WEEK 47

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Friday, 24 November 2023

Material Matters: Crude Oil And Five Gold Miners

Rudi's View: Quality In Stocks; What Is It Good For?

Treasure Chest: Orica's Technology Tailwind

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COMMODITIES

Material Matters: Iron Ore; Copper; Zinc; Lithium

A glance through the latest expert views and predictions about commodities: China stimulus supporting iron ore, copper; near-term risk for zinc; lithium prices to fall further.

-China's fiscal stimulus targeting construction
-Copper supply growth fears overblown
-Zinc to see sustained surplus
-The lithium bear market not over yet

By Greg Peel

China’s Stimulus: Iron Ore/Copper

It appears Beijing has cried wolf once too often. The Chinese government’s recent declaration that iron ore prices are “unjustifiably high” might have worked in sending prices lower in the past, but not this time. The price has risen to over US$130/t from around US$120/t at the time.

Never mind the government’s attempts to intervene in a “free market,” it’s a bit incongruous to make such a declaration on the one hand and then provide infrastructure stimulus on the other.

It appears to Citi, China will likely increasingly push towards fiscal expansion to engineer investment-led growth, and this time with a focus on urban village redevelopment/affordable housing to support overall property market-related activity in 2024.

Yesterday, the iron ore price was boosted by a front-page editorial in state-owned media that said funds from the one trillion yuan debt issuance announced by Beijing last month should be disbursed into construction projects and allocated in a timely manner.

In a further sign that Beijing is determined to breathe life into a sector that’s endured more than a year-long slump, fifty Chinese real estate developers may be eligible for financing, according to reports.

Citi has further upgraded its iron ore price forecast to US$140/t from US$120/t on a zero-to-three month basis after upside risk materialised at US$130/t, and sees an upside skew surrounding the broker’s FY24 forecast.

Based primarily on a significant shift in Citi’s near-term China easing expectations, some larger-than-expected supply disruptions in Panama and Peru, and related short-covering, the broker now expects the recent copper rally to continue into year-end 2023 and early 2024.

Citi has thus raised its zero-to-three month forecast from US$7,500/t to US$8,600/t, with the potential to touch US$8,800/t, compared to last US$8,457/t (three month) on the London Metals Exchange.

More on Copper

UBS notes most corporates, consultants and analysts expect the copper market to move to surplus in 2024, largely driven by supply growth. The broker sees a more balanced market in 2024, with the market moving into a growing deficit from 2025, largely due to more conservative supply forecasts.

The broker acknowledges if all the miners deliver, supply could lift over 5% year on year in 2024, pushing the market into surplus, but observes that supply estimates have consistently been too optimistic in recent years. As miners recalibrate their guidance for 2024, UBS expects supply forecasts to decline.

In the broker's view, evidence from September quarter reporting and supply-side newsflow supports this thesis.

UBS is not bullish on copper near-term, but does not see a protracted period of oversupply driving prices into the cost curve for an extended period and believes investors should be positioning for a tighter copper market in 2024-25.

UBS has a Buy rating on Sandfire Resources ((SFR)).

Caution on Zinc

Citi is struggling to build conviction in the near-term zinc price direction amid competing drivers. The broker believes weakness is more likely than strength, but the downside is likely limited by mine cost support.

Zinc's recent price strength reflects a mix of fears around mine supply constraints, Chinese steel demand optimism (seen in iron ore's surge beyond US$130/t), and US dollar weakness on growing rate cut expectations.

Citi's base case still assumes sustained surplus conditions will weigh on pricing over the next three to six months. China's refined zinc output has recovered from summer maintenance, so import demand is now ebbing, and this could drive ex-China inventories higher in the months ahead.

Citi has raised its zero-to-three month zinc price forecast to US$2500/t from US$2300/t. The broker's updated global zinc supply/demand balance sees a narrowing in refined surplus in 2024 (144kt versus 185kt in 2023) as refined supply shifts from smelter-constrained to mine-constrained.

Accelerated Lithium Price Decline

Goldman Sachs has lowered its 2023-24 lithium price forecasts to reflect significant downside risk to lithium prices on oversupply-led, low-cycle pricing, which is yet to arrive.

It is too early to call the bottom of the lithium bear market, Goldman suggests, despite sector pricing down some -70% this year on a rise in supply combined with a shift lower in retail EV volume growth in China.

The size of upcoming surpluses has not yet been fully realised in prices, the broker suggests.

EV demand growth has been faltering globally as inflation, rate hikes and cost of living pressures have lured buyers away from more expensive fully-electric vehicles towards cheaper electric-petrol hybrids. China's struggling economy has only exacerbated.

Amongst Australian-listed lithium miners, despite spodumene pricing down some -40% since September, sector performance has been mixed, Goldman notes, with IGO Ltd ((IGO)) and Allkem ((AKE)) down around -35%, Pilbara Minerals ((PLS)) down -25%, and Core Lithium ((CXO)) losing less than -10%, with M&A activity on emerging resources contributing to ongoing sector outperformance versus global peers.

The broker downgrades Core Lithium to a relative Sell on valuation. Liontown Resources ((LTR)), on the other hand, is upgraded to Neutral on valuation, noting that stock has lost close to -50% of its value since Albemarle pulled its takeover bid, compounded by falling lithium prices.

Goldman Sachs continues to prefer low-cost assets of scale into lithium price declines and has a Buy on IGO for free cash flow, and on Allkem for growth.

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COMMODITIES

Material Matters: Crude Oil And Five Gold Miners

Weakening demand amidst strong supply of commodities; OPEC to update oil production quotas; Moelis initiates coverage of five Australian gold miners.

-Global demand for commodities easing, supply strong
-OPEC production decision critical for oil prices
-Moelis initiates coverage of Australian gold miners

By Greg Peel

Supply Exceeding Demand

The market balance across commodity sectors is easing, Citi notes, due to strong supply and weakening demand. The broker suggests this trend is likely to continue until demand picks up in the June quarter of 2024.

Narrowing refinery margins are keeping oil processing volumes low, and China's apparent oil demand moderated in October. Despite these recent declines, Citi notes demand growth for 2023 looks robust at 2.3mb/d. Record US oil production of 13.2mb/d is partially mitigating OPEC-Plus output losses. For LNG, ample inventories in Europe and Asia are capping the upside for prices.

Gold is benefitting from the tailwinds of heightened geopolitical risk, a weaker US dollar and retreating US bond yields.

Softer economic activity in developed markets, stronger supply and geopolitical issues are keeping industrial metals on a weaker footing. Refined supply is increasing for copper and aluminium in China.

Prices for the battery metals, lithium and cobalt, continue to fall, as demand remains weak despite stronger electric vehicle (EV) sales (although sales growth is weakening). An oversupply of batteries is keeping demand weak.

Iron ore prices are rising on expectations of more stimulus aimed at reviving China's property markets, Citi notes, but the impact of those measures is yet to show up in any property indicators. Depleting inventories in China and declining exports from Brazil and Australia are expected to continue to support the price.

Oil and OPEC

OPEC production decisions are important for the oil market, Morgan Stanley notes, but they are especially critical now. In the end, the broker expects OPEC-Plus to continue to restrain production and stabilise oil inventories broadly at current levels. That still supports Brent crude in the mid-US$80s per barrel, Morgan Stanley estimates.

Looking ahead, much depends on OPEC's upcoming production decisions, the broker points out. Demand growth this year has been strong at 2.2 mb/d, and demand grew well above the historical trend rate. However, this is likely to slow down in 2024 – Morgan Stanley pegs next year's growth at 1.2 mb/d.

As an aside, there appears to be dissent among smaller OPEC members with regard ongoing production cut quotas. A production meeting due for Sunday was last night delayed for four days.

This implies a risk OPEC-Plus production might increase, unless the Saudis and Russia, who have carried the bulk of the production burden so far, cut further to maintain prices.

Notwithstanding a significant slowdown in US shale output in 2024, non-OPEC production will likely still grow by 1.4 mb/d, Morgan Stanley suggests. That’s less than growth of 2.2 mb/d in 2023 but would still be sufficient to meet all global demand growth.

This does not necessarily change in 2025 or 2026 either. Despite low levels of upstream capex in 2020/21, the pipeline of non-OPEC projects alone appears sufficient to meet all global demand growth in the next few years at least, the broker believes.

Taken together, this leaves little room in the oil market for additional OPEC oil.

Initiating on Gold Miners

Moelis has initiated coverage of five Australian gold miners.

Mining assets are naturally in a constant state of decline, thus Moelis prefers companies with improving output, margins and mine lives. Valuation alone is not enough to be constructive, so the broker also looks for cash flow inflection and catalysts.

Moelis adopts blended valuation methodology to reflect both long and short-term value duration, being net asset value to assess long-term cash generating potential, and price to adjusted cash flow to aid in identifying inflection points.

Alkane Resources ((ALK)) scores a Buy (target $1.05). Delivery of its current growth project will underpin significant volume, earnings and cash flow growth into FY25, the broker suggests.

Genesis Minerals ((GMD)) is also a Buy (target $2.00). Genesis is reassembling the tenement package around

Leonora in WA to re-optimise the operating strategy at Gwalia and Mt Morgans.

Silver Lake Resources ((SLR)) is the third Buy (target $1.45). This company is operating two gold mines in WA (Deflector and Mt Monger), with a third development project in Canada, boasts a strong balance sheet and is motivated for further strategic growth. Silver Lake also has a significant holding in Red 5 ((RED)).

Red 5 itself scores a Hold (target 35c). This miner recently commissioned the long-life King of the Hills mine near Leonora, which Moelis notes is strategically significant, but considers the shares fairly valued following the recent run-up. Cash flow is muted near term, while debt is repaid and hedging impacts realised prices.

Finally, Gold Road Resources ((GOR)) is also a Hold (target $1.90). This miner has 50% ownership (non-operating) of the large-scale Gruyere deposit and strong cash flow generation, but offers limited growth and is fully valued, Moelis believes.

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ESG FOCUS

ESG Focus: Rounding Up A Psychosocial FY23 Season

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ESG Focus: Rounding Up A Psycho Social FY23 Season

In FNArena's final instalment for the FY23 ESG reporting season, we round up analysts' observations on of psychosocial safety metrics; reconciliation action plans; modern slavery reporting and gender diversity.

-Psychosocial metrics the new kid on the safety block
-Modern slavery metrics not so popular
-Corporate Australia mobs reconciliation action plans
-Progress on gender equity for boards
-Retreaters from guidance highlighted

By Sarah Mills

Rounding off the FY23 ESG reporting season, FNArena covers some of the less immediately material social trends.

One that we didn't see coming was the emergence of psychosocial safety metrics, in addition to standard safety metrics.

Meanwhile, corporate Australia rushed to adopt reconciliation action plans – an initially low-cost, easy metric for companies to report on.

Ditto for gender diversity on boards although the tougher metric – closing the gender pay gap – barely gained a mention.

In contrast, corporate Australia has shied away from more difficult metrics, such as modern slavery in supply chains, forcing regulators to wave their big stick.

Technology entered the modern slavery coterie to lend a hand, analysts observing a recent influx of forensic reporting technologies that can help companies track their supply chains and reveal vulnerabilities.

Psychosocial Metrics New Kid On Safety The Block

We've all heard about the pandemic of toxic workplaces but the issue has largely been ignored.

Yet toxic workplaces are placing a massive burden on the world's health infrastructure and are contributing to lost time through days off work, higher injury rates and lost productivity.

That's not to mention their contribution to the great resignation – a potentially more serious issue.

The problem has become so severe that a new expression has been coined to describe it: psychosocial safety.

Psychosocial safety is costing investors a lot of money, particularly during a period of labour shortages.

Toxic workplaces are an important factor in churn, and the likelihood of a company attracting an employee back after a bad experience are slim.

