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WEEK 21

STORIES TO READ FROM FNArena

Friday, 24 May 2024

Aristocrat Leisure's $2.9bn Shareholder Windfall

Australian Banks Post First Half Results: Sugar Hit

Rudi's View: Strategy Updates & Model Portfolios

CONTENTS

AUSTRALIA

1. The Market In Numbers - 18 May 2024
2. Aristocrat Leisure's $2.9bn Shareholder Windfall
3. Three Reasons BHP Is Undervalued (None Are Iron Ore)

FEATURE STORIES

4. Might Crude Oil Hit US$100/bbl Again?
5. Australian Banks Post First Half Results: Sugar Hit

INTERNATIONAL

6. What Factors Are Driving US Exceptionalism?

RUDI'S VIEWS

7. Rudi's View: Rate Cuts Equal Optimism
8. Rudi's View: Strategy Updates & Model Portfolios

SMALL CAPS

9. Dr Boreham's Crucible: Blinklab

WEEKLY REPORTS

10. Weekly Ratings, Targets, Forecast Changes - 17-05-24
11. Uranium Week: Russia Banned From August
12. The Short Report - 23 May 2024
13. In Brief: Retail, Travel, Top Dividends, Banks & Telstra
14. In Case You Missed It - BC Extra Upgrades & Downgrades - 24-05-24

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Financial News, Data & Analysis

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AUSTRALIA

The Market In Numbers - 18 May 2024

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

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

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

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

Australia & NZ

Index	17 May 2024	Week To Date	Month To Date (May)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
NZ50	11699.790	-0.47%	-2.16%	-3.35%	-0.60%	-1.82%
All Ordinaries	8082.30	0.74%	1.89%	-0.88%	3.23%	9.20%
S&P ASX 200	7814.40	0.84%	1.96%	-1.04%	2.95%	8.48%
S&P ASX 300	7764.30	0.82%	1.93%	-1.07%	3.03%	8.48%
Communication Services	1510.40	0.17%	0.53%	-4.35%	-4.90%	-1.76%
Consumer Discretionary	3532.10	3.23%	2.91%	-2.34%	9.01%	19.99%
Consumer Staples	11864.50	1.42%	-0.73%	-3.99%	-3.62%	-10.75%
Energy	10130.30	-3.59%	-1.31%	-5.98%	-4.64%	-6.44%
Financials	7370.00	0.63%	2.42%	-1.19%	9.70%	18.49%
Health Care	42736.50	0.61%	0.87%	-1.62%	0.93%	3.50%
Industrials	6834.70	-1.82%	-0.90%	-4.83%	-0.45%	0.56%
Info Technology	2239.00	-0.77%	2.29%	-1.67%	22.16%	22.38%
Materials	18581.20	2.49%	2.94%	3.56%	-4.66%	3.05%
Real Estate	3693.40	1.13%	4.33%	-3.75%	10.33%	21.34%
Utilities	9012.80	-0.33%	3.85%	8.79%	10.19%	3.19%
A-REITs	1679.40	1.33%	4.45%	-3.68%	11.78%	23.97%
All Technology Index	3045.20	-0.73%	1.01%	-1.63%	13.04%	26.01%
Banks	3084.30	1.22%	3.44%	-0.03%	10.97%	23.53%
Gold Index	7775.40	0.74%	-0.60%	7.36%	5.53%	17.49%
Metals & Mining	6122.20	2.98%	3.07%	4.80%	-5.33%	1.07%

The World

Index	17 May 2024	Week To Date	Month To Date (May)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
FTSE100	8420.26	-0.16%	3.39%	5.88%	8.88%	11.80%
DAX30	18704.42	-0.36%	4.31%	1.15%	11.66%	15.83%
Hang Seng	19553.61	3.11%	10.08%	18.21%	14.70%	3.37%
Nikkei 225	38787.38	1.46%	0.99%	-3.92%	15.91%	16.87%
DJIA	40003.59	1.24%	5.79%	0.49%	6.14%	16.26%
S&P500	5303.27	1.54%	5.31%	0.93%	11.18%	19.16%
Nasdaq Comp	16685.97	2.11%	6.57%	1.87%	11.16%	21.02%

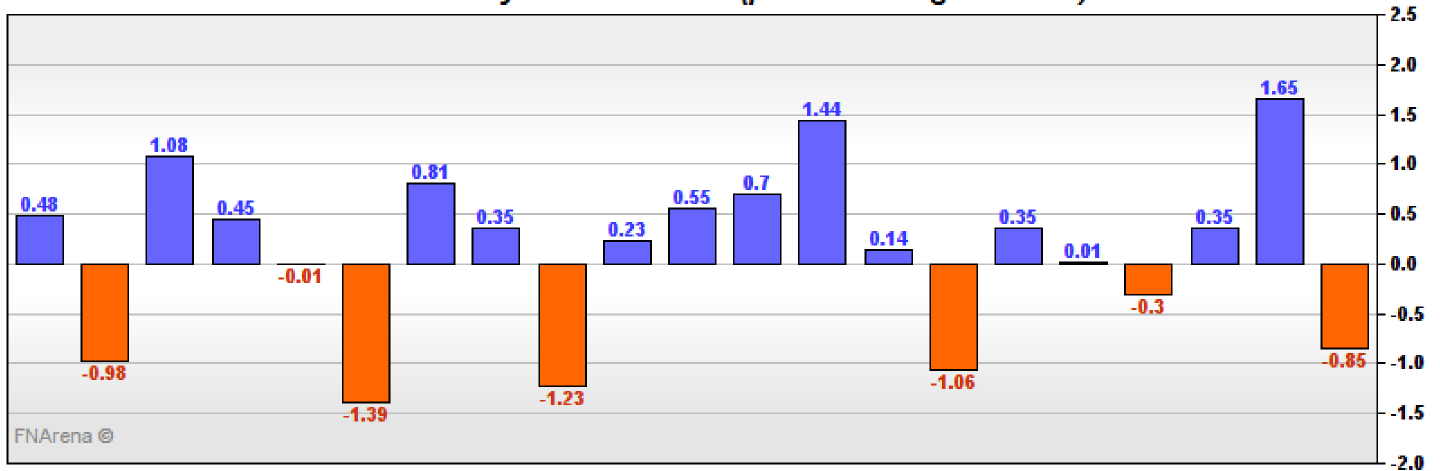
Metals & Minerals

Index	17 May 2024	Week To Date	Month To Date (May)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
Gold (oz)	2377.00	1.33%	1.78%	8.34%	16.26%	24.57%
Silver (oz)	29.47	4.10%	8.79%	19.89%	20.88%	30.80%
Copper (lb)	4.6728	4.25%	2.08%	17.04%	22.71%	25.72%
Aluminium (lb)	1.1668	0.77%	0.00%	12.34%	20.00%	21.82%
Nickel (lb)	9.0243	4.98%	3.99%	20.50%	21.34%	1.40%
Zinc (lb)	1.3342	1.75%	0.47%	21.11%	18.64%	27.24%
Uranium (lb) weekly	90.75	-1.52%	3.89%	3.13%	5.52%	61.48%
Iron Ore (t)	116.85	-0.09%	5.71%	15.00%	-15.47%	2.58%

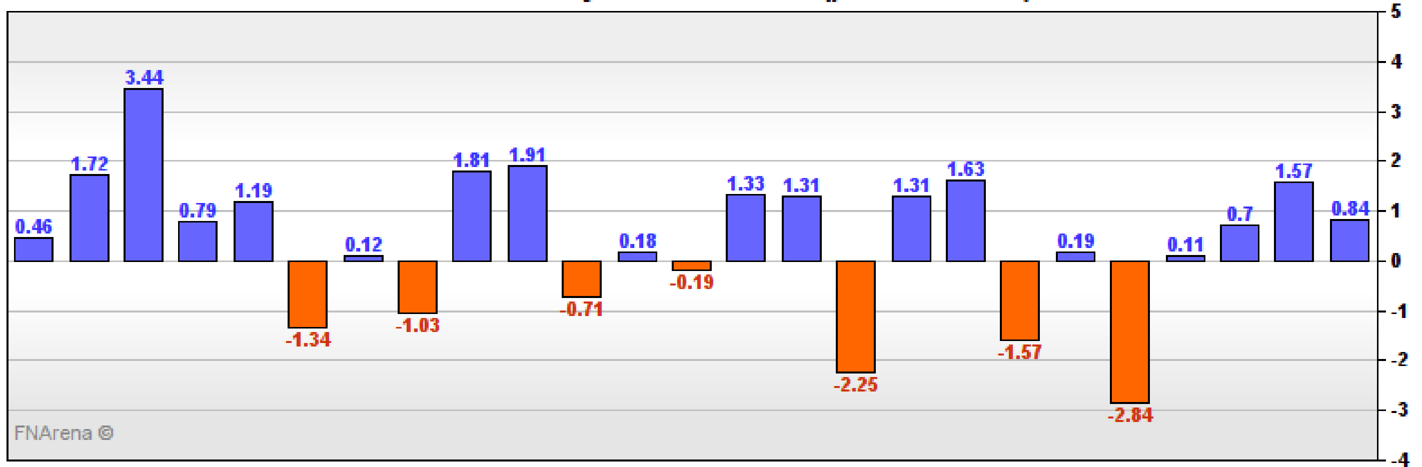
Energy

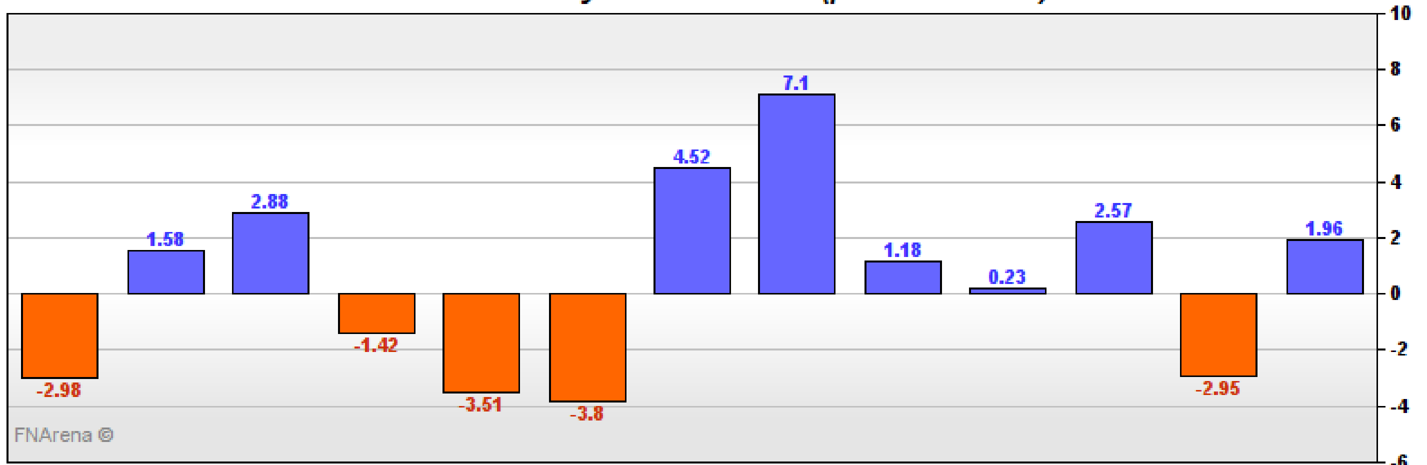
Index	17 May 2024	Week To Date	Month To Date (May)	Quarter To Date (Apr-Jun)	Year To Date (2024)	Financial Year To Date (FY24)
West Texas Crude	79.37	0.14%	-3.95%	-2.88%	7.53%	13.61%
Brent Crude	83.43	-0.84%	-5.75%	-3.38%	5.26%	12.27%

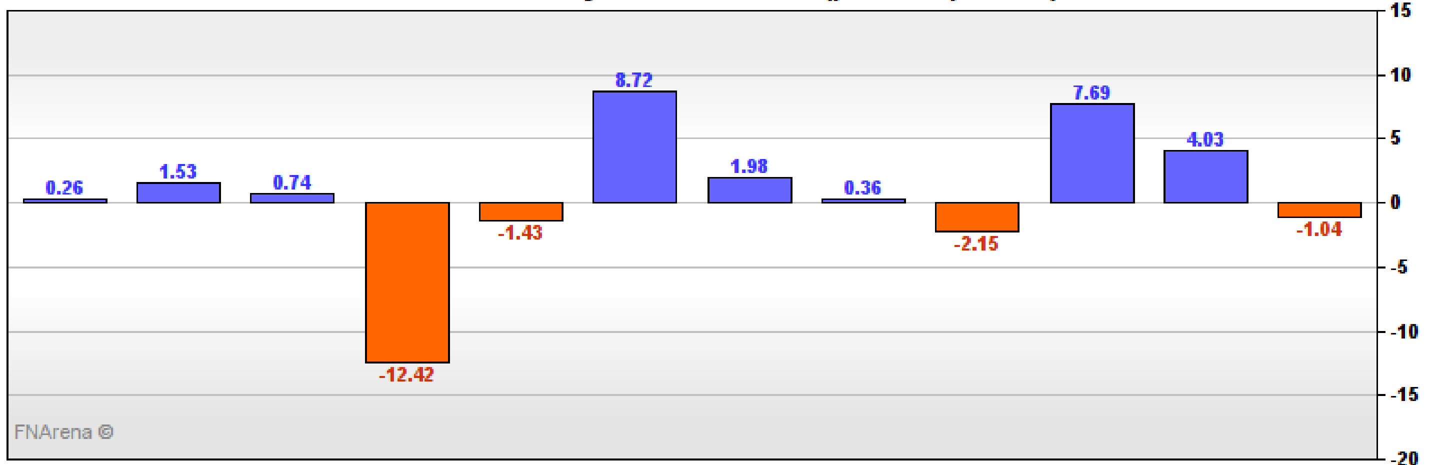
ASX200 Daily Movement in % (past 21 trading sessions)



ASX200 Weekly Movement in % (past 25 weeks)







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

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AUSTRALIA

Aristocrat Leisure's $2.9bn Shareholder Windfall

In the wake of consensus-beating interim results, Aristocrat Leisure may undertake further capital management following a strategic review of assets.

-Aristocrat Leisure delivers robust interim results
-Additional capital management from strategic review?
-Ongoing momentum expected for land-based gaming
-Outperformance compared to peers

-By Mark Woodruff

In a raft of positives for Aristocrat Leisure ((ALL)), recent interim results beat consensus expectations carried by strong momentum in land-based gaming, the interim dividend was lifted by 20%, plus the ongoing share buyback was extended by $350m.

Macquarie's forecasts already include an additional $1.8bn of buybacks to FY26, which is in addition to the current $1.85bn program.

And now, **further capital management is on the horizon** due to an upcoming strategic review within the Pixel United division, which could generate up to $2.9bn of sale proceeds (or $4.60 per share), according to the broker.

Aristocrat is a global leader in the design and distribution of land-based gaming machines and digital gaming content. The latter has three segments, Pixel United, Aristocrat Interactive and Gaming, all of which experienced margin expansion in the first half.

Pixel United/Social Gaming, as the latter term implies, involves the provision of content to paying users who are not betting real money. The rebranded Aristocrat Interactive (a merger of the former Anaxi and NeoGames businesses) does cater to this taste, via online real-money games.

Gaming provides the third, and largest, revenue stream via traditional gaming machines located in pubs, clubs and casinos. While Aristocrat sells poker machines, most revenues in this division flow from a daily cut of revenue earned by a rented machine.

As mentioned, US Gaming experienced very strong growth in the first half, with market share gains across both outright sales and Gaming Operations in the first half, highlights Jarden. Outright sales were also strong for the rest-of-the-world (ROW), though there was some ceding of market share in the A&NZ region (Hello, Light & Wonder ((LNW)).

Management's outlook statements support ongoing momentum within this core land-based gaming business and improving profitability in Pixel United, suggests Macquarie, while Aristocrat Interactive remains a nascent opportunity.

Guidance for net installs of around 6,000 units in Gaming Operations suggests to Citi current momentum will carry through to the second half. The installed base of leased machines in North America increased by more than 10% to over 67,000.

Ord Minnett points out the stark contrast between this performance by Aristocrat and that of London-based International Game Technology and ASX-listed Light & Wonder whose installed base expanded by only around 3% over the same period.

Interim results

Earnings and profit (NPATA) beat consensus forecasts by 9% and 10% respectively, driven by better-than-anticipated margins, explains Morgan Stanley.

Group revenue rose by 4% on a constant currency basis, reflecting the strong performance from North American gaming, strong sales in Asia, and growth in the new Interactive division, explains Morgans.

Profit rose by 16% in reported terms, while EPS increased by 20%, which this broker attributes to a strong operational performance and accretion from the share buyback program.

Morgan Stanley attributes robust profit growth to ongoing strong market share, as well as growth in land-based gaming. Management's disciplined execution in Pixel United, with a focus on market share gain and efficiency, also contributed. Its thought scaling of content in Aristocrat Interactive provided an additional boost.

A lower design and development (D&D) spend, combined with a reduction in user acquisition (UA) guidance to 21%-24% from 24-27%, underpins Citi's positive earnings revisions for Aristocrat.

An interim fully-franked dividend of 36cps was declared. In future, dividends are likely to be partially franked, notes Morgans, reflecting an increase in the proportion of earnings from outside Australia.

Management reiterated FY24 guidance for constant-currency NPATA growth and expects to deliver -$60m in cost savings from optimisation on an annualised run-rate.

The strategic review

Placement of a new permanent CEO is now on hold pending a strategic review of Pixel United's social non-casino games, which has underperformed since covid by comparison to the Social Casino sector, explains Morgans.

Excluding RAID, non-casino has been a drain on resources, observes Jarden, making the review of social casual (Big Fish) and mid-core (Plarium) fully understandable.

Interest in Big Fish is likely to be low, cautions the broker, while a shift to profit share for Plarium (excluding UA spend) could be considered.

Citi feels this **review removes a key question mark overhanging the stock price**, as these assets have a weak earnings outlook and little synergy with the rest of the portfolio.

