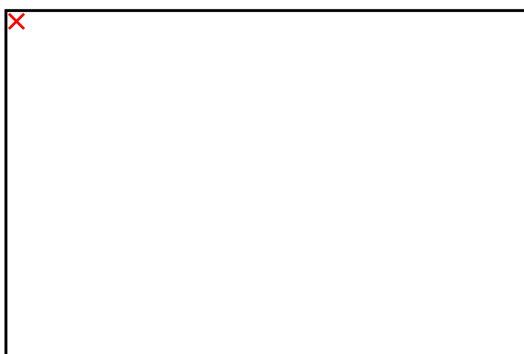
WEEK 4

FNArena
FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Monday, 22 January 2024

Rudi's View: Healthcare, REITs, Uranium & Banks



Treasure Chest: Banks & Exuberance

Uranium Week: Sticker Shock

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Financial News, Data & Analysis

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BOOK REVIEWS

FNArena Book Review: Going Infinite

FNArena Book Review: Going Infinite. The Rise and Fall of a New Tycoon by Michael Lewis.

By Rudi Filapek-Vandyck

In November, a jury declared former FTX CEO Sam Bankman-Fried guilty on all seven accusations for misappropriating, and subsequently "losing", billions of dollars in customer funds through closely-linked hedge fund Alameda Research.

Prior to its rapid demise, FTX was the largest exchange in the emerging new world of crypto coins and assets. Given the enormous size of the losses (estimated at circa US$8.6bn), and the irreparable damage done to the crypto-currency narrative (unregulated, the future of money, world-transforming innovation, etc), many have been baying for the former crypto trading posterboy's blood.

Bankman-Fried's sentence will be announced on March 28. At the young age of 31, he might be facing multiple years in prison.

But is he guilty?

The question seems preposterous at face value. Certainly the general public opinion would have no such doubts. Then there's Michael Lewis, author of global best-sellers Liar's Poker, The Big Short and Moneyball.

Lewis doesn't think Bankman-Fried should go to jail. For starters, the administrators that have been in control of FTX since its implosion have been able to recoup close to 85% of all the monies that previously were unaccounted for. There's a fair chance creditors will be compensated in full for their "losses".

Bankman-Fried going to jail, unless his freshly revamped legal team manages to overturn last year's verdict on appeal, thus tells us a lot about how the US legal system operates. Multiple former FTX directors cut a deal with the prosecutors. Even before a judge and jury had been appointed, the odds of Bankman-Fried escaping criminal conviction looked questionable at best.

And so author Lewis finds himself under heavy public criticism once again. Did he lose his objectivity during the many interviews conducted? Certainly, when reading Lewis's insights and observations regarding The Rise And Fall Of A New Tycoon, questions arise regularly whether author and subject didn't become too close during the process. Both spent many hours talking to each other over many months. And it is Lewis himself who admits Bankman-Fried likes to play games and manipulate people, all the while keeping his cards close to his chest.

Going Infinite offers a lot more than close observations about an oddball CEO who temporarily became the crypto world's most famous and widely admired billionaire entrepreneur. The insights about how hedge fund Alameda, and later exchange FTX, operated with a minimum (if any at all) regulatory and accountancy oversight is truly mindboggling.

Even if one assumes a direct correlation with the young age of all main characters involved, and their limited experience in running an operation of the size it became, it still shines a light on how fragile the unregulated house-of-cards otherwise known as the world of crypto is behind the scenes of the global hype.

Surely the question that arises while reading Lewis's chronicle is: should anyone trust these people with their money, any money? And that's not mentioning the eagerness at which venture capital and the world's largest hedge funds threw themselves at Bankman-Fried and Co during the heydays of unbridled crypto enthusiasm. Financial fraud becomes so much easier when millions and billions are involved is definitely one of the observations that (yet again) stand out.

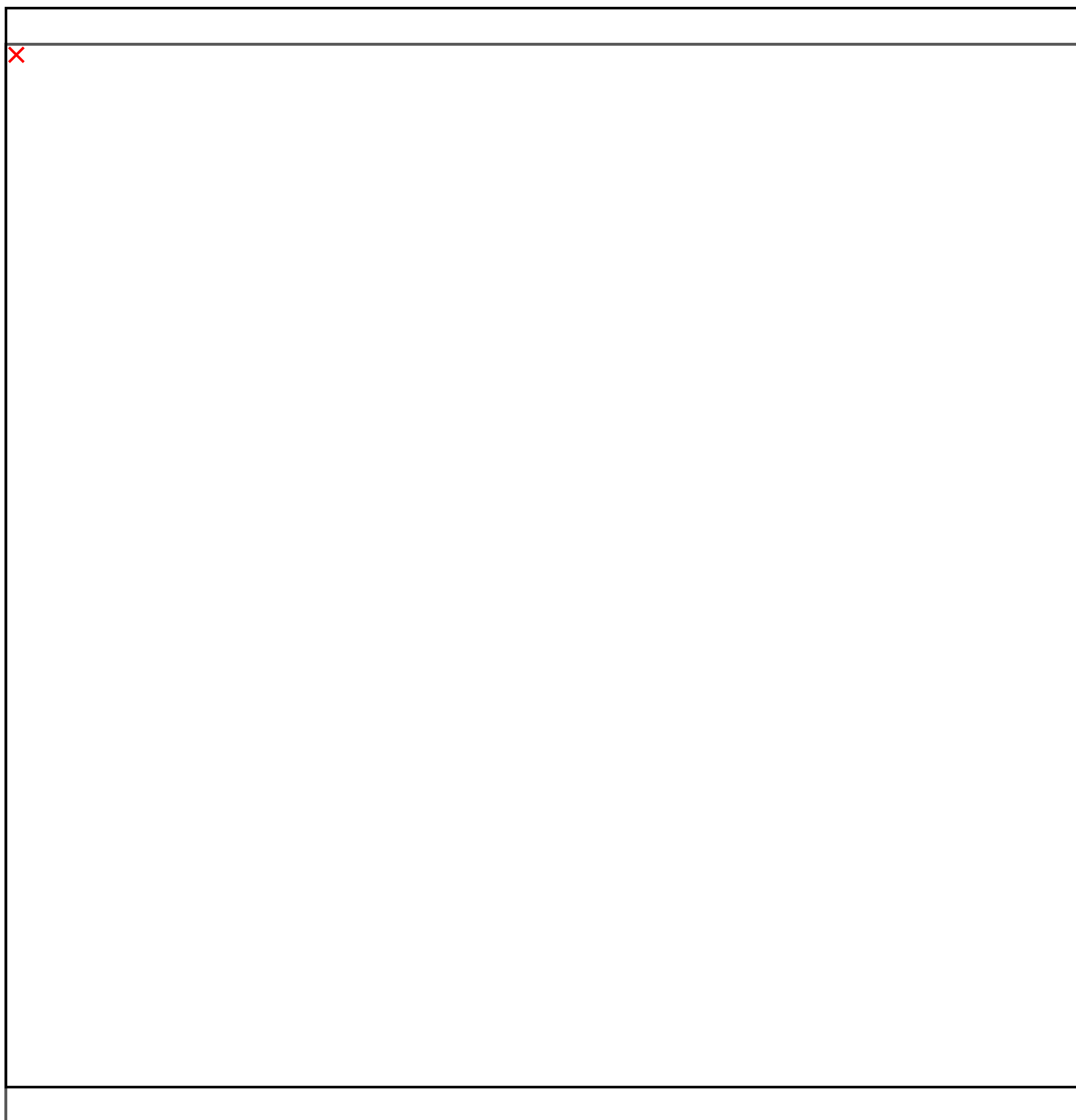
Michael Lewis has turned himself into modern day's financial storyteller *par excellence*. There's literally no peer. His chronicle about the rise and demise of cryptocurrency exchange FTX adds to the author's track record on the Global Financial Crisis, high-frequency trading, the damaging inner workings of the Trump administration, and the Greed is Good era of the 1980s.

In post-publication interviews, the author has drawn a parallel with the release of Moneyball in 2003, which subsequently has been embraced by the financial sector at large, but which at the time attracted heavy criticism from baseball coaches and their contacts inside American media.

Today, we can all have an opinion about FXT, Sam Bankman-Fried, and the future of crypto generally, but reading Lewis's book at the very least offers some historical perspective, little known details, and plenty of facts and insights on the sector, the characters involved, and, dare I say it, the financial sector generally.

Be ready to be stunned.

Going Infinite. The Rise and Fall of a New Tycoon by Michael Lewis. 255 pages. Publisher Allan Lane.



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COMMODITIES

Material Matters: Copper & Iron Ore

While the long-term outlook for copper is unchanged, there is potential for near-term downside, while brokers believe long-term fundamentals for iron ore are largely unchanged.

-Longview Economics forecasts near-term copper price downside
-Long-term bullish outlook for copper intact
-Analysts unconcerned by iron ore's recent price fall

By Mark Woodruff

Near-term downside for the copper price

Longview Economics mounts **a strong case for selling copper at current prices**, on a six-to-nine months view, while maintaining the long-term bullish outlook for copper prices remains intact. The latter view is supported by significant forecast growth for electric vehicles, renewables capacity and power grid transmission.

Over at UBS, it's felt the copper price is nearing a turning point, but the question of when to buy is left unanswered.

This broker lists several bull points for copper including low visible inventories and a lack of tier 1 exploration success, while new projects are generally in higher-risk jurisdictions where political uncertainties may ultimately weigh.

Longview's financial model currently signals the copper price is elevated relative to barometers of Chinese activity (i.e. currency, interest rates and equities), while a forecast rally in the US dollar over the coming weeks/months should exert further downward pressure on the red metal.

Additionally, power sector investment growth in China is turning lower, the country's property sector continues to deflate, and Longview expects global copper supply growth should rebound this year.

China's credit impulse, which calculates the annual change in new credit (public and private) as a percentage of gross domestic product, serves as a leading indicator for the country's economic activity.

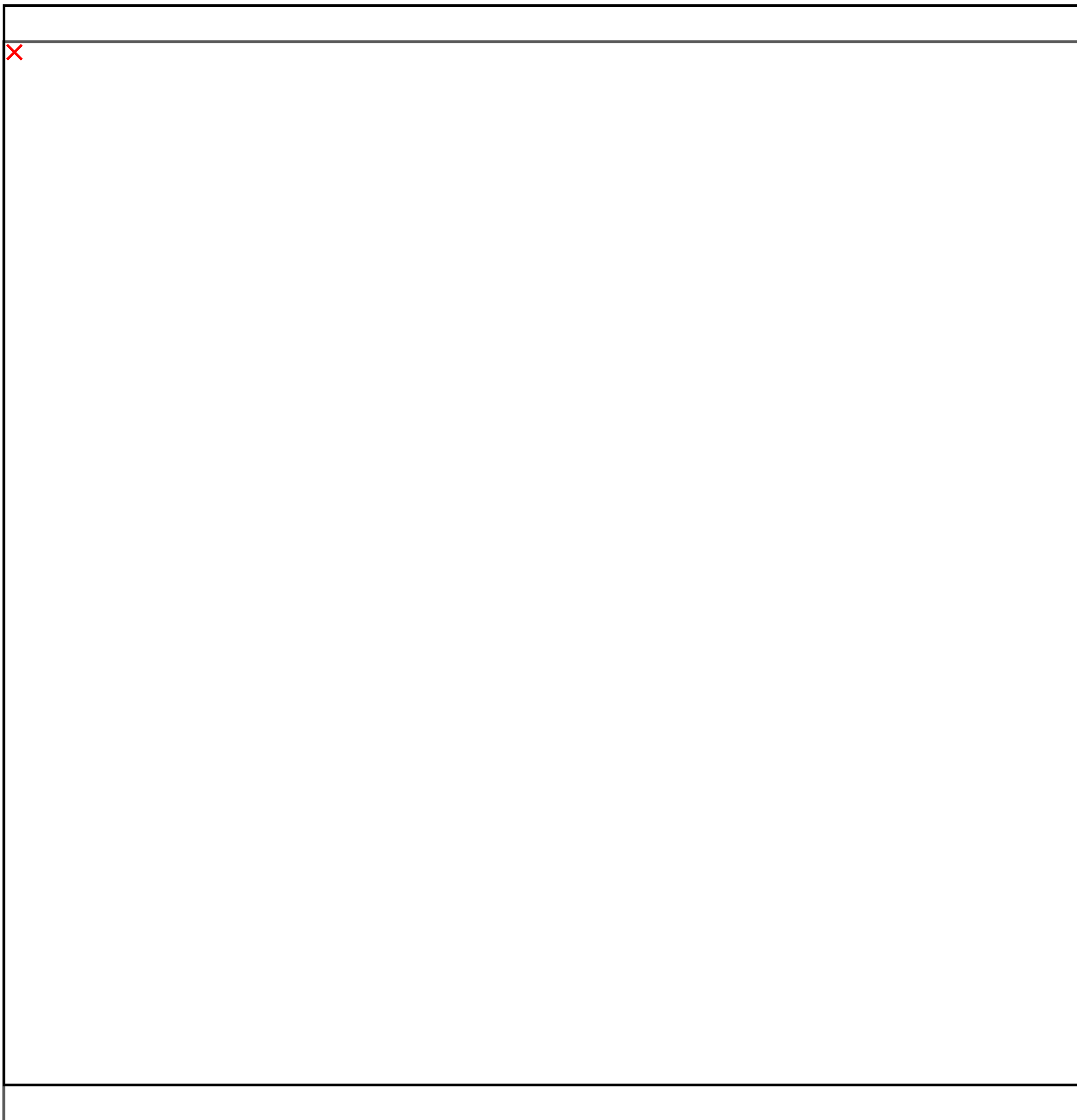
Unfortunately, various leading indicators point to a weak/falling credit impulse this year, notes Longview, yet Chinese officials remain reticent to reflate the property bubble and are avoiding "flood-like" stimulus.

This weaker credit impulse helps underpin two negative factors for copper: a likely deceleration in Chinese power grid investment growth, and ongoing deflation of the property sector, explains Longview.

Slowing grid investment growth will have multiple knock-on effects for copper demand. By way of example, Longview notes several Chinese new energy executives recently complained about the lack of ultra-high voltage cables causing delays for renewables construction.

The overhang in China's property sector remains substantial, according to Longview, and will place ongoing downward pressure on copper demand over coming years. A return to typical levels for global copper supply growth is a further nail in the coffin for copper's price prospects in 2024.

There was lower-than-usual supply growth in 2023, explains Longview Economics, due to rising costs, strikes and ongoing supply issues across major producers.



