((GUD)), IGO ((IGO)), Iluka Resources, JB Hi-Fi ((JBH)), Lendlease ((LLC)), Macmahon Holdings ((MAH)), Monash IVF ((MVF)), Perenti ((PRN)), QBE Insurance ((QBE)), Vicinity Centres ((VCX)) and Worley.

Jarden reports that companies are providing greater transparency:

- ANZ Bank ((ANZ)) reported its Code of Conduct breaches related to equal opportunity, bullying and harassment as a percentage of total breaches.
- Medibank Private ((MPL)) has listed the number of incidents reported internally and those substantiated, broken down by bullying, inappropriate behavior, misconduct, discrimination, fraud, sexual harassment and other.
- Bendigo & Adelaide Bank ((BEN)) has reported the number of whistleblower cases by type, including by bullying and harassment and discrimination, inappropriate conduct, sexual harassment and workplace

conflict.
- NIB Holdings ((NHF)) has reported the number of Code of Conducted breaches, reported and substantiated, by bullying inappropriate behaviour, discrimination and sexual assault.
- NAB introduced its Heartbeat Survey Wellbeing Score.

Jarden Psychosocial safety snapshot across S&P/ASX100 financial and insurance sectors

In a separate paper, Jarden says psychosocial safety is not being well reported by the financial and insurance companies under its coverage "despite a new positive duty being in place and companies in the sectors commonly having: (1) long working hours; (2) having high performance expectations; and (3) being male-dominated.

The companies examined included AMP ((AMP)), ANZ Bank, Bank of Queensland ((BOQ)), Bendigo & Adelaide Bank, Commonwealth Bank, Insurance Australia Group ((IAG)), Macquarie Group ((MQG)), Medibank Private, NIB Holdings, NAB, QBE Insurance, Suncorp ((SUN)), and Westpac,

While being identified as strategically important, none of the sample have as yet quantified investments in the psychosocial theme (although investment is evident), observes Jarden.

Roughly 62% of the sample (AMP, ANZ, Bank of Queensland, Bendigo & Adelaide, Macquarie, NAB, QBE and Westpac) have instigated claw-back provisions in remuneration reports for leadership failures on these fronts, advises Jarden.

Of these, the analyst found 11 had disclosed a clear governance structure for psychosocial safety. The two outliers were Macquarie and Westpac.

Companies are already taking steps to satisfy the law and have launched a range of initiatives, although their efficacy will take some time to discern.

Jarden observes measures include: training on psychosocial safety, harassment, and the responsibilities of bystanders; employee assistance programs; and support for a "speak-up" culture.

Investment in training was reported by all of the sample save AMP, Bank of Queensland, Commonwealth Bank, and IAG.

Westpac and CBA are surveying staff to conduct risk assessments and gain insights and Medibank Private has developed physical health and well-being check-ins for employees to launch in FY24.

NAB employees are covered under new work-from-home conditions that observers expect could set a precedent for the banking industry.

To date, only engagement metrics have been broadly linked to remuneration.

Incident Reporting Please, Demand Analyst

Analysts are calling for incident reports for both physical and psychosocial instances.

Jarden suggests transparent incident reports is a strong first step to establishing base-level benchmarks and quantified investment would also provide a good basis for comparison.

In particular, Jarden calls for psychosocial safety to be pushed beyond governance structure to be linked to board and management remuneration to incentivise leaders.

Top Line Statistics

Now for the annual round-up of physical safety statistics for the December half.

Fatalities incurred in the S&P/ASX200 totalled 22 in 2023 and Jarden reports 10 fatalities already in the six weeks of 2024 leading into reporting season, with the resources sector posting a big increase.

Post June-30 fatalities included those at Alumina ((AWC)), BHP, which reported its third fatality in 13 months; Capricorn Metals ((CMM)); Downer EDI ((DOW)), which reported two fatalities; Graincorp ((GNC)), Mineral Resources ((MIN)), Newmont ((NEM)), Nickel Industries ((NIC)); Qube Holdings ((QUB)); South32 ((S32)) and Woodside Energy ((WDS)).

Rio Tinto's ((RIO)) own operations were fatality free but four Rio employees and two airline crew members died in a plane crash while travelling to the company's Diavik diamond mine in Canada.

Those that managed to avoid fatalities advertised this in their results.

Newmont advised it was developing a fatality risk management program.

Jarden has found no link between fatalities and leading or lagging safety indicators.

Safety First

On the safety front, 49 companies reported safety statistics, observes analyst, with 31 improving, 17 deteriorating and one steady.

Macquarie reports injury rates were mixed and identified culture, complacency and procedural lapses for company failures to improve year on year.

Higher injury rates were recorded at Beach Energy ((BPT)), Cleanaway, Downer EDI, Fletcher Building ((FBU)) and Maas Group Holdings ((MGH)).

TRIFRS and LTIFRS

Major companies are now regularly reporting on Total Recordable Injury Frequency Rates (TRIFR) and Long Term Injury Frequency Rates (LTIFR).

At Coles ((COL)), Downer, Incitec Pivot ((IPL)), Monadelphous ((MND)), Santos ((STO)), Woodside Energy and Woolworths ((WOW)) TRIFRs worsened while improvers included Worley, Amcor ((AMC)), Orora ((ORA)) and Wesfarmers ((WES)).

Beach Energy proved a shocker, its TRIFR rising to 6.0 by December 31, compared with 2.4 at June 30, mainly due to contractor injuries. The company is conducting a review.

Maas Group's LTIFR rose to 5.6 from 3.7 during the half.

AGL Energy ((AGL)) and Transurban's ((TCL)) injury rates rose

Injury rates rose at Cleanaway, Downer EDI, GWA Group ((GWA)) and Monadelphous.

Places you might like your children to work included Aurizon, Ingham Group ((ING)), NRW Holdings ((NWH)), Origin Energy ((ORG)), South32 ((S32)), Wesfarmers and Whitehaven Coal ((WHC)), which all reported an improvement in injury rates.

In the building sector, Macquarie observes Adbri, Boral ((BLD)) and Sims ((SGM)) all improved their TRIFRs, while at BlueScope Steel ((BSL)) rates were relatively flat.

GUD Holdings advised it was engaging a specialist consultant to conduct a systems and culture review of 12 key business units. It was short listed in AFR's 2024 Best Places to Work award.

NRW Holdings' TRIFR improved to 4.56 from 5.06 and female participation in the workforce rose 1%

While South32 posted a decent improvement in its TRIFR of 70 basis points, its long-term injury frequency rate rose to 2 from 1.4.

Its hazard frequency rose 29% but Macquarie sheets this back to an improved reporting culture.

Downer EDI's TRIFR rose to 2.77 from 2.68 and its LTIFR rose to 0.96 from 0.9

Amcor, Orora and Sims improved their TRIFRs as did Aurizon and Brambles ((BXB)).

IGO posted big TRIFR improvement of 12, down from 19.5 in January 2022 says Macquarie.

Iluka Resources' TRIFR fell to 2.4 from 6.9 the previous year and the company reported it had reached 50% female board representation.

Woolworth's TRIFR rose 11% in 2023 but the severity of injuries fell.

Regis Resources ((RRL)) reported low injury rates.

In our next article, we check out the ASX's performance on the indigenous relations, modern slavery and governance fronts.

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

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RUDI'S VIEWS

Rudi's View: A Market Narrative Delayed

In this week's Weekly Insights:

-A Market Narrative Delayed
-Conviction Calls & Best Buys
-Rudi Unplugged - The Video

By Rudi Filapek-Vandyck, Editor

A Market Narrative Delayed

Four months ago, the outlook for equities and bond markets looked as straight as an arrow: inflation was decelerating and the Federal Reserve and other central banks were preparing for rate cuts later in the year.

That's all investors needed, and wanted, to know.

Suddenly, and noticeably, the narrative has changed in April. And share markets the world around have given up most, if not all of their gains year-to-date in three weeks of trading. On Friday, the main indices in Australia dipped into the negative, ex-dividends, for the running calendar year thus far. The Nasdaq, can you believe it, has only 1.80% left from January 1st.

While the downsloping trajectory for inflation was never going to be a straight line, equity markets only paid attention when the US bond market forced them to. It is easy to blame Mr Bond for the removal of most share market gains from the prior three months, though the risk of an all-out war in the Middle East has made market participants more risk-averse too.

Rising bond yields in response to higher-than-predicted inflation readings in the US have equally swung market momentum in equities back in favour of resources and other more cheaply-priced cyclicals, while the same combination is not favourable for smaller-cap companies generally.

The latter is an important observation at a time when all and sundry seem to be focused on finding the next ten bagger among cheaply priced, lagging, small cap stocks both in Australia and in the US.

As also highlighted during a presentation by **JP Morgan strategists** in Sydney last week, smaller cap companies in general suffer more when the cost of capital remains high. And while economic forecasts are being upgraded for key economies following on from the latest statistics -a positive both for cyclicals and small caps- history suggests what really puts a rocket under share prices for small caps are interest rate cuts and falling bond yields.

According to the latest switch in market narrative, inspired by moves in government bonds, there's no longer any prospect for imminent rate cuts. There may not even be one single cut in 2024.

While we can never be 100% certain about what might be revealed in the next set of economic statistics, history equally shows it is dangerous to extrapolate first quarter data and trends into the rest of the year, and beyond. For what it's worth: I personally still believe the most likely scenario remains for lower inflation ahead, but also for slower growth, and the longer bond yields remain high, and central bankers on hold, the more likely this scenario will play out.

It's the timing of things that is much more difficult to predict.

So, with the major indices in Australia down more than -4% so far in April, and indices in the US down by between -4.5%-6.7%, should investors be fearfull of something more sinister brewing for financial markets this year?

The big unknown remains the situation in the Middle East, which understandably has made investors more cautious. Once upon a time, all it took was the assassination of Archduke Franz Ferdinand in Sarajevo to start a global war that predominantly debilitated countries in Europe. Let's hope the current conflict is not our era's trigger point for something similar. At least both Iran and Israel seem to be messaging they're happy to show off their hairy chests, with little desire for substantially more.