The outlook

The outlook for earnings upgrades remains promising, according to Macquarie, with the broker's forecasts yet to include meaningful revenue synergies from the NeoGames acquisition that was completed in April this year.

The investor day next month will likely be a share price catalyst when management provides greater detail around the Aristocrat Interactive division, in Jarden's opinion.

In the medium-term, investor debate is expected to centre on whether the company can realise

above-cost-of-capital returns across this new business.

Aristocrat's **R&D expenditure is unmatched by peers**, highlights Ord Minnett, but Jarden has some concerns over the sheer size and scale of D&D (annualising at -$850m) in terms of maintaining efficacy and the resultant ability to drive real returns.

More positively, and perhaps the key takeaway from interim results, Morgans highlights an under-geared balance sheet which provides optionality for inorganic investment and the return of funds to shareholders.

This broker upgrades its rating for Aristocrat Leisure to Add from Hold and raises the 12-month target price to $50 from $47.

Following interim results, the average target price in the FNArena database increased to $50.20 from $47.60, which suggests just under 7% upside to the latest share price.

Of five covering brokers, four have a Buy (or equivalent) rating, Ord Minnett maintains a Hold recommendation.

Outside of FNArena's daily research monitoring, Jarden maintains a Buy rating and $47.20 target price.

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

AUSTRALIA

Three Reasons BHP Is Undervalued (None Are Iron Ore)

By Mark Gardner, CEO, Head of Equities, MPC Markets

Over the last decade, BHP Group ((BHP)) has been planning for a future beyond iron ore, and that future is rapidly unfolding, driven by the things we will need most: energy and food.

One of the largest demographic shifts in human history is already in motion, moving from rural to urban environments. This means two things: we are going to need more energy, and we will need to increase agricultural productivity. BHP recognizes this.

In recent years, BHP has focused on developing energy transition minerals like copper and uranium, while also advancing its first major potash project, all three addressing these needs.

Copper: The Perfect Storm

Copper is integral to numerous industries, particularly those associated with the energy transition and the rapidly expanding artificial intelligence (AI) sector. BHP, being one of the world's largest copper producers, is ideally placed to capitalise on the burgeoning demand for copper.

Demand Drivers:

-**Energy Transition**: The global shift towards renewable energy sources and electric vehicles (EVs) is a significant driver of copper demand. Copper is essential for the infrastructure of wind turbines, solar panels, and EVs. The share of global copper demand from "green" sectors is expected to double over the next decade, from about 8% to 16%.

-**AI and Data Centers**: The rise of AI and the proliferation of data centres have created a new and substantial demand for copper. Data centres, essential for AI operations, consume vast amounts of copper. For instance, Nvidia's GPU data centre sales have surged by 409% in the last year alone, with further growth expected.

Supply Constraints:

-**Projected Deficit**: According to a Reuters survey, global copper demand is projected to hit -6m tonnes in 2024, with a market deficit expected to exceed -100,000 tonnes in 2025. This deficit is likely conservative, given the additional demand from AI and data centres. Chief Economist at Trafigura, Saad Rahim, has highlighted a projected increase in copper demand by one million tons due to AI and data centres, exacerbating an already significant deficit.

-**Geopolitical and Production Issues**: Copper supply is heavily dependent on South America, where geopolitical risks and production disruptions are significant concerns. Major producers like Codelco, MMG, Glencore, and Antofagasta have all reported production declines or disruptions, further tightening supply.

-**Inventory Levels:** Global copper inventories are at 30-year lows in terms of days of demand. Without new significant supply coming online in the next two years, prices are likely to remain highly sensitive to supply gaps.

-**Lack of New Mines**: The motivation to explore new copper deposits has been low due to relatively stable prices compared to other battery minerals. Even with technological advancements in exploration, it takes an average of 15 years to open a new copper mine from discovery to production.

Uranium: Rising Demand Amidst Supply Constraints

BHP also stands to benefit from the rally in uranium prices. The company sits on the world's largest uranium deposit at Olympic Dam and is well-positioned to capitalise on the increasing demand for uranium driven by the clean energy transition.

Demand Drivers:

-Nuclear Power Expansion: With 22 nations, representing 43% of the global economy, committing to tripling their nuclear power capacity by 2040, the demand for uranium is set to soar. Nuclear energy is crucial for reducing carbon emissions, and this expansion will require significant amounts of uranium.

-Price Rally: The price of uranium has risen from US$50 a pound in 2023 to over US$90 a pound this month. With supply gaps expected to snowball in 2024, further price increases are anticipated. BHP, producing 3,406 tonnes of uranium in FY23 (a 43% year-on-year increase), holds a significant share of the global uranium production market.

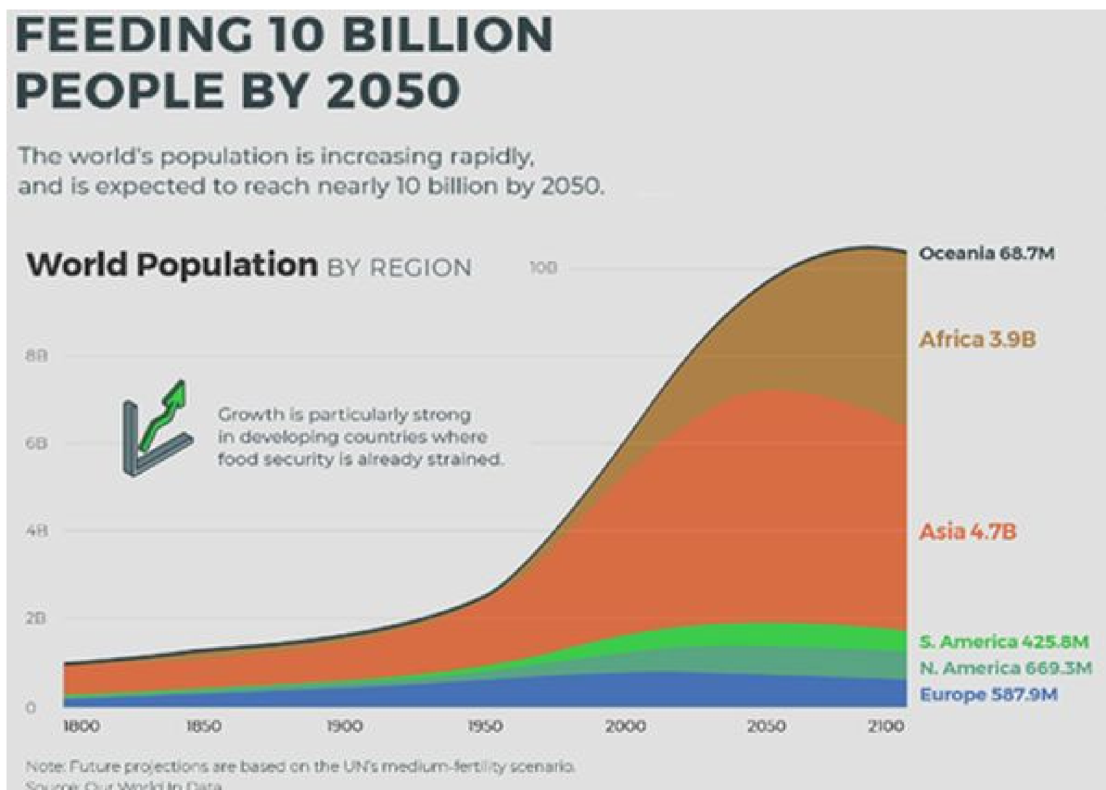
Potash: Meeting the Rising Demand for Fertilisers

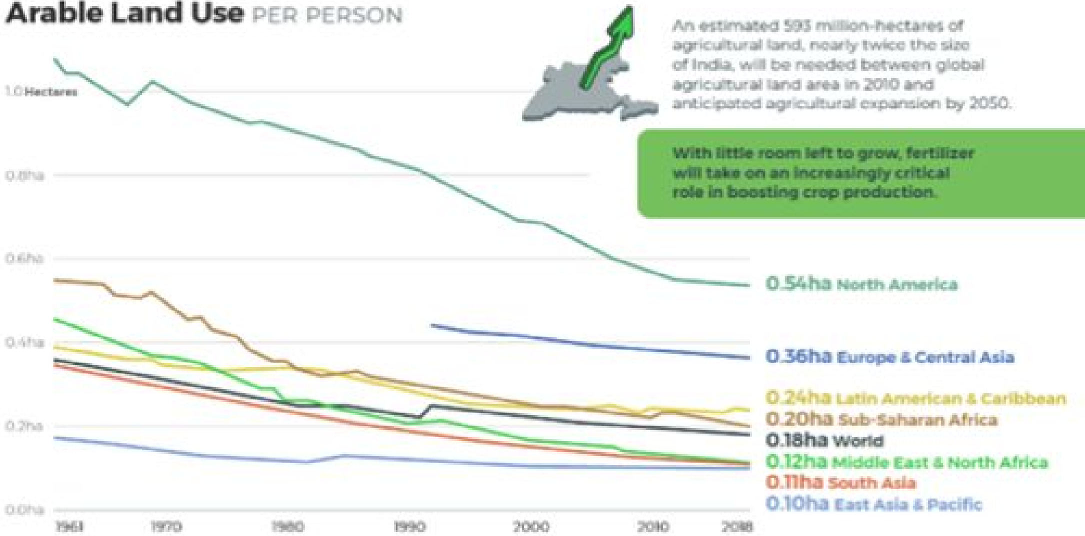
BHP's entry into the potash market is another strategic move that could drive its stock to new heights. Potash is a critical ingredient in fertilisers, and the demand for it is expected to rise significantly due to global demographic changes and urbanization.

Demand Drivers:

-Population Growth and Urbanisation: Although global population growth has slowed, the demand for resources continues to rise. Urbanisation is leading to increased energy consumption and a higher demand for agricultural products. Over the next three decades, two billion people are expected to move to urban areas, increasing the need for food and housing.

-Agricultural Productivity: Fertilisers, including potash, are essential for enhancing agricultural productivity. The demand for key fertiliser ingredients like sulfuric acid is expected to grow at an 8.3% compound annual growth rate (CAGR) over the next decade.





The confluence of rising demand and supply constraints in these critical commodities creates a favourable environment for BHP's growth.

As the world navigates through energy transitions, technological advancements, and demographic shifts, BHP's diversified portfolio and leadership in these markets make it cheap in anyone's language and the old "it's just an iron ore miner" tag may soon be left behind.

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

FEATURE STORIES

Might Crude Oil Hit US$100/bbl Again?

Analysts assess the near term outlook for oil and gas prices amidst a variety of risks and uncertainties.

-Global demand/supply
-OPEC's balancing act
-Emerging market demand
-Geopolitical Risks
-Australian gas prices

By Greg Peel

The International Energy Agency (IEA) has revised down its global oil demand growth forecast by -140,000 barrels per day to 1.1mb/d in 2024, on the back of lower OECD demand in the March quarter. However, global oil demand growth in 2025 has been revised slightly higher to 1.2mb/d.

The IEA projects global supply to be at a record of 102.7mb/d in 2024, led by non-OPEC-Plus countries, with supply growth by non-OPEC-Plus to be at 1.4mb/d in 2024, while OPEC-Plus voluntary cuts would lower supply growth by -0.8mb/d.

The US Energy Information Agency (EIA), in its latest Short-Term Energy Outlook, projected a smaller deficit of less than -0.1mb/d in 2024 and a surplus of nearly 0.4mb/d in 2025. The agency now expects OPEC-Plus production cuts could potentially be rolled forward for the whole of the second half of this year. The agency left global oil demand growth unchanged at 0.9mb/d in 2024 and at 1.4mb/d in 2025.

Ahead of the June 1st OPEC meeting, the IEA and EIA converged to Citi's long-standing view, expressed last December, on extending voluntary cuts till the end of 2024. All in all, once incorporating EIA's OPEC crude production numbers, Citi has a deficit of -0.5mb/d in 2024, loosening to a surplus of 0.3mb/d in 2025.

While May saw another month of downgrades to global 2024 demand growth estimates by the IEA and EIA, the IEA's change was the result of raising the 2023 demand baseline by 130kb/d without a corresponding adjustment to 2024, notes Morgan Stanley, thereby compressing growth in 2024. The IEA cited weaker demand data from Europe in the March quarter.

The Balancing Act

OPEC faces a difficult decision, suggest ANZ Bank analysts, as it meets to review its supply policy next month. ANZ believes market expectations will surpass fundamentals, as OPEC looks to provide some stability for the oil market.

There are three possible outcomes: extend the current voluntary production cuts of -2.2mb/d; unwind them; or completely remove them. ANZ's current model is based on a gradual unwinding of the cuts in the second half of this year.

This is the basis for ANZ's Brent oil forecast of US$90/bbl in the second half. Should OPEC choose to remove the cuts, prices could fall as low as US$75/bbl. However, an extension could produce "eye-watering deficits" and push prices to US$100/bbl. ANZ's estimates don't take into consideration any geopolitical risk premium.

As such, ANZ Bank sees an extension is the most likely outcome. A possible middle ground could be the adjustment to members' baseline production levels if the group decides an official unwinding of production cuts is too risky for prices.

Longview Economics notes oil prices have fallen -11% from their April 12 high. In the short term, Longview's models point to further downside in the short term.

On a one to two-year view, Longview suggests the oil price outlook is bullish, with Brent likely to rally to US$90-100/bbl by year-end. That view reflects the analysts' outlook for global oil inventories, which they expect to trend down over the next 18-24 months as a result of modest supply deficits this year and next.

In particular, OPEC-Plus production is likely to stay relatively low this year, Longview believes, while US shale oil supply growth should continue to decelerate, only growing by 0.6mbpd this year and next year versus 1.5mbpd last year.

Global oil demand growth should remain robust, albeit at a lower level versus 2022 and 2023.

Emerging Demand

Trend growth in developed market oil demand is close to, if not at, zero, Longview Economics notes. Total DM oil consumption hasn't grown for about 40 years, given a combination of relatively low population growth compared to emerging market economies, and the multi-decade downtrend in oil consumption per head, as Western nations have become more efficient with their energy use and, in recent years, have switched towards EVs.

Emerging market oil demand is therefore the key marginal driver of global demand. Without EM, global oil demand wouldn't have grown in the past 40 years. With EM, it has grown cumulatively by 70% since 1985. Chinese demand has been a key component of that growth, especially in recent years. In the next 18 months though, Chinese demand is likely to slow, Longview believes.

But how much will EM demand, outside of China, drive global oil consumption growth this year and next?

EM demand growth ex-China is likely to pick up in the next 1-2 years, Longview suggests, given the likely acceleration in EM population growth (the key driver of global population growth) coupled with rising oil demand intensity and rapid/ongoing growth in (non-EV) vehicle ownership in key EM ex-China economies.

EM economies ex-China should therefore account for most (around 60%) of the growth in global oil demand this year and next.

In India in particular, vehicle ownership has increased from 13% in 2015 to over 25% last year. That translates to some 160m new vehicles on the road in that time (with global vehicle ownership up 650m). In other words, India accounted for around 25% of the increase in vehicles on the road globally.

In Brazil, vehicle ownership has increased from 35% to 50% (30m vehicles), in Indonesia from 20% to 40% (60m), and in Vietnam from 5% to 20% (15m). In 2023, less than 5% of new motor vehicle purchases in India, Brazil, and Indonesia were EVs.

In China, on the other hand, EVs accounted for over 42% of passenger car sales by year-end last year, Longview notes, and could rise to 50-60% by 2026.

Demand from EM ex-China economies will therefore account for the majority of global oil demand growth over the next 1-2 years and largely offset softer demand growth from DM economies and China. Taking supply forecasts into account, this should result in overall oil supply deficits and falling inventories. That sets the stage for stronger oil prices on a 1-2 year view, Longview suggests.

Geopolitics

The global energy market cannot escape the impacts of geopolitics. Focus on the changing world order has increased in recent times, notes fixed-income specialist Western Asset, part of global funds manager Franklin Templeton.

The world has entered a year of election -- over 60 countries, with more than half the world's population, are going to the polls. Higher energy prices are likely a major focus for most of these elections, given the impact of increased consumer spending on gasoline and the erosion of consumers' disposable income.

Western Asset contends oil market fundamentals weakened at the start of 2024 relative to 2023 as supply-side dynamics, such as the return of OPEC's role in balancing the market, overtook demand, warranting a more cautious approach to considering current valuations. Consequently, Western Asset believes the market is more supply-driven in this cycle and therefore prices are set to remain volatile.

However, Western Asset acknowledges both the potential for price spikes if geopolitical tensions escalate as well as the prospect of supply disruption, such as drone attacks on Russian refineries and oil infrastructure, or maritime attacks in the Red Sea.

This adds volatility to an already tense situation; the recent tit-for-tat strikes between Iran and Israel, and potential US intervention are adding jitters. Continued supply-side restraint (namely from OPEC-Plus), the domestic US oil industry remaining conservative in allocating capital to growing production, and a more sustained economic recovery taking hold (which would bolster demand) would also add upward pressure to prices.

Any acceleration in demand, Western Asset added, would likely warrant a supply response, which would dampen the overall impact on prices.

On the demand side, global oil consumption is at an all-time high, surpassing pre-covid levels and still increasing, but at a slower rate. Western Asset observed some softness in demand at the start of this year, which is attributable to slower worldwide economic conditions and the subsequent rise in economic and geopolitical uncertainty. However, a soft-landing scenario now appears to be market consensus, partially dampening uncertainty and providing a more supportive base of demand.

Pockets of demand in 2024 have arisen in petrochemicals and aviation sectors, in which capacity expansions and travel have increased. Strategic petroleum reserves were in the process of being replenished or bolstered at lower prices, but now the potential for a release is evident given higher energy prices and US election timing. Higher energy prices, the continued strength of the US dollar and higher borrowing costs themselves may also lead to demand destruction.

Beyond 2024, EV demand growth is estimated to erode approximately -200,000 to -300,000 barrels per day of demand alongside increased focus on energy efficiency. Offsetting this is the growth in China, India and other EM economies as key drivers for future demand, with increasing appetites for petrochemicals and transportation.