Steady as she goes for iron ore pricing

Despite a recent dip in the iron ore price to around US$129/t from circa US$140/t at the close of 2023, neither Morgan Stanley nor UBS believe there has been any meaningful change in the outlook for pricing.

While estimated hot rolled coil (HRC) steel margins in China are at their lowest point since 2015, Morgan Stanley cautions against making lower iron ore forecasts on this basis alone.

The historical relationship between HRC steel margins and subsequent iron ore price moves is labeled "unconvincing". When these margins are negative, the iron ore price three months out is lower less than 50% of the time, observe the analysts.

According to this broker, **iron ore fundamentals will provide price support in the US$135-140/t range over the first half of 2024**, and the balance of risk to current pricing is, if anything, slightly tilted to the upside.

Iron ore inventories should remain low through 2024, notes UBS, which anticipates seaborne iron ore demand and supply will both lift by around 20mt this year. As a result, **a stable year-on-year iron ore price of around US$120t is forecast.**

On the supply side, price support over the first half should arise from seasonally lower shipments from Australia and Brazil, suggests Morgan Stanley,

Regarding demand, the broker points out the falling number of new housing starts in China is increasingly less of a driver for overall steel demand, while urban village renovation may actually result in an incremental improvement for iron ore demand.

China’s fiscal policy in 2024 will be more proactive, believes Morgan Stanley, with the Chinese Ministry of Finance directing more investment towards to these renovation projects.

Also, demand conditions appear to be improving in Europe, with additional steel price hikes and 18m-tonnes worth of blast furnace capacity restart decisions announced since November, notes the broker.

During 2023, iron ore demand positively surprised the analysts at UBS and kept the market tight. While demand is the key risk to the 2024 UBS iron ore price forecast, the compounding impact of infrastructure and property stimulus measures in China, with exports to remain high, is expected to result in flat overall demand.

In the near-term, UBS prefers Rio Tinto ((RIO)) over BHP Group ((BHP)) on valuation and operational performance. Both companies are rated Neutral, with 12-month target prices of $130 and $48, respectively.

Morgan Stanley also prefers Overweight-rated Rio Tinto (target $145) to BHP Group which is assigned an Equal-weight recommendation and a $44.50 target.

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RUDI'S VIEWS

Rudi's View: Boss Energy, Mineral Resources, TPG Telecom, ResMed & WiseTech Global

By Rudi Filapek-Vandyck

Morgan Stanley's Macro+ Focus List for Australian equities was last amended with no fewer than four removals and additions in early November last year. At the start of a new calendar year, it's probably worth taking note of which ASX-listed companies are on the list.

Inclusions are usually made with a longer term horizon in mind, unless share prices move dramatically, and changes have not been made often over the twelve months past. This week saw the broker releasing an update, confirming no additional changes have been made post November.

The ten stocks selected are:

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

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Morningstar equally updated its selection of **Global Equity Best Ideas**, with ResMed ((RMD)) included under the international label, alongside the likes of Albemarle, Newmont Corp ((NEM)), PayPal, and Estee Lauder.

For those not yet fully familiar about ResMed's specifics; the company is officially headquartered in the USA where it is listed also. Newmont, of course, nowadays includes the assets that used to trade as Newcrest Mining on the local bourse.

Zooming in on ASX-listings specifically, Morningstar's Best Ideas include:

-a2 Milk ((A2M))
-ASX ((ASX))
-Aurizon Holdings ((AZJ))
-Domino's Pizza ((DMP))
-Kogan ((KGN))
-Lendlease ((LLC))
-Santos ((STO))
-TPG Telecom ((TPG))
-Ventia Services ((VNT))
-Westpac ((WBC))
-WiseTech Global ((WTC))

Probably the only real surprise inclusion is WiseTech Global which, unlike all others, cannot be labeled a beaten-down share market laggard. Morningstar's selection is usually based on a cheap valuation.

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Goldman Sachs analysts, in a recent sector review, prefer Evolution Mining ((EVN)) and Northern Star ((NST)) among Australia's larger cap gold producers, with Gold Road Resources ((GOR)) and De Grey Mining ((DEG)) favourites among smaller cap names.

Goldman Sachs equally has a positive view on base metals for the year ahead, reflected in Buy ratings for Rio Tinto ((RIO)), BHP Group ((BHP)), Coronado Global Resources ((CRN)), Champion Iron ((CIA)), Iluka Resources ((ILU)), and BlueScope Steel ((BSL)).

Equally important, perhaps, are the broker's Sell ratings for Fortescue Metals ((FMG)), Mineral Resources ((MIN)), and New Hope Corp ((NHC)).

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Sticking with the mining and metals theme, **RBC Capital**'s lists of sector favourites recently saw the addition of Sandfire Resources ((SFR)), alongside the removal of Mineral Resources and South32 ((S32)).

At the macro level, the analysts moved base metals and energy transition metals to Overweight, joining precious metals and uranium. Diversifieds/bulk producers have equally been upgraded to Overweight.

Backed by a positive view on the outlook for gold, RBC Capital has Outperform ratings on De Grey, Bellevue Gold ((BGL)), Silver Lake Resources ((SLR)), Regis Resources ((RRL)), and Northern Star ((NST)). Gold Road Resources and Evolution Mining are both rated Sell.

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Monday's preview to upcoming quarterly updates by **Ord Minnett** has revealed Buy ratings for:

-AIC Mines ((A1M))
-Aurelia Metals ((AIM))
-Alkane Resources ((ALK))
-Gold Road Resources
-Pantoro ((PNR))
-Ramelius Resources ((RMS))
-Red 5 ((RED))
-Sandfire Resources
-Silver Lake Resources
-Stanmore Resources ((SMR))

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Back in December, **Bell Potter** analysts released their **stock picks for 2024**, ranked by themes and market segments:

-For Listed Investment Companies (LICs); Australian Foundation Investment Company ((AFI)), Plato Income Maximiser ((PL8)), and MFF Capital Investments ((MFF))

-Agriculture & Fast Moving Consumer Goods; Bega Cheese ((BGA)), Rural Funds Group ((RFF)), and Elders ((ELD))

-Technology; Life360 ((360)), WiseTech Global, and Task Group ((TSK))

-Diversified Financials; Perpetual ((PPT)), Regal Partners ((RPL)), and PSC Insurance ((PSI))

-Real Estate; HMC Capital ((HMC)), Dexus Convenience Retail REIT ((DXC)), HealthCo Healthcare & Wellness REIT ((HCW))

-Retailers; Cettire ((CTT)), Propel Funeral Partners ((PFP)), and Accent Group ((AX1))

-Industrials; DroneShield ((DRO)), Austal ((ASB)), Corporate Travel Management ((CTD)), IDP Education ((IEL)), IPD Group ((IPG)), and The Environment Group ((EGL))

-Healthcare; Telix Pharmaceuticals ((TLX)), Cyclopharm ((CYC)), Clarity Pharmaceuticals ((CU6)), Clinuvel Pharmaceuticals ((CUV)), and Immutep ((IMM))

-Gold sector; Regis Resources, and Santana Minerals ((SMI))

-Base Metals; Aeris Resources ((AIS)), Nickel Industries ((NIC)), Mineral Resources, and IGO Ltd ((IGO))

-Strategic Minerals; Lynas Rare Earths ((LYC)), Talga Group ((TLG)), Liontown Resources ((LTR)), and Alpha HPA ((A4N))

-Energy; Boss Energy ((BOE)) and Strike Energy ((STX))

-Mining services providers; Chrysos Corp ((C79)), matrix Composites & Engineering ((MCE)), and GenusPlus Group ((GNP))

(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.)

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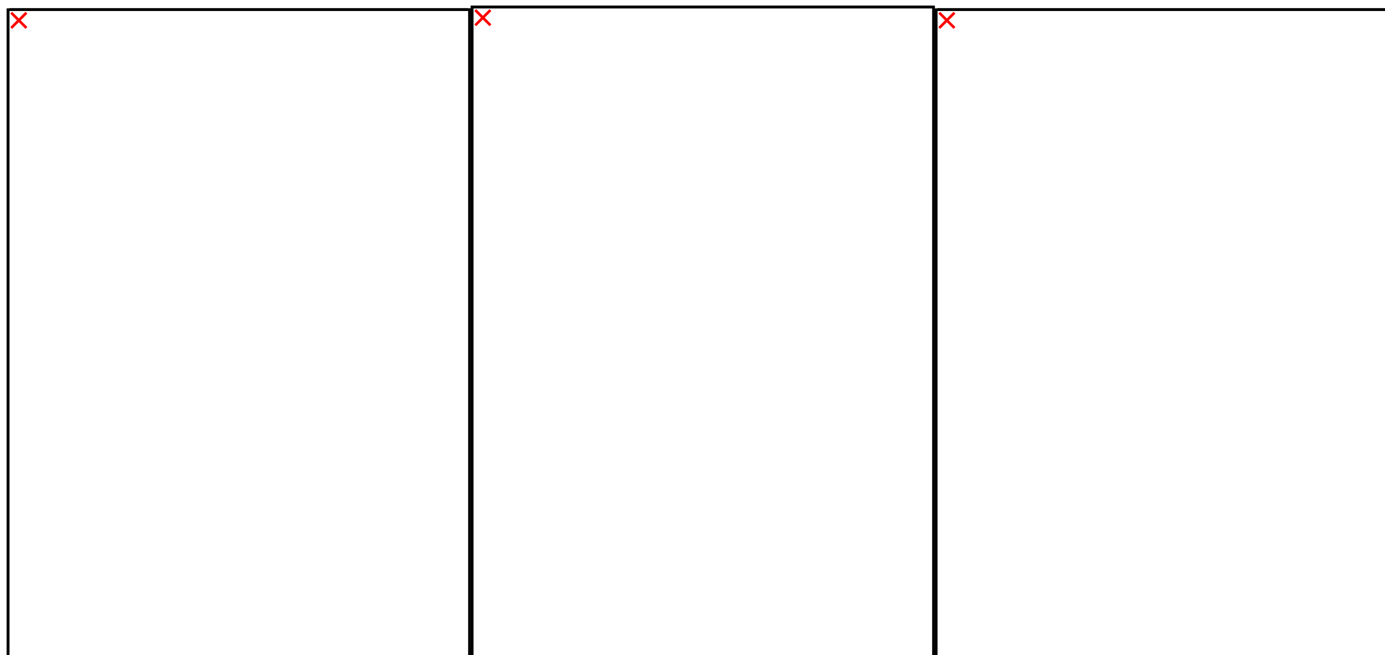

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RUDI'S VIEWS

Rudi's View: Healthcare, REITs, Uranium & Banks

By Rudi Filapek-Vandyck

Never underestimate the power of sentiment, or the attraction of rising prices. And with US equity indices setting fresh all-time records, the economics team at National Australia Bank summed it up nicely on Tuesday morning, Sydney time:

Don't stop me, 'Cause I'm having a good time, Having a good time. (Queen)

However, there's also danger in simply assuming the share market's current run is purely sentiment-driven with little else supporting it otherwise. This week's strategy update from **Canaccord Genuity's chief investment officer in Australia, Tony Brennan**, is a case in point.

As the risk for a hard landing in the US, and with it a severe correction in global equities, has diminished, Brennan's preferred asset allocation has increased exposure to shares, while reducing the weights of cash and bonds in the model portfolio. If there is weakness on the horizon, as expected by some, Brennan will be looking to further allocate funds to equities.

In a macro-sense, the recommended weight for equities in the model portfolio is now Neutral (was Underweight) and if there is a correction coming, exact timing unknown of course, that allocation is likely to shift to Overweight.

Have share markets now received the proverbial get out of jail card? Definitely not, says Brennan, but risks have diminished and this needs to be accounted for. This is also why the allocation shift has only moved to Neutral.

It is still plausible the US economy is due for weakness and the same goes for corporate earnings, but markets are forward-looking argues Brennan, and support will be found in the prospect for interest rate cuts at some point thus year. Canaccord Genuity therefore suggests any corrections on the horizon are likely to be of a mild character as lower interest rates support valuations, a recovery in economic momentum and in corporate profits.

Within this context, **US equity strategist Mike Wilson at Morgan Stanley** offered the following observation:

"While lower-quality cyclicals outperformed during the final two months of 2023, we believe this was mainly driven by short-covering and performance-chasing into year-end rather than a more sustainable change in leadership based on a full reset in the cycle.

"So far in 2024 the laggards of 2023 are back to lagging and the winners are back to winning. When in doubt, it pays to go with the highest probability winner. In this case, it's high-quality growth."

The Healthcare Come-Back

In Australia, the sector that is increasingly being nominated for a comeback in 2024 is healthcare. It would definitely fit the "high-quality growth" label Mike Wilson is referring to.

This week's sector update by analysts at **RBC Capital** added yet more fuel to the healthcare-is-poised narrative that has been creeping into investors' group think. On RBC Capital's assessment, top line growth is back, while costs are being controlled, and upcoming competitive risks are much better understood.

RBC Capital is certainly not the first with its sector call. Cochlear ((COH)) shares are now trading above $300. CSL ((CSL)) shares have once again crossed the $290 mark and gone are the days of seeing ResMed ((RMD)) shares languishing around $21 on GLP-1 hysteria.

Cochlear, whose valuation is deemed unjustifiable by all and sundry, is expected to release a smashing interim result in February, if RBC Capital's prediction proves correct, while ResMed is expected to disappoint. We will know on Thursday when the CPAP manufacturer releases December quarter financials and unofficially opens corporate results season in Australia.

RBC Capital's sector update did lead to a number of upgrades and downgrades in ratings, with both Cochlear and Fisher & Paykel Healthcare ((FPH)) downgraded to Underperform because of too-high valuations. Both are also nominated as the least preferred exposures, for now.

Capitol Health ((CAJ)) was downgraded to Neutral on a rising share price. Too early to get overly excited, suggests the report.

Australian Clinical Labs ((ACL)) and Regis Healthcare ((REG)) have both been upgraded to Outperform and elevated to sector favourites, alongside Ramsay Health Care ((RHC)) and Sonic Healthcare ((SHL)).

The CSL Excitement

Competitive pressures from GLP1's and elsewhere are better understood and they arguably won't make a dent in growth numbers for the likes of ResMed and CSL in the short term, but RBC Capital seems less confident about any impact longer term.

No such considerations were in play when healthcare analysts at **Wilsons** updated on CSL this week. In anticipation of

positive AEGIS-II Phase III trial data, of which public release is believed to be "imminent", Wilsons added 18% to its price target, now at $352.64. Given where CSL shares are trading at (see above), the broker's rating remains Overweight.

An 18% increase for potentially positive trial data might seem like a fat finger error, but analysts and company management have been talking about the underlying product, CSL112, for years now.