McKinsey defines psychosocial safety as the nurturing of:

"… an environment where people are encouraged to share creative ideas without fear of personal judgement

or stepping on toes. In this kind of environment, it feels safe to share feedback with others, including negative upward feedback to leaders about where improvements or changes."

In this sense, psychosocial safety also represents an attempt to tap the intellectual property of the commoners.

The Australian Public Service Commission offers a more widely understood definition:

"Psychosocial hazards or factors are aspects in the design or management of work that increase the risk of an adverse impact leading to work-related stress, exacerbated non-work-related stress or affect individual workers' health and well-being."

Macquarie expects psychosocial safety will grow as a reporting focus in FY24.

The broker observes resources companies in particular are becoming aware of the issue, and are likely to lead the reporting pack next year.

This does not mean that mining companies have more toxic workplaces than other companies – probably the reverse given its productive nature and reasonable pay – which makes it a fairly attractive metric for the industry to report on relative to physical safety.

Although certain elements, such as fly-in-fly-outs, long working hours and remote work does take its toll on mental health.

Other Industries Have Tougher Challenges

The mining industry's challenges are obvious and industry-specific, and therefore easier to tackle. Not so in companies with greater levels of management, bureaucracy and lower pay, all of which can impact mental health.

Bullying is perhaps one of the more insidious and difficult issues to manage in such environments.

Toxic workplaces are usually a product of managers managing up rather than down but it appears from now on, managers will have to cast their eyes in both directions (which is already happening with the linking of physical safety to executive remuneration).

The affects of toxic workplaces are amplified by less malleable externalities such as big mortgages, high rents and expensive real estate, which often cause people to stay in psychologically unsafe environments.

The bully manager, laissez faire manger, or solely numbers-oriented manager, is likely to struggle in this environment. Without naming names, the ASX has already witnessed CEOs stepping down on this basis.

While retention, churn and legal costs should fall for companies, other associated costs could rise.

Theoretically, demand for soft management skills should also rise.

Psychosocial safety is an issue for company culture so some investment would be expected on this front.

As psychosocial safety becomes "a thing", investors are likely to want the companies in which they invest to be considered great places to work, so that people don't leave, so they are hit with fewer law suits and reputation scandals, and so that their chances of attracting the best of the best rise.

This will mean companies are going to have to sharply lift their game.

Analysts and investors will be seeking more evidence than curated photos and testimonials of happy workers in annual reports.

It will be interesting to see which metrics, apart from obvious broader metrics such as churn and retention will be chosen by company reporters.

Macquarie is the first analyst to explore this issue in its FY23 reporting season's coverage.

After trawling through the results, Macquarie finds companies to demonstrate psychosocial risk assessments, training and enhanced frameworks in their reporting included: Austal ((ASB)), Emeco Holdings ((EHL)), IGO ((IGO)), Macmahon Holdings ((MAH)), Mineral Resources ((MIN)), NRW Holdings ((NWH)) Netwealth Group, ((NWL)) and Seven Group Holdings ((SVW)).

ASX-Listers Drop Ball On Modern Slavery

It appears the issue of modern slavery in supply chains has proved too challenging for Australian corporations, and now the government is threatening a crackdown.

In April, ACSI (the Australian Council of Superannuation Investors) published a report titled *Compliance*

Without Ambition, taking stock of ASX200 reporting under Australia's Modern Slavery Act.

ACSI found 77% of reporting entities in the year to December 31, 2022 failed to address all mandatory reporting criteria in their statements.

And 52% failed to identify obvious modern-day slavery risks in the first reporting cycle.

There were some signs of life, with 8% of major ASX-listers identifying a modern slavery incident.

Analysts broadly commended these companies for their efforts in the FY23 reporting season for their transparency, giving big ticks to BlueScope Steel ((BSL)) (in Malaysia) and Fortescue Metals ((FMG)), which observed a possible indicator, for having identified issues in their supply chains.

At the moment, companies are being rewarded for ferreting out problems.

Overall, however, the ASX's efforts fell well short of the government's expectations.

In May, the Attorney General proposed eliminating "bare minimum" modern slavery reporting after a review of modern slavery statements showed a very large percentage of reporters had adopted a minimum approach to compliance, rendering the statement incompatible with current legislation.

Over the year, the Federal Government also published 30 recommendations on the subject, including:

-reducing the reporting threshold from $100m a year to $50m;

-mandating due diligence systems; and

-applying financial penalties for non-compliance such as failing to report without a reasonable excuse. (NSW charges up to $1.1m for this breach)

Meanwhile, an Anti-Slavery Commission was appointed to enforce compliance in NSW.

Technology And Slavery

Identifying slavery can be challenging, so major corporations are turning to software and AI to combat modern slavery in their supply chains.

Macquarie observes a major theme in the FY23 results was the deepening of modern slavery supply chain due diligence, most of which revolved around screening tools, improvement plans and audits.

BlueScope, for example, advised it had increased the number of suppliers assessed through its EcoVadis system and conducted 5% of onsite audits, with three assessed as high risk.

GUD Holdings ((GUD)) advised it was developing an ethical sourcing platform.

Super Retail ((SUL)) used technology to audit 92% of its 462 factories identified as high-risk.

Jarden observed one of the more interesting tech initiatives included Citi Chic Collective's ((CCX)) first pilot on DNA/fingerprint testing on cotton products in FY23.

Jarden highlighted the advent of Oritain technology that enables forensic audits in a report titled *The Power Of Origin Verification*, which works by testing natural products to determine their provenance and authenticity.

Jarden says that over 15 years, Oritain, working with 120 large multinationals in 20 countries, has created a large data base and developed IP traceability of more than 25 key commodities such as cotton, wool, leather, palm oil, soy, honey, timber and milk powder.

Oritain advises products should be tested rather than relying on packaging or technologies such as blockchain or AI. Its processes look for isotopes and trace elements, which can be conducted at any stage of the process from farm level through to retail.

Elsewhere, Macquarie identified improvers as Bapcor ((BAP)), City Chic, Challenger ((CGF)), Dexus ((DXS)), Flight Centre ((FLT)), IGO, James Hardie ((JHX)), nib Holdings ((NHF)), Sky Network Television ((SKT)), Super Retail and Universal Store Holdings ((UNI)).

Johns Lyng Group ((JLG)), Paladin Energy ((PDN)) and Pilbara Minerals ((PLS)) advised they would adopt modern slavery measures in FY24.

Gender Diversity

Modern slavery reporting may have proved confounding for many ASX-listers but not so gender diversity, the number of women on ASX-listed boards continuing to rise as corporations fell on the metric with relative relief.

The Watermark and Governance Institute of Australia's 2023 Board Diversity Index found female representation on ASX300 boards in FY23 continued to exceed the 30% benchmark, rising to 35% - up 80% since 2016.

The institute expects the ratio of men to women on boards will approach parity in 2030.

Among the highlights in reporting season:

BlueScope Steel reported 55% female representation at the executive level after two senior appointments, not bad for a male-dominated industry.

Female representation also rose to 24% in the company's workforce.

Sims ((SGM)) also gained an honourable mention.

Mineral Resources met its target to increase female participation by 10% to 22.6%.

Closing The Gender Pay Gap

The tough yards are still to coming with companies still expected, over time, to close the gender pay gap.

KPMG says companies are expected to be reviewing outdated salary structures, and simplify remuneration frameworks to provide clearer guidance and transparency using benchmark data.

KPMG spies gender equity as a key lever available to management in this respect.

The pay gap between men and women is estimate to be close to $1bn a week, with the pay gap most evident at the executive level.

However, given executives represent a smaller percentage of the workforce, it is likely companies will likely to tackle this easier and less expensive option first.

Indigenous Engagements Get Plenty of RAPS

It was a similar story for reconciliation actions plans (RAPs)

Corporate Australia flocked to the indigenous reporting theme, which is relatively easy to develop, applies to a very small percentage of the workforce and can be implemented over a period of six years or more.

Fortescue Metals took the gong after awarding more than $4bn in contracts through its Billion Opportunities

program to date – the company has a 15% indigenous employment rate across its Pilbara operations.

Some of the other more material initiatives included BHP Group's ((BHP)) $333m commitment to indigenous procurement. The company also advised 8.6% of its workforce are indigenous.

Mineral Resources raised its indigenous procurement expenditure 140% to $24m and its indigenous participation rate rose to 3.5% of the total workforce in FY23, up from 1.8% in FY22.

Northern Star Resources ((NST)) committed to establishing sustainability supply contracts valued at $20m with indigenous business by the end of FY24.

The Four Stages of RAPPING

When it comes to tracking progress on RAPS, analysts identify four RAP stages and frameworks.

Those that:

-Reflect – this is the preparation stage in which companies typically take 12 months preparing for future RAPS;

-Innovate – this is a two-year development and piloting stage of initiatives, which typically involves building relationships with first peoples;

-Stretch – this is a two to three-year stage, in which companies implement piloted initiatives into business strategies and define measurable targets; and

-Elevate – this is when investors know that a company has succeeded – the company is demonstrating a proven track record of embedding successful initiatives, and championing these to advance reconciliation, and independent assessment).

Most ASX-listed companies are still in the **Reflect** or **Innovate** stages, advise analysts.

Listing The RAPPERs

Macquarie observes companies to launch RAP plans in FY23 included: Bendigo & Adelaide Bank ((BEN)), Car Group ((CAR)), Commonwealth Bank ((CBA)), Credit Corp ((CCP)), Domain Holdings ((DHG)) Dexus Industria REIT ((DXI)), Endeavour Group ((EDV)), Goodman Group ((GMG)) IGO, Liberty Financial ((LFG)), McMillan Shakespeare ((MMS)), Mondalephous ((MND)), nib Holdings, Qualitas ((QAL)), South32 ((S32)), Steadfast ((SDF)), Sims, Service Stream ((SSM)), Seven West Media ((SWM)), Transurban ((TCL)) and Woolworths ((WOW)).

The broker says a large proportion of these launched **Innovate** RAP plans.

Companies planning to develop a RAP in FY24 included: ARN Media ((A1N)), APA Group ((APA)), Beach Energy ((BPT)), Charter Hall Group ((CHC)), Charter Hall Long WALE REIT ((CLW)), Cochlear ((COH)), Charter Hall Retail REIT ((CQR)), CSL ((CSL)), Emeco Holdings ((EHL)), G8 Education ((GEM)), Stockland ((SGP)), Super Retail and Woolworths.

Incitec Pivot ((IPL)), Steadfast; Seven Group and Suncorp ((SUN)) advised they had progressed development of their RAPs.

That pretty much (ahem) RAPS up the FY23 reporting season.

One last note: AMP ((AMP)) and Domino's Pizza Enterprise ((DMP)) received a rap over the knuckles on the governance front after the latter retreated from guidance, and AMP's transformation project delivered a fail.

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ESG Focus: The Little Big Things - 23-11-2023

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ESG Focus: The Little Big Things - 22-11-2023

This edition, FNArena (net) zeroes in on green steel developments: the SBTi estimates -14% of steel producers' value is at risk if the industry fails to innovate; much depends on the pace of the green-steel ramp-up; Macquarie evaluates BlueScope Steel's odds; Morgan Stanley checks out Rio Tinto's green ambitions; and Australia's miners help develop the Net Zero Standard for Diversified Mining.

-Fortescue Metals has approved green iron commercial trial
-About 14% of steel producers' value "at risk"
-Much relies on the pace of the green-steel ramp-up
-Macquarie observes BlueScope Steel has much to gain
-Morgan Stanley reports back from Rio Tinto
-Aussie Miners contribute to Net Zero Standard for diversified mining

Compiled by Sarah Mills

Things are hotting up on the green-steel front in Australia following Fortescue Metals Group's ((FMG)) Final Investment Decision to proceed with its green-iron trial in Western Australia.