On the supply side, noted Western Asset, growth in non-OPEC supply from prior investment in large-scale, long-lived reserves in places such as Brazil, Guyana and Canada, have started to bear fruit. This is coupled with the return of US shale production. Consolidation within US shale has continued to grow, protecting future drilling inventory and reducing the number of domestic players, which serves to better manage supply as a result. Consequently, supply growth has outpaced the growth in demand.

Western Asset contends the OPEC-Plus alliance would need to shoulder the burden (again) to balance the market, with the responsibility falling primarily on Saudi Arabia, which would increase spare capacity and, in turn, erode its market share. All of this raises the question of how long cuts will persist. Current OPEC-Plus actions are appearing to keep pressure on the Biden administration in the run-up to the November elections in the US.

The next OPEC meeting on June 1 will be closely monitored with a focus on the enforcement of voluntary cuts by members. As a result, Western Asset believes inventory builds can be managed, but with a lower margin of safety for preserving market balance.

Trump versus Biden

From the start of his administration, President Trump signaled American energy dominance would be a cornerstone of both his economic and foreign policy. The abundant American resource endowment was seen as ensuring that retail gasoline prices would remain contained, notes RBC Capital Markets. At the same time, it was viewed as providing the option to sanction foreign policy adversaries such as Iran and Venezuela while shielding US consumers from the economic impact of such coercive measures.

When American output proved insufficient to prevent price increases, President Trump would publicly cajole OPEC to increase output. Global climate commitments were scrapped as the White House focused on its full-throttle rhetorical support of the US oil and gas industry.

President Trump was forced to abandon his longstanding antipathy toward OPEC when the covid pandemic and the Russia-Saudi price war caused oil prices to collapse and threatened the American shale industry, RBC notes.

President Biden, by contrast, pledged to renew American leadership in the fight against climate change. Re-entering the Paris Agreement and pulling the plug on the Keystone XL pipeline were among his first executive orders to demonstrate the White House's commitment to accelerating the energy transition and turning the page on the Trump era.

With the early move to pause new permits for drilling on federal land, it seemed the administration would indeed look to shrink the footprint of American oil and gas drilling.

In RBC's early conversations, senior administration officials indicated the rapid energy transition would lessen the need to focus on energy security concerns and managing relations with key producer nations. The view that we were rapidly approaching a peak demand scenario also dovetailed with the stated policy desire to extricate the US from the Middle East and refocus resources on global power competition with China.

Then Russia invaded Ukraine. Biden was forced to pivot, RBC recalls, from telling US producers to keep the oil in the ground to imploring them to produce more when faced with rising energy prices due to a war involving one of the world's largest commodity producers.

The administration prioritised getting as much US LNG to Europe as possible to stave off a major energy crisis and implemented a policy that prioritised averting oil price shocks, whether by drawing down the US Strategic Petroleum Reserve or removing/lightly enforcing sanctions on key energy producers.

The return of Trump would seem to herald a return to maximum pressure measures and a rigorous enforcement of energy sanctions, RBC suggests. And yet, even the most well-placed Trump advisors concede they would not look to remove large quantities of Iranian oil immediately, unless they could get a backfill from the major Gulf producers to keep oil prices in check.

President Biden's decision to suspend LNG permitting approvals proved to be divisive with the oil and gas industry, RBC notes, and it is unclear whether it will garner him additional support from progressives and young voters.

While the pause on non-free trade agreement LNG export approvals does have implications for projects, RBC points out, that otherwise would have reached final investment decision (FID) status this year, there are a whole host of projects currently under construction and planned to come online before the end of 2028 that are unaffected by the pause and thus should be coming online regardless.

This puts any implications from the current ban in the 2029-30 period (when projects that might have reached FID this year could target as start dates). By that point, the US will have increased export capacity by nearly 80% versus today's level. In any case, the pause will likely be lifted or cancelled by this time next year, independent of the election outcome.

If Trump were to win the election, it seems fair to assume this pause will simply be cancelled, RBC suggests. But in another Biden administration, the pause could very well be behind us, as the US Energy Secretary said in March the pause would be lifted within a year. In that scenario, RBC would expect to see approvals resume, albeit possibly with an added climate-related hurdle included in the public interest analysis.

In Congress and on the campaign trail, Republicans have been calling for a repeal of Biden's Inflation Reduction Act (which centres around, among other things, providing subsidies for renewable energy investment, intended to reduce energy costs, eventually) and the billions in clean energy funding within the legislation. The IRA is protected from being repealed solely through executive order, as it was passed through Congress, yet the President still has authority to contour the framework of the law to make tax credits more difficult to access, freeze any unallocated money, or revise unfinalised rules.

Stymying wind development in particular could be high up on the Trump agenda. Of the US$145bn in direct agency spending provided in the IRA, only 41% has been awarded, RBC notes. Any unallocated funds may be

paused indefinitely under a Trump administration, even those that have been announced. The Biden administration is rushing to finalise rules for outstanding tax credits and disperse billions in grants and loans by the end of June to protect it from the Congressional Review Act (CRA).

If Republicans take control of the White House and both chambers of Congress, they could use the CRA to quickly void rules promulgated by federal agencies or repeal aspects of the IRA through a simple majority, RBC points out. A divided Congress would make a partial or full repeal difficult, providing a safeguard to Biden's keystone climate legislation.

East Coast Gas

In assessing the southern Australia gas market (NSW, Victoria, South Australia, Tasmania), Jarden forecasts a reduction in demand due to demand destruction from high prices and greater efficiencies. However, southern gas production is falling at a faster rate.

Jarden concludes a material increase in gas supply is needed by 2028, via either new southern gas production capacity (unlikely in the analysts' view), gas via pipeline from Queensland/Northern Territory, LNG imports, or a material expansion of storage capacity.

The need to bring in more expensive supply sources (in particular LNG imports) is consistent with the conclusions reached in the Federal Government's recently released Future Gas Strategy. It concludes more gas supplies are urgently needed and, while more domestic supplies are critical, LNG imports will also most likely be needed. The cost of LNG imports depends on a number of unknown factors, in particular the price of the LNG being purchased.

The report reaches the same conclusion as Jarden does: LNG imports would set southern gas prices. The analysts forecast gas prices will increase to $18/GJ by 2030 but could trade in a range of $17-20/GJ.

Jarden expects higher wholesale gas prices to lead to higher retail gas prices and higher electricity prices. This dynamic is negative for gas and electricity users, but positive for retailers with legacy low-cost gas supplies, such as Origin Energy ((ORG)).

Gas producers with gas volumes set to be re-contracted or re-priced over the next six years, which includes Beach Energy ((BPT)), Cooper Energy ((COE)) and, to a lesser extent, Santos ((STO)) and Woodside Energy ((WDS)), plus potentially APA Group ((APA)), as reliance increases on gas supplies from Queensland/Northern Territory to meet southern demand.

In Jarden's coverage universe, Cooper, Beach and Origin are the biggest winners from higher gas prices. Small cap Cooper is the purest exposure to higher gas prices. A $1/GJ increase in forecast gas price would increase Jarden's valuation by 8.7%.

For Beach, a similar sensitivity results in a 4.6% increase, based on the exposure from its Victorian and Cooper Basin gas production. For Origin, a $1/GJ increase in gas prices generates a 2.0% increase in valuation, thanks primarily to its legacy gas contract position.

While both Woodside and Santos have some exposure to east coast prices, the valuation sensitivity to a $1/GJ gas price change is less than 1%.

An increased reliance on piped gas to meet customer demand is positive for APA and should underpin further expansion (particularly in the link to Victoria), Jarden suggests, but the current regulatory review underway might negatively impact timing, increasing the risk of supply shortfalls or enhancing the need for LNG imports if this is not resolved in the next 12 months.

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FEATURE STORIES

Australian Banks Post First Half Results: Sugar Hit

The market responded positively to bank earnings results, but looking under the surface, analysts see a different picture.

-Bank earnings fall in the half
-Buybacks and dividends drive positive responses
-Bad debts remain benign, for now
-Analysts negative on the sector

By Greg Peel

Looking at share price responses, one can easily be forgiven for thinking Australian banks had a great reporting season. However, sector analysts at Macquarie conclude the underlying fundamentals tell a different story.

Banks' pre-provision earnings declined by -1-4% (or -4-10% excluding the positive contribution from markets trading income) with headline earnings supported by ongoing cyclically low impairment charges. The key positives in this reporting season for Macquarie were balance sheet strength, a favourable economic backdrop, a solid business lending pipeline, and the banks essentially meeting or slightly exceeding rebased (lower) consensus expectations.

In contrast with rebased earnings expectations, banks' share prices have rallied by some 30-40% since the middle of 2023, leaving current valuations hard to justify, in Macquarie's view, particularly given the backdrop of the underlying earnings trends.

ANZ Bank ((ANZ)), National Australia Bank ((NAB)) and Westpac ((WBC)) all reported first half FY24 earnings results this month, while Commonwealth Bank ((CBA)) provided a third quarter update.

Downward Trend

While the banks reported "sound" results for the first half, Wilsons suggests, performances were generally a touch ahead of consensus expectations across key line items, but the sector's medium-term earnings outlook still remains challenged.

Following modest forward upgrades, consensus forecasts still point to negative earnings per share growth for the ASX200 Banks Index in both FY24 and FY25, Wilsons notes.

Weaker net interest margins (NIMs) have been the biggest headwind to bank earnings over the last twelve months. NIMs remained under pressure in the first half amidst competitive pressures in the mortgage and deposit markets, which has more than offset, Wilsons notes, the benefits of a higher interest rate environment.

Still, improving market dynamics support a stabilisation in NIMs over the second half and FY25, with further downside seemingly limited from here, this broker believes. All of the major banks have pointed to easing levels of mortgage competition supported by a more stable interest rate environment, and a declining level of fixed rate expiries.

Remember the "mortgage cliff"? We were all doomed, as fixed rate loans acquired at levels as low as 2% expired amidst rapid RBA rate rises, automatically switching borrowers from 2% fixed to a standard variable rate, which today will cost a borrower around 6%.

That risk is now declining, as the number of remaining expiries winds down.

In any case, Wilsons' central view on the outlook for margins remains unchanged. While NIMs are likely to stabilise over the medium-term, risks remain skewed to the downside, with limited upside potential amidst ongoing political pressure on loan rates and RBA rate cuts still likely over the next 12-18 months.

Upside potential could be provided by another RBA rate hike, all else remaining equal, but at this stage economists see that outcome as highly unlikely.

Despite cost of living and mortgage cost headwinds, housing credit growth has been sound this year, Wilsons suggests, albeit below-trend, which has been a reasonable outcome. During the first half, market leaders CBA and NAB took a step back from the highly competitive (and therefore less profitable) mortgage market, while ANZ, Westpac and Macquarie Group ((MQG)) continued to gain share.

Business credit growth was much stronger with the leading business bank NAB, for example, reporting 9% business credit growth in the first half.

"Business pipelines are bursting!" Barrenjoey declared. NAB and Judo Capital ((JDO)) both called this out, with agriculture, metals, health, defence and the onshoring of manufacturing offering opportunities.

Wilsons' outlook for credit growth remains unchanged, with trend to slightly above-trend credit growth likely over the medium-term, but this broker also believes this has already been adequately reflected in consensus expectations, albeit sooner-than-expected RBA rate cuts could drive moderate upgrades over FY25-26.

A lot hangs on whether the RBA can deliver a rate cut this year.

Even though recent margin trends and management commentary have been more encouraging, Morgan Stanley believes the major banks continue to face a weak revenue growth outlook. This broker forecasts revenues to be down -1% half-on-half in the second half FY24, and then increase 2.5% year-on-year in FY25. Key swing factors are likely to include front book mortgage pricing (new loans) and market share, deposit competition and mix, and SME loan growth.

In recent years, the major banks have skewed their business mix more towards retail banking at a time when this segment's profitability has been under pressure, Morgan Stanley notes, weighing on group returns on equity.

In this broker's view, it will be difficult for retail bank margins to expand and profitability to improve given the ambitions of the five largest banks. Morgan Stanley believes this limits the potential for a strong recovery in earnings per share and dividend growth, or an increase in sustainable returns.

Bad Debts

When the RBA began hiking its cash rate at a rapid pace from May 2022, it was assumed by all and sundry a rash of bad debts must surely follow.

In particular, this harks back to the so-called mortgage cliff, which reflected borrowers confidently locking in fixed rate loans because, according to then RBA governor Philip Lowe, there would be no rate hikes before 2024. The sudden jump in mortgage cost burden that households would be hit with would simply be too much

to bear for many.

Two years later, looking at first half of FY24, credit quality trends modestly deteriorated, Macquarie notes, being loans in arrears and impaired assets (loans written off). However, impairment charges remained at cyclically low levels.

Strong provision coverage against bad debts is supportive of charges remaining low, and banks further increased their coverage in the first half (excluding ANZ, which kept it flat due to the acquisition of Suncorp's ((SUN)) bank). Macquarie continues to see the current level of charges as unsustainable and remains surprised that consensus has largely accepted the narrative that banks have completely de-risked themselves.

Loan arrears are unsurprisingly increasing, Wilsons notes, though impairments have so far remained relatively low and surprised to the downside in the first half, offering a small degree of support to earnings.

Nevertheless, Wilsons points out there is a broad consensus among the banks that bad debts will follow arrears higher over the medium-term amidst weakening credit quality from the ongoing impact of higher interest rates on households.

While conservative provisioning provides a buffer to earnings against deteriorating credit quality, in Wilsons' view there is insignificant upside to consensus earnings from potential provision releases with arrears still tracking higher and generally above historical averages.

The key swing factor, as noted, will be the ultimate timing and magnitude of RBA rate cuts.

The major banks' non-performing loans increased by around 10% in the March quarter from the December quarter, Morgan Stanley points out, but credit quality generally remained sound. In contrast to their capital management approach (buybacks and dividends), the banks did not bring forward provision releases.

Morgan Stanley believes "excess" provisions will be used to mitigate the earnings impact of higher underlying loan losses, support loan growth, and maintain "buffers" over the next two-three years.

Jarden is similarly sanguine about credit quality.

While measures of stress such as arrears did increase modestly in the first half, they remain below pre-covid levels, Jarden notes. Elsewhere, there were pockets of stress in mid-market/institutional lending but these seem to be single-name specific, rather than a sign of systemic risks. Looking forward, Jarden sees further upside to earnings as bad debts are revised lower and collective provisions released.

Web-based measures of financial stress rose modestly in March, Jarden found, with unique visits to websites associated with financial stress up 8% month-on-month, yet down -8% year-on-year. This is broadly consistent with visits to major bank hardship sites, with visits to CBA's and Westpac's hardship sites up in March.

At the business level, monthly insolvencies continue to move higher, Jarden notes, with March insolvencies up 17% month-on-month to a record 1,134 and up 41% 2024 to date (and up 46% versus 2019). However, looking at insolvencies as a share of companies, the lift is more modest, with March's "record" number actually below 2015 levels given significant growth in businesses (registered businesses are up 22% since end-2019).

By industry, the biggest drivers remain construction and hospitality, but insolvencies are broadening out to other sectors, with insolvencies excluding construction and hospitality running at record highs, up 46% year on year so far in 2024 and up 25% versus 2019.

Capital Management

All of the majors remain very well capitalised by global standards on a CET1 (common equity tier 1) ratio basis, Wilsons notes, and are comfortably above their APRA minimum thresholds, which has underpinned $5bn of additional capital returns announced by the majors in the last month.

While capital returns will be modestly accretive to earnings in the near-term, this ultimately represents a temporary "sugar hit", Wilsons believes, that fails to address the still lacklustre medium and long-term earnings growth outlook facing the sector.

Major banks' capital levels remain healthy and loan growth has been weak, Morgan Stanley notes, which has allowed boards to accelerate buybacks and pay higher dividends in the recent reporting season. Active buybacks could provide some share price support, but the broker believes they are incremental to valuation, and already captured in investors' expectations.

At the same time, ordinary dividend payout ratios have moved towards the top end of the banks' target ranges. Morgan Stanley thinks this reflects increased comfort in the operating environment, but it also limits future dividend growth prospects and flexibility.

Low bad debt charges and inorganic capital benefits supported banks' capital positions paving way for higher-than-expected capital management, Macquarie points out. But despite low bad debt charges, organic capital generation was low across the sector.

With declining pre-provision profits and potentially higher impairment charges, Macquarie believes it will be challenging for the sector to maintain the current level of dividends. Based on banks' sustainable payout ratios, this broker estimates ANZ Bank, NAB and Westpac's 5-6% headline dividend yields will fall to around 4%.

Valuation

What would sustain current bank share prices into the medium term?

Citi thinks a return to sustainable core profit growth would be required. In this past result season, the market learned that technology upgrade costs are set to drive banks' operating expense growth back above inflation into the medium term. This is at a time when core lending and deposit spreads are expected to continue to decline, albeit at a slower pace than what investors have endured over the last twelve months.

Against this backdrop, Citi remains comfortable with its Sell call across the sector.

The majors delivered 23% total shareholder return (inclusive of dividends) over the last six months as macro concerns subsided, Barrenjoey notes. The majors are now trading on a 17.5x price/earnings ratio. This is within touching distance of all-time highs seen in March, and 94% PE relative to the All Industrials, which is the highest post GFC.

This comes despite the banks offering -6% earnings growth over the next three years on Barrenjoey's forecasts. This broker remains "very cautious" on the banks, but acknowledges any large sector moves will likely be driven by macro factors.

Such as an RBA rate cut.

In Morgan Stanley's view, the major banks' trading multiples are elevated and pricing in the potential benefits of a soft landing and a less competitive retail banking environment. This broker thinks earnings and dividend growth prospects are modest, with material upgrades unlikely.

In the context of a weak earnings growth outlook, on the whole bank valuations remain "highly uncompelling," warns Wilsons.

Given the tepid earnings outlook, the sector's valuation premium is excessive, Wilsons believes, and implies the market expects consensus earnings upgrades. The current sector valuation implies the market is pricing in some 20% earnings growth in FY25 compared to consensus of -1%.

This is highly unlikely to eventuate in Wilsons view without a dramatic shift in RBA policy rate expectations and the economic outlook, demonstrating the extent of the sector's current valuation excesses.

As noted at the beginning of this article, Macquarie finds current valuations hard to justify, particularly given the backdrop of the underlying earnings trends.