As far as the script for the remainder of 2024 goes, more delays in seeing inflation in the US fall have certainly the capacity to unsettle markets, in particular if US bonds would give up on the prospect of Fed rate cuts. Add sluggish economic growth and the worst of all scenarios could play on investors' mind: stagflation.

In the same breath, all it takes is one favourable inflation reading and the general market mood could well switch to positive yet again.

Modeling US equities

Probably fair to say, general uncertainty and volatility in market moves are but par for the course for the time being. And while debates among investors will continue unabated, strategists at **RBC Capital** have tried to model a variety in outcomes this year, and what they could mean for the S&P500 index.

In case of one lonely Fed rate cut, delivered late in the year at the December meeting, the RBC Capital modeling shows -all else remaining equal- the S&P500 could well finish the year between 5050 and 5200, also depending on what exactly happens to corporate earnings.

The index closed a little below 5000 on Friday.

In case the Fed won't even cut once in 2024, and bond yields remain higher-for-longer, the modeling suggests fair value for the index between 4900-5000.

The worst case scenario is if higher inflation forces the Fed to deliver more rate hikes. Under those dynamics, the index could well revisit 4500.

In the short term, RBC Capital market strategists stick to their view the current share market correction should remain inside the -5%-10% range, unless a wider war breaks out or the US economy falters.

The second most important input for all of these scenarios are corporate earnings. Here the observation stands most companies that have reported to date in the US have seen share prices weaken post financial update, even if earnings and sales beat expectations. This might tell us more about current sentiment and/or market positioning than it does about the earnings and company prospects.

The quarterly results season in the US is stil in its infancy, so let's wait and see what trend prevails as more results are released. Australian investors have Unibail-Rodamco-Westfield ((URW)), ResMed ((RMD)), and Newmont Corp ((NEM)) to focus on later this week.

Strategists have been warning about overheated sentiment and position crowding for a while. What we are experiencing this month is at least partially related to the unwinding of previously too popular momentum plays in the US.

Modeling The ASX

Whatever happens in the US does impact on the ASX, but the Australian market has room to move in line with its own local dynamics, in particular when worse-case scenarios don't happen.

UBS strategists last week revised their year-end target for the **ASX200 to 8000**, up from a prior 7660, as risks have generally switched in favour of more upside, on their assessment.

ETF provider VanEck is usually among the more positive forecasters and its latest update on the local market suggests the index may well see **8300 by year-end**, on continued resilience for discretionary retailers, supported by migration, and a catch-up performance from undervalued gold miners and AREITs.

VanEck does warn, in line with just about everyone else, shares in Australian banks seem overvalued and vulnerable to a correction. Sector analysts at **Citi** have put all seven local banks under coverage on **Sell**.

In summary: uncertainty creates volatility as the previous blueprint for inflation, bonds, central bank policies and financial markets is being scrutinised more closely, and while this opens up all kinds of what ifs, it does not by default derail the narrative that has previously guided equity markets off their lows; inflation is still more likely than not trending lower, and central banks are still preparing for rate cuts.

The most likely scenario is this process will simply develop more slowly than previously hoped for.

Investors might also appreciate the fact current dynamics in the US look more like an exception/aberration while central banks in Europe and in Canada are sending clear signals they are getting ready to cut. Emerging economies have already started with the central bank of Mexico the most recent on March 21.

Here's how **Michael Brown Senior**, research strategist at **Pepperstone** formulated it on Monday:

"[...] with the policy backdrop remaining supportive, as the next move from the Fed remains almost certain to be a cut, just later than most had expected, and with the economy continuing to grow at a solid clip, the medium-term path of least resistance continues to lead to the upside, with the aforementioned 'Fed put' likely to continue to give investors confidence to seek to buy the dip, and increase exposure, particularly as geopolitics becomes less of a market driver."

Those mentioned year-end projections for indices locally and in the US also reveal why just about every institutional investor's wish list for 2024 includes a broadening of the prior narrow and concentrated rally.

For more reading:

-https://fnarena.com/index.php/2024/04/17/rudis-view-shaky-sentiment-ahead-of-corporate-updates/

-https://fnarena.com/index.php/2024/04/10/rudis-view-lessons-observations-from-asx-all-weathers/

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

-https://fnarena.com/index.php/2024/04/03/rudis-view-investor-worries-gold-westpac-and-conviction-buys/

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

Conviction Calls & Best Buys

Shaw and Partners Research Monitor for the June quarter shows the broker's ASX100 **Large Caps Model**

Portfolio currently consists of the following ten members:

-Aristocrat Leisure ((ALL))
-Domino's Pizza ((DMP))
-Evolution Mining ((EVN))
-James Hardie Industries ((JHX))
-Pilbara Minerals ((PLS))
-Qantas Airways ((QAN))
-ResMed
-Suncorp Group ((SUN))
-Treasury Wine Estates ((TWE))
-Xero ((XRO))

Preferred exposures among 'emerging companies' (**smaller caps**) are:

-Abacus Storage King ((ASK))
-Bannerman Energy ((BMN))
-Black Cat Syndicate ((BC8))
-Global Lithium Resources ((GL1))
-Helloworld ((HLO))
-Metro Mining ((MMI))
-Retail Food Group ((RFG))
-Vista Group ((VGL))
-Tyro Payments ((TYR))
-Webjet ((WEB))

****

UBS's most recent strategy update revealed the broker has adopted a higher-for-longer view on inflation and bond yields, and this has triggered a number of changes for the Model Portfolio and **Best Stock Ideas**.

In short, UBS has reduced exposure to REITs, infrastructure and technology -all are victims when bond yields rise instead of falling- while increasing its liking of the energy sector; a prime cause of inflation.

Scentre Group ((SCG)) has been added to UBS's selection of <u>Least Preferred</u> stocks on the ASX. The shopping mall owner has joined the ASX ((ASX)), Bega Cheese ((BGA)), Bank of Queensland ((BOQ)), CommBank ((CBA)), Cochlear ((COH)), Domain Holdings Australia ((DHG)), Super Retail ((SUL)), and Vicinity Centres ((VCX)).

The list of Most Preferred stocks has been extended through the inclusions of BlueScope Steel ((BSL)), Santos ((STO)), Suncorp Group, and Treasury Wine Estates. Have been removed from the list: Transurban ((TCL)), Universal Store ((UNI)), Webjet, and WiseTech Global ((WTC)).

Remain selected as UBS's <u>Most Preferred</u> stocks on the ASX:

Among Resources:

-AGL Energy ((AGL))
-Orica ((ORI))
-Origin Energy ((ORG))
-Rio Tinto ((RIO))

Among Financials:

-AUB Group ((AUB))
-Computershare ((CPU))
-nib Holdings ((NHF))
-QBE Insurance ((QBE))

Among Industrials:

-Coles Group ((COL))

-CSL ((CSL))
-Harvey Norman ((HVN))
-Reliance Worldwide ((RWC))
-Seek ((SEK))
-Telstra ((TLS))
-Worley ((WOR))
-Xero

Rudi Unplugged - The Video

Silly me! I ask for questions and suggestions, produce a video and then forget to include it in last week's Weekly Insights.

For those readers not yet familiar with my research: post the GFC that ended in March 2009, I started specifically researching why certain companies are better in dealing with downturns and crises and eventually developed the concept of All-Weather Performers; companies that generate shareholder rewards no matter what the cycle does.

It's essentially a quest to find the highest quality growth companies in a share market that is predominantly populated by low-quality wannabes and old timers that had their glory days in the past, plus lots and lots and lots of companies for whom the cycle determines what's in store for shareholders.

The list of companies identified as All-Weathers has remained relatively stable over the past 15 years, and as one would expect, it's not an extensive selection either. From 2015 onwards I also identified the once-in-a-lifetime experience of unprecedented technological changes for societies and financial markets, which led to the addition of lists that seek to identify the highest quality companies among the up-and-comers from the new tech era.

All those lists, including a few more, are available 24/7 to paying subscribers via a dedicated section on the website: https://fnarena.com/index.php/analysis-data/all-weather-stocks/

Last week, a video update was published:
https://fnarena.com/index.php/fnarena-talks/2024/04/11/rudi-unplugged-10-april-2024/

In the run up to this latest update, I had asked for questions and feedback, which features in the video. As it is the intention to not make such updates too elongated (we're all time constrained in modern days), some questions remain unanswered, including various suggestions put forward about potential new All-Weather inclusions.

Some brief format responses to some of the suggestions made:

-Data#3 ((DTL)): I view Data#3 as a reasonably well-managed typical software services provider that is enjoying the positive momentum of the technology sector worldwide. Not nearly as exceptional as has been TechnologyOne ((TNE)).

-JB Hi-Fi ((JBH)): Retailing can be extremely cyclical which can upset even the best in the sector, which is why my list of All-Weathers does not include any pure retailing companies. JB Hi-Fi, it has to be said, is one of the best in the sector, and not necessarily only in comparison with local peers. Quality counts when it comes to long-term investing.

-Infratil ((IFT)): An important component of being selected as an All-Weather Performer is an indisputable track record. Many companies can have a number of years of positive performances, but can they last the equivalent of a corporate marathon? I think Infratil's track record falls well short, even though the share price graph is suggesting otherwise. I concede: I have not given Infratil much attention to date, given it's NZ-headquartered and listed and trades on ultra-low volumes on the ASX.

-Light & Wonder ((LNW)): The new kid on the block in Australian gaming has won a lot of hearts and minds over the past twelve months or so, but let's first find out what the longer term holds. On average, businesses do enjoy a period of positive momentum, in particular after restructuring and new management, but to become a true All-Weather that track record has to span over many more years. The local sector leader, Aristocrat Leisure, has been performing for over ten years now and I still haven't included it as an All-Weather. Aristocrat has been included as a 'Prime Growth Story' and that track record looks poised for many more years of robust growth.