It has been touted CSL's next blockbuster development. As Wilsons reminded investors this week: the best part of $1bn has been invested in this 18,200-patient study that, if all goes according to plan, will prove CSL112 cuts the risk of a secondary, and often fatal, cardiac event for patients that have had their first heart attack.

Assuming all goes to plan, Wilsons estimates peak sales of US$2.3bn annually for CSL in the US and the European market. At peak, CSL112 will represent 12% of group EBIT and 20% of free cash flow. In its own right, a successful CSL112 could be worth $131 per share unrisked to CSL shareholders.

It's not difficult to see the big impact from a positive trial outcome (and getting excited about it in advance).

REITS & Banks

Similar to healthcare, REITs and small cap companies generally are widely considered but logical hunting grounds for the year ahead but in all cases the same warning applies: there will still be winners and losers inside sectors that have lagged the broader market in 2022 and 2023.

Real estate analysts at Citi, in a preview to the February reporting season, have nominated their sector favourites in National Storage REIT ((NSR)), Ingenia Communities Group ((INA)), and, still, Goodman Group ((GMG)).

Candidates for a negative surprise in February include Mirvac Group ((MGR)), Charter Hall ((CHC)), Charter Hall Long WALE REIT ((CLW)), and GPT Group ((GPT)).

In contrast, sentiment and forecasts for Australian banks are skewed to a negative outcome in FY24, also because share prices continue to defy gravity. CommBank ((CBA)) shares surged to a new record high this week. Did I mention "sentiment" and the attraction of rising share prices earlier?

Last week I wrote the following on basis of early-year sector assessments from Citi and Morgan Stanley:
https://fnarena.com/index.php/2024/01/17/treasure-chest-banks-exuberance/

(For those who pay attention to these things, my story was subsequently picked up and republished by the business section of The Australian newspaper).

This week banking analysts at Goldman Sachs and Macquarie have essentially doubled down on the same warning that share prices might be too high, too early on too much optimism.

Uranium & Small Caps

In the materials space, combining mining and energy, lots of doubt has crept in as far as the outlook goes for crude oil prices in 2024 and beyond, but support for higher-for-longer iron ore prices has only further grown, in blatant contrast to what has happened to share prices of BHP Group ((BHP)) and Rio Tinto ((RIO)).

Among public admissions on X (formerly Twitter) some portfolios are sitting on losses of -75%, Australian investors have yet again learned a harsh lesson about commodities and cyclicality through a general de-rating of the lithium space. But there's always hope, and a fresh opportunity, as also illustrated by Tuesday's review of the **uranium sector** by **Shaw and Partners**.

The market remains structurally under-supplied, find the analysts, and it's difficult to see what will stop the price of uranium from rising further. Shaw can see a price of US$150/lb on the horizon, though not necessarily tomorrow or even this year. Spot uranium peaked at US$136/138 in the prior bull market that ended in 2007.

The price subsequently bottomed out around US$20/lb as Fukushima happened and has more than doubled over the year past to now beyond US$100/lb. Projecting a higher price for uranium has had a significant impact on Shaw's forecasts and valuations for ASX-listed (soon to be) producers and would-be producers.

Paladin Energy ((PDN)) remains the broker's preferred exposure, although it is by no means the "cheapest" in the sector. Paladin will be restarting production at Langer Heinrich (Namibia) shortly.

Shaw and Partners cover six uranium-related stocks listed on the ASX and only one is not rated as Buy; Boss Energy ((BOE)). The broker thinks those shares are already overvalued, that's why.

The other four companies are Silex Systems ((SLX)), Peninsula Energy ((PEN)), Lotus Resources ((LOT)), and Bannerman Energy ((BMN)).

Returning to the aforementioned Small Caps Bear Market (let's acknowledge it has been brutal), in December Shaw and Partners released its **10 Best Ideas** to benefit from small caps' revival in 2024.

The selected ten:

-AIC Mines ((A1M))
-Austin Engineering ((ANG))
-FireFly Metals ((FFM)), previously AuTeco (AUT)
-Chrysos ((C79))
-Gentrack Group ((GTK))
-Metro Mining ((MMI))
-MMA Offshore ((MRM))
-Peninsula Energy
-ReadyTech Holdings ((RDY))
-Silex Energy

More reading:

https://fnarena.com/index.php/2024/01/15/rudis-view-boss-energy-mineral-resources-tpg-telecom-resmed-wisetech-global/

https://fnarena.com/index.php/2023/12/06/rudis-view-bearbull-market-to-continue-in-2024/

https://fnarena.com/index.php/2023/11/29/rudis-view-all-weather-portfolio-in-2023/

https://fnarena.com/index.php/2023/11/22/rudis-view-quality-in-stocks-what-is-it-good-for/

Plus we have updated the Special Reports section on the website with **Stories From 2023 To Re-Read In 2024**:

https://fnarena.com/index.php/analysis-data/special-reports/

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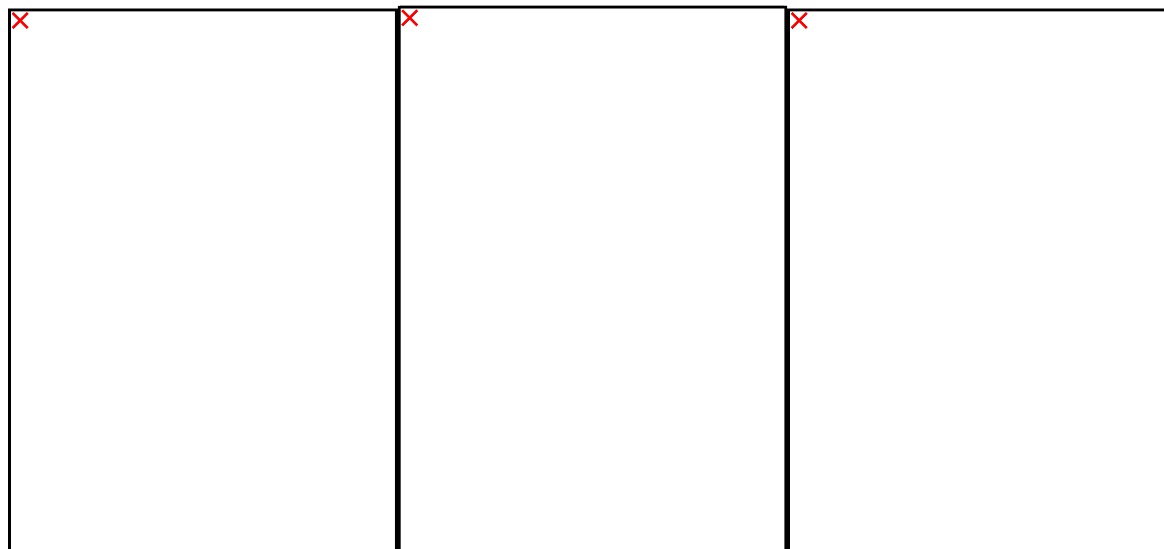

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SMALL CAPS

Judo Answers The Critics

In response to a broker's negative assessment, Judo Capital has provided a surprise trading update that significantly exceeded expectations.

-Judo Capital guides to well above consensus
-Brokers move to upgrade earnings forecasts
-Concern nevertheless remains around Judo's capital ratio

By Greg Peel & Rudi Filapek-Vandyck

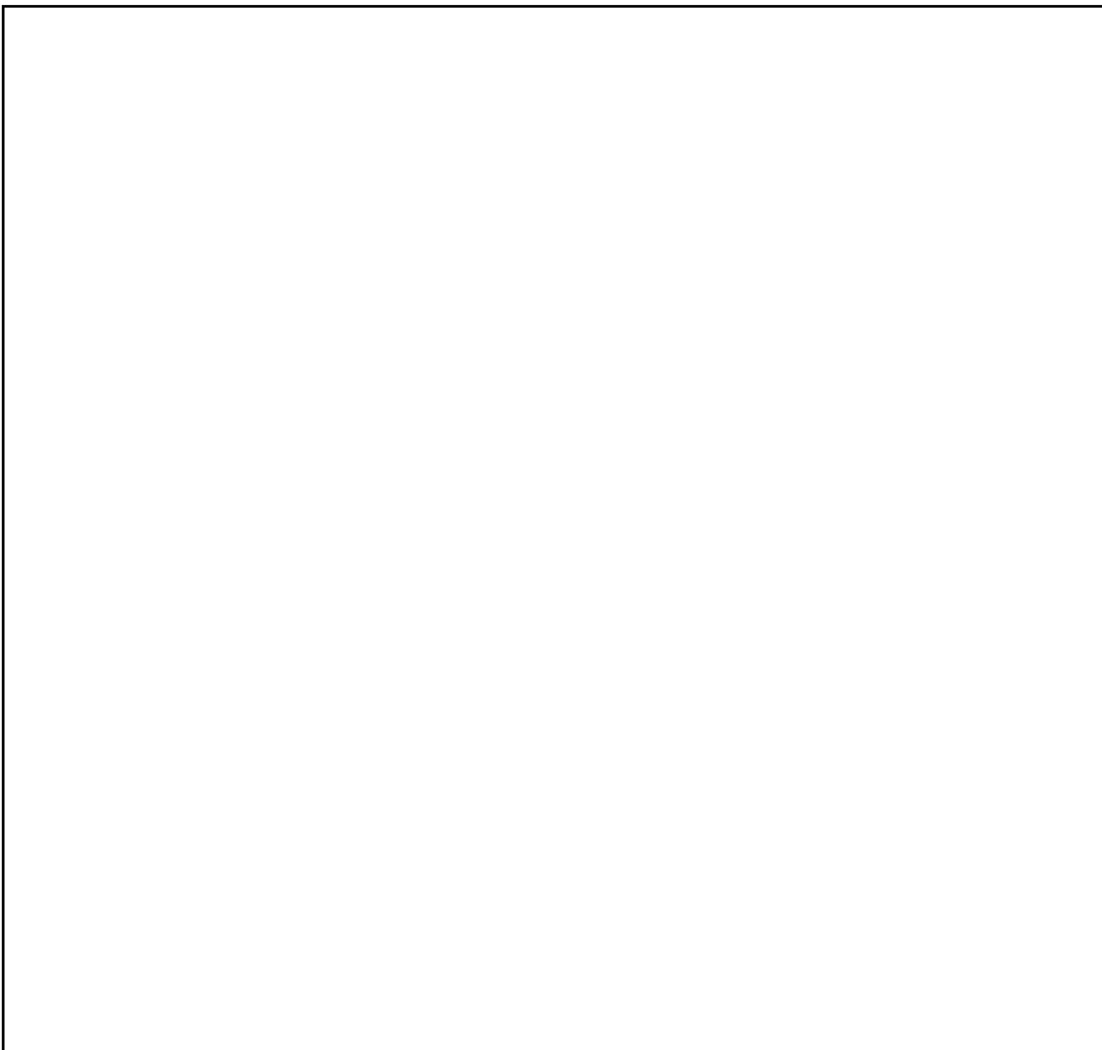
On Monday clients of Citi received a research note on Judo Capital Holdings ((JDO)) which double-downgraded the stock to Sell from Buy, cutting Citi's target to 87c from $1.35. Yesterday Judo provided a surprise trading and guidance update, and the shares subsequently jumped 16.6%.

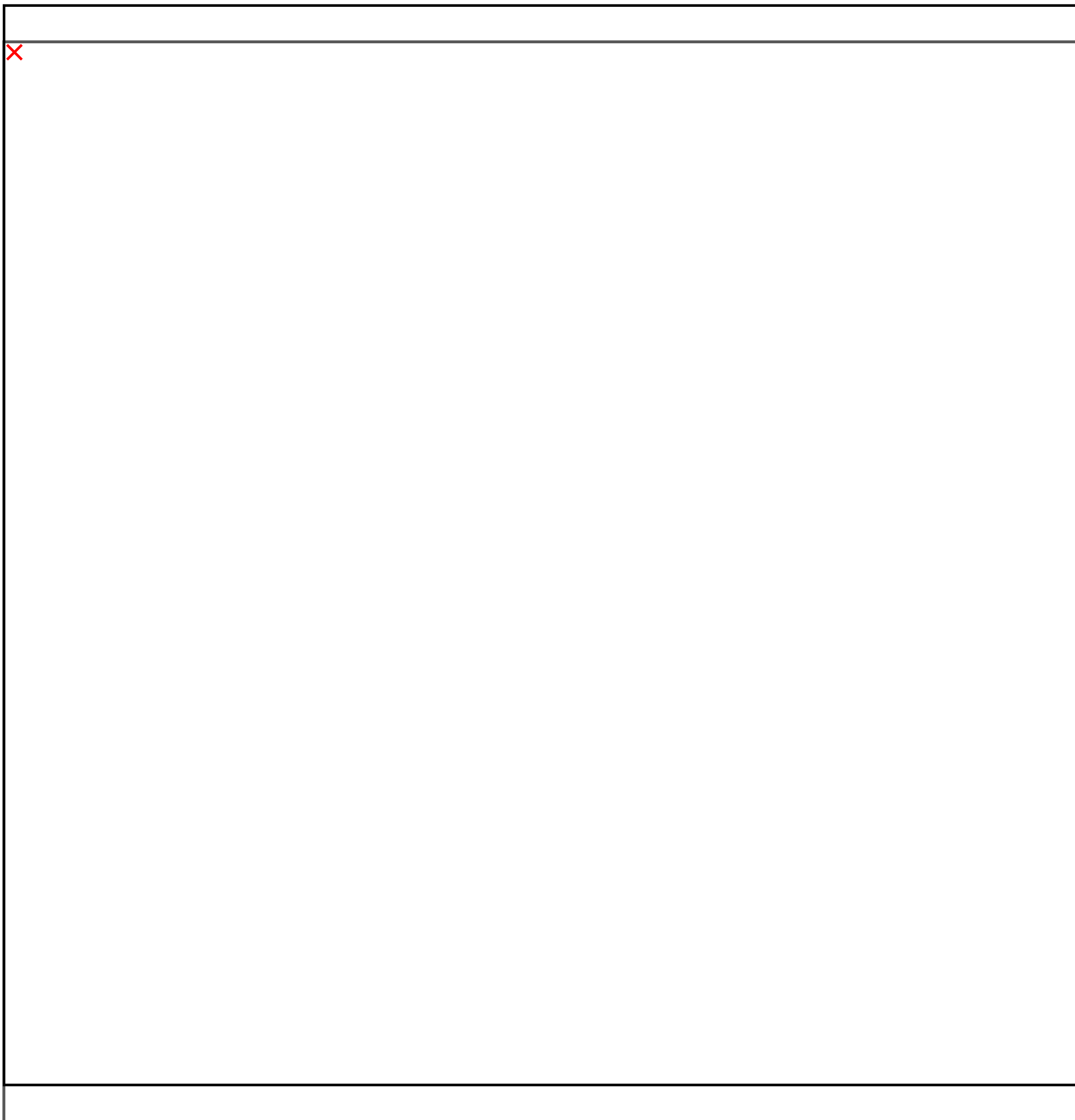
A further 2.8% gain at the time of writing takes the share price to $1.12.