FNArena Major Bank Data					**FY1 Forecasts**				**FY2 Forecasts**			
Bank	B/H/S Ratio	Previous Close $	Average Target $	**% Upside to Target**	% EPS Growth	% DPS Growth	% Payout Ratio	**% Div Yield**	% EPS Growth	% DPS Growth	% Payout Ratio	**% Div Yield**
SUN	4/1/1	16.13	16.61	**2.77**	16.6	24.6	70.5	**4.6**	2.5	19.2	82.0	**5.5**
MQG	1/3/1	193.20	193.08	**- 1.33**	17.8	6.0	62.9	**3.5**	7.8	3.3	60.2	**3.6**
JDO	1/2/2	1.27	1.20	**- 6.09**	3.0	N/A	0.0	**0.0**	11.7	N/A	0.0	**0.0**
BEN	1/1/3	11.08	9.82	**- 10.89**	2.5	4.9	71.0	**5.8**	- 2.0	1.6	73.6	**5.9**
BOQ	1/0/5	6.04	5.69	**- 3.89**	100.0	- 16.1	75.0	**5.8**	2.1	5.6	77.5	**6.1**
ANZ	0/4/2	28.31	27.59	**- 3.60**	- 4.7	- 5.7	73.1	**5.8**	0.2	1.4	74.0	**5.8**
NAB	0/3/3	34.71	30.41	**- 12.60**	- 5.9	0.9	75.7	**4.8**	1.1	0.7	75.4	**4.9**
WBC	0/2/4	27.07	25.23	**- 6.78**	- 7.9	18.8	89.2	**6.2**	2.0	- 7.9	80.6	**5.7**

CBA	0/1/5	121.79	93.15	**- 23.33**	- 3.3	1.8	78.4	**3.8**	- 1.7	1.3	80.8	**3.8**

There are three main points to note concerning the above table, which reflects forecasts, target prices and ratings of brokers monitored daily by FNArena.

Firstly, for those familiar with past tables, the list has now expanded to include other listed banks.

The second is that post this expansion, all four majors are sitting at the bottom. Why? That's the third point. **There is not one Buy rating for any of the Big Four banks.**

A year ago, following first half FY23 earnings results, brokers applied six Buys, fourteen Holds and four Sells (or equivalent) ratings. Following FY23 full-year results, that had slipped to three Buys, fifteen Holds and six Sells.

Now we have no Buys, ten Holds and a whopping fourteen Sells. Sells exceed all other ratings.

In the current economic climate, it is interesting to note a rare occurrence of the two "major minors", Bendigo & Adelaide ((BEN)) and Bank of Queensland ((BOQ)) faring better than the majors in at least attracting one Buy each.

The same is true for Judo Capital and Macquarie Group, but Judo is a growth story and is yet to pay dividends, while Macquarie, although increasing its exposure to the mortgage market, is primarily a global investment and proprietary trading bank.

Suncorp is, of course, primarily an insurance company, and is about to pass its bank over to ANZ.

Technical limitations

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INTERNATIONAL

What Factors Are Driving US Exceptionalism?

What factors are driving U.S. exceptionalism, and will they last?

By Blerina Uruci, Chief US Economist at T. Rowe Price

Economic growth in the U.S. has outperformed that of other developed markets recently. During 2023, U.S. gross domestic product (GDP) grew by 2.5%. At the same time, the Canadian economy expanded by less than half that pace, at 1.1%. The growth performance of the UK and euro area was even more lackluster by comparison.

Consumer and government spending support growth

The U.S. consumer has continued to drive growth, supported by a strong labor market. Job vacancies have remained high and labor turnover low as companies have held on to their workers after the extreme difficulties of hiring talent over the past two years.

However, an underappreciated factor has been fiscal policy. Fiscal spending made up almost 30% of U.S. growth last year, with both federal- and state-level expenditures being quite punchy.

Consensus forecasts predict that the U.S. growth outperformance will continue over the medium term, driven by a similar cocktail of supportive private and government demand. The divergence with other economies is expected to moderate but remains notable, especially with respect to Europe.

Inflation lingering for longer

A corollary of growth outperformance has been slower progress on taming inflation than in other economies.

While both core goods and services inflation have come down significantly from their peaks, core services components in the U.S. have been stubbornly sticky. Strong consumer demand has allowed firms to continue to pass on higher input costs while protecting profit margins.

In addition, the rising cost of living has, to some extent, driven workers to successfully negotiate higher wages (recent union wage gains are a prime example) or quit for better prospects elsewhere. The result is strong aggregate wage growth, although the cumulative rise in wages since the pandemic continues to lag the rise in consumer prices.

Differing monetary policy expectations…

Driven by the divergences in both the growth and inflation outlooks, markets have priced very different monetary policy paths in the U.S. than elsewhere.

The U.S. Federal Reserve is not expected to cut interest rates until the fourth quarter 2024, and the weighted probability of various interest rate paths points to fewer than two cuts for 2024.

By comparison, markets expect the European Central Bank to start easing policy in June, the Bank of Canada in July, and the Bank of England in August. While some of these divergences may be justified by very recent data, the current market narrative hangs on a very fragile equilibrium.

…could change quickly

The recent slowing in U.S. GDP and employment growth suggests that the outperformance of the U.S. could taper off. It is also possible that U.S. data beyond employment growth may have been boosted by favorable seasonal elements in the first quarter—meaning that inflation may also moderate in the near term.

This could quickly shift the market narrative toward a more dovish outcome for U.S. monetary policy, closing some of the market pricing divergence with other developed markets. It is also possible that the apparent stalling in U.S. inflation during the first quarter could play out in other economies later this year. The UK economy stands out as being a possible candidate of stickier services inflation given the tightness of the labor market in large part due to a lack of labor supply.

Markets may continue to price a shallower cutting path for the U.S., but there is a common factor across all four economies that is likely to persist.

The predicted level of interest rates in two years' time is significantly higher than the prevailing rates before the pandemic. Higher rates for longer has become the consensus, likely driven by a combination of resilient growth and stronger inflation in light of the sharp rise in interest rates since 2022.

If this prediction is correct, central banks are less apt to be stuck at the zero lower bound in the next recession and could use balance sheet policy less enthusiastically.

Longer-term divergence could be here to stay

Over the medium term, U.S. exceptionalism appears likely to persist. Labor market dynamism driven by a recent rebound in the supply of prime wage workers will potentially be one factor. A positive labor supply side shock of this magnitude will likely pay dividends through stronger aggregate demand for both goods and services while alleviating some of the acute labor market bottlenecks that built up during the pandemic.

Another factor supporting the outlook for U.S. growth is the persistence of fiscal and industrial policy.

The U.S. primary deficit as a share of GDP will be much larger according to International Monetary Fund (IMF) estimates. This combined with stronger investment growth and advancements in artificial intelligence (AI) could boost not only output, but also productivity, which has been disappointing in the U.S. for over a decade.

While the market narrative in the near term may shift toward a less favorable tilt for the U.S. economy, over the medium term, U.S. growth appears set to be stronger than other developed markets for structural reasons, including strong labor supply and investment in tech manufacturing and green energy, as well as AI.

As a result, higher interest rates for longer are also likely to be not only appropriate, but also sustainable. A larger fiscal deficit may contribute to higher interest rates in the U.S. through increased term premia, as investors require greater compensation given heightened uncertainty around the outlook for future debt loads and inflation implied by large fiscal deficits.

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RUDI'S VIEWS

Rudi's View: Rate Cuts Equal Optimism

In this week's Weekly Insights:

-Rate Cuts Equal Optimism
-All-Weather Model Portfolio
-Model Portfolios, Best Buys & Conviction Calls

By Rudi Filapek-Vandyck, Editor

Rate Cuts Equal Optimism

This might surprise a few readers, but the Australian share market is up more than 3% ex-dividends since the start of the calendar year.

Assuming the remaining six weeks or so don't include any major sell-downs or crises, the ASX looks en route to posting a double-digit return including dividends for the financial year ending on June 30th.

With another ten days or so to go, May's total return may well exceed March's 3.30%, all else remaining equal, with a new all-time record high seemingly within reach.

Yet, anecdotal evidence, including from the database of subscribers here at FNArena, suggests the mood among investors is a lot more sombre. Daily trading volumes on the local bourse are nothing to crow about.

All that talk about the Albanese government's latest budget poking the resident inflation bear is clearly weighing on people's minds, as does, probably, the rise in anecdotal evidence that higher-for-longer interest rates (bond yields) are creating a recession-like environment for the vulnerable parts in society.

The latter, by the way, is an international phenomenon, not just in Australia.

The neighbourhood in which I live and work has lost two restaurants in the space of two weeks. There are a number of empty commercial spaces that are not being filled with new tenants. It's rough out there if you happen to be on the wrong side or in the wrong place.

But such anecdotal observations have been around for more than twelve months now. The pace at which they enter the official statistics, both locally and in the USA, has been excruciatingly long-winded.

Meanwhile, the negative correlation between bond markets trying to guess the next move in central bank policy, as well as the timing of it, has injected a lot more volatility, and uncertainty, into equity markets.

Up one day, down the next. And then everyone has an opinion about inflation, the underlying statistics, government failures, corporate greed, and hapless central bankers.

It's far too easy to get lost inside the daily noise on social media. But also, why are markets so resilient when there's so much uncertainty and risk around?

Made In Australia: Inflation

Let's start with this month's big bugbear: the Chalmers budget that puts $300 in every household's pocket, spread out over the next four quarters. Surely that's inflationary and will keep the RBA on hold for much, much longer?

Hold on. That may look like the general conclusion, and certainly parts of the local media are doing their utmost to keep that message alive, but as per usual: details matter.

The government is actually not sending out any cheques like what happened during covid and the GFC. Lowering everyone's electricity bill by -$75 a quarter will push down official CPI readings in the coming quarters. On some calculations, official CPI numbers may well decline by up to -0.70%.

That's a big fall. And it will impact on general perception and sentiment. The crucial question is whether Chalmers & Co's statistical trickery won't come back like a boomerang and lift inflation elsewhere?

Some of the smarter economists in the country (Westpac, Barrenjoey) believe there remain valid reasons for this not necessarily to become the outcome. Plenty of books and economic surveys assure us people treat money differently in line with how they receive/perceive it.

No cheque in the mail might well translate into no additional spending. Plus the most needy are most likely to opt for basic necessities, where demand is far from super-charged, and probably will be further in decline by the time the government's support arrives. The wealthier recipients might not even notice, and not spend extra at all (or spend more overseas).

In summary: contrary to general sentiment, the government's goal of forcing Australia's official CPI numbers down by hook or crook might well succeed, irrespective of current skepticism. If/when it does, it will be a major positive and allow the RBA to start cutting the official cash rate. This can still happen later in the year.

(Of course, there's a whole lot more going on, but economies are always a confluence of multiple drivers and impacts, and I've simply picked the most obvious one.)

While bond yields falling and rising in the US are keeping equity investors on the edge of their seats, the irony is general sentiment is switching towards central bank rate cuts later in 2024. As one global macro report that entered my inbox this week summarised it: ***The Rate Cuts Are Coming!***

The key remaining topics of debate, or so it appears, are when exactly and how severely exactly will be the impact on economic growth and corporate profits from the current higher-for-longer environment?

Some market watchers believe the ECB will move first. Canada might follow next. The Fed might not be ready until September.

No wonder traders are watching currency markets like a hawk. That's where the earliest impacts will take place. In FX, small moves can have outsized consequences.

Corporate Updates Keep Momentum Positive

Central bank rate cuts have a positive effect on economies, but not immediately.

Investors positioning for a stronger economy, and for the next recovery in corporate profits, are currently operating in No Man's territory where risk remains tangible and share prices might well head lower before they are ready for the next up-trend.

Last Friday gave us two profit warnings, with both tech distributor Dicker Data ((DDR)) and jeweller Michael Hill ((MHJ)) forcing analysts to adjust future estimates lower.

On Monday, as I am writing Weekly Insights, shares in agri-conglomerate Elders ((ELD)) opened lower, but have subsequently recovered on yet another weaker-than-forecast corporate performance.

Shares in Elders already got punished in April, when management guided short term expectations lower. On Monday, investors are drawing confidence from management's forecast the bottom for operational momentum is in place and conditions should start to improve soon.

If anyone cares to read Dicker Data's market update from Friday, the company spends a lot of energy in explaining how its business stands to benefit from GenAi, but not until the second half.

Corporate updates in May are literally separating the stronger businesses from the weak and vulnerable, but price action in May is suggesting investors are cautiously starting to prepare for better times ahead, see also Elders on Monday, while not all fast-growers are automatically rewarded for their operational momentum.

Things look similar in the USA where, on balance, the recent quarterly reporting season has seen earnings estimates noticeably rise, but bifurcation in corporate dynamics remains obvious.

Utilities in the US have now joined technology companies as beneficiaries of GenAi, through increased projections of future power consumption on the back of exploding demand for more data centres. The problem many an investor has with the technology sector is that valuations in many cases look far from 'cheap'.

Thus far, earnings growth and earnings revisions on the back of corporate updates have kept solid support under most share prices. In Australia, the same strong dynamics remain in place for, among others, Goodman Group ((GMG)), ResMed ((RMD)), REA Group ((REA)), and Aristocrat Leisure ((ALL)); recent market updates have forced more upgrades upon already firm looking growth forecasts.

Some of the cyclical stalwarts, including Incitec Pivot ((IPL)), Orica ((ORI)) and Newmont Corp ((NEM)), are equally eliciting renewed market enthusiasm with their financial updates.

This week awaits corporate results from James Hardie ((JHX)) and Nufarm ((NUF)), but also from Webjet ((WEB)), TechnologyOne ((TNE)), and Xero ((XRO)), in the slipstream of Nvidia results in the US.

Sentiment has been buoyed both by macro-optimism (rate cuts are forthcoming) and by, on balance, positive operational updates and forward-guidances from companies in Australia and elsewhere.

The drawback is this market optimism continues to push share market indices in and out of technically overbought positions, which no doubt is yet another source for constant investor anxiety.

Australian Banks

Australian bank shares haven't gone anywhere for 15 years (CommBank ((CBA)) is the exception), but they have been among the local outperformers off last October's market bottom, with leading sector analysts questioning 'valuations' when the outlook for cash profits and dividends is unlikely to dramatically change for the better.

Recent corporate results for the sector did prove better-than-expected, admittedly on subdued forecasts, with

boards approving increased dividends and share buybacks to keep shareholders on side.

Underneath the supportive headlines, however, there were plenty of signals that the pressure remains 'on' for the sector, in particular for those business segments that service Australian households.

It is also becoming increasingly clear the sector ex-CommBank has long ignored the need to invest in technology and other aspects of the banking business, and that will turn into a financial headwind for the years ahead. At least one broker, Macquarie, can see scenarios on the horizon that might make current dividend payouts unsustainable.

What banks in Australia are showing investors is there are multiple reasons as to why share prices can be bought. It doesn't always have to be in connection with earnings, or dividends, or even improving conditions. Macro considerations inspired by the fact that banks globally are back in focus as investors start preparing for central bank rate cuts are the dominant force this time around.

Except when the sector is out-of-favour because of specific idiosyncratic reasons, I have long considered Australian banks the ideal barometer of local investor sentiment. In line with MegaCaps and technology stocks in the USA, I think we can fairly conclude investor sentiment is very bullish in the here and now.

This does not, however, automatically mean markets are cum an imminent serious downward correction, as the main carrot of central bank rate cuts, lower bond yields, lower inflation, and low odds for an economic recession remains intact.

Elevated multiples, potential delays and alternative scenarios, and a heavily polarised market does suggest market volatility is likely to remain higher-for-longer. It's simply the nature of the beast.

FNArena's reading of broker ratings, with the balance currently sitting at 55.62% Buys and equivalents, against 34.87% on Neutral/Hold and the remaining 9.51% in Sell ratings, would historically imply the local share market is operating inside a bear market environment. In the present context, however, those numbers are merely a reflection of the extreme polarisation that dominates the ASX.

That polarisation might well require rate cuts, lower bond yields and better economic data before reverting back to a more 'normal' set of numbers with Neutral/Hold ratings in majority.

All-Weather Model Portfolio

I regularly forget to update on the FNArena-Vested Equities All-Weather Model Portfolio, as my mind focuses on writing Weekly Insights, I guess.

For the record: it's not because the performance numbers are something that should be best left unmentioned. Quite to the contrary.

As investors are encouraged to have at least a three-year horizon, the return pre-fees of 11.26% per annum looks a lot better than the index's total return, including dividends, of 7.16%.

Period Ending 30/04/2024

Name	Code	Type	1 mth	3 mths	6 mths	1 year	3 years
All Weather Portfolio	M00701	Capital	-2.89%	2.15%	17.32%	10.85%	9.70%
All Weather Portfolio	M00701	Income	0.00%	0.59%	0.94%	1.98%	1.55%
All Weather Portfolio	M00701	TR	-2.89%	2.75%	18.27%	12.83%	11.26%
S&P/ASX Blended Equity and Bond - Conservative Index - Primary	CONSERVINDX	TR	-2.49%	-0.70%	8.08%	1.87%	0.32%
S&P/ASX 200 Accumulation Index - Secondary	XJO	TR	-2.94%	1.04%	14.93%	8.87%	7.16%
S&P/ASX Bank Bill Index - RiskFreeRateIndex	SPBDABBT	TR	0.35%	1.07%	2.17%	4.25%	-3.28%

Paying subscribers are reminded they have 24/7 access to my curated lists under the **All-Weather Stocks** section of the website. The Model Portfolio picks and chooses from these lists, though doesn't own all stocks mentioned, with approximately 20 stocks held most of the time.

Recent strong performers include Goodman Group, NextDC ((NXT)), ResMed and Aristocrat Leisure while Woolworths ((WOW)), IDP Education ((IEL)) and Dicker Data have been on the receiving end.

The philosophy and methodology behind my specific strategy is explained through multiple eBooks and Special Reports, available through the **Special Reports** section, as well as via regular analysis and thematic updates on All-Weather Performers via **Weekly Insights/Rudi's Views**.