-Macquarie Technology ((MAQ)): The outlook for data centres is incredibly buoyant, which is why I remain of the view that the likes of NextDC ((NXT)) on the ASX remain poised for positive surprises over many more years. Unlike NextDC, Macquarie Technology is not a pure-play, but the positives are likely to dominate the more sedate telecom legacy business. I've now added this stock to my selection of 'Emerging New Business Models'. AI is going to dominate the future for all of us; investors better get on board.

-Nick Scali ((NCK)): See also JB HiFi. Nick Scali stands out as probably one of the best in the sector locally. Again: long-term portfolios will learn how to appreciate corporate quality when given enough time to prove itself.

-PWR Holdings ((PWH)): Full of promise, and it is difficult to argue against the fact management and the business have proven themselves since listing in late 2015. Thanks for reminding me. I have now added this stock to my list of 'Emerging New Business Models'.

-Reece ((REH)); I like the suggestion as this is without any doubt one of the quality names inside the home renovation segment on the ASX. Because property markets are inherently cyclical, with the recent past probably more exception than the rule, I'd be reluctant to include a quality performer such as Reece, but this company definitely deserves to be highlighted, even if it's not a true All-Weather.

-RPM Global ((RPM)): Once upon a time, Monadelphous ((MND)) was included in my very first selection of All-Weathers. Then I learned when the sector turns to dust, as the customers suffer from cyclical downturns, there's no support underneath the share price as revenues and earnings disappear in a flash. RPM Global is finally growing into its long-held promises, but an All-Weather? Unlikely.

-Sonic Healthcare ((SHL)): I've always underestimated the number four in the local healthcare sector, which is probably understandable given the quality and performances achieved by CSL, Cochlear and ResMed. Sonic is equally an international top-notch performer, though its network is more vulnerable to price pressures and consumer behaviour, while international expansion is heavily reliant on making further acquisitions. In particular the latter keeps Sonic out of my selective list.

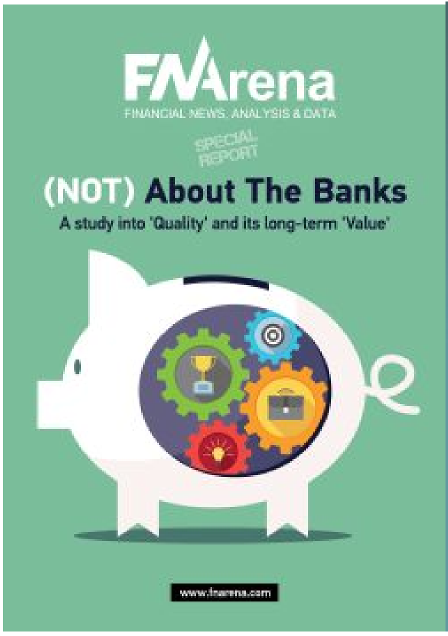
-Brickworks ((BKW)) and Washington H. Soul Pattinson ((SOL)): I have no defence. Both should probably have been included in my selection long time ago. It's the cyclical nature of the core assets that is still guiding my personal bias today, but shareholders have only reaped rewards from staying the course. Impressive, to say the least.

The above mentioned video lasts some 20 minutes. Enjoy. For good measure: the stocks mentioned above do not feature in the video.

As per always: all feedback remains welcome.

FNArena Subscription

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



(This story was written on Monday, 22nd April, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

SMALL CAPS

Dr Boreham's Crucible: 4D Medical

By Tim Boreham, Editor, The New Criterion

ASX code: ((4DX))

Shares on issue: 391,374,870; Market cap: $223.1m

Chief executive officer: Prof Andreas Fouras

Board: Lilian Bianchi (chair), Prof Fouras, Dr Robert Figlin, John Livingston (executive director), Julian Sutton, Dr Geraldine McGinty (Bruce Rathie and Evonne Collier resigned in November 2023)

Financials (December half 2023): revenue $793,000 (up 63%), research and development concession/government grants $7.1m (up 18%), loss -$14.8m (-$16.3m deficit previously), cash of $47.9m (down -31%).

Identifiable major shareholders: Andreas and Helen Fouras 16.8%, Ryder Innovation Fund 1.8%, Alex and Christine Petrou 0.72%, Damen Diamantoulos 0.75%

The world’s only provider of “four-dimensional” lung imaging software, **4D Medical** has US$280bn reasons to thank the US Congress - and President Joe Biden - for signing off on a clumsily-worded piece of legislation.

The title: ‘The Sergeant First Class Heath Robinson Honouring Our Promise to Address Comprehensive Toxics (PACT) Act.’

Passed by Congress last month, PACT addresses a range of respiratory illnesses and cancers borne by veterans exposed to burn pits and other toxic nasties while on service.

Sgt Robinson was an Ohio army medic who died in 2020 from lung cancer, attributed to toxic exposure as a result of his military service in Iraq in 2006 and 2007.

As the name suggests, burn pits are bulldozed holes created on deployment, in which all sorts of items and substances are combusted indiscriminately. The result is plumes of acrid, black smoke.

The tangible monetary support for healing these “invisible wounds of war” is a boon for 4D Medical, which has developed the non-invasive screening tech to identify the resulting respiratory illnesses and loss of lung function.

It’s no small matter: 5.5m US veterans deployed to Middle East conflicts have developed hard-to-diagnose diseases - such as constrictive bronchiolitis - that current screening methods cannot detect.

Of course, not every lung problem is burns-pit related but there’s a reverse onus for the medics to show the pits weren’t the cause of the ailment.

About the tech

4D's patented XV Technology platform enables doctors to understand 'regional' airflow in the lungs, thus identifying illnesses with greater efficacy as patients breathe.

4D's tools supplement - but do not replace - the images produced by conventional x-rays, computed tomography (CT), magnetic resonance imaging (MRI) and the relatively crude spirometry (breathing into a handheld device to measure the amount of air expelled).

The technology underpins XV Lung Ventilation Analysis Software (XV LVAS), which quantifies lung ventilation. A variant, CT LVAS is - you guessed it - an adjunct to computed tomography (CT).

XV LVAS interfaces with current imaging techniques by uploading the images to produce a "rich high-resolution picture of the lungs". The fourth dimension (4D) is time.

The technology 'sees' what the lung is doing. 4D's imaging can detect conditions including emphysema, chronic obstructive pulmonary disease (COPD), lung cancer, asthma, pulmonary and cystic fibrosis and occupational diseases such as silicosis.

In August 2022, 4D announced the results of a study for the burns pit disease constrictive bronchiolitis, carried out at the Vanderbilt University Medical Center in Nashville, Tennessee.

Preliminary results confirmed 4D's tech could detect the disease - which affects the lung's smallest airways of 1.0mm or less - when CT and pulmonary tests could not.

In May 2020, the US Food and Drug Administration (FDA) granted the XV LVAS clearance for imaging any lung indication, while Australia's Therapeutic Goods Administration (TGA) followed suit in September last year.

In late November last year, the FDA also ticked off CT-LVAS, thus greatly expanding 4D's potential market reach.

Wind tunnels not windbags

The 4D tech was the brainchild of Prof Andreas Fouras, a mechanical engineer who hung around Monash University's wind tunnel laboratories while everyone else was at the famed student hangout, The Nott (Nottingham Hotel).

By listening to wind movements rather than windbags at the pub, Prof Fouras realised that there was a better way to measure air movement through the lungs than current imaging.

He founded 4D in 2012, having ploughed all of his own money into the venture. The company listed on August 7, 2020 at 73c a share after an oversubscribed initial public offer.

Prof Fouras has relocated his family to Los Angeles to focus on the US market.

It’s all happening

Last year ended with a flurry of announcements for 4D Medical.

In November, 4D won reimbursement for XV LVAS from the Centers of Medicare and Medicaid Services - which is almost as important as FDA approval itself. The per-procedure reimbursement of US$299 ($460) is a benchmark for private insurers and covers 65m US citizens aged over 65 years, at 4,000 Medicare certified hospitals.

A week later, imaging house Precision IR said it would offer outpatient screenings across its clinics in Detroit and Memphis, from January 1, 2024. This will result in subscription revenue flowing to 4D Medical.

The company then signed a memorandum of understanding with Philips, which provides imaging equipment to almost half of US veterans’ lung screening clinics. Upgraded to a contract in January this year, the distribution deal provides “an accelerated and expanded pathway for commercialisation of veterans’ lung screening products”.

In December, the company announced the acquisition of Imbio, a private US outfit specialising in artificial intelligence-based lung and heart analysis.

About Imbio

According to 4D, Imbio is a “recognised leader in lung and heart [artificial intelligence]-driven tech with a focus on providing structural analysis that delivers visual qualitative and quantitative assessments of lung and heart anatomy”. The Imbio purchase added 20 staff, taking 4D’s total complement to 160.

“Imbio enables a full-service capacity for lungs: everything you need in medical imaging,” Prof Fouras says.

For example, Imbio enables 4D to screen chronic obstructive pulmonary disease patients for suitability for valve treatment to improve lung ventilation. The purchase expands 4D’s reach to more than 300 sites, while 4D also plans to sell Imbio products in Australia.

“We are already cross selling to each other’s sites,” Prof Fouras says.

The deal involved the payment of US$25m of cash and contingent earn-outs of up to US$20m. These are based on revenue targets and FDA approval of any one of three Imbio products in development.

Scanners for wiggly kids

In a consortium called the Australian Lung Health Initiative (ALHI), 4D is developing the so-called XVD scanner (the hardware) which offers advantages over x-rays, CT and MRI.

The scanners were launched at Sydney’s Prince of Wales Hospital in March 2021, by then Federal Health Minister Greg Hunt.

4D Medical operates on a software-as-service model, so facilities don’t need the circa $650,000 scanners to be able to use its imaging. However, the scanners are useful for high-throughput clinics because they are faster and produce less radiation and don’t require contrast agents.

