WEEK 39

FNArena
FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Friday, 27 September 2024

Upside For The New Webjet(s)

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Universal Stores Dressed For Youthful Success

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AUSTRALIA

The Market In Numbers - 21 Sep 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	21 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
NZ50	12478.500	-2.76%	0.25%	6.50%	6.02%	6.50%
All Ordinaries	8437.20	1.37%	1.45%	5.28%	7.76%	5.28%
S&P ASX 200	8209.50	1.35%	1.45%	5.69%	8.15%	5.69%
S&P ASX 300	8140.80	1.35%	1.45%	5.61%	8.03%	5.61%
Communication Services	1611.80	1.42%	-0.29%	7.37%	1.49%	7.37%
Consumer Discretionary	3853.60	2.09%	1.10%	9.74%	18.93%	9.74%
Consumer Staples	12745.50	0.11%	-0.80%	2.97%	3.53%	2.97%
Energy	8784.90	1.75%	-5.76%	-12.43%	-17.30%	-12.43%
Financials	8569.50	2.37%	4.18%	11.92%	27.55%	11.92%
Health Care	44571.20	-1.91%	-2.73%	0.71%	5.27%	0.71%
Industrials	7433.30	-0.97%	-0.22%	9.13%	8.26%	9.13%
Info Technology	2652.40	2.20%	4.79%	13.28%	44.71%	13.28%
Materials	16457.90	1.67%	-0.25%	-2.49%	-15.56%	-2.49%
Real Estate	4077.80	1.79%	7.19%	14.44%	21.81%	14.44%
Utilities	8934.60	2.31%	0.74%	-3.77%	9.23%	-3.77%
A-REITs	1860.70	1.73%	7.20%	14.55%	23.85%	14.55%
All Technology Index	3408.20	1.50%	1.47%	8.61%	26.51%	8.61%
Banks	3648.10	2.85%	4.57%	14.17%	31.25%	14.17%
Gold Index	8685.80	1.15%	2.23%	18.06%	17.89%	18.06%
Metals & Mining	5325.10	1.31%	-0.57%	-4.06%	-17.65%	-4.06%

The World

Index	21 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
FTSE100	8229.99	-0.52%	-1.75%	0.81%	6.42%	0.81%
DAX30	18720.01	0.11%	-0.99%	2.66%	11.75%	2.66%
Hang Seng	18258.57	5.12%	1.50%	3.05%	7.10%	3.05%
Nikkei 225	37723.91	3.12%	-2.39%	-4.70%	12.73%	-4.70%
DJIA	42063.36	1.62%	1.20%	7.53%	11.60%	7.53%
S&P500	5702.55	1.36%	0.96%	4.43%	19.55%	4.43%
Nasdaq Comp	17948.32	1.49%	1.32%	1.22%	19.56%	1.22%

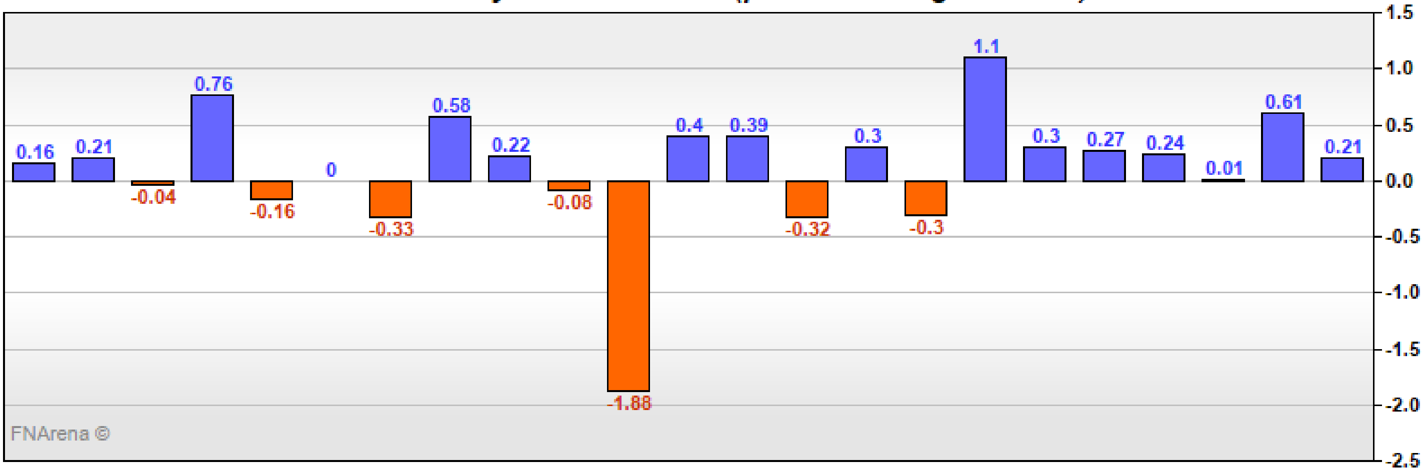
Metals & Minerals

Index	21 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
Gold (oz)	2611.80	0.96%	2.25%	11.71%	27.75%	11.71%
Silver (oz)	31.11	2.98%	4.29%	6.36%	27.60%	6.36%
Copper (lb)	4.3485	3.28%	3.30%	0.35%	14.19%	0.35%
Aluminium (lb)	1.1439	5.43%	2.88%	1.73%	17.65%	1.73%
Nickel (lb)	7.3501	1.98%	-4.04%	-5.50%	-1.17%	-5.50%
Zinc (lb)	1.3239	2.72%	1.94%	-0.17%	17.72%	-0.17%
Uranium (lb) weekly	80.	-0.62%	-1.23%	-3.90%	-6.98%	-3.90%
Iron Ore (t)	92.03	-1.11%	-6.69%	-13.59%	-33.42%	-13.59%

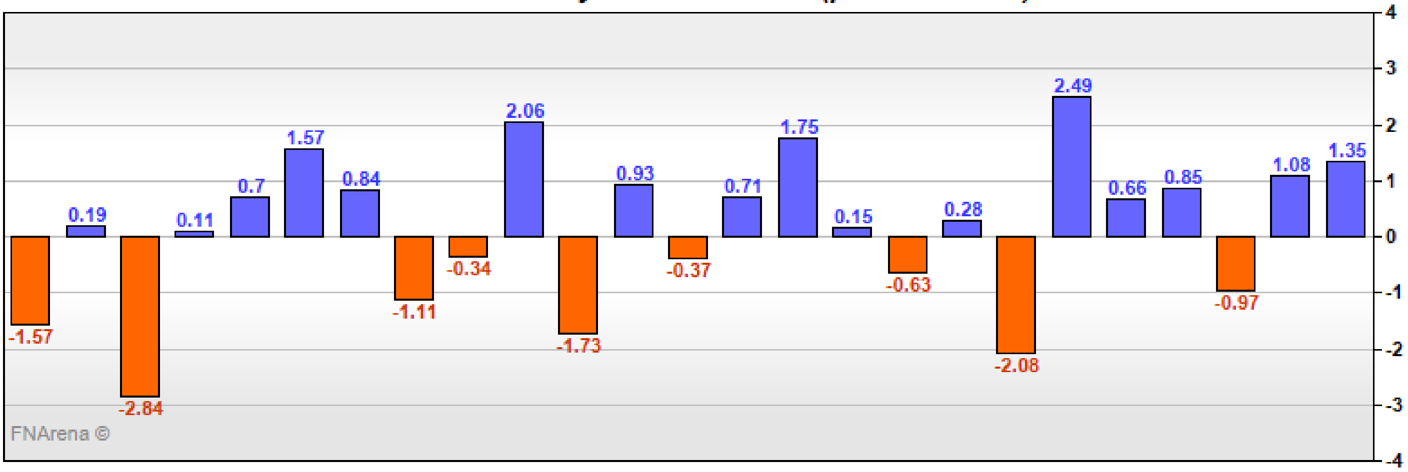
Energy

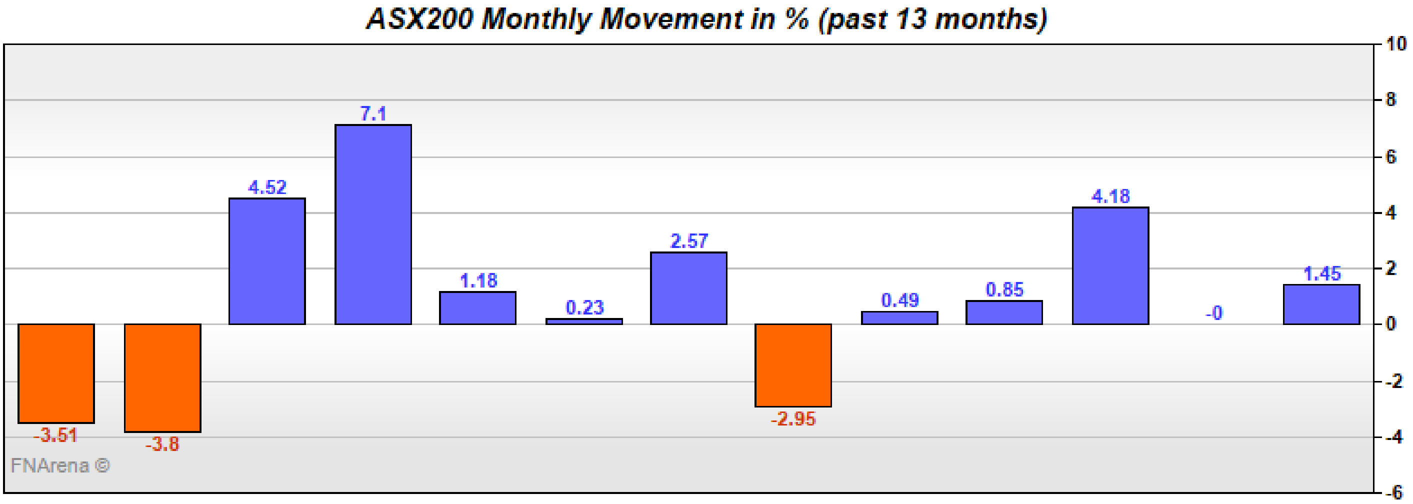
Index	21 Sep 2024	Week To Date	Month To Date (Sep)	Quarter To Date (Jul-Sep)	Year To Date (2024)	Financial Year To Date (FY25)
West Texas Crude	71.14	2.82%	-6.43%	-13.10%	-3.62%	-13.10%
Brent Crude	74.86	5.85%	-5.18%	-12.38%	-5.55%	-12.38%

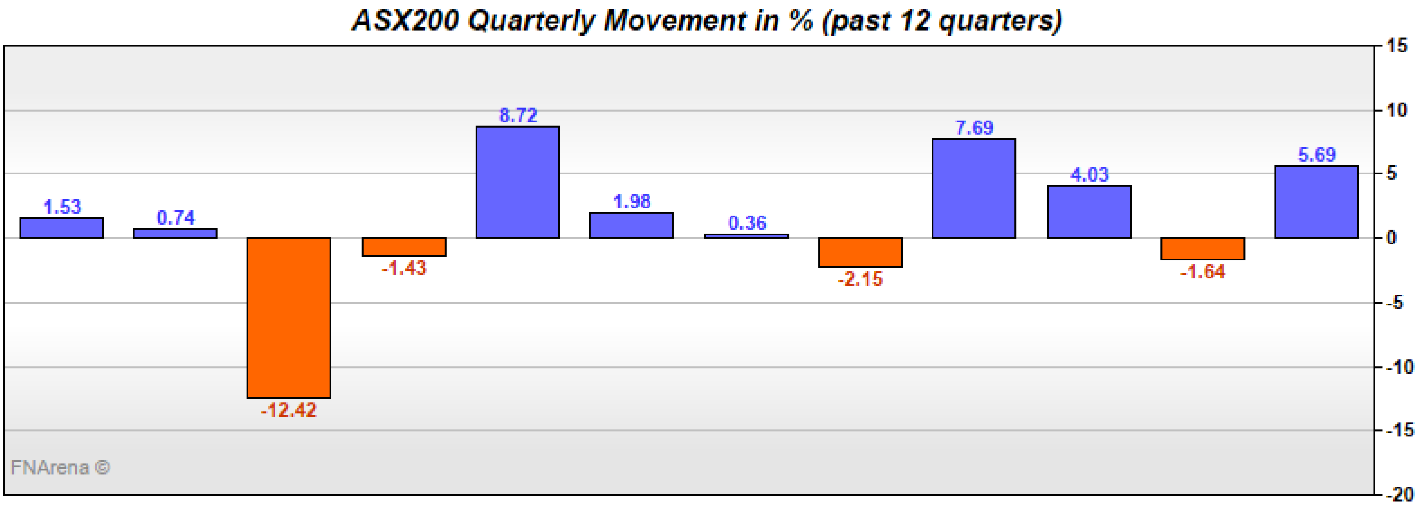
ASX200 Daily Movement in % (past 23 trading sessions)



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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FNArena welcomes comments and suggestions at info@fnarena.com

AUSTRALIA

Cleanaway's Efforts Not Wasted

Cleanaway Waste Management is facing competition in the rubbish business, but analysts are confident the company's efficiency drive can push earnings towards an ambitious goal.

-Cleanaway Waste Management posted a beat on FY24 earnings in August
-Share price has slumped ever since
-Competition is growing, forcing efficiency improvement
-Mission 500 on track

By Greg Peel

Cleanaway Waste Management's ((CWY)) business is not just a load of rubbish. Along with collecting general waste and recycling, the company deals with hazardous waste, liquid waste, waste from construction and demolition, industrial activity and health services, as well as organic and e-waste.

Cleanaway is Australia's leading waste services business, but in today's waste-conscious society, competition is growing.

Back in late August, the company delivered an FY24 result described by brokers variously as "strong", "robust" and "solid", beating consensus earnings forecasts and guidance. "Cleanaway's management continues to demonstrate its operating prowess and ability to articulate and execute its strategy into FY26 and to its 2030 [restructuring] goals," suggested Jarden. The operational performance lift has been strong, Macquarie noted, with the heightened focus on earnings measurement yielding good outcomes.

Cleanaway's share price rallied 12% through August ahead of the FY24 result. With the ASX200 threatening to post a new high, it has since fallen -7%.

Mixed Rubbish

The company posted 8% overall growth in earnings (EBITDA) year on year in the second half with a 6% increase for Solid Waste Services and 43% for Liquid Waste & Health Services, ahead of expectations, while Industrial Waste Services disappointed in falling -10%. While there were some tailwinds from, of all things, Old Corrugated Cardboard in the second half, the core drivers of growth (Health & Solid pricing) signal management's ability to drive operational efficiency in the broader business, UBS notes.

It was a good performance in the face of competition from Queensland-based rival Veolia, but landfill competition continues, particularly in Victoria, with volumes dropping substantially, while Industrial is facing challenging market conditions, resulting in deferrals, delays, cancelled projects and major site closures.

Competition in post collections has lifted in Victoria but this has coincided with a downturn in construction and development waste, lower soil volumes and the impact of the food and garden organics transition in Victoria, removing the predominant waste stream from municipal solid waste (MSW), which has accentuated some of the margin decline in Jarden's view.

Based on Jarden's conversations with management, the business is increasingly shifting away from MSW (typically ten-year contracts) and increasingly focusing on commercial and industrial waste, which while having shorter contract lives (three to five years) may provide a superior earnings/margin mix to Cleanaway.

Cleanaway's turnaround has momentum, Goldman Sachs suggests, with restoration some two-thirds complete, strategic infrastructure benefits to flow through and operational efficiency wins starting to show. However, work still needs to be done to complete the fleet transformation, integrate data/advanced analytics and optimise branches.

Mission Not Yet Accomplished

Management has maintained an FY26 earnings (EBIT) target of $450m, with a long-term incentive range of $425-500m, or if you like a "stretch" target of $500m which Cleanaway calls "Mission 500".

Increasingly, management is talking to "Mission 500" but this is yet to translate into any meaningful adjustment to the FY26 'stretch target, Jarden notes. The broker sees management's ambition as largely relying on operating leverage to hit the FY26 target, which is driven predominantly by Solid Waste Services earnings leverage (around 67% of group), which is subject to increased competition.

Consensus has FY26 earnings of $477m above guidance but below the stretch target. A key highlight was the operational performance which is gaining momentum, Macquarie suggests, while the FY25 outlook supports FY26 target attainment.

On the other side of the coin are costs. In addition to EBIT guidance, Cleanaway also provided FY25 guidance for net finance costs which were a negative surprise driven by higher cost of debt and lease financing, increased capex (maintenance costs higher than Morgans had assumed), tax payments and underlying cashflow adjustment.

There is also provision on the balance sheet for FY25 landfill remediation and rectification spend. Reflecting on Cleanaway's guidance, Morgans lifts its EBITDA forecast and downgrades profit by -7% given higher finance costs, and downgrades operating cashflow by -11%.

Management's interest cost assumption is predicated on no further rate rise from the RBA.

Caution Required?

Macquarie believes Cleanaway's growth visibility is improving as operational performance lifts. The FY24 result points to the strength of execution improvement, with strong margin progression. The medium-term growth profile is building out too, supporting Macquarie's Outperform rating.

Bell Potter thinks visibility on Cleanaway's "Mission 500" (which was previously 450) target by FY26 has lifted, with management having secured work in new end-markets, shown early Operational Excellence delivery in NSW Solids, and proven a focus on mix discipline in landfills. Bell Potter retains a Buy rating.

FY25 guidance suggests a fairly easy growth profile to the FY26 target, UBS suggests. Following 19% EBIT growth in FY24, the midpoint of guidance implies a growth moderation to 14% in FY25 and a further step down to 10% in FY26 to hit the bottom-end $450m target. UBS believes this highlights the conservativeness of the $450m EBIT target in FY26 with the broker's assumption of a more consistent growth rate in FY25 and FY26 which would see Cleanaway hit $500m. UBS also retains Buy.

Morgan Stanley anticipated in the wake of the FY24 result there would be a "neutral reaction" from the market. This has not been the case, and Morgan Stanley has an Overweight rating, but with the caveat of a "cautious" industry view.

Morgans likes Cleanaway's leading market positions, Solid Waste Services and Health Services businesses, operating leverage, cash generation, contribution of infrastructure assets, and participation in waste resource recovery (which is somewhat underwritten by state government landfill levies).

Valuation headwinds lay in the competitive and capital intensity and cost of capital of the business and the finite life nature of its infrastructure assets. Key catalysts to watch for are evidence of de-gearing and operational improvement, leverage to economic conditions, and deployment of capital into value-accretive projects, the broker suggests.

On the strength of the share price heading into the result, much of which has since been lost, Morgans downgraded to Hold from Add.

That leaves four Buy or equivalent ratings from brokers monitored daily by FNArena covering Cleanaway. The consensus target is $3.16, but if we take out Morgans' low-end $2.83, consensus lifts to $3.24.

Not monitored daily, Goldman Sachs points out heading into the FY24 result, consensus had Cleanaway's FY26 EBIT at $472m, so with that now lifting to $477m, much of the upside may already be priced into the stock. Goldman thus retains Neutral, with a $3.00 target.

With Jarden's core earnings estimates ahead of consensus over FY25-FY26, this broker sees Cleanaway's share price approaching fairer risk/reward symmetry for investors, and thus also maintains a Neutral rating, with a $3.05 target.

AUSTRALIA

Coles' Dividend Attraction Meets ACCC Allegation

New research highlights dividend growth potential for Coles Group as management targets growth initiatives and implements cost-out, but has the ACCC temporarily spoiled this party?

-Cash generation supporting higher dividends at Coles Group
-Earnings upside from growth initiatives and cost-out
-ACCC launches court action for misleading shoppers

By Mark Woodruff

Freshly initiated research by Bell Potter suggests shares in Coles Group ((COL)) are relatively more attractive than key competitor Woolworths Group's ((WOW)) with high levels of cash generation supporting dividend growth in the years to come.

Since FY20, the board has paid out 81% of cumulative profits and achieved 4.2% per annum growth in dividends after generating earnings at a compound annual growth rate (CAGR) of 3.7% per year over that period.

Bell Potter anticipates growth in both earnings and dividends through to FY27 via business improvement initiatives such as Simplify & Save and delivery of targeted returns on recent capital initiatives, largely around automated distribution and fulfillment centres.

Certainly, Macquarie is expecting these automation investments will yield benefits in FY26.

Following FY24 results in late-August, Ord Minnett noted cash generation was "robust" and likely to continue into FY25, helping support Bell Potter's growing dividend thesis.

Coles Group retails fresh food, groceries, household goods and liquor through a network of 856 grocery stores and 992 liquor outlets.

The company also has a 50% share in Flybuys rewards with Wesfarmers ((WES)) and a property development arm.

Bell Potter's initial $21.55 level sits at the top of the target price range of seven covering brokers in the FNArena database and raises the average to $20.11, suggesting around 9.5% upside to the latest share price. Coles shares have come under selling pressure this week following news the Australian Competition and Consumer Commission (ACCC) is taking both Coles and Woolworths to court for deliberately misleading shoppers.

<u>Allegedly misleading conduct</u>

Since the release of Bell Potter's initiation, management teams at both Coles and Woolworths have been forced to defend separate proceedings launched by the ACCC.

Each has allegedly breached Australian Consumer Law "by misleading consumers through discount pricing claims on hundreds of common supermarket products".

The ACCC is not making any allegation of any collusion or anti-competitive conduct by Woolworths and Coles as part of these proceedings.

In the case of Coles Group, the 'Down Down' advertising campaign included promotional prices higher than, or the same as, the previous regular price, according to ACCC chair, Gina Cass-Gottlieb.

In a separate statement, management at Coles Group announced it intends to defend the proceedings.

The inherent risk with so many price rises and products on promotion at a major supermarket chain, suggest Evans and Partners, is potential for an issue to occur that is deemed to be false and misleading.

This broker points out the two examples provided by the ACCC both involved a situation where the suppliers requested a price increase. Subsequently, the retail shelf price was raised, and then shortly after Coles inserted the specific product onto a 'Down Down' promotion.

Potential fines could be substantial, notes Jarden, with a maximum penalty for each breach the maximum of -$50m or reasonably attributable benefit (or if not determined, 30% of adjusted turnover).

A -$50m penalty for FY25 would have an around -3% impact on pre-tax profit, estimates the broker. Jarden suggests **the longer-term financial impact to both Coles and Woolworths will be immaterial.**

Goldman Sachs sees a risk around negative consumer sentiment towards the major supermarkets, but believes it is too early to assess potential market share impacts.

Analysts at JP Morgan are more concerned by the "court of public opinion" and remain cautious on the supermarket industry over the next six months as negative headlines will likely continue through the ACCC inquiry as well as the Federal election, weighing on related share prices.

Recent FY24 results

Commenting after consensus-beating FY24 results for Coles in late-August, Ord Minnett attributed the outcome largely to margin expansion amid tight cost control and reduced theft levels.

FY24 earnings (EBIT) of $2,057m came in around 2% above Citi's forecast (3% ahead of consensus), while the FY25 trading update showed total supermarket sales growth of 3.7%.

This broker forecast 60bps of gross margin improvement in FY25 for Supermarkets, supported by lower loss rates in the first half.

Supermarkets was the strongest segment, noted Ord Minnett, buoyed by an improved theft outcome and the growing Coles 360 media business, as the retailer attempted to ameliorate the impact of tobacco's declining share of sales.

On the flipside, Liquor suffered a reversal in earnings, hampered by one-off items booked above the line but also by a challenging environment for the alcoholic beverage industry, which was also evident in FY24 results for rival Endeavour Group ((EDV)).

In Liquor, the group has ceded wholesale market share and is being negatively impacted by consumers trading-down for value, explained Macquarie.

While wage growth and fixed cost deleverage (as wholesale volumes dropped) dragged on margins over FY24, this broker expects a recovery in FY25.

Reasons for a rising dividend forecast

Noting the capex peak has passed, Bell Potter forecasts 9.1% per annum compound growth for earnings out to FY27, with this flowing through to growth in dividends.

Management recently guided to $1.2bn in capital expenditure in FY25, comfortably under Ord Minnet's $1.5bn forecast at the time.

Coles operates in a competitive and mature sector with revenue growth largely a function of inflation and population growth, explained the analysts.

Population growth is the primary structural growth driver of volume, notes Bell Potter, and is forecast to remain at an average of 1.5% per year through to FY28.

The expansion of the store network at a pace consistent with population growth is one of several growth drivers available to management, according to the analysts.

Supplementing population growth, Bell Potter expects an ongoing near-term transition to in-home channels from out-of-home, before a likely recovery uplift in liquor demand across FY26-27 as the benefits of tax cuts and lower interest rates move through to demand for discretionary items.

Beyond this, the broker's earnings growth forecast for Coles is driven by operational leverage on higher sales, lower loss levels and delivery against recent growth initiatives in automation.

Additionally, management's Simplify & Save program is targeting $1bn in benefits by FY27, with $238m already delivered in FY24.

<u>Growth initiatives</u>

Bell Potter notes the 1.45bn capital investment program in automated distribution centres (ADC's) and customer fulfillment centres (CFC's) will reduce costs and release store capacity.

Using technology from Germany's Witron logistics group (in partnership with UK e-commerce group Ocado) the program is running ahead of schedule, noted Ord Minnett following FY24 results. It's felt anticipated benefits will be worth the heavy investment.

The analysts at Morgans cautioned some time will elapse before these facilities reach optimal capacity, but operating leverage should improve as volumes increase.

In July, operations began at CFC's in NSW and Victoria, which will significantly enhance the Coles online offering by improving order rates, increase freshness and expand the product range, explained Morgans.

Coles remains Citi's preferred Supermarket given the strong earnings story into FY26 and ongoing cost savings from a yet-to-be-announced third Witron automated distribution centre.

This broker awaits capital management strategy details at the company's Investor Day on November 14.

Of the seven daily covered brokers in the FNArena database, four have Buy (or equivalent) ratings) for Coles Group and three are on Hold.

Outside of daily coverage, Jarden and Goldman Sachs have Hold ratings with an average target of 16.65.

AUSTRALIA

Upside For The New Webjet(s)

Analysts are positive on Webjet's demerger of its B2B and B2C businesses into separate listed entities, allowing each to focus more specifically.

-Webjet splits into B2B and B2C
-Benefits greatest for the larger B2B entity
-Overlooked B2C will enjoy better focus
-Analysts positive on the split

By Greg Peel

Last week, Webjet demerged its business-to-business (B2B) and business-to-consumer (B2C) divisions into separate ASX-listed entities. Shareholders voted overwhelmingly to approve the demerger last month, hoping it would help to unlock value for the little-understood B2B business. Webjet has become a global wholesaler of hotel rooms to other online travel and corporate travel companies.

Webjet's customer-facing business includes its online travel agency (OTA), which holds about 8% of online flight and hotel bookings across Australia and New Zealand, as well as GoSee, a motorhome and car rental group, and the Trip Ninja smart travel technology.

The B2B entity continues to trade as Webjet Travel Group under the existing ticker ((WEB)), while the B2C entity trades simply as Webjet Group under the new ticker ((WJL)). Not the least bit confusing. The B2B entity owns WebBeds.

There is a clear valuation difference in the B2B entity, trading around $7.29, with the B2C, trading around 99c.

Good Idea?

Morgan Stanley views the demerger as a positive, unlocking assets which enjoy the sole synergy of shared overheads. Specific focus might improve business performance, the broker suggests, but primary upside is in the potential re-rating for Webjet Travel (B2B).

Morgan Stanley feels both businesses will be cleaner single business unit stories with greater management focus and accountability. The broker sees scope for a WEbjet Travel (circa 90% of value) re-rating without Webjet Group (10%). The new structure is more tax effective for highest growth and highest multiple business.

On the negative side, the resultant -$8.1m overhead dis-synergy was larger than Morgan Stanley had expected. Also, one-off costs of -$12.2m seem high. The broker also sees potential adverse impacts to index relevance, and sees little additional capital structure flexibility post transaction, and given the covid experience, expects both businesses to keep plenty of balance sheet capacity.

Regarding index inclusion, Wilsons believes Webjet Travel will stay in the ASX200 but there is a risk Webjet group will not make the ASX300 threshold.

In reaching a valuation for Webjet Travel, Wilsons believes the strongest comparables are the likes of Expedia, Booking Holdings and Airbnb, noting there are no listed pure-play bed banks. For Webjet Group, Wilsons draws upon eDreams, lastminute.com and Despegar as the strongest comparable OTAs with a single-region focus and a high proportion of flight bookings. Despite differences in model, Wilsons does also see relevance in Corporate Travel Management ((CTD)), Flight Centre ((FLT)) and Helloworld Travel ((HLO)).

Post-demerger, Webjet Travel will become a high growth, pure-play, global B2B marketplace for hotels through its ownership of WebBeds, RBC Capital Markets notes. The marketplace connects over 500k hotels in more than 190 countries to over 50k buyers through API (application programming interface) connectivity or trade-only booking websites.

RBC suggests Webjet Travel has a demonstrated track record of growing market share in the global hotel wholesale market which is forecast by Euromonitor to grow at a 7.7% compound annual growth rate over 2023-27.

Strong growth outside of Europe has meant that WebBeds is now a more globally diverse business, RBC points out. FY24 total transaction value (TTV) of $4bn is up 59% on pre-covid levels with the Americas up 342% and Asia-Pacific up 87% over the same period. The company is targeting $10bn of TTV in FY30 with an evolution towards an equal share of TTV from its top three regions.

Webjet Travel (B2B)

The company's trading update at the AGM implies that for the period between 19th May and 25th Aug TTV slowed from 35% to 20% growth year on year. However, Citi notes this also happened a year ago and may not be totally unusual, and August TTV appears to have accelerated to 30%, implying a sequential uplift/re-acceleration.

As a result, Citi is cautiously optimistic about Webjet Travel's performance.

Following the demerger/trading update, Citi launches new financials for the stand alone B2B business, leading to a new target price of $8.25. Looking forward, Citi has been cautious for some time around a mean reversion in hotel average daily rates and occupancy. However, the broker concludes this hasn't happened, and to date is yet to see it in the data. As a result, Citi estimates the AGM update was not representative of a broader industry slowdown and is optimistic about August's re-acceleration.

Citi has a Buy rating on Webjet Travel.

Management recently downgraded its longer term expectations for revenue margins to 7.0-7.5% from prior guidance for 7.5%. Macquarie forecasts FY30 revenue margins of 7.0% and expects revenue margin contractions will be driven by targeting volume growth in lower margin regions, continued investments by hotels into direct channels, growth in existing customers volumes reducing take-rates, albeit likely increasing volume rebates, and the rise of exclusive contracts.

Macquarie expects Webjet Travel to successfully scale, however, in the broker's view this is already factored into consensus, while guidance is for broadly flat underlying earnings margins. Macquarie is thus Neutral on the stock, cutting its target to $7.63 from $8.72 to reflect the demerger.

Webjet Travel shares trade on a higher multiple relative to Australian travel names. RBC Capital believes this is justified by higher earnings growth expectations. RBC has an Outperform rating, cutting its target to $8.50 from $10.00 without Webjet Group.

Given Morgan Stanley (Equal-weight) and Wilsons (Overweight) updated their outlooks before the actual demerger, they are yet to adjust their targets for the split.

Webjet Group (B2C)

Morgans is first cab off the rank to initiate coverage of Webjet Group.

The company should benefit from renewed focus and targeted investment, Morgans suggests. It is fair to say that when Webjet Group was part of Webjet, it wasn't management's main focus or area of investment. Now that Webjet Group has a management team and board solely focused on this business and its strategic priorities and growth agenda, the broker notes it can make more targeted capital allocation decisions and hopefully the earnings trajectory of the business can improve over time.

The cmpany's recent trading update showed a deterioration in the top line (bookings down -5% and TTV down 1-0%) reflecting cost of living pressures, Rex Airlines going into administration and lower airfares. However, earnings went up slightly from selling more higher margin international airfares and strong cost control.

While the Webjet OTA (now part of Webjet Group) is a mature business which is currently being impacted by cyclical headwinds, with a focused management team and strong balance sheet, Morgans believes there is the potential to rejuvenate the brand and its outlook.

Morgans initiated with an Add rating and 95c target.

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COMMODITIES

Material Matters: Iron, Lithium & Mineral Sands

A glance through the latest expert views and predictions about commodities: Brokers turned positive on iron ore, even before PBOC stimulus; the outlook for lithium & mineral sands markets.

-Brokers highlighted upside for iron ore, even prior to PBOC stimulus
-Morgan Stanley's lithium outlook and stock choices
-Pigment, zircon and mineral sands markets

By Mark Woodruff

Positive iron ore outlook, even prior to PBOC stimulus

It's time again for investors to look at the iron ore sector on the ASX, suggests JP Morgan, as shares are trading at some of the cheapest valuation metrics the broker has seen, and iron ore prices have shown strong gains in the period November-February over the past ten years.

Ongoing demand weakness in property, combined with a deceleration in infrastructure activity, has led to sluggish steel market conditions in China, observes the broker, which has an Overweight rating on all iron ore stocks under coverage.

Additional new research from analysts at Barclays Bank indicates near-term sentiment towards iron ore has continued to deteriorate in China, with bearishness and light positioning seen as creating an opportunity for investors.

On the ground in China, Barclays has noted a lack of confidence in stimulus measures by the government and medium-term supply risks for iron ore. Several contacts suggested more pain was likely before a nadir in pricing was reached, with the Central Economic Work conference in December a potential upside catalyst.

