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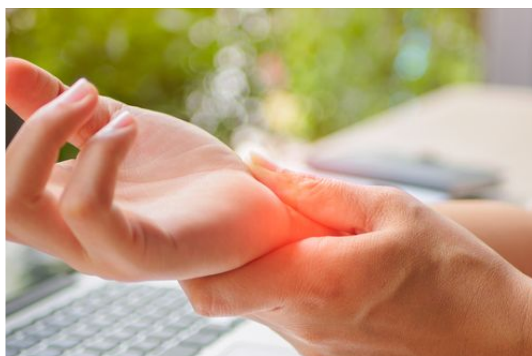
STORIES TO READ FROM FNArena

Friday, 15 March 2024

Are Australian Banks Overpriced?



Rudi's View: Healthcare Under The Scanner

Treasure Chest: Less Uncertainty For SG Fleet

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FNArena
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AUSTRALIA

The Market In Numbers - 9 Mar 2024

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

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

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

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

Australia & NZ

Index	08 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
NZ50	11923.720	1.53%	1.55%	1.30%	1.30%	0.06%
All Ordinaries	8107.50	1.25%	1.86%	3.55%	3.55%	9.54%
S&P ASX 200	7847.00	1.31%	1.93%	3.38%	3.38%	8.94%
S&P ASX 300	7798.90	1.32%	1.93%	3.49%	3.49%	8.96%
Communication Services	1593.60	0.50%	-0.16%	0.34%	0.34%	3.66%
Consumer Discretionary	3599.50	0.58%	0.26%	11.09%	11.09%	22.28%
Consumer Staples	12188.10	-0.29%	0.19%	-1.00%	-1.00%	-8.32%
Energy	10448.20	-0.68%	0.25%	-1.64%	-1.64%	-3.51%
Financials	7529.10	3.32%	3.87%	12.07%	12.07%	21.05%
Health Care	42919.40	1.47%	-0.07%	1.37%	1.37%	3.94%
Industrials	7135.60	1.23%	1.56%	3.93%	3.93%	4.99%
Info Technology	2289.90	1.44%	3.34%	24.93%	24.93%	25.17%
Materials	17793.50	-0.65%	1.33%	-8.71%	-8.71%	-1.32%
Real Estate	3631.90	2.55%	3.33%	8.49%	8.49%	19.32%
Utilities	8125.20	0.66%	1.22%	-0.67%	-0.67%	-6.97%
A-REITs	1646.70	2.61%	3.49%	9.60%	9.60%	21.55%
All Technology Index	3107.00	0.64%	1.06%	15.33%	15.33%	28.57%
Banks	3145.80	3.92%	4.65%	13.18%	13.18%	25.99%
Gold Index	6955.20	9.45%	11.46%	-5.60%	-5.60%	5.10%
Metals & Mining	5793.80	-0.63%	1.39%	-10.40%	-10.40%	-4.35%

The World

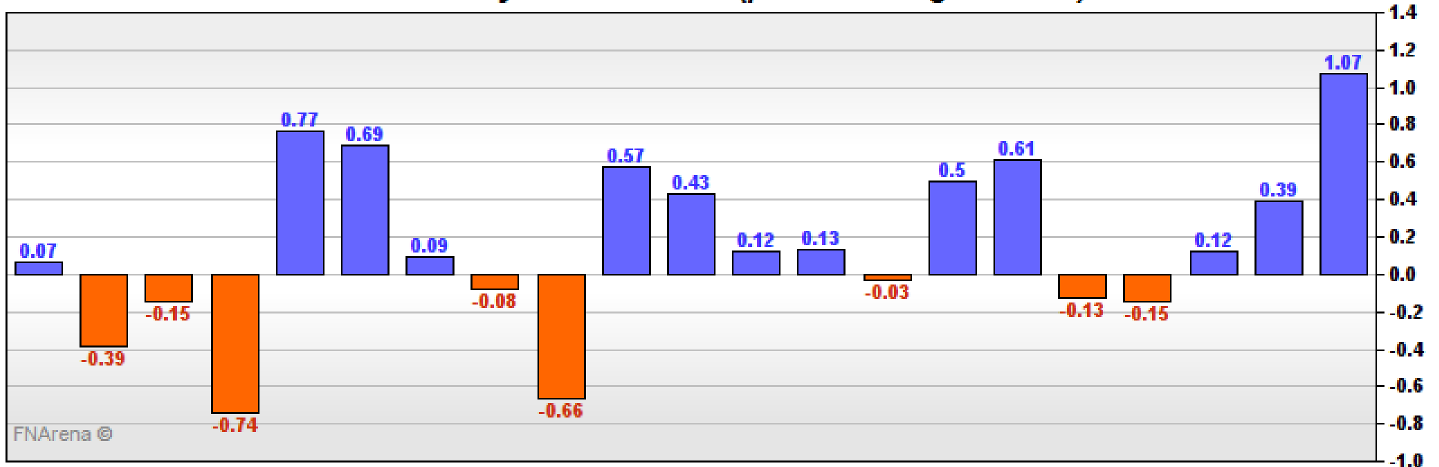
Index	08 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
FTSE100	7659.74	-0.30%	0.39%	-0.95%	-0.95%	1.70%
DAX30	17814.51	0.45%	0.77%	6.34%	6.34%	10.32%
Hang Seng	16353.39	-1.42%	-0.96%	-4.07%	-4.07%	-13.55%
Nikkei 225	39688.94	-0.56%	1.33%	18.60%	18.60%	19.58%
DJIA	38722.69	-0.93%	-0.70%	2.74%	2.74%	12.54%
S&P500	5123.69	-0.26%	0.54%	7.42%	7.42%	15.13%
Nasdaq Comp	16085.11	-1.17%	-0.04%	7.15%	7.15%	16.66%

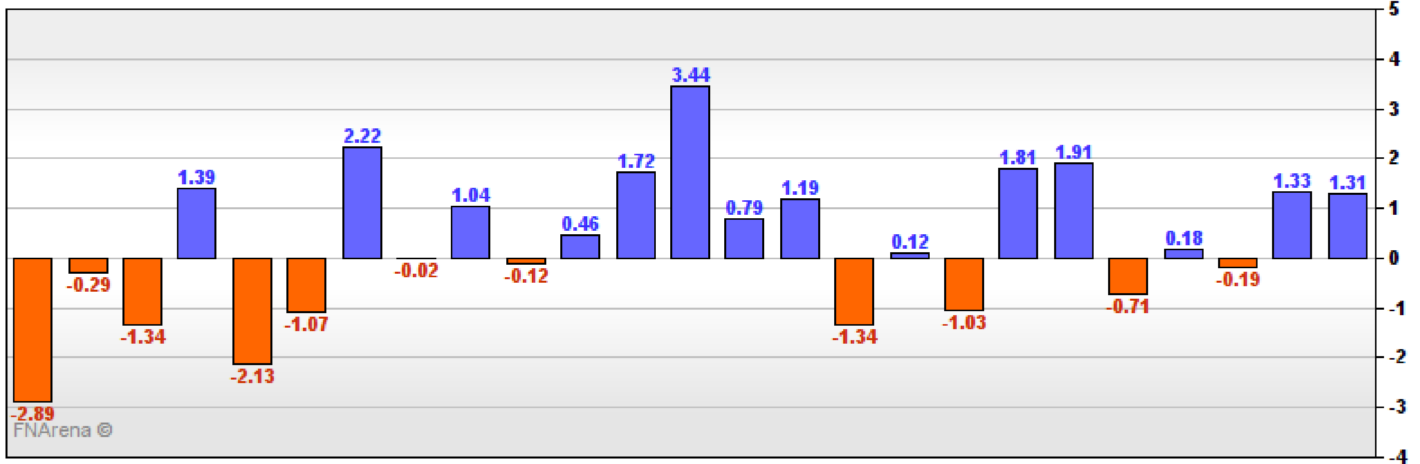
Metals & Minerals

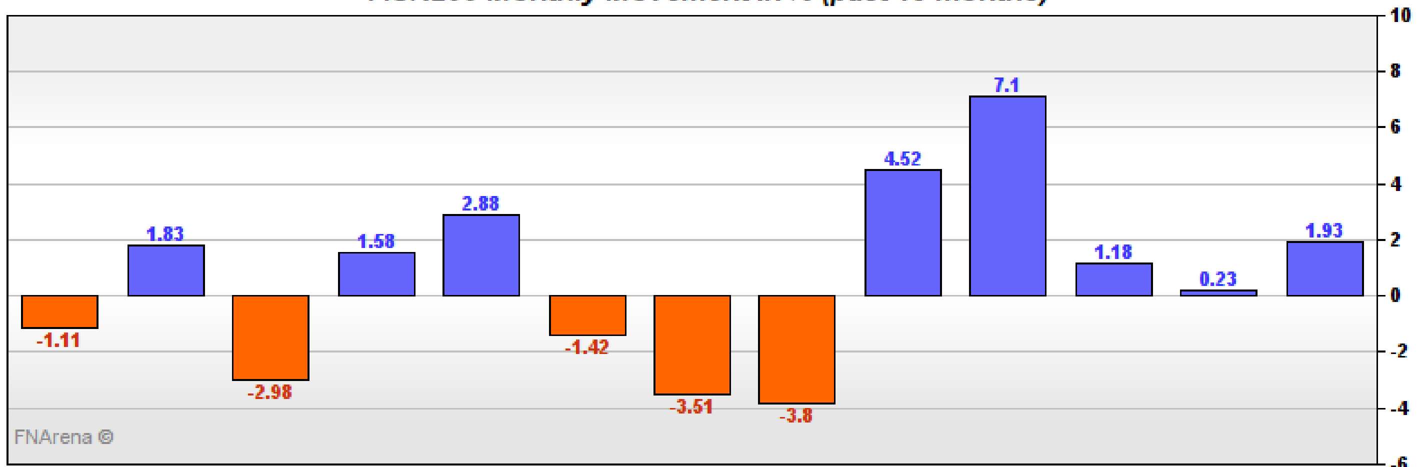
Index	08 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
Gold (oz)	2158.80	5.64%	6.16%	5.59%	5.59%	13.14%
Silver (oz)	24.31	7.52%	8.48%	-0.29%	-0.29%	7.90%
Copper (lb)	3.8907	1.91%	2.20%	2.17%	2.17%	4.68%
Aluminium (lb)	1.0138	1.30%	2.78%	4.27%	4.27%	5.85%
Nickel (lb)	8.0491	0.09%	1.00%	8.23%	8.23%	-9.56%
Zinc (lb)	1.1394	4.50%	4.85%	1.32%	1.32%	8.66%
Uranium (lb) weekly	93.50	-1.58%	-1.58%	8.72%	8.72%	66.37%
Iron Ore (t)	117.96	2.96%	3.58%	-14.66%	-14.66%	3.56%

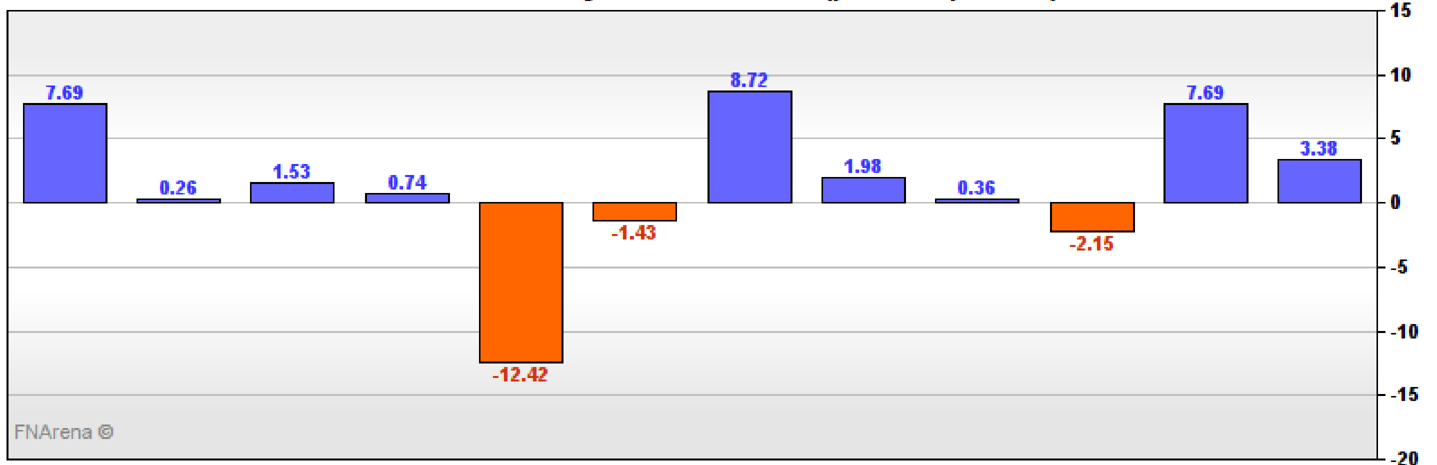
Energy

Index	08 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
West Texas Crude	78.89	1.14%	0.66%	6.88%	6.88%	12.93%
Brent Crude	82.83	-0.94%	-0.75%	4.50%	4.50%	11.47%









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

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AUSTRALIA

Are Australian Banks Overpriced?

Australian major bank share prices have been pushing ever higher recently despite lower forecast earnings and elevated PE multiples.

-Australian banks have been outperforming the index
-Earnings forecasts lower across FY24-25
-PE multiples have expanded
-Bad debts have surprised positively

By Greg Peel

Bank share prices have continued to rally in recent months, Macquarie notes, despite broadly consistent negative consensus views amongst investors and sell-side analysts (stockbrokers).

To that point, of seven brokers either monitored daily or regularly by FNArena, six have Sell or equivalent ratings on Commonwealth Bank ((CBA)) – some recent downgrades and other longstanding – while only one has a Hold rating. CBA's share price has nonetheless hit all-time highs.

Banks are looking expensive in absolute and relative terms, Macquarie suggests, after some 6% relative outperformance versus the broader market in the second half of 2023 and a further 8% since the beginning of this year.

The analysts thus pose the question: what are we missing?

Bank earnings expectations are more reasonable now, Macquarie suggests, but not overly conservative. The broker sees potential upside risk to earnings from rates remaining at current levels for longer while the economy remains resilient.

However, should rate cuts come through as expected, which is arguably the key driver of higher valuations in recent months, Macquarie sees downside risk to earnings, believing it will be difficult for banks to offset margin headwinds associated with lower rates.

Given the current political landscape and increased focus on social aspects, Macquarie thinks it will be difficult for banks to reprice mortgages, particularly in an election year (2025).

The broker sees limited scope for banks to materially surprise the market in the medium term and hence sees limited fundamental reasons for a structural re-rating. While accepting a lower risk profile for the sector, Macquarie believes it comes at the cost of lower margins and returns over the medium term.

Macquarie's response? "Underweight everything". The broker has downgraded all of Westpac ((WBC)), ANZ Bank ((ANZ)) and National Bank ((NAB)) to Underweight, joining CBA. Westpac suffered a double-downgrade from Outperform, while the other two are down from Neutral.

Not Alone

UBS goes a step further in noting bank share prices have rallied over 20% since November which the broker suggests has been driven by a soft-landing scenario, implying lower expected credit losses, and signs of lessening competitive pressures in deposits and lending.

Yet consensus currently has bank earnings declining by -8% in FY24 and -3% in FY25, and PE multiples have expanded to 16.1x forward during this period from 13.2x, UBS notes.

This broker acknowledges Australian banks are defensive, while capital returns underpin the investment case, but subsequent returns at these PE multiples have proven to be below market in the longer term.

UBS has ANZ on a Neutral rating, and the other three on Sell.

The Elephant in the Room

For many investors, CBA's performance in the mortgage market creates a significant amount of discussion and debate, Citi notes, as CBA continues to significantly lag major bank peers.

While much of the debate has been about cashbacks and front-book discounting, what is interesting from Citi's perspective has been the decline of CBA's broker channel performance.

With broker service levels no longer a point of differentiation, Citi believes only aggressive pricing will see CBA's share revert to market growth in the near term.

Recent rhetoric from management suggests it isn't likely we will see this anytime soon, as CBA laments its fixed-price mortgage strategy in the post-pandemic period which has inadvertently dragged down returns across the market.

This leaves CBA in the difficult position of waiting until others decide to ease off the current very competitive pricing, which could potentially take a while, Citi warns.

Citi has a Sell on CBA, and on NAB, and is Neutral on Westpac and ANZ.

But Wait…

Consensus has cut major banks' FY24 bad & doubtful debt forecasts by -44% since September 2022, Jarden notes, and another -20% for FY25-26. This has partly offset earnings headwinds from lower net interest margins and higher costs but how much lower can BDDs go?

Jarden sees further scope for BDDS to positively surprise (trend lower) given excess provisions held by banks against BDDs and growing prospects of a soft landing for the economy.

The broker's analysis continues to suggest a supportive housing/employment backdrop for asset quality, while

RBA rate cuts are also likely over the next year. Jarden is forecasting a first cut in February 2025, which is at the “hawkish” end of consensus.