First production is slated for 2025 and, if successful, could result in a major rejig to Australia's iron-ore mining and steel production trajectory and investments - and the world's.

The news follows a number of developments on the global front in recent months, which we summarise below.

About -14% Of Steel Producers' Value "At Risk"

The Science Based Targets initiative (SBTi) published its first decarbonisation framework for iron and steelmakers in October, providing guidance on how quickly and by how much the steel value chain will need to cut emissions to meet a 1.5C target by 2050.

Steel directly constitutes about 7% of global emissions but indirect emissions increase this to 3.6Gt from 2.6Gt.

The initiative says direct emissions must fall by more than -91% by 2050 relative to a 2021 baseline.

The paper estimates -14% of the potential value of steel companies could be at risk from rising carbon prices by 2040 should the industry fail to innovate.

Steel Decarbonisation Dependent on Pace Of Ramp-up

Citi observes steel decarbonisation momentum has accelerated since the pandemic.

Citi notes the OECD estimates roughly two thirds of the global steel capacity was covered by net zero commitments at the end of 2022.

It also estimates there were more than 60 "innovative near-zero emission projects" under way at the end of 2022, compared with 20 in 2020. These include hydrogen-based DRI, carbon capture and sequestration and iron-ore electrolysis.

Its recent research titled *European Steel – Decarbonisation Investments Are Affordable but re-rating the big upside for equity investors* Citi has concluded such investments can only be undertaken if they are staggered, and only if the renewable energy investment is undertaken by others.

A separate piece of research observes investors are sceptical about the amount of green premiums that can be secured by the steel companies in terms of product pricing and multiples, and the availability of green energy to feed hydrogen electrolysers.

Some observers are concerned steel production may just become an energy cost arbitrage.

Citi believes we are still a few years away from the first commercial delivery of hydrogen-based DRI, and the speed and scale of the ramp-up will determine the timeframe for meeting net zero targets.

Back To BlueScope's Sustainability Day

Macquarie offers the following observations on BlueScope Steel's ((BSL)) progress on decarbonisation after the company's sustainability focused investor day and a site tour of its Port Kembla operations a few months ago.

BlueScope advised it plans to be net zero by 2050, but the broker says this depends on several external enabling factors such as: accessible and affordable renewable energies, transmission technology and access to green hydrogen.

The company does not score many points for ambition, or innovation, on this front, relative to many global rivals. Management advised natural gas direct reduced iron could reduce emissions by up to -60% in the interim.

But Macquarie observes the tightening domestic supply of gas and commitments to export existing supply.

The analyst adds the slow renewables build-out to free up gas supply, is an added challenge for BlueScope.

To put this in perspective, BlueScope's current operations use 1 petajoule a year, while natural gas DRI uses 40 petajoules a year, and the ACCC forecasts a gas shortfall of up to -300 petajoules in southern states by 2034.

BlueScope says any transition to gas will not occur prior to 2030.

Another perspective on all of this is that a hydrogen DRI furnace requires 220,000 tonnes of hydrogen a year. An electric arc furnace consumes 816kWh a ton, while hydrogen generation requires 2633 kWh a tonne.

Meanwhile, the company advises it has improved its emissions intensity by 8% between FY18 and FY23, thanks to asset optimisation and technology evolution.

The company has set an interim target of a -12% decrease on emissions from FY18 levels by 2030, so the company isn't pushing too hard.

Investors do like to see interim targets being set but at this stage, they are pushing for mid-2020s targets.

BlueScope Steel still has its collaborations with Rio Tinto ((RIO)), Tata Steel, ThyssenKrupp Steel, POSCO and China. It also has its own hydrogen electrolyser and green gravity lab trial on the burn.

Management expects the company's NZ electric arc furnace to be operational by 2026 at a cost of -NZ$300m, nearly half of which is funded by the NZ government. This will cut NZ Steel's Scope 1 and Scope 2 emissions by more than -45%.

Management confirmed its Safeguard Mechanism reforms are largely in place, and points to the government's $200m primary steel-making fund, expecting the company will qualify for lower baseline decline rates.

The company also backs the introduction of a carbon border adjustment mechanism to protect its Australian markets from non-green competition.

Macquarie observes that, while doing relatively little to advance steel decarbonisation compared to market leaders, the company is set to benefit from transition opportunities in the build-out of sovereign manufacturing capabilities for renewables infrastructure.

Macquarie observes these include plate processing (already in place), with assessments being undertaken for wind tower fabrication, plate mill modernisation, and solar componentry. PKSW pipe and tube mill operations are under construction.

So all up, it appears the company will be a net beneficiary from the decarbonisation process so long as it doesn't lag too far behind the global pack, especially given the bulk of its production is for domestic use.

Morgan Stanley Examines Rio Tinto's Decarbonisation Plans

Morgan Stanley explores Rio Tinto's decarbonisation requirements. The broker estimates that emissions from the company's iron ore business are just above 3mtpa.

Management has advised the bulk of its decarbonisation efforts will rely on a shift to renewables and it is

estimated more than 1GW of renewable capacity will be needed to cut the company's emissions by -50%.

Displacing emissions from gas alone, would require roughly 600MW of renewable energy.

All up, about one third of the company's emissions are sourced from natural gas and two thirds from diesel (one third of which is generated by trucks, another third from rail and the final third from other sources).

As for the renewable investments, management advises it is open to either direct ownership of renewables or purchases from third parties, which would determine whether the costs would be reflected in capital expenditure or operational expenditure, observes the analyst.

Rio Tinto has built a 34MW solar farm at Gudai-Darri, giving a sense of the scale of the exercise, and a further 300MW is in advanced study.

The company has also started monitoring wind options to explore further renewable additions and is conducting battery electric truck trials with pilots to be deployed in FY24 to FY25.

On the innovation front, Rio Tinto has chosen bio-iron as its pet project.

Morgan Stanley observes the percentage of Rio Tinto's iron ore in the Pilbara suitable for electric arc furnaces is only 5% and says the company is relying on technology enabling the use of medium-grade materials to decarbonise.

The bio iron concept uses biomass combined with microwave technologies to remove oxygen.

The product is a high-grade iron ore suitable for hydrogen-DRI-driven electric arc furnaces, and constitutes only about 5% of total global supply.

Hence, the analyst believes the ability of that route to dominate the landscape is limited.

Rather, Morgan Stanley expects it will be alternative technologies that will drive innovations using medium-grade materials.

Rio Tinto expects eventually the market will divide into ironmaking and steelmaking with ironmaking likely to occur in hubs with low-cost energy, which will be transported in the form of hot briquetted iron to steelmakers.

Fortescue Metals Group Approves Green Iron Trial

Rio Tinto's bio iron play compares with Fortescue Metals' pet project of creating green iron, which uses a catalyst to convert low-grade ores to higher grade ores. Boston Metals in the US also has a catalytic green iron project on the run.

Fortescue Metals has claimed success in the laboratory with its green iron technology and is developing a pilot.

The company just announced a final investment decision to proceed with the Green Iron Trial Commercial Plant at its Christmas Creek iron ore plant in Pilbara, Western Australia at a cost of -US$50m.

The company hopes to produce 1500 tonnes of green iron a year at the plant, which is fired by green energy.

It won't be too long now before investors will be able to determine which company (Rio Tinto or Fortescue) laid the best bet.

As an aside, Chairman Andrew Forrest used the announcement to urge the Federal Government to block Woodside Energy's ((WDS)) $16.5bn Scarborough project, citing emissions.

Net Zero Standard for Diversified Mining

Australia's mining sector is also preparing to decarbonise.

Climate Action 100+ published its draft Net Zero Standard for transition metals – a sector first.

BHP Grouo ((BHP)), Rio Tinto, South32 ((S32)), Allkem ((AKE)), Champion Iron ((CIA)), IGO Ltd ((IGO)), Iluka Resources ((ILU)), Mineral Resources ((MIN)), Piedmont Lithium ((PLL)) and Resolute Mining ((RSG)) all contributed to the draft.

The standard is designed to help investors evaluate progress of diversified mining companies against target in a complex sector and is expected to be finalised in the March quarter.

It includes 100 metrics aligned with the 11 indicators of CA100+s Net Zero Company Benchmark. These metrics include:

-Net zero ambition

-Long-term GHG reduction target
-Medium-term GHG reduction target
-Short-term GHG reduction target
-Decarbonisation strategy
-Capital allocation
-Climate policy engagement
-Climate governance
-Just transition
-TCFD disclosure; and
-Historical GHG emissions reduction

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

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

RUDI'S VIEWS

Rudi's View: Quality In Stocks; What Is It Good For?

-Quality In Stocks; What Is It Good For?
-Conviction Calls & Best Ideas
-FNArena Talks

By Rudi Filapek-Vandyck, Editor

Quality In Stocks; What Is It Good For?

Institutional investors and grey-haired market commentators often refer to it; **Quality**. But what is it exactly and does it really matter in a low volume share market that hasn't made any sustainable progress in 2.5 years?

The simplest definition is to seek out those companies that have superior qualities over the majority that can be measured through financial metrics such as gross margins (and the stability thereof), high return on equity and on capital invested, as well as managerial characteristics such as market-leading products and services, delivering on promises and execution on strategy and plans.

Some experts might take this one step further and also include something as intangible as 'corporate culture'.

Let's face it, a quality company led by quality management is not expected to issue a serious downgrade to forward guidance less than three months after reporting the business is back on track and the only way forward is through higher margins, revenues and profits, like what just happened with Integral Diagnostics ((IDX)).

Financial markets at times can be 'blessed' with a short memory, but those investors who own the shares on the basis of management's previous optimism have plenty of reasons to feel disgruntled and disappointed today.

Quality businesses also don't carry too much debt as that might impact on their operational stability and profitability. Having a strong moat helps with keeping margins stable and high.

Those who manage to continue to generate shareholder value over long periods of time know profitable investments, regularly executed, are but an essential part of the *secret sauce* that distinguishes the superior few from the low quality peers.

Quality companies are seldom the fastest growing in the share market, and neither will they ever be the cheapest priced, but they are usually adept in dealing with misfortune and challenges, always coming out on top given enough time.

And that, right there, at the end of the previous sentence is the biggest dilemma for today's investor: Quality does not by default distinguish itself through daily share price moves.

In the here and now, Westpac ((WBC)) shares can beat expectations and forecasts, and so can ANZ Bank ((ANZ)) and National Australia Bank ((NAB)), but their performances look pretty bleak when compared against CommBank's ((CBA)) over the past 10-20 years.

Owning Quality then becomes a matter of identifying the strong track record, trusting management at the helm, keeping the faith in their ability and qualities, and having a long-term horizon.

There's no uniform concept of what exactly is Quality, not in the share market, but it remains remarkable that whenever someone tries to identify the select few on the ASX, there's a lot of overlap with other selections and attempts.

Selections that come to mind include those released by Bell Potter, Morgan Stanley and Wilsons; selections that usually find their way into Weekly Insights when renewed or updated.

I've often remarked on the many similarities with my curated lists of All-Weather Performers in Australia (see the website and further below).

"The Best Of The Best"

One investor recently published his Quality Top20 for Australia; the best of the best available through the ASX:

-REA Group ((REA))
-Cochlear ((COH))
-TechnologyOne ((TNE))
-CSL ((CSL))
-Pro Medicus ((PME))
-Altium ((ALU))
-Wesfarmers ((WES))
-Car Group ((CAR))
-Xero ((XRO))
-CommBank
-JB Hi-Fi ((JBH))
-Pexa Group ((PXA))
-Lottery Corp ((TLC))
-ResMed ((RMD))
-Ebos Group ((EBO))
-Dicker Data ((DDR))
-ARB Corp ((ARB))
-Computershare ((CPU))
-BHP Group ((BHP))
-Seek ((SEK))

My main disagreement with that selection centres on Pexa Group, which seems to be lauded by all and sundry for its local near-monopoly in digital housing transaction settlements, but a costly and slow-going expansion into the attractive-looking UK market has eroded much of the company's halo since de-merging from the troubled Link Group ((LNK)).