And then, only a day after these updates by Barclays and JP Morgan, the People's Bank of China (PBOC) and financial regulators, yesterday unveiled a batch of new stimulus measures to lift the economy resulting in strong gains for the Resources sector (and iron ore stocks) on the ASX, with further gains in overseas markets last night.

Returning to JP Morgan's research, the analysts note share prices of iron ore companies had previously fallen due to an uncertain Chinese steel production outlook and fears around peak production from 2026 at the Simandou mine in Guinea, which is 53%-owned by Rio Tinto ((RIO)).

Very low steel mill profitability (prompting materially lower output through July and August) and lower property activity forecasts cause this broker to predict Chinese steel output will fall by -3.5% in 2024 compared to the -0.5% decline previously expected.

A rebound for steel demand is seen unlikely in 2025, and the analysts retain a forecast for another -1% fall.

Despite this gloomy backdrop, iron ore prices remain supported in the low US$90's, observes JP Morgan, but lower Chinese steel consumption estimates have prompted the broker to reduce iron ore price forecasts by -3-5% over the next three years.

Each year across 2024-26, the broker forecasts prices will average US$110t, US$100t and US$95t, respectively.

For the fourth quarter of 2024, the analysts expect a seasonal re-strengthening of iron ore prices into year's end, which should see the price average back to US$105t.

Favoured iron ore exposures

JP Morgan's top pick is Fortescue ((FMG)) on valuation, recent share price underperformance, and an attractive dividend yield.

This broker prefers BHP Group ((BHP)) over Rio Tinto in the near-term for its copper exposure (but notes Rio Tinto is marginally cheaper). The share prices for both Deterra Royalties ((DRR)) and Mineral Resources ((MIN)) are also expected to track the iron ore price higher.

Analysts at Barclays favour Rio Tinto on bearish positioning, iron ore's seasonal recovery, and a favourable valuation, with the current share price implying a spot price of US$73t for iron ore.

Broker views on lithium

As the lithium price is trading at the 70th percentile of the cost curve, the price could stabilise from here, suggests Morgan Stanley, noting the recent increase in supply cuts.

Following a third quarter sales slump for luxury electric vehicles (EVs) in China, sales may improve into year's end, suggest the analysts. It's felt demand may be spurred by original equipment manufacturers (OEMs) engaging in more aggressive pricing for strategically focussed models due to higher competition.

Further, China is entering the traditional peak demand season, explains the broker, and sales may be boosted by an extra RMB10-15,000 trade-in subsidy from local governments without compulsory vehicle scrapping, and a strong EV model pipeline.

Forecast to generate around 12% of total revenue in FY25 from its lithium assets, Mineral Resources ((MIN)) is Morgan Stanley's preferred exposure with an Overweight rating.

Management's business transformation is expected to de-lever the balance sheet from 2025, with the broker forecasting a free cash flow (FCF) yield of 14% in FY26.

As lithium headwinds are largely priced-in, the analysts have an Equal-weight rating for Pilbara Minerals ((PLS)) but are rated Underweight for IGO Ltd ((IGO)) where risks include the Greenbushes mine plan and potential for management to go on the acquisition trail.

The analysts at Barrenjoey have been on tour with management at Arcadium Lithium ((LTM)) discussing strategic vision and growth plans and visiting the lithium hydroxide processing plant in Bessemer City (North Carolina), as well as the lithium carbonate processing plant in Becancour, Quebec.

Unfortunately, this broker expects cuts to consensus forecasts across volumes, capex and opex (after guidance for each measure was provided across 2025-2028). Management is resetting expectations in an effort to conserve cash in the weak lithium price environment, explains Barrenjoey.

Regarding overall demand, by 2030 management anticipates the majority of growth will come from EV/Hybrid vehicles, followed by Portable Electronics, and Energy Stationary Storage.

On the supply side, the majority of growth should arise from China, followed by South America, Australia, Africa and North America, in management's view.

Barrenjoey's 12-month price target for Overweight-rated Arcadium Lithium falls to $5.00 from $5.70 due to a higher forecast for total capex to 2028.

Management's total capex guidance for 2025 came in more than 50% above consensus expectations, with the remaining Sal de Vida (lithium brine in Argentina) spend falling largely in the 2025 year, against consensus expectations for a spread across 2027-2028.

On the flipside, this new FY25 guidance meant 2026-2028 capex will be less-than-expected. The remaining capex spend for Fenix (lithium brine in Argentina) of -US$340m also came in below the consensus forecast.

Pigment, zircon and mineral sands markets

To gain insights on pigment, zircon and mineral sands markets, as well as the outlook for Iluka Resources ((ILU)), Morgan Stanley met up with US-based Tronox, the leading global producer of titanium dioxide (TiO2). Tronox also mines and processes titanium ore, zircon, and other materials.

The fortunes of Tronox may provide a read-through for Iluka Resources as it produces and sells zircon, TiO2 feedstocks, rare earth minerals, and ilmenite used as a feedstock for producing TiO2.

In an industry positive for 2025, management at Tronox expects increased demand owing to recent US interest rate cuts and potential for other regions to follow.

Recently, the company has experienced some growth in TiO2 sales volumes, while zircon sales volumes have stayed flat, with volumes for both commodities yet to return to normalised levels.

Helping ex-China TiO2 producers for the medium-to long-term, explain the analysts, EU investigators will hand down a final ruling within months on global anti-dumping investigations.

Also, Tronox noted China has been exporting increased volumes of TiO2 to a mix of different countries (like Brazil), and there may need to be some rationalisation of supply to ease oversaturation and raise pricing.

Regarding feedstock, producers are managing supply, according to Tronox, which is keeping prices relatively stable.

Last week, Morgan Stanley raised its target for Iluka Resources (Equal-weight) to $6.85 from $6.60 despite leaving mineral sands forecasts unchanged. EPS changes were driven by a lower Australian dollar forecast and updates to rare earths prices specifically on increased forecast for NdPr in FY25.

In a similar review of commodity forecasts, Macquarie retained its Outperform rating and $6.60 target for Iluka Resources.

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

COMMODITIES

Lotus Resources: Building Paladin 2.0-Plus

Lotus Resources is hot on the heels of Paladin Energy in restarting its African uranium mine, and also boasts a larger greenfield project.

-Lotus Resources to restart Kayelekera
-Significant improvements planned
-Scoping study updated on Letlhakane
-Brokers see a re-rate ahead

By Greg Peel

Early this month, Lotus Resources ((LOT)) announced its first uranium offtake agreements ahead of the restart of the Kayelekera uranium project in Malawi. It has signed two offtake agreements for a total of 1.5mlb of uranium for 2026-2029 at an escalated fixed price.

One agreement is with Curzon Uranium, an international uranium trading business headquartered in Cyprus. The agreement with Curzon includes an agreement to buy 700klb of uranium, an unsecured loan facility of US$15m, and an option to buy a further 100klbpa from 2030 to 2032. The other is with PSEG Nuclear for the purchase of 800klb of uranium. PSEG operates three nuclear reactors in New Jersey.

Pricing was not disclosed, but Shaw and Partners assumes a fixed price at around US$80/lb escalated by the US CPI.

The Kayelekera project was put on care and maintenance by Paladin Energy ((PDN)) in 2014 in the wake of the uranium price collapse post-Fukushima after five years of operations, 10.9mlb of U3O8 production, and some -US$200m of capex. Peak production occurred in 2013 at around 3.0mlbs U3O8. Lotus acquired the project in 2020.

Lotus released a Definitive Feasibility Study in 2022 which provided a low-cost development pathway for the re-start of Kayelekera.

For Shaw and Partners, the key features of the DFS included:

-An open cut mine pit requiring low total initial capital expenditure of -US$88m due to Kayelekera's existing infrastructure.

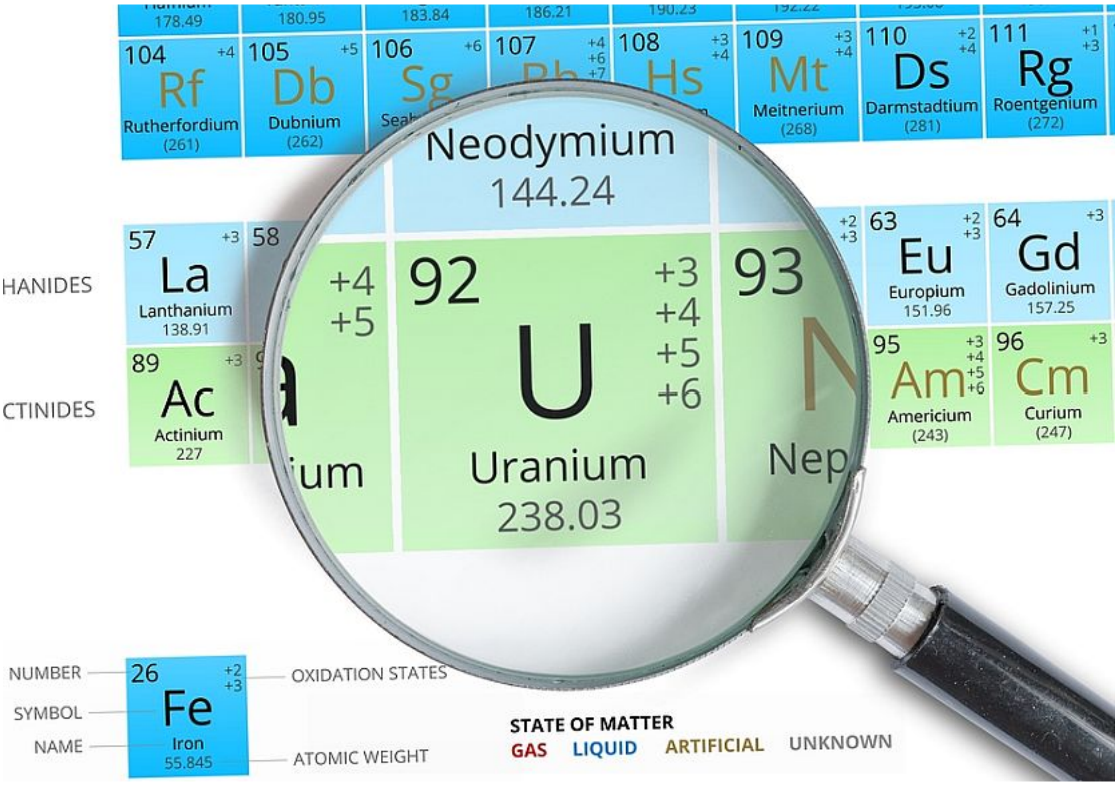
-A quick development period for refurbishment for a re-start; approximately 15 months to production from a Final Investment Decision.

-Ten-year life-of-mine production of 19mlbs U3O8 at an average rate of 2.4mlb per year

-Cash costs of US$29.1/lb and all-in sustaining costs of US$36.2/lb for the first seven years of production.

Lotus is planning to make significant improvements to Kayelekera which will result in significantly lower operating costs than the asset's historical performance. The miner recently announced a Mining Development Agreement with the Government of Malawi guaranteeing a stability period of ten years during which the project will not be subject to any detrimental changes to the fiscal regime.

The investment case for Lotus Resources is similar to that of Paladin Energy from several years ago, Macquarie suggests, with Paladin now having restarted its Langer Heinrich mine in Namibia. But Lotus also has a greenfield project in the form of Letlhakane in Botswana.



<u>Letlhakane</u>

Lotus acquired Letlhakane after merging with A-CAP Energy last year. The company has updated the 2015 scoping study, completed by A-CAP, which highlights increased optionality with three development pathways including a base case, early wins and bulking up scenario.

At first glance, it appears to Canaccord Genuity the company maintains a number of levers that will allow it to optimise opex/capex, target different ore-zones/pit shells and adjust mine life/ production accordingly. The base case captures the highest feed grade of the three scenarios with a maximum annual production of 3.2mlbs p.a. for a total of 42.3lbs over the 15-year mine life.

This scenario has initially been selected due to its consistent production profile and reduced stockpile requirements, however, Canaccord sees scope for the company to target the more aggressive "bulking up" scenario, assuming certain costs can be optimised, such as acid consumption.

Lotus highlights scope for improving mining techniques and reducing acid consumption, contributing to a -US$6/lb reduction in forecast cash costs. While all processes suggested have the potential to add meaningful reductions to opex, the key factor will be acid consumption, Canaccord noting this accounts for more than 50% of total life-of-mine operating costs.

In another twist, Lotus has flagged favourable geology for an in-situ recovery (ISR) operation and will conduct further test work to assess the option of this low opex methodology.

The study represents a line in the sand for Lotus Resources, Petra Capital suggests, confirming the key value drivers for further optimisation studies expected to be released in December.

While the scoping study so far remains un-optimised, Bell Potter is disappointed in the outcome, primarily due to the high cost (both capital and operating) in comparison to peers. This broker had estimated capex of -US$400m (study suggests -US$465m) and all-in sustaining cost of US$38m (US$42m). Bell Potter maintains a -40% risk discount on the project.

Once Kayelekera is in production, Macquarie expects Lotus to turn its attention to building a much larger greenfield operation at Letlhakane. The grades are lower at 345 parts per million, but the resource is large at 118.2mlb U3O8 Indicated & Inferred.

<u>Re-Rating Assumed</u>

Macquarie is bullish on the global uranium outlook, driven by new reactor builds, a lack of supply additions and a reduced market cushion of inventories and alternative supplies. After Paladin Energy's success, the broker sees Lotus Resources as the next logical candidate to bring an idled uranium asset back into production with relatively low capex.

While the current trading range for uranium of around US$80/lb allows for restarts of idled, previously marginal, capacities, higher prices will be needed to balance the long term outlook.

Lotus' assets sit at the upper end of the cost curve, and will be highly leveraged to rising uranium prices, in Macquarie's view. The Kayelekera restart is rapidly de-risking, and is not yet reflected in the share price. Re-rating should occur as Kayelekera restarts, and focus turns to the larger Letlhakane.

Macquarie initiated coverage with an Outperform rating and a 40c target.

Bell Potter's reduction in its valuation for Letlhakane, following Scoping Study disappointment, reduces its target to 50c from 70c. This broker continues to see material upside for Lotus with the progression of Kayelekera which is due to recommence production over the coming year. Speculative Buy retained.

Canaccord Genuity also retains a Speculative Buy rating, trimming its target to 52c from 54c due to higher acid pricing.

Petra Capital retains Buy, cutting its target to 33c from 37c on the revised Letlhakane parameters.

ESG FOCUS

ESG Focus: The Little Big Things - 18-09-2024

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

August reporting season delivered a few positive ESG surprises while green sustainable houses are more fashionable than ever; plus BP published its 2024 energy outlook.

-Australian companies further embrace ESG measures
-Green homes save you money
-Savvy buyers see through green-washing
-Peak oil coming soon
-Battery manufacturers on notice
-ESG news: the good, bad and ugly

By Danielle Ecuyer

Sustainable green homes are more than a trend

Domain Group Australia ((DHG)) published a *Sustainability in Property Report* where the company focuses on sustainability trends in the residential sector. The 2024 report highlights a rising trend in the "motivation, adoption and reward" for investing in sustainable home features.

Stepping back, Australian homes represent around 10% of total carbon emissions including around 24% of overall electricity use. The report highlights an energy efficient home can reduce energy consumption, and save money.

Some interesting facts include a south-facing home needs three times the energy for heating and cooling than a north facing one; roof and ceiling insulation can save up to 45% on heating and cooling; wall insulation can reduce heating and cooling by -15% and window and door gap sealing can save -5% to -10% on heating and cooling.

A 7-Star energy rating will save around $450 p.a. on heating and cooling compared to a 6-Star rating with every new 7-Star rating new home built compared to a 6-Star rating equal to removing one car off the road for a year.

Thermal shell upgrades and full electrification of appliances is noted as generating an average savings of 43% to 51% on energy bills.

Domain states half of all houses have "green features" as well as over one-third of units. The share of green homes has risen over time and across most cities to circa 50% of houses which have green features, except Sydney at 38.7% compared to Canberra at 67.2%,

The "volume" factor for sustainable features are solar panels, featuring in roughly 43% of all homes sold.

"Green homes attracted 16.7% greater buyer interest and sold 4% quicker".

Reporting season ESG metrics up for scrutiny

Macquarie turns to the August reporting season for an update on ESG metrics across its universe of researched companies.

The broker points to emission targets generally being "on-track" with 21 companies set to meet the interim emission targets and 21 on track with near-term net-zero targets, most of which are in the REIT sector. The broker evidenced what it refers to as "slippage" including Air New Zealand ((AIR)) which took back its 2030 SBTi emissions intensity target; Genesis Energy ((GNE)) where the FY25 target is potentially at risk from market conditions and Corporate Travel ((CTD)) deferred its 100% renewables target to FY30 from FY25.

Regarding scope 3 targets, the percentage of interim targets has been relatively stable at circa 70%, according to Macquarie, with the percentage increase in scope 3 targets up to 31% from 25% at the end of August 2023.

The broker observes more scope 3 supplier engagement targets including **BHP Group** ((BHP)). The Big Australian is targeting its top 500 direct suppliers by spend on setting greenhouse gas targets with 78% engaged to date. **Coles Group** ((COL)) is aiming for 75% of suppliers by spend to establish scope 1&2 science-based emission target reductions by the end of FY27, compared to 35.5% at the end of FY24.

In the Social category, Macquarie emphasises a "rapid increase in disclosure around psychological safety" with around 39 companies compared to roughly 8 companies in August 2023 mentioning this factor, including a broadening to all ASX sectors from resources and industrials.

Programs being initiated include risk assessments, training, education and well-being platforms. By way of example, BHP has started a Psychosocial Health Index which is expected to produce more meaningful data over time.

Throughout the August reporting season, six companies introduced ESG oriented metrics into management scorecards compared to 14 in FY23. Some 15 companies altered their ESG linked remuneration, and in total, ESG linked remuneration expanded to 73% of the ASX300, a rise from 71% in August 2023.

<u>Australians are embracing sustainability</u>

Global consultancy Simon-Kucher conducted over a 1000-person survey as part of a global report on the role of sustainability in major markets and consumer attitudes to sustainable products and services.

The survey found 61% of Australians prioritise sustainability as a top three factor for purchase decisions and it increases in industries such as energy and home improvements where there is a recognised link.

Consumers are also prepared to pay more for sustainable vehicles, consumer goods and in the construction sector.

Demographically, boomers represent the lowest average at 16% who are prepared to pay a premium for sustainable products, compared to 25% for Gen Z where the average premium varies between 41% to 46%. Gen Z is also more "sustainably aware" with around 75% considering the factor when making purchases.

Consumers are also very savvy when it comes to green-washing with 54% of customers believing brands are using green-washing. However, when brands are transparent and claims authentic, it results in customer loyalty and a competitive advantage.

<u>Energy outlook under different emission targets</u>

BP published its Energy Outlook 2024 which investigates two scenarios for the pathway to Net Zero. One aligns with the Paris IPPC climate goals and the second assumes a "significant tightening in climate policies". The latter represents a decline of -95% in global emissions by 2050 while the current trajectory infers a "significant temperature overshoot", with only a reducton of -20% in emissions over the same time frame.

BP assessed in both cases energy demand rises in the near-term, peaking in the middle of the 2020s because of efficiency improvements. In the Net Zero case by 2050, primary energy is forecast to decline by around -25%, lower than 2022, and in the current trajectory primary energy rises out to the mid-2030s from emerging economies and then stabilises at a level some 5% above 2022 levels.

Falling oil use for road transport has BP estimating peak oil demand by 2025 in line with last year's report. It precedes the International Energy Agency's medium term oil outlook for a peak in oil demand by 2029.

Under current projections, gas demand is expected to advance, supported by emerging countries, ex China, and will be about 20% in the mid-2020s and less than 50% of the 2022 level in 2050.

BP expects renewable energy (wind and solar) capacity on the current pathway to grow circa eight times the 2022 levels by 2050, and fourteen times in the Net Zero scenario.

Morgan Stanley also points to the new ESG guidelines which have been introduced by European regulators for fund managers on the use of ESG related terms.

The new guidelines impact an estimated 10% of investment funds in Europe with a minimum of 80% of investments to be invested in line with sustainability objectives of the fund to employ the use of ESG or sustainability terms in fund names.

The changes are anticipated to have the greatest impact on the Integrated Oil and Gas sector.

<u>Battery supply chains threaten ESG mandates</u>

According to Ai supply chain risk platform Infyos, analysis of data reveals many of the world's largest automotive, energy storage, consumer electronics and heavy industry, which use lithium batteries, may have human rights abuses in the supply chain.

The allegations involve companies mining and refining raw materials in China particularly in Xinjiang Uyghur Autonomous Region in northwest China.

The human rights alleged abuses and lack of transparency on supply chains could breach the United States' Uyghur Forced Labour Prevention Act and the EU Battery Regulation law, according to Infyos.

The organisation highlights battery products remain at risk of being banned from the market as financial institutions and regulators are mandating better supply chain visibility and risk data.

As a result, investors might be required to divest certain companies to meet ESG requirements.

<u>More ESG news snippets</u>

J.P.Morgan's ESG Wire has highlighted Mario Draghi's "The Future of European Competitiveness" report which aims for EUR750bn to EUR800bn of investment each year or around 5% of GDP on Innovation, Decarbonisation, Competitiveness and Security.

The broker notes some of the key aspects of the "Investing in sustainable agriculture" expert event included increased focus on soil preservation, sustainable products and services in the sector, including the use of satellite imagery to assist in sustainable outcomes while maintaining yields and food security.

Policy and regulatory changes highlighted include the European Union passing a 50% renewables "milestone" in the first half of 2024, according to the State of the Energy Union Report 2024. The share of Russian gas imports fell to 18% by June from 45% in 2021 with an accompanying decline in gas demand by 138bn cubic metres to May 2024 from August 2022.

The European Union also proposed to lower tariffs on Chinese made EVs. The new rate for Tesla will decrease to 7.8% from 9%. The highest rate falls to 35.3% from 36.3% with no change to BYD's 17% tariff.

Due to lower expected offshore wind demand, the UK is planning to lower the 2030 target of 55GW offshore wind capacity.

China plans to include steel, cement and aluminum in its carbon markets by the end of 2024, which is aimed at weakening the impact from the EU's carbon border adjustment mechanism.

<u>On a less positive note:</u>

-Summer 2024 (northern hemisphere) was the hottest on record breaking global heat records for the second year in a row.

-Antarctic sea ice is on the cusp of a record winter low for the second consecutive year.

-Almost 70 active wildfires have been burning across the US.

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future:
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FEATURE STORIES

August Result Season 2024: The Wrap

By Rudi Filapek-Vandyck, Editor

It may have taken a little longer than intended, but we are -finally- closing the books on the local results season that was August 2024.

As per always, it has been extraordinary busy, in particular as corporate results nowadays are crowding together inside the final two weeks of the season. We laugh, we sigh, we might even lose our appetite for more during those peak days, but then we hear about those poor analysts that endure the same avalanche during a time when average research teams are much smaller, and we count ourselves lucky.

As per always, some mistakes and omissions have occurred throughout the many updates and we have been checking and correcting in the available time since. Apart from updating views and insights on companies' future prospects, each reporting season turns into a great rejuvenation of the FNArena database, including figuring out which broker has lost an analyst which leads to certain stocks no longer being covered.

Investing in the share market is essentially about participating in corporate wealth creation, preferably through accumulating profits and cash flows, but things are seldom that simple and straightforward. In 2024, markets are very much linked to what happens in bond markets, which in turn are guided by the prospect of central banks loosening policy.

That process has by now well and truly begun, with Australia's RBA firmly lagging its much larger international peers.

With so much emphasis on central bank policy, and the mass-anticipation of it, investors might be forgiven to think there's very little use in paying any attention to corporate results, but that impression misses the fact that at the singular share price level the impact from August results has been brutal when owning the wrong stocks.

Observation number one is that responses to reported financial results have been above-average, mainly to the downside. This is probably what should be expected when share prices have rallied a long way from their 2023 or 2022 bottoms, making valuations more vulnerable to punishment, of which there have been many.

At the macro-level, the 'expensively' priced banking sector did not sell off, while the 'cheaply' priced resources sector couldn't provide sufficient reasons for a come-back. On the contrary, this is where many of the season's disappointments were outed. Companies linked to consumer spending performed well-enough, broadly taken, and the Gen.Ai theme kept its footing, both locally and in the USA, which also allowed the Aussie Technology sector to crown itself to Winner of the Season.

Reporting seasons are the times when views and prognostications are being refreshed, which automatically leads to changes in Model Portfolios, conviction calls and sector preferences. Further below are the changes registered by FNArena as a result of the August 2024 reporting season.

But first let's run through some of the key statistics that have defined the recent season.

The Key Stats

The **FNArena Corporate Results Monitor** reviewed 384 individual companies, in line with recent years, making it probably the most extensive and broad-based assessment of what goes on across and inside Corporate Australia this year.

Of those 384, 141 results either 'missed' or 'met' analysts expectations, with the remaining 102 categorised as a positive surprise, i.e. a 'beat'. Percentage-wise, this makes August 2024 a rather un-inspiring event, delivering 36.7% misses and meets and 26.6% positive outcomes. The average price target throughout the season went backwards by -0.23%.

The latter decline is quite small, but then if everything works out well and in line with projections, price targets should go up, not decline, when corporate Australia updates its financial performances and forecasts. The latter has played an important role in the subdued sentiment that has emanated from the Ausgust season: most companies were able to match forecasts, but management guidances for the period ahead proved too conservative for general comfort in many cases.

Putting these numbers in an historical context, the highest percentage of 'misses' for all the preceding August seasons since 2013 had been 28%, recorded in August last year. The low percentage of 26.7% beats has only been beaten twice to the downside; in August 2013 (25%) and in 2019 (24%). Both reporting seasons were equally a reflection of tough times.

The numbers look worse for the ASX50, but slightly better for the ASX200 where more companies managed to outdo analysts forecasts (31.7% beats).

On CommSec's data-gathering, just under $35bn will be paid out to shareholders in the form of dividends, marking an increase of 5% on last year. But if we do include dividends by major banks in June and July the total lifts to $45bn, up 7% on a year ago.

This typifies the Australian corporate culture: when times are tough, let's compensate shareholders with higher dividend payouts. Special dividends were one of the stand-out features in August. CommSec predicts some $80bn in dividends will be paid out to shareholders in FY24. This too would be an increase of 5% on FY23.

Major miners cut their pay, but banks and insurance companies provided the positive offset. In terms of the outlook, however, CommSec reports dividend payouts are expected to ease by -2% for the financial year ahead, led by anticipated declines for energy companies and consumer discretionary sectors.

Consensus forecasts declined throughout the month, as is usually the case in Australia, with average FY24 EPS falling to -4.3%. The FY25 EPS forecast has also declined, now projecting positive growth of 4%. The share market's PE ratio (ASX200) is well-above average at 17.5x forward-looking.

The twelve months ahead implied dividend yield for the major index is a below average 3.7%.

Below are the changes made to Model Portfolios, Conviction Calls selections and sector favourites by analysts as a result of the August reporting season (as registered by FNArena over the month and leading into September).

For a full and detailed appraisal of the season, see the **document attached**. Also: paying subscribers have access to FNArena's archive of past Monitors on the website.

<u>Barrenjoey</u>

Updated selection of Top Picks:

-Insurance Australia Group ((IAG)) among financials, as well as GQG partners ((GQG)) and Westpac ((WBC))

-Xero ((XRO)), Pexa Group ((PXA)) and Dicker Data ((DDR)) in the technology sector

-Vicinity Centres ((VCX)) and Abacus Storage King ((ASK)) among REITs

-South32 ((S32)), Lynas Rare Earths ((LYC)) and Perseus Mining ((PRU)) among miners and Strike Energy ((STX)) in the oil&gas sector

-ResMed ((RMD))

-Metcash ((MTS))

-Aristocrat Leisure ((ALL))

-Reliance Worldwide ((RWC))

-Brambles ((BXB))

-Seven Group ((SVW))

Citi

Top Picks among AREITs:

-Scentre Group ((SCG))

-Stockland ((SGP))

-Goodman Group ((GMG))

-National Storage ((NSR))

-Ingenia Communities Group ((INA)).

Citi's two favourite exposures to the local healthcare sector are now Australian Clinical Labs ((ACL)) and CSL ((CSL)).

The five least liked exposures are (from the bottom up) Pro Medicus ((PRO)), Nanosonics ((NAN)), Cochlear ((COH)), Fisher & Paykel Healthcare ((FPH)) and Healius ((HLS)).

For online retailers, Citi's favourite is Temple & Webster ((TPW)) with Kogan ((KGN)) Sell-rated and least preferred.

Goldman Sachs

Goldman Sachs has removed Woolworths ((WOW)) from its Asia Conviction List, but the stock remains included in the broker's APAC Conviction List.

Only three other ASX-listed companies are included in both selections:

-Qantas Airways ((QAN))

-Lynas Rare Earths ((LYC))

-Xero ((XRO))

Jarden

healthcare favourites:

-CSL ((CSL))

-ResMed ((RMD))

-Telix Pharmaceuticals ((TLX))

-Integral Diagnostics ((IDX))

-Regis Healthcare ((REG))

Jarden's has identified **20 Best Ideas among emerging companies** (small and mid-cap):

-IPH Ltd ((IPH))

-Temple & Webster ((TPW))

-EVT Ltd ((EVT))

-Dicker Data ((DDR))

-Universal Store ((UNI))

-Nick Scali ((NCK))

-AUB Group ((AUB))

-Webjet ((WEB))

-Integral Diagnostics ((IDX))

-Capricorn Metals ((CMM))

-Michael Hill ((MHJ))

-NRW Holdings ((NWH))

-Light & Wonder ((LNW))

-Pointsbet ((PBH))

-National Storage ((NSR))

-Ingenia Communities ((INA))

-Karoon Gas ((KAR))

-Domain Holdings Australia ((DHG))

-Pepper Money ((PPM))

-Telix Pharmaceuticals ((TLX))

JP Morgan

Most preferred AREITs:

-Scentre Group ((SCG))

-GPT ((GPT))

-Dexus ((DXS))

-Charter Hall ((CHC))

JP Morgan's Emerging Companies research team's most favoured idea is Superloop ((SLC)) while ARB Corp ((ARB)) is least-preferred due to concerns about margin pressure.

Macquarie

Healthcare favourites:

-Ansell ((ANN))

-CSL ((CSL))

-Fisher & Paykel Healthcare ((FPH))

-Pro Medicus ((PME))

-ResMed ((RMD))

Macquarie's selection of **16 Best Ideas among Quality small- to mid-cap companies**:

-AUB Group ((AUB))

-Breville Group ((BRG))

-Flight Centre ((FLT))

-Fisher & Paykel Healthcare ((FPH))

-GQG Partners ((GQG))

-Integral Diagnostics ((IDX))

-JB Hi-Fi ((JBH))

-Lovisa Holdings ((LOV))

-Nick Scali ((NCK))

-Monash IVF ((MVF))

-Propel Funeral Partners ((PFP))

-Pinnacle Investment Management ((PNI))

-REA Group ((REA))

-Reliance Worldwide ((RWC))

-TechnologyOne ((TNE))

-Seven Group Holdings ((SVW))

Morgans

Stockbroker Morgans' two favourites among mining servives contractors and services providers are ALS Ltd ((ALQ)) and Civmec Singapore ((CVL)).

Morgans' Key Picks for consumer spending-related exposures are Beacon Lighting ((BLX)), Super Retail Group ((SUL)) and Universal Store ((UNI)).

Morgans' list of **Best Ideas**:

-The Lottery Corp ((TLC))

-CSL ((CSL))

-QBE Insurance ((QBE))

-Woodside Energy ((WDS))

-GQG Partners ((GQG))

-WH Soul Pattinson ((SOL))

-ALS Ltd ((ALQ))

-Reliance Worlwide ((RWC))

-Beacon Lighting ((BLX))

-Amotiv ((AOV))

-Universal Store Holdings ((UNI))

-Elders ((ELD))

-Acrow ((ACF))

-Maas Group ((MGH))

-Karoon Energy ((KAR))

-ResMed ((RMD))

-NextDC ((NXT))

-Mach7 Technologies ((M7T))

-Camplify Holdings ((CHL))

-Superloop ((SLC))

-Treasury Wine Estates ((TWE))

-ClearView Wealth ((CVW))

-PolyNovo ((PNV))

-Flight Centre ((FLT))

-BHP Group ((BHP))

-Rio Tinto ((RIO))

-South32 ((S32))

-Dalrymple Bay Infrastructure ((DBI))

-Cedar Woods Properties ((CWP))

-Dexus Industria REIT ((DXI))

-HomeCo Daily Needs REIT ((HDN))

-Qualitas ((QAL))

Morgan Stanley

Morgan Stanley's has identified six **Key Picks** among ASX-listed small and mid-cap companies:

-Accent Group ((AX1))

-Jumbo Interactive ((JIN))

-ARB Corp ((ARB))

-SiteMinder ((SDR))

-Data#3 ((DTL))

-Hub24 ((HUB))

For consumer-related exposures, Morgan Stanley retains a preference for staples as the valuation gap with discretionary retailers has widened too far. Morgan Stanley has Overweight ratings for Woolworths Group ((WOW)) and Endeavour Group ((EDV) and Underweight ratings for Wesfarmers ((WES)), JB Hi-Fi ((JBH)), Harvey Norman ((HVN)) and Super Retail ((SUL)).