The units are also better for patients with bad lung disease, who can’t hold their breath long enough to enable diagnosis.

The scanners should appeal to children’s hospitals because the scan only takes four seconds - handy for wiggly subjects - and involves 100 times less radiation.

4D intends to seek a partner for its scanner rollout, with the ‘usual suspects’ including GE Health, Canon, Siemens and current partner Philips.

Founded by 4D Medical, the ALHI includes the University of Adelaide, the South Australian Health and Medical Research Institute, the University of New South Wales and the Royal Melbourne Hospital.

The Federal Government’s Medical Research Future Fund (MRFF) has extended $28.9 m of funding over five years, which includes hardware (scanner) development costs and US FDA expenses.

The Australian rollout

In October last year, 4D announced a contract with Australian imaging chain Integrated Diagnostics to use its products. Pilot programs are being carried out at two Integrated Diagnostics sites in the Victorian town of Ballarat.

Integrated Diagnostics has 71 sites on the Eastern seaboard and in Western Australia, while it recently bought 20 clinics in New Zealand.

In 2022, 4D signed a nationwide contract with I-Med Radiology Network, Australia's largest medical imaging chain with more than 250 clinics. 4D products are being used at about 50 I-Med sites, generating revenue.

The automated I-Med platform involves x-ray images being run through 4D's software to enhance their clinical value.

Finances and performance

4D Medical generated $793,000 of revenue in the December half year, up 63% derived from software licences and subscriptions, hardware leases and support, with 60% of the revenue from Australia and the rest from the US.

The company also pocketed $2.83m of Federal Research and Development Tax Incentives and $4.29m of government grants.

"There is strong growth in terms of transforming the business and letting go of some development costs which we no longer need," Prof Fouras says.

Imbio chipped in $183,000 of revenue and a $28,064 profit, bearing in mind 4D only competed the deal in mid-December. Assuming ownership for the full half year, 4D achieved revenue of $3m and a -14.4% decline in adjusted expenses.

Imbio is expected to deliver revenue of US$6.3m in the current year and be cash flow positive 12 months after integration. The US$25m cash (plus earn outs) purchase was funded by a $35m placement at 79 cents, a -17% discount on the prevailing price with a one-for-two free attached option.

Shortly after listing, 4D shares peaked at $2.60 and in March 2023 bottomed at 32 cents. The shares traded at around 50c in mid-November and had doubled by the end of the month – only to retreat to 56c by early March this year.

Other opportunities

4D Medical is girding for the 2025 rollout of a Federally-funded Australian lung cancer screening program.

"The tricky thing is that for every patient you identify with lung cancer, you probably identify 10 patients with something else non-cancerous in their hearts and lungs," Prof Fouras says. "We can make early screens on those incidental findings much more streamlined, cost effective and reliable."

In Europe, 4D is "slowly and cost efficiently" moving towards approvals and the company is doing ground work in Japan and China.

Dr Boreham's diagnosis:

With close to 400m procedures worth more than US$30bn taking place globally every year, 4D's opportunities are - well - breath taking.

Prof Fouras says that general private US insurance reimbursement accounts for 40% of the company's revenue opportunities and 60% of potential profits.

The 4D Imbio products are available at 300 sites - 80% in the US. But Prof Fouras says the emphasis is on increasing revenue per site, rather than the number of sites.

When we last covered the stock in August 2022, the US military's palpable interest in 4D's tech looked like shaping the company's fortunes in the short term. "Veterans Affairs is a very exciting opportunity in the here and now because reimbursement is not required," Prof Fouras says.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He has never been exposed to a burns pit but dad's backyard incinerator came close.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 19-04-24

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday April 15 to Friday April 19, 2024
Total Upgrades: 5
Total Downgrades: 6
Net Ratings Breakdown: Buy 55.63%; Hold 34.89%; Sell 9.48%

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

The tables below show percentage downgrades by brokers to average earnings forecasts were larger than upgrades, while average target price increases were marginally greater than decreases.

Zip Co received the largest percentage increase in average earnings forecast and the largest percentage increase in average target price after releasing a stronger-than-expected third quarter trading update.

UBS raised its cash earnings forecasts by an average of 19% to reflect operating leverage from lower net bad debts and improving funding costs. It's felt the key positive was the **strength and quality of US total transaction value (TTV) growth** over the quarter. Despite losing -200,000 net new customers, growth increased by 44% year-on-year compared to the second quarter, while credit risk metrics remained stable.

The broker forecasts Zip can grow US TTV at a 31% compound annual growth rate (CAGR) over the next three years to reach $10.4bn TTV by FY26. US penetration is still less than 2% of total payments as the company pivots to larger spend verticals such as electronics and automotives, explained the analyst.

Ord Minnett focused on Zip's **increasingly healthy margins**. With bad debts remaining steady, a 9.1% jump in the revenue margin for the quarter translated to a 3.9% rise in the net interest margin, compared to management's medium-term outlook for 3-4%. In the US, TTV growth of almost 50% versus the previous corresponding period combined with an uptick in revenue margins to 9.1% from 8.7% three months prior.

Also, the balance sheet is improving, according to this broker, with available cash and liquidity of $95.2m, and the convertible note balance continuing to dwindle to the current $21.7m level.

The Zip Co share price closed at $1.09 last Friday which compares to the $1.55 target set last week by Ord Minnett and UBS, up from $1.08 and $1.43, respectively.

Evolution Mining was second on the positive change to target price table below after management maintained FY24 guidance, albeit at the lower end of the range, following its third quarter production release.

To achieve guidance requires a (very strong) 34% quarter-on-quarter increase for June quarter gold production on higher grades across Cowal, Mungari and Red Lake, noted UBS.

Macquarie felt guidance risk is now elevated, and following a strong share price run, downgraded its rating for Evolution to Neutral from Outperform, after increasing the target by 8% to $4.10.

Readers may like to refer to (Material Matters: Gold, Gold Stocks & Rare Earths - FNArena.com), which details Wilsons' preference for Evolution Mining in the sector and bullish gold price forecasts by Citi.

Avita Medical received the largest percentage fall to average target price last week and the second largest fall in average earnings forecast behind Alumina Ltd. [Due to the small forecast numbers involved for Alumina Ltd, the percentage forecast changes were so exaggerated they should be ignored.]

The only broker in the FNArena database to issue new research on Avita last week was Bell Potter, which downgraded to a Speculative Hold rating from Speculative Buy and slashed the target to $3.50 from $6.85.

The analysts noted a worrying and unexplained decline in utilisation rates in the company's core burns market after management downgraded first quarter revenues to between US$11.1-11.3m from the midpoint of the prior range of US$15.2m.

Softness in the burns market may be due to overstocking of the channel in the December quarter, speculated the broker, and/or budget restraints within US hospitals in favour of cheaper treatment alternatives. Also, it's thought burns adoption could have been flat with negligible uptake in full-thickness skin defects (FTSD).

In last week's article, a material downgrade to average earnings forecast for APM Human Services International was highlighted following another earnings and profit downgrade. Historically low unemployment rates continue to weigh on the company's earnings, explained UBS at the time.

Last week, the company again received a material downgrade to average target price after Bell Potter refreshed research. Part of the reason for current weak trading, according to the broker, is a change in the type of clients to those more difficult to place, and problems associated with implementation of a customer relationship management system.

On April 8, management announced an offer of $1.40/share from Madison Dearborn Partners (MDP) on a non-exclusive basis. Prior to this, on February 19, the APM Board (including MDP directors) rejected a $1.60/share offer from CVC Asia Pacific as not sufficiently reflecting "fundamental value".

This board approach raised a lot of questions for Bell Potter including: Why is the board entertaining this offer and not simply rejecting it?; Could the board persuade MDP or someone else to pay more?; Has the "fundamental value" of the business changed that much since February, even after the latest profit warning?

On balance, the broker felt the MDP offer of $1.40/share will be successful and lowered its target to $1.40 from $1.93.

Other material downgrades to average earnings forecasts by brokers, apart from the largest for Avita Medical mentioned above, were directed to Star Entertainment and Genesis Minerals.

Star reported a -12% year-on-year decline in earnings over the third quarter, with weakness in premium gaming rooms continuing to weigh on earnings, observed Ord Minnett. While main floor gaming is up around 5%, premium across the company's properties have reported double-digit revenue declines.

The broker pointed out Star lacks competitive advantages, noting Crown Sydney appears to be taking market share for table games.

Costs are tracking in line with the previous corresponding period despite Star having delivered a -$100m per annum cost-out program, highlighted UBS, noting the program appears to be offset by inflation along with the cost of reinvestment in risk controls and compliance.

While Genesis Minerals released a slightly softer-than-anticipated third quarter performance update last week, Ord Minnett highlighted FY24 guidance remains intact, and the five-year plan shows organic growth towards (more than) 300koz annual output.

The current valuation and near-term prospect for limited free cash flow kept Ord Minnet's rating on Hold, while Macquarie maintained its Outperform recommendation.

The latter broker felt FY24 guidance is well in hand, with year-to date production at 74% of the production guidance mid-point, while costs (AISC) are below the guidance range. The company's stockpiling of bullion remains important, in Macquarie's view, as it mitigates risk for the single asset producer.

Apart from the Gwalia mine in Leonora, Western Australia, Genesis also owns various satellite resources that could feed into the Gwalia process plant, as well as the Mt Morgans gold mine at Laverton (just over an hour's drive west of Leonora), which is currently in care and maintenance.

Total Buy ratings in the database comprise 55.63% of the total, versus 34.89% on Neutral/Hold, while Sell ratings account for the remaining 9.48%.

Upgrade

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

Australian Unity Office Fund is selling the property on 150 Charlotte Street in Brisbane for $54m, a 4% premium to the last update on its book value.

Ord Minnett has quickly established the REIT, also selling 96 York Street in Beenleigh, will be net cash positive to the tune of $45m, once also taken into account ongoing capex requirements.

Combine the above with the shares trading at a -24% discount to net tangible assets (NTA) valuation and Ord Minnett shows no hesitation in upgrading to Buy from Hold.