Having a near-monopoly position in one market is definitely not good enough reason to be labelled High Quality. If it were, the number of companies carrying the label would be a whole lot higher.

For me personally, being part of the select few on the ASX means a company has the track record to earn inclusion, and for Pexa that is definitely not the case today.

I always think in terms of risk-adjusted returns when I shift focus to Quality and All-Weather stocks; the fact these companies have a proven track record of deliveries and success means the risk for heavy disappointment is considerably reduced.

A similar argument can be made against Lottery Corp, which was spun-off by Tabcorp ((TAH)) only in mid-2022.

Observations

The first observation to be made is a number of the selected companies are trading at or near an all-time record high, which by definition means they've achieved great rewards for loyal shareholders.

A second observation is that respective superiorities shine through when compared with similar companies over a longer period of time.

Shareholders in ARB Corp ((ARB)) might be feeling a bit let down post covid, but longer term returns still handsomely beat those from GUD Holdings ((GUD)) or Bapcor ((BAP)).

Domain Group ((DHG)) is only able to keep pace with REA Group during the boom times and while the local software services sector is welcoming a reborn Data#3 ((DTL)), it is but fair to say no company has ever come close to match the phenomenal trajectory of TechnologyOne shares on the exchange, including mini-look-alike Objective Corp ((OCL)).

Sonic Healthcare ((SHL)) is not represented in the above list but it too towers above Healius ((HLS)) -and Integral Diagnostics- in terms of quality characteristics and shareholder rewards.

And while many investors refuse to ever consider Aristocrat Leisure ((ALL)), there's simply no denying its superiority over smaller competitor Ainsworth Game Technology ((AGI)).

Aristocrat Leisure is also outperforming the international competition, which is an achievement the company shares with Altium, Car Group, Computershare, CSL, Cochlear, ResMed, and Pro Medicus.

It takes time and lots of luck and effort to become the global number one, but it takes many times over more effort, tenacity and successful execution to remain on top of the global competition.

This is why established global market leaders should be appreciated for what they are; special.

Unfortunately, as we've also witnessed with CSL and ResMed this year, Higher Quality companies are not 100% immune against the occasional disappointment or set-back. They are simply less likely to be seriously impacted by it, and mostly quicker in successfully dealing with it and recover.

Investors might want to keep this in mind now international shopping platforms Amazon and Temu are starting to make further inroads into Australian household shopping habits. A recent study has found both shopping apps are now the sixth and the first most downloaded shopping apps in Australia.

Combine this with the fact that middle and lower income Australians are under pressure to seek more value for their discretionary and non-discretionary dollars and we may well witness more pain and disappointment from those who are most vulnerable to changing spending habits in the months, if not years ahead.

Consumer Spending Is Changing: Winners vs Losers

Analysts of consumer-related stocks at Jarden have been warning for a while now the gap between winners and losers in the sector is about to widen. They've already spotted the first signals during AGM season indicating the winners may not remain completely unscathed, but the gap with the more vulnerable is likely to only widen further.

The first comparison that comes to my mind is between supermarket operators Woolworths Group ((WOW)) and Coles Group ((COL)). Too many investors still think of them as 'equals' for whom the pendulum swings favourably in alternate periods. What they are missing is that Woolworths is now the CommBank in this sector.

As it turns out, Jarden's analysis agrees with me with the latest sector update identifying Super Retail ((SUL))

and Woolworths as having the "best opportunity to re-rate via successful execution". Jarden equally appreciates Wesfarmers spending $100m on customer data, with $80m more to be spent in FY24.

It is this type of forward-looking investments that ultimately create the division between winners and losers in any sector.

Note companies including Endeavour Group ((EDV)), Accent Group ((AX1)), Coles and JB Hi-Fi ((JBH)) are equally increasing investment in data gathering and employment.

Who's Missing?

And now for the ultimate question: are there any companies that should be included in the above list instead of Pexa and Lottery Corp, and maybe even a few others?

There's always a level of subjectivity of course, and any Top10 or Top20 selection will always have its numerical limitation, but names that spring to my mind are Goodman Group ((GMG)), Macquarie Group ((MQG)) and Wisetech Global ((WTC)), alongside some of the names that had already been highlighted above.

Paying subscribers have 24/7 access to a dedicated section on the website to All-Weather Performers on the ASX, and other curated lists:

https://www.fnarena.com/index.php/analysis-data/all-weather-stocks/

Conviction Calls & Best Ideas

Martin Crabb, CIO at **Shaw and Partners**:

"If we look at the last two and a half years, the market has effectively gone nowhere, but there have been opportunities to trade and add value.

"In fact the 2.5 year return to the end of October was -1.57% in price terms (versus an average of 15.7% since 1990) and 9.7% including dividends versus an average of 28.1%."

****

Citi banking sector analysts in Australia:

"We think the unexpected resilience of share prices was driven by strong capital returns, supported by surprisingly benign asset quality.

"Looking forward, we expect price performance will be increasingly pressured by declining core earnings. Higher deposit and funding costs, as well as elevated cost growth are emerging as the key hazards.

"We believe the current set of PEs are not reflective of the growth and risk profile and, thus we no longer have any Buy recommendations amongst the Major Banks."

****

The guardians of **Wilsons' Model Portfolio** have been rather negative on Australia's supermarket operators, arguing while valuations were relatively elevated, there was not enough growth on the horizon for the industry overall, while tailwinds from price inflation were reducing and operational costs are difficult to tame.

Last week they simply reiterated that view, in particular singling out Woolworths Group shares as too expensively priced in a strategy update titled *Zero Appetite for the Supermarkets*. No room for double-guessing the message there.

The conclusion says it all: "...given the sector’s uncompelling long-term growth outlook, we are structurally cautious the supermarkets."

Now inflation is being replaced with disinflation, Collins Foods ((CKF)) has become the favourite stock to invest in the theme.

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Franklin Templeton:

"The final mile is often the most difficult. While we hope that adage does not result in significant economic hardship in regard to the US monetary policy, we also recognize that hope is not a strategy. Investors may need to prepare for a difficult final ascent.

"Franklin Templeton says investors risk underestimating the resolve of the Fed to engineer below-trend economic growth and rising unemployment to achieve its inflation target.

"A harsher-than-expected recession is likely.

"Rate cuts will probably occur later and more gradually than is currently priced into the market."

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Morgan Stanley:

"There's too many sellers, too many buyers, making too many problems. And not much "dove" to go around.

"Can't you see this is a land of confusion?

"Lower central bank policy rates, smaller balance sheets, more sovereign bond supply, and a global economy near recession mean lower rates, stronger USD."

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Wilsons:

"Despite calls for structurally higher inflation, the US headline consumer price index (CPI) appears to be falling as fast as it went up.

"This should provide support for both fixed interest and equity markets over the coming year.

"The past 12 months have shown that the trend improvement in inflation will not be a straight line."

"Overall, the decline in inflation is supportive for our relatively constructive fixed interest and global equity market view, and provides support to Australian equities (and bonds) despite our own stickier inflation situation and higher-for-longer cash rate expectations."

Also, from another strategy update:

"Overall, we see a mixed outlook for the local share-market, with disinflationary global trends likely providing some upside pressure, while a higher-for-longer domestic cash rate will create headwinds for the local market.

"Within our neutral view on the Australian equity market (global equities still marginally preferred), investors should focus on active portfolio management, with the local market's heavyweight banking sector particularly likely to struggle to grow in 2024."

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Real estate sector analysts at **Citi:**

"Historical regression analysis suggests REITs outperformance starts 0-4 months prior to the first RBA rate cut."

Stock beneficiaries identified include:

-Residential stocks Stockland ((SGP)) and Mirvac Group ((MGR))
-Defensive retail real estate stocks BWP Trust ((BWP)), Charter Hall Retail REIT ((CQR)) and Vicinity Centres ((VCX)) benefitting from lower interest rates on both the consumer and the real estate loans.
-Industrial including one of our top picks Goodman Group with best in class financial and operational position.

-Higher Beta value stocks such as GPT Group ((GPT)) and Charter Hall ((CHC)) where valuations may be supportive of performance.

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Barrenjoey:

"In our view the largest commodity and equity positioning market debate is in the lithium sector.

"The 70%+ correction in prices and up to 60%+ in equities has been severe, but we don't see enough evidence to call a market bottom.

"As always markets can over-shoot and capitalize a short-term problem. Our preference in mining is to be generally exposed to free cash generation in iron ore and now emerging in gold."

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T.Rowe Price:

"Equities are still the best place to be for the long term, but the playbook that worked for the last 10 years won't work for the next 10. In a more uncertain environment, valuations will become even more important.

"A sensible investing approach to generating excess returns in the new regime is to balance growth and value style factor tilts, to invest in durable growth themes, to balance recession and macro risk, and to find companies with a positive catalyst for change.

"In an uncertain world, areas of investment opportunity include artificial intelligence, such as the semiconductor ecosystem and AI infrastructure, health care innovation, such as obesity drugs and bioprocessing, and residential and commercial construction.

"Artificial intelligence is a big deal, in both the boardroom and in the public's imagination. We can all feel it - AI is going to proliferate in nearly every facet of our daily life. This unique technology has the potential to be the biggest productivity enhancer for the global economy since electricity, and we're positioning our strategy to navigate this rapidly changing environment responsibly.

"The global market environment is now in a state of purgatory, with continued uncertainty about both inflation and recession risks as the Fed considers its next move. Stock/bond correlations are constantly shifting. Investors need to hedge their bets accordingly, taking advantage of attractive yields while choosing their stock, bond, and real asset allocations wisely."

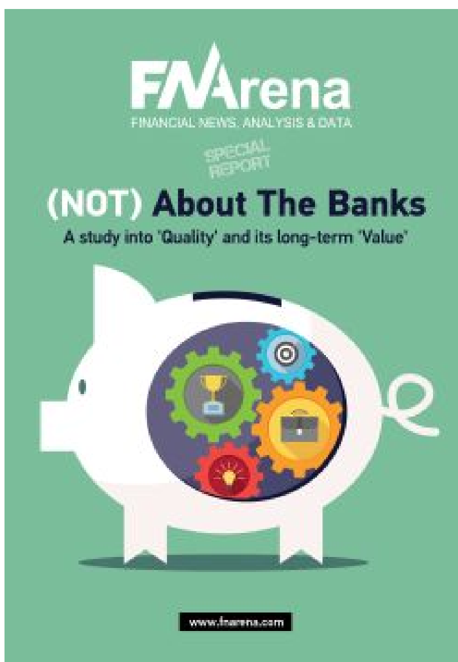
FNArena Talks

Last week I was interviewed by Peter Switzer about share markets and a bevvy of individual companies.

That video of approximately 37 minutes is now available via Youtube: buff.ly/3usNHUG

FNArena Subscription

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



(This story was written on Monday, 20th November, 2023. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

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

SMALL CAPS

Dr Boreham's Crucible: PYC Therapeutics

Tim Boreham highlights how PYC Therapeutics' gene therapy can address a plethora of genetic afflictions.