Morgan Stanley's Australia Leading Ideas Equity Portfolio has now included Audinate Group ((AD8)) shares in support of this broker's view this month's disappointment (through a subdued FY25 outlook) is simply a short-term set-back.

Ord Minnett

The select list of **highest conviction calls** from analysts at Ord Minnett has seen numerous changes post August results.

Gone are Select Harvests ((SHV)), Webjet ((WEB)) and Whitehaven Coal ((WHC)). Instead, Electro Optic Systems, Qoria, SiteMinder and Stanmore Resources have been included.

The full list of Ord Minnett's Conviction calls consists of the following 14 companies:

-Alliance Aviation Services ((AQZ))

-ARB Corp ((ARB))

-Cosol ((COS))

-EQT Holdings ((EQT))

-Electro Optic Systems Holdings ((EOS))

-Lindsay Australia ((LAU))

-Pinnacle Investment Management ((PNI))

-Qoria ((QOR))

-Red 5 (RED)

-Regis Healthcare ((REG))

-SiteMinder ((SDR))

-SRG Global ((SRG))

-Stanmore Resources ((SMR))

-Waypoint REIT ((WPR))

UBS

UBS's Model Portfolio has shifted Overweight consumer discretionary companies

Wilsons

Wilsons' Focus Portfolio has added James Hardie ((JHX)) and removed Netwealth Group ((NWL)).

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

FEATURE STORIES

Rudi’s Comprehensive August 2024 Review

A compilation of stories relating to the August 2024 corporate reporting season in Australia, including FNArena's final balance for the season (attached).

Content (in chronological order of publication):

-Corporate Earnings, The Best Indicator?
-What Can August Deliver?
-Morgan Stanley's August Season Hot Picks
-Aussie Banks
-August Results; Polarisation & Divergence
-Where's Conviction?
-August Results: Early Beginnings
-August Paints A Bifurcated Picture
-August Trends Have Darkened
-August Results Fail To Inspire
-Post-August Best Ideas
-Key Picks, Best Buys & Conviction Calls
-Defensives, Healthcare, Resources & Data Centres
-Banks, Miners & Quality Small Caps
-FNArena Talks: Videos

By Rudi Filapek-Vandyck, Editor

Corporate Earnings, The Best Indicator?

Today's markets are confusing many, not in the least because many traditional indicators don't seem to apply anymore.

Us, humans, we like to at least have some sense of control or predictability about things, and when that "security" drops away, we feel uncomfortable.

This, to a large extent, explains why today's bull market has not been widely embraced as a positive phenomenon. There are way too many contradictions involved.

When the Federal Reserve (and other central banks) embarked on a steep tightening path in early 2022 it didn't take long for bond markets to invert; whereby short-term yields exceed those further out on the yield curve, which is a classic signal that economic recession is on the horizon.

The US yield curve started inverting in mid-2022. Two years later, the expert community is still debating whether there will be negative economic growth or not. Locally, the official statistics have remained in positive territory because of seldom-witnessed immigration influx.

The RBA might yet deliver one more rate hike, but other central banks outside of outlier Japan are all preparing for policy loosening, i.e. rate cuts. The global policy reversal has already started, now also including the RBNZ.

Bond markets in Europe and the USA have already started to price-in rate cuts before year-end. Clearly, this is a positive for equity markets as long as that anticipated economic recession does not follow next.

Can investors simply rely on financial markets getting it right? Of course not! Markets reason in the here and now and if/when signals change down the track, they simply re-adjust accordingly without blinking first.

2024: The Big Dichotomy

A lot is being written about the dichotomy in share markets where a small selection of strong performers keeps pushing indices to fresh all-time record highs, leaving behind a large majority that simply cannot catch a bid, outside of the occasional attempts for momentum reversal.

There's an even greater contradiction happening between numerous traditional indicators pointing at economic recession and economies simply refusing to play to that script.

With the bulls firmly in charge of share markets, the bears have their indicators to rely on, but little else. Sour grapes, heartache and migraines, maybe?

Calls and predictions of a severe share market correction, let alone a crash, have been well off the mark and completely out-of-sync with markets that rally further into blue sky territory.

In defence of the many Cassandras, today's dichotomy surrounding some of the most used indicators is quite remarkable, and possibly unprecedented. It might even elicit the occasional observation that this time, indeed, things do look different.

Apart from the two year versus 10 year yield curve (we know bond markets don't always get it right), the equally closely followed ISM index, believed to be in lock-step with economic momentum albeit more skewed towards manufacturing, has generated a negative reading for 19 out of the past 20 months. March this year is that one positive exception.

To date, there has been no previous precedent of this magnitude. If history were a carbon copy for today's world, economies would be in *deep doo-dah* by now. But they are not.

Another indicator that turned strongly negative at the end of 2022 was M2 money growth in the US economy. This is why so many remained sceptical about equity markets throughout 2023. But M2 money growth has again turned positive.

The latest indicator to raise eyebrows is the so-called Sahm rule' that stipulates when US unemployment rises by 0.5 percentage points (or more) from its trough, economic recession will follow next. That increase is measured from the three-months moving average in the official unemployment rate. Economists will tell us the Sahm rule has accurately predicted all American recessions in the modern era.

But in light of all the other failed indicators, is 2024 the exception that breaks this indicator's perfect track record?

<u>Corporate Earnings & Valuations</u>

The general picture doesn't change when we zoom in on what has transpired in share markets since October last year.

After that strong rally from (in hindsight) beaten down levels, markets have been flashing overbought warnings since early 2024 and in-house sentiment indicators at the likes of Citi and Macquarie are suggesting sentiment is too hot' overall, but July yet again is paying no attention.

Share markets are trading on multiples that look elevated by historical standards, nobody denies it, but this is at the same time where general agreement stops. Are Nvidia shares really in a bubble when its EPS has grown by 452% in FY24, with a further 100%-plus to follow for the current financial year?

Yes, it is true, only 24% of stocks in the S&P500 have outperformed the index over the first six months of the year, possibly an all-time low, with the equalweighted index only up 5%, not that different from indices locally.

But there's equally a valid argument in that those outperformers are carried by strong growth, supported by megatrends such as GenAi, data centres and GLP-1s, also offering a lower-risk profile in light of higher-for-longer bond yields, a tepid deceleration in inflation, and still valid questions about the outlook for economies.

To further add to that argument: earnings for the so-called Magnificent Seven grew by 51.8% year-on-year in Q1. For the rest of the pack, the comparable number is only 1.3%.

As pointed out by more supportive market observers: earnings forecasts, in particular for Gen.Ai-related beneficiaries, have continued rising, which has subsequently translated into further share price gains.

The not-so-supportive sceptics have a point though: earnings growth cannot possibly keep going at current breakneck pace.

At some point, one has to assume, at least a pause in the uptrend will announce itself. Whether that pause shows up in the upcoming Q2 results season in the US looks highly questionable, but investors shall soon find out.

Two reasons for investors to not throw caution in the wind, either today or later:

-when stocks trade on high multiples small downward changes can have a rather large impact on modelled valuations and the share price

-there's a lot of crowding going on in today's share market winners. If/when parts of these funds start flowing elsewhere this too can have an outsized impact in the moment

Market consensus is currently positioned for 8.8% earnings growth in Q2 on average for the S&P500. If this number survives the actual results, Wilsons points out it will mark the strongest year-on-year growth since Q1 of 2022 when 9.4% was achieved. Eight of eleven sectors are expected to report growth in Q2.

Currently the average multiple for the S&P500, forward-looking, is 21x but Wilsons points to the fact that multiple drops below 18x when one strips out the winners from the technology sector.

That median multiple ex-Mag7 doesn't look extremely bloated at all and would allow for a broadening of the (out)performers in the share market, on the proviso other sections of the market also start reporting positive earnings growth.

<u>In The Land Of Down Under</u>

In Australia, the polarisation underneath share prices has not been dissimilar. Banks and resources are having a relatively tough time (operationally) and one of key differences is average EPS growth for the ASX200 is negative for FY24 (the financial year just concluded). Forecasts are more positive for FY25, but nowhere near the numbers seen in the US.

As things stand right now, only weeks out from that all-important August results season locally, consensus sees average EPS for the ASX200 contracting by -3.5%, having already contracted by -3% a year ago in FY23. The forecast for FY25 is a positive 5.8% which, if proven correct, also implies a broader, better growth environment.

The local PE multiple sits around 16.5x, which is equally above the long term average, but I've explained earlier we're no longer comparing apples with apples when comparing to the past as the local index has gone through impactful changes in composition. That, plus an equally bifurcated share market means the local market too could grow into its multiple if/when earnings growth shows up for today's laggards.

Readers who pay attention to these numbers will have noticed analysts' expectations locally have also improved over the weeks past. This despite the fact there remain plenty of companies for whom forecasts are deteriorating, albeit, it has to be pointed out, largely because of mid-year sector updates on miners and energy companies.

A lot has been written about how cheap shares in today's lagging sections of the local share market seem, including for small and micro-cap companies, for cyclicals, and for REITs generally, and with the ECB and Fed ready to start cutting interest rates in a few months' time, it is possible local laggards will enjoy a come-back simply because of the global copy-effect.

Locally, one would hope the RBA does not hike in August, but apparently that is the typical view from someone who has a mortgage in Australia. I do believe the value' proposition on the ASX is muddied because parts of the economy are arguably in a recessionary condition with underlying trends still deteriorating, which means the risk for profit warnings remains high, either this month or in August.

At the same time, the winners from the past 18 months are not by default awaiting a pause or a break in their growth trend. The risk of selling out too early remains, even if local Growth stocks could be sucked in by any correction in share market winners in the US.

One factor that might rise to investors' attention in the months ahead is possibly a stronger Aussie dollar, thanks to the RBA being handcuffed by still too high local inflation trends.

But let's first find out what local corporate profits and cash flows look like. In about two weeks' time, the first small batch of corporate results will open the August season.

In the long term, beyond all these short-term impacts and considerations, investing in the share market remains closely related to corporate earnings. Fingers crossed we can all avoid the cluster bombs and booby traps (though some share prices weakening will present opportunity).

<u>What Can August Deliver?</u>

As August beckons, and analysts and investors are preparing for what promises to be a 'lively' reporting season, the market seems to pay no attention to the fact disinflation has become a rather stunted process in

Australia, unlike other countries, and yet another CPI release that reveals more of the same might well trigger another RBA rate hike in August.

Goes without saying, a share market that refuses to lay down, other than the occasional hiccup, doesn't seem to be priced for another negative surprise from the RBA, though such an unwelcome development is not guaranteed, of course.

We shall all find out more on July 31, when the local CPI numbers become public knowledge.

Analysts at Morgan Stanley think the RBA rate hike risk is larger than current price action is suggesting. They reminded investors on Monday the CPI in Australia has now accumulated for five consecutive months without declining. If this week's CPI print doesn't show weakness, and Morgan Stanley's forecast is essentially for little movement since the prior update, that'll make it six months of no noticeable decline.

Can the RBA stomach six months of stasis amidst a public debate about the economic stimulus coming from tax cuts and energy bill subsidies? The Trimmed Mean is expected to rise by 1% QoQ, which would see the annual rate of Trimmed Mean inflation remain at 4.0% YoY, above the RBA's own forecast of 3.8% for June.

Maybe Morgan Stanley's concern is unfounded and local market participants have adopted the view that even if the RBA decides to tighten, compensation is already in the pipeline through less tax and lower energy bills?

A share market that refuses to weaken meaningfully remains, of course, priced above historical averages. This need not be a major problem, not when there's no economic recession on the immediate horizon, but when valuations are high, the bar is automatically lifted for corporate results, and companies better deliver, or else.

The safest prediction to make is that overall volatility will rise, and probably by a lot in the weeks ahead. This week's CPI and the RBA meeting in August are each potential triggers, but there'll be plenty to digest and to absorb throughout August.

Trends might seem straightforward when markets follow macro-economic indicators or broad top-down narratives, but when companies report their financials theoreticals and reality meet, and that can be vindicating and re-affirming as much as it can wipe out everything that has happened up until that point.

Corporate results matter. They provide confidence that everything is okay, or that the future will be okay. That confidence will be put to the test in August. And as history shows, the outperformers are not by default destined for failure and disappointment, no matter how hard some investors would like this to be the case, just like laggards might prove to be mis-priced, but not necessarily by default, and certrainly not all of them.

Corporate Results In The USA

Results season is also when first impressions can be quite deceiving, as we've all witnessed in the US last week with share prices in Tesla, Alphabet (Google) and UPS (among others) weakening upon quarterly market updates, pulling indices down, but does this mean corporate profits are not living up to expectations in the world's most important market?

A cursory glance over the underlying statistics suggests US corporate profits are still doing fine. Some 79% of all reporters in the S&P500 is still managing to beat consensus on EPS, though only 58% is able to do so on sales.

The latter clearly indicates the US economy is slowing, but also that businesses are struggling with falling inflation, but higher costs and more reluctance in spending, which is also corroborated through transcripts of post-result conference calls between CEOs and professional investors.

Only 50% of US companies is currently able to beat consensus on both sales and EPS.

Analysts at RBC Capital observe how little changes are being made to analysts' EPS forecasts, with consensus numbers essentially holding steady for this year and next around US$244 per share on average for the S&P500 in 2024, and US$278.50 for next year.

On numbers from S&P Global Market Intelligence, the current Q2 reporting in the US is actually increasing analysts' forecasts for EPS growth with Q2 growth currently averaging 9.27% compared with expectations of 8.29% EPS growth pre-season (one month ago).

The biggest gainers, as far as market forecasts are concerned, are US Financials whose EPS growth has been revised up to 14.38% from 3.74%. But even IT is still experiencing net upward revisions with sector EPS growth now at 16.93% from 15.97%. The worst hit sector is Energy, where EPS growth has weakened to minus -1.76% from a positive 11.90%.

So far there has been no big deflation in growth forecasts for large cap winners, Gen.Ai or otherwise, and that creates one big question mark for those predictions about a new, multi-year era featuring a shift in market leadership in favour of small caps, cyclicals and 'value' in general.

August Is Key For Australia

What we are experiencing is merely a re-adjustment in portfolio weights and exposures, which probably has further to run. But as investors have already witnessed locally in Australia, many 'value' laggards that should benefit from a shift in central bank policy (though that's not yet on the cards locally) are also the ones that continue to struggle with cost overruns, higher spending on capex and opex, and other operational challenges.

This is why the upcoming August results season might well prove more important than in previous years. Part of the investor community is positioned for a so-called Great Rotation into small caps and other laggards, but for such a switch to become sustainable, corporate results must be strong and healthy enough to maintain investor confidence.

We won't know until we see the details. Until then, investors can but speculate and theorise, and debate the affirmatives and negatives on social media and elsewhere. The local results season starts this week with smaller caps Ansarada ((AND)), Credit Corp ((CCP)) and Centuria Industrial REIT ((CIP)), but in particular through larger caps Rio Tinto ((RIO)) on Wednesday and ResMed ((RMD)) and Block ((SQ2)) on Friday.

As has become the local tradition, the August season doesn't genuinely ramp up until the 13th, and only floods friends and foes on Thursday and Friday the 21st and 22nd.

The local numbers look a lot different from those in the USA, with market consensus implying the average EPS for the ASX200 will be -3.5% weaker in FY24, with FY25 and FY26 to see positive growth around the long-term average at respectively 5.4% and 5.3%. As per always, any changes in dynamics for commodities can have a significant impact on those projections.

This potential heavy impact is perfectly illustrated through Macquarie's numbers that suggest Australia's EPS will fall by -6% for FY24 and then rise by 10% in FY25 assisted by a 23% upswing for the resources sector.

Among the questions that require an answer in August:

-Is momentum for Financials, including for insurers, financial platform operators and banks, strong enough to support ongoing strength? Analysts remain highly reluctant to project anything positive as yet for non-bank lenders, an observation that also applies for most listed asset managers.

The average forward-looking dividend yield for the ASX200 has now fallen to 3.7% which is well below the historical average of circa 4.5%, no doubt showing the banks have rallied very hard, while some of the commodity producers will be paying out less. Woodside Energy ((WDS)) comes to mind.

-The question for many a multinational: is momentum in offshore markets robust enough to compensate for local challenges? This divergence is popping up in August previews for the likes of BlueScope Steel ((BSL)), Car Group ((CAR)), and others.

-How strong is momentum for Gen.Ai beneficiaries exactly? Expectations remain positive and robust for prime beneficaries Goodman Group ((GMG)) and NextDC ((NXT)), but any positive Ai impact remains up for debate when it relates to JB Hi-Fi ((JBH)), Harvey Norman ((HVN)), Dicker Data ((DDR)), and others.

-How many asset write-downs are still forthcoming? Apart from REITs and property developers, it's a 'live' question that also applies to Challenger ((CGF)) and Seek ((SEK)). BHP Group ((BHP)) has already come clean on this issue.

-Who's next to announce more capital management through share buy-backs and extra pay-outs? Expectations remain positive for the banks, but plenty of other companies seem to have plenty of cash and franking credits, including coal companies.

-Where are the EPS downgrades? The underlying trend has stabilised in the weeks past, with even a slightly positive bias, but Macquarie analysts point out August almost always ends up pulling market forecasts lower. The last time August had a positive net impact on EPS forecasts was, apparently, in the higher-for-longer years of 2003-2006.

-Where are the capital punishments? Always a mystery upfront, but oh so painful when it hits the personal portfolio in the moment; that one downgrade that ruins the day. A negatively-biased Macquarie points out responses to US corporate results have been characterised by a negative skew with the underperformance in case of profit disappointment twice as large on average as any reward for a genuine 'beat'.

A lot of attention and appraisals will revolve around corporate margins. Gold producers have continued to generate plenty of disappointments through June quarterly production updates. What about the healthcare sector? Margins are extra-extra important for share prices of CSL ((CSL)), Cochlear ((COH)), ResMed, but also for Integral Diagnostics ((IDX)), and others.

-Can investors be satisfied with the promise of a second-half catch up? Macquarie recently disappointed with its Q1 update, but the promise is for a much improved H2 which will make up for the slower start into FY25. Judging from the share price, investors are backing management in that promise. But can they/will they in case of others under a similar scenario? Companies that come to mind include Ramsay Health Care ((RHC)), Reliance Worldwide ((RWC)), Domain Holdings Australia ((DHG)) and Medibank Private ((MPL)).

-Where is the market completely wrong? There always is a queue of beaten down, out-of favour market laggards for which sentiment has become too bearish and analysts' forecasts too low. This is fertile ground for a 20%-plus rally on the day of result release (in particular when the shorters are on board too). There is, however, also the other end of the market where share prices mimick Wile E Coyote when results are released with numbers well, well, well below expectations.

FNArena's daily updated Short Report: https://fnarena.com/index.php/analysis-data/the-short-report/

-Serious downgrades pre-season are seldom good news. Macquarie analysts report companies for which forecasts fall by at least -20% prior to results season tend to have a higher chance for missing expectations when they release financials. Are currently included in that assessment: Sonic Healthcare ((SHL)), Seek, Ramsay Health Care, IDP Education ((IEL)), Domino's Pizza ((DMP)), Downer EDI ((DOW)), and nib Holdings ((NHF)), as well as Collins Foods ((CKF)), Nufarm ((NUF)), Eagers Automotive ((APE)), and Star Group Entertainment ((SGR)).

Do note: Collins Foods and Nufarm do not report in August.

-On the other side of the ledger, companies for which growth forecasts in advance increase by 20% and more are ususally a fertile group for upside surprises. Macquarie has identified Aristocrat Leisure ((ALL)), Steadfast Group ((SDF)), Pro Medicus ((PME)), ALS Ltd ((ALQ)), and REA Group ((REA)).

Aristocrat Leisure does not report in August.

-There will be more M&A. Market expectations continue to build. Simply look at share prices for Macquarie Group ((MQG)) and Computershare ((CPU)), even the ASX ((ASX)). Guzman Y Gomez ((GYG)) has a few things to prove too.

Next week we'll dig deeper into specific sectors and individual companies.

Morgan Stanley's August Season Hot Picks

Ahead of August, analysts at Morgan Stanley have picked and communicated their **six conviction ideas** among ASX-listed small and mid-cap companies:

-Jumbo Interactive ((JIN))
-Audinate Group ((AD8))
-Superloop ((SLC))
-Life 360 ((360))
-Premier Investments ((PMV))
-SG Fleet ((SGF))

Aussie Banks

One of THE big surprises so far in 2024 has been the sharp outperformance of Aussie bank shares when just about everyone called them "expensive", if not "extremely over-priced".

But come hail, snow or extreme heat, nothing was going to stop CommBank ((CBA)) shares to set a new all-time record high or its peers reaching for new multi-year highs (they've had a whole decade-and-a-half of no progress, so cut them some slack, please).

We've seen movies like this before, but 2024 is playing a rather extreme version of it: those "expensive" and "over-priced" banking shares outperformed the broader market by no less than 1500 basis points throughout the first seven months, reports JP Morgan. That amounts to 15% more return than the ASX200 including dividends for mere mortals like us.

Goes without saying, what looked "expensive" and "over-priced" back in January, must be even more by now. True to form, there's isn't a bank on the ASX whose shares are currently not trading above the average target set by brokers monitored daily by FNArena, unless you're Suncorp ((SUN)).

Indeed, even Judo Bank ((JDO)) and Bank of Queensland ((BOQ)) are trading at valuation "premiums" these days.

Logically, there's isn't a single Buy rating in sight for any of the Big Four and all six ratings for CommBank in the FNArena universe are Sell.

Before we start throwing mud towards the stockbroking analysts who've had to endure a lot of mocking and questions from clients and daytraders, no doubt, let's also consider the local funds management industry has seldom been as underweight the sector as in 2024.

Wait! This story gets weirder, still. JP Morgan has gone through the local bank registery data and noticed retail investors are selling too. Apparently, the selling by retail investors has been at the fiercest pace since June 2021.

But if stockbrokers aren't buying, and neither are their customers one presumes, and local fund managers aren't either, and now retail investors are jumping ship as well, who's left to keep the positive momentum ongoing?

My own knee-jerk response is to look internationally where banks have been very much the flavour of the year on expectations of central banks loosening interest rates, but JP Morgan has found an intriguing alternative explanation in the latest quarterly registry updates by the banks: *"domestic institutions"*.

JP Morgan suggests this refers to **Australian super funds**. Other data up until December have been indicating super funds have been increasing their active weights for the industry, with exception of CommBank. And that's the sector leader whose premium vis a vis the consensus target set by stockbrokers, also in comparison with the other banks, might well never have been as high as it is in 2024.

Go figure.

JP Morgan's view remains the same: Australian banks are over-valued to the magnitude of 16%. The broker's Model Portfolio remains heavily underweighted the sector. According to JP Morgan's data analysis, local fund managers are now the least exposed to the sector since it started gathering data on the industry.

Still, some 11% of funds are currently sitting on an Overweight position, the lowest percentage since July 2020.

August Results; Polarisation & Divergence

It's difficult to keep the focus on corporate market updates when panic selling is causing risk assets to suffer heavy retreats in August. This is not about investor exuberance, concentrated market positions or inflated valuations, even though these items combined were responsible for US share market conniptions in late July.

What markets are experiencing since last week is the unwinding of the so-called Yen carry trade. This practice whereby hedge funds and large asset managers borrow money in low-cost Japan and then invest those borrowings in risk assets in high-yielding currencies has been in place for many years.

The Bank of Japan's unexpected rate hike last week upset the apple cart and many of such positions -worth hundreds of billions of dollars- are being unwound in rapid manner. All at once and at the same time, of course. The impact on equities worldwide is there for everyone to see.

So don't beat yourself up if you didn't anticipate this violent change in overall dynamics, very few did. It's a process and it will simply have to run its course.

Other factors that have been contributing to the rather downbeat sentiment overall at the start of August are more signs of slowing for the US economy and increased scepticism among investors about shorter-term benefits from large investments in Gen.Ai by large cap US companies.

Investors have reminded themselves the prospect of lower interest rates (Fed cutting) is only immediately positive if economic growth and corporate profits hold up. If/when the Federal Reserve needs to loosen policy because the world's largest engine is starting to cough and splutter, that becomes a negative and easily explains why commodities and small caps are yet again on the nose this month.

Investing in accordance with the cycle is a lot easier said than done, plus the market can be a very unreliable guide; it changes its mind in less than a heartbeat, leaving many to ponder what ifs' and look for answers after the damage is done.

August Results: Polarisation & Divergence

Nothing lasts forever, this too will come to pass, eventually, and corporate results will yet again become important when the dust has settled.

Take ResMed ((RMD)), for example. On Friday, the company's June quarter financial result revealed a much stronger-than-forecast gross margin, with the promise of ongoing improvement in FY25.

This is important on multiple levels. Firstly, disappointing margins is what put downward pressure on the share price last year (it wasn't all about GLP-1s).

Management did get the message and made sure the next quarterly update in late January included better margins. That was a big tick for share price recovery, but freight costs had spiked higher in the meantime because Israel-Hamas happened and the Houthis in Yemen are forcing shipping routes to divert via the longer route around Africa.

On Friday, ResMed's quarterly wiped those market concerns off the table, including any short-term impacts from GLP-1s, and instead convinced analysts and investors the world's leading CPAP company remains poised for yet another strong year ahead.

Corporate margins are one of the focal points of investors this month, so ResMed's margin surprise might bode well for other companies, including fellow healthcare sector stalwarts Cochlear ((COH)) and CSL ((CSL)). The **revival of quality healthcare companies** is one of the narratives that will be put to the test by investors this month in Australia.

There's no sense of sector uniformity, though, and many expert voices remain cautious, if not negative about the immediate prospects for healthcare companies including Healius ((HLS)), Sonic Healthcare ((SHL)) and Nanosonics ((NAN)).

Ramsay Health Care ((RHC)), suggested by many as a potential disappointer this season (yet again), truly delivered on Monday as the private hospitals operator pre-released a disappointing FY24 update. But amidst the general carnage on the day, Ramsay shares only experienced a minor dip.

Some analysts believe earnings are now at their low and improvement should follow. The share price is well below analysts' price targets, even if estimates have to be reduced further. The last time Ramsay shares traded in the mid-$40s was back in 2014. That's a whole decade ago.

The August results season has only just started and already it is offering up different dilemmas and opportunities for different types of investors. The question whether one feels more comfortable hiding in beaten-down share market laggards or in structural growers with many more years of accumulating wealth ahead is quickly becoming less a question of valuation', but more so of what kind of investor are you?

Polarisation and divergence are also expected to dominate **the banks** this time around with sector analysts at Citi predicting the outlook for net interest margins (NIMs) will surprise, but not for all banks equally, and not to the extent that current share prices can be justified.

Consequently, say Citi analysts, "we think the earnings season will be much more important in dictating relative preferences within the sector." Citi's preference resides with Westpac ((WBC)) and CommBank ((CBA)) but, equally important, this is a relative call, not on absolute terms.

A reminder: CommBank and Bendigo and Adelaide Bank ((BEN)) are the only ones to report FY24 financials in August, with the others merely releasing less-detailed quarterly market updates.

The thesis of ongoing divergence in between companies grouped together in the same basket(s) also very much stands out from Citi analysts' preview to August. The broker's highest concentration of positive surprises is expected from Large Diversified Miners, Consumer Discretionary and REITs. Most negative surprises are expected to come from Metals & Mining, Healthcare, and REITs.

The narrative of **ongoing resilient consumer spending** in Australia is one that will be equally put to the test. Any concerns about Gen.Ai beneficiaries are pretty much non-existent at this stage. Australia doesn't have megacaps spending billions on future development, with the likes of Goodman Group ((GMG)) and NextDC ((NXT)) instead among prime beneficiaries of those unprecedented investments.

Goodman Group continues to be singled out for a positive surprise when the company reports.

Where's Conviction?

As this week's global rout in shares reduces any limitations and concerns based on valuation', let's focus on where analysts think investors most likely will be positively or negatively surprised.

UBS strategist Richard Schellbach sees lots of potential for upside risks, also because management teams are cutting costs to cushion profit margins from ongoing pressures. In some cases, while sales might be slowing, a better-than-anticipated profit margin a la ResMed could prove the saviour.

Companies singled out include AGL Energy ((AGL)), Brambles ((BXB)), Car Group ((CAR)), Insurance Australia Group ((IAG)), Flight Centre ((FLT)), Suncorp Group ((SUN)), Super Retail ((SUL)), and WiseTech Global ((WTC)). The latter is remarkable as WiseTech is mentioned elsewhere for a potential disappointment a la

August last year.

UBS also sees potential for some of the market laggards to surprise, including Lendlease ((LLC)), Perpetual ((PPT)), and Reliance Worldwide ((RWC)).

Have been singled out for a potential negative nasty: ResMed (thesis dismissed last Friday), alongside Origin Energy ((ORG)), JB Hi-Fi ((JBH)), CommBank, Orora ((ORA)), Domain Holdings Australia ((DHG)), Reece ((REH)), Ingenia Communities Group ((INA)), Imdex ((IMD)), Data#3 ((DTL)), Stockland ((SGP)), Adairs ((ADH)), Vulcan Steel ((VSL)), and Ramsay Health Care.

For **Goldman Sachs**, the ruling themes are equally margins and cost reductions, consumer resilience and also companies buying growth through M&A.

Positive candidates identified include a2 Milk ((A2M)), Bendigo and Adelaide Bank, Breville Group ((BRG)), Life 360 ((360)), Telstra ((TLS)), Qantas Airways ((QAN)) and QBE Insurance ((QBE)).

Goldman Sachs has selected two candidates for a potential nasty negative: Reece and WiseTech Global.

Citi has picked Goodman Group, Smartgroup Corp ((SIQ)) and The Lottery Corp ((TLC)) for positive outcomes and Healius, Nanosonics and Netwealth Group ((NWL)) for a negative result. Ramsay Health Care was equally picked for more disappointment, as have been Ansell ((ANN)), Mineral Resources ((MIN)), NextDC, Siteminder ((SDR)), and Sonic Healthcare.

Over at **JP Morgan, strategists Jason Steed and Dylan Adrian** find comfort in reduced risks for a fall-of-the-cliff experience for corporate earnings in Australia. They argue tax cuts, rising real wages and the prospect of RBA rate cuts should bode well for domestic cyclicals. The strategists were previously lamenting the high valuations for segments such as banks and retailers, but that might rapidly become less of a concern.

Commodities will prove the major drag on earnings, JP Morgan predicts, with bank earnings set for another negative year. Only one company has been selected for a clear positive surprise: Woodside Energy ((WDS)).

JP Morgan's basket for negative risk only has four names in it: Sims ((SGM)), South32 ((S32)), Ramsay Health Care, and Region Group ((RGN)).

Ord Minnett suggests healthcare could well become one of the star performers this month, also drawing confidence from ResMed's strong opening act. This broker is less sanguine about general dynamics locally and thus has steered its radar towards foreign earners and pricing power domestically.

The insurance sector fits in the latter category. Companies including BlueScope Steel ((BSL)), Reliance Worldwide and James Hardie ((JHX)) have significant operations in the US and elsewhere.

For positive surprises, Ord Minnett is looking towards AGL Energy, AMP ((AMP)), Bluebet Holdings ((BBT)), GQG Partners ((GQG)), Guzman Y Gomez ((GYG)), Karoon Gas ((KAR)), and Zip Co ((ZIP)), among others.

Have been nominated for potential disappointment: ASX ((ASX)), Computershare ((CPU)), Corporate Travel Management ((CTD)), JB Hi-Fi, Healius, Nick Scali ((NCK)), and REA Group ((REA)).

The August reporting season has started in a relatively positive manner, but we're talking low numbers. The **FNArena Monitor** currently reviews six companies of which three have delivered a positive surprise and only two missed in relatively benign fashion. Equally noteworthy: only two consensus price targets have not risen post result release; both are commodity producers Champion Iron ((CIA)) and Rio Tinto ((RIO)).

August Results: Early Beginnings

Share price movements are not the most reliable indicator thus far in July and August.

Contrary to what investors might assume, the Q2 corporate earnings season in the US is not a big failure.

Share price weakness over there is more plausibly explained through Gen.Ai scepticism and macro-inspired investor angst. Forced selling because hedge funds and others got burned through the yen carry trade hasn't helped either.

In flagrant contrast with weak sentiment in the first two weeks of August, believe it or not, corporate performances in the US have mostly surprised to the upside, including trading updates and forward-guidances delivered. On data crunching undertaken by **S&P Global Market Intelligence**, Q2 EPS growth for the S&P500 has improved to 12.03% from 8.17% over the past four weeks.

That's one big jump in defiance of widespread concerns about too high valuations carried by too high expectations.

US financials have thus far led the positive surprise, as well as consumer discretionary companies. The big disappointment is the energy sector. S&P Global's consensus snapshot as per August 9th is shown below.