Model Portfolios, Best Buys & Conviction Calls

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

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(This story was written on Monday, 20th May, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

RUDI'S VIEWS

Rudi's View: Strategy Updates & Model Portfolios

By Rudi Filapek-Vandyck, Editor

The global teams of market analysts at **Morgan Stanley** have updated their modeling for all major economies and financial markets. The number one observation that stands out for Australia is the local bourse doesn't need imminent RBA rate cuts to finish the year on a positive note.

On the local analysts' assumptions and projections, the ASX200 can still generate a total return (dividends included) of 9% by December 31st, with the year-end target lifted to 8100 as Morgan Stanley sees a better outlook for corporate earnings growth in FY25.

The analysts make a point in emphasising the revised forecasts still include a local central bank that will be lagging its international peers in policy loosening.

With fiscal stimulus keeping economic growth on better footing, but also inflation higher-for-longer, the RBA is expected to wait until 2025 before starting to cut the official cash rate in February. By then, weakness in local labour maket data should become more noticeable, the updated forecasts predict.

The RBA is projected to execute three rate cuts of -25bp each in 2025. Throughout the second half, however, the RBA will stand out as a notable exception while central banks in most developed countries are cutting interest rates.

Morgan Stanley's preference lays with international equities (Overweight), where the favourites are Japan and Europe, with a suggestion investors should start rotating into resources. Other key Overweight sector ratings include Insurance, Utilities, Energy, and Global Healthcare. In quant terms, the preference lays with both Quality and Value.

The broker's Model Portfolio (see also further below) continues to hold an Underweight exposure to Australian banks.

Morgan Stanley's base case scenario sees the S&P500 at 5400 by year-end, carried by a projected 19x multiple on earnings growth of 8% in 2024, while looking forward to 13% growth for 2025. As is custom these days, the broker also offers a bull case scenario of 6350 (circa 20% upside) and a bear case outcome of 4200 (circa -20% downside).

One of the eye-catching forecasts included is the analysts believe **large caps should continue to outperform small caps** "given stronger earnings revisions, more durable margin profiles, and healthier balance sheets".

In terms of quant segments, the preference lays with quality growth, quality cyclicals, operational efficiency, strong EPS revisions, high free cash flow, and high alpha.

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US market strategists at Goldman Sachs equally updated their modeling recently, but Goldman Sachs's year-end target for the S&P500 has remained unchanged at 5200, effectively implying the index is going nowhere (on a net basis) over the coming seven months.

Goldman Sachs's EPS forecasts for US companies sit below Morgan Stanley and market consensus, with a projected 8% growth for 2024, followed by 6% in 2025. Market consensus is still working off 9% and 14%,

respectively.

Goldman Sachs strategists offer four alternative scenarios:

1. “Catch up,” the S&P 500 would end the year at 5800 (plus circa 13%)
2. “Catch-down,” the S&P 500 would fall to 4500 (minus -12%)
3. Continued mega-cap exceptionalism would lift the index to 6000 (plus 17%)
4. Recession fears would push the index down to 4500 (minus -12%)

One of Goldman Sachs's bugbears is investor allocations relative to US equities remain elevated by historical comparisons, plus there are multiple risks on the horizon for Big Tech.

On Goldmans' scheduling, the Federal Reserve starts cutting interest rates in July, with one more follow-through before December, then followed by four further cuts in 2025.

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The share market would not be true to its public forum character if **market strategists at Citi** were to simply agree with all of the above. Citi very much likes tech-heavy and cyclical equity markets, which translates into favouritism for the US and Asia (Taiwan, Japan, Korea), though Europe (but not the UK) has recently been upgraded to Overweight.

The Ai story has much further to run, argue Citi strategists, so investors better stay the course.

Citi also prefers commodities, including precious metals, as US bond yields/interest rates and the US dollar should become less of a headwind, with a negative bias towards crude oil ("sell any rallies"). The strategists also emphasise investors should not sell in May this year, unless the portfolio owns equities in Latin America.

Citi's argument is the region is not as cyclical as is commonly believed, despite being the home of many commodity plays. Citi is cautious on consumer spending, globally and generally.

On Citi's projections, the Fed starts cutting in July, for four cuts in total. Its year-end target for the S&P500 is only 5100, implying a net negative return over the coming seven months. Citi has US equities in the Neutral basket, with Australia and the UK both as Underweight.

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T Rowe Price too is Underweight the Australian share market, with the fund manager arguing local equities seem richly valued with plenty of earnings risks on the horizon.

The RBA is expected to remain more hawkish for longer, while consumer spending is showing early signs of weakening under the pressure of higher-for-longer interest rates.

T Rowe Price is Overweight Japan, and Neutral most equity markets, though Underweight Europe and China.

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Strategists at Wilsons remain constructive on the Australian economy and share market, arguing it is valuations in the US that look stretched.

"Our domestic base case is that the economy recovers from its current below trend growth phase and picks up moderately through the back end of 2024 and through 2025."

But also:

"From a domestic perspective the easing in US rate fears and lower US bond yields has translated to the Australian interest rate markets, despite little in the way of domestic evidence to support this shift.

"Local interest rate markets have priced out expectations for a potential rate rise later in the year and are now priced with a 50% probability of a cut by year end, with the first cut fully priced by April next year. This pricing seems reasonable, although the path for inflation over the coming year is looking more uncertain than the US in our view.

"Australian inflation is broader than the US, albeit our economy is currently weaker. The reasonably significant fiscal stimulus coming in the 2025 financial year led by the July 1 tax cuts, also complicates things for the RBA.

"The RBA will certainly lag the global easing cycle due to a stickier inflation cycle and fresh uncertainty over the ultimate impact of the government's fiscal cash injection announced last week."

Model Portfolios, Best Ideas & Conviction Calls

Morningstar's Best Equity Ideas for ASX-listed stocks currently contains 14 inclusions. Morningstar's approach is centred around 'cheap value', more so than around 'growth':

-TPG Telecom ((TPG))
-Domino's Pizza ((DMP))
-Bapcor ((BAP))
-a2 Milk Co ((A2M))
-Santos ((STO))
-AUB Group ((AUB))
-ASX Ltd ((ASX))
-Aurizon Holdings ((AZJ))
-Ventia Services ((VNT))
-Lendlease Group ((LLC))
-Pexa Group ((PXA))

As well as Fineos Corp ((FCL)), ResMed ((RMD)) and Newmont Corp ((NEM)) among international ideas.

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Morgan Stanley's Australia Macro+ Focus List contains the following 10 stocks:

-Aristocrat Leisure
-Car Group ((CAR))
-CSL ((CSL))
-Macquarie Group ((MQG))
-Origin Energy ((ORG))
-Paladin Energy ((PDN))
-QBE Insurance ((QBE))
-Suncorp Group ((SUN))
-Treasury Wine Estates ((TWE))
-Woodside Energy

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Morgan Stanley's Macro+ Model Portfolio consists of the following 32 constituents:

-ANZ Bank
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-Macquarie Group
-QBE Insurance
-Suncorp Group
-Goodman Group
-Scentre Group ((SCG))
-Stockland ((SGP)
-Aristocrat Leisure
-Car Group
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-James Hardie ((JHX))

-Orica ((ORI))
-Coles Group ((COL))
-Treasury Wine Estates
-CSL
-ResMed ((RMD))
-AGL Energy ((AGL))
-Origin Energy
-Telstra
-Transurban Group ((TCL))
-BHP Group ((BHP))
-Newmont Corp
-Rio Tinto
-South32 ((S32))
-Paladin Energy
-Santos ((STO))
-Woodside Energy

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Wilsons' list of Highest Conviction Investment Ideas has seen the allocation increase to Woodside Energy, Xero ((XRO)) and Netwealth Group (NWL)).

Other Most Preferred Ideas are Aristocrat Leisure and Collins Foods ((CKF)).

More ideas come with "long term growth" profiles:

-Ridley Corp ((RIC))
-TechnologyOne ((TNE))
-Universal Stores ((UNI))
-ARB Corp ((ARB))
-Neuren Pharmaceuticals ((NEU))
-Pinnacle Investment Management ((PNI))

Among Resources stocks, there are two favoured ideas:

-Beach Energy
-Liontown Resources ((LTR))

And there's a Speculative basket too:

-Immutep ((IMM))
-Clarity Pharmaceuticals ((CU6))

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Wilsons' Focus Portfolio's largest overweight remains towards growth companies, including a large overweight to the healthcare sector. The largest underweight allocation remains for local banks. The Portfolio also holds a slight overweight allocation to resources, but this is due to "active positioning" in green metals and energy (underweight iron ore).

In terms of individual stocks, the Focus Portfolio encompasses the following:

Consumer Discretionary
Aristocrat Leisure, IDP Education ((IEL)), Lottery Corp, Collins Foods, Breville Group ((BRG)), Webjet ((WEB))

Energy
-Woodside Energy

Financials
-ANZ Bank, National Australia Bank, Westpac, Macquarie Group, Insurance Australia Group ((IAG)), Netwealth Group, Steadfast Group ((SDF))

Healthcare
-CSL, ResMed, Telix Pharmaceuticals ((TLX))

Industrials
-Worley ((WOR))

Information Technology
-Xero

Materials
-BHP Group, Amcor ((AMC)), Evolution Mining ((EVN)), Mineral Resources, Arcadium Lithium ((LTM)), Sandfire Resources ((SFR)), South32 ((S32))

Real Estate
-Goodman Group, HealthCo Healthcare & Wellness REIT ((HCW))

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Macquarie Wealth's recommended **Growth Portfolio** currently includes the following stocks:

-Goodman Group
-Seek ((SEK))
-Aristocrat leisure
-Northern Star ((NST))
-CSL
-Computershare ((CPU))
-NextDC
-The Lottery Corp
-Flight Centre
-Mineral Resources
-Cleanaway Waste Management ((CWY))
-Steadfast Group
-Arcadium Lithium
-ResMed
-Pexa Group
-Treasury Wine Estates
-Viva Energy ((VEA))

Macquarie Wealth's recommended **Income Portfolio** currently has the following composition:

-Suncorp Group
-Telstra
-National Australia Bank
-Westpac Bank
-ANZ Bank
-BHP Group
-CommBank
-Premier Investments ((PMV))
-Coles Group
-Viva Energy
-Atlas Arteria ((ALX))
-Aurizon Holdings
-APA Group
-GPT Group ((GPT))
-Deterra Royalties ((DRR))
-Metcash ((MTS))
-GUD Holdings ((GUD))
-Charter Hall Retail REIT ((CQR))
-Amcor

Weekly Insights this week: https://fnarena.com/index.php/2024/05/22/rudis-view-rate-cuts-equal-optimism/

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and

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

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

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SMALL CAPS

Dr Boreham's Crucible: Blinklab

By Tim Boreham, Editor, The New Criterion

For a stark insight into the crippling cost of autism, look no further than Australia's National Disability Insurance Scheme (NDIS).

Autism now accounts for 35% of the 610,502 active participants in the Federal Government program, with $6.73bn paid to support autism sufferers in 2022-'23.

That's 28% higher than the previous year and a major reason why the cost of the scheme is projected to blow out to $100bn-plus if no remedial action is taken.

Globally, autism is said to be a US$700bn market, with the number of diagnosed cases growing at 2-3% a year.

One reason, of course, is that autism is being diagnosed formally in cases where the children might have been dismissed as being a 'little bit different'.

Boys typically are diagnosed at five to six years old - and older for girls who are better at disguising the symptoms such as social interaction problems.

What if they were to be diagnosed earlier and more accurately? Earlier intervention would result in more effective treatment.

That's the premise of smartphone-based diagnosis Blinklab ((BB1)), which listed on the ASX last month after raising $7m in an initial public offer.

Specifically, Blinklab claims earlier intervention can result in 40% to 60% reduction on costs later in life.

"The autism market is huge and it is growing every year," says Blinklab CEO Dr Henk-Jan Boele.

"We don't know exactly why, but certainly the accessibility to healthcare and the increased awareness of autism comes into it."

He adds other unknown factors are likely to come into play.

Mr Leedman says many sceptics scoffed at the notion of a "neurotech for smartphone", but as discussed below, this is not his first rodeo in terms of such ASX ventures.

About Blinklab

Applicable to both autism, attention deficit hyperactivity disorder (ADHD) and possibly other disorders, Blinklab is an algorithm-based tool which carries out neuro-metric evaluations based on minuscule facial reflexes from the kid-in-the-smartphone-camera.

The technology was developed at Princeton University and Erasmus Medical Centre in The Netherlands and then acquired by the newly-incorporated Blinklab in November 2021.

The program was led by Prof Chris de Zeeuw and his PhD student Sebastiaan Koekkoek, who eventually co-founded the company along with Cornelius Pieter Boele (now Blinklab's chief technology officer).

Commercially, the driving force behind Blinklab is Brian Leedman, a well-known Perth-based biotech entrepreneur.

A University of Western Australia MBA alumnus, Mr Leedman held senior marketing roles at Ernst & Young and Westpac before spending 10 years as a vice president at the ASX and Nasdaq-listed eye disease house Psivida.

He then co-founded Resapp, the first ASX-digital health stock to detect and distinguish respiratory diseases such as asthma, pneumonia and bronchitis, based on the user coughing into a smartphone. The tech was developed by the University of Queensland.

Despite Resapp failing to win FDA approval because of a dud trial, in late 2022 Pfizer acquired the company for $200m in a cash deal struck at a 130% premium. At the time, Pfizer's interest lay in a test for Sars-Cov-2.

Blinklab listed on April 2, 2024. After listing, the company appointed Dr Boele as CEO. Dr Boele was assistant professor at Erasmus Medical Centre's neurology department and a visiting researcher at the Princeton Neurology Institute.

Ahead of the IPO, Blinklab had spent -$4.4m developing the device.

The company says that Blinklab has been validated in 6,000 subjects, globally. While not yet approved, the test has been used by more than 30 clinical institutes, special schools and large healthcare providers.

Blink or you will miss it

The device is based on an established neurological test which measures the eyeblink response to "acoustic startles": in other words, unexpected noises.

In short, the kids watch an enjoyable video and every so often they are surprised with a sound.

The child reflexively blinks within milliseconds. The stimulus is then changed to two sounds and the kid's reaction will determine the diagnosis (including whether the condition is autism or ADHD).

Neurotypical kids will tend not to blink the second time but autistic kids will.

Dr Boele says the facial testing technique is not at all novel, but the smartphone delivery is.

“We are standing on the shoulders of giants in that we didn’t invent the test.”

Mr Leedman adds that there’s no health dangers in using the test: “the only safety risk is if the user drops the phone on their toe.”

Finances and performance

With $7m in the kitty, Blinklab appears well positioned to fund the cost of the trial and - more importantly - seek approval, reimbursement and the validation of learned peers.

The oversubscribed initial public offer (IPO) was priced at 20c per share, with 35m shares issued. All up the company has 99.1m shares on issue, with 42m shares escrowed (unable to be sold) for 12 or 24 months.

On listing day, Blinklab shares vaulted to a peak of 30c–50% higher, but by April 16 had retreated to 22 cents.

Mr Leedman says there’s a typical three-week period of softness after a listing, because any positive news has been included in the prospectus.

He’s right, because at last glance the shares changed hands for 38 cents.

The renewed strength suggests existing un-escrowed shareholders who wanted to cash out have done so. These no doubt include happy punters who paid 12 cents apiece in a pre-IPO whip-around to raise $1.4m in December 2023.

Post IPO, the company has carried out a charm offensive to woo retail shareholders, rather than the big funds.

“There’s a perception that institutional support is the be-all-and-end-all, but retail investors are more powerful in terms of influencing share price movements,” Mr Leedman says.

“I have seen what they can do the share price if they really like a stock.”

The ensuing liquidity paves the way for big funders to avoid the Hotel California syndrome: they can check in and check out any time.

Sizing the rivals

With at least two approved autism diagnosis devices on the market – one of them also smart phone based – what is the point of Blinklab? Greater efficacy, says the company.

The private Cognoa has a smartphone-based video-based tool called Canvas Dx, approved by the FDA in June 2021 as a de-novo (novel) device.

The tool involves carers completing an online questionnaire about the child’s behavior, with an accompanying video.

Erlitec Diagnostics (ETD) has a non-smartphone device, Erlipoint which the FDA approved in June 2022 under the equivalent device (510k) route. Erlipoint is based on tracking the eye movements of kids with a special camera, as they view ‘age appropriate’ videos and images.

Bluey included, surely.

Based on about 270 samples, Blinklab claims a sensitivity (ability to detect positive cases) of 85%, compared to Cognoa’s 52% and ETD’s 71%.

Blinklab’s 84% specificity (ability to detected false negatives) compares with Cognoa’s 19% and ETD’s 71%.

Given the Canvas Dx accuracy - or lack thereof - Mr Leedman says he was “absolutely incredulous” that Cognoa got to market.

“Cognoa’s sensitivity is a toss of a coin, but they still managed to get de novo approval,” he says. “We just need to do better than Cognoa, which is easy.”

Ouch!

On a more offbeat note, Linus Bio has an assay called Strand Dx, which tests chemical levels in a child’s hair for “cumulative environmental exposures” that may have a bearing on the disease.

Strand Dx is also Conformité Européenne (CE) mark-approved and has FDA breakthrough device designation.

On trial

Blinklab's accuracy claims are based on 300 to 500 tests - big enough to train an algorithm but not enough to convince clinicians.

Hence, the company is in the process of recruiting up to 500 patients for a US-based registration study, in partnership with "some very prestigious institutions."

Costed at -US$1m, the study is pitched at FDA approval under the 510k route.

Expected in mid-2025, the results are also aimed at supporting European CE Mark approval as a class one device.

As a preliminary algo-training exercise, the company this month signed up with the Illinois-based Turning Pointe Autism Foundation to carry out a 200-patient trial.

Dr Boreham's diagnosis:

Blinklab says autism is growing at a rate of two to four percent and, depending on the geography, affects 70 to 400 children per 10,000.

Autism is highly prevalent in Australia, Japan and the US and the least common in Denmark, the UK and France.

Blinklab says the cost of diagnosis in the US is -US$1,000-5,000 per person, with the cost of the ongoing treatment (care and support) around -US$1m per person.

The company says the US diagnosis market is worth around US$2bn a year, growing to US$5.4bn by 2036.