By Tim Boreham

ASX code: ((PYC))

Shares on issue: 3,732,867,135

Market cap: $265.0m

Chief executive officer: Dr Rohan Hockings

Board: Alan Tribe (chair), Dr Hockings, Dr Michael Rosenblatt, Jason Haddock

Financials (September quarter 2023): Revenue nil, cash burn $11.7m, cash of $21m, quarters of available funding 1.8*****

***** Excludes an expected $16.1 million R&D tax credit

Major identifiable holders: Alan Tribe/Australian Land Holdings 33%, David Sietsma 7.7%, Malcolm McCusker 5.7%

While getting an early-stage drug to market is notoriously difficult and expensive, PYC Therapeutics Dr Rohan Hockings reckons the odds are in favor of the gene therapy house because it knows exactly what's causing the single-gene ailments it tackles.

Dr Hockings says the chances of success with such monogenic diseases are about five times greater than the usual 7-10% odds of getting a phase I asset to market. Put another way, it's a 50:50 proposition.

By combining existing ribonucleic acid (RNA) drug design with its proprietary delivery platform, PYC says it is developing precision therapies for patients with genetic diseases that have no treatment options.

"The PYC program differs to others because all of the diseases are caused by a mutation to a single gene," Dr Hockings says.

"We know exactly what is going wrong: they are missing one protein and one protein only."

To date, PYC has focused on its lead program for the rare eye disease retinitis pigmentosa, as well as another uncommon optical disorder called autosomal dominant optic atrophy.

It also has a program for the crippling genetic childhood disorder Phelan-McDermid syndrome.

This week, PYC announced a foray into autosomal dominant polycystic kidney disease, the most prevalent monogenic disease in humans marked by extreme swelling of the organ.

"While it's not our most advanced program, it could be extraordinary because it has the potential to reverse the disease," Dr Hockings says.

Can we get a copy of this please

Normally, people are endowed with a copy for each gene on the two arms of a chromosome, but with the disorders in question there's a mutation in one of the copies that inhibits protein production.

"We are increasing the gene expression to compensate for the unstable protein, by making two units of the protein from the good copy of the gene," Dr Hockings says.

He says the industry is starting to understand that using RNA therapies to increase gene expression is a "really smart thing to do".

Unlike with DNA gene technologies, the protein can't be overexpressed.

"These are very dose sensitive genes: too little of it causes the disease, but too much of it causes the disease as well," he says.

"The RNA approach is the only way to leave ultimate control of protein expression under the endogenous regulation of the cell, so the cell is saying 'it is too much or not enough, I am going to make more of it or less of it'."

Useful pack of geysers

A spin-off from the not-for profit medical research body Telethon Kids Institute, the Perth-based Phylogica (now PYC) listed in March 2005, having raised $5m at 20c apiece in the initial public offer (IPO).

The company's premise was to build a library of hundreds of billions of phylomers, active protein molecules with genetic material that stems from volcanoes, geysers and deep-sea vents.

Initially, the company tackled inflammatory diseases, led by Perth biotech movers and shakers Dr Stewart Washer and Harry Karelis.

Now retired Perth cardiologist Dr Bernard Hockings - Rohan's dad - joined the register in August 2012.

In 2019, the company rebranded itself as PYC Therapeutics.

Along the way Phylogica formed a joint venture called Vision Pharma with Lion's Eye Institute, a Perth not-for-profit research body.

In effect, Phylogica delivered the vehicle (the penetrating peptides) and Lion's Eye provided the molecule, known as an anti-sense oligo-nucleotide (a precision medicine that can whomp genetic defects).

Over time, the company had big-ticket collaborations with Pfizer, Medimmune, Johnson & Johnson, Astrazeneca and Roche/Genentech, but they went nowhere.

No more dud spuds

Polycystic kidney disease (PKD) affects one in 1,000 people, equating to somewhere between five million and 14 million globally. In the US, there are 160,000 sufferers - just under the threshold of a rare disease.

PYC assesses a US$10bn a year market. There's one approved drug called Tolvaptan, but it is not tolerated by 85% of patients and carries an FDA 'black box' warning for liver failure.

"We have been interested in PKD for some time because it has a massive impact on patient lives and is highly attractive commercially," Dr Hockings says.

PYC's therapy is targeted at the 80% of PKD patients with the PKD1 mutation, as opposed to - you guessed it - PKD2.

Dr Hockings says cysts form in the kidneys and they grow to the "size of a Sherrin" (for non-Australian Rules followers, that's the size of a football).

More than half of patients with the disease will need a kidney transplant in their 50s.

On Monday, the company announced the results of work carried out by Denmark's Crown Biosciences, which involved growing a three-dimensional model of a kidney based on tissue removed from a patient with end-stage disease undergoing a kidney transplant.

The read-out supported the potential of the drug to address the root cause of the cysts that drive disease progression.

The next step is monkey trials to establish safety, while an eventual registration trial would enrol about 250 patients.

"We will be testing in humans by late next year," Dr Hockings says.

He says the "gold standard" program tackles the dual problems of delivering to the target cell and modulating the target gene.

Eye see an opportunity

The retinitis pigmentosa mutation affects one in 100,000 people.

Sufferers are usually diagnosed around six years old and first lose their night vision. In teenage years they lose their peripheral vision and become legally blind in their 40s or 50s.

PYC is addressing a sub-type retinitis pigmentosa type 11 (RP11) which is only two to three percent of total cases, or 4,000 to 8,000 people in the Western world.

Still, the company estimates a $1bn a year addressable market.

Recently granted US Food and Drug Administration fast-track status, PYC's program aims to stop progression of the disease.

"You get one set of retinal cells and once they are dead, they're dead," Dr Hockings says.

"In theory, the drug will restore the missing protein in the retina so the disease should not get any worse."

In early November, PYC said it had completed dosing the second of three cohorts of its candidate VP-001, in a phase I trial called Platypus.

Pending a safety analysis, the single ascending dose trial should be followed by a multiple ascending effort in early 2024.

"We may add a fourth very high dose cohort if we continue to see no signs of adverse tolerability."

The phase I study involves nine to 12 patients. The phase II effort will enrol 30, randomized to two active groups and a sham cohort.

While the phase I study is being carried out in the US, phase II will be done in Australia.

Phase II is expected to kick off in February next year, with a primary efficacy readout in early 2025.

Will ADOA be a goer?

The blinding eye disease autosomal dominant optic atrophy (ADOA) affects about one in 50,000 people.

As with RP11, there are no drugs or more advanced clinical programs and the company estimates a $2bn a year

market.

ADOA stems from insufficient levels of the OPA1 gene, which inhibits normal development of retinal ganglion cells that convey visual stimuli to the brain.

This causes cell death and eventual blindness.

The company recently had a chat with the FDA about the trial pathway and hopes to lodge an investigational new device application in the first half of 2024.

Finances and performance

While there is no current treatment for the diseases targeted by PYC, the company assumes a median orphan price of US$200,000 per patient per annum.

This could be conservative, given Neuren Pharmaceuticals ((NEU)) has managed US$375,000 for its Rett syndrome drug trofinetide, approved by the FDA as Daybue, this year.

At the end of September, PYC had $21m in the bank, having burnt almost -$12m in the September quarter.

With a $16.7m Federal Research and Development Tax Incentive imminent, the company hopes to be funded until the second half of 2024.

Management hopes a capital raising can be avoided with a decent out-licencing transaction.

How about one like the US$170m upfront paid by Glaxosmithkline for the oligonucleotide assets of Wave Life Sciences, or the US$224m collaboration between Vertex and Nasdaq gene therapy peer Entrada?

The former owner of Ikea's Perth franchise, Alan Tribe accounts for a chunky one-third of the PYC register. Having been a loyal supporter in past capital raisings, Mr Tribe is confident of things coming together at the company somewhat more smoothly than a flat-pack desk with Swedish instructions.

Over the last 12 months, PYC shares have traded between 5c (mid-October 2023) and 9c (mid-March this year).

The stock peaked at 58c in early 2006.

More than monkey business

As an aside, the life sciences world is still suffering from a covid-induced shortage of the main species of monkey used in their research.

The ape in question - the cynomolgus monkey, better known as the crab-eating macaque - is valued for infectious disease research and thus was highly in demand for covid vaccine and therapy work.

Dr Hockings says supply and demand is normalising. The trouble is, the monkeys need to be between three and five years old for toxicology studies, so while breeding has picked up there's still a time lag.

In the meantime, the FDA is more amenable to toxicology studies being carried out on dogs or pigs instead.

Mr Hockings says PYC is okay, because it booked its slots - and secured its simians - years in advance.

Dr Boreham's diagnosis:

Despite being afflicted with covid this week and craving a cure, Dr Hockings was effervescent about PYC's prospects despite investor concerns the company has taken rather a long time to get to the pointy end of things.

"We are operating a platform technology on a scale unlike that of any other Australian life sciences company," he says.

"We have a 50% shot of curing childhood blindness for our first trick, reaping millions and becoming the next CSL."

When we last covered PYC in November 2019, Dr Hockings was blunt about the drug delivery outfit's "scattergun" approach.

"We were chasing all the rabbits and catching none," he says. "Investors were saying: 'You have this nice delivery system but what are you going to do with it?'"

The addition of the kidney program shows PYC is still chasing rabbits, but given the common monogenic focus across all its efforts the company is not haring about in random directions.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort. But he's a good geyser who can still pull a rabbit out of a hat when he's not erupting.

This column first appeared in Biotech Daily

Biotechdaily.com.au

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TREASURE CHEST

Treasure Chest: Orica's Technology Tailwind

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

By Mark Woodruff

Whose Idea Is It?

RBC Capital Markets

The subject:

Orica ((ORI)), the global player in the explosives industry for mining, quarry & construction markets.

More info:

RBC Capital Markets sees attractive upside from current levels for Orica shares given leverage to a tightening ammonium nitrate market, margin upside from contract renewals, on top of an evolving product mix.

Orica has a global network of manufacturing operations across Australia Pacific and Asia, North America, Latin America and Europe, along with the Middle East and Africa, and has customers in over 100 countries.

The broker believes the company's core manufacturing capability and innovative product range deliver a meaningful barrier to entry.

Research coverage is initiated with an Outperform rating and 12-month price target of $20, implying a potential total return (inclusive of dividends) of around 30%. Orica shares are currently trading around $15.67, having traded in a range of around $14 to $17 over the last year.

The key commodity exposures for the company are the price of ammonium nitrate and the domestic price of gas.

Supply of ammonium nitrate is unlikely to grow materially in the near-term, suggest the analysts, due to the carbon intensity of production, leading to a tightening market balance. Thankfully, the company is well-placed to pass through recent heightened spot gas/ammonium nitrate pricing, suggests the broker, when contracts are renewed with customers.

Orica accounts for around 15% of NSW gas consumption and therefore has a sizable carbon emissions footprint. RBC, Points out management has an active strategy towards decarbonistation in the longer term.

This strategy has strengthened the company's green economy credentials and social license, but also positioned it at the forefront of its peers in the mind of the market, suggests the broker. See also FNArena's summary of the company's recent Sustainability Investor Day Orica's Green Ambitions Well-Received - FNArena.com

Orica is also **continuing to evolve and monetise its portfolio of new technologies and services**, explains RBC.

A technology advantage should enable management to leverage both the growing application of data in mining, along with increasing customer demand for more refined blasting techniques, suggest the analysts.

Two weeks ago, FY23 results for Orica slightly beat consensus expectations and were well received by analysts.

Compared to the previous corresponding period, earnings (EBIT) for APAC, EMEA, North America and Latin America grew by 24%, 24%, 11% and 1%, respectively.

Goldman Sachs felt operations in North America compensated for a weak result achieved in the EMEA region, though Jarden anticipated FY24 improvement for both the EMEA and Latin American regions.

This broker explained mine closures and continuing supply interruptions from Russia-Ukraine impacted LATAM in FY23. Jarden is 19% more positive than consensus for EMEA's FY24 earnings.