S&P 500 EPS (Normalized) Growth Rates – As of 9th August 2024 (CQ2 2024 & CY 2024)

Sector index	CQ2 2024	CQ2 2024 Growth	CY 2024	CY 2024 Growth
Communication services	$3.86	27.37%	$15.54	24.45%
Consumer discretionary	$15.16	11.99%	$57.26	11.45%
Consumer staples	$9.72	2.49%	$39.50	4.14%
Energy	$12.59	0.82%	$51.98	-10.26%
Financials	$11.80	17.02%	$44.51	11.51%
Healthcare	$20.76	15.62%	$80.81	5.86%
Industrials	$12.44	-1.69%	$46.75	3.82%
Information technology	$30.13	18.43%	$131.59	17.88%
Materials	$7.38	-7.54%	$26.14	-2.99%
Real estate	$1.74	-5.16%	$6.70	1.67%
Utilities	$4.19	7.44%	$20.49	10.07%
S&P 500	$60.24	12.03%	$240.95	9.77%

In terms of general statistics, 77.9% of companies reported have beaten EPS estimates and 62.3% of companies reported have beaten Revenue estimates, with 53.9% beating both EPS and Revenue.

Note how the percentage of EPS beats remains higher than top line beats, with both percentages better than the prior Q1 season.

One thing that stands out is those companies beating expectations are not by definition rewarded for it.

To experienced market observers, this means macro drivers are currently dominating investor sentiment and short-term trends. Add ongoing investor angst about elevated asset prices and it's probably fair to observe corporate earnings have been relegated to the back burner, unless they're well off the mark in a negative sense.

Deteriorating economic indicators might have re-opened the public debate about a recession or not for the US economy later this year, analysts at RBC Capital have spotted no confirmation in transcripts from corporate conference calls with investors these past number of weeks.

Rather, they say, most commentary seems to confirm the US economy is slowing, but so far without any dramatic consequences. Consumer spending appears less impacted at the higher end of society, which is not dissimilar from observed dynamics in Australia and elsewhere. General caution remains directed at the situation inside China. Inflation pressures are abating.

RBC Capital found references to uncertainty' and risk' have been much lower than in 2016 and 2022. As the Q2 reporting season winds down, RBC Capital analysts report "we remain struck by how solid the overall stats look". Results and forecasts for technology companies have remained positive.

Results In Australia

In Australia, the season for corporate earnings updates is only gradually warming up. An acute shortage in experienced accountants is, apparently, responsible for most local companies releasing their financial numbers late in the month.

On Monday August the 12th, when I am writing these sentences, the **FNArena Corporate Results Monitor** still shows assessments of 24 updates only. In February, the total number of market updates accumulated to 387 throughout the season. This gives us a good insight into where we stand today, and what is yet to come over the three weeks ahead.

On FNArena's assessment, 10 out of the first 24 companies managed to outperform expectations, which is a relatively high percentage (41.7%) but nine updates disappointed and that's a high percentage too (37.5%). The first contrast with US equities is that outperformers locally still are being rewarded, if not on the day of release, then as soon as the macro allows it.

That observation stands for AMP Ltd ((AMP)), Car Group ((CAR)), JB Hi-Fi ((JBH)), Life360 ((360)), Light & Wonder ((LNW)), News Corp ((NWS)), Pinnacle Investment Management ((PIN)), REA Group ((REA)), ResMed ((RMD)), and Vista Group International ((VGL)).

The added observation is that six stocks out of that list are part of the higher-valued market segment that has been responsible for most of the local share market's gain throughout the year past. In other words: a strong performance on above-average PE multiples is not by definition a deterrent for further upside (this is even more the case when the result forces analysts to upgrade forecasts and their valuation).

In line with observations made in past reporting seasons, often a strong share price performance (and above average PE) is merely a reflection of the market's confidence this company is performing well, with more to follow. More often than not, on my observations, reporting season tends to confirm that confidence is warranted.

Not all the companies mentioned have as yet been fully assessed (the Monitor waits for analysts responses and they are not instant) but early indications are if companies surprise positively the average price target from the brokers monitored daily moves higher. The only exception to date has been Champion Iron ((CIA)), producer of iron ore.

Among the disappointments to date we find Audinate Group ((AD8)), Aurizon Holdings ((AZJ)), Mirvac Group ((MGR)), QBE Insurance ((QBE)), A-REITs Centuria Industrial REIT ((CIP)) and Charter Hall Long WALE REIT ((CLW)), and Rio Tinto ((RIO)). The latter reported only a small miss in the bigger scheme of things, its share price more a reflection of China troubles and US economic uncertainty.

But what this list shows is that hiding in underperforming, cheaper-priced laggards does not by definition equal a lower-risk strategy. A-REITs have been trading at sizable valuation discounts for the best part of three years now but analysts keep warning the sector is still subjected to falling asset valuations, higher operational costs, too much debt, and a lack of growth and positive catalysts.

Two early disappointments from the two REITs releasing market updates might be enough evidence already analysts' caution is simply warranted.

Might the same observation prove as equally apposite following more disappointment from the likes of Aurizon Holdings and Mirvac Group? Shares in the former are trading near an eight year low while Mirvac shares are at a similar price level as during the peak of the covid sell-off in 2020 but there has been no short-term respite for long-suffering shareholders.

The strong and resilient versus the weak and vulnerable. Whereas most commentators elsewhere only look at the share market in terms of low(er) and high(er) share price valuations, my experience shows result seasons tend to reveal which businesses are strong and resilient and which ones are of lower quality and much more fragile when confronted with macro-economic challenges.

As shown by the relatively high number of earnings misses' to date, those challenges remain tangible and large. QBE Insurance never quite manages to update without disappointment lurking somewhere, but at this point positive momentum for the insurance cycle dominates the outlook. AMP, for the first time in a long while, has most analysts adopting a more supportive view as the business no longer operates in freefall.

The first shock of the season has come early in the month with young and upcoming conqueror of the global sound industry, Audinate Group, surprising with lower sales and lower profits for the year ahead. All kudos to Macquarie who'd issued a warning before Audinate pre-indicated its FY24 numbers and FY25 guidance.

The irony resides with Morningstar whose technology analyst doesn't like much listed on the ASX, certainly not the likes of Xero ((XRO)) or TechnologyOne ((TNE)), but then in particular developed a liking for Audinate Group (target of $23 in May).

Equally telling, those same analysts at Macquarie upgraded back to Outperform once the news was out and Audinate shares had received a good old shellacking from traders and dismayed investors.

How best to interpret what has happened? Having given this plenty of thought, I've come to the conclusion Audinate's disappointment is simply the risk that comes attached to your typical small cap company.

Easily forgotten, but this is still only a business that sells less than $100m a year in products and services. Any set back in the order of -$10m has an outsized impact and that's exactly what has happened.

This does by no means imply there are no further risks, and we still have to wait and see how management at the firm deals with ongoing growth pains and operational challenges.

By all accounts, and by most assessments made, Audinate should still have the capacity to develop the global industry standard for digital sound networking. However, similar as with experiences elsewhere (think lithium, cannabis, et cetera) not all megatrends are equally as strong and company size matters.

For more on the company, FNArena published the following on Monday: https://fnarena.com/index.php/2024/08/12/first-shock-of-the-season-whats-next-audinate/

August Paints A Bifurcated Picture

On balance, there's plenty to like from the early batch of local results. But there's a lot more to come. Too early to draw firm conclusions as yet.

As per always, investors tend to experience reporting season through their own portfolio holdings.

Miss out on the few sharp punishments and own a number of positive surprises and we might feel chuffed about past choices and our predilection for selecting winners.

Own a few bombs and the game looks rigged against the small investor, with no surprise big enough to lighten the mood.

The share market can be a treacherous place, in particular during reporting season when one cannot be too certain in advance that whatever our companies share with the outside world will be liked and positively received.

And that's simply the financial performance over the six months or quarter past. What about management providing guidance on what is likely ahead?

Corporate results season in Australia is a slowly ramping up affair, and this means, broadly speaking and as has become the local standard, we still aint seen nothing just yet.

Today, on the 19th of August, the **FNArena Corporate Results Monitor** still only has reviewed 70 results.

That number will be closer to 400 in less than two weeks, so a lot can and will undoubtedly change as the numbers accumulate quickly from here onwards.

But we've had Rio Tinto ((RIO)), Goodman Group ((GMG)), CommBank ((CBA)) and CSL ((CSL)), ResMed ((RMD)) and Cochlear ((COH)), plus a whole series of smaller cap names and quarterly updates from the other Big Banks, so maybe looking at the early trends and observations might not be such a bad idea.

The first observation to highlight is the almost equal divide of those 70 reports over beats (23), meets (23) and misses (24). Before the season started, I had predicted notable polarisation because of ongoing inflation and other challenges, on the back of deteriorating economic momentum locally and globally, but this is almost a picture too perfect.

The FNArena Monitor combines financial outcome with forward guidance, if provided, and underlying those numbers is the fact many companies are able to meet analysts' forecasts for the past six months. It's the period ahead that is often the problem.

The dilemma investors are confronted with is whether management teams are too cautious when they look ahead?

Invariably, the share price receives a genuine shellacking as performance and guidance are measured against what analysts have embedded in their modeling. This is where things might get tricky because selling your shares into the instant punishment might not be the best decision to make.

I note, for example, CSL ((CSL)) shares were trading above $308 on August the 13th when FY24 was released with guidance that was lower than what was expected. The shares were punished for it, but today the share price is trading back above $308. And what to make of Audinate Group ((AD8)) first releasing a downbeat outlook for FY25 but then releasing a slightly better-than-flagged financial report which sees its shares rally by 20% on the day?

I mention both because both are owned by the **FNArena/Vested Equities All-Weather Model Portfolio** and I have been reminded by another investor recently that often the smartest investment decision to make is to do absolutely nothing. Hold that thought.

Two key differences with the recent quarterly reporting season in the US are that Australian companies are equally meeting or beating forecasts, but not because costs are falling. In Australia, the story behind FY24 results thus far is more about lower taxes and lower interest costs.

Inflation through input materials and staff remains a problem and this is also where most disappointments stem from. The other key difference is forecasts post corporate releases in the US have trended upwards; in Australia the net balance is for further decline. Business leaders Down Under are simply not equally as confident when looking ahead.

How much of this gap relates to the differences in messaging from the Federal Reserve and the RBA?

On Macquarie's number crunching, analysts are downgrading twice as many times as they are upgrading forecasts.

The one stand-out reporter from the first two weeks is **contractor NRW Holdings** ((NWH)). Analysts had been optimistic in the lead-up to the FY24 release, and the company truly delivered with higher revenues, better margins and the promise of more contracts coming.

As is usually the case under such circumstances, forecasts and valuations have made a leap upwards, as can be seen from the notable jump in price targets, and the share price has responded accordingly.

Other strong performers include multiple companies that have enjoyed strong performances for a long while, including Life360 ((36)), Car Group ((CAR)), JB Hi-Fi ((JBH)), Light & Wonder ((LNW)), Pinnacle Investment Management ((PNI)), Pro Medicus ((PME)), REA Group ((REA)) and smaller caps Aspen Group ((APZ)), Temple & Webster ((TPW)), Vista International ((VGL)) and Viva Leisure ((VVA)).

In many cases, delivering a "strong performance" has become but the middle name of those companies, in particular the larger cap names with the public debate centred mostly around value' and what price?

As per always, some of the long-time struggling companies are simply still struggling, including the ASX ((ASX)), Aurizon Holdings ((AZJ)), Beach Energy ((BPT)), Seek ((SEK)) and Seven West Media ((SWM)).

In some cases, or so it appears, financial performances and management insights are providing early optimism about a better-looking future.

Companies in the latter category include AGL Energy ((AGL)), Amcor ((AMC)), AMP Ltd ((AMP)), Amotiv ((AOV)), Challenger ((CGF)), maybe even Magellan Financial ((MFG)).

Thus far, medium sized and smaller cap companies are doing better than the large caps. If healthcare is making a comeback in 2024, it's not happening with a Big Bang.

One sticky point in Australia is always: what about dividends for shareholders?

Here, the banks have surprised in a positive sense, with CommBank yet again showing one should never assume last year's dividend cannot be raised, no matter what the circumstances. But most REITs have confirmed the tough challenges that are weighing on cash flows and distributions.

Analysts have spotted early signs of improvement, but every investor's best friend remains careful stock selection, and patience.

While distributions to date seem to have disappointed, there have been multiple positive surprises, also because that's what Australian boards do when profits encounter a set-back. See, for example, BlueScope Steel ((BSL)) and Suncorp Group ((SUN)) on Monday.

On my observation, your typical cyclical, outside of retailers, is very much prone to reveal its fragility this month. Apart from BlueScope Steel on Monday and Sims Group ((SGM)) earlier, this also includes Nufarm ((NUF)), Evolution Mining ((EVN)) and the earlier mentioned Beach Energy. Origin Energy's ((ORG)) update equally fell well short of expectations.

One company that deserves a special mentioning is **Telstra** ((TLS)). A little over one month ago, sentiment quickly soured when management decided to abandon the telco's automatic annual price increase for mobiles. Shareholders, rightfully or otherwise, might have worried about future dividends not keeping up with inflation.

Last week's FY24 release has completely reversed that dynamic. Confidence is now strengthened about Telstra lifting its annual dividends by 1c each year, in multiple consecutive years ahead.

One cent doesn't sound like much, but when the starting base is the 18c from FY24, this 1c increase is relatively something that in comparison remains out of reach for most REITs and other dividend payers, including the banks.

This is why Telstra is making a comeback as the most preferred dividend/income stock on the ASX for many.

My personal story is that Telstra is part of the specific dividend paying segment in the All-Weather Model Portfolio, but I too had become worried it was probably better to move onto greener pastures elsewhere. The wise decision I made was not to hurry and wait until the August result before deciding upon making any changes.

Similar as in the case of CSL, Telstra's share price is now back to where it was before that announcement was made. And herein lays a lesson for all of us: sometimes the best decision truly is to not make any changes at all.

One disappointment and a weaker share price in the here and now does not automatically spell disappointment and a bad outcome longer term. It's good to be reminded about these things, assuming we can trust our judgment and the companies we choose.

P.S. in case anyone wondered: 1c in addition for the next three years for Telstra's 18c dividend translates into an increase of 5.56%, 5.26% and 5% respectively. The implied forward-looking dividend at today's share price (ex-franking) is 4.8%.

August Trends Have Darkened

Reporting season is when investors receive a detailed insight into how companies are actually performing. Where is momentum? How strong is it exactly? And where are the weaker points?

But investing is all about the future and thus what is likely to follow next is arguably of much greater importance than what has been up until June 30th.

Consider, for example, that companies including Megaport ((MP1)) and BlueScope Steel ((BSL)) released financials that either met or bettered analysts estimates, but share prices have come under pressure because the outlook proved disappointing.

This is why FNArena thinks a simple statistic of meets/beats/misses on the basis of reported financials remains a flawed methodology.

Thus far this month, most companies meet or beat expectations, which is positive and vindicates the market's positivism up until this point, but outlook statements and guidances provided have largely been softer-than-anticipated.

The latter is not so positive and has turned into a defining feature in recent days.

Last week, the **FNArena Corporate Results Monitor** showed a reasonable balance between meets, beats and misses, with a slight bias towards the latter.

On Monday in the final week, the pendulum is notably swinging towards many more disappointments.

In most cases, it's all about a weaker outlook. Of the 189 assessments in the Monitor, 71 have been labeled as miss' (37.6%) versus only 57 beats' (30.2%) and 61 results arriving in line with forecasts (32.2%).

This negative balance is more pronounced for the ASX50, but it applies equally to the ASX200 and all corporate reporters combined.

Interestingly, the numbers have notably deteriorated on the back of predominantly smaller cap companies reporting, including Accent Group ((AX1)), ARN Media ((A1N)), Autosports Group ((ASG)), Big River Industries ((BRI)), Inghams Group ((ING)), and Jumbo Interactive ((JIN)).

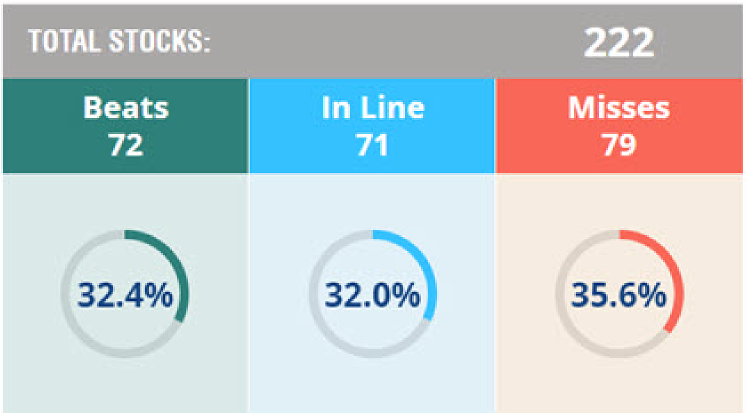
Admittedly, these companies do not represent the same clout or investor interest as, say, CommBank ((CBA)), Rio Tinto ((RIO)), Goodman Group ((GMG)) or CSL ((CSL)), but then the local blue chips haven't exactly presented a much rosier picture either.

What should concern is that FY24 estimates are gradually creeping higher, at least up until last Friday, but FY25 forecasts are moving in the wrong direction.

Not that long ago, forecasts were for a robust looking 5%-ish growth outlook without much contribution from resources. By now the average EPS forecast for the year ahead for the ASX200 is moving closer to the 3% mark.

It has elicited a rather dark comment from analysts at JP Morgan that the Australian share market, in the absence of a growth revival for resources, is at risk of becoming the growth laggard in comparison with international markets.

The irony is that Growth companies remain one of the few genuine stand-out segments this season yet again.



Total Rating Upgrades:	33
Total Rating Downgrades:	30
Total target price movement in aggregate:	2.89%
Average individual target price change:	1.36%
Beat/Miss Ratio:	0.91

Analysts at JP Morgan and Macquarie have both acknowledged as much with the latter identifying WiseTech Global ((WTC)) for the best post-result return thus far. Founder Richard White's life long achievement now comes with a market cap of nearly $40bn and an inclusion inside the ASX50, hence WiseTech's positive surprise is challenging a few views and opinions here and there.

Try: tech stocks are grossly overvalued. Or what about: small caps will have all the momentum?

One of the insights I've gained throughout the week past is the rather sharp share price rally in WiseTech Global shares was not so much inspired by shorters covering their potential losses.

The **FNArena Short Report**, taking data from ASIC, shows short positions weren't that high in the first place (only 1% of outstanding capital) but it will be interesting nevertheless to see whether that percentage has declined post release of FY24 financials.

Instead, some heavy buying from at least one local high-conviction fund manager has been occurring. Clearly, someone has been convinced this strong growth story has a lot further to go.

JP Morgan has nominated Brambles ((BXB)), Challenger ((CGF)) and WiseTech as stand-out positive performances. On the negative side, the broker has placed Aurizon Holdings ((AZJ)), Seek ((SEK)) and Megaport.

At **Macquarie**, analysts put Breville Group ((BRG)) and Cleanaway Waste Management ((CWY)) among the growth companies that are standing out this month, and make the segment look good overall. Key positive surprises, suggest Macquarie, have come from Charter Hall ((CHC)), Brambles and WiseTech.

For big disappointments, Macquarie points at BlueScope Steel, Megaport, and a2 Milk Co ((A2M)).

Analysts at Ord Minnett make two observations:

-freight costs have been more of a problem for exports into the UK and Europe, less for imports into Australia, and most companies are able to manage it
-the consumer is weak, but some retailers are able to execute well, with weakness also prevalent for car dealers, quick service restaurants and gaming

JP Morgan has identified the following three key themes:

1. Labour markets are noticeably easing
2. Housing remains a key challenge
3. Inflation is moderating

Over in the USA, where the quarterly reporting season is nearing its end, with the all-important Nvidia yet to report later this week, **analysts at Morgan Stanley** draw the following three key conclusions:

-Consumer weakness is becoming a theme. Not as a fall-off-the-cliff threat, but spending is weakening nevertheless
-Travel has begun to falter, though signals across industries are varied and mixed
-Consumers remain prepared to pay a premium for products and services that offer a greater degree of convenience

Probably the most important observation is the number of US companies for which analysts are turning more positive is shrinking yet again. In other words: yes, growth forecasts in the US are still trending upwards, but **the number of companies with positive momentum is getting smaller** this Q2 reporting season.

It's good to keep in mind while the local reporting season will end by the end of this week, the Monitor still only comprises of 189 results. A whole lot more is yet to be unleashed in the coming days.

FNArena is updating on a daily basis: https://fnarena.com/index.php/reporting_season/

Among the changes in stock preferences that have occurred is **Wilsons** including James Hardie ((JHX)) in its **Focus Portfolio** (in explicit preparation of Fed rate cuts that should stimulate building and renovating in the USA).

Netwealth Group ((NWL)) has been removed after a stellar share price performance that has Wilsons suggesting there's limited potential for further upside, in the short-to-medium term that is.

Wilsons equally reconfirmed its positive view on CSL ((CSL)) has remained intact, despite Vifor yet again disappointing in CSL's FY24 release, as well as its ongoing negative view on CommBank ((CBA)). Nobody denies the banks are performing well, relatively, and CommBank is the supremo in the local sector, but those valuations

An observation from Macquarie: *Banks in Australia are trading at circa 3 standard deviations away from their average valuation since 2001, making them the most expensive sector on the ASX.*

Morgan Stanley's Australia Leading Ideas Equity Portfolio has now included Audinate Group ((AD8)) shares in support of this broker's view this month's disappointment (through a subdued FY25 outlook) is simply a short-term set-back. Nothing more, nothing less.

These dedicated portfolios tend to outperform the local index over time (based on calculations published by these brokers) and for this reason I thought it might be worthwhile to provide an insight into what's currently included.

Communication Services
-Telstra ((TLS))
-Car Group ((CAR))

Consumer Discretionary
-Wesfarmers ((WES))
-Domino's Pizza ((DMP))

Consumer Staples
-Treasury Wine Estates ((TWE))

Energy
-Paladin Energy ((PDN))
-Santos ((STO))

Financials
-CommBank
-National Australia Bank ((NAB))
-Westpac ((WBC))
-ANZ Bank ((ANZ))
-Macquarie Group ((MQG))
-Suncorp Group ((SUN))
-QBE Insurance ((QBE))

Healthcare
-CSL ((CSL))
-ResMed ((RMD))

Materials
-BHP Group ((BHP))
-Rio Tinto ((RIO))
-Orica ((ORI))
-James Hardie ((JHX))
-South32 ((S32))

Real Estate
-Goodman Group ((GMG))
-Scentre Group ((SCG))

Utilities
-AGL Energy ((AGL))
-Origin Energy ((ORG))

Small Caps (ex-100)
-Deterra Royalties ((DRR))
-Corporate Travel Management ((CTD))
-Hansen Technologies ((HSN))
-Premier Investments ((PMV))
-Propel Funeral Partners ((PFP))
-Life360 ((360))
-Audinate Group ((AD8))

In comparison with the prior 11x August results seasons that have been covered by the FNArena Monitor, some 30% of companies outperforming forecasts is by no means a bad result, that's pretty much in line with the decade-long average, but 37.6% in disappointments -if sustained- would be by far the worst outcome since 2013.

What makes the current trend so worrisome is that history suggests the tail end of reporting seasons in Australia brings out more misses and bad news performances. And with share prices on average holding up or rising further, JP Morgan highlights the ASX is currently leading the world in terms of multiples expansion (earnings estimates are falling).

The only sector locally that has seen its multiples contract is the Energy sector.

It would not surprise that if the US market stumbles at some point, the Australian share market might underperform during the process. It's not simply due to the difference in central bank pivots, surely?

August Results Fail To Inspire

Investors are trained to be optimistic and hopeful but if the August reporting season proved one thing it is that hope is not an ideal strategy during times when economies are slowing and household budgets persistently under duress.

On balance, August results proved a rather uninspiring experience that mostly triggered a lukewarm reception from investors. The answer why' was yet again confirmed by this week's update on GDP growth locally that, at 0.2% quarter-on-quarter and 1% annualised, printed the lowest outcome for any quarter in Australia since the early 1990s, outside of the covid downturn.

Equally important: consumer spending detracted -0.2% from economic growth in the June quarter (the worst number post-GFC ex-covid) and it was spending by the government, foreign students and visitors that kept the pace above zero.

Economists at Oxford Economics responded as follows:

"Net exports and public demand were the major contributors to growth in the quarter.

"The economy is lacking a clear engine of growth. Tight policy settings have successfully reined in demand, but inflationary pressures are yet to be completely tamed. Income tax cuts and consumer subsidies will aid momentum in the second half of the year. But any improvement in activity will be unspectacular."

The follow-up from peers at NAB: *"We continue to assess that soft growth through H1 will be the trough in growth and look for improving but still below trend growth in H2 contingent on the response to tax cuts and ongoing easing in inflation for household consumption. Overall, we continue to see growth of around 1% this year."*

Corporate results in August have very much reflected that reality. Miners, energy companies and other cyclicals proved the biggest disappointments. Small caps delivered many hits and misses, but more misses as cost increases and the need for more investments put investors' patience to test.

Conclusion from Morgan Stanley: **resources remain trapped in value**.

Equally important: the weaker priced laggards failed to live up to hope and expectations, while highly-priced growth champions refused to falter. The latter is best illustrated by the fact WiseTech Global ((WTC)) crowned itself to most valuable contributor for the ASX200 throughout the month, after the banks.

WiseTech is nowadays part of the ASX50 but its index weight hardly exceeds 0.50%, which just shows how tepid most stocks have performed during the month. WiseTech shares did put in a 25% rally on improved margins, new customers and new products and refused to give it back, outside of a small pullback on nervous profit taking.

As is local custom, EPS forecasts weakened throughout the season, as expected, but the truly sobering observation is forecasts for FY25 have shrunk too. In Macquarie's case, a projected 10% increase has reduced to virtually zero. Resources are mainly to blame, but they are not the only ones responsible.

Macquarie's response: **"FY25 earnings recovery aaaand it's gone".**

Market consensus forecasts are not quite as pessimistic, with forecast FY24 EPS now at negative -4.3% and the FY25 forecast at a positive 4%. The long term average in Australia is circa 5%. It looks like the economic prediction of Oxford and stockbroking analysts are connected at the hip: "any improvement in activity will be unspectacular".

As also flagged by analysts at JP Morgan during the month: falling forecasts with a share market near an all-time record high makes for an expensive valuation. Too expensive, probably, to be maintained.

Morgan Stanley did the numbers, also taking into account where markets are in the cycle as well as the level of bond yields, and concluded trading on an average forward-looking PE ratio of 17.5x the Australian share market has seldom looked as "expensive" as at the end of August.

On the broker's assessment, forward multiples for every single sector except Energy at the end of last week were at a twelve months' high.

No surprise, some technical analysts are toying with the idea the ASX200 might have put in a so-called double top in August, suggesting more weakness ahead but also that we won't see the index returning to these peak levels anytime soon.

The **FNArena Corporate Results Monitor** is a reflection of the above. Comprising of more than 350 companies (more updates are in progress) covered by at least one of eight leading stockbrokers, this Monitor is likely the most comprehensive insight available in Australia with a history dating back to 2013.

Combining financial results with outlook statements and analysts' receptions of both, the Monitor has established some 36% of all financial updates in August have disappointed, contributing to forecast downgrades, while 28% managed to beat'.

Placed in an historical context, this places August 2024 at the top for misses' and near the bottom for beats'. It has been rather disappointing, Barrenjoey has concluded. Looking at those numbers, it's difficult to disagree. Observe also how, after updating 350 companies, the average price target in the FNArena Monitor has hardly moved.

Elevated Prices On Below-Trend Earnings

Having said so, investing is forward-looking and **UBS strategist Richard Schellbach** has seen "tentative signs that activity levels have already bottomed, and that the prospect of rate cuts over the next 12 months will provide a tailwind for further market gains."

Schellbach sees the 4% EPS growth that is currently projected as "achievable" but he also sees a major role for the RBA -when will that first cut arrive?- while the key risk for Australia remains further deteriorating economic momentum in China. Can the local economy remain detached from it?

Analysts Andrew Tang and Tom Sartor at stockbroker Morgans equally prefer a more optimistic tone, calling the August results "respectable", with concerns emerging about **elevated valuations versus below-trend earnings**.

The Morgans analysts do concede economic momentum might well slow down further and investors should be prepared for more downbeat outlook statements at the upcoming AGMs. Offsetting this concern is the fact central banks are setting the tone for interest rate cuts and these should provide support for equities.

History suggests lower interest rates do support risk assets such as equities for as long as there's no economic recession on the horizon.

In line with my own observations, Morgans observes share price performances are diverging strongly between winners and laggards which is seen as a signal investors need to be more active and selective in their choices. "Earnings quality, market positioning and balance sheet strength will play an important role in distinguishing companies from their peers", Morgans concludes.

Strategists elsewhere have equally called for **Quality' over cheap stocks'**. As yet again proven throughout August, more disappointments stem from lower-quality, smaller-sized, vulnerable business models. In contrast, stocks including Life360 ((360)), WiseTech Global, Hub24 ((HUB)), JB Hi-Fi ((JBH)) and Breville Group ((BRG)) were all considered fully priced, at the very least, before outperforming yet again during reporting season.

More than 40% of company reports in August triggered a share price response in excess of 5% on the day of release, Morgan Stanley reports, indicating the season has been volatile, even without macro impacts such as the yen carry trade turmoil. The bias has been to the downside as misses' were punished more severely than upgrades have been rewarded.

Themes From The Season

Barrenjoey has identifed eight themes emerging from the August season (below are those themes formulated in my words):

1.) A relative resilient Australian consumer, but can and will it last?
2.) A structural housing shortage in Australia isn't by default positive for construction activity in the short-to-medium term
3.) China: how weak and for how long?
4.) Inflation remains an issue, though less so than in the recent past
5.) High rates, and their burden, still feature for many companies
6.) Looks like re-stocking will be for next calendar year
7.) Companies will increase dividends and payouts for shareholders, whenever they can
8.) Investors showing limited patience for corporate turnarounds

With regards to point number 7, larger-than-forecast dividends, and bonus payouts on top in numerous cases, have been one of the stand-out positives this season. Some analysts (Macquarie, Morgans) consider this a positive signal showing corporate confidence in the earnings trajectory ahead.

While this is not necessarily untrue, the corporate culture in Australia commands that shareholders will be offered a sweetener in case of operational disappointment. Investors do not need to look any further than the local banks which yet again surprised through higher dividends in August.

I'd therefore conclude the fact the August season has been an overall disappointing experience is confirmed by the fact **dividends, and special payouts, are the stand-out feature** from the month.

Data-crunching by Morgan Stanley reveals most upside surprises have occurred through dividends, less so through EPS and even less through revenues.

Analysts at Macquarie make the observation general statements and sentiment were noticeably less optimistic than in February, indicating conditions generally are worsening. This observation is backed up by our own statistics: in February the FNArena Monitor registered 33% beats' versus 28% misses'.

These numbers were by no means among the favourable ones over the past decade, but they do look a lot better than the outcome from August. Twelve months ago, beats' and misses' almost balanced each other out on 29% and 28% respectively, leaving nearly half of all reports to simply meet forecasts.

Let's Talk Stock Specifics

In terms of individual stocks, **Barrenjoey** has identified both Brambles ((BXB)) and ResMed ((RMD)) as two outperformers in August that are still worth pursuing. Both share prices have proved remarkably resilient, including through the general turmoil that has yet again showed up in early September.

Barrenjoey also still likes Insurance Australia Group ((IAG)) and Medibank Private ((MPL)) among insurers and Qantas Airways ((QAN)) to play the uneven and polarised consumer spending theme. It is considered too early still for re-stocking plays such as BlueScope Steel ((BSL)) and Reliance Worldwide ((RWC)).

Morgans has highlighted BHP Group ((BHP)), ResMed, Flight Centre ((FLT)), NextDC ((NXT)), Reliance Worldwide and The Lottery Corp ((TLC)) as part of its **Best Buy ideas**. The latter selection consists of 30 ideas, also including CSL ((CSL)), GQG Partners ((GQG)), WH Soul Pattinson ((SOL)), Treasury Wine Estates ((TWE)) and Rio Tinto ((RIO)).

The full list of 30 Best Buy ideas will be included in next week's Rudi's View update on Thursday morning.

Macquarie highlights only 5% of stocks beat on EPS and also enjoyed FY25 upgrades, including Block ((SQ2)), JB Hi-Fi, Telstra ((TLS)) and Lynas Rare Earths ((LYC)). A higher share (8%) of small caps combined beats plus upgrades, including Hub24 ((HUB)), Temple & Webster ((TPW)), Regis Healthcare ((REG)), Service Stream ((SSM)), Perseus Mining ((PRU)) and Sandfire Resources ((SFR)).

Model Portfolio managers at Macquarie worry that the impact from slowing economies might outweigh the benefits from central banks cutting interest rates and have thus added Transurban ((TCL)), James Hardie ((JHX)) and Megaport ((MP1)) while removing Computershare ((CPU)), South32 ((S32)) and Whitehaven Coal ((WHC)).

Based on in-house research into similar conditions going back to the 1980s, Macquarie believes there's a good chance Technology and gold will outperform in the months ahead. The portfolio retains an Underweight allocation to the banks.

Depending on what happens with general conditions throughout the months ahead -will they favour cyclicals or not?- further re-rating potential for the Technology sector might be limited, argues Morgan Stanley. With this in mind, backing continued execution is critical, the broker argues. Favourite exposures are WiseTech Global, Xero ((XRO)), Rea Group ((REA)), and Car Group ((CAR)).