The banks are well placed, Jarden notes, with some $5.8bn of potential surplus provisions against BDDs, which could be used to absorb losses or boost earnings. If the excess provisions are fully released, it could boost FY25 group profits by around 14%, the broker estimates, with CBA and NAB best placed and ANZ least.

Overall, with bank earnings risk skewed to the upside, in the broker’s view, improved capacity for dividends and more reasonable bank valuations (post the broker’s own upgrades), Jarden maintains a “constructive” neutral sector stance.

Preference is with NAB and Westpac, both afforded Overweight, followed by ANZ on Neutral and CBA on Underweight.

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COMMODITIES

Material Matters: Lithium, Iron Ore And Base Metals

Lithium and nickel prices close to lows; the impact of China's National People's Congress; other forecasts for iron ore and base metals.

-Have lithium prices reached a low?
-The impact of China's National People's Congress on commodities
-Growing chance for a balanced nickel market in 2024
-Citi's forecasts for base metals and iron ore

By Mark Woodruff

Have lithium prices reached a low?

Lithium supply cuts are picking up, notes Morgan Stanley, and lithium prices are likely closer to a trough. Canaccord Genuity agrees and sees opportunities for investors with some currently attractive valuations for lithium companies under research coverage.

Canaccord prefers incumbent producers and low-capex, near-term-development plays, but stresses it is not predicting a return to 2022 "boom" times in the short-term.

This broker now expects minor surpluses for lithium markets over 2024-25 and sees potential for surpluses to swing to deficits, providing pricing upside risk.

Chemicals and concentrate prices will continue to rally in the first half of 2024 to more sustainable levels in the "Goldilocks Zone", according to Canaccord, at around US$16,000/t and US$1,200/t, respectively. These levels are lower than the broker's prior forecasts.

In this Goldilocks Zone, the analysts suggest prices are "not too hot" as to incentivise high-cost supply and "not too cold" to lead to supply disruption/underinvestment. At the end of 2023/early-2024 pricing was too cold, suggests Canaccord, leading to supply disruptions across spodumene, direct shipping ore (DSO) and lepidolite in Australia, Africa and China, respectively.

The broker's long-term price forecasts remain at US$22,500/t for chemicals and US$1,500/t for concentrate.

Canaccord Genuity claims to have the most comprehensive lithium equity coverage globally (35 companies) and following the above updated pricing forecasts, price targets for developers/explorers and producers fall by -16% and -11%, respectively.

In Australia, the broker's targets for producers Pilbara Minerals ((PLS)), IGO ((IGO)) and Sayona Mining ((SYA)) are unchanged, while Piedmont Lithium's ((PLL)) target falls by -57% to 60c.

From among developers/explorers, Canaccord's targets for fifteen ASX-listed companies fall in a range of between -6% and -60%.

Morgan Stanley notes both supply cuts and environmental delays are boosting sentiment for lithium, while demand looks stronger driven by better-than-expected China cathode output in the first quarter of 2024.

However, Canaccord Genuity still anticipates a lithium market surplus in 2024 and highlights pausing or delaying upcoming projects sometimes results in additional costs. For example, there can be significant cancellation clauses related to equipment and other contractual agreements.

The impact of China's National Peoples Congress on commodities

ANZ Bank believes China's National People's Congress meeting has important implications for commodity markets.

The higher-than-expected 5% GDP growth target has raised hopes of further stimulus and implies support of the affordable housing market, which ANZ believes will offset some of the weakness in commodity demand caused by the lack of growth in construction activity.

Perhaps more importantly for commodity markets, the NPC highlighted an increased focus on high-quality development in new, emerging sectors, notes ANZ, with President Xi Jinping calling for “new productive forces” to drive the economy in 2024.

These forces include an increased focus on the EV supply chain, artificial intelligence, renewable energy, advanced technology, and cutting-edge semiconductors.

Authorities also vowed to prevent overcapacity in some industries, which the bank feels might curtail investment in the EV battery metals and steel industries. It’s thought the construction of real estate properties will slow further in 2024 and steel consumption is forecast by ANZ to fall by -4%.

The average utilisation rate of Chinese lithium-ion battery factories in 2022 was just 45% and has dropped further in 2024, notes ANZ, yet the government (with export sales in mind) plans to keep building battery plants. It’s noted exports will likely continue to grow given the price competitiveness and supposed technology advantages China’s EV makers have over international peers.

In support for aluminium and copper used extensively in EVs, ANZ notes the Chinese government’s work report highlighted the importance of EVs in the current economy and proposed supportive measures. In line with the bank’s expectations, authorities didn’t announce any new subsidies, but extended a tax exemption for the purchase of new energy vehicles.

Chinese demand for LNG should remain strong, in ANZ’s view, as Beijing has reiterated securing natural gas supply is paramount to both ensure energy security and provide base-load power supply to address intermittent supply posed by renewables.

Globally, ANZ Bank sees a floor for LNG prices, noting India is now poised to become the world’s fourth largest importer as its energy transition accelerates.

For base metals, the bank expects those with supply constraints hold more upside potential.

Potential in 2024 for a balanced nickel market

Nickel is now the best performed based metal so far in 2024, with all price gains made in the last fortnight. Morgan Stanley attributes the rally to both record net short positions on the London Metals Exchange and delays in mine permitting approvals in Indonesia.

The broker sees an improving risk/reward ratio for the nickel price, and suggests a nadir has likely been

reached, after a slew of production cut announcements in recent weeks. The analysts now see a growing likelihood of a balanced nickel market in 2024.

As a result of the falling nickel price, there have been -110kt of nickel production cuts, predominantly in Australia and New Caledonia, which has eradicated most of the 200kt surplus (forecast last December), which Morgan Stanley had allowed for in 2024.

Another 120kt of production is also at risk, according to the analysts, where funding has been suspended, or projects are under review. Of suspensions tracked by Morgan Stanley, nearly half have occurred in Australia. BHP Group ((BHP)) is also currently reviewing its nickel operations.

The nickel price declined by -45% over 2023, as surging supply from Indonesia combined with lower nickel-intensity batteries, explains the broker. Nickel-containing batteries continued to lose share to the lithium-iron phosphate (LFP) alternative.

Increasing Indonesian supply destined for the battery sector, suggests ANZ Bank, has the potential to weaken nickel prices, though the response by consumers in cutting output amid low prices should limit the downside.

In a positive for current demand, Morgan Stanley points out nickel sulphate prices have risen by 7% since the start of the Chinese Lunar New Year, suggesting to the analysts re-stocking by cathode producers. Moreover, logistical disruptions have slowed deliveries of Indonesian mixed hydroxide precipitate (MHP).

Citi's base metal and iron ore forecasts

Despite soft global manufacturing indicators and no meaningful catalysts (so far) from China's ongoing National Peoples's Congress (NPC), Citi remains tactically bullish on copper, iron ore and zinc over March and April. Palladium has also recently been added to the broker's list.

The analysts point to a "strong" January credit reading in China which implies strong February/March data, and note softer US data, along with broader risk-asset strength.

Citi expects softer jobs data in the US and an interest rate cut by the Federal Reserve in June, resulting in a lower US dollar and buoyancy for metal prices. However, any rebound in US manufacturing is expected to be limited for now, as global demand is still subdued and domestic consumption growth is set to slow.

Recent strength for equities and bitcoin is also constructive, according to the broker, as are fears held by investors of missing the turn for the manufacturing cycle.

While a lack of meaningful policy announcements at China's NPC meeting has dampened sentiment for metals, the broker still sees a signal of ongoing intent by China to support metals-intensive sectors. The government plans to promote trade-in schemes to stimulate sales for consumer appliances and automobiles, especially EVs.

The broker raises its near-term (0-3 month) zinc price forecast to US$2,650/t from US$2,500/t due to low visible zinc inventory in China and a tight market for concentrate supply following a -20% cut to production at the Seokpo smelter in Korea.

In the case of copper, the analysts attribute demand from decarbonisation-related sectors for the red metal's divergence from global manufacturing sentiment since 2022, along with potential AI-related demand growth.

Current forecasts by Citi are for copper to touch US$8,000/t during March/April, with US$9,000/t also considered feasible. ANZ Bank suggests supply issues in South American mines should protect the downside for copper prices.

Citi also expects the iron ore price will reach US$130/t over the March/April period.

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FEATURE STORIES

February Result Season 2024: The Wrap

The February result season was a largely an average affair, assisted by underlying positive sentiment.

-Beats/misses pretty average
-Cost control a factor
-Margins in good shape
-Central bank policy in focus

By Greg Peel

With the February results season now complete in 2024, the **FNArena Corporate Result Monitor**, which had been building throughout the month, is now complete and published in its final form (see attachment).

Guide

The table contains ratings and consensus target price changes along with brief summaries of the collective responses from FNArena database brokers for each individual corporate result, and an assessment of "beats" and "misses".

Australian corporate results tend to focus on the profit line, with all its inherent potential for accounting vagaries, tax changes, asset write-downs and other "one-off" impacts. FNArena has focused mostly on underlying earnings results (more in line with Wall Street practice) as a more valuable indicator of whether or not a company has outperformed or underperformed broker expectations. There is also a level of "quality" assessment here rather than simple blind "quantity".

The Monitor summarises results from 387 listed companies. By FNArena's assessment, 127 companies beat expectations and 108 missed expectations, for a percentage ratio of 33/28% or 1.2 beats to misses. The aggregate of all resultant target price changes came in at a net 3.5% increase. In response to results, brokers made 44 ratings upgrades and 51 ratings downgrades.

The first FNArena Corporate Result Monitor was published in the August season of 2013. The years 2013-18 have now been averaged out as one block, lest the table become too long and cumbersome, leaving the past five years individually listed. See table:

FNArena Result Season Tracker

	#Stocks	%In-Line	%Beats	%Misses	Ratio	Up-grades	Down-grades	Ratio	%Target Change	Index Start	Index Finish	%Move
Feb-24	387	39	33	28	1.2	44	51	-1.2	3.6	7588	7745	0.2
Aug-23	390	43	29	28	1.0	50	45	1.1	-0.5	7410	7305	-1.4
Feb-23	345	38	29	33	0.9	53	46	1.2	-0.3	7476	7258	-2.9
Aug-22	344	42	31	27	1.1	33	79	-2.4	-3.0	6945	6986	0.1
Feb-22	350	36	43	21	2.1	56	43	1.3	-2.4	6972	7049	1.1
Aug-21	346	45	34	22	1.5	50	70	-1.4	4.6	7392	7535	1.9
Feb-21	347	40	47	13	3.7	61	43	1.4	5.0	6607	6673	1.0
Aug-20	318	45	36	19	1.9	54	52	1.0	5.0	5928	6061	2.2
Feb-20	314	42	31	27	1.1	72	48	1.5	3.9	7017	6441	-8.2
Aug-19	316	50	24	25	1.0	65	72	-1.1	2.5	6813	6604	-3.1
Feb-19	308	34	33	33	1.0	31	93	-3.0	-0.1	5864	6169	5.2
2013-18	302	35	42	24	1.3	63	76	-0.7	3.0			
Average	**339**	**41**	**34**	**25**	**1.5**	**53**	**60**	**-0.2**	**1.8**			

Notes:

#Stocks	Stocks covered by FNArena database brokers.
Beats/Misses	FNArena's own assessment based on net database broker responses.
Ratio	Expressed as positive when beats exceed misses, negative if misses exceed beats.
Up/downgrades	To ratings provided by FNArena database brokers.
Ratio	Expressed as positive if upgrades exceed, negative if downgrades exceed.
Target	Total target price movement in aggregate.
Index	Index start to finish taken from Jan 31/Jul 31 to Feb 28 (or 29)/ Aug 31.
%Move	Of the index over that period.

Looking Back

Before we assess the February result season it would pay to look back at where we were after last August's season.

The March quarter CPI had come in at 7.0% and the June quarter at 6.0%. Hence, by the August season we had seen the early signs of inflation receding. But it was still too high for the RBA, which in June lifted its cash rate to 4.10% from 3.85%.

The RBA then paused, and at the end of the August result season the cash rate was still 4.10%. But the board was still sending hawkish signals.

The big question last season was thus where will the cash rate peak? That would impact on corporate financing costs ahead, as well as consumer demand. And how far down could inflation come? That would impact on corporate input/labour costs.

The September quarter CPI printed 5.4% and just recently, December came in at 4.1%. The RBA decided to lift its cash rate to 4.35% in November, where it has since remained.

Taking some lead from the US, which one must inevitably always do, when the Fed started raising rates in 2022 all and sundry believed the US would enter recession by late that year. As that didn't eventuate, expectations moved to 2023.

Still it didn't happen. By late 2023 there were still those hanging on to the assumption a recession must occur, perhaps in the first half of 2024. Others were beginning to believe a mythical "soft landing" might actually be achieved. Whichever the case, Wall Street began moving up solidly from November, and has recently been hitting ever more all-time highs.

Those expecting a recession also expected, as a result, a bear market. 2022 had been extremely tough for higher valued equities because higher bond yields translated into generally reduced valuations, plus many assumed rising rates must lead to an economic and earnings recession. That recession has not occurred. As 2024 has unfolded, the proportion of still-bearish Wall Street commentators has been diminishing.

The initial spark for the late 2023 rally was a growing expectation the Fed would begin cutting rates in 2024, as inflation numbers came down. Given the strength of the economy (let alone no recession), initial assumptions of up to six rate cuts in the year have been cut back to three. Yet Wall Street is unfazed.

If the US economy is absorbing higher rates without incident, then it’s okay – buy the stock market.

We have also switched now to debating just when the RBA might make its first cut, even as RBA rhetoric has remained hawkish. As February unfolded, we saw lower than expected CPI numbers, higher than expected unemployment, and a lower than expected GDP, all leading to the assumption the RBA will not be pushing rates any higher. It’s just a matter of when the first cut comes.

From the close on January 31 to the close on February 29, the ASX200 rose 0.2%. Year to date, the index had returned 1.99% at end-February and 6.04% year on year.

The month saw some volatile moves, and some periods of dead-sideways, which was particularly the case in the traditionally busiest third week of the month. Wall Street was more volatile on a day-to-day basis over that period, but we have to some extent now learnt to ignore the impact of US Mega Techs, as we have very little correlation downunder, especially with regards market cap.

We can thus conclude the result season had a mildly positive undertone.

Another factor, closer to home for us, that gave us cause for concern after the August season, was the Chinese economy. China was expected to bounce swiftly out of its post-lockdown stasis but hadn’t. Beijing was expected to thus pour in the stimulus.

Fast forward, and little has changed for the Chinese economy. Beijing has introduced some stimulus, but in the form of incremental moves that economists agree have proven little more than tinkering around the edges.

There have since been some positive signs as far as Australia is concerned – lithium prices appear to have bottomed, for example – but otherwise, the ASX200 has managed to hit its own new highs despite little joy on the Chinese front.

Sentiment during the February result season was positive, and despite the usual surprise downs as well as ups, the downs did not upset the mood.

The Scorecard

Beats of 39%, as assessed by FNArena, compare to a ten-year average of 41%, while misses of 28% compare to 25%. Nothing wildly out of whack, but still respectively below the average on 'beats' and above the average on 'misses'.

Broker ratings upgrades of 44 compare to an average 51 so a little short, but downgrades of 51 compares to 60, so a balance.

While downgrades exceeded upgrades, a season which features a rising stock market will often lead to brokers pulling back a rating to Hold from Buy simply on valuation, particularly if a stock price took off on result release. And there were plenty of those.

The number of in-line results at 39% is slightly below the average 41%.

As I point out after every season, companies which realise they are going to miss consensus forecasts will (usually) issue a profit warning ahead of the season, leading share prices to adjust on that day and the official result to be in line with adjusted forecasts.

More so now, however, is Australia’s quarterly update season, which has become pretty much universal across the listed spectrum, hence “in line with the January update” was an oft read phrase amidst broker assessments.

All in all an average season really, but given underlying sentiment was, and still is, positive, a good enough overall result.

Yet if we tighten our assessment to those ASX200 companies reporting, of which there were 160 within the 387 total, beats and misses were more even on 54/55.

Looking at the ASX50 (44 stocks), beats fell short of misses by 13 to 18.

Not so positive once we eliminate the smaller caps.

Costs

A takeaway from last August’s result season was that post-covid supply chain inflation was still a lingering factor, impacting on input costs and labour costs. And higher RBA rates meant a higher cost of funding.

This season saw an easing of input prices for some, but not all, companies, but no easing in labour costs. They have only risen since August, including at the minimum wage level.

For labour-intensive businesses, such as mining at one end and retailers at the other, labour costs remained an issue. Salaries do not typically come down in a hurry, and at the wage-earner level, never come down.

The upshot was that once again, as had been the case in August, companies that posted beats were often those that posted better than expected cost control. This then led to better than expected margins.

On the other side of the margin equation, price rises were a feature. So much so that one specific industry drew the scrutiny of the government and the ABC's investigative reporters.