Citi noted that while investors have been concerned about Judo's higher cost of funds and deteriorating asset quality, the broker saw revenue growth as particularly challenging over the next twelve months.

A higher cost of funds will require Judo to steer towards "relationship-based" lending, Citi suggested, and away from directly competing with the major banks in more price-sensitive opportunities, slowing lending growth.

These dynamics were not reflected in FY25 consensus earnings, Citi believed, leaving the broker to forecast a miss to expectations of some -60%. An expected bottoming of earnings in FY25, rather than FY24 prompted the move to a Sell.





In Response

Reportedly in direct response to Citi's note, Judo Capital yesterday surprised the market with a first half trading update, and pre-released some key profit and balance sheet items ahead of its official first half FY24 earnings result on February 20.

First half profit before tax came in some 20% ahead of consensus forecasts (depending on which consensus measure one uses). Full-year FY24 guidance is also some 15-20% ahead of consensus. The beat was driven by lower-than-expected expenses and higher revenues, which Goldman Sachs assumes is from non-interest income. Bad & Doubtful Debts were also below consensus, and as such pre-provision operating profit was also a beat.

On the flipside, Judo's CET1 capital ratio at end-December was 16.2%, down from 16.7% in June 2023, and below consensus. Judo stated it is targeting profit growth of "15% or higher" in FY25, with loan growth expected to "accelerate". Crunching the numbers, Morgan Stanley suggests this is some -6% below consensus.

Morgan Stanley (Equal-weight) nonetheless believes yesterday's announcement will support trading multiples by providing more confidence in the outlook for near-term margins and earnings, and giving a better indication of the potential path towards the company's medium-term "metrics at scale" targets.

While brokers have scrambled to upgrade their FY24 earnings forecasts, Goldman Sachs suggests while the update will be positive for sentiment, the broker believes it contained very little new information in relation to outer year earnings forecasts, which remain broadly unchanged. With valuations still pricing in too negative an outcome around the sustainable profitability of the business model, Goldman retains Buy.

Morgans (Add) has responded with "material" upgrades to forecasts to align with Judo's performance and outlook, but notes Judo does not intend paying dividends as it retains capital to support its significant loan growth aspirations.

As such, investors are entirely reliant on capital growth to achieve their total return objective. Judo is higher

risk than major banks, Morgans notes, given it is a challenger operating entirely in the SME space. However, this broker believes that if Judo can meet its target of low-to-mid teens return on equity, then at that stage it should trade at a price-to-book value at or above 1x.

At current prices, this should generate double digit annualised returns for investors, Morgans suggests.

Capital Issues

Evans and Partners (Neutral) is nevertheless concerned about the company's falling CET1 capital ratio. The first half decline to 16.2% from 16.7% came despite an 80 basis point boost from the capital relief transaction completed in September.

Based on Judo's targeted funding stack, Evans & Partners assumes the company is looking to keep its CET1 ratio above 13.5% for the time being. The broker forecasts CET1 to decline to 14.0% by end-FY25 and then to 13.1% by end-FY26.

If Judo chooses to grow its loan book faster than this -- and it is indicating it may in FY25 -- then CET1 would decline faster with all else constant. Based on assumptions and inferences, Evans and Partners sees risk of Judo needing to raise ordinary equity and/or conduct another margin-dilutive capital relief securitisation transaction in the next 18 months.

Evans & Partners has cut its target to $1.00 from $1.10.

Morgans has increased its target to $1.50 from $1.39 and Goldman Sachs to $1.63 from $1.58. Morgan Stanley retains a $1.07 target.

Citi's Response

Those same Citi analysts whose negative view sparked Judo's pre-release in the first place equally responded this morning. Their focus remains on the negatives in yesterday's market update with numbers suggesting loan growth is slowing, which assists management with guiding towards slower cost growth and lower bad debts.

But it still means loan growth is slowing, Citi emphasises. This signals a slower path towards restoring the loan spread against rising funding costs, hence Citi remains of the view the smaller sized banking challenger is still facing a difficult period ahead.

Hence why Citi joins the rest of the pack in lifting forecasts post a better-than-expected pre-release, but that Sell rating remains firmly in place, as does the 87c price target.

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TREASURE CHEST

Treasure Chest: Banks & Exuberance

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

By Rudi Filapek-Vandyck

Whose Idea Is It?

Bank sector analysts at Citi and Morgan Stanley

The subject:

Australian banks

More info:

The global end-of-year rally that finished 2023 has been great for shares in Australian banks too.

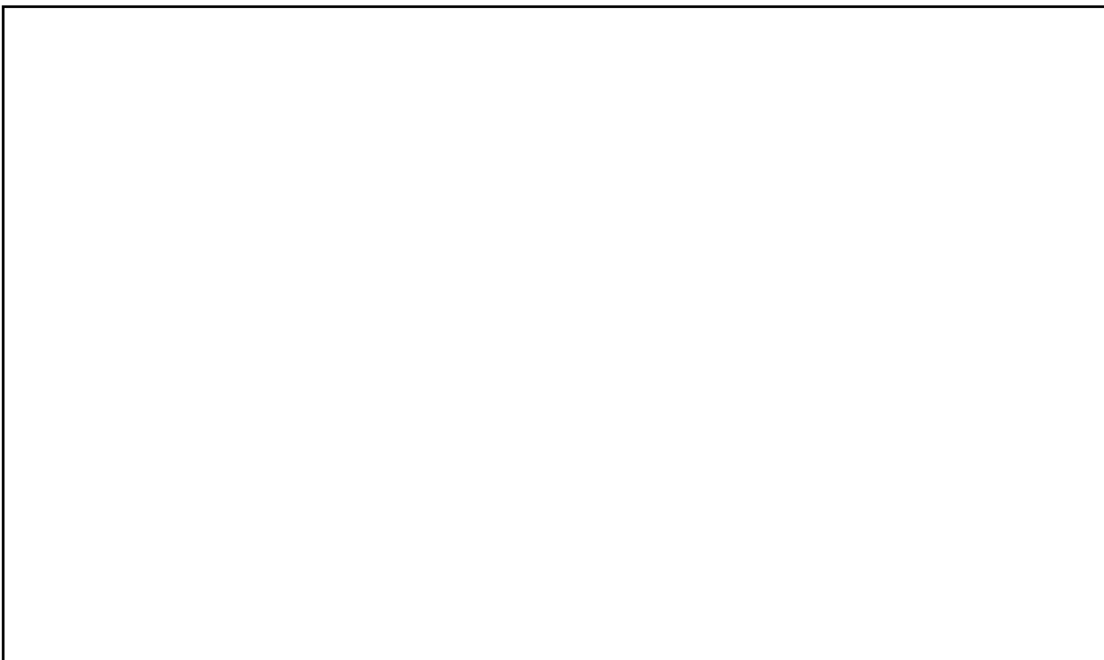
The perfect illustration to back up that statement comes from shares in CommBank ((CBA)), the local sector leader, surging to a new all-time record high of $114 (intra-day) this week. The same observation also tells us that, contrary to shares in BHP Group, Rio Tinto and others, the banks have remained remarkably resilient thus far in January.

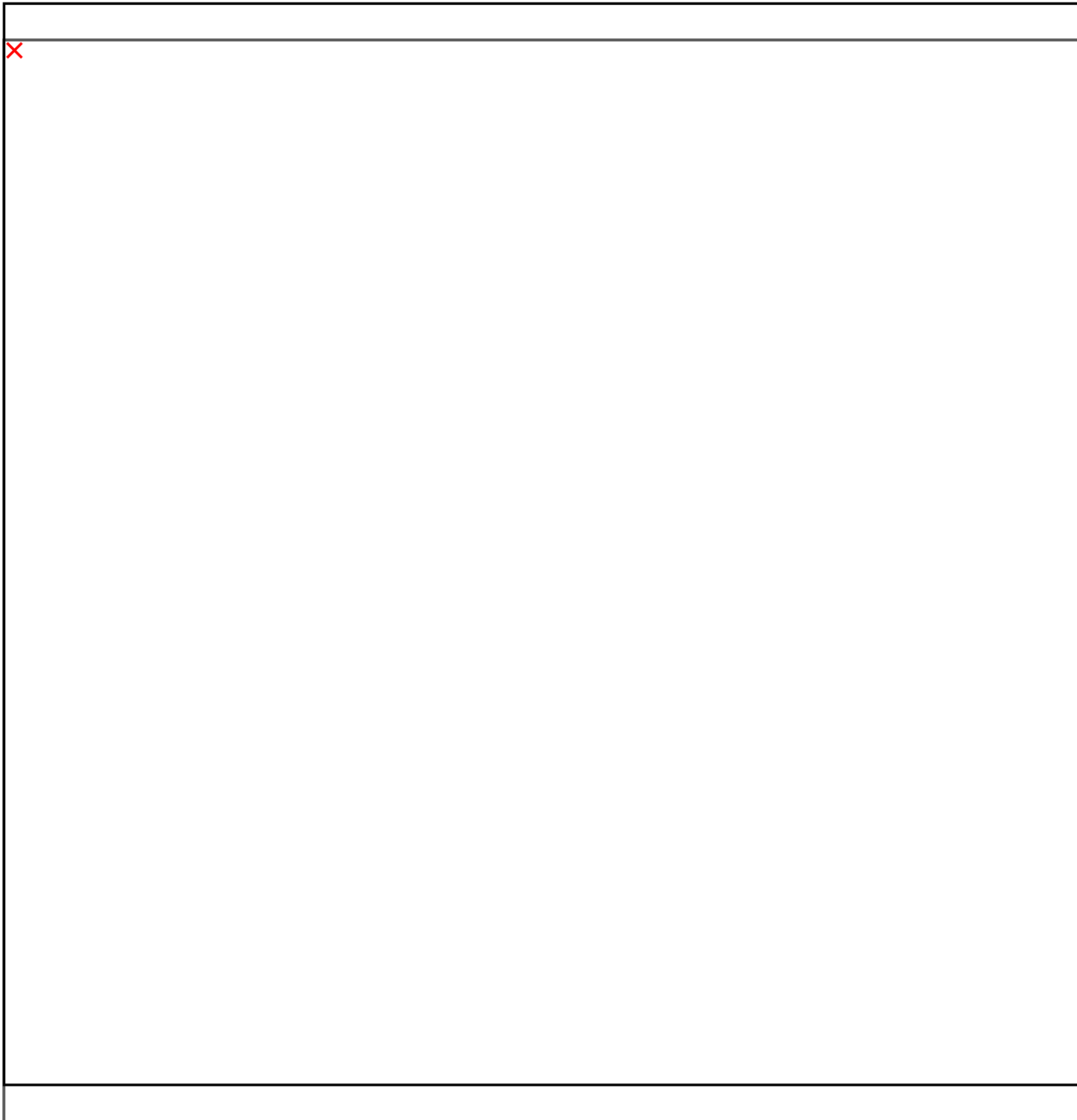
Stockbroking analysts are yet to resume their pre-Christmas research output, but already two major brokerages locally have informed their clientele it's probably best not to have too high expectations regarding the performance of bank shares in 2024.

It's about sector valuations, for sure, but more so about operational challenges and headwinds that have been largely ignored when money was flowing in because, you know, the sun was shining and everybody seemed optimistic and happy.

First up; banks are expected to see profits retreat in the year ahead, probably by some -5% on average, which means there won't be much potential to increase dividends. Leaving dividends stable will, all else remaining equal, lift the payout ratio. There's no scenario of grave economic recession baked into such forecasts.

Neither Citi nor Morgan Stanley are forecasting a deep recession, but both identify multiple headwinds and challenges that will keep a lid on how well banks can perform operationally this year. Both teams of banking sector analysts have started the fresh calendar year with a negative stance on the sector.





Morgan Stanley's concerns

The team at Morgan Stanley sees two plausible scenarios for Australian banks in the year ahead, summarised as "soft landing" and "bumpy landing".

The first scenario sees average EPS across the sector falling by -5% in FY24, but allows for a swift recovery in FY25 by some 9% in current consensus forecasts. This scenario equally keeps the door open for new share buybacks and mid-to-high-single digit dividend increases over two years.

Assuming this scenario allows the sector to largely consolidate around current trading multiples, Morgan Stanley can see a total investment return (including dividends) of 14% over the next twelve months. National Australia Bank ((NAB)) should prove the best performer, with CommBank expected to lag.

A more bumpy scenario, however, will see the unwinding of the recent rally and equally pose more question marks about dividends and the recovery in 2025. Morgan Stanley sees potential for average EPS to decline by -11% in FY24, with little prospect of a meaningful bounce in FY25.

The second scenario might see the sector return on average decline by -6% over the next twelve months with ANZ Bank ((ANZ)) expected to prove most resilient, and CommBank the most vulnerable.

Needless to say, Morgan Stanley is less optimistic about the domestic economy, expecting sector competition to heat up, and trading multiples to fall in response to less favourable outcomes at the operational level.

Citi's concerns

Citi's sector assessment acknowledges there are still positives on the horizon; asset valuations, for instance, are likely to prove more resilient than market consensus is currently prepared for. But valuations overall are

seen as a "problem" post that strong rally late last year with the analysts' focus firmly on the **withdrawal of liquidity** this year.

Note Citi analysts: Australian banks still need to pay back some $100bn to the RBA (for the temporary facility the central bank put in place to support the sector during covid in 2020). This should in itself not pose a major problem, but it will take liquidity out of the local economy.

Citi sees further compression in retail banking, limited repricing opportunity in business banking, and falling asset prices (though P&L charges lower than expected).

All in all, Citi too expects, ultimately, the deterioration in operational dynamics will catch investors' eye, and it will lead to lower sector valuations, irrespective of "soft landing" and positive news from a more benign impact from asset devaluation.

Broker Ratings & Valuations

Citi's sector update saw the broker downgrading ratings for regional lenders Bank of Queensland ((BOQ)) and Bendigo and Adelaide Bank ((BEN)); both to Sell. Among the majors, both National Australia Bank and CommBank are equally rated Sell. ANZ Bank and Westpac ((WBC)) don't score higher than a Neutral rating.

Over at Morgan Stanley, ANZ bank is the only major with an Overweight rating, with National Australia Bank on Equal-weight and both CommBank and Westpac rated as Underweight.