The latest update for **Goldman Sachs' APAC Conviction List** shows Australia remains represented through Qantas Airways, Xero, and Lynas Rare Earths. Woodside Energy ((WDS)) remains included in RBC Capital's Global Energy Best Ideas. That same Woodside has been downgraded by Citi to Sell.

Jarden sees opportunity in Harvey Norman ((HVN)) and Accent Group ((AX1)), but also believes the market is too downbeat on travel stocks. Favoured exposures are Webjet ((WEB)), Flight Centre and Helloworld Travel ((HLO)).

One sector that is yet again attraction attention for a possible re-rating are A-REITs. Morgan Stanley notes the sector has woefully underperformed international peers in July and August. Sector analysts at **JP Morgan** are forecasting no more than 1% earnings growth for the sector ex-Goodman Group.

JP Morgan's preferred large cap A-REITs are Scentre Group ((SCG)), GPT Group, Dexus ((DXS)) and Charter Hall ((CHC)).

JP Morgan's Emerging Companies research team puts forward Superloop ((SLC)) as most favoured idea, while ARB Corp ((ARB)) is least-preferred due to concerns about margin pressure.

Post-August Best Ideas

In terms of where to put fresh money, I cannot help but think this year's weakness in **uranium companies** equates to short-term traders throwing out the baby with the bathwater. Shares in Paladin Energy ((PDN)), probably the least-risky option locally, have halved since May.

Yes, I do understand the reluctance in trying to catch a falling knife. Besides, I am by no means that type of investor. Cue my proprietary research into All-Weathers, which also defines the mandate that rests with the earlier mentioned Model Portfolio.

From that portfolio, the one idea that springs to mind is **Dicker Data** ((DDR)), distributor of all things technical with a firm focus on smaller sized businesses across Australia. Dicker Data's FY24 performance disappointed in August, because of too high operational costs, but underlying lays solid growth.

I regard Dicker Data as part of the Gen.Ai exposure inside the Model Portfolio, as the impact from the next tech revolution won't stay limited to data centres and related beneficiaries; at some point, laptops, PCs and other devices will be sold with Gen.Ai embedded, and that will reinvigorate momentum for companies also including Officeworks ((WES)), JB Hi-Fi ((JBH)), Harvey Norman ((HVN)) and Data#3 ((DTL)).

One expression from legendary investor **Peter Lynch** comes to my mind regularly in 2024: *you have to know what you own, and why you own it.* Selling shares today that should be trading a lot higher over the next 12-14 months, but might be cheaper over the next month or so, is not what suits my style of investing.

One other idea was put forward by **Morgan Stanley** this morning (on Monday): **Accent Group** ((AX1)). It's the broker's number one small cap idea that has come out of the August results season.

Macquarie has selected **16 Quality small- to mid-cap companies** now considered best ideas post robust performances in August:

-AUB Group ((AUB))
-Breville Group ((BRG))
-Flight Centre ((FLT))
-Fisher & Paykel Healthcare ((FPH))
-GQG Partners ((GQG))
-Integral Diagnostics ((IDX))
-JB Hi-Fi
-Lovisa Holdings ((LOV))
-Nick Scali ((NCK))
-Monash IVF ((MVF))
-Propel Funeral Partners ((PFP))
-Pinnacle Investment Management ((PNI))
-REA Group ((REA))
-Reliance Worldwide ((RWC))

-TechnologyOne ((TNE))
-Seven Group Holdings ((SVW))

Key Picks, Best Buys & Conviction Calls

Global economic growth is slowing and, if forward-looking indicators can be relied upon, momentum remains poised for further weakness, possibly into the final quarter of 2024 and beyond.

How is an investor best to respond?

One strategy update that attracted a lot of attention this week stems from **UBS advocating Australian banks over resources stocks**. Are bank shares expensive? Yes, they are. Are resources share prices cheap'? Yes, they have underperformed a lot this year. But UBS clearly takes the view economic growth is not ready yet to bounce back and thus more weakness may well be in store for BHP Group ((BHP)) and its peers.

The **strategy modeling at Citi,** oriented more globally than UBS's ASX-centric view, draws a different conclusion which may also be guided by the fact Citi's in-house conviction remains for an economic recession to announce itself later this year in the land of Harris versus Trump.

Reduce your exposure to risk assets is conclusion number one from the Citi modeling, which translates into reduced exposure to equities and to credit. Underneath those recommendations, however, things become a lot less straightforward, or so it seems. For starters, Citi's model advocates portfolios should move Overweight commodities, but not energy, through oversized positions in precious metals and base metals.

In terms of equities, US and UK markets are preferred, while Citi shuns Emerging Markets. There's no specific mentioning of Australia, but one can probably safely assume the ASX sits in the same basket as Hong Kong, Singapore, et cetera.

In case that economic recession does arrive, alongside rate cuts from central banks, an Overweight exposure to government bonds seems but appropriate, Citi's modeling shows. It goes without saying, share markets are priced for a soft landing, and will receive some kind of a shock if/when Citi's forecast for economic recession proves correct.

As I wrote myself earlier this week: plenty of expert voices around that believe Citi's prediction will not materialise.

As it happens, the FNArena inbox received a missive from **Ninety One** this morning stating the above mentioned risk has already well and truly been priced in for Emerging Markets assets and with the Federal Reserve about to embark on loosening US monetary policy, the USD should start weakening and this, historically, tends to bode well for Emerging Market equities.

No doubt, Citi would counter-argue economic recession is likely to strengthen the greenback (reduced risk appetite favours safe havens) so maybe the best conclusion to draw is this debate remains unresolved still, just like the US presidential election.

Ninety One also argues Emerging Markets enjoy structural tailwinds, robust earnings growth, compelling valuations and the USD is currently trading near a twenty-year high.

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Strategists at Morgan Stanley see too many contradictions in today's markets, and this almost guarantees a big pick-up in volatility as sometime, somehow those contradictions need to be brought back in line.

The current set-up is US bond markets are positioned for many more rate cuts than is feasible under a soft landing scenario, i.e. the bond market agrees with Citi there is likely an economic recession on the horizon.

US equities, on the other hand, are carried by analysts forecasting 13% profit growth over the next six quarters; twice the normal rate.

Economic growth is slowing, Morgan Stanley points out, let's have no doubt about that, and the US labour market is cooling. Assuming the bond market is too cautious and slow economic growth remains the most likely outcome, not negative economic growth, this still leaves the strategists with the incling that current growth forecasts seem too high.

Their advice: balance portfolios between defensives and cyclicals, growth and value, large caps and small caps, and apply maximum diversification. Share market momentum is anticipated to move away from the Mag7.

Taking a global view, Morgan Stanley's Best Ideas for portfolios are US financials, energy, healthcare, Japan, real assets and infrastructure investments. The strategists are ultra-cautious on small caps with rates still high, economic momentum weakening and US consumers being squeezed.

Peers at **UBS** highlight the conundrum as follows: when the bond yield curve dis-inverts this benefits small cap companies as they mostly bear floating debt, but then worsening economic conditions present themselves as a serious headwind.

Morgan Stanley sees the S&P500 range-trading between 4700-6100 with a June-2025 target of 5400. Similar as at Citi, fixed income is the most preferred exposure. Goldman Sachs is more optimistic, targeting 5400 for the S&P500 in three months, 5600 in six months and 5700 this time next year.

For Australia, Morgan Stanley's forecast is for slight improvement in economic momentum, but still below-trend, and nothing spectacular. Morgan Stanley's mid-2025 target for the ASX200 is set at 8100, with a bull case scenario of 8701 and a bear case alternative of 5631.

Prime problem for the local bourse is hardly a pulse in terms of earnings growth while the forward-multiple is 17.3x, well above the long term average of 14.7x and the 10-year average of 15.9x. Equity valuations are also deemed "expensive" relative to the historical relationship with bond yields.

The average dividend yield for the ASX200 is circa 3.6% versus the historical average of 4.5% since 2000. It is Morgan Stanley's view local share prices have disconnected from underlying forward earnings.

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In line with the observations above, **strategists at Macquarie** note bond markets and commodities are both signalling much worse conditions ahead than is currently assumed by equities. Macquarie is not quite sure whether economic recession is unavoidable, pointing out the signals available remain still quite diverse and leave plenty of room for debate on the matter.

Macquarie's model portfolio remains Overweight equities with a preference for Quality' and US markets. Australia is expected to lag.

Another preference is for non-correlated assets that can hedge against downside risks, such as infrastructure and hedge funds.

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For those investors allocating beyond ASX-listed equities, **Morgan Stanley** has released its short list of **Vintage Values 2025**; mid- to large cap US listed companies that can be held for 12 months for superior investment return:

Amazon.com
Apple
Bank of America
Boston Scientific
Constellation Energy
Eli Lilly
GE Vernova
General Dynamics
Lineage
Live Nation Entertainment
M&T Bank Corp
Nvidia
ServiceNow
Visa
Walmart

In a world wherein just about everyone's average holding period is constantly in decline (or so surveys show us) I find it quite refreshing to see a researched attempt to select 15 companies that can be bought and not looked at for the next year (if not longer).

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Coming out of the August results season, **Citi's team of REITs analysts** highlights the signs are there for many AREITs to be experiencing a peak in finance costs. This signals a turn-around might be approaching and indeed a case can be made this is already starting to show up in share prices.

Citi remains of the view some segments are better positioned than others, and the preference lays with sub-sectors that enjoy favourable supply and demand conditions, such as Industrial and Alternatives (land lease and self-storage), while any recovery should benefit residential and fund managers in the sector.

Highlighted **Top Picks** include Scentre Group ((SCG)), Stockland ((SGP)), Goodman Group ((GMG)), National Storage ((NSR)) and Ingenia Communities Group ((INA)).

While conditions for Office markets are improving, Citi still won't go there. (Play the theme through diversified REITs, say the analysts).

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As has become tradition, **Morgan Stanley** analysts have communicated their **Key Picks among ASX-listed small and mid-cap companies** post the August results season. Have thus far been chosen:

-Accent Group ((AX1))
-Jumbo Interactive ((JIN))
-ARB Corp ((ARB))
-SiteMinder ((SDR))

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Stockbroker **Morgans** saw investors warming towards a **better outlook for consumer spending** ahead in August, with companies highlighting better conditions towards the final days of FY24, but financial results undershot against the broker's forecasts nevertheless.

Morgans' Key Picks post August are Beacon Lighting ((BLX)), Super Retail Group ((SUL)) and Universal Store ((UNI)).

Peers at **Jarden** continue to favour companies with long share runways, expansion plans and improving return on invested capital (ROIC). Companies that fit the mould include Flight Centre ((FLT)), Webjet ((WEB)), Temple & Webster ((TPW)), Universal Store, Woolworths Group ((WOW)), Treasury Wine Estates ((TWE)) and Domino's Pizza ((DMP)).

Jarden remains more cautious on more mature businesses facing increased competition.

Morgan Stanley retains a preference for staples as the valuation gap with discretionary retailers has widened too far. Morgan Stanley has Overweight ratings for Woolworths Group and Endeavour Group ((EDV) and Underweight ratings for Wesfarmers ((WES)), JB Hi-Fi ((JBH)), Harvey Norman ((HVN)) and Super Retail.

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Citi's two favourite exposures to the local **healthcare sector** are now Australian Clinical Labs ((ACL)) and CSL ((CSL)).

The five least liked exposures are (from the bottom up) Pro Medicus ((PRO)), Nanosonics ((NAN)), Cochlear ((COH)), Fisher & Paykel Healthcare ((FPH)) and Healius ((HLS)).

Macquarie's local healthcare favourites are CSL, ResMed ((RMD)), Regis Healthcare ((REG)) and Intregral Diagnostics ((IDX)). Least preferred are Cochlear and Sonic Healthcare ((SHL)).

For online retailers, Citi's favourite is Temple & Webster ((TPW)) with Kogan ((KGN)) Sell-rated and least preferred.

Defensives, Healthcare, Resources & Data Centres

Many years of experience with investing and analysing the share market teaches us one very important insight: whether the outlook involves a bear' or bull' market very much depends on specific definitions that may or may not be the all-important for one's strategy and portfolio positioning.

Either way, **Morgan Stanley's wealth management** division has been so kind in offering us their **key themes for the next' bull market**:

Electrification and Real Infrastructure: grid build out, EV charging networks, data center cooling

Digitisation of services business: including hardware and software/service providers behind enterprise automation implementation of: AI, natural language processing, machine learning, optical scanning and facial recognition. Sectors that stand to benefit most include financials, health care, government, education, consumer services/call center heavy

De-globalisation: infrastructure and supply chain reconfiguration. Sectors: industrials, construction, materials, mining

De-carbonisation: energy both green and carbon, EV, batteries, minerals, mining, internet of things, smart highways

Defense/Cybersecurity, space, satellite surveillance

Biotech/Genomics

Demographics/Residential housing

Managing longevity/Debts and deficits

If anyone thinks Morgan Stanley might not have the most optimistic forecasts in mind for equities they'd be correct. In Australia, the house view is that share prices and underlying corporate earnings have disconnected, as also illustrated by expensively priced bank shares that simply won't go down.

Over in the US, the house view is the bull case scenario has pretty much been priced-in for equities, suggesting investors should be looking at reducing their exposure to this year's winners and turn more defensive.

Head of **Nuveen Equities** and Fixed Income, Chief Investment Officer, Saira Malik also believes decelerating economic momentum is likely to turn financial markets a lot more volatile and a lot tougher to navigate. Her solution is to turn to trustworthy, reliable dividend payers.

History suggests, according to Nuveen research, dividend growers are an effective diversifier from large cap growth stocks when times get tougher. The research suggests companies operating a robust business model offering an attractive yield and growing their dividends tend to be less volatile, which makes them a sound choice for a core portfolio allocation, Malik suggests.

Over at **DNR Capital**, the stockpickers' intention is to stick with high-quality companies that might still be undervalued. Two such companies have been identified:

-James Hardie ((JHX))
-Treasury Wine Estates ((TWE)

Macquarie's Model Portfolio recently added James Hardie shares.

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Additional surveys conducted are suggesting the Australian consumer is refusing to crack. This has convinced UBS strategist Richard Schellbach that share prices for **consumer discretionary** companies are too cautiously priced.

The **UBS Model Portfolio** has shifted to Overweight this sector, as well as towards more exposure to the telecom sector as those same consumers are indicating they expect to increase payments on phone bills.

UBS also reports respondents are warming to the idea of buying property, but still acknowledge that such a purchase will require a sale of any additional homes.

The team of global strategists led by Andrew Garthwaite retains its **portfolio preference for defensives**. This team's view remains most cyclicals are still expensively priced, i.e. investors are too optimistic about what lays ahead. In terms of seasonality, Garthwaite & Co point out November is traditionally the time to start buying cyclicals, not in September.

Taking into account a whole range of factors, including investor crowding, valuations, earnings and share price momentum, it is UBS's view the best defensives to buy/own globally are among food producers, beverages companies, utilities and healthcare equipment providers.

Among the companies mentioned are no ASX-listed names. The list includes the likes of E.On, Abbott Laboratories, Air Liquide, Microsoft and Heineken.

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Fresh from an overall underwhelming August reporting season, **healthcare analysts at Jarden** did see early signals of greenshoots emerging for the sector in Australia, although improvements were by no means universal.

Ramsay Health Care ((RHC)) in particular has been identified as one former outperformer that remains difficult to get excited about, still. Another prominent negative surprise was Cochlear's ((COH)) outlook.

Jarden's sector favourites are CSL ((CSL)), as one of higher-quality stocks expected to enjoy multi-year top line, margin and cashflow improvements, as well as ResMed ((RMD)), as the latter continues to win more market share and equally still has the potential to further improve margins.

Among smaller-sized companies in the sector, Jarden's preference lays with Telix Pharmaceuticals ((TLX)), followed by Integral Diagnostics ((IDX)), assuming the merger with Capitol Health ((CAJ)) goes ahead, and Regis Healthcare ((REG)).

The analysts observe the pathology sector in particular is making significant investments in AI led by Sonic Healthcare ((SHL)) while Ramsay Health Care and Integral Diagnostics appear to be investing the most in technology.

Sector analysts at **Macquarie** highlight the healthcare sector delivered the highest EPS growth in Australia in August growing at an average of 7%. But the sector remains polarised and there's a lot of divergence hiding behind that average.

Regardless, average EPS growth throughout FY09-FY19 had been 8% per annum, but that number had sunk to 5% over FY19-FY24. Conclusion: the bad covid-days might increasingly be ready to be relegated to the past.

Macquarie's sector preferences are Ansell ((ANN) first, followed by CSL, Fisher & Paykel Healthcare ((FPH)), Pro Medicus ((PME)), and ResMed. All are rated Outrperform (Buy-equivalent).

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As interest rates have embarked on a downward sloping trajectory, even though the RBA is a global laggard, **JP Morgan** highlights **AREITs** will be among key beneficiaries on the ASX.

Excluding all-dominant sector leader Goodman Group ((GMG)), the sector seems poised for a three-year CAGR of 5.3%, well above the negative growth suffered over the past two financial years. Large-cap AREITs excluding Goodman Group are expected to grow on average by 7-8% CAGR (which would be the highest pace in ten years).

While the sector has already enjoyed a decent rally, JP Morgan believes average valuations are still below historical trends ex-Goodman.

JP Morgan has Overweight ratings for Scentre Group ((SCG)), GPT ((GPT)), Dexus ((DXS)) and Charter Hall ((CHC)).

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Viridian Financial Group has equally shared its portfolio preferences:

Overweight Healthcare and Tech: These sectors are expected to benefit from strong demand for healthcare services and products, and high demand for AI-enabled products and data centres.

Underweight Banks and Resources: These sectors face challenges due to economic uncertainties and lower demand for bulk commodities. The focus is on managing risks and navigating economic uncertainties.

Positive on Copper and Gold: Long-term demand for copper is driven by industrial and energy transition applications, while gold is seen as a safe-haven asset.

Neutral towards rates: The portfolio maintains a neutral stance towards interest rates, with a focus on building positions in sectors that can benefit from rate cuts and improved economic conditions.

Overweight Industrials: The industrial sector is expected to benefit from diversified business models and easing labour cost pressures, contributing to strong performance and improved profitability.

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Post August, the **Asia Conviction List** at **Goldman Sachs** no longer includes Woolworths ((WOW)), but the stock has retained its inclusion for the broker's **APAC Conviction List**. The added twist here is those who are responsible for one list are the same as for the other.

Only three other ASX-listed companies are included in both selections:

-Qantas Airways ((QAN))
-Lynas Rare Earths ((LYC))
-Xero ((XRO))

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The select list of **highest conviction calls** from analysts at **Ord Minnett** has seen numerous changes post

August results.

Gone are Select Harvests ((SHV)), Webjet ((WEB)) and Whitehaven Coal ((WHC)). Instead, Electro Optic Systems, Qoria, SiteMinder and Stanmore Resources have been included.

The full list of Ord Minnett's Conviction calls consists of the following 14 companies:

-Alliance Aviation Services ((AQZ))
-ARB Corp ((ARB))
-Cosol ((COS))
-EQT Holdings ((EQT))
-Electro Optic Systems Holdings ((EOS))
-Lindsay Australia ((LAU))
-Pinnacle Investment Management ((PNI))
-Qoria ((QOR))
-Red 5 (RED)
-Regis Healthcare ((REG))
-SiteMinder ((SDR))
-SRG Global ((SRG))
-Stanmore Resources ((SMR))
-Waypoint REIT ((WPR))

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Not too bad, is probably an accurate summary of how **stockbroker Morgans** perceived the performance of **mining services companies** throughout the August reporting period. One key problem for the sector is ongoing tough conditions for junior exploration companies, which also remains Citi's core point of attention when it comes to assessing the outlook for a company such as Imdex ((IMD)).

As per usual, activity levels are by no means uniform across the sector with lithium bleeding profusely but gold, iron ore, gas and wind providing plenty of offset. Morgans does highlight the risks for iron ore are rising.

Two sector favourites have been identified: ALS Ltd ((ALQ)) and Civmec Singapore ((CVL)).

The first one has been chosen for the positive trajectory in margins for the Life Sciences division while Civmec has re-located to the ASX and the broker sees potential for a re-rating.

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Morningstar saw no reason to make any changes to its selection of **Best Buys** on the ASX. That selection continues with the following 14 companies:

-IGO Ltd ((IGO))
-TPG Telecom ((TPG))
-Domino's Pizza ((DMP))
-Bapcor ((BAP))
-Endeavour Group ((EDV))
-Santos ((STO))
-ASX Ltd ((ASX))
-Aurizon Holdings ((AZJ))
-Brambles ((BXB))
-Dexus ((DXS))
-SiteMinder ((SDR))
-APA Group ((APA))
-Fineos Corp ((FCL))
-ResMed ((RMD))

Investors should be aware Morningstar's selection is traditionally centred around a seemingly cheap valution (or at least: undervalued) without taking into account additional factors such as corporate quality or the economic cycle. An undervalued valuation is not a timing tool and some inclusions have literally grown a beard while on Morningstar's list (think Aurizon Holdings).

It also shouldn't surprise to see companies such as TPG Telecom, the ASX, Dexus and Bapcor included; one look at the respective share price charts will provide plenty of explanation. But there's always room for a surprise and in the current selection I would point towards SiteMinder and ResMed as being different' from the other inclusions.

Banks, Miners & Quality Small Caps

"The strength of the Australian banking sector is difficult to reconcile with the fundamentals.

"The sector has generated an extraordinary total return of ~50% over the last twelve months, despite a tepid earnings growth outlook and increasingly extreme valuations."

The quote is from **Wilsons** latest strategy update released this week but it could have been written at any point during the past nine months or so. Banks have surprised friend and foe. Sector valuations look extreme while market forecasts remain for tepid growth. The phenomenon hasn't been limited to the ASX.

At times, macro forces over-rule conditions on the ground and with the world looking forward to, and preparing for central bank rate cuts, there simply was no stopping the flood of money descending upon the global banking sector.

Meanwhile, resources stocks experienced large outflows as the global economy was clearly slowing, pressured by higher-for-longer interest rates, and ongoing moribund conditions in China.

It created an ever-widening gap between expensive' banks and cheaply priced' resources stocks. Brokers started initiating upgrades for BHP Group ((BHP)), Rio Tinto ((RIO)) and Fortescue ((FMG)) but it was clear a catalyst was needed.

That catalyst could have arrived this week with China's latest stimulus announcement to put more oomph in its sluggish economy, but price action a few days after the announcement suggests there remains a lot of scepticism among investors when it comes to China and its economic trajectory.

Plenty of expert voices around to tell investors not all resources stocks look undervalued. UBS, for example, maintains iron ore is not a sector to get too excited about.

Two factors are currently undeniably working **in favour of resources**:

-Large investors can be underweight banks or resources, but given the index weight each represents locally, they cannot be underweighted both. If there is a catalyst to move out of expensive' into cheap', as has happened this week, this might well become a self-fulfilling process.

-Traditionally, the November-February period marks a strong performance for China-related commodities. That is only five weeks away.

The above mentioned strategists at Wilsons highlight two additional important points:

-Iron ore miners are equally unattractive' from a fundamental point of view (Wilsons' Focus Portfolio is underweight both banks and iron ore miners). Wilsons' preference lays with commodities that have attractive long-term supply versus demand outlooks, such as copper, gold, oil & gas, and lithium.

-The market is relatively expensive' in a broader sense with the banks simply priced at the more extreme level (i.e. more expensive among expensive stocks)

Wilsons' Focus Portfolio retains plenty of exposure to healthcare and technology stocks.

Strategists at Morgan Stanley highlight the duration of this week's rotation out of banks into commodities-related exposures is dependent on the direction of commodity prices as well as the market's acceptance of the soft landing' narrative. Morgan Stanley's portfolio is Overweight Diversified Miners, gold and energy, with explicit mentioning of uranium.

Earlier in the week, pre-China announcement, **JP Morgan** had placed everything related to iron ore on a positive outlook, including Deterra Royalties ((DRR)) and Mineral Resources ((MIN)).

UBS, on the other hand, remains bearish on the medium-term outlook for iron ore. This week's sector update on China stimulus and after plenty of questions from the client base, sees UBS highlighting its Buy rating for South32 ((S32)). Both BHP and Rio Tinto remain Neutral rated. Fortescue and Mineral Resources remain on Sell.

On a broader, global view, UBS strategists believe small caps are poised to outperform (with 3X more floating rate debt than large caps), as remains Quality, and to a lesser extent so do growth stocks.

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Canaccord Genuity strategist Tony Brennan and his team have adopted a different angle, centred around risk', but their conclusion is the same: it makes sense to build an Overweight position in commodities.

General optimism around inflation falling and central banks cutting interest rates has pumped up share prices in banks, insurers, REITs, discretionary retailers, media companies, and technology stocks; all are deemed to be beneficiaries of lower bond yields.

Certainly in Australia, many of these share price rallies are not being supported by an improving earnings outlook. The banks are but the obvious example. On Canaccord's assessment, banks in Australia are trading on a higher PE than the broader market; an event without precedent over the past thirty years.

This skews risk towards a correction in share prices if/when earnings disappointment comes to light. What usually follows central bank interest rate cuts is a decelerating pace of economic momentum.

In contrast, food retailing and healthcare services are among the laggards in today's share market, as are commodity stocks. The Energy and Materials sectors are currently priced on low PEs but also on low expectations, which, on a risk-adjusted basis, makes them relatively more attractive.

In simple terms: resources are priced for more risk that may not eventuate while banks and other segments are priced for very little risk that might prove too optimistic.

Canaccord's Model Portfolio has removed Wesfarmers ((WES)) and Macquarie Group ((MQG)) and added James Hardie ((JHX)) and Evolution Mining ((EVN)).

****

Citi's previously cautious portfolio stance has become less cautious following the Federal Reserve's -50bp rate cut, as Powell & Co's jump-start lowers the chances of an imminent US economic recession.

Citi's asset allocation has thus moved towards Overweighting US equities, favouring consumer discretionary, communications and technology. In the commodities space, base metals don't get more than a rather Neutral view, but Citi still likes precious metals, a lot.

All in all, it's time for a shift towards a more pro-cyclical portfolio composition, suggest Citi strategists.

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Analysts at **Jarden** believe Australian investors should remain over-exposed to smaller retail companies. Not only has the recent August reporting season strengthened their conviction, the analysts also point out most of these companies are cycling weak performance numbers from last year, while their multiples have not yet re-rated.

One added observation is the Small Ordinaries index is still yet to bridge the relative performance gap with the larger ASX200 index that opened up since 2022.

Jarden's key picks are Temple & Webster ((TPW)), Universal Store Holdings ((UNI)), Accent Group ((AX1)) and Nick Scali ((NCK)). Post-August, Jarden has downgraded Lovia Holdings ((LOV)) which is thus no longer part of the top favourites.

****

As also explained in our own **August Result Season 2024 Wrap** (https://fnarena.com/index.php/2024/09/24/august-result-season-2024-the-wrap/), it seems but fair to draw comparisons with 2019 when corporate results, in particular in the second half, were signalling all was not well with general conditions for corporate Australia and sizable dividend cuts fell upon unsuspecting shareholders as a result.

The key reason as to why many investors will not remember it as such is because soon afterwards all attention went to the new epidemic and that closed the books on anything else before or after.

Reece Birtles, Chief Investment Officer at **Martin Currie**, still remembers 2019 and he warns investors this time around the parallels are there for everyone to see.

Birtles says Martin Currie conducted more than 100 meetings and engagements with local company management teams in August and the key conclusion from these insights is that an exuberant share market seems in contradiction with how tough the situation on the ground is for many companies.

It looks like there's a veritable challenge ahead for companies to continue growing earnings per share and/or retain their margins. Martin Currie is therefore cautiously avoiding companies that seem priced for perfection. This in particular applies to many in the local Growth segment, suggests Birtles. His preference thus lays with Value stocks that are priced relatively cheaply.

Under normal circumstances, when the cycle moves through a rough patch, as is the case currently, investors find safety in defensive businesses, but Birtles sees risk from too high valuations. Companies he does like instead include South32 ((S32)), Worley ((WOR)) and Flight Centre Travel ((FLT)).

Portfolio managers at **T Rowe Price** would second that general assessment. They too have shifted general preference towards the cheaper priced segments of the local share market. Apart from elevated valuations, T Rowe Price also finds market participants seem too confident the RBA is about to embark on policy loosening, widely expected to start in February next year.

T Rowe Price is not so sure.

DNR Capital has noted the tough environment has made life difficult for many a small cap company in Australia, and that observation stood out throughout the August results season for the Australian investment manager. The antidote is Quality.

Quality small cap companies managed to outperform, both against their peers as against the broader index, DNR highlights. Some of the stand-out performances have been delivered by Breville Group ((BRG)), Hub24 ((HUB)) and Netwealth Group ((NWL)). The communication by DNR doesn't spell it out, but we can probably safely assume all three are currently owned by DNR Capital's Emerging Companies Fund.

****

Morgans' big observation is that mid-cap gold producers have yet to reflect the fact precious metals are now in a new bull market. The broker foresees a general re-rating regardless of company size and where key assets are located.

History suggests, assures Morgans, gold prices benefit hugely from central banks cutting rates.

Model Portfolios, Best Buys and Conviction Calls

Macquarie's Quant team has identified those defensive names on the ASX most likely to benefit from falling interest rates, including:

-Aristocrat Leisure ((ALL))
-Codan ((CDA))
-Coles Group ((COL))
-Fisher & Paykel Healthcare
-GWA Group ((GWA))
-Harvey Norman ((HVN))
-Netwealth Group ((NWL))
-Pro Medicus ((PME))
-REA Group ((REA))
-ResMed ((RMD))
-TechnologyOne ((TNE))
-Ventia Services ((VNT))
-WiseTech Global ((WTC))

****

Barrenjoey's updated **Top Picks**:

-Insurance Australia Group ((IAG)) among financials, as well as GQG partners ((GQG)) and Westpac ((WBC))
-Xero ((XRO)), Pexa Group ((PXA)) and Dicker Data ((DDR)) in the technology sector
-Vicinity Centres ((VCX)) and Abacus Storage King ((ASK)) among REITs
-South32 ((S32)), Lynas Rare Earths ((LYC)) and Perseus Mining ((PRU)) among miners and Strike Energy ((STX)) in the oil&gas sector
-ResMed ((RMD))
-Metcash ((MTS))
-Aristocrat Leisure
-Reliance Worldwide ((RWC))
-Brambles ((BXB))
-Seven Group ((SVW))

****

Jarden's Best Ideas among emerging companies (small and mid-cap):

-IPH Ltd ((IPH))
-Temple & Webster
-EVT Ltd ((EVT))
-Dicker Data ((DDR))
-Universal Store ((UNI))

-Nick Scali ((NCK))
-AUB Group ((AUB))
-Webjet ((WEB))
-Integral Diagnostics ((IDX))
-Capricorn Metals ((CMM))
-Michael Hill ((MHJ))
-NRW Holdings ((NWH))
-Light & Wonder ((LNW))
-Pointsbet ((PBH))
-National Storage ((NSR))
-Ingenia Communities ((INA))
-Karoon Gas ((KAR))
-Domain Holdings Australia ((DHG))
-Pepper Money ((PPM))
-Telix Pharmaceuticals ((TLX))

****

Stockbroker **Morgans' Best Ideas**, freshly updated post the August results season:

-The Lottery Corp ((TLC))
-CSL ((CSL))
-QBE Insurance ((QBE))
-Woodside Energy ((WDS))
-GQG Partners ((GQG))
-WH Soul Pattinson ((SOL))
-ALS Ltd ((ALQ))
-Reliance Worldwide ((RWC))
-Beacon Lighting ((BLX))
-Amotiv ((AOV))
-Universal Store Holdings ((UNI))
-Elders ((ELD))
-Acrow ((ACF))
-Maas Group ((MGH))
-Karoon Energy ((KAR))
-ResMed ((RMD))
-NextDC ((NXT))
-Mach7 Technologies ((M7T))
-Camplify Holdings ((CHL))
-Superloop ((SLC))
-Treasury Wine Estates ((TWE))
-ClearView Wealth ((CVW))
-PolyNovo ((PNV))
-Flight Centre ((FLT))
-BHP Group ((BHP))
-Rio Tinto ((RIO))
-South32 ((S32))
-Dalrymple Bay Infrastructure ((DBI))
-Cedar Woods Properties ((CWP))
-Dexus Industria REIT ((DXI))
-HomeCo Daily Needs REIT ((HDN))
-Qualitas ((QAL))

****

Post August, the **Asia Conviction List** at **Goldman Sachs** no longer includes Woolworths ((WOW)), but the stock has retained its inclusion for the broker's **APAC Conviction List**. The added twist here is those who are responsible for one list are the same as for the other.

Only three other ASX-listed companies are included in both selections:

-Qantas Airways ((QAN))
-Lynas Rare Earths ((LYC))
-Xero ((XRO))

****

The select list of **highest conviction calls** from analysts at **Ord Minnett** has seen numerous changes post August results.

Gone are Select Harvests ((SHV)), Webjet ((WEB)) and Whitehaven Coal ((WHC)). Instead, Electro Optic Systems, Qoria, SiteMinder and Stanmore Resources have been included.