The success of price rises depends on the "pricing power" of that company. As long as your customers are prepared to pay a higher price, if for no reason other than they don't have much choice, then your revenues will improve and so too your margins, leading to earnings beats. But if you don't have pricing power, and higher prices lead to a loss of business and potentially lower revenues, then you were more likely to miss.

In February, it was more a case of the former outpacing the latter.

On the finance cost front, there was for most part a recognition of higher costs rather than clear evidence of finance costs biting hard. REITs are arguably the most rate-sensitive sector, as well as being susceptible to reduced asset valuations, but there was a lot of action on the divestment/asset recycling front that helped pull a lot of REITs through.

There was also a lack of clear evidence the Australian consumer had completely gone into hiding, as was expected to be the case as we entered 2024. While there was a tightening of belts evident, for the most part retailers fared a lot better than had been feared.

Dividends

What had begun last August continued into February for Australia's materials and energy sectors. Those unheard of dividends of years prior, as commodity prices defied the odds, have given way to a refocus on growth projects and M&A in the industry that needs to draw upon cash flow that might otherwise have been handed over to shareholders.

But we knew this. There was still some disappointment in dividends, and dividend payout ratios, but not enough to shock.

Given certain commodity prices have receded since last year, such as base metals and battery minerals, weaker dividends in nominal terms were also to be expected.

The resource sectors are not as impacted by higher interest rates than other industries, as these companies don't typically go to a bank to borrow money for new projects. They still have to find funding sources elsewhere, but have the capacity to arrange offtake agreements (forward-sell expected production) and sell-downs (get a project to a point and then sell off a stake or two) to keep financing costs in check.

The banks are traditionally the biggest dividend payers, and February wasn't much different, except that CommBank ((CBA)) is the only bank to report among the Big Four. The other three run a September year-end.

CommBank reported in line with expectations, but ongoing pressure on net interest margins, driven by competition, led to lower earnings, yet the bank increased its dividend payout ratio by 4%. This cannot go on, said brokers, and most lined up with Sell ratings, including downgrades at the time.

CommBank has since been hitting new all-time highs.

The New Outlook

Both the Fed and RBA will not be implementing any more rate hikes from here – the Fed has said so, not yet the RBA – unless inflation swings back up again. There would have to be something out of left field to bring that about, but the world is not without its risks. Were Putin to invade a NATO country for example, or pull out the nukes, well, anything could transpire.

Or if China were to invade Taiwan.

Assuming no such scares, we should see lower rates by mid-year in the US and by later this year in Australia. The stocks markets, and bond markets, are nevertheless already pricing in this assumption.

In Australia we note the current two-year bond yield is around 3.70%, while the cash rate is at 4.35%. The two-year is seen as a proxy for the cash rate, so currently the market is pricing in -65 points of rate cuts, or around two and a half standard -25 point moves.

The US equivalent is trading around 4.45%, with the Fed funds rate at 5.25-5.50%, or 5.33% at the midpoint. That's a difference of -88 points, implying more than three but not quite four -25 point cuts.

This suggests when the first Fed cut does finally materialise, there is no reason for Wall Street to suddenly surge ahead. Maybe if it happened before June, which is the timing most currently anticipate, this would be positive. Given the US economy is chugging along just fine, the Fed has no reason to hurry.

The economy is what is leading Wall Street to higher highs, reflected in earnings growth and forecast earnings growth, hence rate cuts will be of no great consequence.

In Australia, the last GDP print indicated the economy continues to slow. We don't hear too loud a recession call given population growth, but on a per capita basis we've been in recession for some time.

At least the current situation is likely to lead the RBA to perhaps drop the hawkish rhetoric, even if we do need lower inflation prints ahead before the RBA is prepared to respond.

There remains the question of when the cost of living crisis will impact more noticeably on the Australian consumer, as we did not see this among retailer results in February. It may come down to just how long the RBA waits.

Then, of course, we are forever beholden to commodity prices, and thus to the Chinese economy. China's economic woes cannot be rectified in a short pace of time, and Beijing no longer has the capacity to launch a massive stimulus package al a 2008.

The expectation on Wall Street is 2024 will be another positive year, but more subdued than 2023. There is an assumption there will be a pullback at some stage, because there always is.

The Australian share market has become more skittish, particularly given last week's all-time high.

There is a greater vulnerability in the Australian economy as we look ahead to the next result season.

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

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

RUDI'S VIEWS

Rudi's View: Healthcare Under The Scanner

In this week's Weekly Insights:

-Healthcare Under The Scanner
-February 2024; The Final Verdict
-Rudi Unplugged, In April

By Rudi Filapek-Vandyck, Editor

Healthcare Under The Scanner

Technology companies and discretionary retailers might have crowned themselves as Champions during the local reporting season in February, post-season the focus among analysts goes mostly out to Healthcare and REITs, two market segments that have largely been on the nose ever since the world decided covid is just something you deal with.

The irony that healthcare services are among the most persistent victims of what became an enormous global health scare back in 2020, now in the fourth year post pandemic, shouldn't go unnoticed. Reality does have a way of carving out its own pathway, ignoring forecasts made and solidly beating human imagination.

Double irony: healthcare had been by far the best performing segment on the ASX pre-covid, with local sector leaders CSL ((CSL)), ResMed ((RMD)), Cochlear ((COH)) and Sonic Healthcare ((SHL)) delivering above-average returns for long-term oriented portfolios.

In their slipstream followed a queue of smaller-cap performers, including Ebos Group ((EBO)), Fisher & Paykel Healthcare ((FPH)), Nanosonics ((NAN)), and others.

In 2024, it's much more slim pickings to identify outperformers in the sector, or even 'performers' if we exclude brief, short-term share price moves. Pro Medicus ((PME)) and the aforementioned Cochlear have turned into stand-out exceptions, but their ongoing attraction has now become a public debate revolving around 'valuation' and 'true sustainable growth perspectives' for the years ahead.

In a market that likes to reward companies for reliable, oversized growth with no negative surprises, and both healthcare outperformers are certainly part of that group of companies locally, there will always be that investor dilemma of how much premium is too much?

The more interesting question for most investors relates to the rest of the sector: when can we expect the return of healthcare as a solid, reliable provider of strong growth, with no material negative surprises? Call it the good old days, when ResMed, believe it or not, was one of the best performers on Wall Street with a total return in excess of 1000% over ten years.

There's no denying, the operational context for many healthcare companies has changed. There's also no denying share prices for the past three years are reflecting exactly that.

Bugbears include the advent of competing treatments and medications, such as GLP-1s, the modern day miracle weight loss solution (for now), but equally so budget constraints for governments, for hospitals, and for households, fewer GP visits, and a marked pick-up in general costs.

Margin pressure has become the new focal point for the industry at large. Most analysts, and management teams at the helm of these companies, remain confident today's margins will improve in the years ahead, but maybe not to the levels witnessed pre-covid.

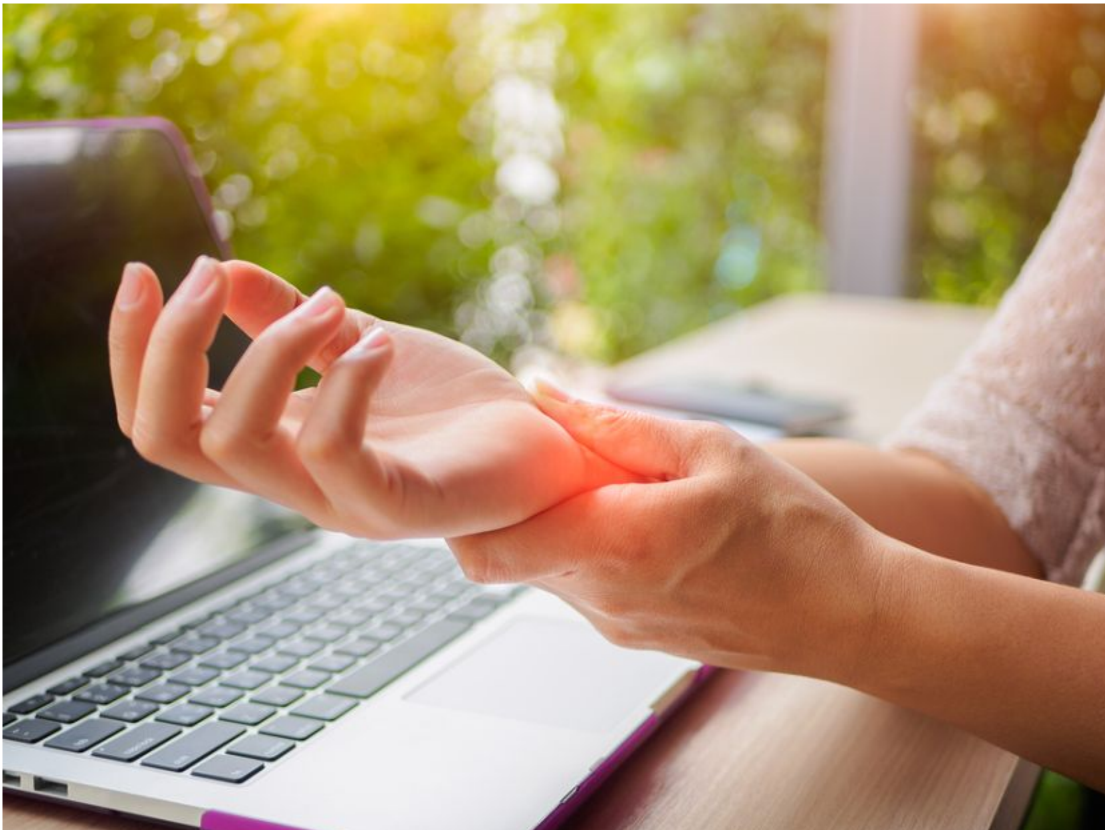
This will have consequences for general valuations, and for investors' enthusiasm to invest in the sector.

History shows, what usually happens when a sector remains under the pump for a longer-than-expected period, there usually follows a number of wash-out events, whereby the weakest, lower-quality and most vulnerable business models implode as the relentless pressure builds.

Recent events at Healius ((HLS)), which have driven the share price to its lowest level in more than 23 years, is such an outcome. Once again, also, investors have been reminded of the dangers of owning cheap-looking sector laggards for no other reason than the 'price'.

So let's assume we have cash to spare, and we are hopeful the current spell over the healthcare sector will not prove permanent. Where should we be looking to invest?

I asked the analysts.



The local market leader, CSL ((CSL)), has for many years carried the halo of 'probably the highest quality growth stock on the ASX' but general appraisal has gone silent as the share price keeps reverting back to the $280 price level in line with disappointing margin recovery to date and more negative market updates.

Spending more than US$1bn on developing and trialling CSL112 and ending up empty-handed is not something witnessed every day either locally or elsewhere.

The acquisition of Swiss company Vifor, costing circa US$11.7bn, has not been a grand success either, at least not in the initial phase of ownership. Vifor is being challenged in some of its key products.

Losing the label of apparent immortality has made the local analyst community noticeably less enthusiastic too. Model portfolios have scaled back their allocations, albeit generally in small gestures. Some analysts, like those at Wilsons, have now turned super-critical of the business, labelling Vifor a 'dud' and questioning CSL's small base for future growth.

The majority, however, focuses on the 80% of CSL that is performing well, with ongoing prospects for robust growth and recovering margins; plasma collection and vaccines.

Some analysts might remind investors when CSL acquired Seqirus (loss-making vaccines operation from Novartis) in 2015, the market was equally non-enthusiastic, at first, which allowed for positive surprise.

An investment in Australia's largest biotech, and the country's number three largest company by market cap,

relies on belief management can deliver on the promised margin recovery, while integrating and growing Vifor, and grabbing opportunities elsewhere, including from Vifor's pipeline of products under development.

As is often the case in these matters, the outlook for CSL shares is now closely intertwined with investor sentiment and the general perception is the shares don't genuinely move. In other words: a catalyst is needed, some good news. Under such circumstances, patience is a virtue.

FNArena's consensus target sits at $313.40, suggesting double-digit upside if sentiment, on balance, remains supportive in the year ahead. CSL remains a cornerstone inclusion in the FNArena/Vested Equities All-Weather Model Portfolio.

Macquarie

The healthcare team at Macquarie still has CSL as its most preferred healthcare exposure, followed by ResMed ((RMD)) and Monash IVF Group ((MVF)).

The resurrection of ResMed shares has been nothing short of spectacular once the shorters' GLP-1 scaremongering was replaced with a better understanding of the risks and potential consequences further down the road for medical equipment manufacturers such as ResMed. But there's also still the ongoing struggles at key competitor Philips, which will return to the US market at some point.

Most importantly, ResMed management got the message post August results season last year, and they made certain there would be upward movement in the company's margins this time around. It worked!

The message emanating from the ResMed experience is that investors want to see tangible evidence of margin recovery three years after the covid pandemic subsided. And if enough evidence is shown, the share price gets rewarded.

ResMed remains among the favourite stocks in the sector for many analysts teams researching the sector locally.

Monash IVF enjoys a positive rating from all four brokers monitored daily by FNArena. The consensus target sits at $1.56, circa 7.8% above today's share price (on Monday).

Morgan Stanley

The healthcare team at Morgan Stanley has also nominated CSL and ResMed as the two local sector favourites.

Morgan Stanley's preference lays with the large caps in the sector, with Monash IVF the sole small cap that carries an Overweight rating, the highest possible in this broker's ratings universe.

Equally worth noting: Ebos Group is also rated Overweight.

Morgan Stanley prefers to avoid Healius and Integral Diagnostics ((IDX)) on margins and elevated labour costs.

The analysts remain skeptical about the short-term outlook for Sonic Healthcare ((SHL)), having endured a series of disappointing market updates, but are prepared to retain an Overweight rating for the shares (on a longer term horizon).

Macquarie analysts are not so kind. They have Sonic Healthcare as their second least preferred sector pick, only preceded by Cochlear (on a too elevated valuation).

UBS

Conversely, healthcare analysts at UBS include Sonic Healthcare in their Top Three sector favourites, alongside Telix Pharmaceuticals ((TLX)) and CSL.

Sonic Healthcare is not a CSL, not in the slightest, but both share a common theme: the underlying core business is performing. At some point, we can but presume, most of the negatives will be left behind in the past and the market's attention will be drawn to the positive core.

UBS has only one genuine dislike; Cochlear. This time it's not the share price. The broker sees a potential threat from a product still in development by Moderna. If the upcoming phase III trial is positive, UBS can see a similar market response as was the case with GLP-1s for both ResMed and CSL last year.

Citi

The highly regarded team of sector analysts at Citi has more dislikes than favourites, also because share prices for Cochlear and Pro Medicus are simply considered too elevated to not warrant a Sell rating.

Other Sells carry too many unanswered questions; Ebos Group, Nanosonics, and Healius.

Citi's two favourites are Australian Clinical Labs ((ACL)) and ResMed.

Wilsons

Healthcare analysts at Wilsons still like ResMed and Cochlear, but here the analysts are prepared to move into the smaller cap space in order to find additional opportunities.

Such opportunities, Wilsons believes, include Telix Pharmaceuticals, Clarity Pharmaceuticals ((CU6)), Neuren Pharmaceuticals ((NEU)), Mayne Pharma ((MYX)), Immutep ((IMM)), Percheron Therapeutics ((PER)), Nanosonics, Avita Medical ((AVH)), PolyNovo ((PNV)), and Mach7 Technologies ((M7T)).

Evans and Partners

The order of larger cap preferences at Evans and Partners is ResMed on top, followed by Cochlear, CSL, Sonic Healthcare, Fisher & Paykel Healthcare, Ramsay Health Care ((RHC)), Ansell ((ANN)), and Healius last. Among smaller caps, the favourite is Integral Diagnostics.

Private hospitals operator Ramsay Health Care ((RHC)) delivered a positive surprise in February, but post share price reset general skepticism dominates. It has been a long while since this company came out with genuinely good news, outside of asset sales to reduce the debt burden or a financial performance that wasn't as bad as feared.

Ansell is only half-healthcare, at best, and that division is still suffering from post-covid hangovers. Similar to Healius, it is no surprise management is restructuring operations.

Sigma Healthcare's ((SIG)) future is now closely linked to the (effectively) reverse take-over by major client and shareholder, Chemist Warehouse. This company is scheduled to report financials on March 21.

According to analysts' forecasts post the February results season, healthcare is one of the strongest growing segments for the years ahead, led by Pro Medicus, CSL, ResMed, and Cochlear. The sector was equally mostly disappointing in February, including through Pro Medicus and CSL.

No doubt, the latter has tempered the market's enthusiasm in the immediate aftermath. Now the big question is: can the former outperformers start performing again, or do investors have to be patient for much longer?

Almost forgot to mention: ResMed too has remained a cornerstone inclusion for the All-Weather Model Portfolio. Plus healthcare services should be among key beneficiaries of AI in the decade ahead.