In both cases valuations/price targets have been reduced across the board.

The latter brings into focus where share prices are trading in relationship to analysts' price targets for the sector. In all cases of CommBank, Westpac, National Australia Bank, Bank of Queensland and 'Bendelaide' share prices have exceeded consensus price targets with only CommBank and Bendelaide scheduled to report interim financials in February.

ANZ Bank shares are still below consensus price target, albeit not by much.

The other banks reported in October-November and price targets are thus relatively "fresh" still. Once upon a time, bank share prices universally trading above price targets served as a signal of investor exuberance, not simply for the sector generally, but for the share market as a whole.

As a matter of fact, for many years I personally used this sector indicator as a relatively reliable signal for a pending share market pullback. At the beginning of 2024, it's now simply an additional dilemma for investors to take on board.

Below is a general sector overview as at January 17. Also included are Macquarie Group ((MQG)), Suncorp Group ((SUN)), and junior challenger Judo Capital Holdings ((JDO)).

FNArena Major Bank Data					**FY1 Forecasts**				**FY2 Forecasts**			
Bank	B/H/S Ratio	Previous Close $	Average Target $	**% Upside to Target**	% EPS Growth	% DPS Growth	% Payout Ratio	**% Div Yield**	% EPS Growth	% DPS Growth	% Payout Ratio	**% Div Yield**
ANZ	2/4/0	25.74	26.15	**1.20**	- 9.6	- 7.8	75.4	**6.2**	5.1	- 0.7	71.2	**6.2**
WBC	1/3/2	23.07	22.49	**- 1.99**	- 10.5	- 0.8	76.6	**6.1**	1.7	0.6	75.7	**6.2**
NAB	0/4/2	30.73	28.11	**- 9.12**	- 7.2	- 1.4	75.0	**5.3**	2.0	1.7	74.8	**5.4**
CBA	0/3/3	113.00	90.45	**- 19.59**	- 4.7	1.8	79.6	**4.1**	2.3	2.6	79.8	**4.2**
BOQ	1/1/4	5.80	5.57	**- 3.80**	100.0	- 6.4	81.2	**6.6**	5.8	5.2	80.8	**7.0**
BEN	2/0/3	9.50	9.09	**- 4.21**	- 6.0	2.9	76.0	**6.6**	- 0.0	- 1.1	75.1	**6.5**
SUN	5/1/0	13.76	15.31	**10.79**	18.4	25.0	69.7	**5.4**	3.1	13.3	76.5	**6.2**
MQG	2/3/0	183.00	181.16	**- 0.67**	- 29.6	- 12.1	69.2	**3.6**	16.7	5.5	62.5	**3.8**

JDO	2/3/0	1.02	1.20	**18.81**	- 22.3	N/A	0.0	**0.0**	41.1	N/A	0.0	**0.0**

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TREASURE CHEST

Treasure Chest: Ansell

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

Whose Idea Is It?

Analysts at Evans and Partners

The subject:

Ansell, manufacturer of surgical and other gloves, as well as protective clothing

More info:

By Rudi Filapek-Vandyck

For the past two decades or so, loyal shareholders in gloves and protective wear manufacturer Ansell ((ANN)) have had a great and rewarding ride with the shares bottoming below $4 during the bear market of 2000-2002 and surging above $40 in 2020 when the world faced its first global pandemic since the Spanish flu, more than 100 years prior.

Things have changed dramatically since, and they are yet to revert to the pre-covid normal, if that is the future trajectory for this circa $3bn company. Post-pandemic market conditions have proved a tough nut to crack for many a prior covid beneficiary, of which many operate inside the global healthcare services industry.

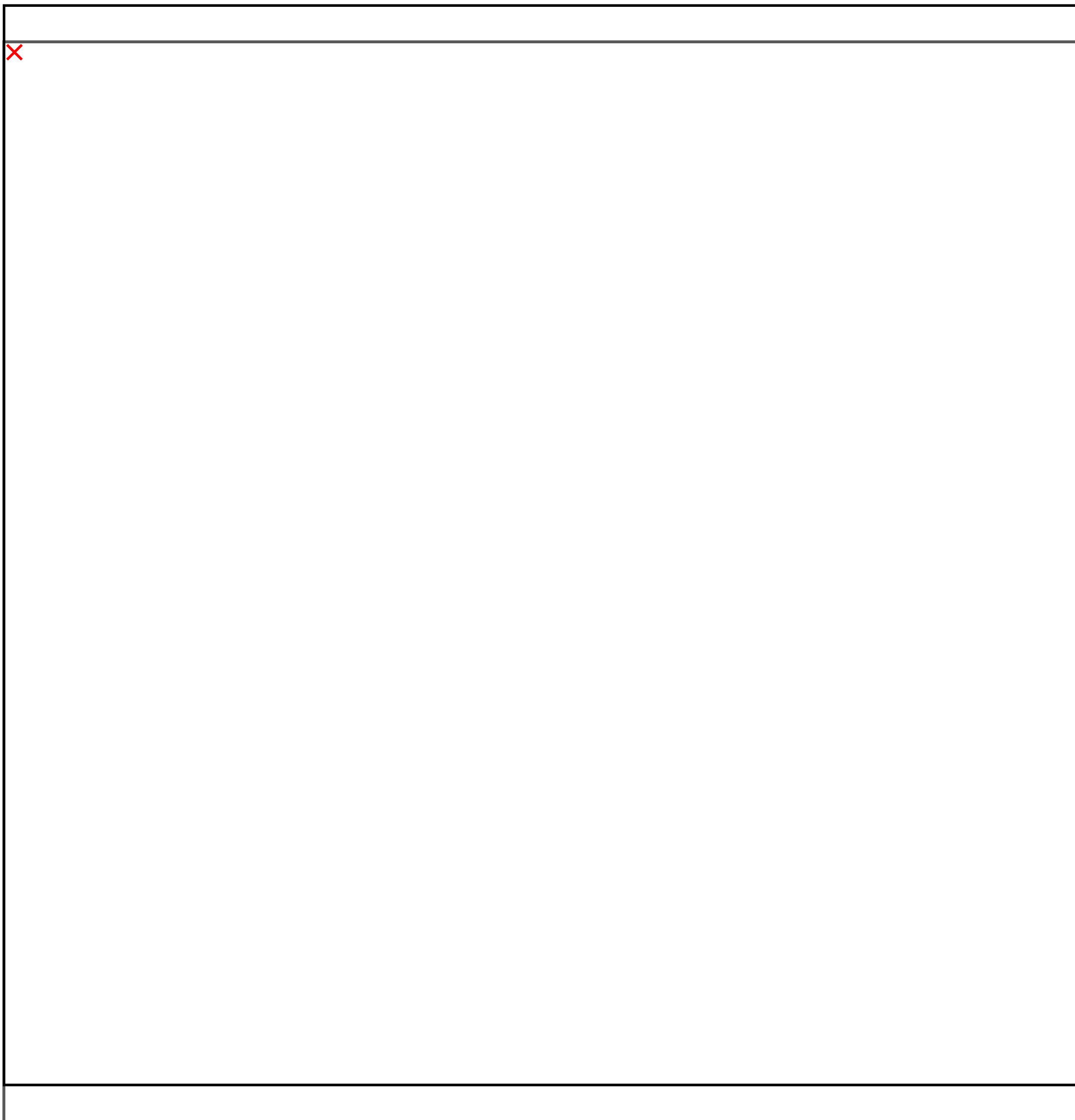
One look today at share prices for Sonic Healthcare ((SHL)), Fisher & Paykel Healthcare ((FPH)), Healius ((HLS, even CSL ((CSL)), shows the uphill trajectory for the healthcare sector generally over the past three years. Some of these share prices have landed back on investors' radar as expectations for a sector revival are building.

Seriously, how long can the headwinds from 2020 continue to weigh on what was previously the best performing sector on the ASX, by a landslide?

While shares in Ansell have equally participated in the Santa Rally that concluded 2023, this week's initiation of coverage by Evans and Partners warns investors the company's operational pain is likely to last longer, casting doubts on whether any sector revival can/should/will also include Ansell.

Evans and Partners has initiated coverage with a Negative view and $23 valuation, which is not far from where the shares are trading. On current market forecasts, depending on FX translation, Ansell shares might offer a 3% yield, with zero franking.

What are the key problems holding the company back?



Ansell might be included in the local healthcare sector but in reality its Industrial operations represent circa 40% of all sales, and 60% of the profits. One of the key reasons as to why healthcare is contributing less than its top line share is because the Surgical and Life Sciences divisions are still confronted with excess inventories throughout their respective supply chains.

The boost during the early days of covid in 2020 has proved a long-lasting operational headwind. Three years down the track, it is clear this problem is sticking around for longer and Ansell, burdened by high-cost inventory and fixed-cost overheads, simply has to toughen it out. While management is taking impact minimising measures, margin pressure remains the proverbial ball-and-chain.

The problem for the other main operation, the aforementioned Industrial division, consists of slower economic growth as a result of central bank tightening and higher bond yields. The logical conclusion to draw here is that demand for Ansell's industrial products is highly unlikely to accelerate in the short term.

Meanwhile, higher input inflation is yet another factor impacting on the company's profitability.

Management has announced yet another cost-out program, but analysts at Evans and Partners cannot get excited about it. Based on Ansell's historical track record, the analysts argue such cost-outs merely absorb the rise in input costs, rather than providing additional growth. This view is reflected in the title of this week's research report: "Running hard to stand still".

Previewing February

Starting off with low expectations, Evans and Partners' forecast of underlying EPS of US$0.37 for H1 to be released in February implies a decline of -27% from twelve months ago, and sits -10% below current market forecast on the broker's own assessment. Surgical revenue is expected to fall by -25% alongside an expected -5% fall for Life Sciences during the half.

Post FY24, the broker does anticipate the return of EPS growth, but looking at market consensus, the analysts simply believe expectations remain too high. Mid-single digit EPS increases should be expected, at best, states the initiation report, not the double digits projected elsewhere.

Part of next financial year's "recovery" consists of better margins for the healthcare division.

Looking at the six expert voices covered daily by FNArena, two things stand out. Most stockbroking analysts are equally hesitant to bank on better times ahead for the company, instead sticking with a Hold/Neutral rating for the time being. But most valuations and price targets are in the mid-$20s, suggesting more upside than Evans and Partners is prepared to contemplate.

Ultimately, whether Ansell shares are ready for a sustained recovery, or instead fully valued, depends on the profit growth that awaits company and shareholders from mid-2024 onwards.

Irrespective of what happens in February, that question might not be answered until August when FY24 financials become public, and prospects for FY25 and beyond come into focus.

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WEEKLY REPORTS

Uranium Week: US Russian Import Ban Looming

The US Senate is expected to confirm a ban on the import of uranium from Russia this month as the House of Representatives already agreed on such ban for US utilities.

-US politics in the spotlight as Russian import ban looms
-Overall activity in buying and selling of uranium has gone quiet
-U3O8 spot price surges to 16-year high

By Rudi Filapek-Vandyck

The short term outlook for uranium pricing lays in the hands of the US senate, or so it appears.

The US House of Representatives passed legislation to ban the import of Russian nuclear fuel on December 11 last year, with the proposed ban kicking in 90 days after the bill becomes law. Thus far, however, the US Senate has not followed-through.

The first attempt to turn the proposed ban into US law on December 14 was blocked by senator Ted Cruz. The Senate has gone into recess over the holidays, but is expected to review the matter again this month.

Industry consultant TradeTech reports many market participants expect the US Senate to pass the proposed ban, with material consequences for the availability of uranium in the country.

Multiple Drivers Buoy The Sector

Against this background, it is hardly a surprise spot U3O8 continued to break records in the closing weeks of calendar 2023. In November the spot price reached US$81.50/lb, on TradeTech's assessment, but December witnessed the price breaking through US$90/lb for the first time in 16 years.

For those wondering, back in the previous bull market of 2006-2007, the price of uranium peaked at US$136-US$138/lb. Those were the days shares in Paladin Energy ((PDN)), then trading as Paladin Resources, temporarily reached $10 without producing one single unit of yellowcake.

Yes, indeed, those were the days!

TradeTech suggests American politics cannot be exclusively held responsible for this latest leg upwards in the pricing of uranium. The **United Nations' COP28 climate conference in Dubai** earlier in December provided renewed optimism about future growth in nuclear power generation the world around.

While market concerns about future supplies have been around generally since Russia invaded the Ukraine two years ago, the initiative by the US House of Representatives has yet again raised anxiety inside the American industry.

December Scramble

Throughout December, transactions concluded at prices between US$89.75 and US$91.25 a pound of U3O8, reports TradeTech. Total monthly spot transactional volume surpassed 2 million pounds, but by December 22 holidays were beckoning and the market went quiet.

The first week of 2024 has continued to be relatively quiet.

As per December 31st, TradeTech's exchange value was set at US$91/lb, an increase of US$9.50 from late November. The consultant observes some sellers have been testing the market's willingness to move contract ceiling pricing to US$100/lb and after initial reluctance, those contract terms have been accepted by some buyers.

Reports TradeTech: "So far, these transactions are limited in number, but the fact that transactions have officially been concluded containing ceilings at this level is notable." A number of utilities currently in the market have specifically excluded consideration of Russian supply.