The full list of Ord Minnett's Conviction calls consists of the following 14 companies:

-Alliance Aviation Services ((AQZ))
-ARB Corp ((ARB))
-Cosol ((COS))
-EQT Holdings ((EQT))
-Electro Optic Systems Holdings ((EOS))
-Lindsay Australia ((LAU))
-Pinnacle Investment Management ((PNI))
-Qoria ((QOR))
-Red 5 (RED)
-Regis Healthcare ((REG))
-SiteMinder ((SDR))
-SRG Global ((SRG))
-Stanmore Resources ((SMR))
-Waypoint REIT ((WPR))

****

Morningstar's selection of **Best Buys** on the ASX:

-IGO Ltd ((IGO))
-TPG Telecom ((TPG))
-Domino's Pizza ((DMP))
-Bapcor ((BAP))
-Endeavour Group ((EDV))
-Santos ((STO))
-ASX Ltd ((ASX))
-Aurizon Holdings ((AZJ))
-Brambles ((BXB))
-Dexus ((DXS))
-SiteMinder ((SDR))
-APA Group ((APA))
-Fineos Corp ((FCL))
-ResMed ((RMD))

****

Key Stock Picks for the year-ahead nominated by analysts at **Bell Potter**:

-Among listed investment companies (LICs); Australian Foundation Investment Company ((AFI)), Metrics Master Income Trust ((MXT)), and MFF Capital Investments ((MFF))

-Agriculture & fast moving consumer goods; Bega Cheese ((BGA)), Rural Funds Group ((RFF)), and Elders ((ELD))

-Technology; TechnologyOne ((TNE)), Gentrack ((GTK)), and REA Group ((REA))

-Diversified Financials; Perpetual ((PPT)), Regal Partners ((RPL)), and McMillan Shakespeare ((MMS))

-Real Estate; Dexus Convenience Retail REIT ((DXS)), HealthCo Healthcare & Wellness REIT ((HCW)), and GDI Property Group ((GDI))

-Retailers; Premier Investments ((PMV)), Universal Store Holdings ((UNI)), and Propel Funeral Partners ((PFP))

-Aerospace & Defence; Electro Optic Systems ((EOS)) and Austal ((ASB))

-Industrials; Brickworks ((BKW)), IPD Group ((IPG)), and Cleanaway Waste Management ((CWY))

-Healthcare; Telix Pharmaceuticals ((TLX)), Cyclopharm ((CYC)), Aroa Bioscience ((ARX)), MedAdvisor ((MDR)), and Neuren Pharmaceuticals ((NEU))

-Gold sector; Capricorn Metals ((CMM)) and Santana Minerals ((SMI))

-Base metals; Aeris Resources ((AIS)), Nickel Industries ((NIC)), and Mineral Resources ((MIN))

-Strategic Minerals; Alpha HPA ((A4N)), IperionX ((IPX)), and Liontown Resources ((LTR))

-Energy sector; Boss Energy ((BOE)) and Paladin Energy ((PDN))

-Mining services; Seven Group Holdings ((SVW)), Mader Group ((MAD)), and SRG Global ((SRG))

****

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

-Aristocrat Leisure ((ALL))
-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 ((WDS))

****

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

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-Macquarie Group ((MQG))
-QBE Insurance ((QBE))
-Suncorp Group ((SUN))
-Goodman Group ((GMG))
-Scentre Group ((SCG))
-Stockland ((SGP))
-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-James Hardie ((JHX))
-Orica ((ORI))
-Coles Group ((COL))
-Treasury Wine Estates ((TWE))
-CSL ((CSL))
-ResMed ((RMD))
-AGL Energy ((AGL))
-Origin Energy ((ORG))
-Telstra ((TLS))
-Transurban Group ((TCL))
-BHP Group ((BHP))
-Newmont Corp ((NEM))
-Rio Tinto ((RIO))
-South32 ((S32))
-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy ((WDS))

****

Macquarie Wealth's recommended **Growth Portfolio**:

-Goodman Group ((GMG))

-Seek ((SEK))
-Aristocrat leisure ((ALL))
-Northern Star ((NST))
-CSL ((CSL))
-Computershare ((CPU))
-NextDC ((NXT))
-Flight Centre ((FLT))
-Mineral Resources ((MIN))
-Cleanaway Waste Management ((CWY))
-Steadfast Group ((SDF))
-Arcadium Lithium ((LTM))
-ResMed ((RMD))
-Pexa Group ((PXA))
-Treasury Wine Estates ((TWE))
-Viva Energy ((VEA))
-Xero ((XRO))

Macquarie Wealth's recommended **Income Portfolio:**

-Suncorp Group ((SUN))
-Telstra ((TLS))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-ANZ Bank ((ANZ))
-BHP Group ((BHP))
-CommBank ((CBA))
-Premier Investments ((PMV))
-Coles Group ((COL))
-Viva Energy ((VEA))
-Atlas Arteria ((ALX))
-Aurizon Holdings ((AZJ))
-APA Group ((APA))
-GPT Group ((GPT))
-Deterra Royalties ((DRR))
-Metcash ((MTS))
-Amotiv ((AOV))
-Charter Hall Retail REIT ((CQR))
-Amcor ((AMC))

In December, **Shaw and Partners** released its **10 Best Ideas** to benefit from the anticipated small caps' revival in 2024.

The selected ten:

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

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Macquarie's ASX Quality Compounders

The **highest quality compounders'** as identified by **Macquarie quant** research inside the ASX300:

-James Hardie ((JHX))
-Cochlear ((COH))
-REA Group ((REA))
-TechnologyOne ((TNE))
-ResMed ((RMD))

-Data#3 ((DTL))
-Pro Medicus ((PME))
-Jumbo Interactive ((JIN))
-PWR Holdings ((PWH))
-Netwealth Group ((NWL))
-Aristocrat Leisure ((ALL))
-Spark New Zealand ((SPK))
-Codan ((CDA))
-Clinuvel Pharmacauticals ((CUV))
-Redox ((RDX))

Given Macquarie's research strong leaning on the past five years, with high barriers to match, the following 11 companies fell just outside the above list:

-Fisher & Paykel Healthcare ((FPH))
-Medibank Private ((MPL))
-Coles Group ((COL))
-The Lottery Corp ((TLC))
-Lovisa Holdings ((LOV))
-CSL ((CSL))
-IDP Education ((IEL))
-Pinnacle Investment Management ((PNI))
-ARB Corp ((ARB))
-Breville Group ((BRG))
-Johns Lyng ((JLG))

My research and All-Weather stock selections are 24/7 available for paying subscribers: https://fnarena.com/index.php/analysis-data/all-weather-stocks/

FNArena Talks: Videos

-Pre-August interview with Livewire Markets: https://youtube.com/watch?v=e3FC-EITqCA

-Post-August interview with Fat Tail Investments: https://youtube.com/watch?v=CNvS6si42DY&t=1s

-Post-August interview with Switzer TV: https://youtube.com/watch?v=eJwTscS9YuM&t=3s

See also: August Result Season 2024: The Wrap:
https://fnarena.com/index.php/2024/09/24/august-result-season-2024-the-wrap/

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Attached: FNArena's final Monitor for the season.

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

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

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

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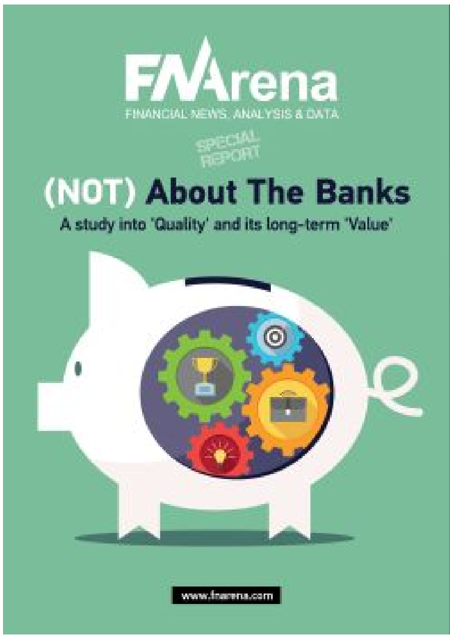

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RUDI'S VIEWS

Rudi's View: Growth Is Not A Dirty Word

In this week's Weekly Insights:

-Growth Is Not A Dirty Word
-FNArena On Tour

By Rudi Filapek-Vandyck, Editor

It was by no means a universal outcome, with some of the smaller cap companies delivering unexpected negative surprises, but the Technology sector crowned itself as the best performing segment on the ASX throughout the August reporting season.

It wasn't just about WiseTech Global ((WTC)), whose share price has been handsomely rewarded this year (40% up post August result), but equally about Car Group ((CAR)), Hub24 ((HUB)), Pro Medicus ((PME)), REA Group ((REA)), ResMed ((RMD)) and smaller cap companies such as Bravura Solutions ((BVS)), Breville Group ((BRG)), Codan ((CDA)), DUG Technology ((DUG)), Electro Optic Systems ((EOS)), Life360 ((360)) and Temple & Webster ((TPW)).

Not all of these names are part of the local Technology Index, but respective core businesses very much revolve around new innovations and keeping up with the latest developments in technological advances and breakthroughs. In extension, we might even include some of the direct beneficiaries of Gen.Ai, Goodman Group ((GMG)) & Co, which are not technology companies *in se*, but their growth momentum and attraction is very much related to the latest megatrend, which is technology-driven.

For most of these companies, in particular the large caps, August has not been a one-off. Anyone opening up a 10-year historical price chart, or longer, can easily see how strong, consistent and prolonged the rewards for loyal shareholders have been.

Taking into account how both banks and resources tend to go 'missing' for long periods of time, there's but a fair argument to be made achieving positive returns from the local bourse has become a lot easier through Technology in the post-GFC era, which still continues.

As I have observed on multiple occasions over the years past: the local Technology sector offers Nasdaq-alike returns, or better. Yet, your average Australian investor might be forgiven for completely missing that point.

From mainstream media to local newsletters and tip sheets, most reports and commentary revolves around banks and other financials, and about mining companies and energy producers, China, coal, lithium, housing, dividends and franking.

Only occasionally there's time and space left for your typical high-achieving local Technology champion.

Why is this so?

At the recent *Livewire Live 2024 conference*, **Dushko Bajic**, head of Australian equities growth at **First Sentier Investors**, suggested Australian media, and by extension Australian investors, are mis-guided by their perception of what makes an attractive investment.

Most commentary around local Technology companies focuses on the elevated Price-Earnings (PE) ratios these stocks trade on, and that's usually where the attention stops.

Indeed, if a high PE automatically translates into dismal investment returns ahead then the companies mentioned have collectively done an excellent job in proving otherwise.

Bajic also made the point the Australian share market harbours some of the best Technology companies in the world. His number one favourite? WiseTech Global, still.

Others with dedicated interest have throughout the years past expressed similar views, including myself. This does not change the fact your average Australian investor is constantly directed towards 'cheap' looking small cap cyclicals and dividend-paying financials, away from the better performing, 'expensive' looking segment.

To help those who'd like to overcome their natural inhibition against investing in higher-valued, champion performers, let's address some of the issues seldom discussed or explained.

Our starting point is by acknowledging Technology stocks on the ASX do trade on PE multiples that are well above the market average, not to mention banks and resources that usually trade on below-average multiples, making stocks like Pro Medicus or WiseTech Global look extremely expensive.

Equally important, when comparisons are made with international peers, usually in the USA, multiples on the ASX tend to be noticeably higher as well. The usual complaint made is something along the lines of: I can buy Microsoft or Apple while trading on much lower multiples, why would I bother with WiseTech shares or Pro Medicus on such high multiples?

An expert like Bajic would defend the local choices by stating they are among the highest quality performers globally, often grabbing market share and exerting dominance in sectors and sub-sectors that offer faster growth with less threats from regulatory intervention, while allowing for higher margins behind a solid operational moat.

A recent study by analysts at **Canaccord Genuity** backs up that view, concluding the better equipped Technology performers on the ASX offer world-leading financial metrics, placing them among the best of the best, globally.

It is equally true the ASX offers less choice for institutional investors who'd like to stock up on exposure to high-quality growth performers, and this probably means these investors have to accept that seeking out quality growth locally comes with a higher price tag.

The latter is often highlighted by your typical value investor as a stern no-no, but it's important to also highlight the first factor, as well as the fact none of the above has prevented the local sector from delivering above average returns over extended periods of time.

Just like CommBank's ((CBA)) premium valuation has not prevented Australia's largest bank from delivering superior returns vis a vis the rest of the local sector over the past 15 years.

Within this context, Bajic referred to WiseTech Global shares that IPO'd on the ASX at $3.35 in April 2016 and have traded on an average PE of 75x since. Sounds expensive? The share price today is $133 for a total market cap of $43.68bn, making WiseTech a Top20 member locally by company size.

For those who like to see numbers: the total return over 8.5 years is 3,870.15% or 47.22% CAGR per annum.

Others have equally provided outsized returns, be they Hub24, Pro Medicus, REA Group, TechnologyOne ((TNE)), Car Group or Xero ((XRO)), and over longer periods of time as they listed much earlier.

One observation to add is the number of IPOs has pretty much dried up in recent years while numerous promising names have left the ASX, including Altium, Elmo Software and Nearmap while others such as ReadyTech Holdings ((RDY)) and Bigtincan Holdings ((BTH)) might soon succumb to take-over interest.

The good news is expectations are building for a pick-up in fresh IPOs which should add new ideas to the bourse for investors. Canaccord analysts report the relative higher valuations on the ASX make it extra-attractive for technology companies to list locally.

Which brings us to the most tricky part of this story: if not by PE ratio, how does one 'value' these high-performing, high-quality, sustainable growth companies?

I often refer to **consensus price targets** myself, but many of these companies have repeatedly, if not persistently, traded above targets set by analysts, which yet again feeds into the perception these stocks are always too expensive, keeping investors at bay.

As such companies' valuation typically benefits from lower bond yields, I'd wager some additional premium is built-in because of bond markets pricing-in aggressive cutting from the Federal Reserve & Co (though continued robust growth is what ultimately makes the share price trend upwards).

The study by Canaccord Genuity concludes the best valuation methodology remains the so-called **Rule of 40**, whereby revenue growth and EBITDA margin combined sum up to 40 or more. Companies that outperform are typically those that can accelerate either top line growth, or expand their margin, or both.

Looking back at FY24 results in August, Canaccord Genuity has highlighted Bravura Solutions, Catapult Group International ((CAT)), Domain Group Australia ((DHG)), Superloop ((SLC)), Objective Corp ((OCL)), Praemium ((PPS)), Megaport ((MP1)), Nuix ((NXL)), Smart Parking ((SPZ)), hipages ((HPG)) and SiteMinder ((SDR)).

The obvious observation to make is most of these companies are still loss-making or making a come-back from not-so-great times. This means their current momentum might not last and prove temporary only.

Also, as witnessed in August, smaller cap growth companies are more at risk for succumbing to the unexpected hiccup than the larger cap peers mentioned.

Think Audinate Group ((AD8)), for example, or Hansen Technologies ((HSN)).

Also taking into account a company's **return on invested capital** (ROIC) refocuses the attention towards the better capital allocators. Canaccord's study highlights some with the highest ROIC: Netwealth Group ((NWL)), Pro Medicus, Jumbo Interactive ((JIN)), RPMGlobal Holdings ((RUL)), TechnologyOne, and REA Group.

For those who'd like to still get on board some of Australia's prime success stories, but do not want to overpay for the privilege, the strategy that suits best might be to draw up a short list of desired exposures, and wait for that calamity that eventually will impact on the share price.

Another strategy might be to start nibbling but keep enough powder dry to purchase more exposure over time. If share prices rally higher, you may not have the full allocation, but you are benefiting already. If the share price falls, you're averaging in with a longer-term focus.

The **FNArena-Vested Equities All-Weather Model Portfolio** has used similar tactics to initiate and renew exposure to companies including WiseTech Global, ResMed, REA Group, Hub24 and NextDC ((NXT)).

Paying subscribers have 24/7 access to my curated lists of All-Weather Performers and Quality Growers: https://fnarena.com/index.php/analysis-data/all-weather-stocks/

See also last week's edition:
https://fnarena.com/index.php/2024/09/18/rudis-view-plenty-of-traps-in-equity-valuations/

FNArena On Tour

Dani and myself will perform as a surprise double act on the Gold Coast next week on invitation of local members of the Australian Shareholders Association (ASA).

The event is scheduled for 1:30pm on Wednesday 2nd October at the Mermaid Beach Hotel by Nightcap Plus (one hour plus tea/coffee break plus more). We'll share our personal insights and market observations with plenty of Q&A opportunity afterwards.

Next week's Weekly Insights will be written from a hotel room nearby.

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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A subscription to FNArena (6 or 12 months) comes with an archive of Special Reports (21 since 2006); examples below.

(This story was written on Monday, 23rd September, 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: Banks, Miners & Quality Small Caps

By Rudi Filapek-Vandyck, Editor

"The strength of the Australian banking sector is difficult to reconcile with the fundamentals.

"The sector has generated an extraordinary total return of ~50% over the last twelve months, despite a tepid earnings growth outlook and increasingly extreme valuations."

The quote is from **Wilsons**' latest strategy update released this week but it could have been written at any point during the past nine months or so. Banks have surprised friend and foe. Sector valuations look extreme while market forecasts remain for tepid growth. The phenomenon hasn't been limited to the ASX.

At times, macro forces over-rule conditions on the ground and with the world looking forward to, and preparing for central bank rate cuts, there simply was no stopping the flood of money descending upon the global banking sector.

Meanwhile, resources stocks experienced large outflows as the global economy was clearly slowing, pressured by higher-for-longer interest rates, and ongoing moribund conditions in China.

It created an ever-widening gap between 'expensive' banks and 'cheaply priced' resources stocks. Brokers started initiating upgrades for BHP Group ((BHP)), Rio Tinto ((RIO)) and Fortescue ((FMG)) but it was clear a catalyst was needed.

That catalyst could have arrived this week with China's latest stimulus announcement to put more oomph in its sluggish economy, but price action a few days after the announcement suggests there remains a lot of scepticism among investors when it comes to China and its economic trajectory.

Plenty of expert voices around to tell investors not all resources stocks look undervalued. UBS, for example, maintains iron ore is not a sector to get too excited about.

Two factors are currently undeniably working **in favour of resources**:

-Large investors can be underweight banks or resources, but given the index weight each represents locally, they cannot be underweighted both. If there is a catalyst to move out of 'expensive' into 'cheap', as has happened this week, this might well become a self-fulfilling process.

-Traditionally, the November-February period marks a strong performance for China-related commodities. That is only five weeks away.

The above mentioned strategists at Wilsons highlight two additional important points:

-Iron ore miners are equally 'unattractive' from a fundamental point of view (Wilsons' Focus Portfolio is underweight both banks and iron ore miners). Wilsons' preference lays with commodities that have attractive long-term supply versus demand outlooks, such as copper, gold, oil & gas, and lithium.

-The market is relatively 'expensive' in a broader sense with the banks simply priced at the more extreme level (i.e. more expensive among expensive stocks)

Wilsons' Focus Portfolio retains plenty of exposure to healthcare and technology stocks.

Strategists at Morgan Stanley highlight the duration of this week's rotation out of banks into commodities-related exposures is dependent on the direction of commodity prices as well as the market's acceptance of the 'soft landing' narrative. Morgan Stanley's portfolio is Overweight Diversified Miners, gold and energy, with explicit mentioning of uranium.

Earlier in the week, pre-China announcement, **JP Morgan** had placed everything related to iron ore on a positive outlook, including Deterra Royalties ((DRR)) and Mineral Resources ((MIN)).

UBS, on the other hand, remains bearish on the medium-term outlook for iron ore. This week's sector update on China stimulus and after plenty of questions from the client base, sees UBS highlighting its Buy rating for South32 ((S32)). Both BHP and Rio Tinto remain Neutral rated. Fortescue and Mineral Resources remain on Sell.

On a broader, global view, UBS strategists believe small caps are poised to outperform (with 3X more floating rate debt than large caps), as remains Quality, and to a lesser extent so do growth stocks.

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Canaccord Genuity strategist Tony Brennan and his team have adopted a different angle, centred around 'risk', but their conclusion is the same: it makes sense to build an Overweight position in commodities.

General optimism around inflation falling and central banks cutting interest rates has pumped up share prices in banks, insurers, REITs, discretionary retailers, media companies, and technology stocks; all are deemed to be beneficiaries of lower bond yields.

Certainly in Australia, many of these share price rallies are not being supported by an improving earnings outlook. The banks are but the obvious example. On Canaccord's assessment, banks in Australia are trading on a higher PE than the broader market; an event without precedent over the past thirty years.

This skews risk towards a correction in share prices if/when earnings disappointment comes to light. What usually follows central bank interest rate cuts is a decelerating pace of economic momentum.

In contrast, food retailing and healthcare services are among the laggards in today's share market, as are commodity stocks. The Energy and Materials sectors are currently priced on low PEs but also on low expectations, which, on a risk-adjusted basis, makes them relatively more attractive.

In simple terms: resources are priced for more risk that may not eventuate while banks and other segments are priced for very little risk that might prove too optimistic.

Canaccord's Model Portfolio has removed Wesfarmers ((WES)) and Macquarie Group ((MQG)) and added James Hardie ((JHX)) and Evolution Mining ((EVN)).

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Citi's previously cautious portfolio stance has become less cautious following the Federal Reserve's -50bp rate cut, as Powell & Co's jump-start lowers the chances of an imminent US economic recession.

Citi's asset allocation has thus moved towards Overweighting US equities, favouring consumer discretionary, communications and technology. In the commodities space, base metals don't get more than a rather Neutral view, but Citi still likes precious metals, a lot.

All in all, it's time for a shift towards a more pro-cyclical portfolio composition, suggest Citi strategists.

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Analysts at **Jarden** believe Australian investors should remain over-exposed to smaller retail companies. Not only has the recent August reporting season strengthened their conviction, the analysts also point out most of these companies are cycling weak performance numbers from last year, while their multiples have not yet re-rated.

One added observation is the Small Ordinaries index is still yet to bridge the relative performance gap with the larger ASX200 index that opened up since 2022.

Jarden's key picks are Temple & Webster ((TPW)), Universal Store Holdings ((UNI)), Accent Group ((AX1)) and Nick Scali ((NCK)). Post-August, Jarden has downgraded Lovia Holdings ((LOV)) which is thus no longer part of the top favourites.

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As also explained in our own **August Result Season 2024 Wrap** (https://fnarena.com/index.php/2024/09/24/august-result-season-2024-the-wrap/), it seems but fair to draw comparisons with 2019 when corporate results, in particular in the second half, were signalling all was not well with general conditions for corporate Australia and sizable dividend cuts fell upon unsuspecting shareholders as a result.

The key reason as to why many investors will not remember it as such is because soon afterwards all attention went to the new epidemic and that closed the books on anything else before or after.

Reece Birtles, Chief Investment Officer at **Martin Currie**, still remembers 2019 and he warns investors this time around the parallels are there for everyone to see.

Birtles says Martin Currie conducted more than 100 meetings and engagements with local company management teams in August and the key conclusion from these insights is that an exuberant share market seems in contradiction with how tough the situation on the ground is for many companies.

It looks like there's a veritable challenge ahead for companies to continue growing earnings per share and/or retain their margins. Martin Currie is therefore cautiously avoiding companies that seem priced for perfection. This in particular applies to many in the local Growth segment, suggests Birtles. His preference thus lays with Value stocks that are priced relatively cheaply.

Under normal circumstances, when the cycle moves through a rough patch, as is the case currently, investors find safety in defensive businesses, but Birtles sees risk from too high valuations. Companies he does like instead include South32 ((S32)), Worley ((WOR)) and Flight Centre Travel ((FLT)).

Portfolio managers at **T Rowe Price** would second that general assessment. They too have shifted general preference towards the cheaper priced segments of the local share market. Apart from elevated valuations, T Rowe Price also finds market participants seem too confident the RBA is about to embark on policy loosening, widely expected to start in February next year.

T Rowe Price is not so sure.

DNR Capital has noted the tough environment has made life difficult for many a small cap company in Australia, and that observation stood out throughout the August results season for the Australian investment manager. The antidote is Quality.

Quality small cap companies managed to outperform, both against their peers as against the broader index, DNR highlights. Some of the stand-out performances have been delivered by Breville Group ((BRG)), Hub24 ((HUB)) and Netwealth Group ((NWL)). The communication by DNR doesn't spell it out, but we can probably safely assume all three are currently owned by DNR Capital's Emerging Companies Fund.

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Morgans' big observation is that mid-cap gold producers have yet to reflect the fact precious metals are now in a new bull market. The broker foresees a general re-rating regardless of company size and where key assets are located.

History suggests, assures Morgans, gold prices benefit hugely from central banks cutting rates.

Model Portfolios, Best Buys and Conviction Calls

Macquarie's Quant team has identified those defensive names on the ASX most likely to benefit from falling interest rates, including:

-Aristocrat Leisure ((ALL))
-Codan ((CDA))

-Coles Group ((COL))
-Fisher & Paykel Healthcare
-GWA Group ((GWA))
-Harvey Norman ((HVN))
-Netwealth Group ((NWL))
-Pro Medicus ((PME))
-REA Group ((REA))
-ResMed ((RMD))
-TechnologyOne ((TNE))
-Ventia Services ((VNT))
-WiseTech Global ((WTC))

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Barrenjoey's updated **Top Picks**:

-Insurance Australia Group ((IAG)) among financials, as well as GQG partners ((GQG)) and Westpac ((WBC))
-Xero ((XRO)), Pexa Group ((PXA)) and Dicker Data ((DDR)) in the technology sector
-Vicinity Centres ((VCX)) and Abacus Storage King ((ASK)) among REITs
-South32 ((S32)), Lynas Rare Earths ((LYC)) and Perseus Mining ((PRU)) among miners and Strike Energy ((STX)) in the oil&gas sector
-ResMed ((RMD))
-Metcash ((MTS))
-Aristocrat Leisure
-Reliance Worldwide ((RWC))
-Brambles ((BXB))
-Seven Group ((SVW))

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Jarden's Best Ideas among emerging companies (small and mid-cap):

-IPH Ltd ((IPH))
-Temple & Webster
-EVT Ltd ((EVT))
-Dicker Data ((DDR))
-Universal Store ((UNI))
-Nick Scali ((NCK))
-AUB Group ((AUB))
-Webjet ((WEB))
-Integral Diagnostics ((IDX))
-Capricorn Metals ((CMM))
-Michael Hill ((MHJ))
-NRW Holdings ((NWH))
-Light & Wonder ((LNW))
-Pointsbet ((PBH))
-National Storage ((NSR))
-Ingenia Communities ((INA))
-Karoon Gas ((KAR))
-Domain Holdings Australia ((DHG))
-Pepper Money ((PPM))
-Telix Pharmaceuticals ((TLX))

****

Stockbroker **Morgans' Best Ideas**, freshly updated post the August results season:

-The Lottery Corp ((TLC))
-CSL ((CSL))
-QBE Insurance ((QBE))
-Woodside Energy ((WDS))
-GQG Partners ((GQG))

-WH Soul Pattinson ((SOL))
-ALS Ltd ((ALQ))
-Reliance Worldwide ((RWC))
-Beacon Lighting ((BLX))
-Amotiv ((AOV))
-Universal Store Holdings ((UNI))
-Elders ((ELD))
-Acrow ((ACF))
-Maas Group ((MGH))
-Karoon Energy ((KAR))
-ResMed ((RMD))
-NextDC ((NXT))
-Mach7 Technologies ((M7T))
-Camplify Holdings ((CHL))
-Superloop ((SLC))
-Treasury Wine Estates ((TWE))
-ClearView Wealth ((CVW))
-PolyNovo ((PNV))
-Flight Centre ((FLT))
-BHP Group ((BHP))
-Rio Tinto ((RIO))
-South32 ((S32))
-Dalrymple Bay Infrastructure ((DBI))
-Cedar Woods Properties ((CWP))
-Dexus Industria REIT ((DXI))
-HomeCo Daily Needs REIT ((HDN))
-Qualitas ((QAL))

****

Post August, the **Asia Conviction List** at **Goldman Sachs** no longer includes Woolworths ((WOW)), but the stock has retained its inclusion for the broker's **APAC Conviction List**. The added twist here is those who are responsible for one list are the same as for the other.

Only three other ASX-listed companies are included in both selections:

-Qantas Airways ((QAN))
-Lynas Rare Earths ((LYC))
-Xero ((XRO))

****

The select list of **highest conviction calls** from analysts at **Ord Minnett** has seen numerous changes post August results.

Gone are Select Harvests ((SHV)), Webjet ((WEB)) and Whitehaven Coal ((WHC)). Instead, Electro Optic Systems, Qoria, SiteMinder and Stanmore Resources have been included.

The full list of Ord Minnett's Conviction calls consists of the following 14 companies:

-Alliance Aviation Services ((AQZ))
-ARB Corp ((ARB))
-Cosol ((COS))
-EQT Holdings ((EQT))
-Electro Optic Systems Holdings ((EOS))
-Lindsay Australia ((LAU))
-Pinnacle Investment Management ((PNI))
-Qoria ((QOR))
-Red 5 (RED)
-Regis Healthcare ((REG))
-SiteMinder ((SDR))
-SRG Global ((SRG))
-Stanmore Resources ((SMR))
-Waypoint REIT ((WPR))

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Morningstar's selection of **Best Buys** on the ASX:

-IGO Ltd ((IGO))
-TPG Telecom ((TPG))
-Domino's Pizza ((DMP))
-Bapcor ((BAP))
-Endeavour Group ((EDV))
-Santos ((STO))
-ASX Ltd ((ASX))
-Aurizon Holdings ((AZJ))
-Brambles ((BXB))
-Dexus ((DXS))
-SiteMinder ((SDR))
-APA Group ((APA))
-Fineos Corp ((FCL))
-ResMed ((RMD))

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Key Stock Picks for the year-ahead nominated by analysts at **Bell Potter**:

-Among listed investment companies (LICs); Australian Foundation Investment Company ((AFI)), Metrics Master Income Trust ((MXT)), and MFF Capital Investments ((MFF))

-Agriculture & fast moving consumer goods; Bega Cheese ((BGA)), Rural Funds Group ((RFF)), and Elders ((ELD))

-Technology; TechnologyOne ((TNE)), Gentrack ((GTK)), and REA Group ((REA))

-Diversified Financials; Perpetual ((PPT)), Regal Partners ((RPL)), and McMillan Shakespeare ((MMS))

-Real Estate; Dexus Convenience Retail REIT ((DXS)), HealthCo Healthcare & Wellness REIT ((HCW)), and GDI Property Group ((GDI))

-Retailers; Premier Investments ((PMV)), Universal Store Holdings ((UNI)), and Propel Funeral Partners ((PFP))

-Aerospace & Defence; Electro Optic Systems ((EOS)) and Austal ((ASB))

-Industrials; Brickworks ((BKW)), IPD Group ((IPG)), and Cleanaway Waste Management ((CWY))

-Healthcare; Telix Pharmaceuticals ((TLX)), Cyclopharm ((CYC)), Aroa Bioscience ((ARX)), MedAdvisor ((MDR)), and Neuren Pharmaceuticals ((NEU))

-Gold sector; Capricorn Metals ((CMM)) and Santana Minerals ((SMI))

-Base metals; Aeris Resources ((AIS)), Nickel Industries ((NIC)), and Mineral Resources ((MIN))

-Strategic Minerals; Alpha HPA ((A4N)), IperionX ((IPX)), and Liontown Resources ((LTR))

-Energy sector; Boss Energy ((BOE)) and Paladin Energy ((PDN))

-Mining services; Seven Group Holdings ((SVW)), Mader Group ((MAD)), and SRG Global ((SRG))

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

-Aristocrat Leisure ((ALL))
-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 ((WDS))

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

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-Macquarie Group ((MQG))
-QBE Insurance ((QBE))
-Suncorp Group ((SUN))
-Goodman Group ((GMG))
-Scentre Group ((SCG))
-Stockland ((SGP))
-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-James Hardie ((JHX))
-Orica ((ORI))
-Coles Group ((COL))
-Treasury Wine Estates ((TWE))
-CSL ((CSL))
-ResMed ((RMD))
-AGL Energy ((AGL))
-Origin Energy ((ORG))
-Telstra ((TLS))
-Transurban Group ((TCL))
-BHP Group ((BHP))
-Newmont Corp ((NEM))
-Rio Tinto ((RIO))
-South32 ((S32))
-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy ((WDS))

****

Macquarie Wealth's recommended **Growth Portfolio**:

-Goodman Group ((GMG))
-Seek ((SEK))
-Aristocrat leisure ((ALL))
-Northern Star ((NST))
-CSL ((CSL))
-Computershare ((CPU))
-NextDC ((NXT))
-Flight Centre ((FLT))
-Mineral Resources ((MIN))
-Cleanaway Waste Management ((CWY))
-Steadfast Group ((SDF))
-Arcadium Lithium ((LTM))
-ResMed ((RMD))
-Pexa Group ((PXA))
-Treasury Wine Estates ((TWE))
-Viva Energy ((VEA))
-Xero ((XRO))

Macquarie Wealth's recommended **Income Portfolio:**

-Suncorp Group ((SUN))
-Telstra ((TLS))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-ANZ Bank ((ANZ))
-BHP Group ((BHP))

-CommBank ((CBA))
-Premier Investments ((PMV))
-Coles Group ((COL))
-Viva Energy ((VEA))
-Atlas Arteria ((ALX))
-Aurizon Holdings ((AZJ))
-APA Group ((APA))
-GPT Group ((GPT))
-Deterra Royalties ((DRR))
-Metcash ((MTS))
-Amotiv ((AOV))
-Charter Hall Retail REIT ((CQR))
-Amcor ((AMC))

In December, **Shaw and Partners** released its **10 Best Ideas** to benefit from the anticipated small caps' revival in 2024.