The target price lifts to $1.45 from $1.13.

BWP TRUST ((BWP)) Upgrade to Buy from Sell by UBS .B/H/S: 1/1/2

UBS has upgraded BWP Trust to Buy from Hold, having first incorporated the Newmark acquisition in its modeling. Price target has lifted to $3.80.

The broker highlights BWP Trust has the lowest gearing in the sector locally which means it benefits most in a "higher for longer" environment.

Add a defensive nature of income and shares trading at a -30% discount to the 10 year average premium of 26% and we've just discovered the rationale behind the upgrade.

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

A strong third quarter trading update from Cettire, according to Bell Potter, with the company reporting sales revenue of $168m in a 14% beat to the broker's estimates.

The company claims to be well positioned for its fourth quarter, supported by "seasonally improving metrics, growing supply and resilient demand."

The China launch was confirmed for the coming quarter. The rating is upgraded to Buy from Hold and the target price decreases to $4.00 from $4.50.

ENDEAVOUR GROUP LIMITED ((EDV)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 4/2/0

Morgan Stanley upgrades Endeavour Group to Overweight from Equal-weight on an undemanding current valuation. It's also thought an uplift in earnings from Hotels will beat the consensus expectation and the company will continue to dominate in liquor retail.

The broker's target price rises to $6.40 from $5.80. Industry view is In-Line. Both the gaming regulatory outlook and management execution in hotels have the potential to derail the broker's positive thesis.

Morgan Stanley's forecasts Endeavour will attain $125m of its $150mn EBIT target compared to the consensus estimate for $85m.

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

Morgans upgrades its rating for green energy producer LGI to Add from Hold following another encouraging update at the company's investor day.

The broker's target also rises to $3.12 from $1.99 on a combination of EPS forecasts increasing over FY24-26 by 5%, 12% and 7%, respectively, and a new valuation methodology.

Management confirmed FY24 earnings (EBITDA) guidance and clearly articulated the short-to-medium term development pipeline, suggests the broker, and set out the overall growth strategy. The battery energy storage system capabilities were also demonstrated.

Downgrade

AVITA MEDICAL INC ((AVH)) Downgrade to Speculative Hold from Speculative Buy by Bell Potter .B/H/S: 2/1/0

Bell Potter notes a worrying and unexplained decline in utilisation rates in the core burns market for Avita Medical after management downgraded 1Q revenues to between US$11.1-11.3m from the mid point of the prior range of US$15.2m.

While management has maintained its full year guidance, albeit now at the low end of the guidance range, the analysts don't share this optimism. The rating is downgraded to Speculative Hold from Speculative Buy and the target slashed to $3.50 from $6.85.

The broker speculates softness in the burns market may be due to overstocking of the channel in the December quarter and/or budget restraints within US hospitals in favour of cheaper treatment alternatives.

Also, burns adoption could have been flat with negligible uptake in full-thickness skin defects (FTSD), suggest the analysts.

BELLEVUE GOLD LIMITED ((BGL)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/2/0

While Bellevue Gold's third quarter production of 37,300 ounces of gold left Macquarie a little disappointed, the broker remains optimistic that strong development grades in March bode well for the fourth quarter.

The broker now assumes a long-term mining and milling rate of 1.2m tonnes per annum, subsequently lifting the long-term production outlook by 9%.

The broker looks forward to FY25 guidance for a better indication of Bellevue Gold's long-term cost base.

The rating is downgraded to Neutral from Outperform and the target price increases to $2.00 from $1.90.

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

A robust first quarter update from DroneShield has demonstrated the significant growth in the business over the last year, says Bell Potter.

First quarter revenue of $16.4m was more than ten times the revenue achieved in the same quarter a year prior, despite the period being the weakest for sales typically.

The company closed out the period with a cash balance of $54.6m, with $35.4m comitted to inventory supply chain payments over the next nine months in order to address a contracted backlog and sales pipeline.

The rating is downgraded to Hold from Buy and the target price increases to $1.00 from 90 cents.

EVOLUTION MINING LIMITED ((EVN)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 4/1/0

Evolution Mining's 3Q production and costs (AISC) missed Macquarie's forecast by -5% and -13%, respectively. Compared to consensus forecasts, production was in line while costs missed by -4%.

Management retained FY24 guidance despite year-to-date production accounting for only 67% of the bottom end of the range. Both Macquarie and consensus are expecting a modest miss against FY24 guidance.

The broker's target rises by 8% to $4.10 on long-term EPS upgrades and a roll-forward of the valuation period. The rating is downgraded to Neutral from Outperform due to elevated guidance risk and a strong recent share price.

NETWEALTH GROUP LIMITED ((NWL)) Downgrade to Sell from Neutral by Citi .B/H/S: 2/2/2

Citi raises its target for Netwealth Group to $18.65 from $18.35 after 3Q net flows came in ahead of expectations, driven by record gross inflows for a March quarter and moderating outflows.

While the broker expects strong earnings growth underpinned by a recovery in flows and market share gains, the valuation is currently too full for Citi. As a result, the rating is downgraded to Sell from Neutral.

The analysts lower FY24 revenue margin forecasts by -0.5bps to 31bps partly due to lower forecast ancillary revenue.

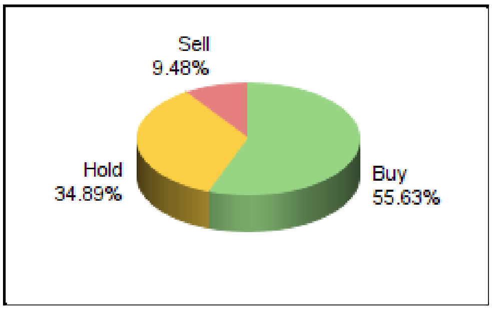
SELECT HARVESTS LIMITED ((SHV)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 2/1/0

Bell Potter downgrades its rating for Select Harvests to Hold from Buy on valuation after recent share price strength, but also because of the potential development of a La Nina weather pattern during 2024.

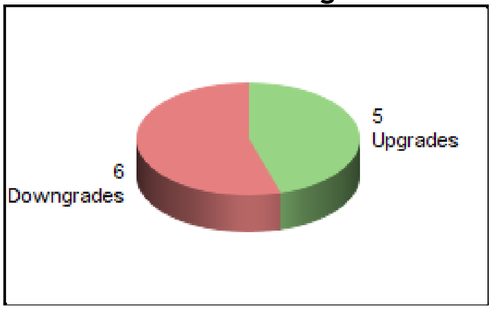
While the BOM remains in an El Nino and El nino-Southern Oscillation (ENSO) neutral outlook, the broker has seen a number of other weather agencies transition to a La Nina outlook by the 2H of 2024.

Almond pricing has also weakened from recent peaks as the focus shifts to the 2024 subjective estimate on broadly normal seasonal conditions, explain the analysts.

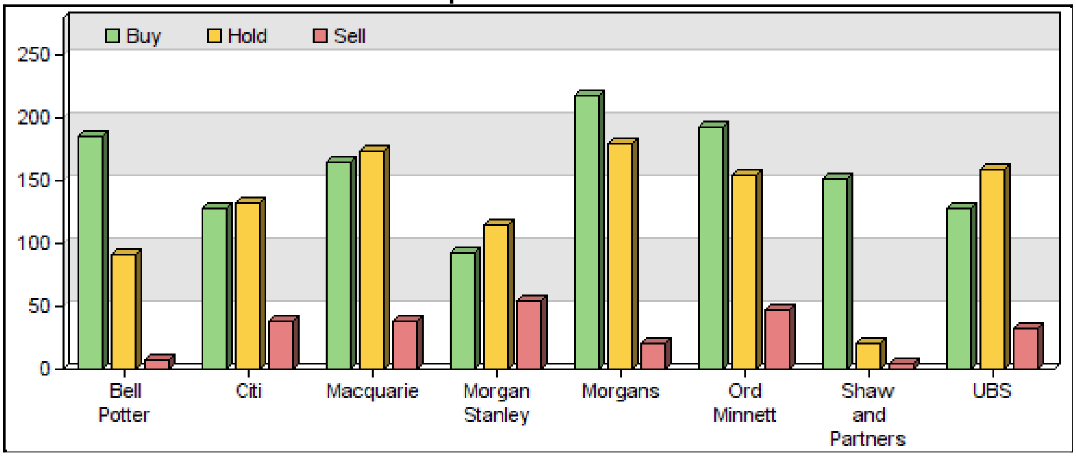
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	AUSTRALIAN UNITY OFFICE FUND	Buy	Neutral	Ord Minnett
2	BWP TRUST	Buy	Sell	UBS
3	CETTIRE LIMITED	Buy	Neutral	Bell Potter
4	ENDEAVOUR GROUP LIMITED	Buy	Neutral	Morgan Stanley
5	LGI LIMITED	Buy	Neutral	Morgans
Downgrade				
6	AVITA MEDICAL INC	Neutral	Buy	Bell Potter
7	BELLEVUE GOLD LIMITED	Neutral	Buy	Macquarie
8	DRONESHIELD LIMITED	Neutral	Buy	Bell Potter
9	EVOLUTION MINING LIMITED	Neutral	Buy	Macquarie
10	NETWEALTH GROUP LIMITED	Sell	Neutral	Citi
11	SELECT HARVESTS LIMITED	Neutral	Buy	Bell Potter