February 2024; The Final Verdict

In the end, corporate releases generally proved better-than-feared, though share prices were equally supported by positive sentiment.

Hold a big carrot in front of financial markets, in this year's context: the prospect for interest rate cuts, and underlying sentiment finds it a lot easier to look beyond short-term stumbles and hiccups.

But does any of this make the February results season a "good" one, or even a "positive" one?

On CommSec's data-crunching, expenses in aggregate are growing at 6% annually while revenues only increased by 3%. This is why winners and losers throughout the month were largely defined by the management team's ability to rein in costs.

And as most management teams, three years post global pandemic, lockdowns and supply chain bottlenecks, have formed a tighter grip on operational dynamics, the bias turned towards more positive surprises. Subdued

economic forecasts and low expectations beforehand also assisted companies with meeting or beating expectations.

In a season mostly defined by cost control, one would expect many metrics to show deterioration, and February truly played to that script. Back to CommSec's data: in February 81% of companies reported a profit, continuing the down-sloping trend since August 2022 and below the long-term average of 87%.

CommSec also reports this is the lowest outcome in seven consecutive reporting seasons. Aggregate profits have fallen by -35%. Less than half of all companies (49.6%) managed to grow profits versus a long-term average of 58%, but February signaled a marked improvement on the two seasons of last year.

This, naturally, weighs on available cash with total levels dropping by -25% over the year. Dividends retreated, but only by a net -2%. Of those paying out a dividend, 52% increased it, against 29% reducing their dividend and 19% holding it steady.

The ASX200 members have declared $33.9bn to be paid out in coming months, compared with $34.8bn a year earlier. More companies are still increasing their dividends, but the percentage is sliding steadily.

The market consensus forecast is for aggregate EPS to fall by -5.5% for the year to June 30th, with a positive follow-up to the tune of 4% in FY25.

A lot will hinge on economic momentum between now and then. Or maybe not. Analysts at Macquarie believe investors can be optimistic because more companies are able to keep costs under control and this should result in upgraded forecasts before the August season.

Already, on the broker's data gathering, more companies issued improved guidance in February than those who felt the need to temper expectations, with the largest contingent maintaining full year guidance. 82% of companies provided some kind of guidance, report the analysts, albeit not always quantified in numbers.

"Overall", concludes Macquarie, "the lack of major negative surprises in reporting season is probably enough to support Australian equities, so long as the cycle continues to improve and investors can look forward to Fed rate cuts and Stage 3 tax cuts in 2024."

Market analysts at Wilsons believe costs and the ability to control costs will continue defining corporate winners and losers over the coming 6-12 months.

Wilsons: "Despite cost deflation/disinflation being evident for freight and some raw materials, other key costs of doing business (CODB) line items have remained relatively sticky including wages, rent and other overheads (e.g. energy, IT expenses). A number of these CODB headwinds will remain prominent in 2H24 and FY25."

The final verdict of the **FNArena Corporate Results Monitor** is that 32.8% of corporate results proved better-than-expected while another 39.3% proved in line, leaving the remaining 27.9% to disappoint either through earnings, margins, forward guidance or a combination of multiple factors.

Seeing one third of result releases surprising positively is good for the soul and investor sentiment generally, for sure, but in the context of all reporting seasons we've covered since August 2013, and given expectations were low beforehand, it's not a tremendously fantastic outcome.

History shows February usually delivers more surprises than disappointments, and the number of 'beats' can run as high as 47%. February's percentage sits among the lowest from the past eleven years. The percentage of 'misses' (27.9%) is the fourth highest over that period.

CommSec's forecast is for "the Aussie sharemarket to drift through to mid-year as rate cut validation is amassed. The S&P/ASX 200 index is expected to be trading in 7,750-8,050 point range near the close of 2024."

Rudi Unplugged, In April

March is a busy month for Your Editor with presentations to CPA and the Australian Shareholders Association respectively on the 20th and 21st.

Rudi Unplugged, which intends to be an interactive communication/presentation for FNArena subscribers and enthusiasts, will thus take place in April.

I'll keep everyone in the loop; no need to hurry to send in questions and points of interests just yet (Though you can, of course).

Questions received to date relate to dividends, including APA Group ((APA)), investment opportunities, and All-Weather Performers.

Question and suggestions: editor@fnarena.com

FNArena Subscription

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

(This story was written on Monday, 11th March, 2023. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

RUDI'S VIEWS

Rudi's View: CBA, GQG, Pilbara Minerals, Sonic Healthcare, Webjet & Xero

By Rudi Filapek-Vandyck, Editor FNArena

M&A Is Back (With A Vengeance)

Even the more casual observer would have noticed the high number of announcements regarding acquisitions and mergers this year, with troubled AI (?) company Appen ((APX)) the latest target on the ASX.

Analysts at **Morgan Stanley** believe it's only the beginning of what might well turn into a genuine tsunami in the months and weeks ahead.

The simplest explanation for the rapid pick-up in overall M&A activity is it has been very quiet for quite a while in this regard, as rising bond yields, central banks tightening and concerns of economic recession kept most corporate boardrooms in defensive mode. But now most of these scary headwinds are dissipating, companies are ready to explore buying growth again.

What adds to Morgan Stanley's confidence is overall activity has been so far below-trend, a simple reversal back to the 2014-22 average already implies a significant number of deals needing to be concluded. A 50% rise in M&A globally is easily on the agenda, the broker surmises.

The statistical 'undershoot' in recent years is estimated between -US$4-11trn. On the analysts' own data, corporates currently hold in excess of US$5trn in cash, while private markets have US$2.5trn of dry powder, on top of the observation that markets are once again open for new equity raisings.

Sectors identified as most ready for action include healthcare, staples, technology, and real estate. Europe, it looks like, will be the key epicentre of the global M&A revival.

However, judging from year-to-date activity in Australia, investors locally need not fear the fresh bonanza in corporate M&A might bypass the ASX. Already, more than 20 companies locally have attracted M&A interest, and many more are likely to follow.

The list below of M&A announcements is no doubt incomplete:

-A2B Australia ((A2B))
-Adbri ((ABC))
-Altium ((ALU))
-Alumina Ltd ((AWC))
-Ansarada Group ((AND))
-APM Human Services International ((APM))
-Appen ((APX))
-Azure Minerals ((AZS))
-Boart Longyear ((BLY))
-Boral ((BLD))
-CSR ((CSR))
-Genex Power ((GNX))
-Link Group ((LNK))
-Newmark Property REIT ((NPR))
-Origin Energy ((ORG))
-OreCorp ((ORE))
-Pacific Smiles ((PSQ))

-Pact Group ((PGH))
-Perpetual ((PPT))
-Probiotec ((PBP))
-Qantm Intellectual Property ((QIP))
-Southern Cross Media ((SXL))
-Superloop ((SLC))
-Task Group Holdings ((TSK))
-Virgin Money UK ((VUK))
-Volpara Health ((VHT))

One fund manager for whom all of the above is nothing but music in the ears is **Tamim Asset Management**; last year the manager decided to refocus the small cap portfolio towards potential M&A targets, and that switch in strategy has been handsomely rewarded already.

Stocks held in portfolio when news broke of a corporate approach include Link Administration, Pacific Smiles, Probiotec, Qantm Intellectual Property, Superloop, Task Group Holdings, and Volpara Health. Stocks held and explicitly nominated for that next announcement include Ainsworth Game Technology ((AGI)), Bravura Solutions ((BVS)) and Praemium ((PPS)).

Conviction Calls

Post February reporting season, analysts at **Morgan Stanley** have started to nominate their Key Picks in the mid and small cap space on the basis of reported results and anticipated outlook.

The two first nominations made are Accent Group ((AX1)) and SG Fleet ((SGF)).

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Market strategists at **Wilsons** believe Australian tech stocks should remain an important part of an investor's portfolio, but after stellar performances in many instances, it is also time to become more selective.

Strong earnings growth remains the key, the strategists argue, as meaty-looking PE ratios shrink naturally with high growth numbers being achieved.

Wilsons provides the example of Xero ((XRO)), whose forward-looking PE ratio stood at no less than 200x five years ago. Today, the PE has shrunk to 83x; still high, but a lot lower than what it was. (The numbers quoted are different from FNArena's, but that's not the issue here).

Most importantly, highlight the strategists, the share price has grown over that period from $50 to $130 for an annualised return of circa 21%.

Core message: there are serious failings in focusing on the PE only when strong growth, combined with upward revisions to future forecasts, can propel the share price a lot higher.

Wilsons suggests tech stocks are well-placed to continue outperforming the broader market over the medium-term, but investors will need to do their homework on valuations relative to the growth achieved, also: how much of the future is already priced in? Factors that could lead to higher earnings growth should equally be considered, as well as the overall financial health of the companies involved.

Wilsons' two Top Picks are Xero and Netwealth Group ((NWL)).

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Guardians of the Core Model Portfolio at **stockbroker Morgans** have added additional exposure to Sonic Healthcare ((SHL)) and Washingon H Soul Pattinson ((SOL)).

The Growth Model Portfolio has increased weightings for ResMed ((RMD)) and NextDC ((NXT)).

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Remarkable: portfolio positioning and selection of most preferred stocks at **Barrenjoey** has not changed one iota over the February reporting season.

Barrenjoey market strategist Damien Boey is concerned there's too much momentum-chasing going on in the share market with Australian equities driven mainly by safe-haven rotation away from China.

The preference lays with large-caps, quality and value rather than growth or momentum.

Barrenjoey's Bucket List of preferred exposures consists of:

-Aristocrat Leisure ((ALL))
-Beach Energy ((BPT))
-Brambles ((BXB))
-CSL ((CSL))
-Incitec Pivot ((IPL))
-Insurance Australia Group ((IAG))
-Ebos Group ((EBO))
-Lynas Rare Earths ((LYC))
-Medibank Private ((MPL))
-Mineral Resources ((MIN))
-nib Holdings ((NHF))
-Northern Star ((NST))
-Pilbara Minerals ((PLS))
-Steadfast Group ((SDF))
-Perseus Mining ((PRU))
-Qantas Airways ((QAN))
-QBE Insurance ((QBE))
-Rio Tinto ((RIO))
-Sandfire Resources ((SFR))
-Santos ((STO))
-South32 ((S32))
-Stanmore Resources ((SMR))
-TechnologyOne ((TNE))
-Telstra ((TLS))
-Viva Energy Group ((VEA))

In general terms, the Barrenjoey strategist believes markets are too sanguine about correlations and risks for the year ahead, running hard on positive expectations and thus opening up vulnerability when alternative scenarios unfold.

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While **Ord Minnett** might be white-labeling Morningstar research, the retail stockbroker still employs a number of in-house analysts, as well as in-house market strategists.

The latter allows the broker to select and publish its own Conviction List, which currently includes:

-Alliance Aviation Services ((AQZ))
-Cosol ((COS))
-EQT Holdings ((EQT))
-GQG Partners ((GQG))
-Lindsay Australia ((LAU))
-Ramelius Resources ((RMS))
-Regis Healthcare ((REG))
-Select Harvests ((SHV))
-SRG Global ((SRG))
-Supply Network ((SNL))
-Waypoint REIT ((WPR))
-Webjet ((WEB))

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Canaccord Genuity's Model Portfolio has added Scentre Group ((SCG)) and Stockland ((SGP)) while also removing Amcor ((AMC)) and The Lottery Corp ((TLC)).

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Post the February results season, **UBS's list of Most Preferred** ASX-listed exposures has added Reliance Worldwide ((RWC)), Coles Group ((COL)), Universal Stores ((UNI)), and Rio Tinto with all fresh inclusions believed to have delivered solid earnings beats, with signs of cost control, the broker explains.

UBS strategists are worried falling inflation is not by default a positive during a time when top-line growth is decelerating for large chunks of the Australian economy.

All in all, taking into account the fresh updates and insights from February, UBS strategists have upgraded Industrials to Portfolio Overweight, where the sector joins Infrastructure & Utilities, Insurance and Technology.

Consumer Discretionary has been upgraded to Neutral, while Mining has been downgraded to Neutral. Both sit now alongside Consumer Staples and Energy.

Healthcare has been downgraded to Underweight, joining Banks and Real Estate.

The list of Most Preferred exposures has lost BHP Group ((BHP)), Qantas, Seven Group ((SVW)) and Woolworths Group ((WOW)).

The rest of the list now consists of:

-AGL Energy ((AGL))
-Orica ((ORI))
-Origin Energy
-AUB Group ((AUB))
-Computershare ((CPU))
-nib Holdings
-QBE Insurance
-CSL
-Harvey Norman ((HVN))
-Seek ((SEK))
-Telstra
-Transurban ((TCL))
-Webjet
-WiseTech Global ((WTC)
-Worley ((WOR))
-Xero

Plus the above mentioned new additions.

UBS also has a list of **Least Preferred** exposures, from which CSR (take-over pending) and Westpac ((WBC)) have been removed, while Bega Cheese ((BGA)) and CommBank ((CBA)) have been freshly added.

The remaining inclusions are:

-ASX ((ASX))
-Bank of Queensland ((BOQ))
-Cochlear ((COH))
-Domain Holdings Australia ((DHG))
-Super Retail ((SUL))
-Vicinity Centres ((VCX))

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Strategists at **Wilson** also work with a list of **Most Preferred Equities** on the ASX. That list has been enlarged with Breville Group ((BRG)), Goodman Group ((GMG)), and Collins Foods ((CFK)).

Were already included in the selection: IDP Education ((IEL)) and Worley ((WOR)).

Have been removed: Steadfast Group, Sandfire Resources, and Amcor though all three remain in Wilsons'

Australian Equities Focus Portfolio.

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Small cap analysts at **Goldman Sachs** have picked Life360 ((360)) and Macquarie Technology ((MAQ)) as their two favourites.

Regarding Life360, the analysts expressed their conviction that stock's re-rating has only just begun.

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Small Cap specialists at UBS have equally used the February results season to sharpen their focus, leading to the following selection of Key Picks:

-GrainCorp ((GNC))
-GUD Holdings ((GUD))
-Imdex ((IMD))
-Kelsian Group ((KLS))
-NextDC
-Ridley Corp ((RIC))
-Siteminder ((SDR))
-Webjet

From a macro perspective, UBS notes small cap 'growth' outperformed 'value' throughout the season and forward PEs generally for small caps have re-rated by circa 4 percentage points to an average of 21x.

On the flipside, more earnings forecasts for small caps were downgraded than have been upgraded.

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

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

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

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SMALL CAPS

Dr Boreham's Crucible: Neuren Pharmaceuticals

Tim Boreham reports Neuren Pharmaceuticals has suffered from accusations from an activist shorter which others have debunked.

By Tim Boreham

ASX Code: ((NEU))

Share price: $20.16

Shares on issue: 127,234,676

Market cap: $2.56 billion

Chief executive officer: Jon Pilcher

Board: Patrick Davies (chair), Mr Pilcher, Dr Trevor Scott, Dianne Angus, Dr Jenny Harry, Joe Basile

Financials (year to December 31, 2023): revenue $231.92m (previously $14.5m), net profit $157.08m (previously $184,000), earnings per share $1.236 (previously 0.001c), cash balance $247m (previously $43.2m)

December quarter 2023: receipts $10.11m, net cash inflows $4.776m, cash on hand $228.54m, quarters of available funding: lots

Major identifiable shareholders: Milford Asset Management 5.08%, Cameron Richard Pty Ltd 3.3%, Stuart Andrew Pty Ltd 1.95%, Essex Castle 1.89%

A year since Neuren and its US partner Acadia Pharmaceuticals gained US Food & Drug Administration (FDA) approval for their rare neurodegenerative disease drug Daybue (trofinetide), the companies have been reaping the financial rewards in dramatic style.

Last week Neuren reported a $157m profit for calendar 2023, compared with a $183,000 surplus previously. Corporate accounts usually describe such increments as ‘large’, but the company calls it out as an 85,270% increase – to be precise.

The profit derives from milestone and royalty payments from Acadia, which is selling the drug in North America and has the rights to distribute elsewhere. Daybue treats the paediatric ailment Rett syndrome, for which there is no other treatment.

Given the company is also swimming in cash, one would think that management would be afforded a ticker-tape parade.

Instead, Neuren shares had their worst fall in 12 months, partly the result of a research report from activist New York short seller Culper Research alleging Daybue had been a “complete flop”.

Neuren chief Jon Pilcher declined to comment on the report, which is aimed at Acadia and does not mention Neuren. But he couldn’t resist describing the missive as having “zero credibility”.

He adds: “there’s an atmosphere of people looking for negatives rather than taking a great story at face value.”

An overnight 20-year success story

A rare story of an Australian company getting a drug to market, Neuren (and Acadia) worked on Daybue for more than two decades.

Trofinetide was invented 20 years ago at Auckland University, in a program spearheaded by eminent chemist Prof Margaret Brimble.

A Nasdaq-listed neurological diseases specialist, Acadia acquired the North American rights in August 2018 as well as the responsibility for a phase III trial and securing FDA approval.

