WEEK 46

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Northern Star: All About KCGM

Rise Of The Machines: AI Has Arrived

Rudi's View: Between Perception & Reality

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AUSTRALIA

Northern Star: All About KCGM

The ASX doesn't offer many choices to invest in Tier-1 gold mining. New research highlights Northern Star Resources as a scarce investment opportunity.

-Northern Star Resources well funded for upcoming capex
-KCGM expansion a scarce investment opportunity, according to Jarden
-Expansion will lower costs, but restrict free cash flow in the interim
-Two factors mitigating capex inflation risk

By Mark Woodruff

Northern Star Resources ((NST)) is one of the ten largest gold companies globally, when measured both in ounces produced and market capitalisation, highlights Jarden. The broker has initiated research coverage with an Overweight rating and 12-month target price of $13.60.

Jarden finds Northern Star is attractively priced on an absolute basis and relative to both global and domestic peers.

The balance sheet, with a net cash position of $284m, is capable of funding an upcoming elevated period of capital expenditure, while still maintaining a history of strong shareholder returns, highlight the analysts.

All assets are in Western Australia, except for the Pogo operations, which are situated in the similarly attractive jurisdiction of Alaska, notes the broker.

Gold production centres owned and operated by Northern Star are Kalgoorlie, Yandal and Pogo (pictured below).

Yandal includes operations at Jundee, Thunderbox and Bronzewing, while Kalgoorlie includes the Kanowna Belle and Carosue Dam operations, along with the Kalgoorlie Consolidated Gold Mines (KCGM) asset.

KCGM accounts for almost two thirds of Jarden's total valuation for Northern Star, and is considered a scarce investment opportunity, given it is a true Tier-1 asset, located in a Tier-1 jurisdiction with abundant optionality and ongoing exploration prospects.

The mine life extends out to 2048, and potentially beyond.

A reinvestment cycle has begun at the site to drive fundamental growth and improve margins, which Ord Minnett believes is a logical move to transform KCGM into a top-5 producing gold mine globally.

The -$1.5bn expansion at the mill to 27mtpa by FY27 will increase production to around 900koz from FY29, and will push the operation down the cost curve, yet will also diminish the near-term free cash flow (FCF) appeal of the stock, points out Ord Minnett.

Apart from the prevailing gold price, the critical risk to project returns is capex inflation, in Jarden's view, which has afflicted numerous projects (by -20-30%) either under recent or current construction in Western Australia.

In the prevailing tight labour market, one factor working in the company's favour is KCGM's proximity to the major town of Kalgoorlie, compared to a remote location that requires more sophisticated and expensive logistics and site allowances, explain the analysts.

Also, the initial $1.5bn capital budget includes a $150m allowance for escalation and contingency, helping provide a solid buffer against inflation.

<u>September quarter results</u>

A better performance relative to peers was behind a share price rally following first quarter results on October 19, suggested Ord Minnett.

Highlights for Macquarie included Pogo achieving its 1.3mtpa nameplate run rate despite a mill shut, and Thunderbox achieving a 5.5mtpa throughput rate in the first quarter and 6.0mtpa (nameplate) in August.

The KCGM pit is also on schedule to access higher grades at Golden Pike North in the second half, noted the broker.

Management retained FY24 guidance of 1.6-1.75moz at an all-in sustaining cost (AISC) of $1,730-1,790/oz, and management expects a stronger second half via grade lifts at KCGM and Jundee, the Thunderbox mill ramp-up and improvements at Pogo, explained Macquarie.

<u>Outlook</u>

At share prices prevailing in late October, following Northern Star's September quarter results, UBS preferred Evolution Mining ((EVN)) and Newcrest Mining ((NCM))/Newmont ((NEM)), given lower costs and superior free cashflow in the short term.

Both of these companies also offer a bit of copper upside, explained the analyst.

This broker cautioned Northern Star is exposed to unique risk, given the company is at the start of its investment cycle which comes with weaker free cashflow.

Canaccord Genuity, commenting after first quarter results, expected a strong recovery over the remainder of the financial year.

While Goldman Sachs appreciates the outlook for Northern Star Resources on expanded KCGM operations and other asset growth, this broker assigns a Neutral recommendation as growth spending limits FCF yields to less than 1% over the next three years, and also because of the more concentrated near-term execution risk for the KCGM expansion.

Two days ago, UBS raised its 2025/226 gold price forecast by around US$200/oz and now forecasts for FY24-26 prices per ounce of US$2,085, US$2,200 and US$1,950, respectively, driving forecast earnings upgrades across the broker's research coverage.

The broker anticipates gold will benefit as the end approaches for interest rate hikes by the Federal Reserve in the US, and then the growth outlook becomes the main concern for investors globally. The US economy is

expected to fall into recession, meaning the Fed will then cut rates and the US dollar will weaken, leading to a fall in ten-year real yields.

This broker’s target for Northern Star Resources rises to $11.95 from $11.20 and the recommendation is Neutral. UBS has Buy ratings for Evolution Mining, SSR Mining ((SSR)), De Grey Mining ((DEG)) and Gold Road Resources ((GOR)).

There are five brokers monitored daily by FNArena which cover Northern Star Resources, with one Buy rating and four Hold (or equivalent) recommendations.

The average target price of the five brokers is $12.75, which suggests just over 12.5% upside to the latest share price.

Jarden, Goldman Sachs and Canaccord Genuity are not covered daily. These brokers have Overweight, Neutral and Buy ratings, respectively, and an average target price of $13.05.

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ESG FOCUS

ESG Focus: The Little Big Things - 15-11-2023

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

ESG Focus: The Little Big Things - 15-11-2023

We're going macro this week as some analysts call out rate cuts as early as March, before going green: capital costs are falling for green manufacturers and decarbonisers; Morgan Stanley offers late-cycle US green share-market tips; the battle for Origin Energy continues; small modular nuclear reactors suffer blow after blow; a moratorium is issued on Scope 3 litigation; and Australia pivots to polysilicon manufacturing.

-Analysts tipping early rate rise
-Cost of capital falling for green projects
-Small modular nuclear reactors stranded
-Battle of Origin Energy provides insights into green investments
-$8bn investment in Townsville polysilicon manufacturing
-Moratorium on Scope 3 legislation
-US House clears funding into early 2024

Compiled by Sarah Mills

Analysts Calling For Lower And deeper

If someone hasn't invented a Musk index yet, it might well be time.

Elon Musk may yet prove right in his assertion that interest rates will need to fall by early next year.

UBS Investment Bank and Morgan Stanley are forecasting cuts to the US Federal Reserve cash rate as early as March – and much deeper than markets are anticipating.

UBS expects the Fed, possibly starting in March, will cut rate nearly four times more than that which the markets are pricing in.

Morgan Stanley is sticking with the widely pegged June date, but equally believes cuts will be much deeper than forecast.

These predictions are founded on the analyst's observations that inflation is normalising faster than expected.

Last night, inflation rose less than forecasts in October, supporting analysts' forecasts, and triggering a share price rally.

The US core consumer price index, which excludes food and energy costs, rose 0.2% in October.

In China, stimulus is the *plat du jour*, the government injecting (the equivalent of) US$137bn into the economy to shore up the property sector.

Goldman Sachs (which has proved pretty accurate with its oil forecasts in the past) begs to differ, doubting a rate cut will materialise until the next December quarter.

Guess we will see soon enough what kind of a bellwether Musk and Tesla sales will turn out to be.

Cost Of Capital Falling For Green Projects

Capital costs have been severely hampering some green projects but that is all about to change.

Supply chain inflation appears more orderly and a cut in interest rates some time next year would sharply reduce capital expenditure bills, boosting investment in a range of industries from EVs to grids, say analysts.

Many investors are positioning ahead of time and pundits expect an upswing in M&A activity as predators grab their final chances.

Morgan Stanley in a report titled *Global Energy Transition: Cost Declines and Growing Support For Transition Technologies* observes costs have already fallen sharply in 2023.

The analyst observes solar wafer prices have hit record lows; Tesla vehicle prices are near the average price for internal combustion engine (ICE) vehicles; and novel clean energy technologies such as cadmium telluride solar cells promise to sharply boost efficiency.

Decarbonisation Theme Underperforms In 2023

Morgan Stanley observes decarbonisation, previously one of the most investable ESG themes, has materially underperformed in the year to date, given high interest rates on top of other idiosyncratic challenges.

But the market is now switching into late-rate-cycle and is on a deflationary arc, says the analyst, advising the tide is about to turn and provides its top stock picks.

As a result, the analyst switches its focus to "stock selectivity" over thematic investing.

Morgan Stanley observes genuine challenges (as opposed to a temporary rate-induced capital crunch) in European stocks such as Orsted that were caught between rising costs and set purchase power agreements may have unfairly hit other US developer stocks.

Morgan Stanley says the economics of large-scale renewable projects in many parts of the US are compelling.

The analyst also observes deflation in clean energy equipment costs and higher tax credits are about to kick in and expects companies with scale, big economic moats and access to capital will emerge triumphant.

For international investors, Morgan Stanley recommends NextEra, AES Corp, Altus Power and Hannon Armstrong Sustainable Infrastructure Capital.

Battle Of Origin Continues

AustralianSuper has upped its opposition to the Brookfield consortium's $20bn bid for Origin Energy ((ORG)), increasing its stake in the company to 16.5%.

The stoush is indicative of the growing opposition between shareholders and acquirers in the green market.

Higher interest rates and lower share prices have created takeover situations that many believe to be opportunistic given the megatrends in play, and the broader macro outlook.

Several promising small Australian (and international) green players have either been snapped up or sent to the wall in the last few years as deep pockets jockey for position.

The willingness of AustralianSuper to pay up to $8.93 for shares perhaps gives a better indication of Origin Energy's long-term value than has been ascribed by the market in the past two years.

Small Modular Nuclear Reactors On The Nose

While decarbonisation plays are getting bigger, better, cheaper and closer, nuclear plays, outside of heavy government subsidies, appear to be getting smaller, worse, more expensive, and more distant, following the collapse of major SMR manufacturer Nuscale Power Corp (but not after receiving considerable government support).

Small Modular Reactors have been billed as the great white hope of the nuclear industry, and are supposed to reduce the exorbitant costs of nuclear energy by creating reactors on an assembly line.

Nuscale's was the first and only such reactor to be approved by the Nuclear Regulatory Commission.

The company had secured a deal to build a 462 megawatt facility in Idaho but was unable to attract buyers for its output as its estimated cost of power jumped 53% to US$89 per megawatt-hour, and was possibly shooting into three-figure territory, conjectures Bloomberg, as bond yields pressed higher.

So renewable energy is not the only victim of high interest rates and rising capital costs.

But unlike SMR energy, renewable energy prices have fallen sharply, making the economies of small reactors even worse than they were, and with grid batteries barrelling down, and investment rocketing, dwarfing current investment, the future of SMRs looks dubious.

It is difficult to see where the capital is coming from (other than the taxpayer) to support these projects.

The proposed buyers were 50 municipal power providers and in the end, they couldn't bite the bullet.

Nuscale also suffered time overruns, a project slated to be operational by 2023 delayed to 2029, by which time the cost of renewables should be even lower.

Australia Upping Focus On Polysilicon Manufacture

Green renewable energy infrastructure investor Quinbrook has committed to develop one of the world's largest and greenest polysilicon manufacturing projects at the Lansdown Eco-Industrial Precinct in Townsville, Queensland at a cost of $8bn.

The plant will be powered by solar and battery storage.

About 200 hectares have been conditionally located for the site in Townsville's Lansdown precinct, reflecting the city's ambitions to create an environmentally sustainable, advanced manufacturing, processing and technology hub.