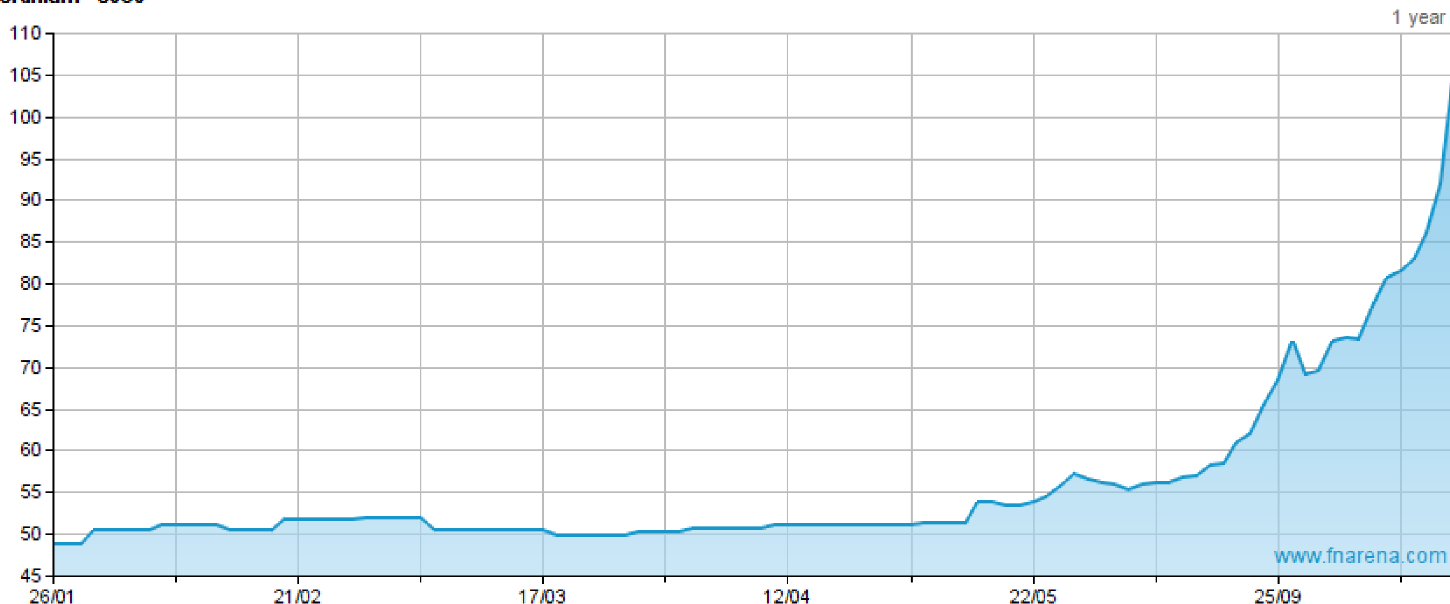
TradeTech's long-term U3O8 price indicator rose to US$68/lb in December, up US$2 from November. This sets a fresh 12-year high. The long-term price has doubled since early 2020 and is currently 19% above TradeTech's Production Cost Indicator.

The consultant's mid-term price indicator gained US$10.50/lb in December to US$93/lb.

At the end of the first week into 2024, the consultant's weekly spot price indicator has added an additional US$1 to US$92/lb. Only one transaction was successfully concluded during the week. The production cost indicator currently sits at US$55.40/lb.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	09/01/2024	0.1100	▼- 8.33%	$0.18	$0.05			
AGE	09/01/2024	0.0600	▼- 1.72%	$0.07	$0.03		$0.100	▲66.7%
BKY	09/01/2024	0.3000	▲ 1.72%	$0.80	$0.26			
BMN	09/01/2024	3.0600	▲ 2.14%	$3.05	$1.19		$3.200	▲4.6%
BOE	09/01/2024	4.9000	▲ 9.46%	$4.98	$2.02	83.0	$4.763	▼- 2.8%
DYL	09/01/2024	1.2200	▲ 0.87%	$1.41	$0.48		$1.640	▲34.4%
EL8	09/01/2024	0.4900	▼- 4.17%	$0.59	$0.27			
ERA	09/01/2024	0.0400	▲ 7.69%	$0.30	$0.03			
LOT	09/01/2024	0.3100	▲ 1.69%	$0.33	$0.15		$0.530	▲71.0%
NXG	09/01/2024	10.4900	▼- 0.80%	$10.80	$5.11			
PDN	09/01/2024	1.1700	▲ 4.95%	$1.15	$0.52	180.9	$1.190	▲1.7%
PEN	09/01/2024	0.1000	▼- 6.00%	$0.20	$0.08		$0.250	▲150.0%
SLX	09/01/2024	4.4300	▼- 2.64%	$5.32	$2.92		$5.800	▲30.9%



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WEEKLY REPORTS

Uranium Week: Uranium Price Breaches US$100

Multiple factors are combining to drive the uranium spot price higher, and brokers expect demand will continue to outstrip supply.

-The U3O8 spot price breaches US$100/lb for first time since 2007
-Supply and demand imbalances behind the rally, suggests Morgan Stanley
-Tight conditions in the uranium, conversion and enrichment markets

By Mark Woodruff

Uranium prices continue to surge, with industry consultant TradeTech's weekly spot price indicator rising by US$12/lb to US$104/lb. This new level is a 107% increase compared to the second week of January in 2023.

Despite the recent rally, Canaccord Genuity remains positive on the outlook for uranium prices, believing **the market remains in a structural deficit**, and expects tight conditions to persist.

While demand is durable, supply is as fragile as ever, according to the broker, and any further supply disruptions could lead to panic buying by utilities, given inventory levels are already low at US and European utilities.

April 2007 was the last time the uranium spot price breached US$100/lb, and TradeTech points out the indicator reached its historical peak at US$138/lb two months later. After accounting for inflation, it's noted that level is equivalent to US$203.20/lb in today's dollars.

Several factors have combined to push the spot price higher in the last week including news from Kazatomprom (the world's largest producer and seller of natural uranium) it would likely deliver lower than expected production due to ongoing construction delays and a shortage of sulphuric acid used in the uranium extraction process.

Additionally, tensions in the Middle East have raised fears over the security of shipments through the Suez Canal. TradeTech suggests alternative routes could present a cost and time penalty for uranium shipments.

Term uranium market

Sellers have become increasingly bullish in the term uranium market, according to TradeTech, after the recent rise in the spot uranium price, along with the announcement by Kazatomprom.

These two factors have combined with concerns around a disruption to upcoming deliveries from Russia following the passage by the US House of Representatives to ban all deliveries of Russian nuclear fuel to the US. These concerns are affecting the conversion market as well as the uranium and enrichment markets, explains TradeTech.

While many utilities have taken action to reduce their risk in the event of a disruption in Russian supply, TradeTech believes there will be unforeseen logistical and delivery difficulties for some parties, especially until the process for the waiver option (included in the legislation) is clarified.

TradeTech's term price indicators remain at US$93/lb (mid-term) and US$68/lb (long).

Long-term contracting volumes during 2023 were the highest since 2012, as utilities were increasingly focused on security of supply, notes Morgan Stanley. It's now believed nuclear plant life extensions in Europe, and new start-ups elsewhere, will ensure an ongoing upward trend in volumes for long-term contracts.

This broker suggests **the current spot price rally is being driven by real supply and demand imbalances** given much less recent activity by physical ETFs such as the Sprott Physical Uranium Trust, compared to 2021 and 2022.

The analysts also highlight a tightening supply side.

Apart from Kazatomprom's recent update, last year there was the July military coup in Niger (which supplied

around 25% of the EU's uranium needs in 2022), and Cameco's September downward revision to 2023 guidance.

Enrichment

With potential significance for ASX-listed laser enrichment technology company Silex Systems ((SLX)), both the UK and US have recently announced plans for high-assay low enriched uranium (HALEU) to feed the next fleet of nuclear reactors.

These reactors will run on 5-20% enriched uranium, as opposed to the current less than 5% enrichment, explains Morgan Stanley. In the US, the Department of Energy has issued a Request for Proposal (RFP) for uranium enrichment to supply HALEU domestically, while the UK has also allocated GBP300m to develop production.

HALEU fuel (which is currently only produced in Russia) can be produced either by down-blending high-enriched uranium, or enriching U308.

While advancements are being made to establish a reliable domestic supply of HALEU, TradeTech notes the enrichment market remains under pressure due to uncertainty resulting from recent legislative action taken by the US House of Representatives banning imports of Russian enriched uranium product (EUP).

According to TradeTech, many market participants expect the US Senate will eventually pass similar legislation.

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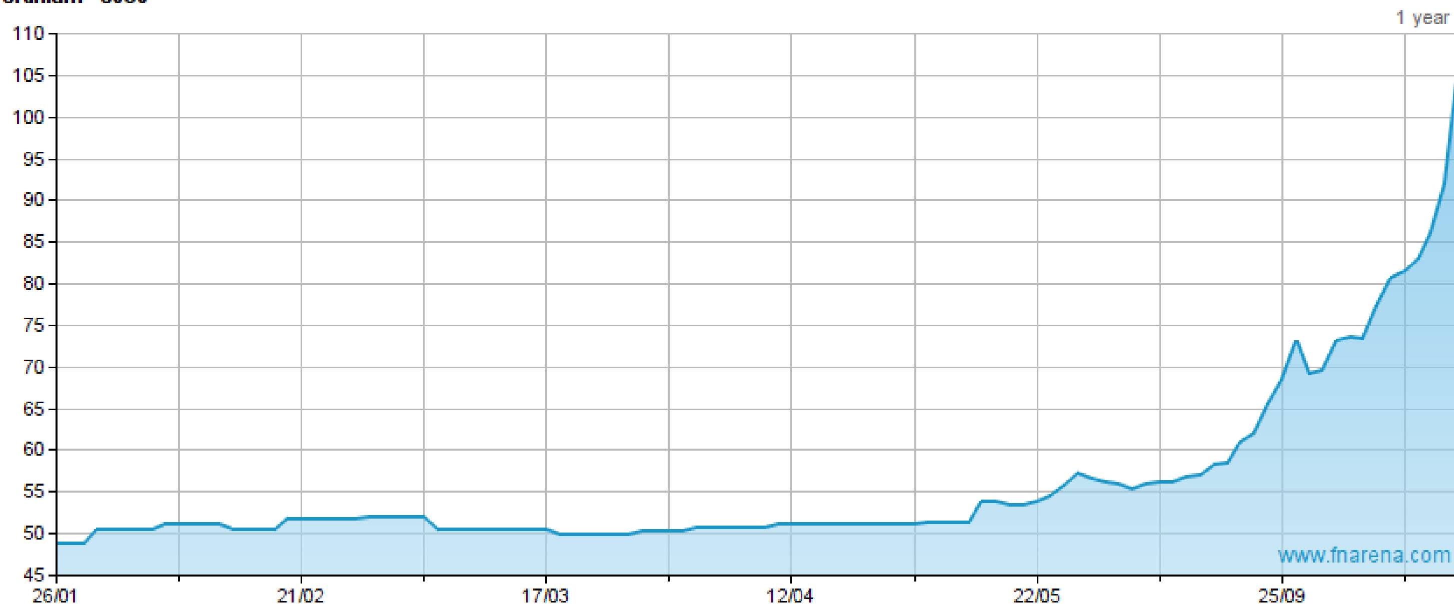
BMN	15/01/2024	3.6000	▲25.09%	$3.72	$1.19		$3.200	▼-11.1%
BOE	15/01/2024	5.5600	▲20.52%	$5.56	$2.02	93.9	$4.763	▼-14.3%
DYL	15/01/2024	1.4700	▲28.33%	$1.55	$0.48		$1.640	▲11.6%
EL8	15/01/2024	0.5700	▲23.91%	$0.61	$0.27			
ERA	15/01/2024	0.0700	▲40.48%	$0.30	$0.03			
LOT	15/01/2024	0.3400	▲11.67%	$0.35	$0.15		$0.530	▲55.9%
NXG	15/01/2024	11.7700	▲19.96%	$12.35	$5.11			
PDN	15/01/2024	1.3000	▲22.17%	$1.33	$0.52	205.8	$1.190	▼- 8.5%
PEN	15/01/2024	0.1400	▲38.30%	$0.20	$0.08		$0.250	▲78.6%
SLX	15/01/2024	5.2400	▲31.36%	$5.39	$2.92		$5.800	▲10.7%



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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 19-01-24

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 January 15 to Friday January 19, 2024
Total Upgrades: 6
Total Downgrades: 11
Net Ratings Breakdown: Buy 56.85%; Hold 34.96%; Sell 8.19%

For the week ending Friday January 19, 2024 there were six upgrades and eleven downgrades to ASX-listed companies by brokers covered daily by FNArena.

While average percentage earnings upgrades by analysts were broadly similar in magnitude to downgrades, average percentage target price rises were greater than falls, as may be seen in the tables below.

Perhaps the biggest disappointment for investors on the ASX last week was the performance of APM Human Services International after management downgraded guidance for first half results. The average target price in the database fell by nearly -24%.

While the workforce solutions company is still regarded by UBS as a high quality, best-in-breed operator in its field, headwinds are now too strong to ignore, and the broker downgraded its rating to Neutral from Buy. Higher interest rates and taxes are combining with low levels of unemployment in both the UK and Australia, explained the analysts.

Management now anticipates a first half group earnings margin of 13%, which Bell Potter compared to the 23% achieved in FY22 post the initial public offering in November 2021.

Ord Minnett chimed in with a -29% cut to its earnings forecasts for APM over the next two years. It's felt abnormally low unemployment levels will drive depressed client flows and placement fees, while recent North American contract wins and acquisitions will not prove as profitable as previously thought.

The target for Evolution Mining also fell by around -7% following a disappointing quarterly production update which saw the share price being punished even more. The latter saw both Citi and Ord Minnett upgrade their ratings to Buy from Neutral and to Accumulate from Hold, respectively.

Citi felt a -20% share price fall in the wake of the gold miner's December quarter operational result was overdone, while Ord Minnett also spied a valuation opportunity.

Ord Minnett attributed a -16% production miss for the quarter (also resulting in a -16% miss on costs) to a poor grade performance at the Red Lake operations in Canada and weather-related issues at both Cowal (NSW) and Mt Rawdon in Queensland.

Management downgraded FY24 production guidance at Red Lake by -24% though overall group guidance was maintained.

On the flipside, there were material percentage increases in average targets last week for Link Administration, Cooper Energy and Alumina Ltd.

In a somewhat delayed reaction, Citi raised its target for Link Administration to $2.20 from $1.40 to broadly align with the scheme implementation deed with Mitsubishi UFJ whereby Mitsubishi will acquire 100% of Link shares.

Also, in the interim since the broker's last research update, the company has signed a memorandum of understanding (MoU) with AusSuper to extend its services contract to 2028.

Cooper Energy is benefiting from a production increase via its Orbost Improvement Project, which is delivering results from the H2S polishing unit, explained Macquarie. Greater production is allowing the company to increase sales in the current spot market, which is around 20% higher than its contract pricing.

In a further positive, decommissioning of the Basker Manta Gummy (BMG) subsea oil facilities is underway, which could prove to be a share price catalyst, according to the broker.

Morgan Stanley maintained its Overweight rating for Alumina Ltd and increased its target to $1.10 from 90c following an update by US miner Alcoa showing 2023 production for the AWAC JV was in line with the broker's forecast, but a slight miss against management's guidance.

Realised prices for the second half beat forecasts by the analyst and consensus by 2%, likely due to timing, while, as expected, fourth quarter costs were -4% lower compared to the prior quarter.

Near-term volume growth is negative, yet a return to profitability and removal of unprofitable tonnes from the market (Kwinana curtailment) are positive medium-term drivers, suggests the broker. AWAC will stop producing alumina at its loss-making Kwinana refinery in Western Australia by September.

Alumina Ltd also came a close second on the table for the biggest increase in average earnings forecast by brokers in the FNArena database, behind Fortescue.