In March 2023 the FDA approved trofinetide for the treatment of Rett syndrome in adults and children aged two or more. In April, Acadia started selling the drug.

Acadia assumed the global rights in mid July 2023, triggering a $US100m upfront payment, as well as potential milestones of up to $US427m plus royalties.

Neuren’s chief financial officer since 2003, Mr Pilcher succeeded Dr Richard Treagus who stepped down in 2020 after seven years in the top job.

About Daybue

Affecting only girls – not the sort of affirmative action we want - Rett syndrome is caused by a genetic mutation that results in inadequate signalling between brain cells.

Rett syndrome is marked by problems including difficulties in talking, breathing, eating and sleeping.

Often the girls appear to be normal until about 18 months, but then they stop meeting developmental milestones.

There are about 15,000 sufferers in Europe and 28,000 in China.

In the US there are approximately 5,000 diagnosed patients, out of an estimated 6,000 to 9,000 in toto.

Based on naturally-occurring molecules in the brain, Daybue reduces inflammation associated with excessive inflammatory cytokines and normalizes abnormally low levels of the insulin growth factor hormone IGF-1.

Because Daybue targets the underlying problems but does not fix them, patients need to continue taking the drug over their lives.

Acadia’s FDA application was supported by the results from a 187-patient phase III trial, called Lavender.

Lavender replicated the results of an earlier phase II trial called Lilac and came up roses.

To date, 860 patients have been treated in the US.

Mr Pilcher says 80% of the patient population is covered by Medicaid or private reimbursement.

Finances and performance

Given Acadia bears the cost of selling Daybue, Neuren's accounts are a simple case of the revenue from Acadia going straight to the bottom line.

Neuren reported revenue of $232m, 1500% higher than previously, generating the $157m net profit after the taxman took a $48.1m cut.

The revenue consisted of $27m of royalties, $59.4m of sales milestone payments and a $146m upfront payment for the global rights.

The royalties reflected Acadia's fourth quarter Daybue revenue of $US87.1m, at the top end of the guided $US80-85.7m.

Neuren's cash balance ballooned to $247m, from $43.2m previously.

Did someone mention dividends? Mr Pilcher says there's no point paying them until the company pays more tax and accrues franking credits.

Neuren shares fell -14% in reaction to the Culper report, but they are now only -8% lower.

The shares have tripled over the last year but after are adrift of their record high of $25.11 struck on December 28, 2023.

A stunning Dayb-ut

Meanwhile, Acadia reported full-year Daybue sales of $US177m and guided to calendar 2024 turnover of $US370-420m. This is despite January sales being softer than expected because of the holiday period, with most Rett clinics closed.

Neuren expects $A61-70m of royalties this year.

Neuren also should pocket a $US50m ($77m) milestone when Acadia achieves $US250m of sales.

All up, Neuren stands to collect milestone payments of up to US$350m based on four sales thresholds, capping out at $US1bn of sales.

Neuren is also entitled to one-third of the value of a Rare Paediatric Disease Priority Review Voucher (PRV), awarded to by the FDA to Acadia when it approved Daybue.

These fungible vouchers are normally sold to other pharma companies seeking fast-track FDA review of a potentially lucrative drug.

With the vouchers changing hands for around $US100m, Neuren factors in a $US33m benefit although Acadia appears in no hurry to sell the valuable paper.

The long and the short of discontinuances

Thanks – or no thanks – to the Culper report, investor interest centred on what Acadia had to say about patient discontinuances.

Acadia reported an 80% 'real world' persistency rate after four months, a substantial increase from 66 % for the tightly-controlled Lilac trial.

Seven months in, the real world persistency stands at 63%.

"Adoption of Daybue in the diagnosed Rett syndrome population has been faster than expected and caregivers and physicians have continued to report meaningful improvements in patients," Neuren says.

In short – excuse the pun - Culper claimed that Daybue discontinuances were much higher than claimed by Acadia, because of adverse events such as diarrhoea and seizures) and a high hospitalisation rate.

Culper models a 72% discontinuation rate in 2025, abating to 46% after 2026. The report claims that while Acadia estimates Daybue sales at $US650m to $US880m, sales will peak at only $US316m in 2024.

Culper disclosed a 'short' position in Acadia, but not Neuren. Short sellers 'borrow' stock from institutional holders for a fee, in the hope of purchasing the shares at a lower price and returning the stock to the 'long' owner.

Neuren supporters, unite

As well as being dismissed by Acadia and Neuren, the report drew a crucial response from several brokers and fund managers.

In its own report, Phoenix Growth Fund (PGF) said: “our findings support an estimated 35-25% discontinuance rate from October 2023 – a period (for which) Acadia has not disclosed sales numbers.”

As with Culper, PGF based its claims partly on analysis of Facebook posts from the Rett community.

“Whilst our study isn’t scientific in nature, it offers a more comprehensive approach than choosing to report just the negative comments and being heavily subject to selection bias.”

Broker Wilsons says the Culper report “misconstrues available data to over-extrapolate dramatic conclusions that simply are not rooted in fact.”

The firms concurs Daybue’s adverse event profile is “not great” - but that is not news.

Phelan’ good about the pipeline

Acadia expects a European filing for Daybue in the first half of 2025, a Japanese filing this year and potential Canadian approval this year. Acadia also expects a European launch of Daybue in 2026.

But Neuren’s greater fortunes could lie with a second compound to treat four other related severe genetic disorders with the exotic monikers of Phelan-McDermid, Angelman, Pitt Hopkins and Prader-Willi syndromes.

The compound, NNZ-2591, is thought to be more effective and less potent than Daybue.

The company has ‘orphan’ indication for these diseases.

In December last year Neuren released the top-line results of a Phelan McDermid phase II children’s trial, showing the drug results in a statistically significant improvement on several measures (based on caregivers’ and clinicians’ observations).

Pitt-Hopkins and Angelman trials are ongoing, with top-line result expected in the June 2024 and September 2024 quarters respectively.

Across the four diseases, the addressable market is five times bigger than the Rett catchment: 56,000 sufferers in the US, 71,000 in Europe and 205,000 in Asia.

Dr Boreham’s diagnosis:

Neuren’s experience with Culper once again highlights the controversial practice of activist ‘short’ funds taking a negative view of a company out of self-interest.

Your columnist believes such research is not intrinsically illegitimate, as it can counter over-optimistic research from ‘long’ investors with a similar vested interest in making money from the share price.

But if the shorters’ claims are a beat-up – as looks to be the case here – facts will prevail. The shares will rise and the shorters will fall – well - short of their objectives.

As Phoenix Growth Fund cheekily asserted, the Culper report was “refreshing” as it tested the fund’s thesis about whether it should be long in Acadia – and the answer is yes.

Meanwhile, Mr Pilcher says Neuren’s key challenge is to realise its broader opportunities, notably around NNZ-2591. He’s also on a tiring investor briefing circuit that would leave even the most sober pollie supine on a Canberra street.

“We have never been in such a strong position and we have never had such good opportunities ahead of us,” he says.

Wilsons exclaims that Neuren has “oodles of cash to fund their R&D pipeline, strong phase II data likely supporting registrational trial progression in the near term and - even better - an asset that is going to keep on giving in NNZ-2591 with two more key clinical trial catalysts within the next nine months.”

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. He likes to think his musings do not “misconstrue available data to over-extrapolate dramatic conclusions that simply are not rooted in fact.”

This column first appeared in Biotech Daily

Biotechdaily.com.au

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SMALL CAPS

Capitol Health's Higher Margin Outlook

Capitol Health's first half results exceeded brokers' expectations with higher margins thanks largely to good cost control.

-Brokers raise targets following Capitol Health's first half results
-The earnings margin increased by 200bps due to stringent cost control
-An increasing focus on higher fee modalities
-External review to identify further cost savings

By Mark Woodruff

Capitol Health's ((CAJ)) first half results, released a fortnight ago, showed good cost control in a period when the industry at large continued battling ongoing cost pressures.

Capitol provides diagnostic imaging and related services and is the fifth-largest radiology provider in Australia, with a strong presence in Victoria, Tasmania and South Australia.

Underlying earnings and margins came in ahead of consensus expectations, prompting analysts to raise 12-month target prices.

The momentum from 9.5% revenue growth in the first half continued into the second half, with management noting February year-to-date growth of 10.2%, even with persistent challenges in the GP referral market

Capitol's earnings (EBITDA) margin of 20.3% in the first half received a 200bps lift on the previous corresponding period. Wages as a percentage of sales improved by 160bps accounting for the bulk of the earnings margin increase, explains Jarden.

This broker believes the higher margin largely reflects better pricing from indexation and lower onboarding of radiologists (which weighed heavily in the second half of FY23), in addition to the better discipline on wages.

Medical imaging staff shortages, which have increased wage pressures, are showing early signs of easing, note the analysts, with vacancies declining in recent months from their peak in October 2023.

Assuming limited incremental inflationary pressure, Canaccord Genuity believes its 21.5% peak operating margin forecast looks conservative. Beyond FY26, Wilsons also forecasts margins will return to 21.5%.

While Capitol management noted the days of a 23-24% margin are gone, these old levels remain an aspirational goal.

Bulk billing rates and GP vacancies are two key metrics Jarden monitors. Both appear to have turned a corner (though the analysts are not confirming a trend yet), with government initiatives on international recruitment and the tripling of the bulk billing incentive fee having a positive impact.

Macquarie continues to anticipate a recovery in face-to-face GP consultations as a catalyst for improving diagnostic imaging volumes, with indexation of 4.1% expected to support revenue growth.

Management's strategic plan is progressing well, offers Canaccord Genuity, with a standard operating model across all practices, and now, unified clinical software across the board with the aim of restoring margins. Unprofitable sites are also being closed and an external review is being undertaken to identify further cost savings in procurement processes.

Going forward, **the company intends to focus on the higher fee modalities of computed tomography (CT) and magnetic resonance imaging (MRI).** The resulting mix-shift should produce ongoing benefits, notes Canaccord.

Macquarie agrees and expects the addition of new MRI machines will support fee growth. Capitol currently has 28 MRI machines (14 unfunded).

The company's bulk-bill mix has reduced to 74% from 78% in FY22, notes Ord Minnett, reflecting increasing ongoing investment in higher end modalities, with MRI and CT now accounting for 48% of revenue.

Valuation and outlook

Wilsons suggests there is an element of 'corporate take-over premium' in the current Capitol Health share price, with the broker's FY24 multiple suggesting a 10% premium compared to the average multiple for the company's peer group.

By contrast, Canaccord Genuity looks out to FY25 and notes an unwarranted discount to peer multiples, given Capitol's balance sheet health and the potential pathway for growth, which include brownfield expansion and M&A.

Ord Minnett concurs on the potential for bolt-on M&A activity, as its forecasts include margin expansion and improving free cash flows as workforce continuity/cost inflation headwinds moderate.

This broker also suggests the strategic shift in modality mix by management makes Capitol Health a more attractive target in a sector that remains ripe for consolidation.

Canaccord Genuity has a Buy rating for Capitol Health while Wilsons and Jarden have Hold (or equivalent) ratings. All three brokers have a 27c target after Wilsons and Jarden increased their targets by 2cps and 1cps following first half results.

Among brokers monitored daily by FNArena, Macquarie and Ord Minnett have Buy-equivalent ratings and an average target of 31.5cps, up from 30cps, which suggests just over 21% upside to the latest share price.

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Earlier today FNArena published a general overview of ins & outs for the local healthare sector: https://fnarena.com/index.php/2024/03/13/rudis-view-healthcare-under-the-scanner/

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TREASURE CHEST

Treasure Chest: Less Uncertainty For SG Fleet

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. Brokers see potential upside for SG Fleet.

Whose Idea Is It?

Morgan Stanley

The subject:

Potential upside for SG Fleet

More info:

The prospect of uncertain earnings for SG Fleet ((SGF)) when residual values (RVs) eventually normalise has weighed on the company’s share price over the last few years given a lack of new vehicle supply, explains Morgan Stanley.

The broker believes the narrative should now change, after record first half earnings for SG Fleet established earnings can be maintained, if not grown, even as used car prices become a headwind.

SG Fleet provides vehicle asset management services to corporate and government customers, as well as salary package vehicle leases for these customers’ employees.

Macquarie noted at the time of the first half results in mid-February operating conditions across A&NZ looked robust and favourable in the UK.

Record earnings in the first half were achieved despite a -25.8% decline in end-of-lease (EOL) vehicle risk income.

This fall in EOL income was caused by a -5.7% drop in volumes, observed Macquarie, while the average net profit per vehicle was -23% below the previous corresponding period. It's noted the average EOL selling price remains well ahead of pre-covid levels.

In a move towards a more sustainable lower level, according to Canaccord Genuity, vehicle risk now represents 21% of SG Fleet’s net income, which suggests improving quality of earnings.

Overall, the analysts at Morgan Stanley believe **fleet is one pocket within autos (and more broadly) that offers strong demand and earnings visibility ex residual value**.

The analysts see structural growth upside due to increasing fleet outsourcing, lower value Lite fleet conversions (where funding is not provided but is an initial entry point to a customer) and longer-term electric vehicle fleet tailwinds.

On electric vehicles, Canaccord Genuity noted corporate adoption remains limited at present, but momentum should build over time. It’s felt SG Fleet is particularly well placed given its leading market position in A&NZ corporate fleets and a corporate-weighted mix within its Novated fleet.

First half profit for SG Fleet was 20% ahead of Macquarie's forecast driven by net rental income, net additional products and services, as well as impetus provided by finance commissions.

Canaccord Genuity highlighted double-digit net revenue growth in the first half was largely due to a material step up in on-balance sheet funded income, a higher finance commission per unit, and agreed with Macquarie on the success of additional products and services.

This broker highlighted strong momentum for the Novated business with orders and deliveries increasing by 19% and 57%, respectively, an outcome which Macquarie felt was the key driver underneath overall earnings growth.

The fleet for the Corporate business was broadly flat on tight supply of higher volume and/or low emission vehicles, explained Canaccord, though core demand remained strong with record order and delivery levels.

Management at the company continues to expect around $15m of pre-tax synergies in FY26, further bolstering SG Fleet's ability to fight the RV fade. To be conservative, Morgan Stanley forecasts a normalisation in RVs over the second half of FY24 along with a decline in earnings, but still considers first half actuals were a strong data point for upside.

In a pointer for investors, Morgan Stanley will be testing its positive thesis for SG Fleet by monitoring upcoming new vehicle sales data as a barometer on supply.

Canaccord Genuity has a Buy rating and $3.58 target for SG Fleet. At the time of first half when shares were trading at $2.48, the analyst felt shares were trading too cheaply and drew attention to the attractive post-tax dividend yield on offer.

For brokers covered daily by FNArena, Morgan Stanley and Macquarie have Buy ratings, or equivalent, and target prices of $3.10 and $3.21, respectively.

The $3.30 average target of all three brokers suggests around 17% upside to the $2.83 share price at the time of writing.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 08-03-24

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 March 4 to Friday March 8, 2024
Total Upgrades: 7
Total Downgrades: 0
Net Ratings Breakdown: Buy 55.74%; Hold 35.16%; Sell 9.10%

In the fifth week of the reporting season ending Friday March 1, 2024, there were seven rating upgrades and no downgrades for ASX-listed companies by brokers monitored daily by FNArena. It was a quieter period by comparison to recent weeks, and over the next three weeks there will be only sporadic earnings releases by a relatively tiny number of companies.

The tables below show percentage downgrades by brokers to average earnings forecasts and negative adjustments to average target prices were broadly similar to upgrades and positive adjustments, apart from a few outliers.

Two of those outliers were Zip Co and Life360, which, along with Xero, received material upgrades by brokers to average earnings forecasts and target prices.

At the beginning of the week, brokers began upgrading forecasts for Life360, following the release of FY23 results on the Friday prior.

The results delivered on Morgan Stanley's sales forecast, beat the broker's earnings forecast, while FY24 guidance by management also exceeded the consensus forecast.

The highlight, according to Ord Minnett, was the announced move into advertising which will add a new, high-margin (around 70%), low-investment revenue stream. The introduction of advertising to non-paying monthly active users (MAU) is capital light, agreed Morgan Stanley, and even at very modest monetisation rates, implies revenue upgrades by consensus.

FNArena's daily monitoring of Life 360 consists of three brokers. Morgan Stanley has an Overweight rating, while Ord Minnett and Bell Potter both have Buy recommendations. The average target price of these three brokers last week rose to $13.63 from $10.45, suggesting a further 10.4% upside to the latest share price.

For Zip Co, UBS upgraded its rating to Buy from Neutral and raised its target materially to $1.43 from 36c. First half results in the prior week revealed stronger-than-expected cash earnings. The analyst was surprised by the addition of 100,000 net new active customers in the US for the half, reversing declining customer trends in the previous two years.

This broker noted US BNPL penetration is less than 2% of total payments, compared to 13-15% in Australia, suggesting significant room for further growth.

Last week, stockbroking analysts reacted to Xero's presentations in the prior week of management's FY25-27 strategy and aspirations for future growth.