A FY23 standout, according to Morgan Stanley, was **103% earnings growth for Digital Solutions**.

Customers are seeking both productivity gains and sustainability outcomes, noted Ord Minnett, which is driving new technology and increased adoption of premium products.

UBS also noted an uplift in technology adoption, which helped underpin the FY23 operating performance, along with re-contracting pricing benefits and sustained mining demand.

Despite global macro volatility, adverse weather and manufacturing down-time, operating cash flow was materially above market expectation (improving to $899m from $536m in FY22), noted UBS, driven by higher earnings and cash inflows from lower working capital.

The company's three-year outlook for average return on net assets (RONA) was increased to 12-14% from 10.5-13%, which Jarden believed was conservative given the FY23 return was 12.6%.

Management at Orica guided to an improved FY24, despite negative impacts from major first half maintenance projects, which leads Citi to believe guidance is reflective of strong underlying demand.

Of the six brokers monitored daily by FNArena that cover Orica, four have Buy (or equivalent) ratings and two have Hold recommendations. The average target of the six is $17.73, which suggests around 14% upside to the current share price.

Buy-rated Goldman Sachs and Jarden are not part of FNArena's daily monitoring. These brokers have an average target price of $18.50.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 17-11-23

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday November 13 to Friday November 17, 2023
Total Upgrades: 11
Total Downgrades: 5
Net Ratings Breakdown: Buy 57.68%; Hold 34.10%; Sell 8.22%

For the week ending Friday November 17 there were eleven ratings upgrades and five downgrades to ASX-listed companies by brokers covered daily by FNArena.

Following AGM commentary by nib Holdings, which included a July to October FY24 business update, two brokers upgraded ratings to Buy (or equivalent) from Hold, while Ord Minnett upgraded to Hold from Lighten.

Year-to-date group revenue increased by around 13% on the previous corresponding period, excluding the ending of a Qantas Airways contract, which Morgans considered a "relatively robust" outcome, while Ord Minnett felt the trading update was a mixed affair.

While claims inflation is picking up amid some out of cycle contract renegotiations with hospitals, Citi felt the company is well placed to manage the problem, particularly in the shorter term.

On the other side of the ledger, ANZ Bank received ratings downgrades last week to Neutral from Buy from both Citi and UBS after FY23 results missed expectations.

Both market revenues and the net interest margin (NIM) disappointed Citi, offset by strong fee income and several one-offs. The broker also thought management’s choice of a bonus dividend instead of a buyback meant there was no benefit in terms of a reduced share count moving forward.

The results reflected the impact of growing above-market during a period of heightened competition and some irrational mortgage pricing, but still demonstrated ANZ is better positioned than peers, according to UBS, given its relative share of institutional earnings.

While first quarter earnings for News Corp were a 10% beat against the consensus forecast last week, the company’s top position on the average target price upgrade table below owes more to the reintroduction of UBS into the database after a prolonged absence of research coverage.

FleetPartners Group was next on the table for increased target price. Morgan Stanley upgraded to Overweight from Equal-weight and raised its target to $3.20 from $2.70 on growth momentum apparent from FY23 results.

The results outpaced Ord Minnett's forecasts, thanks to a 13% jump in new business writing as novated leases grew 38% and fleet posted growth of 4.5%.

Macquarie believes the outlook remains positive for the group supported by "robust" demand, a strong pipeline and supportive government policy.

On the flipside, Clinuval Pharmaceuticals received the largest percentage reduction in average target by brokers last week, but only after two brokers initiated research coverage accompanied by lesser 12-month price targets than the $24 level set by Bell Potter in early October.

Morgans commenced with an Add rating and suggested the current share market valuation presents both a solid trading opportunity and a reasonable place to begin building positions in the stock.

The company's primary asset, called Scenesse, is used for the rare phototoxic condition called erythropoietic protoporphyria (EPP), which is approved for use in most major jurisdictions. Lately, there has been weakness in the general sector and perception of an increasing competitive risk for Scenesse, explained the broker. Nonetheless, the asset is expected to generate plenty of cash beyond 2030.

While beginning with just a Hold recommendation, Ord Minnett suggested the market is too pessimistic about this biotech's future.

The average target price for APM Human Services International also fell (by over -10%) last week. Bell Potter highlighted a disappointing AGM statement pointing to lower first half year-on-year earnings due to lower employment volumes and because of interest costs and higher tax rates.

Currently, low unemployment and lower caseloads from higher margin programs are proving headwinds to first half earnings, yet Morgan Stanley suggested prospects for FY25 (and potentially the second half of FY24) are looking attractive.

The average target for Chalice Mining also fell by just over -10% after Bell Potter lowered its long-term palladium price forecast to US$1500oz from US$1700oz.

In the same research note, the broker noted Chalice had just released an update on test works at its Gonneville nickel-copper-PGE project in WA, which augurs well for greater recoveries than those suggested by the August scoping study.

This broker estimated Gonneville is still making money at spot prices and generating decent cash flow. Incremental improvements in metallurgical recoveries should add strong value to the project and the Speculative Buy rating was retained.

AMP also received lower target prices from stockbroker analysts last week after a trading update revealed a lower net interest margin (NIM) than the consensus forecast due to price competition.

On the one hand, Citi felt the market was left to fear the worst, given no specific reasons were proffered for the rapid deterioration in NIM. On the other hand, Ord Minnett, while disappointed in the short-term, believed the market is undervaluing the potential longer-term recovery for the Bank division's margins.

GrainCorp and Incitec Pivot received the two largest percentage downgrades to average earnings forecasts by brokers last week after reporting FY23 results.

Once these FY23 forecasts rolled off broker financial models and were replaced by less sunny outlooks for FY24 and onwards, automatic earnings ‘downgrades’ were triggered, helping to make the actual results appear worse.

Proving this point, the average target price by brokers covering GrainCorp and Incitec Pivot in the database only fell by -8c and -4c, respectively.

Morgans described a "commendable" FY23 result for GrainCorp, showing strong operating cash flow and a large core cash position, allowing a fully franked final dividend of 30cps and a $50m on-market buyback.

While investors fear a step-down in earnings from FY24 as drier conditions emerge, UBS argued this outcome is factored in and the stock should be assessed on its mid-term cash flows and scope for capital returns and/or reinvestment.

For Incitec Pivot, the FY23 result exceeded Morgans expectations. While the Explosives result was "solid", according to the analysts, Fertilisers was weak due to lower fertiliser prices and poor currency hedging, along with manufacturing and gas supply issues.

Following the sale of the Waggaman ammonia manufacturing facility in Louisiana and shareholder approval (AGM December 20), management intends to distribute up to $1bn via a capital return ($300m), special unfranked dividend ($200m) and a $500m on-market share buyback.

APM Human Services International also received lower earnings forecasts from brokers for reasons already explained above.

On the flipside, Regis Resources received the largest percentage upgrade to average earnings forecasts by brokers.

Regis (Buy) remained Morgans top pick from stocks under coverage in the Gold sector with positive upcoming catalysts for McPhillamys and the rolling-off of a lower-price hedge book in FY24. The company also trades at a cheaper valuation than peers, noted the broker.

UBS raised its target for Regis to $1.86 from $1.65 after increasing its gold price forecast by around US$200 per ounce through to 2026, now assuming the commodity fetches prices of US$2,085, US$2,200 and US$1,950 per ounce in 2024, 2025 and 2026, respectively.

The broker anticipates gold will benefit as we approach the end of the Federal Reserve’s rate hiking cycle and expects prices will reach new heights over 2024 and 2025 as the US faces a recession.

Buy-rated Gold Road Resources also benefited from the higher gold price forecast by UBS and appears third on the earnings upgrade table below.

Travel software company Serko is second on the table after first half results exceeded the expectations of all three Buy-rated (or equivalent) covering brokers in the FNArena database.

Macquarie noted the company's Booking.com partnership accounted for 90% of revenue growth in the half, and the renewal update on this partnership (due next May) is key to the outlook. The broker raised its target to NZ$5.00 from NZ$3.51.

Ord Minnett highlighted the huge operating leverage in the business, demonstrated by the first half result, and envisaged potential for material share price upside over time. It’s felt FY25 and FY26 will be about harvesting the benefits from the Booking deal as the sheer size of the revenue numbers begin to materially exceed costs.

The company upgraded guidance for FY24 revenue by 6%, which implied to Citi lower total cash burn than both consensus and the broker had been expecting.

Total Buy recommendations in the database comprise 57.68% of the total, versus 34.10% on Neutral/Hold, while Sell ratings account for the remaining 8.22%.

Upgrade

A2 MILK COMPANY LIMITED ((A2M)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/2/0

Citi upgrades its rating for a2 Milk Co to Buy from Neutral following surprising reiteration of FY24 earnings guidance at the AGM. It's now felt the required 2H skew may not be as significant as previously thought.

The broker notes the company is trading on an undemanding price earnings multiple and reviews data suggesting birth rate declines may be approaching the end.

In an abbreviated research note by Citi, no mention is made of any change to the prior $4.74 target price.

ARISTOCRAT LEISURE LIMITED ((ALL)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 5/0/0

Aristocrat Leisure's FY23 performance beat Ord Minnett's forecasts and thus the fair value calculation has shifted to $45 from $43 previously.

Commentary blames the broker underestimating the interest income on the company's net cash position. The momentum shift in favour of digital gaming over land-based gaming machines during covid is now reversing, the analyst points out.

Aristocrat is expected to continue grabbing market share in electronic gaming. More investing in design and development has triggered miniscule reductions to forecasts. Accumulate (which implies an upgrade from September).

ALS LIMITED ((ALQ)) Upgrade to Lighten from Sell by Ord Minnett .B/H/S: 2/1/0

Ord Minnett had downgraded ALS Ltd's rating to Sell from Lighten in early October, expecting a slowing in its commodities business in FY24, which constitutes the majority of earnings.

Yesterday's interim release proved a positive surprise and we note the broker's rating has shifted to Lighten, which is one step up from Sell. No change in the view the shares are materially overvalued or that a slow down will arrive for the minerals testing business.

Life sciences' result was in line with the broker's forecast. Fair value assessment has lifted to $8.60 from $8.40. That awaited slow down is now anticipated to arrive in FY25. The broker has penciled in no growth that year (from FY24).

FLEETPARTNERS GROUP LIMITED ((FPR)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 3/0/0

Following FleetPartners Group's FY23 results, Morgan Stanley upgrades its rating to Overweight from Equal-weight and raises its target to $3.20 from $2.70 on growth momentum. Industry View: In-line.

Strong order intakes across fleet and novated are now complemented by supply improvements, note the analysts.

FY23 NPATA was an 11% beat versus the consensus estimate driven by elevated end of lease (EOL), while 2H new business writings (NBW) rebounded on both increased supply and ongoing robust demand, explains the broker.

Morgan Stanley suggests a high likelihood of ongoing elevated EOL supporting further buyback programs. A 2H $30m buyback was launched.

NIB HOLDINGS LIMITED ((NHF)) Upgrade to Hold from Lighten by Ord Minnett and Upgrade to Add from Hold by Morgans and Upgrade to Buy from Neutral by Citi.B/H/S: 3/3/0

It is Ord Minnett's view nib Holdings' trading update was a rather mixed affair, but there are no consequences for the broker's medium-term projections.

The broker's forecasts assume a lower-than-expected claims catchup post covid. This has been supporting the insurer's earnings, but Ord Minnett flags it will become less of a tailwind from here onwards.

The travel business is performing weaker-than-expected since the white-label agreement with Qantas Airways ((QAN)) was discontinued. There's a new agreement with Woolworths Group ((WOW)), expected to launch in November, the analyst points out.

Fair value estimation remains at $7.50. The Hold rating implies an upgrade from the Lighten in August.