In addition, Blinklab is eyeing the bigger market of checking whether an autism drug is working. Central nervous system stimulants such as Ritalin and Concerta are prescribed for ADHD and to reduce hyperactivity in some autistic children.

"We have the first test to show efficacy of a drug in the course of treatment with a blink of the eye," Mr Leedman says.

Naturally, attention will focus on whether Mr Leedman can do 'another Resapp' and attract a buyer in pre-revenue stage.

Mr Leedman says large pharmaceutical companies have made it clear they are in the hunt to expand their digital healthcare assets.

"The idea your company can be taken over before it makes a dollar was fanciful," he says. "But I did it with Resapp and that gives me a claim to be able to make that call."

Relative to Resapp, Mr Leedman says the market opportunity for Blinklab is "far larger". But investors will be conscious that smartphone health diagnosis tools don't have a long track record and that - as discussed - there are other autism and ADHD diagnosis tools are out there.

In the meantime, investors will be hearing more about Blinklab - much more.

"Never stop being proactive in getting your story out and I take advantage of every opportunity," Mr Leedman says.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. But that won't stop him from proactively getting his story out there.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 17-05-24

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday May 13 to Friday May 17, 2024
Total Upgrades: 7
Total Downgrades: 4
Net Ratings Breakdown: Buy 55.68%; Hold 34.80%; Sell 9.51%

For the week ending Friday May 17, 2024, FNArena recorded seven ratings upgrades and three downgrades for ASX-listed companies by brokers monitored daily.

The tables below show percentage upgrades by brokers to average earnings forecasts were broadly similar to downgrades, but average target price rises were considerably larger than falls.

Peter Warren Automotive received the largest increase in average target price after UBS, one of five covering brokers in the FNArena database, increased its target to $12 from $10 due to a valuation roll-forward, time creep and single-digit upgrades to longer-term revenue forecasts.

The broker attributed recent share price strength to a strong ongoing performance in Motorsports (near-term F1 tailwinds from new car designs), and a further increase in the number of contracts in the Emerging Technology (ET) pipeline.

The company is exposed to around 17% of forecast Electric Vertical Takeoff and Landing (eVTOL) demand prior to 2030, which forms only part of the ET contract pipeline, noted the analyst.

Even though Life360's share price has nearly doubled since reporting second half results in early-March, the average target for Life360 rose by just over 13% last week when analysts reacted to quarterly results in the prior week.

After a late-quarter rise in monthly active users and paying circles, management is "seeing that higher growth level continuing", yet left FY24 guidance unchanged.

For a wider perspective on Life360, more detail on the quarterly result, and details regarding a potential listing in the US, please refer to (More Life Left In Life360 - FNArena.com).

FleetPartners was next in line on the positive change to target price table, as first half results revealed year-on-year growth for new business writings (NBW) and assets under management or financed (AUMOF) had jumped by 39% and 10%, respectively. After raising respective target prices, two separate brokers downgraded ratings on valuation.

The company is finding a niche with a strategic focus on electric vehicles and a new green bond initiative.

Again, for a more detailed summary please refer to (FleetPartners Green Outlook Is Electrifying - FNArena.com).

Life360 and FleetPartners appear in the earnings upgrade list below at positions one and three, respectively, with Paladin Energy wedged in between after Macquarie raised forecasts following the hosting of Paladin (and 17 other companies) at the yearly Macquarie Australia Conference.

Paladin is experiencing a strong performance at its Langer Heinrich operation following production restart, noted the broker, and the stage is set for first shipment in July 2024 and a full ramp-up by FY26. The company is one of the broker's preferred uranium stocks and is currently assigned an Outperform rating and a 12-month target price of $15.

Moving to the dark side, brokers materially lowered average earnings forecasts last week for Baby Bunting, Arcadium Lithium, and CSR.

As revealed in this article last week, brokers reduced targets and earnings forecasts for Baby Bunting after sales activity deteriorated in the second half, with comparable store sales falling by -7.7%. Management attributed weak trading to ongoing cost of living pressures afflicting young families (the company's core customers), and declining average transaction values as consumers trade down.

Better late than never, last week Macquarie also lowered its earnings outlook for the company in anticipation of ongoing cost pressures and an increasingly competitive operating environment. The Neutral rating was retained, but the broker's target was reduced to $1.40 from $1.70.

Arcadium Lithium (which on reflection has cornered LTM for lithium as its ASX code) was second placed on the earnings downgrade table, as analysts are still grappling with what to put through their modeling. Citi is outright bullish on the outlook.

The analysts highlighted the company's current valuation discount to peers is the result of a contract book and capex program positioned for a market downturn, a negative read-across from peer financings, reduced disclosures, and perceived risk from operating in Argentina.

Because of escalating capex requirements, technical challenges, and very few ex-China examples of successfully producing hydroxide (ex-China battery supply chain), Arcadium is trading below 'replacement cost', on the broker's estimation.

It seems pointless to discuss last week's lower CSR earnings forecasts by brokers in the FNArena database, as analysts are maintaining $9.00 target prices to align with (what appears) an inevitable takeover by Saint-Gobain.

For the record, CSR's FY24 operating earnings (excluding property) just missed the consensus forecast. Positives, according to Ord Minnett, included price increases for building products and the settlement of two property sales, though the performance of the Aluminium division mostly offset these wins.

The most disappointing average target price adjustments last week belonged to IDP Education and Fletcher Building.

Late in the week, Morgans noted international student and broader migration policies are being tightened across all IDP Education's major destination markets.

As a result of these changes, the broker expects a re-basing of 'system' numbers for international student enrolments and English test demand into FY25. The FY25 EPS forecast was cut by around -15% after allowing for more restrictive macroeconomic settings.

Further restrictive policy can't be ruled out in the UK, highlighted Morgans, as the Government is scheduled to set migration policy prior to the late-2024 election.

A few days earlier, UBS downgraded its rating for IDP Education to Neutral from Buy because Australian international student caps are extending uncertainty for the company and adding further downward pressure to FY24 and FY25 earnings forecasts.

While it's difficult to assess the extent of the Australian student cap impact, the analysts felt linking future enrolment growth to provision of student accommodation could slow overall market growth.

The broker remained positive on the longer-term structural story and the student placement market share gains opportunity from Fastlane, as well as the US opportunity.

Fletcher Building announced an -11% reduction in FY24 EBIT guidance, exacerbated by a challenging April and May, explained Macquarie, particularly in the Australian market, which constitutes 40% of total core revenue.

The Underperform-rated broker noted structural issues, including contingent liabilities related to product liability claims, which could potentially deter quality leadership hires and impact upon the firm's attractiveness for acquisition.

Ord Minnett sees a greater potential that Fletcher Building will need to raise additional funds given current balance sheet pressures, a view not shared by Citi, which feels management will instead focus on cost-outs and preserving capital.

Total Buy ratings in the database comprise 55.75% of the total, versus 34.74% on Neutral/Hold, while Sell ratings account for the remaining 9.51%.

Upgrade

ALS LIMITED ((ALQ)) Upgrade to Add from Hold by Morgans .B/H/S: 2/1/1

ALS Ltd is set to report the FY24 result on May 21, 2024 which the analyst at Morgans views as a fairly straight forward event due to the recent trading update.

The broker expects net profit after tax at the lower end of the $310-$325m range with a recovery in margins in its Life Sciences segment and a cyclical volume recovery in Commodities exploration, although the timing of the latter remains uncertain.

The company anticipates near-term growth driven by favorable gold and copper prices, which are key indicators for exploration activity.

ALS Ltd also plans to introduce 'building blocks guidance' which will outline expected revenue growth and EBITA margin directions, aligning with industry trends towards improved profitability margins.

The rating is upgraded to Add from Hold and the target raised to $15 from $13.70.

ARB CORPORATION LIMITED ((ARB)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 2/3/0

ARB Corp offered a 3Q24 update at the Macquarie Australia Conference, and reported sales rose 6.4%, aligned with expectations.

Macquarie notes export sales increased by 13% on the previous quarter, boosted by improved US distribution and eCommerce efforts.

Australian aftermarket sales expanded 4.6% for the 9-months to March 2024, supported by positive vehicle supply trends and new store rollouts.

The broker notes that management is focused on expanding its original equipment (OE) programs with automakers like Toyota and Ford, enhancing manufacturing in Thailand, and growing US distribution, including a new Seattle retail site planned for 2Q25.

The company's strategy to innovate and expand globally underpins its steady growth outlook, suggests the broker. Macquarie makes no changes to earnings forecasts.

The rating is upgraded to Neutral from Underperform. Due to an adjustment in the valuation method, the target lifted 24% to $40.10.

BELLEVUE GOLD LIMITED ((BGL)) Upgrade to Buy from Neutral by UBS .B/H/S: 1/1/0

2024 could well turn into the year of the gold miners, offers UBS. The sector generally is seen as offering 'value', also with the price of bullion anticipated to rise medium term.

UBS has upgraded Bellevue Gold to Buy from Neutral, with an upgrade in price target to $2.05.

CREDIT CORP GROUP LIMITED ((CCP)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/1/0

Macquarie upgrades Credit Corp on the back of strong 1Q24 performance in the US market, supported by a favorable credit environment, leading to record purchase volumes and effective collection strategies.

Both PRA and Encore, key indicators for the company's US operations, reported significant increases in purchase volumes and collection effectiveness, supporting a stong revenue outlook.

The analyst makes no changes to EPS forecasts. Credit Corp is trading at a -24% discount to its long-term PE valuation, with the broker suggesting this makes for an attractive entry point.

Unchanged target price at $18.32. The stock is upgraded to Outperform from Neutral.

FONTERRA SHAREHOLDERS FUND ((FSF)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/0/0

Macquarie upgrades Fonterra Shareholders Fund on the back of the possible divestment of its Consumer and associated businesses to focus on its core B2B dairy nutrition services, which was announced at the strategic update.

Management highlighed a focus on increasing shareholder value by targeting a higher market valuation, via capital retruns and streamlining operations.

There are no changes to analyst earnings forecasts.

Upgrade to Outperform from Neutral and a 11% lift in the target price to NZ$4.01.

QUBE HOLDINGS LIMITED ((QUB)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/1/0

UBS upgrades its rating for Qube Holdings to Buy from Neutral after becoming more positive on expected returns on investments. It's also felt there is low risk to near-term earnings pre August results.

Valuation support still exists, in the broker's view, despite the share price pushing to all-time highs, because of the upside potential for both Moorebank and Patrick.

The broker's target rises to $4.15 from $3.53 upon earnings upgrades and a valuation roll-forward.

SPARK NEW ZEALAND LIMITED ((SPK)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/1/0

Spark New Zealand has downgraded FY24 earnings (EBITDAI) guidance by -3.8% at the midpoint of the range, reflecting the impact of further softness in public and private sector spending, explains Macquarie.

IT service revenue is down due to government cost-cutting and project delays, explains the analyst. There were also lower enterprise sales, as well as lower handsets sales (courtesy of weaker consumer spending), notes the broker.

Macquarie upgrades its rating to Outperform from Neutral on valuation after recent share price weakness. The target falls to NZ$5.08 from NZ$5.29.

Downgrade

FLEETPARTNERS GROUP LIMITED ((FPR)) Downgrade to Accumulate from Buy by Ord Minnett and Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/1/0

Ord Minnett raises its target for FleetPartners Group to $3.50 from $3.00 after 1H results slightly beat consensus profit (NPATA) due to strong end-of-lease (EOL) income. Growth in assets under management or financing (AUMOF) also exceeded expectations by 10%.

The broker notes a 'higher-for-longer' trend for used car prices due to lower volumes of three-to-five year old cars and some increased demand for used vehicles from both consumers and business.

These buoyant used car prices should flow through to the buyback between now and the end of 2026, anticipate the analysts.

Ord Minnett's rating is downgraded to Accumulate from Buy on valuation.

FleetPartners Group reported 1H24 earnings proved a 12.2% beat on forecast profits from Macquarie.

The analyst notes a 39% increase in new business volumes year-over-year, supported by strong used car prices. Margin pressures due to a shift towards lower-margin novated leases and timing of profitability on new leases only resulted in a 1% increase in net operating income.

The analyst lifts FY24 EPS forecast by 18.9%, attributed to higher end-of-lease income, although offset by a -5% reduction in net operating income before end-of-lease and impairment.

A share buy-back of $27m was announced and the broker finds the company retains a strong balance sheet with $10.8m in net cash.

The target price is lifted 19.5% to $3.60. Downgrade to Neutral from Outperform due to share price appreciation.

IDP EDUCATION LIMITED ((IEL)) Downgrade to Neutral from Buy by UBS .B/H/S: 1/5/0

UBS downgrades its rating for IDP Education to Neutral from Buy as Australian international student caps are extending uncertainty and adding further downward pressure to FY24 and FY25 earnings forecasts.

While it's difficult to assess the extent of the Australian student cap impact, the analysts believe linking future enrolment growth to provision of student accommodation could slow overall market growth.

The broker remains positive on the longer-term structural story and student placement market share gains opportunity from Fastlane, as well as the US opportunity.

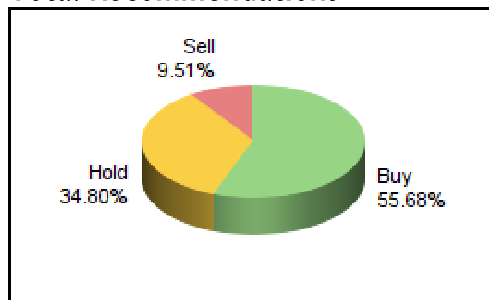
The broker's target falls to $17.65 from $25.30 on softer forecasts and a lower valuation multiple due to a lower growth profile.

PSC INSURANCE GROUP LIMITED ((PSI)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/2/0

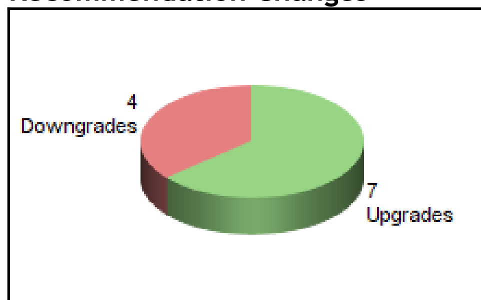
UBS essentially suggests Ardonagh has this in the bag; PSC Insurance will be acquired for $6.19 per share. The board has approved unanimously and the broker does not envisage any issues with respect to gaining regulatory approval from FIRB, FCA and ACCC.

Target lifted to $6.19. Downgrade to Neutral from Buy.

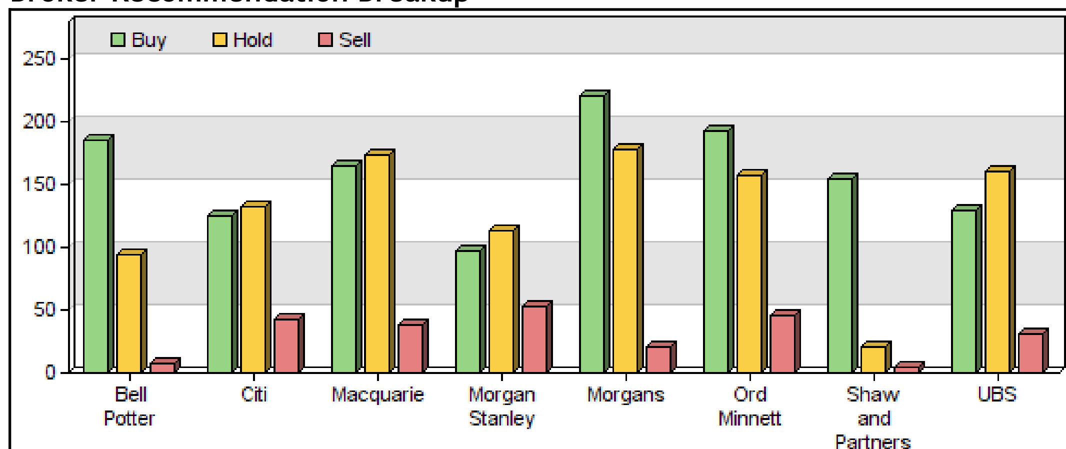
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ALS LIMITED	Buy	Neutral	Morgans
2	ARB CORPORATION LIMITED	Neutral	Sell	Macquarie
3	BELLEVUE GOLD LIMITED	Buy	Neutral	UBS
4	CREDIT CORP GROUP LIMITED	Buy	Neutral	Macquarie
5	FONTERRA SHAREHOLDERS FUND	Buy	Neutral	Macquarie
6	QUBE HOLDINGS LIMITED	Buy	Neutral	UBS
7	SPARK NEW ZEALAND LIMITED	Buy	Neutral	Macquarie
Downgrade				
8	FLEETPARTNERS GROUP LIMITED	Neutral	Buy	Macquarie
9	FLEETPARTNERS GROUP LIMITED	Buy	Buy	Ord Minnett
10	IDP EDUCATION LIMITED	Neutral	Buy	UBS
11	PSC INSURANCE GROUP LIMITED	Neutral	Buy	UBS

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	PWR	PETER WARREN AUTOMOTIVE HOLDINGS LIMITED	4.720	2.900	62.76%	5
2	360	LIFE360 INC	17.310	15.283	13.26%	3
3	FPR	FLEETPARTNERS GROUP LIMITED	3.775	3.353	12.59%	4
4	NWS	NEWS CORPORATION	40.733	37.925	7.40%	4
5	PNI	PINNACLE INVESTMENT MANAGEMENT GROUP LIMITED	12.210	11.460	6.54%	4
6	DEG	DE GREY MINING LIMITED	1.783	1.700	4.88%	3
7	QUB	QUBE HOLDINGS LIMITED	3.860	3.705	4.18%	4
8	ARB	ARB CORPORATION LIMITED	40.580	39.020	4.00%	5
9	ALL	ARISTOCRAT LEISURE LIMITED	49.200	47.600	3.36%	5
10	GNC	GRAINCORP LIMITED	8.944	8.654	3.35%	5

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	IEL	IDP EDUCATION LIMITED	22.575	24.333	-7.22%	6
2	FBU	FLETCHER BUILDING LIMITED	4.270	4.585	-6.87%	4
3	BBN	BABY BUNTING GROUP LIMITED	1.658	1.728	-4.05%	5
4	SUL	SUPER RETAIL GROUP LIMITED	14.648	15.015	-2.44%	6
5	LTM	ARCADIUM LITHIUM PLC	9.433	9.633	-2.08%	3
6	PTM	PLATINUM ASSET MANAGEMENT LIMITED	1.084	1.104	-1.81%	5
7	OML	OOH!MEDIA LIMITED	1.865	1.890	-1.32%	4
8	EVN	EVOLUTION MINING LIMITED	4.260	4.310	-1.16%	5
9	LLC	LENDLEASE GROUP	8.575	8.650	-0.87%	4
10	S32	SOUTH32 LIMITED	3.733	3.758	-0.67%	6

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	360	LIFE360 INC	15.089	11.023	36.89%	3
2	PDN	PALADIN ENERGY LIMITED	-3.414	-4.907	30.43%	5
3	FPR	FLEETPARTNERS GROUP LIMITED	31.650	28.950	9.33%	4
4	IAG	INSURANCE AUSTRALIA GROUP LIMITED	35.583	32.550	9.32%	6
5	ALL	ARISTOCRAT LEISURE LIMITED	225.717	214.683	5.14%	5
6	FMG	FORTESCUE LIMITED	307.634	293.343	4.87%	7
7	NEC	NINE ENTERTAINMENT CO. HOLDINGS LIMITED	12.175	11.825	2.96%	4
8	AGL	AGL ENERGY LIMITED	116.400	114.525	1.64%	4
9	BOQ	BANK OF QUEENSLAND LIMITED	45.883	45.250	1.40%	6
10	ORG	ORIGIN ENERGY LIMITED	72.625	71.800	1.15%	4

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	BBN	BABY BUNTING GROUP LIMITED	3.880	4.860	-20.16%	5
2	LTM	ARCADIUM LITHIUM PLC	27.600	32.767	-15.77%	3
3	CSR	CSR LIMITED	39.129	45.186	-13.40%	7
4	FBU	FLETCHER BUILDING LIMITED	25.483	28.311	-9.99%	4
5	SFR	SANDFIRE RESOURCES LIMITED	-2.667	-2.464	-8.24%	6
6	NUF	NUFARM LIMITED	31.433	32.657	-3.75%	7
7	MIN	MINERAL RESOURCES LIMITED	144.886	150.400	-3.67%	7
8	IPL	INCITEC PIVOT LIMITED	20.000	20.580	-2.82%	5
9	SPK	SPARK NEW ZEALAND LIMITED	21.490	22.080	-2.67%	3
10	IEL	IDP EDUCATION LIMITED	60.650	62.308	-2.66%	6

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: Russia Banned From August

The legal ban on Russian uranium imports into the US comes into force in August.