Lansdown is situated near some of the best silica quartz resources in the world and Townsville has an export port.

Quinbrook is also partnering with Solquartz to develop a metallurgical silicon processing plant.

AuManufacturing observes Tindo Solar, a small player, is Australia's only commercial manufacturer of polysilicon cells.

The move is consistent with growing onshoring of critical manufacturing from China and further fortifies north Queensland's position as a renewable energy hub.

China holds a virtual monopoly on polysilicon manufacturing and this came home to roost during covid, prices rising astronomically just as the Ukraine War sent oil prices sky high, sending many local solar companies to the wall.

China To Curb Methane Emissions

Speaking of China, the world's largest methane emitter has committed to deploy technology to spot methane pollution, as well as boost data transparency, but did not set targets.

About 90% of China's methane emissions come from coal seam gas mining, which is notorious for leakages.

At this stage, it appears to be more of a goodwill gesture following talks between the US and China's climate envoys in California.

It was billed as a concession as the two major economies attempt to iron out their trade differences.

Such an outcome remains unlikely, given the energy sector accounts for up to 40% of China's methane emissions, which is likely to seriously impact the nation's capability to compete in a green trading world.

Cooking On Gas

Speaking of methane, one thing FNArena does ponder is the future of gas in cooking.

Recently, a group of Australian chefs and restaurateurs gathered to protest proposed curbs and tariffs on gas cooking, pointing out nothing can replace gas.

One would imagine that in China, where the wok is ubiquitous, such attempts would be met with riots.

Three-year Moratorium On Scope 3 Litigation

Are we there yet? Obviously not when it comes to emissions reporting.

The federal treasury has proposed a three-year moratorium on private litigation related to Scope 3 reporting – the most challenging of all emissions reporting – most likely because Australia's companies are not yet ready.

The protections from litigation would also apply to forward-looking statements, scenario analysis and transition planning.

Under the proposed regulation, all large Australian companies will be required to disclose climate-related financial exposures from July 2024.

Smaller businesses will be required to follow in 2027-2028.

This does not mean companies are off the hook.

The consultation plan includes provision for the regulator to act in circumstances it deems fit, and climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act.

Many litigators have expressed their displeasure, claiming the legislation would give greenwashers a free pass.

Also on the green regulation front, in Queensland, the Jones Review has recommended consideration be given to creating an offence for breaching the General Environmental Duty outlined in the Environmental Protection Act, finding the act does not sufficiently emphasise the importance of preventing environmental harm nor properly detail the consequence of breaches, such as remedying harm.

The Queensland government has indicated its support for the recommendations.

News Flash: US Passes Plan To Avert Shutdown

A coalition of US Democrats and mainstream Republicans have supplied the majority of votes needed to extend US federal funding through early 2024, removing another weight from the market.

The bill was approved under a special expedited procedure that required a supermajority.

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FEATURE STORIES

Rise Of The Machines: AI Has Arrived

There is no disagreement AI is here and is about to explode into our lives. As for how long it will take to change the world is up for debate, and not all implications are positive.

-What is generative AI?
-The question of productivity gains
-Is your job safe?
-The bad stuff

By Greg Peel

It seems like artificial intelligence only arrived on the scene in 2022 following some Archimedes-style epiphany in geek-world, but the reality is AI has been around for some time.

AI is based on machine learning – something Alan Turing, famous breaker of the Enigma code -- began working on in the 1940s, but it wasn't until the 1970s that computers became powerful enough to be of use. Until recently, machine learning was largely limited to predictive models, used to observe and classify patterns in content.

Machine learning, noted McKinsey & Co in a report published early this year, is a type of artificial intelligence. Through machine learning, practitioners develop AI through models that can "learn" from data patterns without human direction.

The unmanageably huge volume and complexity of data (unmanageable by humans) that is now being generated has increased the potential of machine learning, as well as the need for it.

AI is the practice of getting machines to mimic human intelligence to perform tasks. You've probably interacted with AI even if you don't realise it -- voice assistants like Siri and Alexa are founded on AI technology, for example.

The recent big step up in AI is all about "generative" AI. Siri might be able to answer your question from sourcing the web, but she cannot write an essay on The Causes of World War I. GenAI describes algorithms that can be used to create new content, including audio, code, images, text, simulations, and videos. Recent breakthroughs in the field have the potential to drastically change the way we approach content creation, suggests McKinsey.

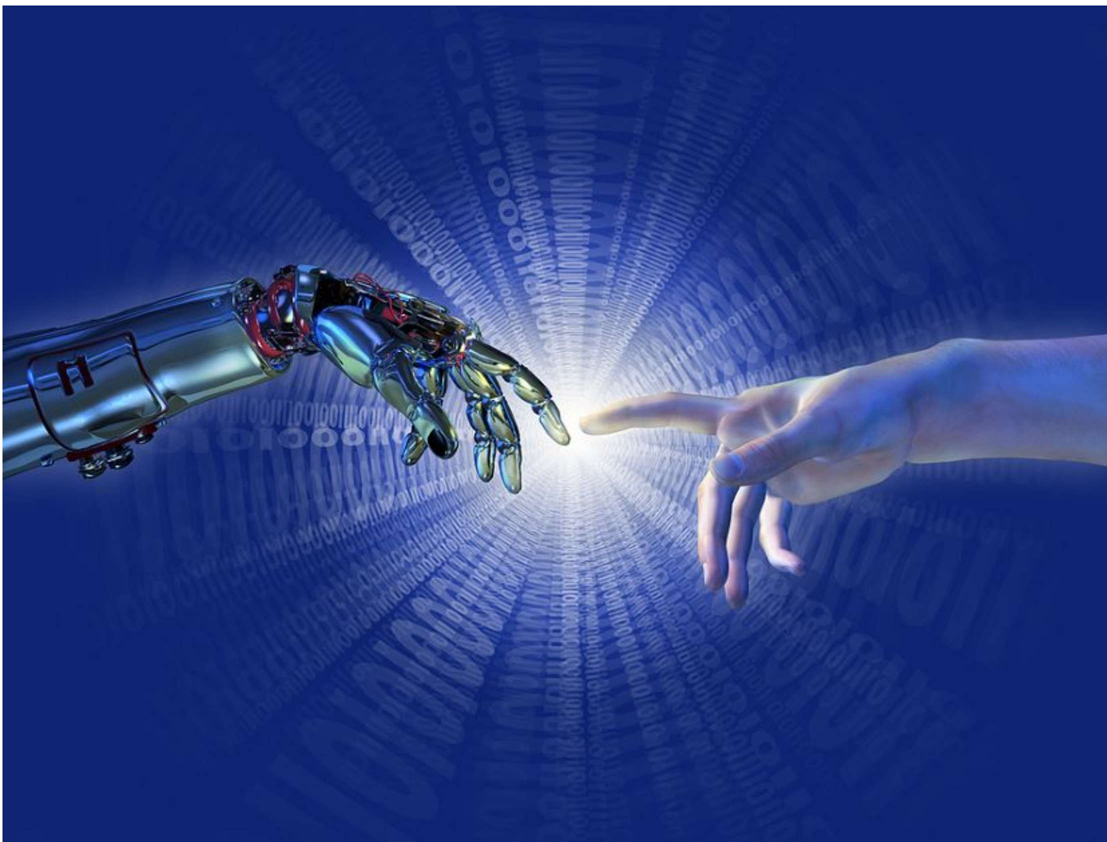
GenAI appeared to burst on the scene with the release of ChatGPT (generative pretrained transformer). It's a free chatbot that can generate an answer to almost any question it's asked. Developed by OpenAI, it's already considered the best AI chatbot ever. And it's popular too: over a million people signed up to use it in just five days.

Microsoft began investing in OpenAI in 2019 and continues to invest. The company launched ChatGPT on its Bing platform, blindsiding search engine leader Google. Google responded by rushing out its own GenAI offering, Bard, which at the beginning was poorly received but is now challenging ChatGPT as the go-to version.

ChatGPT is the most recent iteration of OpenAI's GenAI offerings. Earlier versions were considered somewhat suspect. And it's not just Microsoft and Google that have been developing and investing in GenAI in recent years. Meta and Amazon are also in the game, and Apple is too, but is keeping that close to its chest for now.

And Elon is in on the act, releasing Grok on X. Unlike rival chatbots, Grok is said to be "sarcastic and foul-mouthed", but also potentially superior to the others, according to geeks, and there are more others about as well.

It's not just about know-it-all chatbots. GenAI, it is agreed, will change the world. Will it change the world for the good?



General Purpose Technology

If AI is to be considered a general purpose technology, and Capital Economics believes it is, then "the implications for the macroeconomy could be huge".

It is considered in recent history there have been three such examples of general purpose technology that have changed the world. The first is the invention of the steam engine in the UK which led to the nineteenth century Industrial Revolution.

The second is the introduction of electricity in the US in the early twentieth century, and the third came in the late twentieth century with the introduction of the internet. It can also be argued there was a fourth in between – the invention of the internal combustion engine.

The world-changing aspects of these developments lay in productivity. Productivity is defined as GDP per man-hour.

Such developments tend to affect an economy in three phases, notes Capital Economics. In the first phase, when the technology is new and expensive and not yet widely used, productivity benefits are small.

The second phase comes when the technology is tweaked and improved upon, the cost comes down and adoption becomes more widespread. This is when significant productivity gains are achieved.

In the third phase, the law of diminishing marginal returns kicks in. The pace of improvements and rollouts slows, and productivity gains start to taper off.

We could also consider the introduction of the smart phone as a world-changing development, and also a good example of the said three phases. The first iPhone was expensive (to a lot of the world), and not everyone rushed in to buy one. Subsequent iPhones provided technological improvements (eg camera), the cost came down, and pretty soon everybody had one.

We're now up to iPhone 15. Analysts agree that while the 15 is a great bit of tech, it's not much different to the 14, which wasn't much different to the 13. Unlike, say, a printer or a DVD player of the past, the cost has not continued to fall, which has led consumers to feel they don't need to upgrade when their iPhone 10 is perfectly fine thank you.

The three phases of general purpose technology mean the benefits can take decades to materialise, although as Capital Economics notes, the delay to clear productivity gains has been shortening over time. The Industrial Revolution did indeed last for decades, but for the internet the benefit was felt in less than a decade.

The US, notes Capital Economics, which saw by far the biggest gains from internet developments, is estimated to have achieved an average boost to productivity growth of 1.5 percentage points between 1995 and 2005.

It is generally assumed that widespread adoption of AI is from here a five to ten-year proposition. The biggest issue right out of the blocks is cost. Businesses will need to completely overhaul their IT systems, and that will not be cheap. Right now, the cost of finance is as high as it has been in decades. Businesses have been reeling in capital expenditure plans as a result, not increasing them.

But there is a clear incentive: Kill or be killed.

Is My Job on the Line?

Clearly, technological advances over time have led to certain jobs becoming redundant. But jobs have also been lost, in my lifetime at least, simply by the need for cost efficiencies. Once upon a time I used to buy a bus ticket from a conductor, have a driveway attendant fill my car and have milk delivered to my door. Those days are long gone.

The seventies recession was the prime driver of the eventual disappearance of these roles.

Technological growth is nevertheless all about achieving efficiencies. AI is seen as the great efficiency driver of our time. Some workers will be safe, because they're already in the right job as AI is adopted. Some will have the capacity to shift from what they're doing now to another field, given their knowledge/experience. Some workers will find their jobs redundant.

Capital Economics noted when railways arrived, demand for horses was lost. But horse carriage drivers became train drivers, blacksmiths had new objects to fashion, and so on.

Last year, as central bank interest rate hikes led to a bear market in technology stocks, Big Tech companies responded with widespread layoffs. Meta even got got rid of its in-house masseurs. All eyes were on the US unemployment rate as one by one companies cut their work forces.