Macquarie increased its target to $152.60 from $87 and upgraded by two rating notches to Outperform from Underperform. These changes reflect the broker's increased confidence in new management's strategy for better product development and an improved customer value proposition. A demonstration of the generative AI assistant (Just Ask Xero) reflected an advanced data and AI strategy that will potentially improve efficiency, in the analyst's view.

Anticipating the new strategy will increase annual revenue per user and subscription growth, Buy-rated Citi increased its target to $159 from $129.40. On the other hand, Ord Minnett maintained its Sell rating and $78 target in the ongoing belief Xero's international expansion is doomed to failure, despite the updated strategy.

On the flipside, Strike Energy headed up the negative change to average target price table below and came third on the earnings downgrade table. While first half earnings were largely as Ord Minnett anticipated, management unexpectedly reported discouraging results at the South Erregulla gas field, with appraisal wells SE-2 and SE-3 failing to flow.

Consequently, the Accumulate-rated broker reduced the prior 1,000 petajoule reserve and resource base forecast for the company by -40%, and the price target was also slashed by -40% to 30c.

More positively, the analyst noted the performance at the Walyering gas field (onshore Perth Basin) has been excellent and (unlike the market) believes the South Erregulla result is an isolated event and doesn't impact on the company's other resource positions.

Platinum Asset Management's average target price fell by around -11% last week after Ord Minnett (Hold) and Underweight-rated Morgan Stanley reacted to interim results in the prior week.

Ord Minnett observed profitability in the core funds management division has deteriorated further, as indicated by the net profit margin of 34%, down from 36% in the previous corresponding period. Net outflows from higher-margin retail funds under management were also worse-than-anticipated, resulting in a faster-than-expected compression in management fees.

This broker suggested a return to net inflows for Platinum Asset Management will be challenging given underperformance relative to comparable peers. Morgan Stanley was also concerned by the current elevated rate of outflows and felt the newly appointed CEO will need time to pivot to a new strategy.

Healius received the largest percentage downgrade to average earnings forecast by brokers in the FNArena database, though it should be noted the percentage move last week was exaggerated by the small numbers involved. Healius had already been issuing a number of profit warnings beforehand.

Interim results were released prior to last week (on February 27), and still managed to disappointed brokers even though management had issued a profit warning on February 21.

Last week, the focus was on the announcement by Healius of a strategic review of assets and structure, and the resignation of CEO and Managing Director Maxine Jaquet. Taking over these dual roles will be the company's current CFO, Paul Anderson.

The most likely outcome of the strategic review, suggested Citi (Sell), is a sale of the Imaging division, while a partial sale of the Pathology department may also be on the cards. The sale of Imaging would solve near-term gearing issues, yet the analyst cautioned it would not be sufficient to solve the profitability and structural challenges facing the Pathology department.

Both Citi and Buy-rated Ord Minnett left their 12-month target prices for Healius unchanged at $1.10 and $3.00 respectively.

Sandfire Resources was next on the earnings downgrade table, but both UBS (Buy) and Morgan Stanley (Equal-weight) remained upbeat about the outlook.

After further contemplation of in-line first half results released on February 23, Morgan Stanley increased its target to $6.35 from $6.30, while UBS raised its 2025-27 copper price forecasts by 13%, 19% and 13%, respectively, on increasing conviction over a supply crunch ahead and a robust demand outlook beyond the short term.

UBS also has Buy ratings for South32 and Evolution Mining due to their respective copper exposures.

Turning to the earnings upgrade table, the average earnings forecast for MMA Offshore, a provider of marine and subsea services globally, rose by 14% last week after Citi initiated research coverage with a Buy rating and $2.60 target. The company is benefiting from a robust cyclical upswing in offshore capex coinciding with no new vessel supply, explained the analysts.

MMA's revenue is generated from both time charter of vessels as well as from integrated projects which encompass vessel-hire as well as a suite of various technical services.

Management is optimistic about the benefits of diversification for the business, and the extent to which the growth in offshore wind and decommissioning reduces dependency on the Oil & Gas capex cycle. While an earnings trough in a downturn for the energy sector is likely to be less than for prior cycles, Citi cautioned the risk/reward for MMA is arguably less compelling than 12 months ago.

For those companies covered (and not covered) in commentary above, the reader may also refer to FNArena's daily Corporate Results Monitor (https://fnarena.com/index.php/reporting_season/)

The Monitor provides a summary of broker research on all companies that have reported results to-date.

Total Buy ratings in the database comprise 55.74% of the total, versus 35.16% on Neutral/Hold, while Sell ratings account for the remaining 9.10%.

Upgrade

ACCENT GROUP LIMITED ((AX1)) Upgrade to Neutral from Sell by UBS .B/H/S: 4/2/0

Following a review of the outlook for Accent Group, UBS has become more upbeat around both revenue growth and earnings (EBIT) margins.

The broker's rating is upgraded to Neutral from Sell and the target increased to $2.05 from $1.95.

Stronger revenue growth should arise from more stores, higher like-for-like sales growth, while earnings margins should lift due to a lower ratio for cost-of-doing-business (CODB)/sales, explains the analyst.

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

Bell Potter seizes upon the opportunity afforded by a recent share price fall to reinstate its rating for DroneShield to Buy from Hold.

The broker is confident the company's earnings will continue to grow in 2024, especially after the recent management presentation illustrating an ever-growing pipeline which currently stands at $388m for FY24, and $510m in total.

DroneShield had its first profitable year in 2023 and the broker notes the increasing risk of drones and the relevance of the company's AI/machine learning technology to counter the risk.

The 90c target is unchanged.

PLATINUM ASSET MANAGEMENT LIMITED ((PTM)) Upgrade to Hold from Sell by Bell Potter .B/H/S: 0/3/2

Platinum Asset Management's 1H results on February 29 were a minor beat on Bell Potter's forecasts aided by slightly better revenue
and slightly lower costs. A fully franked 6cps interim dividend was declared.

The broker was impressed by new CEO Jeff peter's first presentation of results, which included a two-point turnaround plan. It's noted the strategies will have a cost to implement, and there will be a lag between implementation and delivery.

Based on the results, the analysts increase earnings (EBITDA) forecasts by 7.1% for FY24, 14.7% for FY25 and 10.8% for FY26.

The target rises to $1.13 from 84c and the rating is upgraded to Hold from Sell.

SOUTH32 LIMITED ((S32)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 6/0/0

Macquarie upgrades its rating for South32 to Outperform from Neutral due to an improved operating performance, potential capital management and after applying a higher mutliple for the aluminium operations.

Should the Illawarra metallurgical coal sale proceed, the broker anticipates the company's concentrated aluminium and base metals exposure will provide upside into next year as prices strengthen.

The analyst forecasts an additional US$1.3bn of discretionary cash will be available in FY25 under the

company's capital allocation framework.

The target rises to $3.40 from $3.10.

SELECT HARVESTS LIMITED ((SHV)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/0/0

UBS upgrades its rating for Select Harvests to Buy from Neutral as the new CEO is delivering ahead of initial targets for cost and cash flows. Additionally, the almond price has improved in recent months with a positive impact on the company's balance sheet.

Regarding strategic initiatives, management has increased profit benefits to $40m from $15-25m due to lower people costs, along with lower water and power costs, explains the analyst.

UBS reduces its FY25 cost forecast for Select Harvests to $6.38/kg from $6.66/kg.

The broker's target rises to $5.10 from $4.20 on higher earnings forecasts and a higher assumed multiple.

XERO LIMITED ((XRO)) Upgrade to Outperform from Underperform by Macquarie .B/H/S: 4/1/1

Macquarie increases its target for Xero to $152.60 from $87 and upgrades by two rating notches to Outperform from Underperform.

These changes reflect the broker's increased confidence in the company's strategy as expressed by new key management personnel. Better product development and an improved customer value proposition are anticipated.

A demonstration of the generative AI assistant (Just Ask Xero) reflects an advanced data and AI strategy that will potentially improve efficiency, in the analysts's view.

Management will continue to focus on the US opportunity in the direct channel, notes Macquarie.

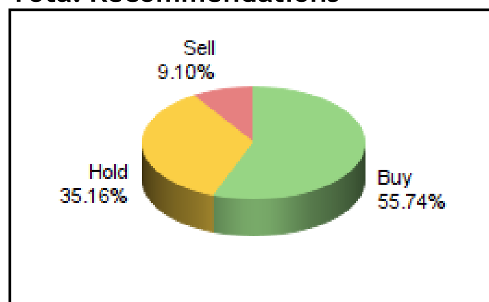
ZIP CO LIMITED ((ZIP)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/1/0

UBS upgrades its rating for Zip Co to Buy from Neutral and raises its target materially to $1.43 from 36c. First half results last week revealed stronger-than-expected cash earnings (EBTDA), driven by improving gross profit margins, explains the analyst.

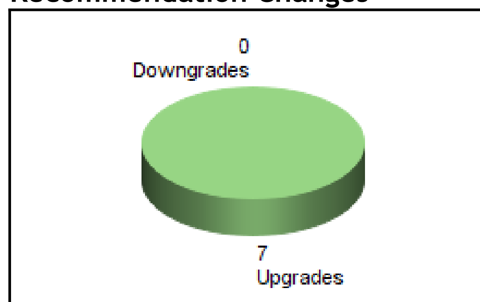
The results also illustrated to the broker the benefits from recent cost-out and strong momentum in the US. It's noted US BNPL penetration is less than 2% of total payments, compared to 13-15% in Australia, suggesting significant room for growth.

In a surprise for UBS, the company added 100,000 net new active customers in the US (in H1), reversing declining customer trends in the previous two years.

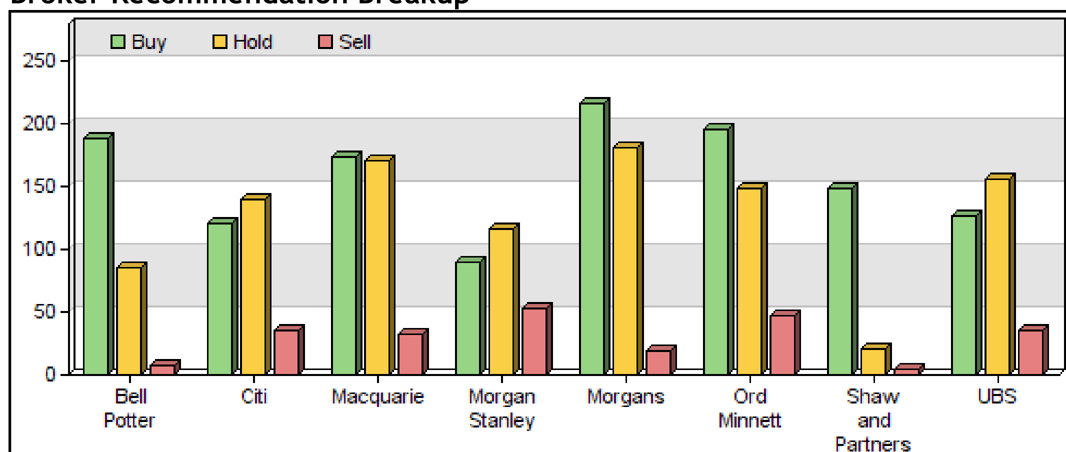
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ACCENT GROUP LIMITED	Neutral	Sell	UBS
2	DRONESHIELD LIMITED	Buy	Neutral	Bell Potter
3	PLATINUM ASSET MANAGEMENT LIMITED	Neutral	Sell	Bell Potter
4	SELECT HARVESTS LIMITED	Buy	Neutral	UBS
5	SOUTH32 LIMITED	Buy	Neutral	Macquarie
6	XERO LIMITED	Buy	Sell	Macquarie
7	ZIP CO LIMITED	Buy	Neutral	UBS

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	ZIP	ZIP CO LIMITED	1.097	0.740	48.24%	3
2	360	LIFE360 INC	13.627	10.447	30.44%	3
3	XRO	XERO LIMITED	126.483	110.617	14.34%	6
4	APM	APM HUMAN SERVICES INTERNATIONAL LIMITED	1.717	1.573	9.15%	3
5	SIG	SIGMA HEALTHCARE LIMITED	0.957	0.898	6.57%	6
6	SHV	SELECT HARVESTS LIMITED	5.070	4.770	6.29%	3
7	MP1	MEGAPORT LIMITED	14.250	13.458	5.88%	6
8	SFR	SANDFIRE RESOURCES LIMITED	7.450	7.233	3.00%	6
9	LOV	LOVISA HOLDINGS LIMITED	29.267	28.433	2.93%	7
10	CCP	CREDIT CORP GROUP LIMITED	18.240	17.763	2.69%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	STX	STRIKE ENERGY LIMITED	0.277	0.343	-19.24%	3
2	PTM	PLATINUM ASSET MANAGEMENT LIMITED	1.140	1.278	-10.80%	5
3	LTM	ARCADIUM LITHIUM PLC	10.467	11.563	-9.48%	3
4	FCL	FINEOS CORPORATION HOLDINGS PLC	2.523	2.757	-8.49%	3
5	DGL	DGL GROUP LIMITED	0.757	0.813	-6.89%	3
6	PWR	PETER WARREN AUTOMOTIVE HOLDINGS LIMITED	2.913	3.088	-5.67%	4
7	HLS	HEALIUS LIMITED	1.554	1.614	-3.72%	5
8	ALX	ATLAS ARTERIA	5.683	5.895	-3.60%	4
9	WOW	WOOLWORTHS GROUP LIMITED	34.200	34.992	-2.26%	6
10	SHL	SONIC HEALTHCARE LIMITED	31.558	32.217	-2.05%	6

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	360	LIFE360 INC	1.722	-0.542	417.71%	3
2	ZIP	ZIP CO LIMITED	-2.500	-6.167	59.46%	3
3	RHC	RAMSAY HEALTH CARE LIMITED	173.467	130.967	32.45%	6
4	LTM	ARCADIUM LITHIUM PLC	57.067	48.820	16.89%	3
5	MRM	MMA OFFSHORE LIMITED	20.633	18.100	13.99%	3
6	FCL	FINEOS CORPORATION HOLDINGS PLC	-3.764	-4.312	12.71%	3
7	XRO	XERO LIMITED	67.345	60.095	12.06%	6
8	ACF	ACROW LIMITED	11.800	11.100	6.31%	3
9	SHV	SELECT HARVESTS LIMITED	7.100	6.767	4.92%	3
10	MIN	MINERAL RESOURCES LIMITED	171.871	166.871	3.00%	7

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	HLS	HEALIUS LIMITED	-0.080	0.120	-166.67%	5
2	SFR	SANDFIRE RESOURCES LIMITED	-6.319	-2.481	-154.70%	6
3	STX	STRIKE ENERGY LIMITED	0.500	0.600	-16.67%	3
4	DGL	DGL GROUP LIMITED	6.233	6.900	-9.67%	3
5	INA	INGENIA COMMUNITIES GROUP	22.033	23.800	-7.42%	3
6	S32	SOUTH32 LIMITED	13.789	14.675	-6.04%	6
7	SHL	SONIC HEALTHCARE LIMITED	112.580	118.033	-4.62%	6
8	MP1	MEGAPORT LIMITED	8.750	9.133	-4.19%	6
9	ALX	ATLAS ARTERIA	46.633	48.600	-4.05%	4
10	SKC	SKYCITY ENTERTAINMENT GROUP LIMITED	15.176	15.792	-3.90%	3

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Stalled Legislation

The uranium spot market came to a halt last week as US Congress members had differing ideas on a ban of Russian imports.

-Spot U3O8 market on hold
-Term market demand ongoing
-Kazatomprom production guidance downgrade anticipated

By Greg Peel

Last week, the US House overwhelmingly passed legislation meant to speed up the development of a new generation of nuclear power plants, uranium industry consultant TradeTech reports.

It was a rare example of bipartisanship from an increasingly dysfunctional Congress. More true to form, Senate Republicans and Democrats have written their own legislation to promote nuclear power. The two chambers are expected to discuss how to reconcile their differences in the coming months, but final passage is not assured, TradeTech notes, particularly with so many other spending bills still pending.

There are only so many coming months ahead of the election.

The House did manage to pass a stop-gap bill last month to prevent a government shutdown, which is part of a two-step process towards a final budget bill that has been put off multiple times since mid-last year, each time threatening a government shutdown.

The latest spending bill includes US$2.7bn in reprogrammed infrastructure money for enriched uranium supplies. Lawmakers had been trying to include this in the national security supplement to help implement the recently passed Nuclear Fuel Security Act, TradeTech reports, which would ensure the purchase of US nuclear fuel.

Nuclear energy advocates see that act as an important early step in developing a domestic supply of enriched uranium for advanced nuclear reactors. As one of the steps in the process, the US House of Representatives Subcommittee on Foreign Affairs will hold a hearing tonight to review global dependence on Russian nuclear fuel.

The uncertain outcome and timing of these legislative developments have largely caused activity in the spot uranium market to come to a halt as market participants step away from the market taking a “wait and see” attitude, TradeTech reports.