The selected ten:

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

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Macquarie's ASX Quality Compounders

The **highest quality compounders'** as identified by **Macquarie quant** research inside the ASX300:

-James Hardie ((JHX))
-Cochlear ((COH))
-REA Group ((REA))
-TechnologyOne ((TNE))
-ResMed ((RMD))
-Data#3 ((DTL))
-Pro Medicus ((PME))
-Jumbo Interactive ((JIN))
-PWR Holdings ((PWH))
-Netwealth Group ((NWL))
-Aristocrat Leisure ((ALL))
-Spark New Zealand ((SPK))
-Codan ((CDA))
-Clinuvel Pharmacauticals ((CUV))
-Redox ((RDX))

Given Macquarie's research strong leaning on the past five years, with high barriers to match, the following 11 companies fell just outside the above list:

-Fisher & Paykel Healthcare ((FPH))
-Medibank Private ((MPL))
-Coles Group ((COL))
-The Lottery Corp ((TLC))
-Lovisa Holdings ((LOV))
-CSL ((CSL))
-IDP Education ((IEL))
-Pinnacle Investment Management ((PNI))
-ARB Corp ((ARB))
-Breville Group ((BRG))
-Johns Lyng ((JLG))

My research and All-Weather stock selections are 24/7 available for paying subscribers: https://fnarena.com/index.php/analysis-data/all-weather-stocks/

This week's Weekly Insights: https://fnarena.com/index.php/2024/09/25/rudis-view-growth-is-not-a-dirty-word/

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

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

SMALL CAPS

Universal Stores Dressed For Youthful Success

Specialist discretionary retailer Universal Store Holdings has bucked the macro headwinds from higher interest rates with a successful blend of product positioning, cost disciplines and new store roll-outs.

-Is history a guide for what's in store?
-The demographics with cash to spend
-Product, price and positioning in tune
-Growth equals organic plus new stores
-Brokers sing in unison

By Danielle Ecuyer

FY24 results beat expectations

Retailing is one of the more challenging businesses to operate successfully, just ask Myer or David Jones. The latter is in its umpteenth iteration of reinvention.

But when a retailer gets it right, hitting the sweet spot of on trend brands as a must-go-to destination for shoppers, the pathways are potentially a tale of follow the yellow brick road.

Enter Universal Store Holdings ((UNI)) with Petra Capital the latest broker to pick up coverage on the company with a catchy tag of "Stylish Fit".

So why are some of the brokers' falling over themselves to espouse positive views on the company?

To answer that question, let's turn the clock slightly back in time to the FNArena Corporate Results Monitor that provides some insights on the latest earnings results from the company.

"FY24 earnings from Universal Store proved slightly better than pre-released guidance. They came with a strong trading update and a higher-than-forecast dividend. Morgans (Buy) highlights strong trading momentum in 2H24 which has continued into the first seven weeks of FY25, including double-digit growth in like-for-like sales across all brands. Macquarie sees significant opportunity for store roll-out and sales growth in FY25, in particular for Perfect Stranger. This broker has upgraded to Buy for a maximum score of five Buy ratings."

On balance, Universal was one of the 26.6% of companies which delivered better-than-expected FY24 results, a "beat" no less, and a positive outlook, despite a challenging macro backdrop of higher interest rates.

The company remains sensitive to youth spending as Bell Potter highlighted at the FY24 results, although sales for the first seven weeks of FY25 generated 15% revenue growth for like-for-like sales growth across all the company's three banners.

Maybe the younger demographic was happier to go out and spend the tax cuts?

Jarden points to a more resilient youth spend relative to families whose discretionary spending is more challenged from higher rental and mortgage costs. The broker's economics team illustrates the household cashflow (disposable income less rent/mortgage payments) has been better for older owners and young renters compared to the mortgaged family.

Digging into the retailers weeds

By way of history, Universal Stores has grown group sales 97% since FY19 to FY24 which equates to a five-year average compound rate of 14.5%. Universal Store format sales have expanded at a 10.8% compound rate per annum. The company has expanded net stores, advancing from 60 in FY19 to 102 in FY24, across three retail formats.

-**Universal Store** is the largest specialty retailer of premium casual clothing for youth fashion with 80 stores in operation at the end of FY24, and around 58% of sales from private brands and "sister business' Thrills. Petra points to a target of around 100 stores for the Universal Store format with the possibility of larger stores.

-Perfect Stranger is an emerging on trend women's fashion store brand with 14 stores at the end of FY24. Morgans observes Perfect Stranger has positioned itself as a more upmarket and "boutique store look" with the brand able to attract new customers and operate in stand-alone stores while not cannibalising Universal Store sales. It is the bestselling women's range within the group, the broker notes, with a long runway of new store roll-outs over the next five to ten years, including four-to-six new stores in FY25. Petra believes there is scope to expand the Perfect Store footprint to 60 stores over time.

-Thrills, named post the Cheap Thrills Cycle acquisition in Oct 2022, represents eight stores including wholesale channels with premium partners including Universal Store. It is Byron Bay based, independently managed incorporating both men's and women's casual fashion. Citi points to some cannibalisation from the Worship brand for Thrills in the FY24 results. Management is heightening the focus on direct-to-consumer sales due to the softness in the wholesale channel. Some growth to United States wholesale has also been evidenced. The analyst at Petra suggests 40 stores are possible for Thrills over time compared to the current eight stores at the end of FY24.

Factors for success

Petra dissects Universal Stores' value proposition across five factors of success.

The broker believes the sourcing of products from a range of in-demand third party brands with an emerging portfolio of private brands is one of the strategic advantages for the company. Citi highlights private brands represented 46% of sales in FY24 compared to 45% in FY23. The analyst views the direct sourcing of private brands assists the company in producing strong gross margins.

Morgans accents the contribution of Cheap City Thrills, discipline promotions and private brand expansion boosting the gross margins by 110bps to 60.1% in FY24. A nod to management on the cost controls is also apposite with the cost-of-doing business down -40bps to 31.8% as a percentage of sales.

The brokers observe the company's strong financial ratios with Petra pointing to around a 22% return on equity and circa 27% return on capital invested. The returns are assisted by the strategic benefit of "on-brand" offerings which limits markdowns and boosts sales per square metre. The strategy also allows for store paybacks of a year after fit-out. Combined these factors lead to a circa 100% cashflow conversion.

Universal Stores has also developed a robust omni channel presence from store-to-door, click & collect, endless aisles with a range of delivery options and payment styles. The coverage permits what Petra refers to as a **"seamless customer shopping experience across online and in-store".**

Looking ahead, Citi forecasts a total of 12 new store openings in FY25, which are at the midpoint of management's guidance for each banner, five for Universal Store, five for Perfect Stranger plus two extra Thrills stores.

The analyst at Citi is particularly upbeat on the prospects for new store roll-outs and growth for Perfect Stranger. While the closure of Accent Group's ((AX1)) 17 Glue stores may provide some benefits too.

The Universal Stores story would not be complete without some feedback on management. Petra emphasises how well-regarded the long-standing management team is including CEO Alice Barbery who has been associated with the business since its inception. The former Super Retail Group ((SUL)) CEO Peter Birtles is Chairman. The broker views the success of the company can be attributed to the **"importance management places on culture and significance of the customer".**

Management has a preference to promote internally to preserve the quality of the culture.

Universal Store Holdings is a well covered company with all FNArena daily monitored brokers tipping their Buy equivalent ratings for the stock with an average target price of $7.70. Jarden believes the company is well positioned to cycle weak 1H24 comps in the near term. Longer-term, the broker is positive on the "significant valuation upside", store roll-out and best in class execution. (Buy rated with a $7.88 target).

Wilsons has the highest target price at $8.40 (Buy equivalent).

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

SMALL CAPS

Tuas' Simba Roars Above Competitors

From a humble demerger in June 2020, the Singapore based Tuas is putting some major runs on the board which is attracting the attention of both customers and investors.

-A lean cost model drives growth for Tuas
-The benchmark keeps on rising
-Mobile provides a launchpad for fibre broadband
-Profits here we come

By Danielle Ecuyer

TPG, Hutchison merger creates Tuas

Tuas ((TUA)) evolved from the merger between TPG Telecom (Australia) and Vodaphone Hutchison (Australia) In June 2020. The Singapore mobile business was de-merged from the TPG Group by transferring the shares from TPG Singapore to Tuas. Shareholders in TPG at the time received shares in Tuas.

Founder of TPG Australia and its CEO and executive chairman until June 2020, David Teoh is the executive chairman of Tuas.

The company operates Simba, its Singapore mobile business, and launched an additional broadband service in 2024.

Management's proposition is to offer products that are attractive to consumers.

At the October 2023 annual report, Executive Chairman David Teoh stated

"We are offering 5G services at 4G prices to all of our subscribers. This reinforces are leadership as the best value mobile services provider in Singapore. We have also built up a fixed broadband capability that is being rolled out across the island."

Citi sums up the value proposition for the company in the ability to sustain a **"lean cost model"** while generating consistently better-than-anticipated growth in subscribers, growth average revenue per user in conjunction with ramping up the broadband offering.

Since the 1Q21, Tuas has grown active mobile subscribers from under 200k to 1.05m at the end of FY24 (July year-end) with quarter-on-quarter growth exceeding 60% since 2Q24.

Correspondingly, market share of Singapore mobile subscribers has advanced to 11% in the latest results from 2% in 1Q21.

Looking out to FY25, Morgan Stanley expects mobile subscribers to grow to 1.24m compared to the broker's forecast in January 2022 of 871.4k subscribers or an upgrade of 8% to 24% from FY22 to FY24.

Tuas is also punching above expectations for EBITDA margins with the broker lifting forecasts between 2bps to 14bps since coverage was initiated in January 2022. This translates into EBITDA upgrades of 9% to 44% over that period.

Growing from strength to strength

The latest FY24 results revealed what some commentators might start to describe as another predictable "beat and raise" on the back of mobile subscriber growth and margin expansion.

Is it any wonder Morgan Stanley described Tuas as **"Simba: Disrupting with a Lionheart".**

Citi compliments Tuas in the latest results on the growth in postpaid mobile subscribers which is exceeding the growth in prepaid. For Morgan Stanley the company's value proposition is seemingly "resonating" with a broader reach of customers. With the growth in postpaid comes the potential for higher average revenue-per-user. Citi explains postpaid produces a customer base that is generally more loyal accompanied with more premium pricing.

Around 75% of mobile users in Singapore are postpaid and the Citi analyst believes Simba could target these users with a more enticing price point. Tuas is aiming for 25% of the prepaid market.

The company's S$12 mobile plan has been highlighted as one of the most popular.

Can Tuas replicate the Simba success in broadband?

With over one million mobile subscribers, brokers are upbeat on the potential for Tuas to expand its broadband reach.

Having only initiated the 10Gbps fibre broadband plan at S$29.99 per month in July, the company has already notched up over 4000 subscribers, well above Citi and Morgan Stanley's forecasts.

The Tuas broadband plan is priced at discount of -50% to -60% to its peers while network performance is the same as for competitors. Alll the providers resell from the same network, the NetLink Trust which is led by the Singaporean government.

Morgan Stanley anticipates an EBITDA margin on this business of 39% with a 1.2-year payback on establishment costs. Citi expects the broadband take up could surprise to the upside given the price point proposition with an estimated total addressable market of around S$1.1bn.

Citi's analyst points out Tuas' strategic focus will be on residential customers. The residential market of up to 1.6m homes is over ten times bigger than the enterprise market and the company recently qualified for a S$100m grant.

In FY24 around -S$48m in capital expenditure was invested while positive cashflow of S$11m was generated. Morgan Stanley forecasts similar capex amounts over FY25-FY27 which as a percentage of sales will decline. Some of the capex will be used to support subscriber growth and expand Simba's 5G coverage.

Net losses for Tuas have fallen to -S$4.4m in FY24 from a loss of -S$26.7m in FY22. EBITDA margins advanced to 42% in FY24 from 36% in FY23.

Management outlined for FY25 an ongoing push for "more broad-based mobile subscriber growth"; capex of between -S$45m to -S$55m and achieving a full year of positive net profits while advancing the 10Gbps residential fibre broadband momentum.

FNArena daily monitored brokers Citi and Morgan Stanley each have a Buy rating equivalent with a target price of $5.55 and $5.50, respectively, suggesting circa 14% upside from the current share price.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 20-09-24

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 September 16 to Friday September 20, 2024
Total Upgrades: 12
Total Downgrades: 7
Net Ratings Breakdown: Buy 60.03%; Hold 32.12%; Sell 7.85%

For the week ending Friday September 20, 2024, FNArena recorded twelve rating upgrades and seven downgrades for ASX-listed companies by brokers monitored daily.

Several brokers updated commodity price forecasts during the week resulting in material percentage downgrades to earnings forecasts for related companies with nine of the ten positions on the negative earnings change table below filled by resource stocks.

Changes to target prices were slightly more negative than positive, and again, negative changes were dominated by mining companies.

Mineral Resources received the largest percentage downgrade to average earnings forecasts by brokers.

Clobbered by weak lithium and iron ore prices, management has been forced into production curtailments and deferral of expansion plans.

Adding to the company's woes, the mining services business has also been negatively impacted by the broader industry pullback.

More positively, management has announced an infrastructure sale to strengthen the company's heavily geared balance sheet and brokers also like the initial resources estimates for the Lockyer Gas and Erregulla oil projects in the Perth Basin.

For a more thorough assessment on the outlook for Mineral Resources please refer to
https://fnarena.com/index.php/2024/09/19/the-downs-and-ups-of-mineral-resources/

Also, for a summary of updated broker forecasts and ratings changes in the last week across the entire Resources sector:
https://fnarena.com/index.php/2024/09/20/material-matters-major-miners-upgraded/?pass=1

The three largest falls in average target price in the table below were received by Talga Group, Syrah Resources and Arcadium Lithium.

For both Talga Group and Syrah Resources, graphite and anode material pricing present the key risks to earnings forecasts by brokers.

Last week, Macquarie lowered its forecasts materially for Talga (Outperform) on lower graphite prices and weaker macroeconomic projection, resulting in a -70% fall in the broker's target to 60 cents.

The broker's target for Outperform-rated Syrah Resources was also slashed by -60% to 80 cents, having lowered EPS forecasts by between -32%-100% across FY25-FY30.

By contrast -though starting from a lower target- Morgan Stanley (Equal-weight) raised its target for Syrah Resources to 30 cents form 25 cents on changes to corporate cost forecasts.

Noting the Balama graphite deposit is a world-class reserve, this broker reiterated Syrah's move to develop active anode material at its Vidalia production facility in Louisiana is a sensible strategy to capture margin gains.

Arcadium Lithium's average target in the FNArena database also fell by nearly -12% last week after Macquarie lowered its 2024 and 2025 price forecasts for spodumene and lithium carbonate by around -10% on average. The broker's long-term spodumene price estimate also fell by -13% to US$1,300/t.

As a result of these new forecasts, Macquarie's target for Arcadium fell by -24% to $5.00 on the back of earnings downgrades of between -13% and greater than -100% (off a low relative base) across 2024-2028 earnings.

For stocks under coverage in the sector, Macquarie retained an Overweight rating for both Arcadium Lithium and IGO Ltd.

As may be seen in the earnings table below, IGO ranked second for average earnings downgrade last week (due to Macquarie's new lithium forecasts).

While Morgan Stanley last week noted lithium supply ramp-up and weak demand will likely keep the market in surplus in 2024/25, the analysts felt equities already reflect these headwinds.

Earnings forecasts also fell for Pilbara Minerals and Whitehaven Coal last week following updates to commodity forecasts by Macquarie and Morgan Stanley.

More positively, Morgan Stanley raised its target for Pilbara Minerals to $2.95 from $2.70 (despite near-term recovery risks) and upgraded to Equal-weight from Underweight.

Macquarie also upgraded Whitehaven Coal to Outperform from Neutral (despite lower EPS forecasts) on valuation grounds following a post-results season sell-off.

Morgan Stanley also likes Whitehaven Coal given shares carry an attractive free cash flow yield and have underperformed the metallurgical coal price.

Champion Iron owes its position on the earnings downgrade table below to both new research coverage by Bell Potter and a lower earnings forecast by Macquarie - resulting in a $7.00 target, down from $7.50.

Bell Potter began with a $7.15 target and Buy rating, which compares to the two other Buy ratings of Macquarie and Citi in the FNArena database where the average target is now $7.12.

The analysts at Bell Potter highlighted the high-grade iron concentrates produced at the Bloom Lake mine in northern Quebec trade at material premiums to the 62% iron ore index.

These higher grades reduce steel making carbon emissions by around -10% compared with typical hematite ore. It's felt government policy will be increasingly supportive of processes which assist decarbonising the hard-to-abate steel sector.

Regarding positive changes to average target prices, here Newmont Corp featured first on the list below, after disregarding News Corp's position due to a data entry glitch.

UBS raised its target price for Buy-rated, large cap gold miner Newmont Corp to $100 from $75 after incorporating the recently announced sale of Telfer and aligning the company's valuation with North American mining peers.

Divestments of between -$2-4bn over the next year are set to accelerate deleveraging and cash returns, in the broker's view.

Assuming management can rebuild investor confidence, the analyst suggested Newmont could recapture a valuation premium and suggested the company is well positioned to deliver upon medium-term targets.

UBS recently upgraded Newmont to a Buy rating, and the stock remains this broker's preferred large cap gold miner.

In the analyst's view, the company is set to have one of the best portfolios in the industry consisting of predominantly large long-life assets in low-risk jurisdictions, along with possessing attractive brownfield growth projects.

Total Buy ratings in the database comprise 60.03% of the total, versus 32.12% on Neutral/Hold, while Sell ratings account for the remaining 7.85%.

Upgrade

BHP GROUP LIMITED ((BHP)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 5/1/0

While risks remain around Chinese growth, Morgan Stanley notes resource stocks have already corrected and sees potential gains heading into peak season.

The iron ore price will stabilise and show some upside, suggests the broker, while copper pricing will likely benefit from the return of price-elastic demand. Metallurgical coal is trading close to cost support, with India and China entering a stronger steel production period.

The analysts raise the target for BHP Group to $47.50 from $46.30 and upgrade to Overweight from Equal-weight as company-specific growth and capex risks are now more fully appreciated. Industry view: Attractive.

The analysts continue to prefer Rio Tinto over BHP Group for its better growth prospects while Mineral Resources remains the key pick in the space.

BWP TRUST ((BWP)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 0/2/1

Noting declining rates and favourable macroeconomic conditions should help all property stocks, Morgan Stanley prefers Charter Hall Retail REIT and HomeCo Daily Needs REIT from among ex-ASX100 Retail REITs under coverage.

For BWP Trust, the broker upgrades its rating to Equal-weight from Underweight in the expectation dividends should be fully funded via operating earnings from FY26.

The analysts also feel the worst may have passed for the REIT after Bunnings vacated 14 sites across FY18-23 and management may now be able to drive positive EPS/DPS growth after a seven-year period of stagnancy.

The target rises to $4.00 from $3.80. Underweight. Industry View: In-Line.

DETERRA ROYALTIES LIMITED ((DRR)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/2/0

Macquarie updates forecasts for the latest commodity price outlook from Macquarie Economics and Commodities Strategy.

The broker believes there is ongoing iron ore oversupply, concluding the market will remain weak for the next six to twelve months as Onslow ramps up and Chinese steel mills reduce pig iron.

Macquarie prefers met coal and views that prices are starting to bottom. Regarding manganese, the broker highlights disappointing demand on recent price performance and headwinds to be sustained over the rest of 2024.

Deterra Royalties is upgraded to Outperform from Neutral. Target price lifts 8% to $4.20.

FORTESCUE LIMITED ((FMG)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 2/3/2

While risks remain around Chinese growth, Morgan Stanley notes resource stocks have already corrected and sees potential gains heading into peak season.

The iron ore price will stabilise and show some upside, suggests the broker. The analysts continue to prefer Rio Tinto over BHP Group for its better growth prospects while Mineral Resources remains the key pick in the space.

Morgan Stanley's target for Fortescue rises to $17.45 from $16.65 the rating is upgraded to Equal-weight from Underweight. Industry view: Attractive.

MINERAL RESOURCES LIMITED ((MIN)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 5/1/1

Macquarie updates forecasts for the latest commodity price outlook from Macquarie Economics and Commodities Strategy.

The broker cuts spodumene prices by -10%, -11% and -33% for 2024, 2025 and 2026, respectively.

Macquarie highlights in-house lithium forecasts are below consensus. With the market already discounting lower prices, the broker is constructive on lithium stocks trading in a range.

Mineral Resources is upgraded to Outperform from Neutral. Target price is reduced to $40 from $48.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 1/1/3

Morgan Stanley raises target prices for the majority of Australian banks under coverage. Investors have been willing to pay more for banks' lower risk profile and stronger balance sheets, and their 'safe haven' status within the Australian market, explain the analysts.

While acknowledging incorrect caution on the banks previously, the broker still retains a negative stance given share prices imply nothing goes wrong in 2025.

The higher targets reflect more emphasis by Morgan Stanley on balance sheet strength and risk profile.

For the preferred major bank -National Australia Bank- the broker raises the target to $38 from $34.20 and upgrades to Overweight from Equal-weight. Industry View In-Line.

NEW HOPE CORPORATION LIMITED ((NHC)) Upgrade to Add from Hold by Morgans .B/H/S: 2/3/0

New Hope reported a "solid" FY24 result with no surprises according to Morgans.

The company ended FY24 with net cash of $566m or over 15% of its market capitalisation, which was better than the broker's forecasts. The final 22c dividend was 1c above the analyst's estimate.

Management's FY24 guidance infers higher volumes at Acland with higher costs. Bengalla production/costs outlook appears to meet the broker's expectations.

Morgans assesses New Hope has outperformed its met coal peers because of its low-cost structure. The stock is believed to be "genuinely" cheap and is upgraded to Buy from Hold.

Target price falls to $5.20 from $5.45.

ORIGIN ENERGY LIMITED ((ORG)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/0/1

Macquarie raises its target for Origin Energy to $10.43 from $10.12 and upgrades to Outperform from Neutral. It's believed forward electricity prices will be higher in FY26 while the cost of coal is likely to fall back to FY24 levels.

In further positives, the broker cites an attractive dividend yield and the formal announcement of a new customer win by Kraken involving 8m accounts.

Origin Energy has a 20% stake in Octopus Energy, which includes a license to use the Kraken platform in Australia.

PILBARA MINERALS LIMITED ((PLS)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 1/4/1

While risks remain around Chinese growth, Morgan Stanley notes resource stocks have already corrected and sees potential gains heading into peak season.

Lithium supply ramp-up and weak demand will likely keep the market in surplus in 2024/25, yet the broker sees equities already reflecting these headwinds.

The target for Pilbara Minerals rises to $2.95 from $2.70 and the rating is upgraded to Equal-weight from Underweight. Industry View: Attractive.

SELECT HARVESTS LIMITED ((SHV)) Upgrade to Buy from Hold by Bell Potter .B/H/S: 3/0/0

Bell Potter raises its target for Select Harvests to $4.95 from $4.40 and upgrades to Buy from Hold after noting current consensus forecasts are underestimating the rise in almond prices.

Following the July USDA crop forecast, almond prices have rallied to between $8.00-8.50/kg, placing the broker's FY25 earnings (EBITDA) forecast around 17% ahead of the consensus estimate.

WESTPAC BANKING CORPORATION ((WBC)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 0/4/2

Morgan Stanley raises target prices for the majority of Australian banks under coverage. Investors have been willing to pay more for banks' lower risk profile and stronger balance sheets, and their 'safe haven' status within the Australian market, explain the analysts.

While acknowledging incorrect caution on the banks previously, the broker still retains a negative stance given share prices imply nothing goes wrong in 2025.

The higher targets reflect more emphasis by Morgan Stanley on balance sheet strength and risk profile.

For Westpac, the broker increases the target to $29.70 from $26.50 and upgrades to Equal-weight from Underweight. Industry View In-Line.

WHITEHAVEN COAL LIMITED ((WHC)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 5/1/0

Macquarie updates forecasts for the latest commodity price outlook from Macquarie Economics and Commodities Strategy.

The broker believes there is ongoing iron ore oversupply, concluding the market will remain weak for the next six to twelve months as Onslow ramps up and Chinese steel mills reduce pig iron.

Macquarie prefers met coal and views that prices are starting to bottom. Regarding manganese, the broker highlights disappointing demand on recent price performance and headwinds to be sustained over the rest of 2024.

Whitehaven Coal is upgraded to Outperfom from Neutral. Target price unchanged at $7.50.

Downgrade

COMPUTERSHARE LIMITED ((CPU)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 5/1/0

Due to the backdrop of falling interest rates, Morgan Stanley lowers its target for Computershare to $27.70 from $30.00 and downgrades to Equal-weight from Overweight. Industry view is In-Line.

The broker also anticipates downside risks to consensus forecasts for the company due to a delay in the recovery of corporate activity, as evidenced by a falling number of deals.

One way to deliver EPS growth is via an acquisition, suggest the analysts, given around US$2.6bn of balance sheet capacity.

EVOLUTION MINING LIMITED ((EVN)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 3/2/0

While risks remain around Chinese growth, Morgan Stanley notes resource stocks have already corrected and sees potential gains heading into peak season.

While the broker anticipates the gold price will perform well near-term, this outcome is already priced into Australian gold equities.

The target for Evolution Mining rises to $4.25 from $4.15, but the rating is downgraded to Equal-weight from Overweight. Industry View: Attractive.

HEALTHCO HEALTHCARE & WELLNESS REIT ((HCW)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 3/0/1

Noting declining rates and favourable macroeconomic conditions should help all property stocks, Morgan Stanley prefers Charter Hall Retail REIT and HomeCo Daily Needs REIT from among ex-ASX100 Retail REITs under coverage.

For HealthCo Healthcare & Wellness REIT, the broker downgrades its rating to Underweight from Equal-weight as the profitability of major tenant Healthscope and the evolution of surgery preferences are likely to remain an overhang.

Also, a medium-term concern for Morgan Stanley is the rolling-off of a cheap hedge for the Unlisted Health Fund, which could result in cash flow headwinds, unless the RBA cuts rates by -300bps over the next two years.

Equal-weight rating. Target falls to $1.30 from $1.41. Industry view: In-Line.

NORTHERN STAR RESOURCES LIMITED ((NST)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 5/1/1

While risks remain around Chinese growth, Morgan Stanley notes resource stocks have already corrected and sees potential gains heading into peak season.

While the broker anticipates the gold price will perform well near-term, this outcome is already priced into Australian gold equities.

The target for Northern Star Resources falls to $14.35 from $15.05 and the rating is downgraded to Underweight from Equal-weight. Industry View: Attractive.

REGION GROUP ((RGN)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 4/1/0

Region Group's net operating income (NOI) could be affected for between 1-2 years, and be lower than historical trend, because of management's plans to reposition its malls after years of acquisition focus.

FY25 is the first year when capital works begin across five key assets, resulting in potential earnings dilution, predicts the broker.

The analysts also expect an around 50bps lift in the group's hedge rate across its debt book in FY26 will delay a rebound in earnings.

The rating is downgraded by two notches to Underweight from Overweight. The target falls to $2.44 from $2.50. Industry view: In-Line.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 2/3/1

While risks remain around Chinese growth, Morgan Stanley notes resource stocks have already corrected and sees potential gains heading into peak season.

While the broker anticipates the gold price will perform well near-term, this outcome is already priced into Australian gold equities.

The target for Regis Resources rises to $2.05 from $2.00, but the rating is downgraded to Equal-weight from Overweight. Industry View: Attractive.

SIMS LIMITED ((SGM)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/1/0

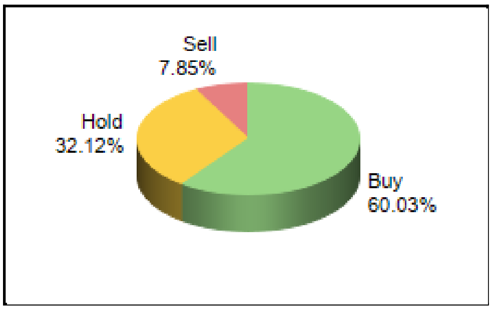
While UBS keeps its $13.50 target for Sims, the rating is downgraded to Neutral from Buy following recent share price strength and yesterday's trading update by management.

The update showed the NAM strategy is gaining traction though weakness in A&NZ is providing an offset, explains the analyst.

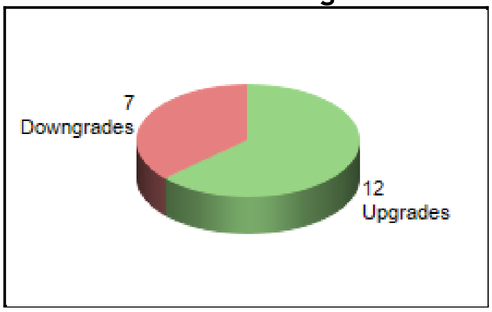
The broker comments initial improvements from the North America Metals (NAM) strategy are priced in, while end markets will likely remain tough for the remainder of FY25.

A Buy rating and $13.50 target price are retained.

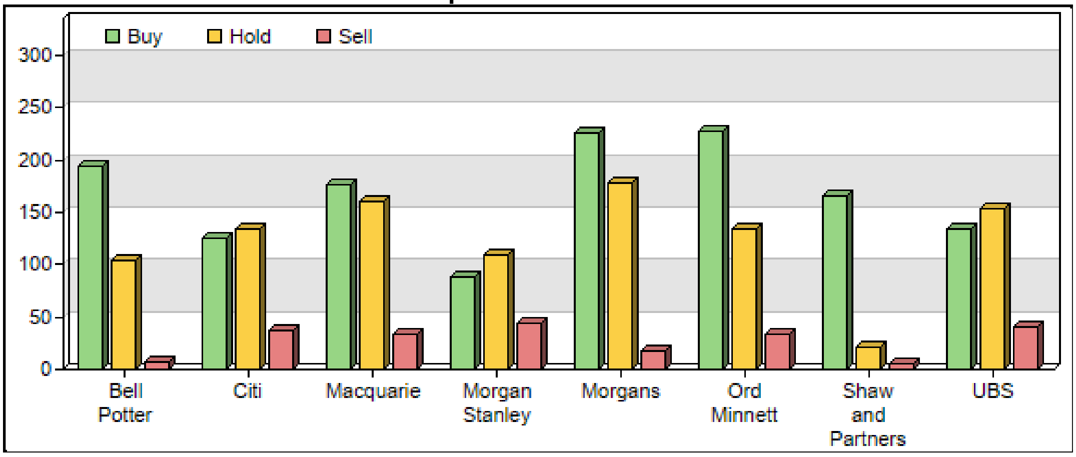
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	BHP GROUP LIMITED	Buy	Neutral	Morgan Stanley
2	BWP TRUST	Neutral	Sell	Morgan Stanley
3	DETERRA ROYALTIES LIMITED	Buy	Neutral	Macquarie
4	FORTESCUE LIMITED	Neutral	Sell	Morgan Stanley
5	MINERAL RESOURCES LIMITED	Buy	Neutral	Macquarie
6	NATIONAL AUSTRALIA BANK LIMITED	Buy	Neutral	Morgan Stanley
7	NEW HOPE CORPORATION LIMITED	Buy	Neutral	Morgans
8	ORIGIN ENERGY LIMITED	Buy	Neutral	Macquarie
9	PILBARA MINERALS LIMITED	Neutral	Sell	Morgan Stanley
10	SELECT HARVESTS LIMITED	Buy	Neutral	Bell Potter
11	WESTPAC BANKING CORPORATION	Neutral	Sell	Morgan Stanley
12	WHITEHAVEN COAL LIMITED	Buy	Neutral	Macquarie
Downgrade				
13	COMPUTERSHARE LIMITED	Neutral	Buy	Morgan Stanley
14	EVOLUTION MINING LIMITED	Neutral	Buy	Morgan Stanley
15	HEALTHCO HEALTHCARE & WELLNESS REIT	Sell	Neutral	Morgan Stanley
16	NORTHERN STAR RESOURCES LIMITED	Sell	Neutral	Morgan Stanley
17	REGION GROUP	Neutral	Buy	Morgan Stanley
18	REGIS RESOURCES LIMITED	Neutral	Buy	Morgan Stanley
19	SIMS LIMITED	Neutral	Buy	UBS

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	NWS	NEWS CORPORATION	48.050	43.200	11.23%	3
2	NEM	NEWMONT CORPORATION REGISTERED	89.250	81.250	9.85%	4
3	HLS	HEALIUS LIMITED	1.513	1.388	9.01%	4
4	ALQ	ALS LIMITED	15.425	14.438	6.84%	4
5	ASB	AUSTAL LIMITED	3.263	3.130	4.25%	3
6	SHV	SELECT HARVESTS LIMITED	4.783	4.600	3.98%	3
7	WBC	WESTPAC BANKING CORPORATION	27.760	26.727	3.87%	6
8	NAB	NATIONAL AUSTRALIA BANK LIMITED	32.935	31.802	3.56%	6
9	AMP	AMP LIMITED	1.332	1.292	3.10%	5
10	BWP	BWP TRUST	3.730	3.663	1.83%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	TLG	TALGA GROUP LIMITED	1.550	2.025	-23.46%	3

2	SYR	SYRAH RESOURCES LIMITED	0.555	0.663	-16.29%	4
3	LTM	ARCADIUM LITHIUM PLC	5.800	6.560	-11.59%	5
4	BOE	BOSS ENERGY LIMITED	4.280	4.590	-6.75%	5
5	MIN	MINERAL RESOURCES LIMITED	49.929	52.929	-5.67%	7
6	MP1	MEGAPORT LIMITED	11.170	11.750	-4.94%	5
7	LTR	LIONTOWN RESOURCES LIMITED	1.042	1.092	-4.58%	6
8	PMT	PATRIOT BATTERY METALS INC	0.960	1.000	-4.00%	5
9	NHC	NEW HOPE CORPORATION LIMITED	4.950	5.120	-3.32%	5
10	CXO	CORE LITHIUM LIMITED	0.090	0.093	-3.23%	3

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	NIC	NICKEL INDUSTRIES LIMITED	4.213	3.851	9.40%	5
2	NHC	NEW HOPE CORPORATION LIMITED	61.680	58.000	6.34%	5
3	BOE	BOSS ENERGY LIMITED	14.120	13.520	4.44%	5
4	PMT	PATRIOT BATTERY METALS INC	-13.845	-14.369	3.65%	5
5	HCW	HEALTHCO HEALTHCARE & WELLNESS REIT	8.250	8.050	2.48%	4
6	LTR	LIONTOWN RESOURCES LIMITED	-2.250	-2.300	2.17%	6
7	AMP	AMP LIMITED	7.525	7.375	2.03%	5
8	ORG	ORIGIN ENERGY LIMITED	72.250	71.450	1.12%	5
9	PDN	PALADIN ENERGY LIMITED	49.869	49.392	0.97%	5
10	ASB	AUSTAL LIMITED	13.450	13.350	0.75%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	MIN	MINERAL RESOURCES LIMITED	-52.433	-26.250	-99.74%	7
2	IGO	IGO LIMITED	8.725	14.025	-37.79%	6
3	SYR	SYRAH RESOURCES LIMITED	-17.112	-12.715	-34.58%	4
4	PLS	PILBARA MINERALS LIMITED	3.280	4.900	-33.06%	6
5	WHC	WHITEHAVEN COAL LIMITED	51.450	69.200	-25.65%	6
6	SFR	SANDFIRE RESOURCES LIMITED	39.642	52.371	-24.31%	6
7	CIA	CHAMPION IRON LIMITED	59.797	75.187	-20.47%	3
8	TLG	TALGA GROUP LIMITED	-8.700	-7.300	-19.18%	3
9	ALX	ATLAS ARTERIA	42.000	48.500	-13.40%	5
10	S32	SOUTH32 LIMITED	27.856	31.520	-11.62%	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: Banks & Microsoft Go Nuclear

Hyperscaler Microsoft follows Amazon into a major nuclear energy supply contract but this fails to lift activity and price enthusiasm in the spot market. Paladin's Fission acquisition in question; Lotus Resources scoping study reveals higher costs and global banks commit to nuclear funding.