Nothing happened. The unemployment rate didn't budge because laid-off employees (at least, the actual tech ones), quickly found jobs elsewhere.

The most straightforward way in which AI will boost productivity is via one-off efficiency savings, suggest Capital Economics, meaning doing more with existing resources or doing the same with fewer resources. In some instances, these will mean AI replacing humans altogether.

In other instances, savings will be achieved by helping humans become more productive in their current job, freeing up their time to do other, more productive jobs.

While it is too early to know how much GenAI will displace workers, Morgan Stanley has reviewed the effects of multiple disruptive technologies to date to guide its thinking about how it will affect labour markets. Outcomes range from job displacement, to augmentation, to stability and job creation.

Overall, Morgan Stanley finds, prior periods of innovation have seen economic growth, lower costs of doing business, and net job creation. Yet impacts on labour have been uneven, with the potential for large-scale dislocation, and Morgan Stanley believes GenAI's effects will be magnified given its broad applicability.

There will, of course, be pushback and resistance. We've already seen it in the US.

Hollywood actors and writers have just gone back to work after striking for months, finally managing to negotiate a deal with studios. The studios had no choice – the dominance of video streaming means more content is needed than ever before.

Writers needed assurance they would not be replaced by script-writing AI. Actors need assurance their images would not be scanned once, and then used in perpetuity thanks to AI.

US autoworkers have also now gone back to work after months of negotiation with America's Big Three auto manufacturers. Among other demands, the union wanted assurance jobs would not be lost due to new EV factories being fully automated, and presumably controlled by AI.

While the strikes drew US government attention, they did not need direct government intervention to be resolved. But governments are already gearing up for what is to come.

Morgan Stanley believes the extent of labour disruptions will likely require a significant ramping up in capacity to re-train large numbers of workers. In the US, leading AI companies have committed to managing AI risks, and the White House is preparing an executive order to foster responsible innovation.

Morgan Stanely suggests re-skilling and re-training investments by corporates, combined with social insurance

programs from governments, are more likely than sweeping reforms such as universal basic income to support those impacted or displaced by generative AI.

The Great Depression resulted in unprecedented jobs losses. The US introduced the dole in 1935. Australia waited until 1945.

McKinsey's *State of AI* survey found less than one-quarter of companies using AI so far have realised a significant bottom-line impact -- deficiencies eluding impact at scale it suggests might be caused "not only because of the technical challenges but also because of the organisational changes required." Changes that many leaders simply are not making, whether intentionally or unknowingly.

Businesses are increasingly understanding AI's utility for many of their more mundane, or complex, tasks, yet are struggling with effective and scalable implementation, particularly in a fashion that fruitfully engages employees in the process.

The US strikes are the canary in the coal mine. If corporations move to adopt AI without engaging their employees in the process, and allaying fears of job losses, the benefits of AI adoption will not be seen.

One survey showed the best way to get employees excited about AI is to inspire trust in leaders, help employees understand how the tech works and increase workers' soft skills to help them feel relevant to the company and their position.

Employers will need to get ahead of the inevitable fallout if jobs are indeed lost through redundancy.

In France in 1804, Monsieur Jaccard invented a loom that automated the process of complex weaving, previously the laborious job of humans. Workers in French textile factories wore wooden shoes, like clogs, called sabots. Furious from losing their jobs, the workers would throw their sabots into the Jaccard looms to bring them to a halt.

They were the first "saboteurs".

Is the Hype Overdone?

RBC Capital Markets believes GenAI is a seismic change in the technological landscape.

Narrowing down aforementioned general purpose technology leaps, RBC views GenAI as the fourth big technological revolution in the past 40 years, and each of those had a seminal moment in which the technology became mainstream.

In the revolution of the internet, internet became mainstream with the launch of Netscape. In the revolution of the cloud, cloud became mainstream with the likes of Salesforce on the application side and Amazon Web Services on the infrastructure side.

In the third revolution defined by mobile, mobile became mainstream with the launch of the iPhone. Now, in this fourth revolution, ChatGPT's launch last November brought GenAI mainstream.

RBC believes generative AI is likely to have major implications not just within the realm of technology, but society at large.

Citi suggests that what is distinctive about GenAI is the tremendous potential it holds to transform work across industries and boost overall productivity.

So we've had the web, the cloud, the smart phone and also the Internet of Things. Why, then, has global productivity been on a downward trend?

AI has been around for a while, notes Capital Economics, and it's been almost a decade since the first reports began to predict an AI-led surge in productivity growth. If pandemic impacts are extricated, G7 productivity in the past two years has been below the average since 2005.

The productivity boost from past transformative technologies has generally been drawn out and less dramatic than might have been expected given the importance of the inventions. Economists have been puzzled, Capital Economics notes, over why the digitalisation of the economy over the past two decades has been accompanied by such weak productivity growth.

There is as yet no evidence of any productivity boost from AI.

Periods of much faster productivity growth *are* visible since the nineteenth century, notes Oxford Economics. Some of these periods were long-lasting and closely linked to the rise of new technologies such as railways, electric power and computers. AI, as a general purpose technology with potentially large spillovers, could in

principle produce similar results.

But not all new technologies have lived up to their initial promise, notes Oxford, and even when they have, the impact on aggregate growth has sometimes been modest. Often the gains came many years after the technology was invented, due to slow diffusion into the economy.

Any benefit from electrification, for example, took decades to show up in US data. US productivity growth saw a strong boost from computer advances from the mid-nineties into the noughties, a very long time after computers were invented.

Oxford Economics points to emerging evidence AI will lead to strong productivity growth in at least some sectors. But in the absence of widespread adoption, and large-scale innovation from using AI, the economic gains could be narrow for some time.

That Said…

In just three years, the global AI industry has more than doubled, notes Psychic Ventures, reaching a US$240bn value and a quarter of a billion users worldwide. From healthcare and retail to manufacturing, stock trading, and social media, companies continue to adopt AI solutions to improve their efficiency, decision-making, and user experience and gain a competitive edge.

At the same time, a surge in investment in AI technologies and start-ups by both private and public sectors shows the interest in the industry remains strong.

According to the data, the global AI market is set to continue growing by a compound annual rate of 17% in the next four years, and hit more than US$500bn in value by 2027.

According to PwC's 2023 Global Artificial Intelligence Study, AI could contribute US$15.7trn to the global economy by 2030.

The surging demand for automation and optimisation across industries, increasing use of AI in consumer-facing applications, and growing investments in AI research and development are expected to continue driving market growth, helping it reach more users than ever.

According to Statista, around 254 million people have used AI tools in 2023, 2.5 times more than just three years ago. With roughly 60 million people embracing AI solutions and tools per year, the entire market is set to reach more than half a billion users by 2027.

One-third of all users, or 181 million, will come from the United States, the world's largest AI market, followed by 52 million Chinese, who are also expected to embrace AI tools by 2027.

On Drugs

One of the biggest threats from GenAI is so-called "hallucinations" – images or content that are purely fake but not acknowledged as being so. RBC Capital suggests there are ways to avoid hallucinations, but explains how with a lot of tech-speak.

A company in Finland has created a "virtual influencer" in the form of a (gorgeous) 24-year old girl, with whom you can chat online. "Milla" fully acknowledges she is AI-created, and not real, but she still has had thousands of hits on social media.

Otherwise, the rise of GenAI brings about a number of ethical and legal concerns. RBC Capital believes governments throughout the world will create legislation around GenAI, including for the use of GenAI systems, preventing malicious use, and the use of customer data.

There will be substantial disruption from AI, just as there has been from every technological and industrial revolution in the past, notes RBC. This time will be different, however, because this is the first industrial revolution to disrupt white collar workers. Jobs like lawyers, journalists, and software developers will be disrupted by GenAI. In RBC's view, while we are likely still years away from people being replaced by technology, "we could absolutely get there, and we need to be prepared for that".

Regarding ethical and legal concerns, if a developer builds an application using code generated by ChatGPT, who owns that code? If a student submits an essay written by ChatGPT, is it their own work? These are tough questions to answer, and RBC believes there will be endless debate on these topics.

Another consideration is how GenAI could impact data security and customer privacy through its collection of data in training models, as well as how the tool could potentially be leveraged for malicious use such as more sophisticated cybersecurity attacks.

Similarly, notes RBC, the potential for this tool to harvest and leverage customer data brings up customer privacy concerns. From a financial materiality perspective, these issues could potentially open companies up to reputational impacts and costs if they aren't properly managing heightened security risks.

In terms of environmental impact, concerns have been raised around the resource consumption (energy, water usage) and emissions needed to fuel, train and utilise GenAI tools. But on the other hand, GenAI could be used to help solve the world's environmental problems.

So there you have it. Like it, loathe it or fear it, GenAI has arrived. What will it be like when the machines take over the world?

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: Between Perception & Reality

In this week's Weekly Insights:

-Between Perception & Reality
-Conviction Calls & Best Ideas

By Rudi Filapek-Vandyck, Editor

Between Perception & Reality

Probably the biggest surprise I have come across over the past year or so is the observation that so many investors are firm believers in the 'Market Knows All' narrative; this idea that share price moves are highly efficient, because someone out there, on the other side, hiding in obscurity, knows something you and I are as yet not privy to.

Yet most of us will specifically refer to sentiment, bullish and/or bearish, and money flows when we discuss markets generally. It's as if we have decided that trends and moves at the macro level occur through a two-way loop with human group sentiment, but at the individual stock level it all boils down to specific knowledge by those in-the-know.

Bizarre.

I've long held the belief the concept of the efficient market thesis was dreamt up by an academic who would observe and judge financial markets from afar. More than three decades of watching share prices move up and down has only galvanised my conviction.

To illustrate what's going on inside financial markets, my favourite parallel is with the Olympic games. Look to your left and you might see an athlete trained in weight lifting. The one on your right looks more like a swimmer or a future champion in gymnastics. Behind you stands a golfer and the back you see in front is that of a rugby sevens player.

The difference with the Olympics is all of you are competing in the same playing field, at the same moment, every single day. Which is why my favourite market description is:

The share market will eventually do the right thing, but not before it first has tried out all other options.

Goes without saying: we never ask further questions when the share price moves in our favour (that's our *intelligence* being rewarded). Plus, yes, the concept of holding on to your shares when the trend is bending south is not something we are naturally wired for.

Volatility only equals risk for the short-term trader who cannot "risk" the trend moving in the opposite direction, but coping with a falling share price triggers feelings of guilt and failure from most of us.

We have been "wrong", apparently. And the market, well, the market is always right, isn't it? Even if this means that kicking a rugby ball on the seventeenth green has prevented the golfer behind you from shooting a birdie.

In all fairness, sometimes the market is truly telling us we are wrong, at least in the here and now, while other times it is simply being silly and mercurial. And while share prices should not be front of mind constantly -all the legends in the industry tell us it should not be- our human brains are naturally wired for 'momentum', thus share prices guide our perception, our views, even our forecasts and expectations.

To paraphrase the legendary Peter Lynch: the share price of a company should be the least concern for investors, yet it attracts the most attention. Share price down means it's a bad proposition. Share price up equals great management, running a fantastic franchise, and killing it.

Let's not beat around the bush: we've all been guilty of allowing the share price to colour our mind. Most of us would pay heed to Lynch's motto: "know what you own, and why you own it", but that's so much easier when the market follows the script we have in mind.

Nice one, Rudi, I suspect some of you are thinking now, but where exactly is this leading to?

To CSL ((CSL)), of course, one of Australia's most successful business stories from the past three decades, widely regarded the benchmark for 'quality' on the ASX, also because a share price growing from $2-something to $300 and beyond will seldom, if ever, trigger anything but admiration from investors, journalists and market commentators.