Given the Republican majority House refused to even consider a bipartisan bill from the Senate providing aid to Ukraine, one wonders what attitude will be taken towards any attempt to curb imports of Russian uranium.

In the Real Market

TradeTech’s weekly spot price indicator fell -US50c last week to US$93.00/lb, amidst lack of interest from buyers or sellers, given said uncertainty.

The same uncertainty overhangs actual end-users of uranium, but they can’t afford to play wait and see.

Utilities across the globe were busy last week securing long-term contracts, TradeTech reports. A string of announcements has been forthcoming from producers concerning new contracts or Letters of Intent with utilities. Under the circumstances, utilities have been willing to accept higher prices.

In addition to accepting higher price terms, utilities are demonstrating their support for new or re-emerging supply by agreeing to other terms and conditions that are more favorable to the seller.

TradeTech’s term price indicators remain at US$100/lb (mid-term) and US$75.00/lb (long).

Kazatomprom

Kazakhstan's mostly state-owned uranium producer Kazatomprom represents some 40% of global U3O8 supply, Citi notes, hence any changes to the company's production guidance will move uranium prices.

Kazatomprom will release its 2023 earnings result on Friday. Citi is expecting a 2025 U3O8 production target downgrade and/or lower U3O8 inventory levels. The analysts cite constrained sulphuric acid availability and ramp-up challenges that make Kazatomprom's current 2025 production target unlikely.

Key existing assets are requiring more sulphuric acid to maintain production levels, Citi notes, as grades decline. Kazatomprom has likely depleted most of its easy-to-mine and high-grade resources and is now likely to go after more challenging ore bodies.

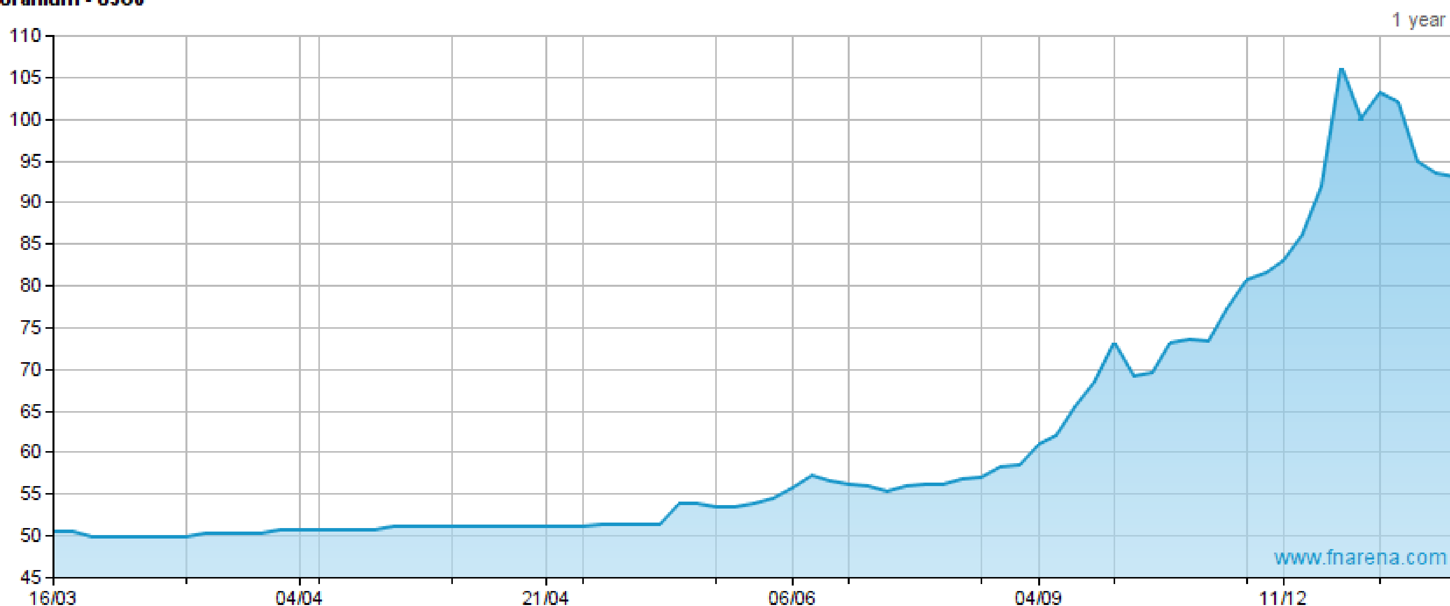
New development projects require more sulphuric acid due to demands on initial acidification and geology. Hence, the analysts believe for Kazatomprom to meet 2025 production targets, sulphuric acid consumption will have to increase substantially.

Citi sees the March 15 report as providing a catalyst for higher uranium prices. The broker covers only the one uranium company in Australia, being Paladin Energy ((PDN)), which will shortly restart production at its Langer Heinrich mine in Namibia.

The Paladin share price is highly correlated to the uranium price, Citi notes. The broker has a Buy rating and an $1.45 target price.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	11/03/2024	0.1200	0.00%	$0.19	$0.05			
AGE	11/03/2024	0.0550	▲ 1.85%	$0.08	$0.03		$0.100	▲81.8%
BKY	11/03/2024	0.3000	▼- 3.23%	$0.80	$0.26			
BMN	11/03/2024	3.1400	▲ 2.61%	$3.99	$1.19		$7.040	▲124.2%
BOE	11/03/2024	4.7100	▼- 2.48%	$6.12	$2.02	99.3	$5.697	▲20.9%
DYL	11/03/2024	1.2150	▼- 6.18%	$1.76	$0.48		$1.725	▲42.0%
EL8	11/03/2024	0.4700	▼- 4.08%	$0.68	$0.27			
ERA	11/03/2024	0.0520	0.00%	$0.23	$0.03			
LOT	11/03/2024	0.3900	▲ 8.33%	$0.40	$0.15		$0.610	▲56.4%
NXG	11/03/2024	11.1700	▼- 5.90%	$12.99	$5.11		$17.500	▲56.7%
PDN	11/03/2024	1.2400	▲ 2.48%	$1.46	$0.52	357.0	$1.513	▲22.0%
PEN	11/03/2024	0.1100	0.00%	$0.20	$0.08		$0.340	▲209.1%
SLX	11/03/2024	4.8900	▲ 1.03%	$5.78	$2.92		$7.600	▲55.4%



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WEEKLY REPORTS

The Short Report - 14 Mar 2024

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

Summary:

By Greg Peel

Week Ending March 7, 2024.

Last week the ASX200 began by moving sideways until late in the week when it spiked up to a new all-time high on March 8.

In last week's Report we saw the result of a bounce in the prices of lithium and other battery-related minerals, noting reductions in short positions in relevant miners.

Relevant miners, that is, except Pilbara Minerals ((PLS)) and Syrah Resources ((SYR)), which both carry long-entrenched short positions.

Last week brought a little more volatility in lithium prices, and thus so too mining stock prices, but the trend has resettled to the upside this week.

Last week there was thus little change in positions, outside a tick-up for lithium miner Liontown Resources ((LTR)) to 8.3% from 7.9%, and cobalt miner Chalice Mining ((CHN)) to 7.0% from 6.8%.

Liontown is up over 50% from its January low, when a previously arranged debt facility was pulled due to plunging lithium prices. The miner announced a new $550m debt facility yesterday.

Chalice is down over -80% since peaking a year ago, with no clear sign of a bounce at this stage.

Otherwise, we note Strike Energy ((STX)), which has been struggling with dry gas wells, has returned to the bottom of the table, as has rare earths developer Arafura Resources ((ARU)), with rare earth prices having similarly slid.

And so too Vulcan Energy Resources ((VUL)), which is a lithium developer. I sense a theme.

Weekly short positions as a percentage of market cap:

10%+

PLS 20.8
SYR 16.2
IEL 11.4

No changes

9.0-9.9%

FLT, DYL, GMD

No changes

8.0-8.9%

CXO, LTR, ACL

In: LTR

7.0-7.9%

WBT, LIC, SYA, LYC, CHN

In: LIC , CHN Out: LTR

6.0-6.9%

BOQ, APX, A2M

Out: CHN, LIC, SHV

5.0-5.9%

BGL, STX, OBL, IMU, MIN, HVN, SFR, VUL

In: STX, VUL, ARU Out: SSR

Movers & Shakers

Nothing this week.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.4	0.5	NEM	2.7	1.9
ANZ	0.6	0.5	RIO	3.4	3.0
BHP	0.5	0.5	S32	1.1	0.9
CBA	1.5	1.5	STO	1.0	1.0
COL	0.7	0.5	TCL	0.5	0.4
CSL	0.4	0.5	TLS	0.3	0.3
FMG	0.9	1.0	WBC	1.2	1.3
GMG	0.5	0.5	WDS	0.7	0.9
MQG	0.7	0.8	WES	1.1	1.1
NAB	0.7	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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WEEKLY REPORTS

In Brief: Gold, Building Products, Online Classifieds & Milk

Discounted gold miners; building products & services with US exposures; online classifieds; and improving conditions for milk producers and Australian farmers.

-Discounted gold miners
-US exposures for building products & services
-Jarden's favourites among online classifieds businesses
-Improving conditions for Australian farmers

By Mark Woodruff

The opportunity for gold investors

Canaccord Genuity points to the incongruity of recent record highs for both Australian dollar and US dollar gold prices and the ASX Gold Index which is currently around -13% below the 52-week high.

In a similar vein, gold companies under research coverage by the broker are all trading below their respective 52-week highs at an average discount of around -18%.

Taking into account the potential for central bank rate cuts, the US debt pile and geopolitical instability, Canaccord notes both the favourable outlook for gold and the opportunity for gold investors on the ASX.

In selecting appropriate company exposures, the broker prefers those either in, or entering a free cash flow (FCF) harvest period. In the screening process, favourable mining jurisdictions and reasonable liquidity/market capitalisation were also looked upon favourably.

Coming up trumps were Buy-rated Perseus Mining ((PRU)), Regis Resources ((RRL)) and Ramelius Resources ((RMS)). Bellevue Gold ((BGL)), which is on the cusp of commercial production, is also recommended as a Speculative Buy.

The focus turns to the US for building-related companies

Following the reporting season for the Building Products & Services sector in Australia, Macquarie turns its focus to the US and the prospect of stability in new construction activity and the timing of the repair and remodel (R&R) recovery.

Judging by US reporting season commentary, the broker remains relatively optimistic as confidence levels seem to be gaining momentum.

The industry backdrop for R&R remains very favourable in the US, suggests the analyst, with aging stock and pre-GFC builds now turning 20 years old. Additionally, there have been positive impacts from borrowers locking-in mortgage rates and more people preferring to age in the family home.

While early days, Citi is starting to see evidence R&R activity in the US has bottomed after examining existing home sales figures in January that show single-family property sales are on the rise.

It appears last-October was the nadir for existing home sales across the Northeast and South, while the West and Midwest bottomed in November and December, respectively, observes the broker.

An increase in the median price of existing single-family homes and increasing momentum for new listings, along with active inventory of homes-for-sale, suggests to Citi the traditionally busy spring home buying season should present higher turnover and greater R&R activity.

Pricing is also holding up for value-added products in the face of moderating inflation, observe the analysts.

Citi notes only a modest improvement is being factored into share prices for James Hardie Industries ((JHX))

and Reliance Worldwide ((RWC)). The industry backdrop in the UK appears to still be a risk and will need to be monitored, acknowledges the broker.

Citi has Buy ratings for both James Hardie and Reliance, while Macquarie also has two Outperform recommendations.

Macquarie likes James Hardie's exposure to recovering US end-markets. It's felt volumes are supported by new residential markets, while a cyclical R&R recovery is close at hand. Reliance appeals for its operational efficiency gains, strong execution in a down-cycle, and the successful roll-out of SharkBite Max.

Macquarie also has an Outperform rating for GWA Group ((GWA)) due to its high level of exposure to the R&R market and an attractive dividend yield, while Reece ((REH)) is rated Underperform on valuation and soft A&NZ commentary by management at recent first half results.

Jarden's favourites from among classified's businesses

Jarden highlights ongoing strength for yields, well ahead of inflation, across all online classified's businesses under research coverage.

Seek ((SEK)) remains the broker's top pick given the market is not currently allowing for management's $2bn revenue aspiration across A&NZ and Asia. It's also felt consensus should be looking through near-term uncertainty around listing volumes.

Ultimately, second half volumes are the key swing factor to Jarden's FY24 forecasts for REA Group ((REA)), Domain Holdings Australia ((DHG)) and CAR Group ((CAR)), but particularly for Seek as employment is the most volatile classifieds vertical and the margin for error is higher.

The reporting season revealed an improving revenue outlook for both CAR Group and REA Group, and hence, their cost outlook is also higher, while Seek's revenue outlook was lower and consequently costs will be lower as well. The season inflicted no material change to the revenue and cost outlook for Domain.

An advantage of online classifieds businesses is the ability of management to flex costs quickly in line with market conditions, highlights Jarden.

At present valuations, the broker prefers Domain over REA Group and is Underweight on CAR Group as the

market has gone from not pricing-in execution in the US to a currently bullish scenario.

Jarden has a Buy rating for Seek, a (one step lower) Overweight rating for Domain Holdings and Underweight recommendations for both REA Group and CAR Group.

Improving conditions for Australian farmers

Australian farmers are experiencing the most significant turnaround in confidence in several years, according to Rabobank, in response to better-than-expected seasonal conditions through summer and the prospect for positive farm margins in 2024.

The latest quarterly Rabobank Rural Confidence Survey shows national farmer confidence has returned to positive territory for the first time since June 2022, with nearly a third of farmers expecting the agricultural economy will improve over the next 12 months, more than double the last survey.

The reason given by 58% of respondents was rising commodity prices, while 40% were increasingly positive about seasonal conditions.

Falls in the red meat markets, higher interest rates and rising input costs have previously caused rural sentiment to “languish in negative territory”, notes Rabobank group executive for Country Banking Australia, Marcel van Doremaele.

“In particular, beef and sheep prices are set to be above the lows we saw last year, and that has driven up the confidence of red meat producers”, notes Van Doremaele.

Concerns around falling commodity prices and rising input costs remain high for Australian grain growers, according to the survey, though there were less grain farmers in the category who believe the Australian economy will worsen.

Confidence among dairy farmers increased as they look ahead to the new season milk price, as “dairy margins are tipped to remain positive thanks to ongoing domestic support for farmgate prices”, explains Mr van Doremaele.

Just past the halfway point of the current dairy season, a separate Q1 Global Dairy Quarterly report by Rabobank points to widespread growth in milk supply across all dairying regions due to favourable seasonal conditions and good farmgate margins.

The bank highlights Australian milk production reached 5.35bn litres in the period July 2023 to January 2024, a rise of 2.5% year-on-year. Rabobank forecasts Australian milk supply will finish the 2023/24 season 2.6% higher on 30 June, with growth in the range of 3-4% expected for the 2024/25 season.

As “milk prices remain elevated, expectations are that new season pricing from July 1 will be margin-supportive”, according to report co-author and Rabobank senior dairy analyst Michael Harvey.

Harvey also points out “Australian household budgets remain strained, driving discretionary spending lower, which is flowing into the food basket”.

Dairy exports have been under pressure in the first six months of the season with volumes -8.5% lower than last year, with significant declines for milk, whole milk powder and butteroil.

While export competitiveness remains, Harvey notes the gap between local and offshore farmgate milk prices has narrowed as milk prices in competitors’ regions increase on the back of improving commodity markets.

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 15-03-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

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

First half results missed expectations yet Jarden assesses this was overshadowed by market share gains, with FY24 guidance being reiterated along with a FY25 pre-tax profit aspirational margin of 2%.

The broker updates forecasts to allow for disclosure changes, with the net impact being a 5-6% increase in net profit estimates out to FY27.

The business is larger and leaner, with higher returns on investments compared with pre-pandemic levels and Jarden believes this warrants a premium relative to the 16x FY25 EPS currently implied.

Rating is upgraded to Buy from Overweight and the target lifted to $23.50 from $22.00.

RED 5 LIMITED ((RED)) Upgrade to Buy from Hold by Moelis.B/H/S: 0/0/0

Moelis has taken a closer look at the proposed merger of Red 5 and Silver Lake Resources ((SLR)) following the release of half year results from both companies.

While Red 5 will technically take over Silver Lake Resources, the broker points out key executive roles are being favoured towards Silver Lake.

The broker expects the balance sheet impediments causing capital constraints at Red 5's King of the Hills site will be removed within twelve months, and believes Silver Lake Resources may have beat other peers to the punch given the strategic merits the site offers.

The rating is upgraded to Buy and the target price increases to 40 cents from 35 cents.

SAYONA MINING LIMITED ((SYA)) Upgrade to Speculative Buy from Hold by Canaccord Genuity.B/H/S: 0/0/0

Canaccord Genuity sees opportunities for investors with some currently attractive valuations for lithium companies under research coverage. Incumbent producers and low-capex, near-term-development plays are preferred.