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	ZIP	ZIP CO LIMITED	1.500	1.303	15.12%	3
2	EVN	EVOLUTION MINING LIMITED	4.182	3.730	12.12%	5
3	BSL	BLUESCOPE STEEL LIMITED	23.190	21.860	6.08%	5
4	COE	COOPER ENERGY LIMITED	0.260	0.250	4.00%	3
5	PMV	PREMIER INVESTMENTS LIMITED	31.083	30.300	2.58%	6
6	BOQ	BANK OF QUEENSLAND LIMITED	5.690	5.575	2.06%	6
7	AWC	ALUMINA LIMITED	1.290	1.265	1.98%	4
8	GMD	GENESIS MINERALS LIMITED	1.975	1.938	1.91%	4
9	ORI	ORICA LIMITED	18.638	18.308	1.80%	6
10	EDV	ENDEAVOUR GROUP LIMITED	5.873	5.773	1.73%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	AVH	AVITA MEDICAL INC	5.100	6.267	-18.62%	3
2	APM	APM HUMAN SERVICES INTERNATIONAL LIMITED	1.600	1.777	-9.96%	3
3	SGR	STAR ENTERTAINMENT GROUP LIMITED	0.693	0.718	-3.48%	4
4	ORA	ORORA LIMITED	2.674	2.734	-2.19%	5
5	KAR	KAROON ENERGY LIMITED	2.730	2.758	-1.02%	5
6	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	49.917	50.417	-0.99%	6
7	BPT	BEACH ENERGY LIMITED	1.937	1.949	-0.62%	7

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	ZIP	ZIP CO LIMITED	-0.867	-1.767	50.93%	3
2	BHP	BHP GROUP LIMITED	411.668	388.547	5.95%	6
3	S32	SOUTH32 LIMITED	13.447	12.967	3.70%	6
4	WDS	WOODSIDE ENERGY GROUP LIMITED	194.200	188.520	3.01%	6
5	PMV	PREMIER INVESTMENTS LIMITED	168.050	163.660	2.68%	6
6	STO	SANTOS LIMITED	69.444	68.211	1.81%	6
7	BPT	BEACH ENERGY LIMITED	16.650	16.367	1.73%	7
8	NAB	NATIONAL AUSTRALIA BANK LIMITED	223.725	220.980	1.24%	6
9	ALD	AMPOL LIMITED	308.500	305.750	0.90%	4
10	BSL	BLUESCOPE STEEL LIMITED	209.140	207.660	0.71%	5

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	AWC	ALUMINA LIMITED	-0.349	-0.172	-102.91%	4
2	AVH	AVITA MEDICAL INC	-103.589	-67.898	-52.57%	3
3	SGR	STAR ENTERTAINMENT GROUP LIMITED	1.375	1.850	-25.68%	4
4	GMD	GENESIS MINERALS LIMITED	4.725	5.300	-10.85%	4
5	APM	APM HUMAN SERVICES INTERNATIONAL LIMITED	9.275	9.900	-6.31%	3
6	EVN	EVOLUTION MINING LIMITED	24.880	26.475	-6.02%	5
7	RIO	RIO TINTO LIMITED	1211.314	1251.210	-3.19%	6
8	ORA	ORORA LIMITED	16.520	16.920	-2.36%	5
9	VEA	VIVA ENERGY GROUP LIMITED	27.775	28.400	-2.20%	4
10	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	137.483	139.767	-1.63%	6

Technical limitations

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WEEKLY REPORTS

Uranium Week: From Russia Without Love

A global conference kept the uranium spot market quiet last week, but concerns continue to fester as to just when sanctions will be placed on Russian imports.

-Conference keeps uranium spot market quiet
-No new news from Kazakhstan
-Biden bemoans Russian imports
-Boss Energy produces first uranium

By Greg Peel

As anticipated, the uranium spot market was quiet last week as market participants attended the World Nuclear Fuel Cycle conference hosted by the World Nuclear Association and the Nuclear Energy Institute in Kazakhstan.

It was hoped the location would allow further detail on Kazatomprom's production issues and perhaps more distinct production guidance for 2024 and 2025.

Kazakhstan produces some 40% of global uranium supply and Kazatomprom has been facing production issues. Back in February, Kazatomprom revealed it would likely miss its initial 2024 and 2025 production targets due to challenges with sulphuric acid deliveries and wellfield development.

It appears nothing new was learned on that front at the conference. Tumbleweeds rolled through the spot market, and industry consultant TradeTech's weekly spot price indicator remained unchanged at US$90.00/lb.

In the meantime, last Friday President Biden, in his address at the IBEW Construction and Maintenance Conference, called out nuclear power as the biggest source of clean energy. He went on to say that "For too long, we've relied on imported uranium to power nuclear reactors -- imports from places like Russia…"

These comments echo sentiments expressed by US Congressional members who have supported bipartisan legislation restricting future imports of Russian nuclear fuel into the US. Yet utilities in the US and around the world have been holding their breath waiting for such sanctions to be imposed ever since Russia invaded Ukraine over two years ago, and nothing has been forthcoming.

A fortnight ago the US Treasury issued an executive order prohibiting the import into the US of Russian copper, aluminium and nickel. Utilities remain concerned a ban on uranium must, eventually, follow.

Such a concern has for the past two years steeled utilities' resolve to find alternative sources for uranium supply, and a rush to secure requirements has led to higher term market prices.

Last week saw one transaction completed in the term markets, for delivery of material in December at US$92.00/lb U3O8. In addition, two other off-market transactions were recorded for delivery outside the spot delivery window.

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

[dianomi_video]

<u>Who's the Boss?</u>

Australian uranium miner Boss Energy ((BOE)) last week announced it has produced its first drum of uranium at its Honeymoon mine in South Australia. Management noted the uranium concentrate grade produced is exceeding feasibility study estimates. The company also highlighted it is looking to accelerate plans to increase the production rate and mine life at Honeymoon.

While production has begun a few weeks later than previously flagged, analysts are none too concerned. All agree this is a key milestone for the company.

Production ramp-up at Honeymoon to 2.45mlbpa and 1.5mlb at its Alta Mesa project in Texas will see Boss

Energy's attributable production ramp up to 3.0mlb pa over the next three years. First production from Alta Mesa is expected in the first half of 2024. Boss also has strategic inventory of 1.25mlb which is valued at US$110m (at US$88/lb) and was purchased for US$37m in early 2021.

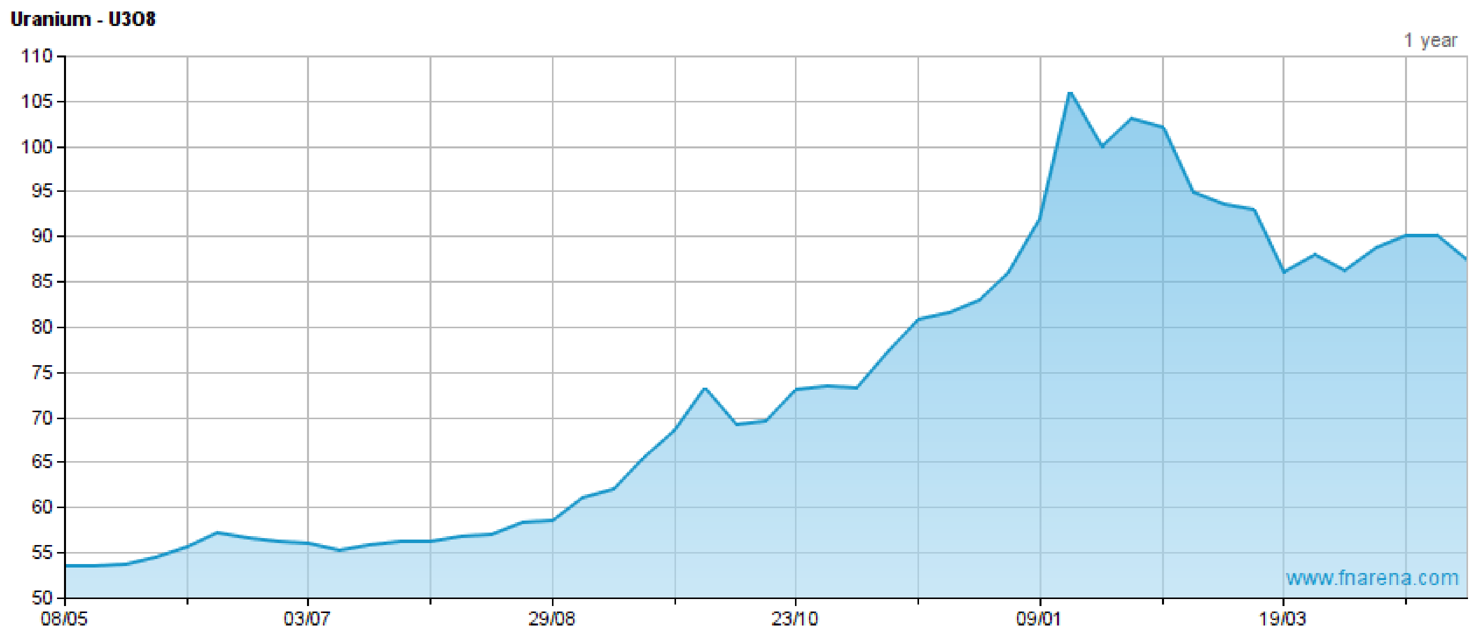
Brokers monitored by FNArena covering Boss Energy have three Buy or equivalent ratings on Boss Energy and two Hold – the two Holds largely being a short-term valuation call.

Another Australian miner soon to restart production – Paladin Energy – attracts six from six Buys.

In other news, mining giant BHP Group's ((BHP)) March quarter production at its polymetallic Olympic Dam mine in South Australia included 2.2mlbs of U3O8, up close to 4% year on year.