-Spot uranium market remains in the doldrums
-International Atomic Energy Agency forecasts on the up
-Is Lotus the new Paladin?
-Financing drought breaks
-Short sellers lift positions

By Danielle Ecuyer

Lack of activity becalms spot market

In what transpired as another listless week of activity, industry consultants TradeTech report the spot market experienced a lack-of-buying interest, with downward pressure on the U308 price, as sellers sought to attract buying interest.

The spot price declined -US$0.75 to US$79.25 with a further 50,000lb transactioned after the close of market on Friday at US$79lb.

TradeTech explains the disconnect between the spot market and the more bullish longer-term scenario as the time difference between current levels of demand and the longer lead times of bringing new nuclear generating capacity on stream.

The highlight of the week for U308 enthusiasts came with Friday's announcement between Constellation Energy and Microsoft in a 20-year off-take agreement for nuclear power to feed the technology giant's growing data centre energy demand.

The project involves the restart of Three Mile Island Unit 1, five years after it was decommissioned, under the name of the Crane Clean Energy Centre.

An estimated 3,400 jobs both direct and indirect will be involved for the investment to restore the plant, including approval from the US Nuclear Regulatory Commission.

Constellation aims to the bring the project on stream by 2028 adding around 835MW of energy to the grid.

While the medium to longer term outlook for demand continues to improve, as TradeTech highlights, it will be multiple years before increased nuclear power capacity equates to buying interest.

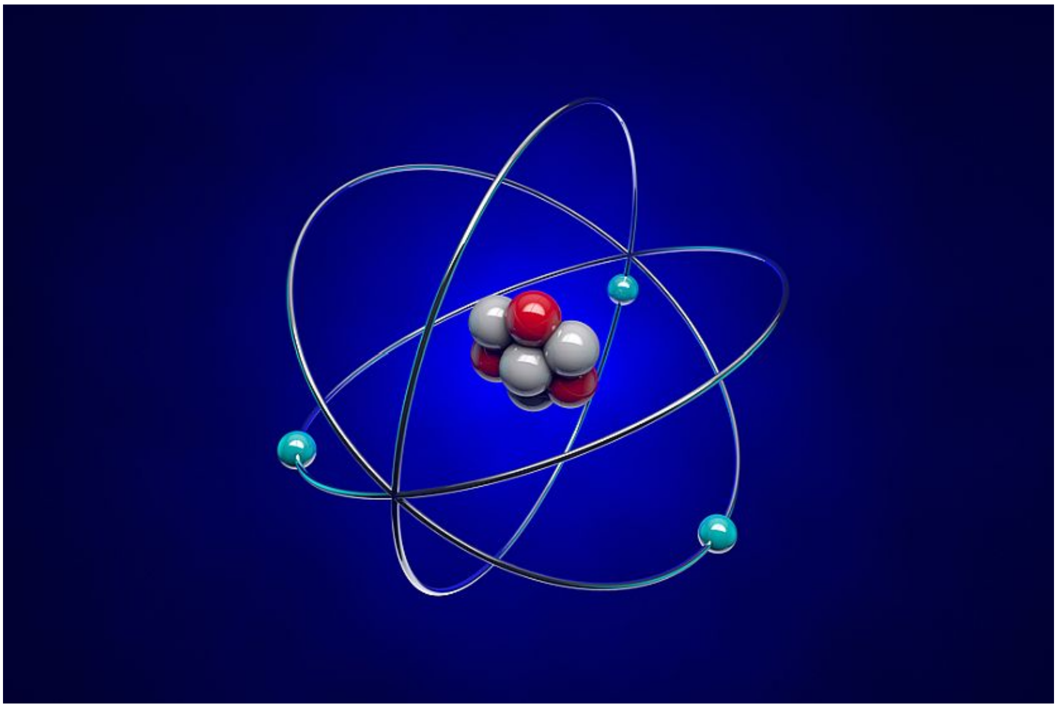
The consultants also point to the absence of buying interest from hedge funds and investors which were prevalent between 2021 and 2023. Buying interest in the spot market is characterised by a *"small number of players and trading is thin"*.

TradeTech's Mid-Term U308 Price Indicator is US$86lb, and the Long-Term Price Indicator US$82lb. The term markets are where more of the Geo-politics and longer-term supply dynamics come to the fore.

In addition to Kazatomprom's recent announcement that shipments can no longer be facilitated to Europe via St Petersburg (see last week's Uranium Weekly, listed below), the US government is investigating the possible exportation of Chinese enriched uranium while the country is importing enriched uranium from Russia.

In other macro news, the International Atomic Energy Agency's Energy, Electricity and Nuclear Power Estimates for the Period up to 2050 were released last week.

TradeTech observes for the fourth year in a row the Agency has increased expectations for global nuclear capacity, now estimating it will expand two-and-a-half times current capacity by 2050 compared to 2023.



Australian uranium miners in focus

Having received shareholder approval for the acquisition of Fission Uranium Corp, **Paladin Energy** ((PDN)) announced it received a notification that CGN Mining Co., a subsidiary of China Nuclear Power which holds a 11.86% stake in Fission, that it will not be supporting the acquisition.

The Supreme Court of British Columbia will provide a final ruling on the takeover with the court due to resume on September 26.

Lotus Energy ((LOT)) took the stage this week with an updated scoping study for its greenfield project, Letlhakane Uranium Project. Bell Potter couldn't hide its disappointment from the latest update which revealed results similar in the A-Cap 2015 technical report, from whom Lotus acquired the asset.

The analyst highlighted higher costs as a point of concern with both capital and operating expenses coming in above peers.

Canaccord Genuity assesses the base case for the project as 3mlbs p.a. versus previous expectations of 3.5mlbs p.a. with a 15-year mine life against 20-years. Estimated capex of -US$488.5m or a capital intensity of US$162.8/mlb versus the previous forecast of US$150/mlb.

Management is aiming to improve the mining techniques with a reduction in acid consumption which Canaccord believes has scope to enhance the project and reduce the estimated cash costs by US$6lb.

Despite a more downbeat view on the scoping study, brokerage Bell Potter remains positive on the restart of Kayelekera, retaining a Speculative Buy rating. The target price is lowered to 50c from 70c because of the lower ascribed valuation on Letlhakane.

Macquarie initiated coverage on Lotus with an upbeat assessment. This analyst emphasises the investment case is not dissimilar to Paladin a few years ago with the start of Langer Heinrich.

The proposition rests on the relatively low capex cost to re-commence Kayelekera. Once this project is generating cashflows, Macquarie suggests the company can transition to developing the larger greenfield project at Letlhakane.

Macquarie is also "bullish" on the outlook for uranium due to growing new nuclear reactor capacity and a lack of supply additions.

FNArena's daily monitored brokers all have Buy equivalent ratings with an average target price of 54c.

Banks step up triple the world's nuclear energy capacity

The Financial Times reported at a White House meeting fourteen of the world's largest banks and financial institutions committed to providing more financial support for the nuclear energy industry, including financing new power plants.

George Borovas, head of nuclear practice at Hunton Andrews Kurth and a board member of the World Nuclear

Association, was quoted by the FT, saying "this event is going to be a game changer" with the disposition from the financiers shifting from it's "very difficult, very controversial" to "**part of the solution for climate change**" instead of "a necessary evil".

The list of institutions includes Bank of America, Barclays, BNP Paribas, Citi, Morgan Stanley, Goldman Sachs, Abu Dhabi Commercial Bank, Ares Management, Brookfield, Credit Agricole CIB, Guggenheim Securities, Rothschild & Co, Segra Capital Management and Societe Generale.

Short sellers continue to edge up their positions against Aussie uranium stocks

The latest data reveal short interest in Australia continuing to edge up with Paladin now at 11.24% shorted from 9.35% a month ago; Boss Energy ((BOE)) at 10.25% from 9.06% a month earlier; Deep Yellow ((DYL)) 8.61% from 8.18% and Lotus up to 7.58% from 5.48%.

FNArena's The Short Report: https://fnarena.com/index.php/analysis-data/the-short-report/

For further reading last week's Uranium Weekly:

https://fnarena.com/index.php/2024/09/17/uranium-week-u308-supply-in-the-spotlight/

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	20/09/2024	0.0500	0.00%	$0.19	$0.03			
AEE	20/09/2024	0.1400	▲16.67%	$0.36	$0.11			
AGE	20/09/2024	0.0400	0.00%	$0.08	$0.03		$0.100	▲150.0%
AKN	20/09/2024	0.0100	0.00%	$0.07	$0.01			
ASN	20/09/2024	0.0800	▼-11.36%	$0.20	$0.07			
BKY	20/09/2024	0.3200	▼- 4.41%	$0.45	$0.26			
BMN	20/09/2024	2.6100	▲ 5.75%	$4.87	$1.90		$7.400	▲183.5%
BOE	20/09/2024	2.9000	▼- 3.60%	$6.12	$2.38	20.8	$4.280	▲47.6%
BSN	20/09/2024	0.0300	▲ 3.23%	$0.21	$0.02			
C29	20/09/2024	0.0700	0.00%	$0.12	$0.06			
CXO	20/09/2024	0.1000	▲ 2.04%	$0.45	$0.08		$0.090	▼- 10.0%
CXU	20/09/2024	0.0200	0.00%	$0.06	$0.01			
DEV	20/09/2024	0.1300	▼- 7.41%	$0.45	$0.11			
DYL	20/09/2024	1.2600	▲ 3.54%	$1.83	$0.91	-90.0	$1.770	▲40.5%
EL8	20/09/2024	0.3500	▲ 6.45%	$0.68	$0.26			
ERA	20/09/2024	0.0070	▲16.67%	$0.08	$0.00			
GLA	20/09/2024	0.0100	0.00%	$0.04	$0.01			
GTR	20/09/2024	0.0040	▲25.00%	$0.02	$0.00			
GUE	20/09/2024	0.0600	0.00%	$0.18	$0.05			
HAR	20/09/2024	0.0300	▼-25.00%	$0.28	$0.03			
I88	20/09/2024	0.5000	0.00%	$1.03	$0.14			
KOB	20/09/2024	0.1000	0.00%	$0.18	$0.07			
LAM	20/09/2024	0.5600	▼-11.93%	$1.04	$0.48			
LOT	20/09/2024	0.2500	▼- 4.17%	$0.49	$0.20		$0.540	▲116.0%
MEU	20/09/2024	0.0400	▼- 5.41%	$0.06	$0.03			
NXG	20/09/2024	9.4700	▲ 5.84%	$13.66	$7.89		$16.200	▲71.1%
ORP	20/09/2024	0.0600	0.00%	$0.12	$0.04			
PDN	20/09/2024	10.1100	▲ 2.39%	$17.98	$8.15	20.5	$14.200	▲40.5%
PEN	20/09/2024	0.0900	▲ 6.25%	$0.15	$0.07	30.0	$0.260	▲188.9%
PNX	20/09/2024	0.0040	0.00%	$0.01	$0.00			
SLX	20/09/2024	3.9900	▲ 7.32%	$6.74	$2.93		$7.200	▲80.5%
TOE	20/09/2024	0.2000	▼-28.30%	$0.70	$0.01			
WCN	20/09/2024	0.0200	▲11.76%	$0.02	$0.01			

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WEEKLY REPORTS

The Short Report - 26 Sep 2024

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

Summary:

Week Ending September 19th, 2024 (most recent data available through ASIC).

10%+

PLS 20.04
IEL 14.33
SYR 12.32
PDN 11.91
MIN 11.62
CTT 11.39
LTR 11.10
LYC 11.07
BOE 10.40

In: BOE, MIN

9.0-9.9%

STX
SYA
CHN

Out: BOE, MIN

8.0-8.9%

DYL

Out: LOT

7.0-7.9%

KAR
LOT
SEK
ADT

in: KAR, LOT Out: ACL

6.0-6.9%

OBL
NUF
SFR
WBT
LIC
GMD
FLT
IMU

In: DMP, IMU Out: ADT, KAR

5.0-5.9%

BGL
WEB
CUV
NAN
DXS
RIO
SIG
CXL
NVX
VUL

In: CXL, VUL Out: A2M, DMP, IDX, IMU

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.6	0.5	NAB	0.8	0.8
ANZ	0.5	0.6	QBE	0.9	0.5
BHP	0.4	0.5	RIO	5.4	5.5
CBA	1.5	1.5	STO	1.3	1.0
COL	0.8	0.9	TCL	0.8	0.8
CSL	0.3	0.3	TLS	0.4	0.3
FMG	1.7	1.6	WBC	1.0	0.9
GMG	0.8	0.8	WDS	1.9	1.8
JHX	0.9	0.9	WES	0.9	1.0
MQG	0.8	0.8	WOW	0.5	0.4

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

In Brief: Light & Wonder, Codan, Mitchell Services & More

Weekly Broker Wrap: analysts remain bullish on Aristocrat and Light & Wonder; Codan catches a juicy US Department of Defence acquisition; Mitchell Services damp but not drowned out and private health insurers fight for new customers.

-One dragon's loss is another dragon's gain
-US army communications contract a nice earnings boost
-Extreme wet weather takes a bite not a mouthful on a driller's earnings
-Is promotional activity in private health insurance good for the goose and not the gander?

By Danielle Ecuyer

Quote of the week from ANZ Bank post the RBA cash rate decision and August CPI reading:

"We continue to expect the RBA to commence cash rate cuts in February 2025, predicated on underlying inflation and labour market tightness easing further in H2 2024. But the risks have tilted to a later rather than an earlier start. We forecast a shallow easing cycle of 75bp in 2025."

Judge slays Dragon Train

In the US District Court in Nevada, **Light & Wonder** ((LNW)) lost the intellectual property case filed by **Aristocrat Leisure** ((ALL)) with the judge awarding Aristocrat a preliminary injunction relating to Dragon Train on misappropriation of trade secrets, reputable harm and public interest.

Light & Wonder's response "we respectfully disagree with the judge's decision and will promptly file an appeal".

The market shot first sending the shares down -18% on the day, before brokers had time to dig into the details.

Jarden highlights Dragon Train's financial impact is less than -5% of FY25 EBITDA guidance. Although the analyst estimates the impact might be slightly higher, the share price reaction is perceived as "overdone", noting the injunction included "any continued or planned sale, leasing, or other commercialisation of Dragon Train".

The company expects machines in A&NZ will remain on floors, but a question mark hangs over whether the existing North American machines will need to be removed.

J.P. Morgan believes Dragon Train has been an important factor for positive investor sentiment, as well as sales and earnings "momentum".

Both brokers cut earnings forecasts slightly in 2024/2025 by between -1.2% and -2% for Jarden, respectively and -2% for J.P.Morgan.

Target prices fall to $150, down -12% for J.P.Morgan, and $175 from $176 for Jarden. Buy equivalent ratings remain unchanged.

FNArena daily monitored brokers have an average target price of $168.40 (down -$4 this week) with exclusively Buy equivalent ratings.

Aristocrat received a bump up in earnings forecasts and target price from Jarden to $59 from $56. The analyst expects a pick-up in market share across US gaming and re-attaining lost market share in A&NZ.

FNArena daily monitored broker have only Buy equivalent ratings with an average target price of $57.467. UBS is the high-marker with an upgraded target of $63.50 from $56.

Codan buys an earnings booster

The Codan ((CDA)) share price received a sugar hit this week post the announced acquisition of US-based

Kagwerks (SKT2 LLC bda Kagwerks) for -$33m, with an additional five-year royalty payment agreement based on agreed sales targets from 1% to an upper 5% limit.

Moelis notes the purchase will be funded via an increase in the debt facility to $200m from $170m and is expected to add revenues of $49m to $57m in the first year, with estimated EBITDA accretion of $8m to $11m, ex-costs for FY25.

Moelis highlights Kagwerks provides a boost to Codan's radio communications operations. It currently provides communications equipment to the US Department of Defence, over 3000 DOCK products to the US army to date. Kagwerks was selected in 2022 for the Defence Department's Warrier Program which runs through to 2029 with the DOCK products as the "centrepiece".

The broker forecasts EPS growth between 22% to 24% for the next three years, upgrading EPS for FY25 by 2.3% and 6% in FY26. Target price rises to $18.14.

Canaccord Genuity also like the Kagwerks acquisition lifting FY25 EPS forecast by 1% and FY26 by 4%. Target price increases to $16.76 from $15.34. Both brokers are Buy equivalent rated.

Wet weather bashes coal producing areas

Bridge Street Capital Partners casts an analytical eye over **Mitchell Services** ((MSV)) which is described as a "high-quality national leader in drilling services" including metallurgical coal on the east coast of Australia.

Extremely heavy rain events on the east-coast coal producing areas is believed to have impacted on the company's earnings forecasts. **Coronado Global Resources'** ((CRN) recent trading update highlighted rainfall over three times the ten-year monthly average in the Curragh complex.

On a more positive note, the company has successfully renegotiated all the main expiring contracts in FY24 plus some additional wins.

Mitchell Services remains Buy equivalent rated by the broker post adjusting earnings forecasts for the wet weather. The stock is believed to be fundamentally undervalued with a target of 60c and an attractive forecast FY25 dividend yield of 8.4% based on management's payout ratio of up to 27% of net profits.

FNArena monitored broker Morgans has a Speculative Buy rating and 55c target price.

Is competition eating private health insurers profits?

Competition in the private health insurance market is hot, hot, hot according to Macquarie's health insurance promotional tracking tool.

Over 59% of brands are currently indulging in some promotional activity with enticements out to November.

The larger plays are the most "aggressive" the broker highlights. The offerings peaked at 22 over the past twelve weeks out of a total 34 brands with 20 currently still active.

Funds are offering three types of promotions including free periods, waived waiting periods and bonuses like gift cards. The free weeks offering is used in about 80% of promotions with **Medibank Private** ((MPL)) and nib **Holdings** ((NIB)) currently promoting eight free weeks alongside the AHM Brand.

The tracker supports commentary from Medibank and nib regarding high levels of competition for new customers over the last six months. Macquarie highlights the aggressive promotional behaviour increases the cost of customer acquisition which may challenge policy growth targets for FY25.

The analyst calculates every circa 25bps of policyholder growth for Medibank equals around 0.3% EPS and 0.6% for NIB.

Both stocks are Neutral rated with $3.66 and $6.30 target price, respectively.

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 27-09-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

HEALIUS LIMITED ((HLS)) Upgrade to Neutral from Underweight by Jarden.B/H/S: 0/0/0

Healius announced the sale of Lumus imaging to Affinity Equity Partners for net consideration of $825m.

Jarden highlights the price is around $250m higher than the expected valuation and will facilitate the paydown of some $361m in debt by Healius.

Management has slimmed down the business with a few divestments making Healius the second largest pathology company in Australia, although the company has been losing market share, the broker notes.

A return of pathology volumes is considered integral to the business going forward. The stock is upgraded to Neutral from Underweight with the target price lifting to $1.67 from $1.41.

JUMBO INTERACTIVE LIMITED ((JIN)) Upgrade to Buy from Overweight by Jarden.B/H/S: 0/0/0

Jarden attributes part of Jumbo Interactive's share price weakness post FY24 results to management's conservative guidance which illustrates a more normalised jackpot season post a record 55 jackpots in FY24.

The analyst views the underperformance of the stock by -16% is now overdone and Jumbo Interactive is trading notably lower than the three-year average historical valuations.

Jarden raises EPS forecasts by 5.8% for FY25 to FY27 for stronger SaaS total transaction value growth; a small share buyback in FY25 which is offset from increased employee costs.

The target price lifts to $15.50 from $14.70 with the stock upgraded to Buy from Overweight post the fall of -10% in the share price post the FY24 results.

MACQUARIE TECHNOLOGY GROUP LIMITED ((MAQ)) Upgrade to Buy from Hold by Petra Capital.B/H/S: 0/0/0

While Petra Capital keeps a $87.81 target for Macquarie Technology, the rating is upgraded to Buy from Hold after the share price has fallen from a recent high of $98.35 down to around $81.00.

The broker believes investors need to be positioned in the stock for likely positive news regarding contract wins prior to 'go-live' for the IC3 Super West facility, even though practical completion is two-years away.

IC3 has 45MW of power available on day one, an important factor for global customers, stresses the analyst.

In a further scenario analysis, Petra Capital also highlights a de-merger of the group's data centre assets would realise significant value.

SPARK NEW ZEALAND LIMITED ((SPK)) Upgrade to Overweight from Neutral by Jarden.B/H/S: 0/0/0

Jarden highlights a long-term positive view on Spark New Zealand from the mobile business contribution which continues to grow. The analyst revises earnings forecasts for the outlook on mobile, increasing market share loss in broadband and ongoing declines in voice.

The build out of Spark New Zealand's data centre projects to 38MW are included in the analyst's forecasts with an additional 15MW over FY25-FY26 with the broker exploring a 50:50 joint venture on the first 38MW which would realise NZ$500m from a sale of 50% and bring in capital for further data centre build outs.

Target falls to NZ$3.98 from NZ$4.28.

Rating upgraded to Overweight from Neutral.

Downgrade

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

Jarden lowers its target for Core Lithium to 8c from 10c and downgrades to Sell from Neutral after revised forecasts for the Finniss hard rock lithium mine introduced the need for around $250m of new funding and working capital.

These changes are made despite the apparently positive announcement of a 223% increase to BP33, the potential second ore source to feed the Finniss operations, explains the broker.

In the absence of compelling and plausibly funded project economics to provide valuation support, the analysts suggest Core Lithium is increasingly an exposure to exploration.

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

Jarden lowers its target for KMD Brands to NZ67c from NZ70c and downgrades to Overweight from Buy following a "difficult" FY24 due to weakness for the Kathmandu brand.

Wholesale channel destocking also weighed on Rip Curl and Oboz in FY24, explain the analysts, though green shoots have been spotted in the 2H.

The trading update for the first eight weeks of FY25 shows improvement in Kathmandu, which Jarden weighs against ongoing weakness in 1H25 wholesale orders. Its view is more work is needed to build confidence in a turnaround for Kathmandu.

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

Following a 1Q trading update for the Metals business, Jarden raises its target for Sims to $12.50 from $12.00 but downgrades to Neutral from Overweight after recent share price strength.

The broker is encouraged by the turnaround in the North America (NAM) segment suggesting it offers the greatest improvement opportunity via pivoting towards domestic customers and consolidating regional markets.

Reducing NAM's exposure to global trading markets provides another avenue for improvement, according to the analysts.

SELECT HARVESTS LIMITED ((SHV)) Downgrade to Market Weight from Overweight by Wilsons.B/H/S: 0/0/0

It is Wilsons view Select Harvests announced a disappointing trading update with guidance for FY24 at the lower end of consensus despite improved almond prices.

Slower cash collection resulted in higher net debt for year-end due to problems with the transition to a new freight operator. The company's $80m equity raising will assist in lowering gearing levels and improve the balance sheet, Wilsons highlight.

Target price falls to $4.57 from $5.53 because of lower earnings forecasts from FY26 onward and higher working capital expectations.

The rating is downgraded to Market Weight from Overweight.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	HEALIUS LIMITED	Neutral	Sell	Jarden
2	JUMBO INTERACTIVE LIMITED	Buy	Buy	Jarden
3	MACQUARIE TECHNOLOGY GROUP LIMITED	Buy	Neutral	Petra Capital
4	SPARK NEW ZEALAND LIMITED	Buy	Neutral	Jarden
Downgrade				
5	CORE LITHIUM LIMITED	Sell	Neutral	Jarden
6	KMD BRANDS LIMITED	Buy	Buy	Jarden
7	SELECT HARVESTS LIMITED	Neutral	Buy	Wilsons

8	SIMS LIMITED	Neutral	Buy	Jarden

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
ALQ	ALS Ltd	$14.10	Goldman Sachs	14.85	15.60	-4.81%
			Jarden	14.20	14.90	-4.70%
ASB	Austal	$2.85	Petra Capital	3.23	3.21	0.62%
BSL	BlueScope Steel	$21.41	Jarden	23.00	22.90	0.44%
BTH	Bigtincan Holdings	$0.17	Canaccord Genuity	0.20	0.40	-50.00%
CAJ	Capitol Health	$0.36	Canaccord Genuity	0.32	0.27	18.52%
COI	Comet Ridge	$0.17	Petra Capital	0.29	0.35	-17.14%
COL	Coles Group	$18.21	Goldman Sachs	18.00	16.30	10.43%
CXO	Core Lithium	$0.10	Jarden	0.08	0.10	-20.00%
EVN	Evolution Mining	$4.64	Jarden	3.25	3.13	3.83%
HLS	Healius	$1.73	Jarden	1.67	1.41	18.44%
JLG	Johns Lyng	$3.71	Canaccord Genuity	6.10	6.23	-2.09%
			Moelis	5.11	5.03	1.59%
KCN	Kingsgate Consolidated	$1.46	Canaccord Genuity	2.90	3.20	-9.38%
LOT	Lotus Resources	$0.29	Canaccord Genuity	0.52	0.54	-3.70%
			Petra Capital	0.33	0.37	-10.81%
MYX	Mayne Pharma	$4.57	Canaccord Genuity	6.25	6.69	-6.58%
PXA	Pexa Group	$15.00	Jarden	14.90	14.45	3.11%
SGM	Sims	$12.33	Jarden	12.50	12.00	4.17%
SHV	Select Harvests	$3.68	Wilsons	4.57	5.39	-15.21%
TTM	Titan Minerals	$0.43	Canaccord Genuity	1.30	0.13	900.00%
WOW	Woolworths Group	$33.35	Goldman Sachs	40.10	39.40	1.78%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

ASB AUSTAL LIMITED

Commercial Services & Supplies Overnight Price: $3.00

Petra Capital rates ((ASB)) as Buy (1)

Petra Capital forecasts Austal's earnings (EBIT) will rise by around $30m/year over an extended period after securing a new submarine module fabrication contract with General Dynamics Electric Boat (GDEB).

Austal will receive US$450m of special US Navy incentives to build (and own) the requisite fabrication facilities at its shipyard in Mobile, Alabama.

The broker reiterates its Buy rating, and the target rise to $3.23 from $3.21.

This report was published on September 25, 2024.

Target price is **$3.23** Current Price is **$3.00** Difference: **$0.23**
If **ASB** meets the Petra Capital target it will return approximately **8%** (excluding dividends, fees and charges).
Current consensus price target is **$3.26**, suggesting upside of **12.5%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **3.00** cents and EPS of **11.10** cents.

At the last closing share price the estimated dividend yield is **1.00%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **27.03**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **13.5**, implying annual growth of **229.3%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **21.5**.

Forecast for FY26:

Petra Capital forecasts a full year **FY26** dividend of **12.50** cents and EPS of **25.10** cents.
At the last closing share price the estimated dividend yield is **4.17%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **11.95**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **18.0**, implying annual growth of **33.3%**.
Current consensus DPS estimate is **2.0**, implying a prospective dividend yield of **0.7%**.
Current consensus EPS estimate suggests the PER is **16.1**.

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

INR IONEER LIMITED

New Battery Elements Overnight Price: $0.21

Canaccord Genuity rates ((INR)) as Speculative Buy (1)

Canaccord Genuity highlights the final Environmental Impact Statement for ioneer's Rhyolite Ridge Lithium-Boron project in Nevada has been announced.

The analyst also notes the US Fish and Wildlife Services stated the project will not "jeopardise the endangered Tiehm's buckwheat of adversely impact on habitat".

These announcements are viewed as milestones for the company with a final investment decision expected at the end of 2024.

The Speculative Buy rating and 35c target are retained for ioneer.

This report was published on September 20, 2024.

Target price is **$0.35** Current Price is **$0.21** Difference: **$0.135**
If **INR** meets the Canaccord Genuity target it will return approximately **63%** (excluding dividends, fees and charges).

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

LOT LOTUS RESOURCES LIMITED

Uranium Overnight Price: $0.23

Canaccord Genuity rates ((LOT)) as Speculative Buy (1)

Lotus Resources updated scoping study on its Letlhakane uranium project in Botswana. Canaccord Genuity highlights the update includes average annual production of 2mlbsp.a. from 3.5mlbs p.a. and a 15-year mine life, down from 20 years.

The expected initial capex is -US$488.5m against the broker's previous forecast of -US$526m.

Lotus Resources has stated a total cash cost of US$42/lb versus the analyst's previous forecast of US$40.8lb.

The Speculative Buy rating remains. Target price falls to 52c from 54c.

This report was published on September 19, 2024.

Target price is **$0.52** Current Price is **$0.23** Difference: **$0.29**
If **LOT** meets the Canaccord Genuity target it will return approximately **126%** (excluding dividends, fees and charges).
Current consensus price target is **$0.54**, suggesting upside of **107.7%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.30** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 76.67**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **-0.4**, implying annual growth of **N/A**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **N/A**.

Forecast for FY26:

Canaccord Genuity forecasts a full year **FY26** dividend of **0.00** cents and EPS of **minus 0.50** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 46.00**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **2.8**, implying annual growth of **N/A**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **9.3**.

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

SMI SANTANA MINERALS LIMITED

Gold & Silver Overnight Price: $2.37

Canaccord Genuity rates ((SMI)) as Initiation of coverage with Speculative Buy (1)

As part of the Bendigo-Ophir mine in New Zealand, Santana Minerals is currently developing its Rise and Shine deposit, which Canaccord Genuity highlights is the largest single New Zealand gold discovery in more than 40 years.

The broker begins research coverage with a Speculative Buy rating and $3.00 target.

In April, a scoping study detailed a 10-year operation producing an average of 110koz per year, with low-quartile costs (AISC) of $1,057/oz, highlights the broker. The study was based on an initial eight-year staged open pit and four-year underground mine.

Santana Minerals compares favourably to peers in gold mining development, suggests Canaccord Genuity, with compelling capital intensity and relatively high open pit grades over a long life-of-mine.

This report was published on September 20, 2024.

Target price is **$3.00** Current Price is **$2.37** Difference: **$0.63**
If **SMI** meets the Canaccord Genuity target it will return approximately **27%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 8.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 29.63**.

Forecast for FY26:

Canaccord Genuity forecasts a full year **FY26** dividend of **0.00** cents and EPS of **minus 12.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 19.75**.

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

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