CSL is high quality quality, simply because the share price tells us.

At least, such was the case until the pandemic hit in 2020 and CSL's safe haven status propelled the share price beyond $335. It later emerged blood plasma collection centres are not immune during societal lockdowns and the share price has found it difficult to stay above $300 since. More recently the shares temporarily dived below $230 for a total loss of -32% in market cap.

Now, of course, the question being asked is: is this yesterday's case study for why investors (including me) hold on too long to growth stories that, ultimately, cannot last forever?

Experiences with companies including a2 Milk ((A2M)), Appen ((APX)), Lendlease ((LLC)), and Ramsay Health Care ((RHC)), to name but a few, make asking the question all but justifiable.

And investors do hold on too long to yesterday's success stories because opinions don't change quickly, and neither do the embedded perceptions that are the foundation underneath investor views.

In most examples, and I am sure we can all come up with many more names, there's a relatively close correlation between what has happened to the share price and the undeniable deterioration inside the underlying business.

Profits, dividends and key financial metrics for Lendlease today are but a fraction of what they were many moons ago. The same observation stands for a2 Milk, Appen, Ramsay Health Care, and so many more others. Using the same label for CSL, however, looks like a stretch.

While it is true covid and the $11.7bn acquisition of Vifor have unmasked a number of vulnerabilities at the company and its operations, also weighing down a number of financial metrics, CSL's EPS is still forecast to grow this year between 13-17% in constant USD terms on a post-covid margin that is yet to bounce back, with growth poised to continue in the years thereafter.

CSL spends the equivalent of a small to mid-cap company on capex & R&D each year and the company's pipeline of products under development has seldom looked as rich in potential as it does this year. This is not my personal assessment, but of sector analysts who are invited on site tours and investor days.

At this year's investor briefings, management at CSL expressed its confidence of achieving annual double-digit earnings growth over the medium term, on lower capex, higher operational yield (increased efficiencies), lower costs, margin recovery and a number of new initiatives and products.

But also, there's no denying the company's risk profile has risen post 2020. There's more competition for some of its specialised products, through ArgenX and others, and the company had to issue a profit warning ahead of its FY23 release, if only to correct the analysts who had too easily assumed rapid margin recovery.

More recently, CSL shares were dragged down because of the risk (speculation?) that popular GLP-1 anti-obesity drugs from the likes of Novo Nordisk and Eli Lilly could potentially impact on Vifor's dialysis drugs portfolio.

When it comes to explaining the share price performance over the past three years, I am sure we all have our views and opinion. We all carry along our biases and narratives, and if we thought CSL shares were too expensive back in 2020, then that's our explanation. Others like to look at price charts and draw support and resistance lines.

There's a whole group of investors who've never liked the company or its shares, and they are highly unlikely to change their stance. Backward-looking, simple PE ratios will never turn CSL into an attractive proposition.

There's literally no purpose in me trying to address all possible narratives and views, other than pointing out maybe the answers are not to be found with CSL itself?

One of my long-standing observations is most investors and market analysts cannot get their head around the premium valuation for CommBank ((CBA)), which as every investor hopefully realises, is the only bank in Australia that has been worth owning post-GFC.

This inability is because the answer does not lay in the dividend or in the mortgage book of CBA, but in the sector premium the shares have been rewarded with over the past two decades. In other words: to properly assess the prospects and 'valuation' of CommBank, one has to compare and measure against the rest of the sector domestically.

In similar vein, CSL's lagging share price performance post 2020 might be more explained by the fact the healthcare sector over that period has turned into a market laggard - globally. The S&P500 Health Care Index, for example, peaked in mid-2021 at the level of 2015, and has been in a downsloping trend since.

This becomes extra-remarkable if one realises this index includes Eli Lilly whose shares have almost quadrupled since 2020.

There's no denying the healthcare sector has been struggling with re-discovering its pre-covid mojo, as also yet again illustrated by last week's profit warning from Integral Diagnostics ((IDX)) in Australia.

Higher costs in combination with a slower-than-anticipated revenue recovery post covid generally has proven to be somewhat of a ball and chain for many industry stalwarts.

In the USA, the Biden administration is of the intent to address extreme price gauging that makes US healthcare unaffordable for many. This cannot be great news for major pharma companies.

In addition, defensive sectors on the share market have effectively stood still or have gone backwards over the past two years. Think supermarket operators such as Woolworths Group ((WOW)), staples such as Endeavour Group ((EDV)), and local telecommunication leader Telstra ((TLS)).

Clearly, shares in CSL, that has proven to be no longer as 'superior' as it was pre-covid, have not been able to withstand the multiple pressures descending from the macro level. As investors we cannot always accurately anticipate what is likely to happen next, but it's good to keep in mind nothing is ever permanent in finance.

This too shall change, eventually.

If CSL is indeed able to achieve those double-digit annual increases in the years ahead, the share price will pick up on this, and resume its uptrend. It's the response a young Warren Buffett received from his mentor, Benjamin Graham. It's also what history shows us, with the benefit of hindsight.

It's typical for humans to live in the moment, to be impatient and draw far-reaching conclusions on the basis of recent observations and experiences. Sometimes the share price follows its own scenario, and it doesn't match what we had in mind. The task at hand, however, doesn't change because of how the share price has performed.

A period of lacklustre disappointment is nothing unusual. In fact, it happens to the best. In CSL's case, two precedents are 2001-2006, as well as 2008-2012. You didn't seriously think shares in Microsoft or in Apple have only gone up over the decades past, do you?

One of the absolute outperformers on the local exchange over the past two decades is TechnologyOne ((TNE)), which has been a staple in the FNArena/Vested Equities All-Weather Model Portfolio. While total return generated has been nothing short of phenomenal, between 2016 and mid-2018 there was literally no appetite for the stock.

Now cue all the possible reasons and explanations you can think of. Shares too expensive. Growth is poised to slow down. Foreign competitors have bigger balance sheets and more muscle. The shares don't move!

Five years later the share price has tripled and if current market speculation proves correct, management is about to announce underlying growth is accelerating, which would be a bonus indeed for a premium-valued share price already.

CSL's business is a lot more complex, and for many an investor it's too much of a challenge to properly understand its pros and cons and inner-business dynamics. Today's story is not a personal recommendation to buy or hold the shares. It's merely an invitation to re-appraise what happens on the market, and why.

If share price and fundamental prospects of a company are out of sync, they will reconnect. It's what happened to Microsoft shares in 2012 and to TechnologyOne shares in 2018.

The worst narratives investors could have taken guidance from prior to those price pivots include "the share price doesn't move" and "the shares haven't moved since..."

Sounds familiar?

This story is about the share market as much as it is about us.

Conviction Calls & Best Ideas

From a recent strategy update by **T.RowePrice**:

"Higher interest rates don’t necessarily take all the oxygen out of the system. The market could get excited by the prospect of productivity gains driven by artificial intelligence.

"And, as one T. Rowe Price Asset Allocation Committee member pointed out recently, ‘Sticky inflation

historically has been good for earnings.’

"The high level of U.S. government debt was an important caveat.

"It is important not get too bearish. Market segments that don’t trade at nosebleed valuations, such as small and mid-cap stocks and real asset equities, look appealing on a relative basis in our view.

"And if we see a spike in volatility and a market sell-off, it may be an opportunity to buy stocks."

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Stock pickers at **Wilsons** believe the time is right to add more exposure to copper, given supply constraints will eventually lead to higher pricing.

Quite a few forecasters are signalling market deficits are on the horizon for copper, though none see this as an imminent possibility given the global economy is still decelerating, and expected to continue doing so in the quarters ahead.

Possibly the top-tier ASX-listed pure exposure is Sandfire Resources ((SFR)), which has now been added to Wilsons' Most Preferred Direct Equities ideas. That portfolio, by the way, is Overweight international equities, but Neutral Australia.

Wilsons does see opportunity in high quality domestic private credit where yields on offer can rise as high as 9%-plus.

Other ideas maintained by Wilsons are Amcor ((AMC)), APA Group ((APA)), CSL ((CSL)), and ResMed ((RMD)).

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Judging from a recent investor presentation document, **Morgan Stanley**'s favourites among ASX-listed mining companies currently are: 29Metals ((29M)), Alumina Ltd ((AWC)), Deterra Royalties ((DRR)), Evolution Mining ((EVN)), Rio Tinto ((RIO)), Regis Resources ((RRL)), South32 ((S32)), and Whitehaven Coal ((WHC)).

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From a strategy update by **Citi**:

"We have held the view that US Equities would prove more resilient relative to historical recession compares.

"The S&P 500 has experienced a rolling earnings recession, timing disparities at the sector level have masked the overall index impact.

"Should a soft landing materialize in ‘24, the stage is set for material upside to earnings growth as a Cyclicals recovery aligns with new structural tailwinds in the Growth cluster.

"This is reflected in our scenario weighted S&P 500 targets. Currently, we project:

-Year End ’23 – 4,600
-Mid Year ’24 – 5,000"

****

Morgan Stanley strategists are in the process of informing their clientele about prospects for 2024:

"For investors, 2024 should be all about threading the needle: With our baseline expectation that 2024 will see slowing growth, falling inflation, and eventually easier policy, we'd need to see the macro outlook sticking the landing across all of these to justify current valuations – many assets are already fairly priced for this benign environment.

"And the eye of the needle is smaller and narrower than usual, as is the usual case in late-cycle: Financial conditions are tight. Rate cuts generally aren't expected until later in 2024. Downside risks to global growth are high. An earnings recession is still in train.

"Bond supply continues to be a market concern. EM fundamentals face headwinds. Cross-asset correlations have not budged from extremes. Finesse will be needed to find openings in markets which can generate positive returns."

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, 13th November, 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).

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 10-11-23

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 November 6 to Friday November 10, 2023
Total Upgrades: 7
Total Downgrades: 3
Net Ratings Breakdown: Buy 57.29%; Hold 34.46%; Sell 8.25%

For the week ending Friday November 10 there were seven ratings upgrades and three downgrades to ASX-listed companies by brokers covered daily by FNArena, yet the size of average earnings forecast downgrades was far greater than upgrades for the third week in a row.

Brokers were disappointed by first quarter results for Integral Diagnostics, which resulted in a steep share price fall, as staff shortages and cost inflation continue to pressure margins.

Ord Minnett felt a more comprehensive cost-out program could help in the near-term and upgraded its rating to Buy from Accumulate, and suggested the share price decline was overdone. Morgan Stanley also upgraded to Equal-weight from Underweight on valuation given the share price had declined by around -39% since July.

While Morgan Stanley noted cost pressures are currently outweighing rising indexation and the near-term outlook is hard to predict, a margin recovery will eventually arrive.

After four brokers refreshed research on Integral, the company appeared atop the tables below for the largest percentage fall in both average target price (-30%) and average earnings forecast (-37%).

Neutral-rated Citi lowered its target by the greatest percentage to $1.90 from $3.40 after allowing for lower margins and after assuming a weighted average cost of capital (WACC) of 9.2%, up from 8.4%, due to the higher interest rate environment.

Xero was second on the earnings downgrade table. A softer than expected first half result, attributed to subscriber growth, left Macquarie cautious on the company's average revenue per unit (ARPU) growth strategy pivot. A&NZ and International subscription growth slowed by -7% and -11%, respectively, compared to the second half of FY23.

The analyst felt future revenue growth is a concern, given peer discounting and headwinds to subscriber growth, and downgraded the company’s rating to Underperform from Neutral.