-US ban on uranium imports from Russia kicks in from August onwards
-Legal waivers trigger opposing interpretations
-Five transactions in spot market at slightly increased pricing

By Rudi Filapek-Vandyck

And after many months of market speculation and political processing, US President Joe Biden signed H.R.1042, the bill that bans the import of Russian uranium products into the USA, on May 13. The ban will go into effect on August 11th.

Whoever thought the way forward for US utilities and the uranium sector at large has now become a lot clearer is still in the minority with industry consultant TradeTech reporting the week's trading continued to be dominated by confusion and ongoing market speculation.

The problem lays with the two legal waivers that can be granted by the US Department of Energy (DOE). Different interpretations kept the future of US uranium purchases as uncertain as before.

As things stand, waivers can be granted in case of:

-no alternative is available to purchase low-enriched uranium

-or; importation is in the USA's natural interest.

The new law requires any waiver must terminate by 1st January, 2028. The ban remains in place until 31st December, 20240.

This is where the real fun begins. According to one interpretation, access to low-cost uranium from Russia is per definition in the national interest as replacing that fuel on short notice has the potential to make nuclear plants uneconomical. This threatens the security of the US electrical grid, and thus national security.

The other interpretation is US utilities must simply bear that operational burden as the ultimate benefit for the US's national security is to no longer be reliant on supply from Russia.

Pick your pick!

TradeTech reports utilities and market participants have been busy trying to obtain more clarity from the Biden administration. As confusion reigned, no transactions were concluded in the first days following Biden's signature.

Spot Market Springs To Life

By Thursday, two transactions were concluded. One involved 100,000 pounds U3O8 for delivery in June, priced at US$90.50/lb. Another deal, also for 100,000 pounds U3O8, for delivery in September, was priced at US$91.75/lb.

That second handshake, however, occurred after the close of business, outside the spot delivery window. TradeTech reports three more transactions were successfully concluded on the Friday for prices ranging between US$91.25/lb and US$91/lb.

Equally important, perhaps, is that while the spot market has been ruled by apprehension, confusion and

speculation, the uranium term market is largely characterised by "robust demand", according to the consultant.

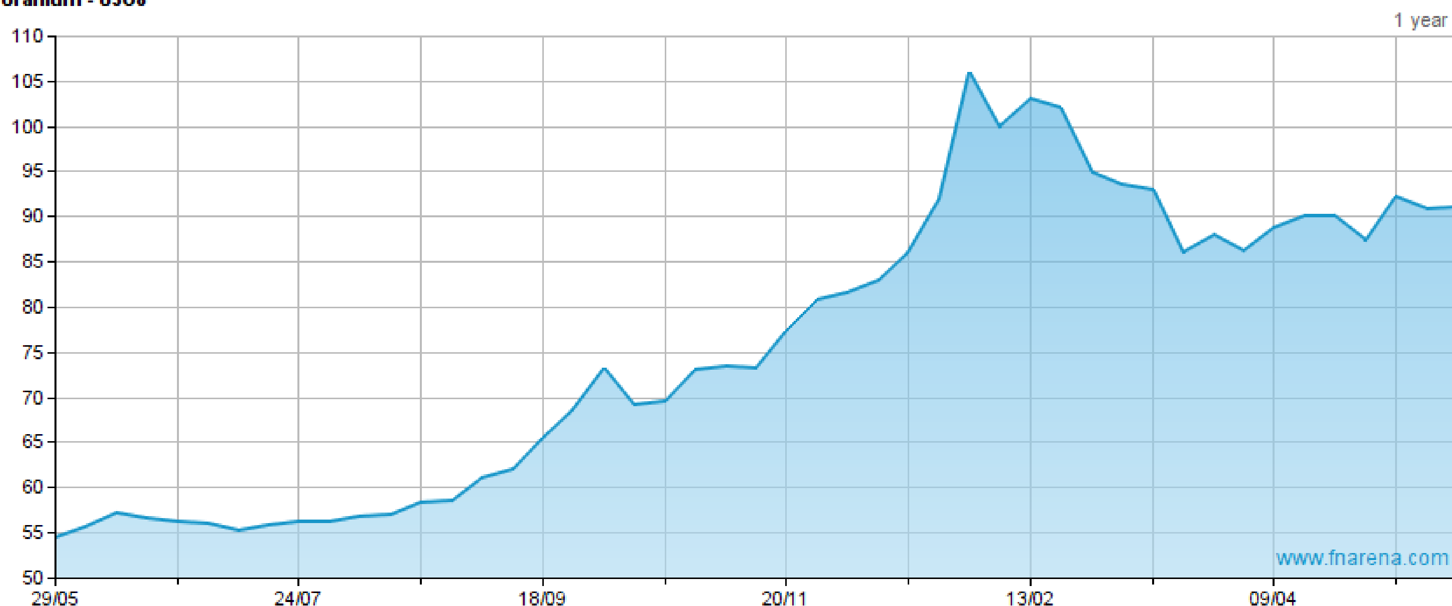
US utilities have been active over the course of many months to secure deliveries for their future needs in a desire to diversify supply sources and mitigate the impact of the legal ban.

As per TradeTech, the increase in demand from utilities has resulted in sellers raising their offer prices and pushing for terms and conditions more favourable to the sellers.

TradeTech's weekly spot price indicator has been set at US$91/lb, up US25c from the week prior, alongside a mid-term indicator of US$95/lb and a long-term pricing benchmark of US$80/lb. On TradeTech's assessment, a decent production cost indicator for the industry is currently US$56.90/lb.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	20/05/2024	0.0900	▲12.50%	$0.19	$0.05			
AGE	20/05/2024	0.0700	▲ 4.84%	$0.08	$0.03		$0.100	▲42.9%
BKY	20/05/2024	0.3800	▼- 2.53%	$0.80	$0.26			
BMN	20/05/2024	4.7100	▲ 7.76%	$4.87	$1.19		$7.400	▲57.1%
BOE	20/05/2024	5.8500	▲ 3.36%	$6.12	$2.62	60.7	$5.425	▼- 7.3%
DYL	20/05/2024	1.7400	▲ 5.86%	$1.80	$0.53		$1.770	▲1.7%
EL8	20/05/2024	0.5700	▲ 5.77%	$0.68	$0.27			
ERA	20/05/2024	0.0500	0.00%	$0.08	$0.03			
LOT	20/05/2024	0.4800	▲ 5.56%	$0.49	$0.17		$0.660	▲37.5%
NXG	20/05/2024	12.2900	▲ 7.67%	$13.66	$5.78		$17.500	▲42.4%
PDN	20/05/2024	17.7700	▲ 6.78%	$17.89	$5.15	-517.0	$16.470	▼- 7.3%
PEN	20/05/2024	0.1200	▲ 4.35%	$0.20	$0.08		$0.310	▲158.3%
SLX	20/05/2024	6.4800	▲ 5.28%	$6.74	$2.92		$7.600	▲17.3%



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

WEEKLY REPORTS

The Short Report - 23 May 2024

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

Summary:

Week Ending May 16, 2024 (most recent data available through ASIC).

Weekly short positions as a percentage of market cap:

10%+

PLS 21.4
IEL 16.3
SYR 13.1
FLT 10.6
LTR 10.1

No changes

9.0-9.9%

No stocks

8.0-8.9%

WGX

Out: CXO

7.0-7.9%

ACL, CXO, CHN, STX, WBT, HLS, SYA

In: CXO, HLS Out: ARU, BOQ

6.0-6.9%

ARU, LIC, BOQ, LYC, GMD, MIN

Out: HLS

5.0-5.9%

NAN, IFL, VUL, CUV, OBL, CTD, WEB, IMU, SHV, BLD

In: BLD

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.3	0.3	QBE	0.5	0.5
ANZ	0.4	0.4	RIO	4.7	4.9
BHP	0.4	0.4	S32	2.0	2.0
CBA	1.5	1.5	STO	1.5	1.5
COL	0.6	0.7	TCL	0.5	0.6
CSL	0.4	0.3	TLS	0.2	0.2
FMG	0.9	1.0	WBC	1.1	1.1

GMG	1.8	2.0	WDS	0.8	0.7
MQG	0.7	0.6	WES	1.3	1.3
NAB	0.6	0.7	WOW	0.3	0.3

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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

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

WEEKLY REPORTS

In Brief: Retail, Travel, Top Dividends, Banks & Telstra

Weekly Broker Wrap: new technology may lift some discretionary retailers; positive dynamics for the travel sector; the best ASX stocks for dividends; overvalued Australian banks & Telstra's trading update.

-Upside for discretionary retailers with exposure to technology
-The travel data favouring Webjet (and others in the sector)
-Top ten stocks for grossed up dividend yield
-Goldman Sachs maintains Australian banks are overvalued
-Telstra's less than ideal trading update

By Mark Woodruff

Upside for discretionary retailers with exposure to technology

Macquarie sees upside for ASX-listed, technology-exposed discretionary retailers over the next two years as AI-ready PCs come to market, and as other consumer electronic devices reach the end of their expected lifetimes following the 2020 covid spending splurge.

For the uninitiated, the key difference in next-generation PCs/laptops relative to the current technology is the integrated neural processing unit (NPU) in the central processing unit. NPUs provide the capability to handle AI-related tasks locally, as opposed to relying solely on a connection to the cloud.

Macquarie has taken heed of commentary at the recent Wesfarmers ((WES)) investor day, when management stated, "as a leading retailer of technology with 59% of our (Officeworks) sales coming from our technology business, we are uniquely positioned to help our customers digitise."

Further comments included "we anticipate significant hardware innovation will lead our customers to consider upgrading to the latest generation of devices. And we expect when upgrading their device that our customers will look for new and improved accessories to match, such as headphones and wearables."

Accordingly, the broker expects strong sales in the Australian-focused businesses of not only Wesfarmers, but also JB Hi-Fi ((JBH)) and Harvey Norman ((HVN)), and raises earnings forecasts by 0.5%, 4.5%, and 3.7%, respectively.

JB Hi-Fi is the most exposed of the discretionary retailers to a shortened upgrade cycle for computers, explains Macquarie, with this category accounting for around 20% of revenue.

Should this next-generation AI upgrade cycle deliver on promise, the analyst anticipates (as per Wesfarmers' indication) further upside to forecasts thanks to increasing sales of phones, wearables and connected devices.

The broker upgrades both JB Hi-Fi and Harvey Norman to Outperform from Neutral and raises their 12-month targets to $63 (from $61) and to $5.30 (from $5.10), respectively.

For Wesfarmers, Macquarie's target rises to $65.20 from $64.60 while the Neutral rating is retained.

The travel data favouring Webjet (and others in the sector)

International traffic is growing and has overtaken domestic traffic in Australia, notes Citi, with recent data also indicating average international fares in the March quarter were around -13% lower year-on-year. International passenger levels on the East Coast are now close to 100% of FY19 levels, with Melbourne surpassing FY19 on a regular basis.

Indeed, international travel is now growing faster than domestic in most parts of the world. For Webjet, ((WEB)) this means the length of stay of each accommodation booking is also growing, and Hotel revenue per available room (RevPar) globally not only remains elevated, but continues to grow, explains the broker.

In another positive for Webjet, the analysts point out the Olympic Games in Paris kick-off on July 26 this year, on the very continent where Webjet has its largest exposure and generates a higher relative margin.

More generally, and relevant to Citi's coverage across the Travel sector on the ASX, the broker notes international volumes globally are continuing to strengthen on softer airfares, and the US in particular is experiencing a corporate travel recovery, which may precede an Australian one.

Regarding the US corporate recovery, the broker's industry feedback indicates double-digit growth in volumes over recent months, and the annualisation of this strength would likely boost the US divisions of both Flight Centre Travel ((FLT)) and Corporate Travel Management ((CTD)).

When Citi released the above research points at the start of the week, the broker was anticipating upside risk for earnings forecasts in the Travel sector.

A few days later and the broker's research was looking prescient when Webjet released record FY24 results. When, subsequently, six of seven covering brokers in the FNArena database updated research, the average target price increased to $10.27 from $9.43, suggesting around 15% upside to yesterday's closing price of $8.92.

Bookings and total transaction value (TTV) growth of 35% was well ahead of expectations, and the analysts at Morgan Stanley now increase forecasts for Webjet as a result of momentum tracking around 10% higher than initial management guidance.

The performance of WebBeds was a standout, in stockbroker Morgans' view, particularly the segment's industry leading margins and strong operating cashflow. So far in FY25, growth for WebBeds has accelerated, while the Webjet online travel agent (OTA) has slowed.

The analysts believe the key to unlocking the true value of WebBeds is management's current investigation into a potential demerger of the B2B and B2C divisions. It's felt WebBeds would then trade on a (higher) global B2B marketplace multiple.

Citi's preferred exposures across the Retail sector are the Buy-rated Webjet and Flight Centre Travel, followed by Qantas Airways ((QAN)) and Corporate Travel Management, which are both assigned Neutral recommendations.

Flight Centre also bobs up in the ensuing article which lists companies with a relatively higher chance of bringing into play capital management initiatives.

Top ten stocks for grossed up dividend yield

While balance sheet capacity is important when determining the likelihood of management deploying capital management initiatives, other factors can also be important, such as potential investment in growth opportunities, explains Macquarie.

Capital returns to shareholders are also a way for management to utilise franking credit balances, which the broker has been monitoring via company annual reports for over 19 years.

The analyst's list of companies that may act on their franking credits balance and undertake capital management in 2024 are: Bendigo & Adelaide Bank ((BEN)), Beach Petroleum ((BPT)), Flight Centre Travel, G8 Education ((GEM)), Gold Road Resources ((GOR)), G.U.D. Holdings ((GUD)), Helia Group ((HLI)), Jumbo Interactive ((JIN)), Karoon Energy ((KAR)), New Hope Corp ((NHC)), Pepper Money ((PPM)), Rio Tinto ((RIO)), Regis Resources ((RRL)), Westpac Bank ((WBC)) and Woolworths Group ((WOW)).

Recognising that stocks with high grossed up dividend yields may be attractive to certain investors, the broker also highlights the top ten in this category under research coverage.

Ranging from 26-10% grossed up dividends in descending order, Macquarie lists: Mount Gibson ((MGX)), McMillan Shakespeare ((MMS)), Autosports Group ((ASG)), Coronado Global Resources ((CRN)), New Hope, Helia Group, ARN Media ((A1N)), Resimac Group ((RMC)), Rio Tinto, and Pepper Money.

Goldman Sachs warns Australian banks are overvalued

The valuations for Australian banks are at extremes, Goldman Sachs has warned. The broker highlights the spread between fully franked yields and the 10-year bond yield, currently at its lowest level in nearly 15 years, is flashing warning signs.

While the recent bank reporting season did show the pace of deterioration in bank fundamentals appears to be slowing, the broker's analysis suggests no material improvement in fundamentals is forthcoming.

Just one measure is indicating some support for current valuations, suspects the broker. Even though the bank sector has re-rated significantly over the past year, a comparison between the banks' price earnings ratios and non-bank industrials shows a discount of -5% below longer-run historic averages.

Goldman believes this measure underestimates the relative deterioration in sector fundamentals.

The analysts compare banks and non-bank industrials across EPS growth, return on equity (ROE) and franking. On these measures, banks are trading at near-to-record-expensive levels, explains the broker.

Goldman Sachs has downgraded Westpac to Sell from Neutral (unchanged target of $24.10). The broker also points to execution, cost and timing risks relating to the bank's technology simplification.