<u>Uranium companies listed on the ASX:</u>

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	22/04/2024	0.0900	0.00%	$0.19	$0.05			
AGE	22/04/2024	0.0520	▼- 8.77%	$0.08	$0.03		$0.100	▲92.3%
BKY	22/04/2024	0.3400	0.00%	$0.80	$0.26			
BMN	22/04/2024	3.7500	▲ 4.46%	$4.16	$1.19		$7.400	▲97.3%
BOE	22/04/2024	4.7600	▲ 2.15%	$6.12	$2.33	46.2	$5.422	▲13.9%
DYL	22/04/2024	1.3950	▲ 1.09%	$1.76	$0.48		$1.770	▲26.9%
EL8	22/04/2024	0.4800	▼- 2.04%	$0.68	$0.27			
ERA	22/04/2024	0.0530	▲ 8.16%	$0.08	$0.03			
LOT	22/04/2024	0.4100	▼- 2.38%	$0.46	$0.17		$0.610	▲48.8%
NXG	22/04/2024	12.0100	▼- 1.72%	$13.66	$5.46		$17.500	▲45.7%
PDN	22/04/2024	14.0400					$15.970	▲13.7%
PEN	22/04/2024	0.1050	▲ 7.14%	$0.20	$0.08		$0.310	▲195.2%
SLX	22/04/2024	4.8700	▼- 0.41%	$5.78	$2.92		$7.600	▲56.1%



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WEEKLY REPORTS

In Brief: Confidence, Consumers, Conditions

Weekly Broker Wrap: upside for household goods; outlook for the Australian consumer; SMEs doing it tough; and preferred stocks within the furniture & hardware category.

-Upside for the Household Goods sector in FY25
-Conditions and confidence levels for the Australian consumer, small businesses
-Jarden's preferred stocks in the Furniture & Home category

By Mark Woodruff

Upside for the Household Goods sector in FY25

Jarden sees a more positive macroeconomic outlook for the Household Goods sector into FY25, with hardware set to outperform other categories as it is skewed towards early-stage housing development, followed by furniture and electronics that are driven more by the replacement cycle.

An around ten-month pipeline for construction will provide the early stage development activity to boost hardware, explains the broker.

Rising house prices are expected to help underpin a big lift in spending for the Household Goods sector, along with repair & remodel (R&R) activity, cycling of weaker new housing, and easing interest rates.

To explain why hardware benefits first when housing sentiment improves, Jarden point to the less than five-month historical lag between property values and hardware, with a further two-to-three-month lag between the hardware upswing and furniture sales.

Metcash ((MTS)) and Wesfarmers ((WES)) represent the best exposure to hardware, note the analysts, with Beacon Lighting ((BLX)) benefiting next due to mid-stage housing development.

For furniture, Nick Scali ((NCK)) is preferred while Harvey Norman ((HVN)) and JB Hi-Fi ((JBH)) are best for exposure to appliances/electronics.

The broker cautions underestimated changes are looming for major household goods operators in Australia, including: more choice as brands increase direct businesses and Amazon grows; price competition from new suppliers; and last mile delivery led by Amazon requiring incumbents to lift capex, review embedded delivery terms and re-engage suppliers.

Jarden leans toward companies less exposed to the competitive threat posed by Amazon's entry into bulkier items such as Wesfarmers, Nick Scali, Metcash and Beacon Lighting.

Across the household goods space, the broker retains its preference for Metcash, Temple & Webster ((TPW)), Nick Scali, and Beacon Lighting.

Conditions and confidence levels for the Australian consumer and business

Australian consumer confidence and sentiment levels will pick-up materially over the second half of 2024 as Stage 3 tax cuts provide a strong boost to household disposable incomes, anticipates ANZ Bank. Otherwise, there will be downside risk for the bank's current household consumption and GDP growth forecasts, perhaps leading to a more aggressive interest rate cutting cycle.

The bank attributes current weakness in consumer confidence to falls in real (adjusted for inflation) per capita household income. This income measure declined by -2.2% over 2023, with the pace of decline broadly mirroring the low level of consumer confidence as measured in the ANZ-Roy Morgan Australian Consumer Confidence survey.

Consumer sentiment is partly a function of inflation, interest costs, tax payments and the unemployment rate, all which impact on household disposable income, explains ANZ. Hence, the expected boost to sentiment from upcoming tax cuts.

Equity market performance and recent sentiment also impact on consumer sentiment, with the latter highlighting a degree of persistence to high or low levels of sentiment, notes the bank.

ANZ Bank currently forecasts three interest rate cuts of -25bps over late-2024 and the first half of 2025.

Regarding small and medium-sized enterprises (SMEs), business conditions for these firms fell further below average in the March quarter as slowing demand and declining profitability weighed.

Business confidence also remained negative in the March quarter among SMEs, according to National Australia Bank's quarterly SME survey, though there was a small improvement in business confidence when compared to the last quarter of 2023.

Conditions for SMEs have now clearly diverged from the resilience reported by larger firms in the bank's Quarterly Business Survey, with conditions for the smallest firms remaining negative and mid-tier SMEs (with $3-5m annual turnover) also experiencing a considerable decline.

Outside of Western Australia, SME conditions were weak, falling in Victoria and NSW, while there were small rises elsewhere.

Availability of labour remained a significant constraint for one third of those surveyed, and price growth was broadly unchanged from the fourth quarter of 2023.

While still in negative territory overall, the survey shows SME business confidence rose in all industries except accommodation & food, with confidence still weakest in retail.

Overall, firms are still under pressure on costs, and with conditions continuing to ease for SMEs, the scope to pass through these costs to consumers is clearly increasingly constrained, notes Group Chief Economist Alan Oster.

Providing some hope for the near-term, leading indicators firmed a little, with forward orders and capex rising, while capacity utilisation eased slightly.

Jarden's preferred stocks in the Furniture & Home category

Furniture & Home (F&H) companies have been more resilient in Australia by comparison to the US, observes Jarden, and have potential upside as new house listings increase. In the US, this category has declined because of a fall in housing churn to levels experienced during the GFC.

The broker's April 2024 Furniture and Home Quarterly reveals a mixed performance by value brands in Australia, but aspirational brands (offering a more accessible price point) performed well for the March quarter, suggesting high income earners are still spending, but are also searching for value.

Jarden's F&H Footfall Traffic Index, which tracks the foot traffic of 15 specialist omnichannel F&H retailers, was weak in March and shows Neutral-rated **Adairs ((ADH)) and Harvey Norman lost footfall share.**

Adairs had the weakest foot traffic in March (experiencing an around -9% fall) with -2% less foot traffic at the company's bedding retailer (Focus on Furniture) contributing to the overall decline.

Rated by Jarden as Buy and Overweight, respectively, **Temple & Webster and Nick Scali** once again **gained market share** year-on-year in March and April.

Nick Scali's foot traffic rose by 3% year-on-year with traffic for the recently acquired sofa merchant Plush rising by 11%.

Furniture remains a store-driven category, explains Jarden, with scale omni players such as Nick Scali and Harvey Norman well placed to take share as industry consolidation continues, while Temple & Webster is considered the scale F&H specialist.

Temple & Webster's recent share price weakness is disproportionate to the company's recent momentum in web traffic, notes the broker. The company increased its web traffic share by 3.5% year-on-year in the March quarter.

For 2024, Jarden sees a balance between increased discounting risk and cost-of-goods-sold (COGS) tailwinds for the F&H category. There is currently no significant evidence of irrational discounting, while decreases in COGS are likely to be passed through to consumers to stimulate demand and take share.

Jarden likes (in order of preference) Temple & Webster, Nick Scali, Harvey Norman and Adairs.

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WEEKLY REPORTS

The Short Report - 26 Apr 2024

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

Summary:

By Greg Peel

Week Ending April 18, 2024.

Last week saw the ASX200 crashing on hot US inflation numbers, later followed this week with our own hot CPI.

There was not a lot of movement in short positions last week – more a shuffling of the deckchairs – but notably all moves were short position increases.

Westgold Resources ((WGX)) has appeared on the table at 6.2% shorted from below 5% the week before. See below.

Otherwise we note the appearance of healthcare services provider Healius ((HLS)) at the bottom of the table, along with agri conglomerate Elders ((ELD)), whose shares took a dive the week before after releasing subdued guidance.

Weekly short positions as a percentage of market cap:

10%+

PLS 21.7
IEL 15.6
SYR 13.4
FLT 11.4
LTR 10.4

No changes

9.0-9.9%

No stocks

8.0-8.9%

CXO, SYA

In: SYA

7.0-7.9%

BOQ, WBT, STX, LIC

In: STX Out: SYA

6.0-6.9%

ACL, LYC, ARU, CHN, GMD, MIN, DYL, OBL, WGX

In: CHN, WGX Out: STX

5.0-5.9%

CUV, VUL, NAN, A2M, IMU, WEB, HLS, IFL, ELD

In: NAN, HLS , ELD Out: CHN

Movers & Shakers

Macquarie downgraded its rating last week for Westgold Resources to Neutral from Outperform after the company agreed to merge with Canadian-based Karoa Resources. Westgold will acquire all shares in Karoa whose assets include the Beta Hunt and Higginsville gold projects near Kalgoorlie.

The scrip/cash offer leads Macquarie to cut its target -19% to $2.20 after taking into account a doubling of shares on issue and an around 70% production lift over the next five years, and double on a ten-year view at a similar cost.