While Ord Minnett raised its target price for Fortescue by 8% to $17.30 due to higher near-term iron ore price forecasts, the Lighten rating was retained.

Unsurprisingly, APM Human Services headed up the earnings downgrade table below for reasons explained above.

UBS raised its target for TPG to $5.45 from $5.14 on higher longer-term growth assumptions for postpaid average revenue per user (ARPU), and after the analyst assumed a broader postpaid back book reprice for March/April of around $4 per month.

This broker sees a more positive environment for a general re-rating of the Australian Telecom sector in 2024 due to falling 10-year bond yields and underperformance of the sector versus the ASX200 in 2023. The analysts' preferred pick from stocks under coverage of the sector is Telstra.

Total Buy recommendations in the database comprise 56.85% of the total, versus 34.96% Hold, while Sell ratings account for the remaining 8.19%.

Upgrade

CHARTER HALL GROUP ((CHC)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 4/1/0

Within the Australian Real Estate sector, Charter Hall has historically been one of the best ways for investors to capitalise on falling bond yields, according to Morgan Stanley.

As the broker forecasts 10-year bond yields (US Treasuries) will fall to 3.95% by December 31 (after peaking at around 5% in the 2H of 2023), and the macro environment has stabilised, the rating for Charter Hall is upgraded to Overweight from Equal-weight.

The analysts also anticipate a more active transactions market, and a nadir for the REIT's EPS. The target is increased to $13.25 from $11.10. Equal-weight. Industry view: In-Line.

EVOLUTION MINING LIMITED ((EVN)) Upgrade to Buy from Neutral by Citi and Upgrade to Accumulate from Hold by Ord Minnett.B/H/S: 4/2/0

Evolution Mining's share price slipped close to -20% following the company's December quarter result, outlining an operational miss and ongoing issues at its Red Lake site, amid uncertainty as to whether the company can

achieve its revised guidance.

Citi finds the reaction overdone, despite assuming the company reaches only the lower end of full year production guidance at 749 ounces and a modest miss of cost guidance at $1,430 per ounce.

Evolution Mining maintained group guidance, but guidance for Red Lake reduces -35,000-45,000 ounces off the weak half.

The broker sees the decline as an opportunity to own leverage to gold. The rating is upgraded to Buy from Neutral and the target price of $3.95 is retained.

Evolution Mining's 2Q production was around -16% shy of Ord Minnett's forecast (resulting in a -16% miss on costs) due to a poor grade performance at Red Lake and weather-related issues at both Cowal and Mt Rawdon.

Management downgraded FY24 production guidance at Red Lake by -24% though overall group guidance was maintained.

The analysts expect FY24 group guidance will be ultimately missed, given the 47% production uplift required in the 2H to meet the midpoint of the guidance range.

The broker sees a valuation opportunity given the -22% share price decline since January 3, and upgrades its rating to Accumulate from Hold. The target falls to $3.40 from $3.70.

GLOBAL LITHIUM RESOURCES LIMITED ((GL1)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/0/0

Lithium pricing has faced a material drop over the last year, with spodumene declining to US$1,000 per tonne from US$6,000 per tonne over the past twelve months as the market moved from a deficit in 2022 to a now clear surplus.

With this in mind, Macquarie expects the market to be keeping a close eye on potential production cuts, capital delays and impairments in the near term.

For Global Lithium Resources, the rating is upgraded to Outperform and the target price of $1.30 is retained.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 0/4/2

Morgan Stanley sees an improvement in the balance of risks for the Australian economy, as well as competition dynamics within the banking industry, and suggests National Australia Bank will be the biggest beneficiary.

The analysts arrive at this conclusion due to the bank's business mix, sound retail and business franchise performance, along with low execution risk on cost management, excess provision levels and strong capital.

The prospect of a 'soft landing' could potentially lift consensus EPS NAB estimates for FY25 by more than 10%, suggests the broker.

Morgan Stanley upgrades its recommendation to Equal-weight from Underweight and raises its target to $30.30 from $27.40. Industry View: In-Line.

NETWEALTH GROUP LIMITED ((NWL)) Upgrade to Neutral from Sell by Citi .B/H/S: 3/3/0

With markets rallying towards the end of the second quarter and stronger net flow forecasts, Citi has issued upgrades to both Netwealth Group and HUB24 ((HUB)).

The broker lifts its funds under asset forecast for Netwealth Group 5%, and its earnings forecast 4-8%.

It expects the company to deliver second quarter net flows of $2.6bn, up 11% quarter-on-quarter.

The rating is upgraded to Neutral from Sell and the target price increases 19% to $16.10 from $13.45.

Downgrade

ALKANE RESOURCES LIMITED ((ALK)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 2/0/0

The quarterly activities report released by Alkane Resources undershot Ord Minnett's expectations due to lower-than-forecast grades and recoveries at the Tomingley Expansion Project. Production, sales and costs (AISC) all missed the broker's forecasts.

Management maintained FY24 guidance, implying to the broker a 2H skew.

Ord Minnett downgrades the rating to Accumulate from Buy and lowers the target to 70c from 75c on

the weaker result and
a higher capital expenditure forecast.

APM HUMAN SERVICES INTERNATIONAL LIMITED ((APM)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/2/0

UBS had already been warnings its clientele on short-term headwinds for APM Human Services International in 2023, but yesterday's market update has forced the broker's hand; downgrade to Neutral from Buy.

The overall trading environment is too much for the company to cope with in the short term, the broker has concluded. APM Human Services International is still seen as a high quality, best-in-breed operator in its field but headwinds are too strong to ignore.

In addition, the broker argues, the share price valuation doesn't look compelling either. Higher interest rates and taxes are combining with low levels of unemployment in both the UK and Australia, UBS highlights.

Target price drops to $1.27 from $3 as forecasts have received the chainsaw treatment.

AURIZON HOLDINGS LIMITED ((AZJ)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/4/1

Strong coal volumes in the second quarter should prove a positive for freight operator Aurizon Holdings, says Macquarie. Network volumes are above full year targets, particularly in the high-margin Blackwater corridor.

The broker suggests this trends points to potential for a small over-collection in FY24, the first in five years, generating $5-10m near-term earnings upside, but warns it will take sometime for this to translate to an improved payout ratio and yield.

The rating is downgraded to Neutral from Outperform and the target price decreases to $3.88 from $4.04.

BHP GROUP LIMITED ((BHP)) Downgrade to Hold from Add by Morgans .B/H/S: 1/5/0

With operational results looming this month, Morgans expects reporting of strong December quarter iron ore volumes from BHP Group, Rio Tinto and Fortescue.

Rather than potential catalysts, it's thought such an outcome would only confirm already positive market expectations, suggest the analysts. The broker upgrades iron ore volume forecasts for the three companies.

On January 18, Morgans expects BHP Group will deliver 2Q FY24 iron ore volume of 72.3mt compared to the consensus estimate for 72.2mt. Following recent share price strength the rating is downgraded to Hold from Add and the target reduced to $49 from $50.

INSIGNIA FINANCIAL LIMITED ((IFL)) Downgrade to Sell from Neutral by UBS .B/H/S: 1/1/2

UBS has marked-to-market for the share market rally over the last two to three months, and increases its target for Insignia Financial to $2.05 from $2.00.

However, the fundamental outlook for Insignia remains challenging and cost reduction has now become vital, according to the broker. Consequently, the rating is downgraded to Sell from Neutral.

The analyst believes the company will remain at a cost disadvantage compared to more nimble peers, even if management achieves its FY26 -$175-190m cost-out target.

LOVISA HOLDINGS LIMITED ((LOV)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/4/0

UBS feels the risk/reward profile for Lovisa Holdings is less compelling after recent share price outperformance versus the ASX200, and recent data showing a slowing in store growth. Net new store growth is declining compared to the first and second halves of FY23.

The change in net new stores is broadly in line with consensus estimates, but higher in A&NZ and lower in the high-potential Americas market, explains the analyst.

The broker also highlights moderating like-for-like sales growth, which reduces UBS revenue estimates.

The rating is downgraded to Neutral from Buy though the target rises to $24 from $23 due to the analyst's higher assumed multiple.

RIO TINTO LIMITED ((RIO)) Downgrade to Hold from Add by Morgans .B/H/S: 2/4/0

With operational results looming this month, Morgans expects reporting of strong December quarter iron ore volumes from BHP Group, Rio Tinto and Fortescue.

Rather than potential catalysts, it's thought such an outcome would only confirm already positive market expectations, suggest the analysts. The broker upgrades iron ore volume forecasts for the three companies.

On January 16, Morgans expects Rio Tinto to reveal Pilbara shipments of 333mt (consensus 332mt) versus guidance 320-335mt.

The broker downgrades its rating to Hold from Add due to recent share price strength though raises the target to $127 from $124.

SEEK LIMITED ((SEK)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/1/0

Macquarie is anticipating a guidance revision from Seek to the lower end of its range, or earnings of $520m and net profits of $220m, ahead of the company's first half result.

The company's Job Ad Index was down -20% year-on-year over the December half, and Macquarie is anticipating volumes to decline -18% over the second half, based on the assumption that the unemployment rate reaches 4.25% by the end of the financial year.

The broker retains its position that Seek has the ability to execute on cost out, but sees willingness from Seek as low given references to continued investment over the next five years.

The rating is downgraded to Neutral from Outperform and the target price decreases to $26.00 from $29.00.

SUPER RETAIL GROUP LIMITED ((SUL)) Downgrade to Hold from Add by Morgans .B/H/S: 1/3/2

Super Retail's trading update for the 1H revealed profit before tax (PBT) around 15% ahead of Morgans forecast and circa 16% above the consensus estimate.

The analysts note very strong outperformance by BCF, and results above expectations for Supercheap Auto and Macpac, though Rebel missed Morgans forecast.

While the broker raises its FY24 profit forecast by 8%, the rating falls to Hold from Add on valuation following a strong share price performance. It's felt the business is moving in the right direction and has the right portfolio of brands to succeed.

The target is increased to $17.50 from $17.

VICINITY CENTRES ((VCX)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 0/4/1

Given Morgan Stanley forecasts no interest rate cuts until early 2025, it's thought households will have to divert more money towards housing costs, resulting in less money to spend at malls.

As Vicinity Centres' malls are in areas with high stress and less wealth, the broker downgrades its rating to Underweight from Equal-weight.

The analysts forecast a negative earnings compound annual growth rate (CAGR) over FY23-26 following the dilutive Chatswood acquisition. Balance sheet pressure is also anticipated from developments/devaluations.

The $1.95 target price is retained. Industry view: In line.

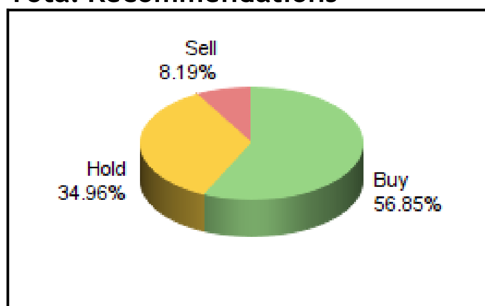
WESTPAC BANKING CORPORATION ((WBC)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 1/3/2

Despite an improvement in the balance of risks for major Australian banks, Morgan Stanley sees significant execution risks for Westpac around franchise performance, margin management and the outlook for costs.

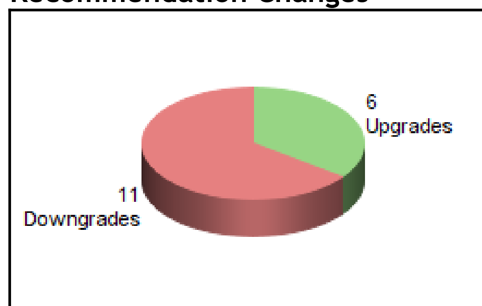
As Westpac shares have delivered a total return of around 17% since the beginning of November, and a material return on equity (ROE) improvement is unlikely before FY26, the broker downgrades to Underweight from Equal-weight.

The price target rises to $21.70 from $20.90. Industry View: In-Line.

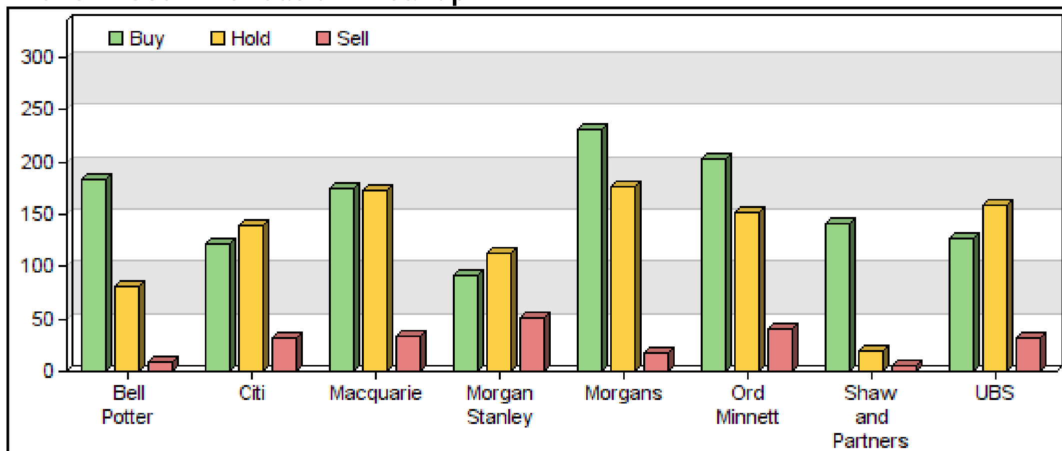
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	CHARTER HALL GROUP	Buy	Neutral	Morgan Stanley
2	EVOLUTION MINING LIMITED	Buy	Neutral	Citi
3	EVOLUTION MINING LIMITED	Buy	Neutral	Ord Minnett
4	GLOBAL LITHIUM RESOURCES LIMITED	Buy	Neutral	Macquarie
5	NATIONAL AUSTRALIA BANK LIMITED	Neutral	Sell	Morgan Stanley
6	NETWEALTH GROUP LIMITED	Neutral	Sell	Citi
Downgrade				
7	ALKANE RESOURCES LIMITED	Buy	N/A	Ord Minnett
8	APM HUMAN SERVICES INTERNATIONAL LIMITED	Neutral	Buy	UBS
9	AURIZON HOLDINGS LIMITED	Neutral	Buy	Macquarie
10	BHP GROUP LIMITED	Neutral	Buy	Morgans
11	INSIGNIA FINANCIAL LIMITED	Sell	Neutral	UBS
12	LOVISA HOLDINGS LIMITED	Neutral	Buy	UBS
13	RIO TINTO LIMITED	Neutral	Buy	Morgans
14	SEEK LIMITED	Neutral	Buy	Macquarie
15	SUPER RETAIL GROUP LIMITED	Neutral	Buy	Morgans
16	VICINITY CENTRES	Sell	Neutral	Morgan Stanley
17	WESTPAC BANKING CORPORATION	Sell	Neutral	Morgan Stanley