By comparison to the other major banks, Westpac's balance sheet is the most overweight to domestic housing, which the broker expects will be more growth constrained than commercial lending over the medium-term.

Goldman Sachs also downgraded its rating for National Australia Bank ((NAB)) to Neutral from Buy with an unchanged $34.04 target price. Other ratings are: ANZ Bank ((ANZ)) and Judo Bank ((JDO)) both on Buy, Bendigo & Adelaide Bank on Neutral, and CommBank and Bank of Queensland ((BOQ)) on Sell.

For more on the banks, see also this week's: https://fnarena.com/index.php/2024/05/23/australian-banks-post-first-half-results-sugar-hit/

Telstra's less than ideal trading update

The week has not progressed as planned for shareholders in Telstra ((TLS)) with two brokers in the FNArena database downgrading ratings following the telco's trading update.

Macquarie downgraded to Neutral from Outperform, noting a less positive outlook for mobile markets and challenges in the enterprise segment.

Over at Morgans, the rating was lowered to Reduce from Hold. Formerly, management was looking to unlock the value of mis-priced assets from inside the conglomerate, bemoaned the broker, justifying a higher price earnings multiple.

Not only has the company back-pedalled on this front, but also management announced the reversal of the post-paid mobile CPI-based price rise mechanism for FY25.

Australia's number one telco will cut -9% off its total workforce to reduce fixed costs by around -$250m per year as the decline in Enterprise division revenue has accelerated, explained Morgan Stanley.

This broker pointed out software companies globally are displacing traditional telcos for telephony and connectivity.

In the final wash-up, the average target price for Telstra Group in the FNArena database fell to $4.00 from $4.38 prior to the trading update, which suggest a little under 16% upside to yesterday's $3.46 closing share price.

To access views by several other brokers please refer to the Australian Broker Call Report or Consensus Forecasts/Stock Analysis on the FNArena website.

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

WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 24-05-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

COLES GROUP LIMITED ((COL)) Upgrade to Neutral from Sell by Goldman Sachs.B/H/S: 0/0/0

Post the 1Q24 trading update from Coles Group, Goldman Sachs has become more positive on the company.

The analyst notes improvements in addressing margin and stock-loss issues under new CEO leadership, as well as strong retail execution, efficient communication of value to consumers, and significant cost reductions through the Simplify and Save program.

Faster scaling of Retail Media, which is expected to significantly enhance the Food segment's margin, has been identified by the broker as a major growth driver.

Goldman Sachs assesses the company is positioned for recovery and EBIT forecasts have been raised by 2% in FY24 up to 6% in FY26.

Upgrade to Neutral from Sell and the target revised to $16.30.

INCITEC PIVOT LIMITED ((IPL)) Upgrade to Overweight from Neutral by Jarden.B/H/S: 0/0/0

According to Jarden the 1H24 Incitec Pivot results showed strong performance in the Explosives segment, which offset weaknesses in Fertilisers.

Explosives earnings are expected to remain robust, with significant re-contracting growth anticipated through FY25 and FY26, notes the analyst, while the Fertilisers trade sale remains a key overhang, with ongoing negotiations impacting the $900m share buyback.

Gearing remains low and the analyst envisages a positive long-term outlook for Explosives. The rating is upgraded to Overweight from Neutral and the target lifted to $3.15 from $2.75.

XERO LIMITED ((XRO)) Upgrade to Overweight from Neutral by Jarden.B/H/S: 0/0/0

In a report published before today's market update, Jarden believes Xero is now well placed to produce meaningful free cash flow as operating leverage emerges, and is capable of still balancing growth and profitability.

While the current valuation is not cheap, upside risk is asymmetric, suggest the analysts.

Payments of dividends will likely commence in FY25, according to the broker, and revenue should almost triple on a 10-year view.

Software-as-a-service (SaaS) economics are expected to drive significant operating leverage, and Jarden assumes an earnings (EBIT) margin expansion to around 40% in the long-term from 6% in FY23.

The target rises to $141 from $110 and the broker's rating is upgraded to Overweight from Neutral.

Downgrade

JB HI-FI LIMITED ((JBH)) Downgrade to Sell from Neutral by Goldman Sachs.B/H/S: 0/0/0

The worse than expected growth outlook for the retail industry and increasing competition has resulted in an earnings downgrade for JB Hi-Fi by Goldman Sachs.

The broker sees consumers as more cost-conscious and with interest rates expected to remain high, the company's bulky discretionary goods, particularly at The Good Guys (TGG), are anticipated to be more impacted.

Competition is increasing from various fronts, including Amazon, Harvey Norman, and Officeworks. The latter has expanded its technology sales mix aggressively.

The analyst forecasts sales and margins to disappoint in FY25/26, and adjusts net profit by -3% to -5% for FY24 through to FY26, below consensus estimates.

JB Hi-Fi is downgraded to Sell from Neutral. Target price lowered to $50.00 from $56.50.

LEO LITHIUM LIMITED ((LLL)) Downgrade to Sell from Neutral by Jarden.B/H/S: 0/0/0

It has been seven months since shares of Leo Lithium were suspended, and Jarden expects the price will be volatile if (and when) it resumes trading. Commencement of operations (expected this quarter) at the Goulamina project is at risk.

Negotiations are at an impasse between Leo Lithium and the Malian Government, notes the broker, leading the company's joint venture partner, Ganfeng, to purchase Leo Lithium's 40% equity interest in the Goulamina project for US$342.7m.

This amount compares with Jarden's last published 100% project valuation of US$2,273m, implying US$909m for 40%, reflecting the increasingly weakened negotiating position for management at Leo Lithium.

A 1.5% gross revenue royalty for 20 years upon commercial production offers a potential future revenue source, observes the analyst.

The broker's rating is downgraded to Sell from Neutral and the target is slashed to 43c from 60c.

MACQUARIE TECHNOLOGY GROUP LIMITED ((MAQ)) Downgrade to Neutral from Buy by Goldman Sachs.B/H/S: 0/0/0

Goldman Sachs reviews Macquarie Technology in light of the shift from key data centre big-picture catalysts to the execution and construction phases, particularly the IC3W project.

The broker seeks confirmation of the size of the IC3W upscale to 45MW from 32MW or land purchase in Sydney for a new site to offer upside potential to the stock.

At this stage the company is viewed as entering a capital intensive phase and any contract announcement may be some time away.

The analyst sees limited upside expected for FY24-26 EBITDA forecasts and with a valuation already reflecting growth, the rating is downgraded to Neutral from Buy.

The target is lowered -3% to $90.20.

ORICA LIMITED ((ORI)) Downgrade to Overweight from Buy by Jarden.B/H/S: 0/0/0

As per Jarden, the 1H24 earnings report for Orica proved ln line with expectations and 4% ahead of consensus.

Strong EBIT growth was reported by North America (despite weather issues), LATAM and EMEA, notes the analyst, and the APA segment benefited from lower ammonia prices and re-contracting activities.

Future re-contracting growth is forecast to slow, impacting earnings from APA and result in the broker's EPS forecasts being lowered by -1.3% for FY24 and raised 3.2% in FY25.

Downgrade to Overweight from Buy with an unchanged target of $18.55.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	COLES GROUP LIMITED	Neutral	Sell	Goldman Sachs
2	INCITEC PIVOT LIMITED	Buy	Neutral	Jarden
3	XERO LIMITED	Buy	Buy	Jarden
Downgrade				
4	JB HI-FI LIMITED	Sell	Neutral	Goldman Sachs

5	LEO LITHIUM LIMITED	Sell	Neutral	Jarden
6	MACQUARIE TECHNOLOGY GROUP LIMITED	Neutral	Buy	Goldman Sachs
7	ORICA LIMITED	Buy	Buy	Jarden

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
360	Life360	$15.14	Goldman Sachs	16.05	14.20	13.03%
ABB	Aussie Broadband	$3.50	Wilsons	4.52	4.77	-5.24%
ABC	Adbri	$3.17	Goldman Sachs	N/A	1.85	-100.00%
AD8	Audinate Group	$16.75	Canaccord Genuity	20.00	11.00	81.82%
ASX	ASX	$63.50	Goldman Sachs	60.00	67.46	-11.06%
BBN	Baby Bunting	$1.40	Wilsons	1.80	2.40	-25.00%
BEN	Bendigo & Adelaide Bank	$10.99	Goldman Sachs	10.51	9.74	7.91%
			Jarden	10.20	9.40	8.51%
CBA	CommBank	$120.73	Goldman Sachs	82.61	81.98	0.77%
CHL	Camplify Holdings	$1.47	Canaccord Genuity	2.75	3.25	-15.38%
COL	Coles Group	$16.28	Goldman Sachs	16.30	15.40	5.84%
CSL	CSL	$282.00	Wilsons	297.02	253.29	17.26%
CU6	Clarity Pharmaceuticals	$4.13	Wilsons	4.50	3.12	44.23%
DMP	Domino's Pizza Enterprises	$37.46	Goldman Sachs	36.30	39.70	-8.56%
FBU	Fletcher Building	$2.95	Goldman Sachs	3.05	3.70	-17.57%
FWD	Fleetwood	$1.36	Moelis	2.10	2.31	-9.09%
GNC	GrainCorp	$8.41	Wilsons	8.27	7.28	13.60%
GSS	Genetic Signatures	$0.73	Taylor Collison	2.21	2.19	0.91%
GUD	G.U.D. Holdings	$10.71	Canaccord Genuity	14.60	15.15	-3.63%
			Wilsons	13.06	13.29	-1.73%
HLI	Helia Group	$4.04	Goldman Sachs	4.53	4.47	1.34%
IEL	IDP Education	$17.04	Jarden	19.70	29.45	-33.11%
IPL	Incitec Pivot	$3.07	Goldman Sachs	3.35	3.25	3.08%
			Jarden	3.15	2.70	16.67%
JBH	JB Hi-Fi	$57.41	Goldman Sachs	50.00	56.50	-11.50%
			Jarden	50.50	50.80	-0.59%
JDO	Judo Capital	$1.27	Goldman Sachs	1.72	1.69	1.78%
JIN	Jumbo Interactive	$16.83	Jarden	15.90	14.70	8.16%
KAR	Karoon Energy	$1.84	Jarden	2.21	2.35	-5.96%
LLL	Leo Lithium		Jarden	0.43	0.60	-28.33%
LTR	Liontown Resources	$1.41	Jarden	1.03	0.91	13.19%
MAQ	Macquarie Technology	$86.99	Goldman Sachs	90.20	93.00	-3.01%
MPL	Medibank Private	$3.66	Jarden	3.85	3.80	1.32%
MXI	MaxiPARTS	$1.92	Canaccord Genuity	2.62	3.91	-32.99%
MYX	Mayne Pharma	$5.41	Wilsons	7.09	7.38	-3.93%
NWS	News Corp	$41.59	Goldman Sachs	44.70	42.80	4.44%
OML	oOh!media	$1.50	Canaccord Genuity	1.90	2.00	-5.00%
			Goldman Sachs	1.67	1.62	3.09%
ORG	Origin Energy	$10.35	Jarden	10.24	10.00	2.40%
ORI	Orica	$18.69	Jarden	18.55	17.75	4.51%
PPM	Pepper Money	$1.47	Goldman Sachs	1.67	1.62	3.09%
PPT	Perpetual	$22.11	Jarden	24.55	26.50	-7.36%
PSI	PSC Insurance	$6.02	Jarden	6.19	4.80	28.96%
PXA	Pexa Group	$14.50	Jarden	12.60	11.65	8.15%
QBE	QBE Insurance	$18.05	Goldman Sachs	20.90	20.58	1.55%
			Jarden	21.00	20.75	1.20%
			Jarden	21.50	20.75	3.61%
REA	REA Group	$188.41	Goldman Sachs	202.00	201.00	0.50%
RHC	Ramsay Health Care	$49.43	Jarden	64.30	63.43	1.37%
SGM	Sims	$11.29	Goldman Sachs	12.40	14.00	-11.43%

Company	Last Price	Broker	New Target	Old Target	Change
		Jarden	12.10	14.00	-13.57%
SUL Super Retail	$12.58	Jarden	15.10	15.40	-1.95%
		Wilsons	13.70	15.30	-10.46%
TLX Telix Pharmaceuticals	$15.59	Wilsons	20.00	14.50	37.93%
WBC Westpac	$26.87	Jarden	26.20	25.70	1.95%
XRO Xero	$134.84	Jarden	141.00	108.00	30.56%

More Highlights

AD8 AUDINATE GROUP LIMITED

Hardware & Equipment – Overnight Price: $16.24

Canaccord Genuity rates ((AD8)) as Buy (1) –

Audinate Group updated the market at its Investor Day and Canaccord Genuity points to the central role this company holds in the networked audio market, supported by over 4,000 Dante-enabled products from 600-plus OEM manufacturers.

The broker notes cloud-based initiatives, such as Dante Connect and Dante Director, aim to centralise AV control, offering substantial monetisation opportunities.

Canaccord Genuity forecasts sales growth to $148.3m by FY2026 from $69.7m in FY2023, with EBITDA expected to increase to $45.0m from $13.5m over the same period.

Buy rating and $20 target unchanged.

This report was published on May 16, 2024.

Target price is **$20.00** Current Price is **$16.24** Difference: **$3.76**
If **AD8** meets the Canaccord Genuity target it will return approximately **23%** (excluding dividends, fees and charges).
Current consensus price target is **$20.15**, suggesting upside of **19.8%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Canaccord Genuity forecasts a full year **FY24** EPS of **13.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **124.92**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **9.2**, implying annual growth of **-33.1%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **182.8**.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** EPS of **15.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **108.27**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **15.9**, implying annual growth of **72.8%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **105.8**.

Market Sentiment: **0.5**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

GSS GENETIC SIGNATURES LIMITED

Pharmaceuticals & Biotech/Lifesciences - Overnight Price: $0.76

Taylor Collison rates ((GSS)) as Speculative Outperform (2) -

In a potentially transformational milestone, Taylor Collison points out the final stage is approaching for FDA review of Genetic Signatures' 510(k) application.

The company is seeking clearance to market its EasyScreen gastrointestinal parasite (GIP) test kit in the US. If approved, the analyst is expecting a rapid take-up as the test meets an unmet need, and reimbursement at US$263/test is already in place.

While the broker is expecting a decision before the end of May, there is a moderate risk the FDA review could continue into June.

The Speculative Outperform rating is maintained. Target $2.21.

This report was published on May 17, 2024.

Target price is **$2.21** Current Price is **$0.76** Difference: **$1.45**
If **GSS** meets the Taylor Collison target it will return approximately **191%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

> Taylor Collison forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 13.30** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 5.71**.

Forecast for FY25:

> Taylor Collison forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 5.40** cents.
> At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 14.07**.

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

GUD G.U.D. HOLDINGS LIMITED

Automobiles & Components - Overnight Price: $10.94

Canaccord Genuity rates ((GUD)) as Buy (1) -

Canaccord Genuity came away from the G.U.D. Holdings investor day upbeat, believing the company is intrinsically undervalued.

The broker points to past underperformance of the APG acquisition and the fact it has yet to reach its EBITDA forecasts underscores market concerns.

The analyst points to FY24 guidance which sits at least $193.5m EBITA, with underlying growth estimated at 8%.

Canaccord Genuity retains earnings estimates and highlights an anticipated recovery which opens up a potential re-rating for the stock.

Buy rating and $14.60 target retained.

This report was published on May 15, 2024.

Target price is **$14.60** Current Price is **$10.94** Difference: **$3.66**
If **GUD** meets the Canaccord Genuity target it will return approximately **33%** (excluding dividends, fees and charges).
Current consensus price target is **$12.79**, suggesting upside of **16.9%**(ex-dividends)

The company's fiscal year ends in June.

Forecast for FY24:

Canaccord Genuity forecasts a full year **FY24** dividend of **42.00** cents and EPS of **87.00** cents.
At the last closing share price the estimated dividend yield is **3.84%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **12.57**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **76.2**, implying annual growth of **9.0%**.
Current consensus DPS estimate is **42.8**, implying a prospective dividend yield of **3.9%**.
Current consensus EPS estimate suggests the PER is **14.4**.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **50.00** cents and EPS of **98.00** cents.
At the last closing share price the estimated dividend yield is **4.57%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **11.16**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **85.8**, implying annual growth of **12.6%**.
Current consensus DPS estimate is **46.8**, implying a prospective dividend yield of **4.3%**.
Current consensus EPS estimate suggests the PER is **12.8**.

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

MYX MAYNE PHARMA GROUP LIMITED

Pharmaceuticals & Biotech/Lifesciences - Overnight Price: $5.34

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

Back in mid-February, Change Healthcare in the US publicly disclosed it had been impacted by a cyberattack. Wilsons explains this event then rippled across the US healthcare system from February-April, and impacted Mayne Pharma too.

In particular, impacts were felt at Mayne's Nextstellis business, as well as its customer base accessing co-pay support for this product, but the analysts advise the setback is only temporary.

The Overweight rating is unchanged and the target falls to $7.09 from $7.38.

This report was published on May 17, 2024.

Target price is **$7.09** Current Price is **$5.34** Difference: **$1.75**
If **MYX** meets the Wilsons target it will return approximately **33%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 48.80** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 10.94**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 24.40** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 21.89**.

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

TLX TELIX PHARMACEUTICALS LIMITED

Pharmaceuticals & Biotech/Lifesciences - Overnight Price: $15.78

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

Wilsons is confident reflecting Telix Pharmaceuticals has in place a strategy to become a fully integrated radiopharmaceutical developer.

The analyst views more upside potential if the company's therapeutic assets, such as TLX591, are commercialised independently rather than out-licensed, ultimately offering more value for shareholders.

Looking ahead, the broker also anticipates catalysts from the 'ILL2CCIX' strategy and US Medicare pricing reforms.

Recent M&A activity in the sector and the strong R&D pipeline position the shares for potential inclusion in the ASX100, notes Wilsons.

Overweight rating and the target is raised to $20.

This report was published on May 20, 2024.

Target price is **$20.00** Current Price is **$15.78** Difference: **$4.22**
If **TLX** meets the Wilsons target it will return approximately **27%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **0.00** cents and EPS of **10.10** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **156.24**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **20.80** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **75.87**.

Market Sentiment: **0.5**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

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