More positively, Buy-rated UBS noted "earnings-capex" and free cash flow (FCF) significantly outperformed expectations due to lower R&D intensity, and felt the share price sell-off in reaction to first half results was overdone. Morgan Stanley also highlighted the strong FCF of NZ$106.7m, which lifts the Rule of 40 metric to

34% from 32%. The analyst's review of the US business also revealed a focused growth opportunity with a measured cost base.

Macquarie Group was next on the table, after ignoring Chalice Mining due to a data entry glitch. First half cash earnings for Macquarie came in -20% adrift of the consensus forecast and -12% shy of Citi's estimate. A positive share price reaction surprised the broker, though suggested the market was allowing for a miss against expectations.

A Neutral recommendation was retained with the analyst highlighting the company's material surplus capital, the announced buyback and the probability of normalisation for asset realisations from the currently weak environment.

In a disappointing performance, according to UBS, the asset management business contributed profits before tax of $407m, down -57% half-on-half and -71% lower year-on-year. The broker lowered its target to $185 from $196 and suggested disappointing results may persist as higher inflation and the interest rate back drop continue to present challenges.

Turning to positive movements for average earnings forecasts by brokers, Orica had the best week from among stocks in the FNArena database with an 18% upgrade after a "strong" FY23 result, according to UBS, with earnings rising by 21% year-on-year.

This broker highlighted the FY23 operating performance was underpinned by recontracting pricing benefits, sustained mining demand and an uplift in technology adoption, all achieved in a period of global macroeconomic volatility, adverse weather and manufacturing down-time.

Compared to the previous corresponding period, earnings (EBIT) for APAC, EMEA, North America and Latin America grew by 24%, 24%, 11% and 1%, respectively. Digital Solutions earnings also grew by 103% to $54.3m and was a standout, in Morgan Stanley's view. It's felt management will continue to deliver solid, relatively certain earnings growth over the next two-to-three years.

While currently Hold-rated on Orica, Morgans would be a buyer of the stock on any material share price weakness.

Average broker earnings forecasts also rose by just over 10% for James Hardie Industries in the database last week following a "robust" second quarter performance, according to Ord Minnett.

While this broker is now more confident of near-term outperformance relative to competitors, FY24 is still expected to be a soft year for US housing construction. Sales in North America, which account for around 75% of group sales, fell by -2% in the second quarter compared to the previous corresponding quarter, with a 2% price increase overwhelmed by a -5% volume decline, explained the analyst.

According to Morgan Stanley, third quarter guidance by management, indicating a stronger volume outlook and likely higher margins, trumped a "solid" in-line second quarter performance. It's felt strong margins will be maintained for some time.

The midpoint of the profit guidance range was 27% ahead of expectations, noted Citi, with volumes in the year-to-date tracking ahead of seasonal norms. On the margin front, the broker anticipates plenty of upside, much of which will be at the discretion of management more than markets and macroeconomic factors.

Management is investing in its marketing/brand proposition, noted Macquarie, which, together with progress in key cost and cash targets, puts the business on a very strong footing when markets recover.

Total Buy recommendations in the database comprise 57.29% of the total, versus 34.46% on Neutral/Hold, while Sell ratings account for the remaining 8.25%.

Upgrade

CHORUS LIMITED ((CNU)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/1/1

Chorus has submitted its price-quality proposal to the Commerce Commission for the regulatory period spanning January 2025 through December 2028. Macquarie notes the company proposed total capital expenditure of -$1.5bn and operating expenditure of -$842m.

The broker expects the final outcome, to be determined by the Commerce Commission, to wind up broadly in line with its current assumptions and forecasts for the period.

The rating is upgraded to Outperform from Neutral, reflecting the recent -11% share price tumble, and the target price decreases to NZ$8.32 from NZ$8.95.

INTEGRAL DIAGNOSTICS LIMITED ((IDX)) Upgrade to Equal-weight from Underweight by Morgan Stanley and Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 2/2/0

In reaction to 1Q results, the stock price for Integral Diagnostics fell sharply and Morgan Stanley now upgrades its rating to Equal-weight from Underweight on valuation. Since July, shares have declined by around -39%.

Staff shortages and cost inflation continue to pressure margins and were greater than the analysts anticipated. As a result, FY24-26 EPS forecasts are reduced by -40%, -34% and -32%, respectively, and the target is slashed to $1.95 from $2.75. Industry view: In-Line.

While Morgan Stanley expects a margin recovery will arrive, cost pressures are currently outweighing rising indexation and the near-term outlook is described as hard to predict.

A disappointing first quarter update from Integral Diagnostics, says Ord Minnett, with the company unable to deliver improved operating leverage amid clinical staff shortages and cost inflation.

Domestic revenue growth of 8.4% missed market expectations, as did weak earnings margins. The broker expects a more comprehensive cost-out program can help in the near-term, and does consider the share price decline overdone.

The rating is upgraded to Buy from Accumulate and the target price decreases to $2.50 from $3.35.

INCITEC PIVOT LIMITED ((IPL)) Upgrade to Neutral from Sell by Citi .B/H/S: 2/4/0

Incitec Pivot is scheduled for FY23 release on Monday, 13 November, and Citi analysts are positioned for underlying profit after tax of $534m, which is below the market consensus forecast.

Higher assumed prices for ammonia have pushed up the broker's forecasts for FY24. Target price is unchanged at $2.90 but following a weakening in share price, Citi's rating is hereby upgraded to Neutral from Sell.

Given ABARES is forecasting winter crop production to decline -34% with yield falling by -31% versus a year ago on below-average rainfall, Citi prefers to remain cautious.

MATRIX COMPOSITES & ENGINEERING LIMITED ((MCE)) Upgrade to Speculative Buy from Speculative Hold by Bell Potter.B/H/S: 1/0/0

In good news for Matrix Composites & Engineering, Bell Potter has reviewed recent quarterly reports by global services providers to the offshore energy sector, concluding order backlogs point to ongoing robust near-term demand for subsea infrastructure.

Another medium-term earnings catalyst for the company is leverage to growing activity across the global offshore floating wind sector, explains the broker.

Bell Potter upgrades its rating to Speculative Buy from Speculative Hold and lowers its target to 32c from 34c.

LOTTERY CORPORATION LIMITED ((TLC)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/2/0

Macquarie's trackers suggest lottery prize pools are down -7% year-on-year in the first four months of the year, and jackpot volatility is impacting volumes. The broker has adjusted forecasts for Lottery Corp to reflect these year-to-date trends, now predicting 4% growth.

With Lottery Corp underperforming the ASX100 by around -11% in the last three months, and having tumbled -15% on an absolute basis, Macquarie now sees the stock as more fairly valued.

The rating is upgraded to Neutral from Outperform and the target price decreases to $4.95 from $5.35.

WOODSIDE ENERGY GROUP LIMITED ((WDS)) Upgrade to Neutral from Sell by Citi .B/H/S: 2/4/0

Citi upgrades its rating for Woodside Energy to Neutral from Sell after a recent share price retreat and potential for yield support, with 80% of profit being paid out as dividends.

The broker does, however, caution investors over management's past record around poor execution of major growth projects, a mixed track record on M&A and unsuccessful exploration efforts.

The $32 target price is unchanged.

Downgrade

NUFARM LIMITED ((NUF)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/3/0

Amid a string of downgrades from Nufarm's global peers, Citi expects crop protection lag to remain a focus, particularly as drier conditions emerge in Australia Pacific.

The broker also points out distributors remain focused on de-stocking given high levels of channel inventories.

Citi does point out carinata and omega-3 represent meaningful upside potential for Nufarm, with demand levels supported by a number of structural tailwinds beyond the near-term.

The rating is downgraded to Neutral from Buy and the target price decreases to $4.65 from $6.90.

WESTPAC BANKING CORPORATION ((WBC)) Downgrade to Hold from Add by Morgans .B/H/S: 1/4/1

Westpac's -7% earnings decline (ex notables) for FY23 was close to Morgans' forecast. The broker also noted resilient asset quality and a strong capital position which allowed for an increased dividend and a new share buyback program.

The net interest margin (NIM) declined by -2bps to 194bps due to greater competition, offset by the benefit of higher interest rates, explains the analyst.

Given recent share price strength, the broker downgrades its rating to Hold from Add. The FY24-26 earnings forecasts fall by between -3-6% partly due to a lower assumed NIM and higher costs. The target falls to $21.58 from $21.61.

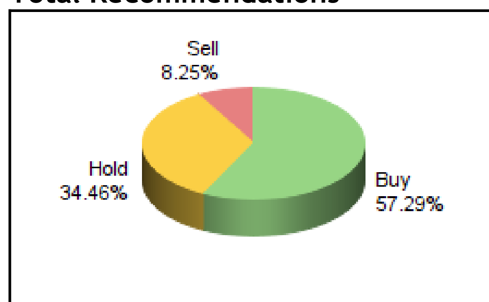
XERO LIMITED ((XRO)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 3/1/1

A softer than expected first half result from Xero, attributed to subscriber growth, has left Macquarie cautious on the company's average revenue per unit growth strategy pivot.

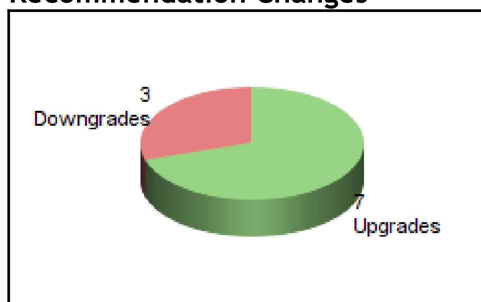
The broker noted the result demonstrated a marked shift in drivers, as the Australia & New Zealand business drove top-line growth, but Macquarie remains concerned about top-line growth looking forward given peer discounting and headwinds to subscriber growth.

The rating is downgraded to Underperform from Neutral and the target price decreases to $87.00 from $119.00.

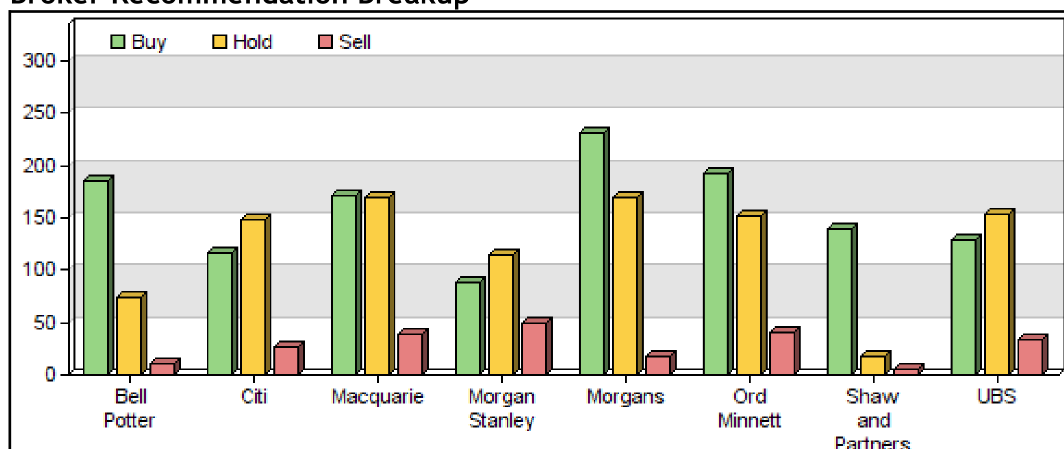
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	CHORUS LIMITED	Buy	Neutral	Macquarie
2	INCITEC PIVOT LIMITED	Neutral	Sell	Citi
3	INTEGRAL DIAGNOSTICS LIMITED	Neutral	Sell	Morgan Stanley