The broker now expects minor surpluses for lithium markets over 2024-25 and sees potential for surpluses to swing to deficits, providing pricing upside risk.

While Canaccord's long-term price forecasts remain at US$22,500/t for chemicals and US$1,500/t for concentrate, prices should rally in the 1H of 2024 to around US$16,000/t and US$1,200/t, respectively.

As these 1H price forecasts are lower than the broker's original forecasts, price targets for developers/explorers and producers under research coverage fall on average by -16% and -11%, respectively.

The 6c target for Sayona Mining is unchanged and the rating is upgraded to Speculative Buy from Hold.

Downgrade

DGL GROUP LIMITED ((DGL)) Downgrade to Hold from Speculative Buy by Canaccord Genuity.B/H/S: 0/0/0

Canaccord Genuity materially lowers its target for DGL Group to 60c from $1.70 and downgrades its rating to Hold from Speculative Buy after 1H results fell well short of expectations.

Apart from lower earnings forecasts, the analyst's valuation multiple is reduced given volatility for the overall business.

The broker is disappointed by management's FY24 guidance for a year-on-year earnings decline; last year's AGM in November mentioned earnings growth.

Revenue for the half was -25% down on the consensus forecast, while underlying earnings (EBITDA) of $30.3m compared to the forecast for $33m.

All segments, apart from Logistics, missed forecasts, notes the broker. Demand for crop protection products were negatively impacted by forecast drought, which has not materialised.

Management sees a positive demand outlook for chemicals, while warehousing demand is robust and fleet utilisation remains strong.

DUSK GROUP LIMITED ((DSK)) Downgrade to Hold from Buy by Canaccord Genuity.B/H/S: 0/0/0

Solid performance from Dusk Group's first half says Canaccord Genuity, despite the impact of more cautious customer spending on the period.

The broker notes difficult trading conditions have persisted into the second half, but does expect the retailer to benefit from easier comps.

The broker particularly likes that Dusk Group has maintained relatively tight control over gross margins and per store cost of doing business.

The rating is downgraded to Hold from Buy, pending improved sales and earnings execution, and the target price decreases to 90 cents from $1.40.

LIGHT & WONDER INC ((LNW)) Downgrade to Overweight from Buy by Jarden.B/H/S: 0/0/0

Light & Wonder provided a strong quarterly outcome with above-industry earnings growth in 2023 of 22%. Jarden believes revenue growth across all the three businesses should lead to the market upgrading estimates and closing the gap on what is achievable.

The broker considers the company a more focused business that continues to grow share via a diversified and incentivised world-class game design team.

Overweight rating, downgraded from Buy following recent outperformance in the share price. Target is raised to $161 from $147.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	FLIGHT CENTRE TRAVEL GROUP LIMITED	Buy	Buy	Jarden
2	RED 5 LIMITED	Buy	Neutral	Moelis
3	SAYONA MINING LIMITED	Buy	Neutral	Canaccord Genuity
Downgrade				
4	DGL GROUP LIMITED	Neutral	Buy	Canaccord Genuity
5	DUSK GROUP LIMITED	Neutral	Buy	Canaccord Genuity
6	LIGHT & WONDER INC	Buy	Buy	Jarden

Price Target Changes (Post Thursday Last Week)

Company		Last Price	Broker	New Target	Old Target	Change
360	Life360	$12.63	Goldman Sachs	14.20	10.50	35.24%
AGY	Argosy Minerals	$0.19	Canaccord Genuity	0.27	0.70	-61.43%
ASX	ASX	$66.74	Jarden	62.10	62.00	0.16%
AZS	Azure Minerals	$3.62	Canaccord Genuity	3.70	3.95	-6.33%
BPT	Beach Energy	$1.66	Wilsons	1.96	1.84	6.52%

CAA	Capral	$9.10	Taylor Collison	N/A	10.97	-100.00%
CAJ	Capitol Health	$0.25	Canaccord Genuity	0.27	0.33	-18.18%
			Jarden	0.27	0.26	3.85%
CMM	Capricorn Metals	$4.85	Jarden	4.77	4.78	-0.21%
CTM	Centaurus Metals	$0.31	Canaccord Genuity	N/A	1.40	-100.00%
CU6	Clarity Pharmaceuticals	$2.73	Wilsons	2.78	N/A	-
DGL	DGL Group	$0.64	Canaccord Genuity	0.60	1.70	-64.71%
DLI	Delta Lithium	$0.33	Canaccord Genuity	0.70	1.20	-41.67%
DSK	Dusk Group	$0.75	Canaccord Genuity	0.90	1.60	-43.75%
DUG	DUG Technology	$2.40	Canaccord Genuity	2.90	2.00	45.00%
ELD	Elders	$8.89	Wilsons	8.26	7.02	17.66%
EOS	Electro Optic Systems	$1.91	Canaccord Genuity	1.95	1.30	50.00%
			Petra Capital	1.14	0.85	34.12%
EVO	Embark Early Education	$0.60	Petra Capital	1.15	1.05	9.52%
FLT	Flight Centre Travel	$21.66	Goldman Sachs	20.10	20.70	-2.90%
			Jarden	23.50	22.00	6.82%
GDG	Generation Development	$1.97	Moelis	2.34	1.97	18.78%
			Petra Capital	2.40	N/A	-
GEM	G8 Education	$1.21	Canaccord Genuity	1.43	1.37	4.38%
GL1	Global Lithium Resources	$0.63	Canaccord Genuity	1.40	2.80	-50.00%
GLN	Galan Lithium	$0.42	Canaccord Genuity	2.25	2.60	-13.46%
GNC	GrainCorp	$8.02	Wilsons	7.28	6.74	8.01%
GT1	Green Technology Metals	$0.17	Canaccord Genuity	0.70	1.90	-63.16%
HVN	Harvey Norman	$4.79	Goldman Sachs	4.30	4.00	7.50%
			Jarden	4.80	3.60	33.33%
INR	ioneer	$0.17	Canaccord Genuity	0.35	0.50	-30.00%
IPD	ImpediMed	$0.11	Canaccord Genuity	0.14	0.21	-33.33%
IR1	Iris Metals	$0.49	Petra Capital	1.67	2.57	-35.02%
JLG	Johns Lyng	$6.21	Canaccord Genuity	8.65	9.25	-6.49%
KAR	Karoon Energy	$1.89	Goldman Sachs	2.38	2.40	-0.83%
KED	Keypath Education International	$0.56	Canaccord Genuity	1.10	0.85	29.41%
LBL	Laserbond	$0.70	Canaccord Genuity	1.25	1.10	13.64%
LLL	Leo Lithium		Canaccord Genuity	0.80	2.00	-60.00%
LNW	Light & Wonder	$153.64	Jarden	161.00	147.00	9.52%
LRS	Latin Resources	$0.23	Canaccord Genuity	0.65	0.70	-7.14%
LTR	Liontown Resources	$1.37	Canaccord Genuity	1.10	1.20	-8.33%
MAQ	Macquarie Technology	$80.00	Canaccord Genuity	90.25	80.00	12.81%
			Petra Capital	89.77	77.50	15.83%
MDR	MedAdvisor	$0.30	Moelis	0.38	0.36	5.56%
MOZ	Mosaic Brands	$0.14	Wilsons	0.16	0.18	-11.11%
MXI	MaxiPARTS	$2.31	Taylor Collison	2.95	3.40	-13.24%
NDO	Nido Education	$0.93	Wilsons	1.47	1.45	1.38%
NXD	NextEd Group	$0.36	Canaccord Genuity	0.70	1.20	-41.67%
PLL	Piedmont Lithium	$0.21	Canaccord Genuity	0.60	1.75	-65.71%
PPG	Pro-Pac Packaging	$0.20	Moelis	0.28	0.38	-26.32%
PPM	Pepper Money	$1.63	Goldman Sachs	1.62	1.45	11.72%
			Jarden	1.60	1.50	6.67%
PPT	Perpetual	$24.39	Jarden	26.90	27.50	-2.18%
PSC	Prospect Resources	$0.08	Canaccord Genuity	0.13	0.16	-18.75%
PTM	Platinum Asset Management	$1.18	Goldman Sachs	1.00	1.12	-10.71%
			Jarden	1.06	1.14	-7.02%
RED	Red 5	$0.37	Moelis	0.40	0.35	14.29%
RHC	Ramsay Health Care	$54.69	Jarden	63.43	61.26	3.54%
			Wilsons	51.61	50.00	3.22%
SDR	SiteMinder	$5.66	Jarden	5.48	5.00	9.60%
SPZ	Smart Parking	$0.43	Canaccord Genuity	0.52	0.50	4.00%
SXL	Southern Cross Media	$0.97	Canaccord Genuity	0.94	1.15	-18.26%
TLX	Telix Pharmaceuticals	$11.54	Wilsons	12.48	12.43	0.40%
TRJ	Trajan Group	$1.04	Canaccord Genuity	1.40	2.25	-37.78%
VUL	Vulcan Energy Resources	$3.49	Canaccord Genuity	11.50	12.50	-8.00%
WC8	Wildcat Resources	$0.72	Canaccord Genuity	1.00	1.15	-13.04%
WGX	Westgold Resources	$2.50	Petra Capital	2.42	2.41	0.41%

WR1 Winsome Resources	$0.95	Canaccord Genuity	1.90	3.00	-36.67%
XRO Xero	$135.97	Goldman Sachs	152.00	141.00	7.80%
Company	Last Price	Broker	New Target	Old Target	Change

More Highlights

360 LIFE360 INC

Software & Services - Overnight Price: $12.20

Goldman Sachs rates ((360)) as Buy (1) -

Goldman Sachs raises its target for Life360 by 35% to $14.20 after FY23 results demonstrated significant earnings growth and management announced plans to introduce advertising for its free user base. The Buy rating is maintained.

Management's FY24 core revenue guidance seems achievable to the broker, with growth underpinned by monthly active users, International, and the ongoing blended average revenue per paying circle (ARPPC) expansion.

Successful execution on the advertising initiative could represent an inflection point in Life360's earnings profile, in Goldman's view.

This report was published on March 4, 2024.

Target price is **$14.20** Current Price is **$12.20** Difference: **$2**
If **360** meets the Goldman Sachs target it will return approximately **16%** (excluding dividends, fees and charges).
Current consensus price target is **$13.63**, suggesting upside of **11.7%**(ex-dividends)
The company's fiscal year ends in December.

Forecast for FY24:

Goldman Sachs forecasts a full year **FY24** dividend of **0.00** cents and EPS of **14.28** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **85.44**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **1.7**, implying annual growth of **N/A**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **717.6**.

Forecast for FY25:

Goldman Sachs forecasts a full year **FY25** dividend of **0.00** cents and EPS of **31.14** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **39.18**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **25.4**, implying annual growth of **1394.1%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **48.0**.

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

CY5 CYGNUS METALS LIMITED

Overnight Price: $0.05

Canaccord Genuity rates ((CY5)) as Speculative Buy (1) -

Canaccord Genuity sees opportunities for investors with some currently attractive valuations for lithium companies under research coverage. Incumbent producers and low-capex, near-term-development plays are preferred.

The broker now expects minor surpluses for lithium markets over 2024-25 and sees potential for surpluses to swing to deficits, providing pricing upside risk.

While Canaccord's long-term price forecasts remain at US$22,500/t for chemicals and US$1,500/t for concentrate, prices should rally in the 1H of 2024 to around US$16,000/t and US$1,200/t, respectively.

As these 1H price forecasts are lower than the broker's original forecasts, price targets for developers/explorers and producers under research coverage fall on average by -16% and -11%, respectively.

The target for Cygnus Metals falls to 30c from 60c and the Speculative Buy rating is unchanged.

This report was published on March 8, 2024.

Target price is **$0.30** Current Price is **$0.05** Difference: **$0.249**
If **CY5** meets the Canaccord Genuity target it will return approximately **488%** (excluding dividends, fees and charges).

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

EVO EMBARK EARLY EDUCATION LIMITED

Education & Tuition - Overnight Price: $0.58

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

Petra Capital upgrades forecasts substantially after the 2023 results, which were were ahead of forecasts. Embark Early Education has announced the acquisition of nine highly-accretive childcare centres.

These acquisitions, five in Victoria and four in Queensland, are expected to settle mid-March through to late April and all have high occupancy rates. The price is $25.2m.

As the stock is trading at a significant discount to peers and there is a $20m debt facility for further acquisitions, the broker finds the stock attractive and retains a Buy rating, raising the target 10% to $1.15.

This report was published on February 29, 2024.

Target price is **$1.15** Current Price is **$0.58** Difference: **$0.565**
If **EVO** meets the Petra Capital target it will return approximately **97%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **4.50** cents and EPS of **7.30** cents.
At the last closing share price the estimated dividend yield is **7.69%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **8.01**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **5.50** cents and EPS of **8.30** cents.
At the last closing share price the estimated dividend yield is **9.40%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **7.05**.

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

M7T MACH7 TECHNOLOGIES LIMITED

Healthcare services - Overnight Price: $0.70

Wilsons rates ((M7T)) as Overweight (1) -

Mach7 Technologies largely pre-released its first half results and has maintained downgraded FY24 revenue guidance of $27-30m. Despite the loss of upfront revenue, management's target for cash flow breakeven in FY24 has been retained.

Wilsons expects the share price will be driven by new contracts gained over the remainder of FY24. The following year should represent a step change, as the number of wins in the preceding 12-18 months show up in the profit and loss.

Wilsons maintains an Overweight rating and $1.05 target.

This report was published on March 1, 2024.

Target price is **$1.05** Current Price is **$0.70** Difference: **$0.345**
If **M7T** meets the Wilsons target it will return approximately **49%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

> Wilsons forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 3.70** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 19.05**.

Forecast for FY25:

> Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 2.20** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 32.05**.

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

MXI MAXIPARTS LIMITED

Automobiles & Components - Overnight Price: $2.20

Taylor Collison rates ((MXI)) as Outperform (2) -

MaxiPARTS has confirmed positive industry conditions are being experienced in the second half and Taylor Collision believes this could be the beginning of a multi-year earnings and margin growth story.

The broker finds the multiples undemanding and while the first half was considered "messy", the true run rate of the business should become visible in the second half and provide a catalyst for re-rating. Outperform and $2.95 target.

This report was published on February 23, 2024.

Target price is **$2.95** Current Price is **$2.20** Difference: **$0.75**
If **MXI** meets the Taylor Collison target it will return approximately **34%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

> Taylor Collison forecasts a full year **FY24** dividend of **6.60** cents and EPS of **16.40** cents.
> At the last closing share price the estimated dividend yield is **3.00%**.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **13.41**.

Forecast for FY25:

> Taylor Collison forecasts a full year **FY25** dividend of **8.40** cents and EPS of **21.10** cents.

At the last closing share price the estimated dividend yield is **3.82%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.43**.

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

NDO NIDO EDUCATION LIMITED

Childcare - Overnight Price: $0.93

Wilsons rates ((NDO)) as Overweight (1) -

In an endorsement of Nido Education's credentials in child care centre operation, according to Wilsons, Busy Bees has extended its management agreement for the 34 centres managed by Nido.

In a further positive, according to the broker, the extension to June 30 2025 from October 21 2024 means management at Nido now won't be distracted by transition work in mid-2024 during the 2025 enrolment period.

Nido receives a management fee of $100k per year (paid monthly) for each centre, with Busy Bees employing all child care workers.

The broker forecasts marginally higher earnings for Nido as a result of the extended agreement and the target rises to $1.47 from $1.45. The Overweight rating is unchanged.

This report was published on March 7, 2024.

Target price is **$1.47** Current Price is **$0.93** Difference: **$0.54**
If **NDO** meets the Wilsons target it will return approximately **58%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **4.30** cents and EPS of **9.50** cents.
At the last closing share price the estimated dividend yield is **4.62%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **9.79**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **5.20** cents and EPS of **8.60** cents.
At the last closing share price the estimated dividend yield is **5.59%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.81**.

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

PYC PYC THERAPEUTICS LIMITED

Pharmaceuticals & Biotech/Lifesciences - Overnight Price: $0.09

Wilsons rates ((PYC)) as Initiation of coverage with Overweight (1) -

Wilsons initiates coverage on PYC Therapeutics, believing now is the time for investors to revisit the stock with PYC Therapeutics having undergone a material company and management pivot.

According to the broker, PYC Therapeutics is now focused on the in-house development of its own value accretive therapeutic assets, and 2024 is set to be a seminal year for the company amid its first human clinical data readouts.

Readouts have potential to de-risk assets, and Wilsons sees material opportunity for the company if it can deliver on that front.

The broker initiates with an Overweight rating and a target price of 39 cents.

This report was published on March 6, 2024.

Target price is **$0.39** Current Price is **$0.09** Difference: **$0.305**
If **PYC** meets the Wilsons target it will return approximately **359%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 0.80** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 10.63**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.90** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 9.44**.

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

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