Following AGM commentary by nib Holdings, which included a July to October FY24 business update, Morgans makes relatively nominal positive changes to its forecasts, which are offset by a higher assumed discount rate.

Excluding the ending of a Qantas Airways ((QAN)) contract, year-to-date group revenue increased by around 13% on the previous corresponding period, which the analyst considers a "relatively robust" outcome.

The target falls to $8.38 from $8.77 and the broker's rating is upgraded to Add from Hold on valuation.

Citi finds nib Holdings attractive, noting ARHI is reporting stronger growth than a year ago, with policyholders up 1.3% in the four months to the end of October, while IIHI and New Zealand are showing decent momentum.

The broker pointed out claims inflation is picking up amid some out of cycle contract renegotiation with hospitals, but it expects nib Holdings is well placed to manage, particularly in the shorter term.

The rating is upgraded to Buy from Neutral and the target price decreases to $8.35 from $8.55.

NUFARM LIMITED ((NUF)) Upgrade to Buy from Neutral by Citi .B/H/S: 5/2/0

Having completed its examination of Nufarm's FY23 result, Citi upgrades the company to Buy from Neutral and raises the target price to $5.60 from $4.65.

Citi says Nufarm posted a solid result at a time when global peers are still staring down softer demand.

Management delivered positive FY24, albeit mixed guidance, Crop Protection remaining under pressure in the first half before recovering in the second.

The company expected to generate solid earnings from base seeds Carinata and Omega 3, despite the latter being in a ramp-up phase, with much more to come once production is in full swing.

PANTORO LIMITED ((PNR)) Upgrade to Hold from Sell by Bell Potter .B/H/S: 1/1/0

Pantoro will divest its lithium, nickel, copper and cobalt rights at the Norseman gold project to Mineral Resources ((MIN)) for a price of $60m, plus royalties.

Bell Potter states this will see Pantoro retain rights to precious and base metals and battery materials at the project.

Payment will involve a $30m upfront cash payment, $30m deferred payment due with a final investment decision, and a 2% royalty on nickel, copper and cobalt and a 0.75% royalty on lithium.

Bell Potter finds the deal timely for Pantoro, which was facing a cash shortfall in coming quarters. The rating is upgraded to Hold from Sell and the target price increases to $0.042 from $0.025.

SEEK LIMITED ((SEK)) Upgrade to Buy from Neutral by UBS .B/H/S: 4/0/0

Yesterday's Report included an initial assessment by UBS of Seek's AGM address. Today, upon further reflection and analysis, the broker has decided to upgrade to Buy from Neutral.

The broker is "pleased" the company reiterated guidance for FY24. The trend in H1 is "resilient", comments the analyst, and that's sufficient for a more positive skew about the outlook for the rest of the year.

Listings are declining but in line with expectations. UBS does lower its projections for Asia as the Seek Asia tracker shows volumes weakening in most markets, except Indonesia.

Buy. Target lifts to $27.40.

SOLVAR LIMITED ((SVR)) Upgrade to Buy from Hold by Bell Potter .B/H/S: 2/0/0

Solvar provided a trading update with its AGM that was very similar to its October update, albeit this time, says Bell Potter, with more detail on debt facilities and funding costs.

Beyond FY24, Bell Potter's forecasts reflect a view that rising interest rates should restrain inflation, leading to a relatively benign slowdown in the economy without a lengthy recession. This should allow Solvar to grow and take market share without a significant rise in bad debts.

The broker will review these forecasts as the outlook becomes clearer. Recent weakness in the share price leads Bell Potter to upgrade to Buy from Hold. Target unchanged on $1.09.

Downgrade

ANZ GROUP HOLDINGS LIMITED ((ANZ)) Downgrade to Neutral from Buy by Citi and Downgrade to Neutral from Buy by UBS.B/H/S: 2/4/0

Citi analysts, on closer examination, conclude ANZ Bank's FY23 cash earnings have fallen short of forecasts by -4% (Citi) and -2% (consensus) respectively.

Even though the "miss" doesn't appear to be significant, the analysts highlight the point that, compositionally, this is a "weak" result.

The bank's weighting to institutional business, formerly a boon, came home to roost as institutional offshore deposits fell, leaving the bank to fall back on more expensive domestic retail TD deposits to support their above-system mortgage growth, which hit retail profits, says the broker.

Both market revenues and NIM proved a disappointment, offset by strong fee income and several one-offs. Citi also thinks opting for a bonus dividend instead of a buyback means there's no benefit in terms of shares count moving forward.

On the upside, the bank's bad and doubtful debts were nearly half consensus forecasts.

Rating is downgraded to Neutral from Buy. Target price falls to $26 from $27.

ANZ Bank has delivered a slight miss to UBS's expectations with its full year results, but the broker attributes the result to the cost of the bank growing above market during a period of heightened competition and some irrational mortgage pricing.

Cash net profits declined -6% year-on-year to $3.6bn, with net interest income down -5% to $8,078m, but some net interest income pressure offset by stronger than expected non-net interest income.

The broker does find ANZ Bank better positioned than its peers given its relative share of institutional earnings, but sustained lending and deposit pressure in the retail business have had a greater than expected margin impact, and driven a rating downgrade.

The rating is downgraded to Neutral from Buy

APM HUMAN SERVICES INTERNATIONAL LIMITED ((APM)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 3/1/0

Bell Potter highlights a disappointing AGM statement from APM Human Services International, pointing to lower

first half earnings year on year due to lower volumes in employment, as well as interest costs and higher tax rates.

Since coming to market the company has made a number of acquisitions, which shareholders could reasonably expect to be driving improving levels of profitability, the brokers suggests. Instead, margins have fallen, debt levels have risen, and cash conversion has been
weak.

Bell Potter believes the shares are likely to remain weak until there is a clearer path to improvement and downgrades to Hold from Buy. Target falls to $1.90 from $2.21.

TPG TELECOM LIMITED ((TPG)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 2/1/1

While TPG Telecom doesn't have a debt servicing problem, stresses Morgan Stanley, gearing levels are too high to justify a trading multiple near parity with Telstra Group ((TLS)).

Relative to Telstra, TPG Telecom has higher debt, a weaker mobile position and a greater exposure to any negative technology trends being experienced by enterprises, explains the broker.

Morgan Stanley's rating for TPG Telecom is downgraded to Underweight from Equal-weight and the target is reduced to $4.40 from $5.60. It's felt the company could explore cutting its dividend to zero, rather than selling its high quality fibre assets.

Industry View: In-Line.

WOODSIDE ENERGY GROUP LIMITED ((WDS)) Downgrade to Sell from Neutral by Citi .B/H/S: 2/3/1

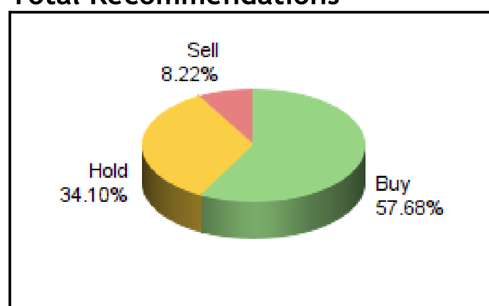
Citi analysts have taken a chainsaw to their forecasts for earnings and cashflow for Woodside Energy, resulting in material downgrades, which pulls back the broker's price target by -16% to $26.50.

Given this is substantially lower than today's share price, Citi has downgraded its rating to Sell from Neutral.

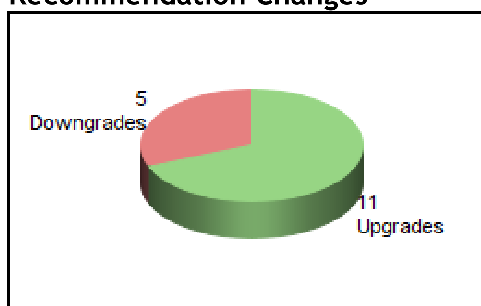
Adding more weight to their decision: Citi believes market consensus will follow in its footsteps as the downgrades in forecasts are based upon the company's own projections for the next five years.

Citi believes Woodside's earnings power is deteriorating. The decline of legacy LNG and acquired assets mean Woodside is increasingly capex intensive, evidenced by circa US$20bn of committed capex merely keeping production flat, the broker concludes.

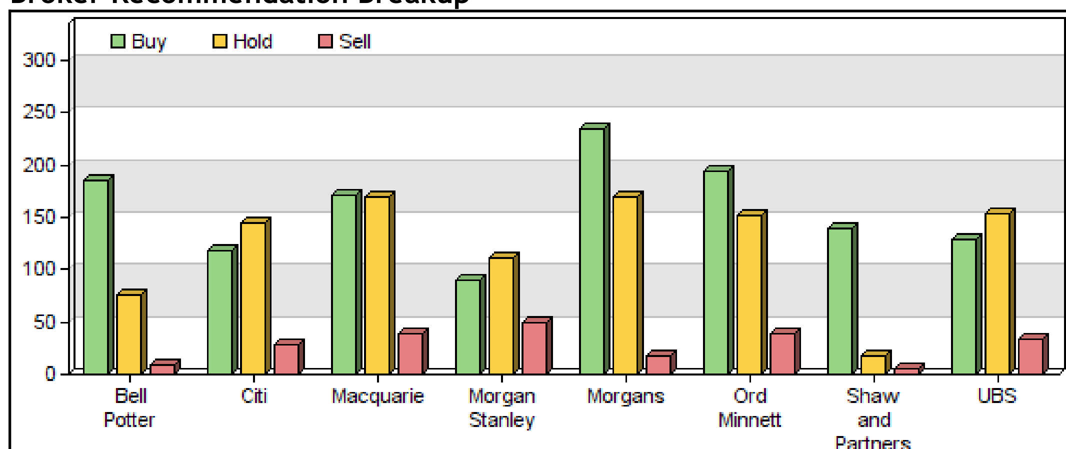
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	A2 MILK COMPANY LIMITED	Buy	Neutral	Citi
2	ALS LIMITED	Sell	Sell	Ord Minnett
3	ARISTOCRAT LEISURE LIMITED	Buy	Neutral	Ord Minnett
4	FLEETPARTNERS GROUP LIMITED	Buy	Neutral	Morgan Stanley
5	NIB HOLDINGS LIMITED	Buy	Neutral	Citi
6	NIB HOLDINGS LIMITED	Neutral	Sell	Ord Minnett
7	NIB HOLDINGS LIMITED	Buy	Neutral	Morgans
8	NUFARM LIMITED	Buy	Neutral	Citi
9	PANTORO LIMITED	Neutral	Sell	Bell Potter
10	SEEK LIMITED	Buy	Neutral	UBS
11	SOLVAR LIMITED	Buy	Neutral	Bell Potter
Downgrade				
12	ANZ GROUP HOLDINGS LIMITED	Neutral	Buy	UBS
13	ANZ GROUP HOLDINGS LIMITED	Neutral	Buy	Citi
14	APM HUMAN SERVICES INTERNATIONAL LIMITED	Neutral	Buy	Bell Potter
15	TPG TELECOM LIMITED	Sell	Neutral	Morgan Stanley
16	WOODSIDE ENERGY GROUP LIMITED	Sell	Neutral	Citi

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	NWS	NEWS CORPORATION	35.333	32.150	9.90%	4
2	FPR	FLEETPARTNERS GROUP LIMITED	3.070	2.797	9.76%	3
3	BLD	BORAL LIMITED	4.620	4.290	7.69%	5
4	ELD	ELDERS LIMITED	7.728	7.220	7.04%	6
5	DTL	DATA#3 LIMITED.	7.800	7.433	4.94%	3
6	SKO	SERKO LIMITED	5.100	4.890	4.29%	3
7	ING	INGHAMS GROUP LIMITED	3.890	3.730	4.29%	5
8	ACF	ACROW FORMWORK AND CONSTRUCTION SERVICES LIMITED	1.223	1.183	3.38%	3
9	SVW	SEVEN GROUP HOLDINGS LIMITED	32.150	31.163	3.17%	4
10	EVN	EVOLUTION MINING LIMITED	3.767	3.692	2.03%	6