4	INTEGRAL DIAGNOSTICS LIMITED	Buy	Buy	Ord Minnett
5	LOTTERY CORPORATION LIMITED	Buy	Neutral	Macquarie
6	MATRIX COMPOSITES & ENGINEERING LIMITED	Buy	Buy	Bell Potter
7	WOODSIDE ENERGY GROUP LIMITED	Neutral	Sell	Citi
Downgrade				
8	NUFARM LIMITED	Neutral	Buy	Citi
9	WESTPAC BANKING CORPORATION	Neutral	Buy	Morgans
10	XERO LIMITED	Sell	Neutral	Macquarie

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	ACF	ACROW FORMWORK AND CONSTRUCTION SERVICES LIMITED	1.183	1.093	8.23%	3
2	JHX	JAMES HARDIE INDUSTRIES PLC	54.540	50.740	7.49%	5
3	FPH	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	21.933	21.000	4.44%	5
4	UNI	UNIVERSAL STORE HOLDINGS LIMITED	4.110	3.988	3.06%	5
5	WOR	WORLEY LIMITED	18.713	18.213	2.75%	4
6	HCW	HEALTHCO HEALTHCARE & WELLNESS REIT	1.650	1.617	2.04%	4
7	TWE	TREASURY WINE ESTATES LIMITED	13.220	12.990	1.77%	5
8	CAR	CAR GROUP LIMITED	28.608	28.142	1.66%	6
9	CCP	CREDIT CORP GROUP LIMITED	15.183	15.017	1.11%	3
10	WBC	WESTPAC BANKING CORPORATION	22.563	22.335	1.02%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	IDX	INTEGRAL DIAGNOSTICS LIMITED	2.238	3.213	-30.35%	4
2	HLS	HEALIUS LIMITED	2.800	3.070	-8.79%	5
3	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	3.270	3.452	-5.27%	5
4	DXI	DEXUS INDUSTRIA REIT	2.953	3.115	-5.20%	3
5	XRO	XERO LIMITED	111.633	117.567	-5.05%	6
6	NUF	NUFARM LIMITED	6.121	6.443	-5.00%	7
7	DXC	DEXUS CONVENIENCE RETAIL REIT	2.937	3.085	-4.80%	3
8	COF	CENTURIA OFFICE REIT	1.468	1.540	-4.68%	4
9	MQG	MACQUARIE GROUP LIMITED	181.160	189.880	-4.59%	5
10	APA	APA GROUP	9.096	9.418	-3.42%	5

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	ORI	ORICA LIMITED	95.517	80.867	18.12%	6
2	JHX	JAMES HARDIE INDUSTRIES PLC	265.251	239.970	10.54%	5
3	SIG	SIGMA HEALTHCARE LIMITED	0.600	0.580	3.45%	6
4	RMD	RESMED INC	111.801	109.251	2.33%	6
5	HCW	HEALTHCO HEALTHCARE & WELLNESS REIT	7.667	7.500	2.23%	4
6	WOR	WORLEY LIMITED	83.550	82.050	1.83%	4
7	WPR	WAYPOINT REIT LIMITED	17.000	16.750	1.49%	3
8	CSR	CSR LIMITED	42.286	41.957	0.78%	7
9	GMG	GOODMAN GROUP	104.712	104.020	0.67%	6
10	SCG	SCENTRE GROUP	20.620	20.500	0.59%	5

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	IDX	INTEGRAL DIAGNOSTICS LIMITED	7.565	11.950	-36.69%	4
2	XRO	XERO LIMITED	59.108	88.683	-33.35%	6

3	CHN	CHALICE MINING LIMITED	-11.867	-10.500	-13.02%	4
4	MQG	MACQUARIE GROUP LIMITED	951.040	1066.660	-10.84%	5
5	ACF	ACROW FORMWORK AND CONSTRUCTION SERVICES LIMITED	10.200	11.367	-10.27%	3
6	NAB	NATIONAL AUSTRALIA BANK LIMITED	216.317	239.550	-9.70%	6
7	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	9.140	10.075	-9.28%	5
8	HLS	HEALIUS LIMITED	7.000	7.680	-8.85%	5
9	WBC	WESTPAC BANKING CORPORATION	184.317	198.917	-7.34%	6
10	KAR	KAROON ENERGY LIMITED	79.741	85.015	-6.20%	5

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Risk To Enriched Supply

Bills including the eventual banning of Russian enriched uranium exports may be considered by US Congress this week.

-Caution prevails in uranium spot market
-US bill limiting Russian supply may be considered by Congress this week
-Term markets remain active on expectation of higher prices ahead

By Greg Peel

The uranium spot market saw a lack of buyer interest, leading to sellers reducing their offer prices. An off-market transaction was recorded on Thursday at US$72.65/lb, industry consultant TradeTech reports, down -US85c from TradeTech's prior weekly price indicator, for delivery in France.

A gap has opened up between prices for delivery globally, with buyers last week preferring delivery in the US, and leading to a difference of up to US$1.00/lb between delivery locations.

However, several off-market transactions, involving the purchase of uranium contained in UF6 and/or enriched uranium product (EUP), were concluded last week, TradeTech reports. Some of these transactions call for delivery at the end of the spot delivery window and reflect higher prices due to expectations that prices will increase after the end of the year.

TradeTech's weekly spot price indicator has fallen -US25c to US$73.25/lb.

The Russian Factor

Hanging over the uranium market since Russia first invaded Ukraine has been the possibility of sanctions on Russian enriched uranium supply, given Russian delivery contracts in place are critical to fuelling reactors in the US and elsewhere. Due to the importance of that supply, to both the US and Europe, to date sanctions have not been imposed.

Nuclear power companies have spent the interim trying to tie down secure sources from elsewhere on the globe, but Russia has dominated enriched uranium supply and only now is the world responding with plans to build new enrichment facilities to counter. They cannot be built overnight.

Various bills have been making their way through US House of Representatives and Senate committees in recent months, involving blocking Russian uranium supply (with a lead-in time), incentivising US domestic uranium production and incentivising domestic enrichment capacity.

On Friday, Congress must pass a budget bill to avoid a government shutdown, and there is concern these uranium-related bills may also be included for consideration at the same time, with Russian supply limits the main fear.

Meanwhile, the Illinois state government last week voted in favour of a measure that will remove a 36-year moratorium on new nuclear power plants. The bill lifts the ban on nuclear reactors producing less than 300 MW beginning in January 2026, which could support interest in small modular reactors (SMR), TradeTech notes.

In the European Union (EU), political support emerged last week for the formation of an industrial alliance on SMRs.

Term Markets

The Russian factor is one reason uranium term markets remain active even as the spot market shows caution.

Strong demand continues to characterise the market with both US and non-US utilities seeking material in the mid- and long-term delivery windows, TradeTech reports.

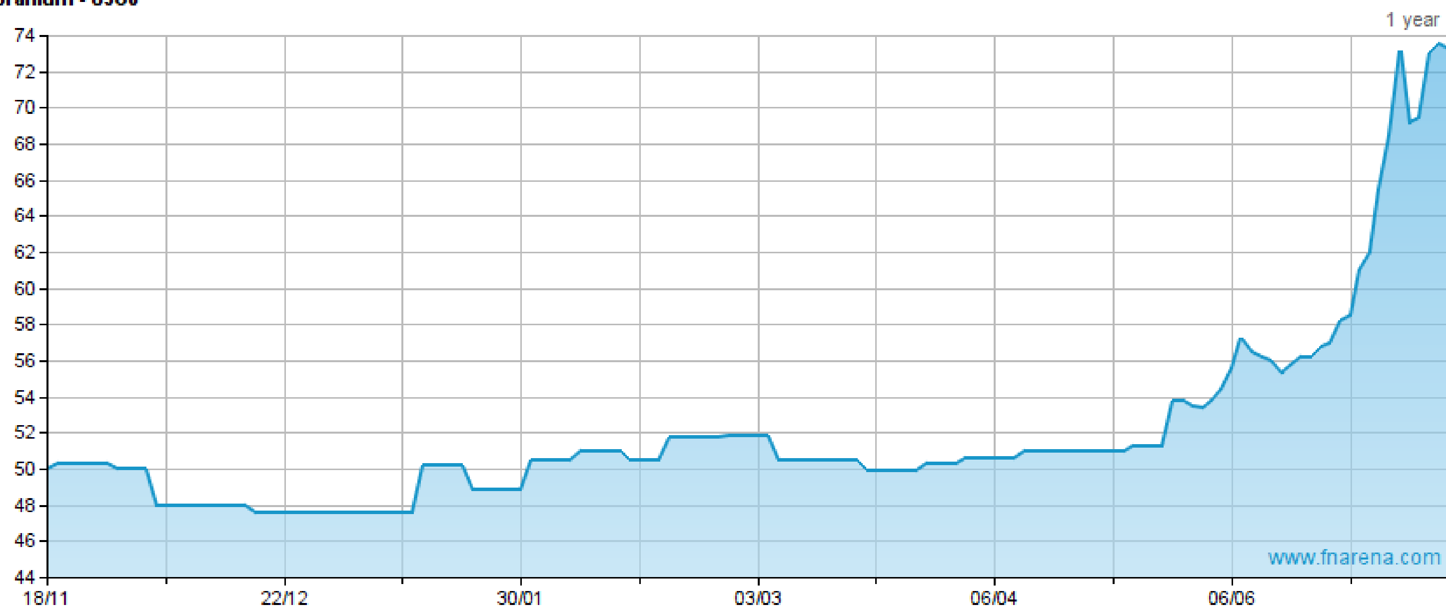
A non-US utility is seeking 6.6mlbs U3O8 or equivalent for delivery over the 2026-2030 period, and another non-US utility is reviewing offers for 1.3mlbs U3O8 contained in UF6 and/or EUP for delivery in the 2026-2032

period, while several other utilities are awaiting or evaluating offers for uranium contained in U3O8, UF6, and/or EUP over multiple delivery periods.

TradeTech's term price indicators remain at US$75.00/lb (mid-term) and US$65.00/lb (long).

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	10/11/2023	0.1000	▲11.11%	$0.24	$0.05			
AGE	10/11/2023	0.0500	▼- 5.77%	$0.07	$0.03		$0.080	▲60.0%
BKY	10/11/2023	0.3600	▼- 1.37%	$0.80	$0.28			
BMN	10/11/2023	2.4300	▼- 4.07%	$3.05	$1.19		$3.200	▲31.7%
BOE	10/11/2023	4.2100	▼- 4.37%	$4.98	$1.97	46.6	$4.543	▲7.9%
DYL	10/11/2023	1.1400	▼- 5.79%	$1.41	$0.48		$1.840	▲61.4%
EL8	10/11/2023	0.4500	▲ 4.76%	$0.59	$0.27			
ERA	10/11/2023	0.0360	▲ 2.86%	$0.30	$0.03			
LOT	10/11/2023	0.2500	▼- 5.77%	$0.29	$0.15		$0.530	▲112.0%
NXG	10/11/2023	9.4000	▲ 5.11%	$10.40	$5.11			
PDN	10/11/2023	0.9400	▼- 2.09%	$1.15	$0.52	155.1	$1.165	▲23.9%
PEN	10/11/2023	0.1100	▼-12.50%	$0.20	$0.09		$0.270	▲145.5%
SLX	10/11/2023	3.3700	▼- 3.45%	$5.32	$2.56		$5.800	▲72.1%



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WEEKLY REPORTS

The Short Report - 16 Nov 2023

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

Summary:

By Greg Peel

Week Ending November 9, 2023.

Last week saw the ASX200 follow Wall Street back up as US bond yields fell on Fed dovishness.

No changes at the top of the table but shorts in Pilbara Minerals ((PLS)) have increased to 18.1% from 17.1% and in Syrah Resources ((SYR)) to 16.6% from 15.4%.