The merger will elevate Westgold into the top five gold producers on the ASX, likely attracting significant new investor interest. Further, the new company intends to list on the Toronto exchange following deal completion.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.3	0.3	QBE	0.2	0.2
ANZ	0.3	0.3	RIO	4.4	4.0
BHP	0.5	0.5	S32	0.8	1.1
CBA	1.4	1.4	STO	1.1	1.0
COL	0.6	0.5	TCL	0.5	0.5
CSL	0.3	0.3	TLS	0.4	0.3
FMG	1.0	1.2	WBC	1.1	1.1
GMG	2.0	2.0	WDS	0.6	0.6
MQG	0.6	0.6	WES	1.1	1.0
NAB	0.8	0.8	WOW	0.4	0.3

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 26-04-24

Broker Rating Changes (Post Thursday Last Week)

None

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
A1M	AIC Mines	$0.46	Moelis	0.55	0.56	-1.79%
ADT	Adriatic Metals	$4.20	Canaccord Genuity	5.35	3.95	35.44%
AEE	Aura Energy	$0.17	Petra Capital	0.45	0.47	-4.26%
AGN	Argenica Therapeutics	$0.56	Petra Capital	1.00	1.09	-8.26%
AMP	AMP	$1.12	Jarden	1.17	1.20	-2.50%
AOF	Australian Unity Office Fund	$1.27	Moelis	1.55	1.47	5.44%
BGL	Bellevue Gold	$1.73	Canaccord Genuity	2.25	2.00	12.50%
BHP	BHP Group	$45.23	Goldman Sachs	49.00	49.40	-0.81%
BOQ	Bank of Queensland	$6.17	Goldman Sachs	5.44	5.04	7.94%
			Jarden	5.80	5.60	3.57%
CAI	Calidus Resources	$0.13	Canaccord Genuity	0.29	0.33	-12.12%
CGF	Challenger	$6.84	Jarden	7.55	7.50	0.67%
CMM	Capricorn Metals	$4.96	Canaccord Genuity	6.55	5.75	13.91%
COE	Cooper Energy	$0.22	Jarden	0.23	0.24	-4.17%
CYG	Coventry Group	$1.51	Petra Capital	2.50	2.29	9.17%
DEG	De Grey Mining	$1.32	Canaccord Genuity	2.70	2.35	14.89%
EVN	Evolution Mining	$3.97	Canaccord Genuity	4.50	4.20	7.14%
			Canaccord Genuity	4.60	4.20	9.52%
			Goldman Sachs	4.25	3.70	14.86%
			Jarden	3.16	3.12	1.28%
FEX	Fenix Resources	$0.28	Petra Capital	0.43	0.42	2.38%
GDG	Generation Development	$2.19	Moelis	2.56	2.34	9.40%
GMD	Genesis Minerals	$1.77	Canaccord Genuity	2.90	2.40	20.83%
			Moelis	2.15	2.20	-2.27%
GOR	Gold Road Resources	$1.65	Canaccord Genuity	2.10	1.90	10.53%
LGP	Little Green Pharma	$0.13	Canaccord Genuity	0.17	0.20	-15.00%
MAQ	Macquarie Technology	$81.25	Petra Capital	82.16	89.77	-8.48%
NST	Northern Star Resources	$14.88	Canaccord Genuity	19.25	16.35	17.74%
ORR	OreCorp	$0.57	Canaccord Genuity	0.57	1.20	-52.50%
PDI	Predictive Discovery	$0.21	Canaccord Genuity	0.45	0.41	9.76%
PPS	Praemium	$0.48	Moelis	0.67	0.64	4.69%

			Wilsons	0.56	0.54	3.70%
PRU	Perseus Mining	$2.21	Canaccord Genuity	3.60	3.15	14.29%
QUB	Qube Holdings	$3.35	Goldman Sachs	3.70	3.72	-0.54%
RED	Red 5	$0.43	Canaccord Genuity	0.48	0.40	20.00%
RMS	Ramelius Resources	$2.02	Canaccord Genuity	2.65	2.10	26.19%
			Canaccord Genuity	2.65	2.25	17.78%
RRL	Regis Resources	$2.20	Canaccord Genuity	2.55	2.50	2.00%
RSG	Resolute Mining	$0.41	Canaccord Genuity	1.40	1.15	21.74%
SLR	Silver Lake Resources	$1.42	Canaccord Genuity	1.75	1.50	16.67%
SPR	Spartan Resources	$0.62	Canaccord Genuity	0.85	0.75	13.33%
STO	Santos	$7.75	Jarden	8.15	8.20	-0.61%
TIE	Tietto Minerals	$0.68	Canaccord Genuity	0.90	0.80	12.50%
TLX	Telix Pharmaceuticals	$14.88	Jarden	13.52	13.27	1.88%
			Wilsons	14.50	14.28	1.54%
WGX	Westgold Resources	$2.15	Petra Capital	2.68	3.19	-15.99%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

CYG COVENTRY GROUP LIMITED

Hardware & Equipment - Overnight Price: $1.58

Petra Capital rates ((CYG)) as Buy (1) -

Petra Capital reiterates its Buy recommendation for Coventry Group, raising the 12-month target price to $2.50 from $2.29.

This upward adjustment follows the acquisition of Steelmasters, a provider of fasteners and industrial supply products with a 12-store network across Australia and New Zealand.

The broker says this acquisition, valued at NZ$45m, enhances the company's market position and provides opportunities for increased margin expansion.

Management's FY24 EBITDA guidance is in the range of $19m to $20m, below Petra Capital's previous forecast of $20.8m due to ongoing weakness in New Zealand and Tasmania. Forecasts have been reduced in response.

This report was published on April 22, 2024.

Target price is **$2.50** Current Price is **$1.58** Difference: **$0.92**
If **CYG** meets the Petra Capital target it will return approximately **58%** (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 **3.50** cents and EPS of **10.60** cents.
> At the last closing share price the estimated dividend yield is **2.22%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **14.91**.

Forecast for FY25:

> Petra Capital forecasts a full year **FY25** dividend of **8.00** cents and EPS of **19.40** cents.
> At the last closing share price the estimated dividend yield is **5.06%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **8.14**.

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

DSE DROPSUITE LIMITED

Cloud services - Overnight Price: $0.28

Petra Capital rates ((DSE)) as Buy (1) -

Petra Capital reiterates its Buy rating on Dropsuite while maintaining its 12-month target price at $0.32.

The broker highlights the 1Q24 update indicates a business growing faster than the broader market, despite a lower-than-expected revenue run rate.

A decline in net user gain (73,000 versus 109,000 estimated) caused a downward revision to Dropsuite's annual recurring revenue (ARR) forecast to US$29.9m from US$30.7m.

Despite this setback, the trend remains positive, with ARR increasing by 7% in US dollars and 9% in Australian dollars compared to the previous quarter.

The potential risks identified include higher customer churn due to competitive pressures, most notably in the Europe, Middle East, and Africa (EMEA) region.

This report was published on April 22, 2024.

Target price is **$0.32** Current Price is **$0.28** Difference: **$0.045**
If **DSE** meets the Petra Capital target it will return approximately **16%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **0.00** cents and EPS of **0.30** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **91.67**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **0.00** cents and EPS of **0.30** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **91.67**.

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

PDI PREDICTIVE DISCOVERY LIMITED

Gold & Silver - Overnight Price: $0.23

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

Canaccord Genuity highlights ASX-listed gold equities continue to trade at material discounts to their all-time highs, despite all-time high gold prices. These equities are expected to outperform and close the gap to the rising gold price.

Since January, silver has jumped by 21% (versus the 16% rise for the US dollar gold price), but is still some -40% off its April 2011 all-time high of just below US$50/oz, notes the broker.

Canaccord raises its near-term US gold price estimates (2024-26) by an average of 8.3%, and from 2028 by 10.3% to US$2,582/oz. The long-term US silver price forecast is increased by 8.8%, with near-term estimates raised by an average of 7%.

For senior and junior producers under the broker's coverage, target prices rise on average by 12% and 11%, respectively. Across developers/explorers the targets have increase by 11% on average.

The Speculative Buy rating is maintained for the broker's preferred gold developer Predictive Discovery, and the target price climbs to 45c from 41c.

This report was published on April 18, 2024.

Target price is **$0.45** Current Price is **$0.23** Difference: **$0.225**
If **PDI** meets the Canaccord Genuity target it will return approximately **100%** (excluding dividends, fees and charges).

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

QUB   QUBE HOLDINGS LIMITED

Transportation & Logistics - Overnight Price: $3.36

Goldman Sachs rates ((QUB)) as Re-initiation of coverage with Buy (1) -

Goldman Sachs has re-initiated coverage on Qube Holdings, with our archive showing active research on the company ceased back in 2021.

Research resumes with a Buy rating and $3.70 price target. Remarkable, as back in 2021 that target was set at $3.72.

The broker's analysis attributes Qube's positive outlook to its diversified business model, delivering GDP-plus growth in revenue and earnings.

The report highlights several factors contributing to this optimistic view, including the receding uncertainty over the Moorebank project, anticipated to start contributing to revenue in the coming years.

Goldman Sachs also notes the reduced margin volatility and increased earnings predictability over the last 3-5 years, with ongoing capital expenditures set to support stable growth.

This report was published on April 18, 2024.

Target price is **$3.70** Current Price is **$3.36** Difference: **$0.34**
If **QUB** meets the Goldman Sachs target it will return approximately **10%** (excluding dividends, fees and charges).
Current consensus price target is **$3.61**, suggesting upside of **7.2%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Goldman Sachs forecasts a full year **FY24** dividend of **7.50** cents and EPS of **14.23** cents.
At the last closing share price the estimated dividend yield is **2.23%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **23.61**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **14.1**, implying annual growth of **41.4%**.
Current consensus DPS estimate is **8.3**, implying a prospective dividend yield of **2.5%**.
Current consensus EPS estimate suggests the PER is **23.9**.

Forecast for FY25:

Goldman Sachs forecasts a full year **FY25** dividend of **7.65** cents and EPS of **14.53** cents.
At the last closing share price the estimated dividend yield is **2.28%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **23.12**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **14.9**, implying annual growth of **5.7%**.
Current consensus DPS estimate is **8.9**, implying a prospective dividend yield of **2.6%**.
Current consensus EPS estimate suggests the PER is **22.6**.

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

RXM REX MINERALS LIMITED

Gold & Silver - Overnight Price: $0.22

Moelis rates ((RXM)) as Initiation of coverage with Buy (1) -

Moelis has initiated with a Buy rating on Rex Minerals and a 12-month price target of $0.50/share.

The positive initiation reflects the potential of the Hillside copper-gold project in South Australia, explains the broker, which is fully permitted and expected to produce circa 40kt copper and 30koz gold annually for an initial 11-year mine life.

Moelis sees this project having longer-term potential, suggesting production could continue for 20+ years, if extended further.

This report was published on April 22, 2024.

Target price is **$0.50** Current Price is **$0.22** Difference: **$0.28**
If **RXM** meets the Moelis target it will return approximately **127%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Moelis forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 2.60** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 8.46**.

Forecast for FY25:

Moelis forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 2.20** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 10.00**.

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

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