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	LNK	LINK ADMINISTRATION HOLDINGS LIMITED	1.850	1.583	16.87%	3
2	COE	COOPER ENERGY LIMITED	0.197	0.177	11.30%	3
3	AWC	ALUMINA LIMITED	1.133	1.020	11.08%	4
4	SUL	SUPER RETAIL GROUP LIMITED	13.950	12.717	9.70%	6
5	FMG	FORTESCUE LIMITED	20.539	18.953	8.37%	7
6	SDR	SITEMINDER LIMITED	5.816	5.486	6.02%	5
7	HUB	HUB24 LIMITED	38.500	36.421	5.71%	7

8	NWL	NETWEALTH GROUP LIMITED	15.833	15.025	5.38%	6
9	WDS	WOODSIDE ENERGY GROUP LIMITED	35.480	33.983	4.41%	5
10	SIG	SIGMA HEALTHCARE LIMITED	0.898	0.862	4.18%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	APM	APM HUMAN SERVICES INTERNATIONAL LIMITED	1.943	2.550	-23.80%	4
2	EVN	EVOLUTION MINING LIMITED	3.675	3.950	-6.96%	6
3	ORA	ORORA LIMITED	3.084	3.168	-2.65%	5
4	MP1	MEGAPORT LIMITED	12.442	12.775	-2.61%	6
5	ILU	ILUKA RESOURCES LIMITED	8.050	8.250	-2.42%	5
6	SEK	SEEK LIMITED	25.940	26.540	-2.26%	5
7	BAP	BAPCOR LIMITED	6.638	6.788	-2.21%	6
8	PMV	PREMIER INVESTMENTS LIMITED	25.600	26.123	-2.00%	5
9	NHC	NEW HOPE CORPORATION LIMITED	5.100	5.200	-1.92%	4
10	PXA	PEXA GROUP LIMITED	14.062	14.262	-1.40%	5

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	FMG	FORTESCUE LIMITED	368.016	299.653	22.81%	7
2	AWC	ALUMINA LIMITED	-1.560	-2.012	22.47%	4
3	SIG	SIGMA HEALTHCARE LIMITED	0.650	0.600	8.33%	6
4	IFL	INSIGNIA FINANCIAL LIMITED	23.700	22.050	7.48%	4
5	SUL	SUPER RETAIL GROUP LIMITED	102.033	97.200	4.97%	6
6	RHC	RAMSAY HEALTH CARE LIMITED	133.467	127.360	4.80%	6
7	NEM	NEWMONT CORPORATION REGISTERED	181.233	173.067	4.72%	3
8	MP1	MEGAPORT LIMITED	9.233	8.883	3.94%	6
9	DRR	DETERRA ROYALTIES LIMITED	34.725	33.450	3.81%	5
10	DTL	DATA#3 LIMITED.	27.800	26.800	3.73%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	APM	APM HUMAN SERVICES INTERNATIONAL LIMITED	13.650	18.500	-26.22%	4
2	TPG	TPG TELECOM LIMITED	14.700	17.675	-16.83%	5
3	ALX	ATLAS ARTERIA	44.050	48.400	-8.99%	5
4	LYC	LYNAS RARE EARTHS LIMITED	20.100	22.067	-8.91%	4
5	KAR	KAROON ENERGY LIMITED	67.230	73.197	-8.15%	5
6	EVN	EVOLUTION MINING LIMITED	26.167	27.717	-5.59%	6
7	COE	COOPER ENERGY LIMITED	0.600	0.633	-5.21%	3
8	RIO	RIO TINTO LIMITED	1203.111	1258.502	-4.40%	6
9	JDO	JUDO CAPITAL HOLDINGS LIMITED	4.960	5.160	-3.88%	5
10	ADH	ADAIRS LIMITED	15.333	15.900	-3.57%	3

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WEEKLY REPORTS

Uranium Week: Sticker Shock

Ongoing supply disruptions and uncertainty are leading to ever-higher uranium prices as sellers back off their offers.

-Supply disruptions in Kazakhstan and Niger
-Expectation US Senate will pass Russian uranium import ban
-U3O8 spot price rises further

By Greg Peel

Uranium market participants gathered in Washington last week for the Nuclear Energy Institute's Nuclear Fuel Supply Forum. Such annual gatherings – of which there are several for the uranium industry at large – typically lead to a lack of activity in the spot market.

That's not the only reason only two transactions were concluded in the spot market last week. As industry consultant TradeTech notes, sellers are seeking to capitalise on the recent spot price surge, and buyers are reluctant to pay up.

Indeed, primary discussion at last week's Forum centered around the recent price rise and factors that could provide relief to the strained supply chain, which if left unchecked could lead to additional price increases.

TradeTech's weekly spot price indicator rose US$2.00 to US$106.00/lb last week, and is up 117% from its 2023 low of US$48.80/lb marked one year ago.

Supply

Global uranium supply issues have centred around Kazakhstan, Russia and Niger. In Kazakhstan, Kazatomprom has downgraded supply expectations due to delays to new construction and difficulty in sourcing the sulphuric acid required in the production process.

In the latter case, Kazatomprom has joined with the Kazakh sovereign wealth fund and an Italian company to attract investment in a project to build a new sulphuric acid plant in Kazakhstan.

In the case of Russia, the US House has passed a bill banning imports of Russian enriched uranium. The Senate is yet to pass the bill, but is expected to do so shortly now Congress is back from its holiday recess. The House bill does come with exemptions, intended to maintain supply to US reactors until alternative sources can be secured, but these have yet to be fully clarified.

Following a visit to Moscow by the Nigerian prime minister, Russia and Niger have "agreed to intensify joint actions stabilise the situation in the region," which was destabilised in July last year following a military coup. Niger was supplying some 25% of European uranium demand, but production and development have since been plunged into uncertainty.

Most notable with regard the recent uranium price surge is that is all about supply constraints and not about demand from financial entities, such as the Sprott Physical Uranium Trust, as was the case particularly in 2022, and to a lesser extent last year.

Term Market

Buyers and sellers are taking similar steps in the term uranium market as those witnessed in the spot uranium market, notes TradeTech. Both are reassessing their strategies and portfolio positions in order to better position themselves in the wake of the rise in the spot uranium price.

Some sellers are re-evaluating their willingness to commit to delivery of additional material at prices contained in outstanding offers.

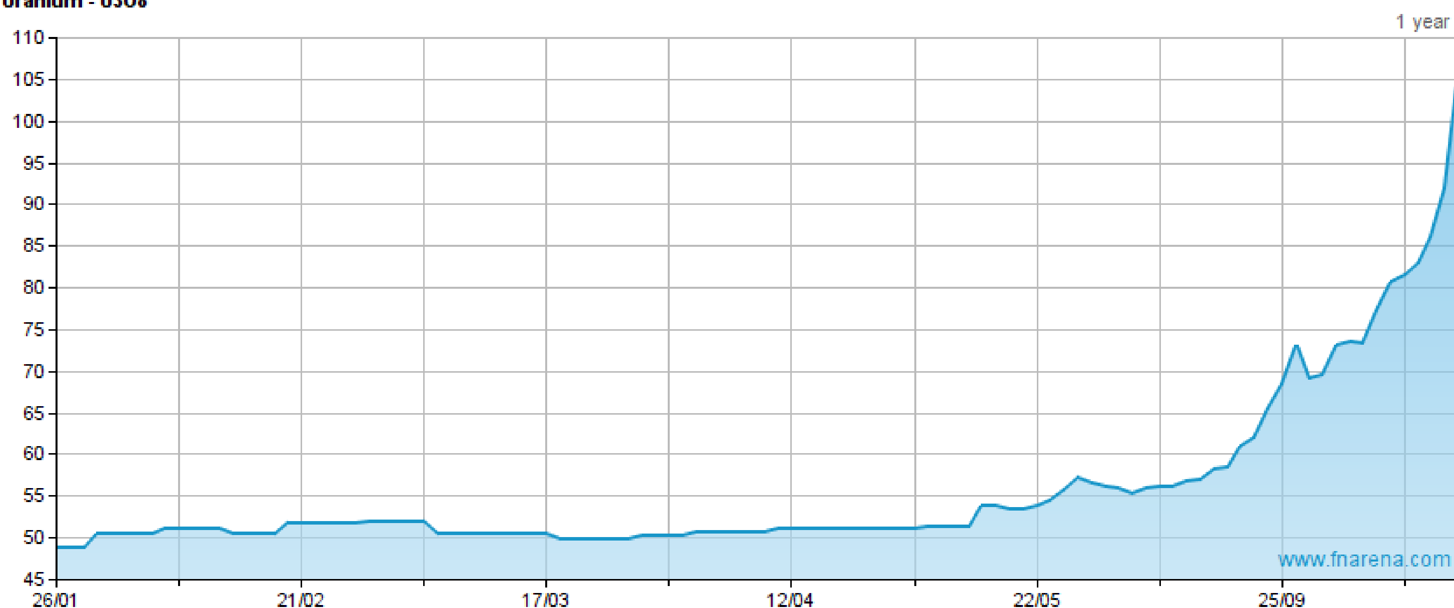
Many utilities have taken action to reduce their risk in the event of a disruption in Russian supply, but the probability of additional logistical and delivery difficulties increases with a Russian ban and an unclear waiver

process on the horizon. For the term markets, this has already resulted in higher offer prices than those extended only a few weeks ago, TradeTech reports.

TradeTech's term price indicators remain at US$93.00/lb (mid-term) and US$68.00/lb (long).

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	19/01/2024	0.1600	▼- 5.88%	$0.18	$0.05			
AGE	19/01/2024	0.0750	▼- 3.85%	$0.08	$0.03		$0.100	▲33.3%
BKY	19/01/2024	0.3250	▲ 8.33%	$0.80	$0.26			
BMN	19/01/2024	3.6100	▲ 0.56%	$3.77	$1.19		$3.200	▼-11.4%
BOE	19/01/2024	5.4000	▼- 3.23%	$5.67	$2.02	92.0	$4.763	▼-11.8%
DYL	19/01/2024	1.4750	▼- 1.34%	$1.59	$0.48		$1.640	▲11.2%
EL8	19/01/2024	0.5900	▲ 3.51%	$0.61	$0.27			
ERA	19/01/2024	0.0690	▲16.95%	$0.30	$0.03			
LOT	19/01/2024	0.3250	▼- 2.99%	$0.35	$0.15		$0.530	▲63.1%
NXG	19/01/2024	11.7500	▼- 0.76%	$12.35	$5.11			
PDN	19/01/2024	1.2300	▼- 5.02%	$1.33	$0.52	191.6	$1.190	▼- 3.3%
PEN	19/01/2024	0.1200	▼- 7.69%	$0.20	$0.08		$0.250	▲108.3%
SLX	19/01/2024	4.9200	▼- 7.52%	$5.39	$2.92		$5.800	▲17.9%



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

WEEKLY REPORTS

The Short Report - 25 Jan 2024

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

Summary:

By Greg Peel

Month Ending January 18, 2024.

The Short Report returns for 2024 after a summer break, noting short position changes since mid-December.

Over the period (to January 18) the ASX200 saw a net dip of -1%, but as of today the index is some 2.2% higher.

One might have expected that over the period shorters would have taken profits on precipitous falls in the share prices of lithium and other exotics miners, following the ongoing fall in the lithium price. But this is not the case.

Shorts in lithium miners Pilbara Minerals ((PLS)), Core Lithium ((CXO)) and Sayona Mining ((SYA)) have all increased – in Sayona's case to 11.2% from 8.8%. Mineral Resources ((MIN)) has snuck in at the bottom of the table.

Shorts in graphite producer Syrah Resources ((SYR)) have also increased, while uranium hopeful Deep Yellow ((DYL)) has remained in the 8% bracket despite a surging uranium price. Lynas Rare Earth ((LYC)) has ticked up as well.

The only exception in the lithium space is Liontown Resources ((LTR)), down to 5.8% from 7.4%, having suffered a steep fall earlier this month when its funding was pulled.

Gold miners have not been forgotten either, amidst ups and downs for the gold price. Shorts in Genesis Minerals ((GMD)) and Chalice Mining ((CHN)) have both ticked up.

As a few of last year's stocks have dropped below 5%, miners now account for 45% of all stocks shorted 5% or more.

One outlier is IDP Education ((IEL)), which has seen its shorts rise to 10.4% from 8.5%, ahead of this week's curbing of Canadian student intake, which had the stock tumbling on the day, and on following days.

Weekly short positions as a percentage of market cap:

10%+

PLS 21.2
SYR 16.1
CXO 12.7
SYA 11.2
IEL 10.4

In: SYA, IEL

9.0-9.9%

GMD

In: GMD

8.0-8.9%

DYL, WBT, FLT

In: WBT Out: SYA, GMD, IEL

7.0-7.9%

No stocks

Out: WBT, PEN, BOQ, LTR

6.0-6.9%

CHN, BOQ, ACL, HVN, APX, LYC

In: BOQ, CHN, APX, LYC Out: ARU

5.0-5.9%

SHV, IMU, LTR, LIC, IFL, OBL, MIN

In: LTR, MIN Out: LYC, CHN, JBH, STX, NEC, ZIP

Movers & Shakers

Will return next week on a week-by-week basis.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.6	0.5	NEM	0.6	0.5
ANZ	0.3	0.4	RIO	2.1	2.1
BHP	0.4	0.4	S32	0.8	0.8
CBA	1.7	1.6	STO	1.0	1.0
COL	0.7	0.9	TCL	0.6	0.7
CSL	0.4	0.4	TLS	0.4	0.3
FMG	0.7	0.7	WBC	1.4	1.4
GMG	0.4	0.4	WDS	1.1	1.2
MQG	0.8	0.6	WES	1.1	1.2
NAB	0.8	0.8	WOW	0.2	0.2

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

It is wrong to assume that short percentages published by ASIC simply imply negative market positions held by fund managers or others looking to profit from a fall in respective share prices. While all or part of certain short percentages may indeed imply such, there are also a myriad of other reasons why a short position might

be held which does not render that position "naked" given offsetting positions held elsewhere. Whatever balance of percentages truly is a "short" position would suggest there are negative views on a stock held by some in the market and also would suggest that were the news flow on that stock to turn suddenly positive, "short covering" may spark a short, sharp rally in that share price. However short positions held as an offset against another position may prove merely benign.

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

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

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

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

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

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

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