Syrah is interesting given the stock doubled in price in a day in late October and has held on to most of that gain. But in the case of the four battery mineral stocks atop the table, we don't know whether these are belligerent naked shorts or if there are long positions within the sector on the other side.

The only other stock to see a move of more than one percentage point last week was immuno-oncology company Imugene ((IMU)), which rose to 6.2% shorted from 5.0%, but share price-wise this stock is highly volatile.

Elders ((ELD)) shorts ticked down to 6.8% last week from 7.0%, but perhaps should have been covered further given the stock jumped 18.3% on Monday post earnings result.

Bank of Queensland's ((BOQ)) relentless run up the table came to an end last week, with a drop to 8.9% from 9.5%.

Weekly short positions as a percentage of market cap:

10%+

PLS 18.1
SYR 16.6
GMD 10.6
CXO 10.2
APX 10.1

No changes

9.0-9.9%

IEL, FLT, SYA

Out: BOQ

8.0-8.9%

BOQ, MSB

In: BOQ

7.0-7.9%

OBL, SHV, IFL, LLC, WBT

Out: ELD

6.0-6.9%

ELD, ARU, AGY, HVN, LTR, ACL, IMU, DMP, LIC, JBH, INR

In: ELD, LTR, IMU, INR Out: TPW

5.0-5.9%

TPW, BRN, CHN, SLX, STX, LYC, NEC

In: TPW, NEC Out: LTR, IMU, INR, A2M

Movers & Shakers

Covered above.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.7	0.7	RIO	1.3	1.4
ANZ	0.4	0.4	S32	0.3	0.2
BHP	0.2	0.1	STO	1.3	1.4
CBA	1.4	1.4	TCL	0.3	0.4
COL	0.8	0.7	TLS	0.3	0.2
CSL	0.5	0.4	WBC	1.9	1.8
FMG	1.2	1.3	WDS	1.0	1.0
GMG	0.6	0.5	WES	0.8	0.8
MQG	0.6	0.6	WOW	0.7	0.5
NAB	0.9	0.8		0.0	0.0

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: House Prices, REITs, Commodities & Superannuation

Republished to remove confusion between Citi and Barrenjoey in A-REITs story.

House prices and affordability, preferred REITs during sector outperformance; commodity forecasts and stock preferences & record lows for superannuation fees.

-Rising incomes, not falling house prices, will ease affordability
-Preferred REITs during sector outperformance versus the ASX200
-Barrenjoey's commodity price forecasts and stock picks
-Superannuation fees fall to record lows

By Mark Woodruff

Rising incomes, not falling house prices, will ease affordability

Greater house price affordability in advanced economies will arise, believes Oxford Economics, not due to a further house price correction but as a result of a gradual rise in household incomes.

It's felt an end to rate rises, broader easing of credit standards and lower leverage should ensure this rise in income, assuming a benevolent outlook for labour markets.

Labour markets, rather than the financial sector, is where one should look for housing market risks this time around, suggests Oxford. Currently, only a gradual worsening in both unemployment and real incomes is expected.

House prices are in retreat in almost all major markets globally, though almost none of those markets have fully erased the gains since the post-pandemic recovery started, observes Oxford.

The pull-back is running out of steam, and some markets are even experiencing renewed price rises, most notably in the US and New Zealand.

The current lack of housing affordability is evident when looking at the commonly used ratios of housing price-to-rent and price-to-income. Both ratios are above their long-term trends in almost all advanced economies, where rents and house price growth have outpaced incomes, explains Oxford.

House prices and rents have risen as pandemic-era savings and fiscal support allowed consumption and prices to outpace (slower rising) income.

Outcomes in Australia, Canada and Scandinavian countries may well be different, suggests Oxford, as households haven't reduced borrowings post-GFC.

Oxford Economics explains once indebtedness rises above sustainable affordability, a slowdown in the business cycle has the potential to cause forced sales and a consequent drop in house prices.

Preferred REITs during sector outperforms against the ASX200

Despite some conflicting global inflation data, Citi senses a pickup in investor interest to ascertain which individual Australian REITs may benefit most from potential REIT sector outperformance against the ASX200.

For the record, the broker forecasts the next potential rate rise is most likely next February, though action by the Reserve Bank in December is not out of the question.

Recent Citi analysis of past cycles in 2000 and 2010 focused on both the peak of interest rates and the commencement of interest rate cuts.

As rates peaked, the broker noted the REIT sector displayed a negative correlation to bond yields and interest

rates, benefiting from both the plateau at the top of the interest rate cycle, as well as the commencement of interest rate declines.

According to historical regression analysis, Citi highlights outperformance for REITs starts 0-4 months prior to the first RBA rate cut.

Top beneficiaries within Residential REITs, according to the broker, will be both Stockland Group ((SGP)) and Mirvac Group ((MGR)), while defensive retail real estate REITs such as BWP Trust ((BWP)), Charter Hall Retail REIT ((CQR)) and Vicinity Centres ((VCX)) should benefit from lower interest rates for both the consumer and the real estate loans.

Industrial REITs should also benefit, including one of Citi's top picks in Goodman Group ((GMG)), due to its best-in-class financial and operational position.

Value stocks such as GPT Group ((GPT)) and Charter Hall Group ((CHC)) may also be supported.

Barrenjoey's commodity price forecasts and stock picks

In a tough year for commodities so far, only iron ore and metallurgical coal prices have risen by 11% and 1%, while lithium, thermal coal and nickel have experienced falls of -74%, -41% and -38%, respectively.

Barrenjoey anticipates ongoing tightness in the near-term iron ore market and raises its 2024 price forecast by 5% to US$115/t and assumes the price remains above US$100/t through to 2026. The long-term price forecast is also raised to US$80/t from US$75/t.

The broker upgrades its ratings for Rio Tinto ((RIO)) and Fortescue Metals ((FMG)) to Overweight and Neutral, respectively, while maintaining a Neutral recommendation for BHP Group ((BHP)).

While the analysts believe the lithium chemical inventory has normalised, the current issue is a build in battery inventory.

As a result, Barrenjoey makes material forecasts changes in the battery raw material space, with -15-40% price downgrades to lithium, nickel and rare earths prices.

The broker's spodumene forecast is for US$1,500/t in 2024, with a severe correction bottoming in the first quarter. Due to the potential fast growth in demand of anything between 15-40% next year, it's felt the market

has potential to rebalance faster than other historical commodity price corrections.

Spot prices for lithium carbonate, hydroxide and spodumene all peaked in November 2022, and have declined precipitously throughout 2023. Barrenjoey explains a powerful stocking cycle occurred across the supply chain in 2022 and gave way to a build-up of inventory, initially at the converters and cathode manufacturers, that has since moved down the chain to battery and manufacturers of EVs in China.

Among the emerging lithium producers both Leo Lithium ((LLL)) and Global Lithium Resources ((GL1)) retain their Overweight ratings.

Following a big third quarter fall in price for thermal coal, the broker believes prices will find support in the US$120-130/t range and should represent a better relative trade versus met coal.

In light of this view, the analysts prefer Whitehaven Coal ((WHC)) to Coronado Global Resources ((CRN)), which is downgraded to an Underweight rating.

The broker's 2024 gold price assumption is raised to US$2,000/oz to reflect recent spot price strength, while 2024-26 price forecasts for rare earths are lowered by around -15-30% to reflect well-supplied markets.

Among industrial metals, nickel has been the biggest decliner this year, driven by increased supply from Indonesia and the fallout from a deterioration in sentiment towards the electric vehicle (EV) sector, explains Barrenjoey.

Nickel is the broker's least preferred base metal with rising Indonesian supply expected to weigh on prices. Also, a rapid rise in cheaper lithium iron phosphate adoption for battery production [compared to nickel cobalt manganese] is raising concerns about longer-term nickel demand.

Overall, Barrenjoey prefers resource companies with robust balance sheets, funded growth, and the ability to generate strong cashflow with dividend upside.

For investors seeking exposure to battery raw materials, Barrenjoey has Overweight ratings for Lynas Rare Earths ((LYC)), IGO ((IGO)), Allkem ((AKE)) and Mineral Resources ((MIN)).

In terms of the ASX Gold sector, the analysts are expecting better cash flows due to a near record-high for the Australian dollar gold price.

Overweight-rated Newmont ((NEM)) is the most preferred exposure given the opportunity to regain a premium rating to peers from bedding down the Newcrest Mining merger, executing on asset sales and potential for an upcoming buyback.

Superannuation fees fall to record lows

In a good result for consumers, superannuation fees have fallen by -2% over the past year to 0.93% per annum, the lowest total expense ratio on record.

MySuper, which acts as a default account for people who don't choose their own super fund when they start a new job, is the most competitive segment, covers the most members, and over the past year average fees declined to 1% from 1.05% per annum as of June 30 this year, according to research from Rainmaker Information.

Rainmaker, which is owned by Institutional Shareholder Services provides marketing intelligence, research, and consulting services on the wealth management industry.

For the MySuper products, fees are now level for retail and not for profit funds, with the latter offering lower administration fees, while retail products have lower investment fees on average, explains Pooja Antil, research manager at Rainmaker.

Personal and retirement products still charge per annum fees of 1.16% and 1.07%, respectively.

Funds under management (FUM) for superannuation funds in Australia has grown to $3.5trn from $3.3trn this year, an increase of 1.5% while fee revenue grew by 3%.

This discrepancy highlights a potential diseconomies of scale effect, which may attract regulatory attention soon, suggests Pooja Antil.

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 17-11-23

Broker Rating Changes (Post Thursday Last Week)

Upgrade

JANUS HENDERSON GROUP PLC ((JHG)) Upgrade to Neutral from Underweight by Jarden.B/H/S: 0/0/0

Janus Henderson's third quarter earnings per share have far surpassed Jarden's expectations, despite continued outflows, helped by stronger management fee margins and robust cost management.

The company's board approved a $150m buyback, leaving Janus Henderson with the option to pursue capital management. Jarden remains cautious on near-term flows given weaker fund performance, expecting the company to suffer outflows for up to a further two years.

The rating is upgraded to Neutral from Underweight and the target price increases to $39.70 from $37.05.

WESTPAC BANKING CORPORATION ((WBC)) Upgrade to Neutral from Underweight by Jarden.B/H/S: 0/0/0

Jarden has described Westpac's full year result as "better-than-feared", and highlighted capital is tracking better. The bank announced a $1.5m buyback to be completed over the next six months, and the broker sees potential for further capital management over the year.

The broker was looking for early signs of a multi-year turnaround from the bank, and with the bank signalling its CORE program is now largely complete it is expected to begin the four plus year process of investing to simplify.

The rating is upgraded to Neutral from Underweight and the target price increases to $21.60 from $21.40.

Downgrade

CSR LIMITED ((CSR)) Downgrade to Neutral from Overweight by Jarden.B/H/S: 0/0/0

Following CSR's below-consensus 1H results, Jarden downgrades to Neutral from Overweight on peak profitability for the Building Products division, and an uncertain medium and longer-term outlook for the Aluminium business.

A recent share price rally was also taken into account for the ratings downgrade.

The target price rises to $6.00 from $5.70 on higher forecasts for Building Products after record earnings (EBIT) and margins for the half.

The timing of contractual Property profits was delayed and there were greater Aluminium losses than the analysts expected. Jarden would have a more positive view of CSR should the Aluminium business be sold.

Downgrade

INTEGRAL DIAGNOSTICS LIMITED ((IDX)) Downgrade to Neutral from Overweight by Jarden and Downgrade to Market Weight from Overweight by Wilsons.B/H/S: 0/0/0

Integral Diagnostics' Q1 update surprised negatively with growth lagging the market, labour costs pressuring margins and with higher-than-anticipated D&A and non-interest expenses.

Jarden bemoans the absence of the operating leverage that was flagged by management to continue into FY24. The broker reminds investors yesterday's update follows on from the market update that occurred on August 28.

Not exactly evidence management has everything under control and is capable of predicting where things are heading internally. We are paraphrasing now, but such is the sentiment inside Jarden's response.

The former paragraph also explains why the broker has pulled back to Neutral from Overweight. Target tumbles to $2.58 from $3.23. Estimates have been culled.

Wilsons had upgraded to Overweight following Integral Diagnostics' FY23 release, confident things were turning around for the medical imaging services business, but then followed the reality check, and that move has now been reversed.

The price target falls by -41% to $2. Needless to say, the broker is not happy, labeling it "the company's most perplexing downgrade yet".

Wilsons sees a red flag in the fact this business has deteriorated so quickly in such a short time frame, suggesting a potential equity raising might follow next.

An interest cover ratio of 1.2x feels too tight for a company downgrading in a rising rates environment, the broker surmises. Downgrade to Market Weight from Overweight.

Downgrade

SYMBIO HOLDINGS LIMITED ((SYM)) Downgrade to Hold from Buy by Canaccord Genuity.B/H/S: 0/0/0

Canaccord Genuity believes Aussie Broadband's ((ABB)) bid for Symbio Holdings is too low, based on previous comparable transaction values and optionality over the Asian expansion strategy.

The broker lowers its target for Symbio to $3.00 from $4.45 to nearly align with the $3.01 Symbio board-backed offer, and downgrades the rating to Hold from Buy.

TALON ENERGY LIMITED ((TPD)) Downgrade to Hold from Speculative Buy by Canaccord Genuity.B/H/S: 0/0/0

If everything goes according to plan, Talon Energy won't be a stand-alone operation for much longer. Target and suitor Strike Energy ((STX)) are aiming for a meeting in early December to work out the details.

Canaccord Genuity has downgraded to Hold from Speculative Buy, with a 24c price target.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	JANUS HENDERSON GROUP PLC	Neutral	Sell	Jarden
2	WESTPAC BANKING CORPORATION	Neutral	Sell	Jarden
Downgrade				
3	CSR LIMITED	Neutral	Buy	Jarden
4	INTEGRAL DIAGNOSTICS LIMITED	Neutral	Buy	Wilsons
5	INTEGRAL DIAGNOSTICS LIMITED	Neutral	Buy	Jarden
6	SYMBIO HOLDINGS LIMITED	Neutral	Buy	Canaccord Genuity
7	TALON ENERGY LIMITED	Neutral	N/A	Canaccord Genuity

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
AKE	Allkem	$8.72	Jarden	12.00	14.60	-17.81%
ALC	Alcidion Group	$0.07	Petra Capital	0.13	0.15	-13.33%
APA	APA Group	$8.37	Jarden	9.20	10.15	-9.36%
ARX	Aroa Biosurgery	$0.72	Jarden	1.26	1.34	-5.97%
CKF	Collins Foods	$9.59	Wilsons	11.19	11.16	0.27%
CRD	Conrad Asia Energy	$1.27	Canaccord Genuity	2.68	2.69	-0.37%
CSR	CSR	$5.96	Goldman Sachs	6.50	6.45	0.78%

		Jarden	6.00	5.70	5.26%
DUG DUG Technology	$1.88	Canaccord Genuity	2.00	1.22	63.93%
GLL Galilee Energy	$0.06	Canaccord Genuity	0.08	0.39	-79.49%
GNX Genex Power	$0.18	Canaccord Genuity	0.26	0.27	-3.70%
HFR Highfield Resources	$0.39	Canaccord Genuity	1.21	1.50	-19.33%
HLI Helia Group	$3.87	Goldman Sachs	4.09	4.02	1.74%
IDX Integral Diagnostics	$1.81	Goldman Sachs	2.70	3.60	-25.00%
		Jarden	2.38	3.23	-26.32%
		Jarden	2.58	3.23	-20.12%
		Wilsons	2.00	3.43	-41.69%
IPD ImpediMed	$0.14	Wilsons	0.26	0.39	-33.33%
JHG Janus Henderson	$39.71	Jarden	39.70	38.60	2.85%
JHX James Hardie Industries	$48.14	Goldman Sachs	54.45	51.70	5.32%
MQG Macquarie Group	$167.69	Goldman Sachs	180.80	194.99	-7.28%
MYX Mayne Pharma	$4.61	Wilsons	4.00	3.20	25.00%
OCC Orthocell	$0.42	Petra Capital	1.28	1.35	-5.19%
ORA Orora	$2.54	Goldman Sachs	3.55	3.92	-9.44%
QBE QBE Insurance	$15.14	Jarden	21.00	20.00	5.00%
STO Santos	$6.97	Goldman Sachs	7.20	N/A	-
SYM Symbio Holdings	$2.91	Canaccord Genuity	3.00	3.05	-1.64%
TPG TPG Telecom	$4.78	Jarden	5.40	6.10	-11.48%
TWE Treasury Wine Estates	$10.77	Jarden	12.30	13.50	-8.89%
WBC Westpac	$21.15	Goldman Sachs	22.70	22.59	0.49%
WDS Woodside Energy	$31.07	Goldman Sachs	35.80	N/A	-
XRO Xero	$100.10	Wilsons	126.93	126.32	0.48%
Company	Last Price	Broker	New Target	Old Target	Change

More Highlights

VIT VITURA HEALTH LIMITED

Pharmaceuticals & Biotech/Lifesciences - Overnight Price: $0.32

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

Vitura Health has conducted a presentation outlining the rationale for the Doctors on Demand acqusiition, not the least of which was annualised revenue of $18.2m (based on September revenue), an opportunity to diversify revenue streams, and insights into higher value medications that could boost distribution revenue.

Petra Capital also points out the regulatory driven shift from asynchronous telehealth consultations to live tele consultations, for which Doctors on Demand is well position.

The broker observes telehealth consultations constitute less than 1% of market share, and expects rapid growth.

Buy rating and 70c target price retained.

This report was published on November 3, 2023.

Target price is **$0.70** Current Price is **$0.32** Difference: **$0.38**
If **VIT** meets the Petra Capital target it will return approximately **119%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **1.00** cents and EPS of **3.00** cents.
At the last closing share price the estimated dividend yield is **3.13%.**
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.67**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **1.00** cents and EPS of **4.60** cents.
At the last closing share price the estimated dividend yield is **3.13%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **6.96**.

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

APM APM HUMAN SERVICES INTERNATIONAL LIMITED

Healthcare - Overnight Price: $1.40

Canaccord Genuity rates ((APM)) as Initiation of coverage with Buy (1) -

Canaccord Genuity has initiated coverage of APM Human Services International with a Buy rating and $2.65 price target, suggesting the long duration contracts that are typical for the business support a solid revenue base.

Recent new contract wins and additional tender opportunities only add further potential, or so the narrative goes.

For now, the broker has penciled in single digit growth annually for EBITDA and net profits, but new contracts or acquisitions could up the ante. The balance sheet should gradually delever.

This report was published on November 6, 2023.

Target price is **$2.65** Current Price is **$1.40** Difference: **$1.255**
If **APM** meets the Canaccord Genuity target it will return approximately **90%** (excluding dividends, fees and charges).
Current consensus price target is **$2.55**, suggesting upside of **82.8%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Canaccord Genuity forecasts a full year **FY24** dividend of **11.00** cents and EPS of **21.00** cents.
At the last closing share price the estimated dividend yield is **7.89%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **6.64**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **18.5**, implying annual growth of **58.0%**.
Current consensus DPS estimate is **10.1**, implying a prospective dividend yield of **7.2%**.
Current consensus EPS estimate suggests the PER is **7.5**.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **11.00** cents and EPS of **23.00** cents.
At the last closing share price the estimated dividend yield is **7.89%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **6.07**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **21.3**, implying annual growth of **15.1%**.
Current consensus DPS estimate is **11.6**, implying a prospective dividend yield of **8.3%**.
Current consensus EPS estimate suggests the PER is **6.5**.

Market Sentiment: **0.8**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

DLI DELTA LITHIUM LIMITED

New Battery Elements - Overnight Price: $0.52

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

Delta Lithium has received the green light to start operating at Mt Ida Lithium in the WA Goldfields and Canaccord Genuity comments the project is effectively 'shovel ready'.

The broker still awaits the release of mining studies. Delta Lithium is expected to start mining "in the coming months".

While this is a lithium mining operation, Canaccord Genuity sees options for additional gold leverage.

The Speculative Buy rating and target price of $1.20 are retained. Modeling is currently ex-gold, points out the broker.

This report was published on November 6, 2023.

Target price is **$1.20** Current Price is **$0.52** Difference: **$0.68**
If **DLI** meets the Canaccord Genuity target it will return approximately **131%** (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

NDO NIDO EDUCATION LIMITED

Childcare - Overnight Price: $0.93

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

Wilsons believes Nido Education offers the highest-quality child care exposure on the ASX and initiates research coverage with an Overweight rating and $1.32 target price.

The broker suggests the company's partnership with a third-party incubator creates a superior risk-adjusted growth profile.

There is material upside to the analyst's conservative FY24 earnings estimates should the occupancy level forecast of 82% (the prospectus forecast also) be exceeded. It's noted levels are already ahead of forecasts for FY23 year-to-date.

Wilsons cites other positives including several long-term structural industry tailwinds, including bipartisan government funding support, along with increasing female and dual-partner workforce participation.

This report was published on November 8, 2023.

Target price is **$1.32** Current Price is **$0.93** Difference: **$0.39**
If **NDO** meets the Wilsons target it will return approximately **42%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY23:

> Wilsons forecasts a full year **FY23** 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 25.14**.

Forecast for FY24:

> Wilsons forecasts a full year **FY24** dividend of **5.20** cents and EPS of **10.00** 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 **9.30**.

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

sources

TLS TELSTRA GROUP LIMITED

Telecommunication – Overnight Price: $3.83

Jarden rates ((TLS)) as Initiation of coverage with Buy (1) –

Jarden calculates a combined telecommunications industry return on invested capital (ROIC) of 5.9%, and notes Telstra Group's sector-leading ROIC of 8.7%. Research coverage is initiated with a Buy rating and $4.30 target.

The broker sees a clear incentive for all players to drive revenue growth through price rather than market share, until industry returns normalise, which should lift all boats on a rising tide.

Key risks include an unexpected step-up in mobile competition and a regional roaming deal between TPG Group and Optus, explains the analyst. Potential upside is noted for InfraCo Fixed should management reassess its capital structure.

This report was published on November 7, 2023.

Target price is **$4.30** Current Price is **$3.83** Difference: **$0.47**
If **TLS** meets the Jarden target it will return approximately **12%** (excluding dividends, fees and charges).
Current consensus price target is **$4.47**, suggesting upside of **16.7%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Jarden forecasts a full year **FY24** dividend of **17.00** cents and EPS of **17.60** cents.
At the last closing share price the estimated dividend yield is **4.44%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **21.76**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **18.0**, implying annual growth of **7.8%**.
Current consensus DPS estimate is **17.7**, implying a prospective dividend yield of **4.6%**.
Current consensus EPS estimate suggests the PER is **21.3**.

Forecast for FY25:

Jarden forecasts a full year **FY25** dividend of **19.00** cents and EPS of **19.90** cents.
At the last closing share price the estimated dividend yield is **4.96%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **19.25**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **19.7**, implying annual growth of **9.4%**.
Current consensus DPS estimate is **18.5**, implying a prospective dividend yield of **4.8%**.
Current consensus EPS estimate suggests the PER is **19.4**.

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

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