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	CUV	CLINUVEL PHARMACEUTICALS LIMITED	21.333	24.000	-11.11%	3
2	APM	APM HUMAN SERVICES INTERNATIONAL LIMITED	2.550	2.840	-10.21%	4
3	CHN	CHALICE MINING LIMITED	3.738	4.163	-10.21%	4
4	AMP	AMP LIMITED	1.063	1.183	-10.14%	4
5	TYR	TYRO PAYMENTS LIMITED	1.714	1.820	-5.82%	5
6	PTM	PLATINUM ASSET MANAGEMENT LIMITED	1.278	1.348	-5.19%	5
7	TPG	TPG TELECOM LIMITED	5.875	6.175	-4.86%	4
8	FLT	FLIGHT CENTRE TRAVEL GROUP LIMITED	24.376	25.254	-3.48%	5
9	LOV	LOVISA HOLDINGS LIMITED	23.733	24.486	-3.08%	7
10	MFG	MAGELLAN FINANCIAL GROUP LIMITED	8.268	8.522	-2.98%	6

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	RRL	REGIS RESOURCES LIMITED	0.400	0.233	71.67%	6
2	SKO	SERKO LIMITED	-10.331	-12.334	16.24%	3
3	GOR	GOLD ROAD RESOURCES LIMITED	12.875	11.125	15.73%	4

4	ALL	ARISTOCRAT LEISURE LIMITED	211.350	195.150	8.30%	5
5	TYR	TYRO PAYMENTS LIMITED	1.720	1.620	6.17%	5
6	BLD	BORAL LIMITED	16.880	16.100	4.84%	5
7	NEC	NINE ENTERTAINMENT CO. HOLDINGS LIMITED	14.225	13.633	4.34%	4
8	ING	INGHAMS GROUP LIMITED	30.600	29.420	4.01%	5
9	AVH	AVITA MEDICAL INC	-88.622	-91.728	3.39%	3
10	FPR	FLEETPARTNERS GROUP LIMITED	28.733	27.833	3.23%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	GNC	GRAINCORP LIMITED	52.340	112.460	-53.46%	5
2	IPL	INCITEC PIVOT LIMITED	22.000	27.650	-20.43%	6
3	APM	APM HUMAN SERVICES INTERNATIONAL LIMITED	18.500	20.800	-11.06%	4
4	ANZ	ANZ GROUP HOLDINGS LIMITED	212.667	236.050	-9.91%	6
5	TPW	TEMPLE & WEBSTER GROUP LIMITED	3.920	4.320	-9.26%	5
6	MAF	MA FINANCIAL GROUP LIMITED	28.600	31.433	-9.01%	3
7	ELD	ELDERS LIMITED	59.833	64.500	-7.24%	6
8	RHC	RAMSAY HEALTH CARE LIMITED	141.980	152.920	-7.15%	5
9	NWS	NEWS CORPORATION	131.615	140.525	-6.34%	4
10	CPU	COMPUTERSHARE LIMITED	185.160	196.048	-5.55%	5

Technical limitations

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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.

WEEKLY REPORTS

Uranium Week: Fifteen-Year High

Another jump in the spot uranium price last week took it to its highest level since January 2008.

-Sellers back off
-SPUT back in buying
-Term uranium prices edging up
-Concerns over enriched supply

By Greg Peel

The uranium spot price rose steadily last week as concerns around near-term availability of supply continued to circulate in the market, industry consultant TradeTech reports. Sellers increased their offer prices with each new expression of buying interest.

This resulted in a significant gap between bids and offers, which slowed the ability of parties to reach agreement on pricing and conclude deals.

TradeTech's weekly spot price indicator has risen US$3.75 to US$77.25/lb -- the highest level since January 2008.

The indicator has increased 58% in 2023 and 54% year on year. The average weekly spot price in 2023 is US$57.66/lb U3O8, 16% above the 2022 average.

Speculation

One of the drivers for the increase in spot uranium prices over the last few years has been the emergence of secondary demand originating from physical investment funds, including the Sprott Physical Uranium Trust, which entered the market in August 2021.

Shares of the SPUT have traded at a discount to the fund's net asset value for most of this year, and the fund has to date purchased 3.3mlbs U3O8 in 2023. This total compares to approximately 18mlbs last year and 23mlbs in 2021.

Shares of SPUT nevertheless traded at a premium to the fund's NAV for most of last week, TradeTech reports, allowing the fund to raise approximately US$45m and purchase another 150,000lbs U3O8.

Including inventory accumulated by its predecessor Uranium Participation Corp, the Trust now holds over 62mlbs U3O8 and approximately US$63m in cash.

The Mad House

With the US budget crisis yet again temporarily averted in the near term, the attention of uranium market participants remains focused on several bills related to the nuclear industry that are making their way through House and Senate committees. In addition, language restricting future imports of Russian nuclear fuel may be part of other pieces of legislation that advance soon.

The House and Senate passed their respective versions of the National Defense Authorization Act in July, and the House moved to go to conference in September. Numerous energy policy items hang in the balance, including nuclear legislation.

Term Markets

Concerns around security of supply, the evolving geopolitical landscape and the ripple effect of secondary sanctions on the logistical movement of material between counterparties and facilities continue to mount, TradeTech notes.

Lack of clarity around the legislative situation in the US, along with rising costs in the production and transportation sectors, have sellers reconsidering their positions. As a result, sellers are edging up their prices in mid- and long-term offers.

TradeTech will update its term market price indicators at month's end, which for now remain at US$75.00/lb (mid-term) and US$65.00/lb (long).

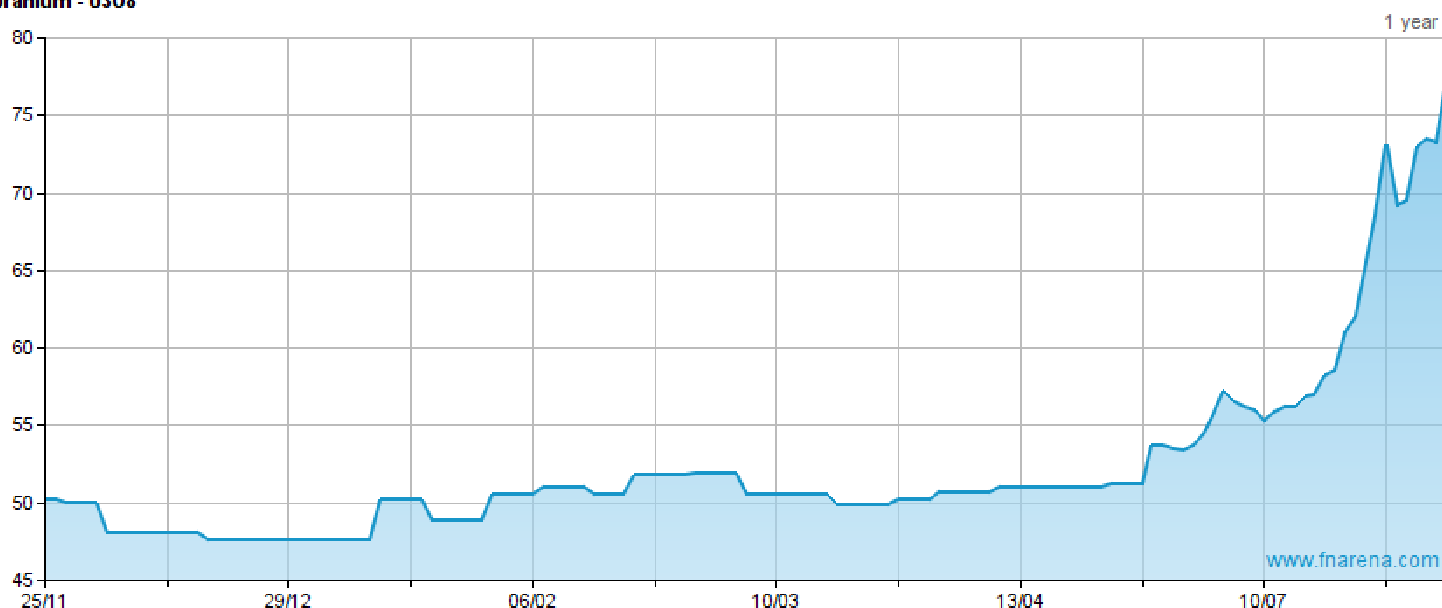
Efforts to mitigate their exposure to imports of Russian nuclear fuel and ensure they have sufficient enrichment supply available remain the primary focus for both US and non-US utilities.

While there have been several encouraging announcements regarding expansion of enrichment capacity by Orano (France), Urenco (UK, Germany, Netherlands), and Centrus Energy (US), utilities remain concerned about the growing potential disruption to deliveries of enriched uranium product from Russia.

Consequently, activity in the enrichment market remains steady as utilities take steps to secure enrichment supply and minimise the impact of any delay in future deliveries.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	20/11/2023	0.0900	▼-10.00%	$0.24	$0.05			
AGE	20/11/2023	0.0600	▲11.11%	$0.07	$0.03		$0.080	▲33.3%
BKY	20/11/2023	0.3700	▲ 1.39%	$0.80	$0.28			
BMN	20/11/2023	2.8400	▲ 3.04%	$3.05	$1.19		$3.200	▲12.7%
BOE	20/11/2023	4.3000	▼- 4.55%	$4.98	$1.97	47.6	$4.543	▲5.7%
DYL	20/11/2023	1.2100	▼- 2.07%	$1.41	$0.48		$1.840	▲52.1%
EL8	20/11/2023	0.5400	▲ 8.33%	$0.59	$0.27			
ERA	20/11/2023	0.0300	0.00%	$0.30	$0.03			
LOT	20/11/2023	0.3200	▲ 7.14%	$0.32	$0.15		$0.530	▲65.6%
NXG	20/11/2023	10.0900	▲ 1.73%	$10.40	$5.11			
PDN	20/11/2023	1.0300	▲ 2.56%	$1.15	$0.52	167.4	$1.165	▲13.1%
PEN	20/11/2023	0.0900	▼-28.70%	$0.20	$0.08		$0.270	▲200.0%
SLX	20/11/2023	3.4100	▼- 4.76%	$5.32	$2.56		$5.800	▲70.1%



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WEEKLY REPORTS

The Short Report - 23 Nov 2023

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

Summary:

By Greg Peel

Week Ending November 16, 2023.

Last week saw the ASX200 again follow Wall Street up, and bond yields down, as inflation numbers came in weaker than expected.

There was not a lot of short activity last week, save for a bit of shuffling around at the lower end of the table, with the exception of Domino's Pizza ((DMP)), which dropped out of the table from 6.2% shorted. See below.

Otherwise we note Elders ((ELD)) shorts ticked down to 6.8% the week before last from 7.0% and down to 5.9% last week following the stock's 18.3% pop on earnings.

Weekly short positions as a percentage of market cap:

10%+

PLS 18.5
SYR 17.1
GMD 10.6
CXO 10.0

Out: APX

9.0-9.9%

APX, IEL, SYA, FLT

In: **APX**

8.0-8.9%

BOQ, MSB

No changes

7.0-7.9%

OBL, SHV, WBT, LLC, ARU, IMU, IFL

In: ARU, IMU

6.0-6.9%

AGY, LTR, HVN, ACL, LIC, JBH

In: ELD, LTR, IMU, INR Out: ARU, IMU, ELD, DMP, INR

5.0-5.9%

INR, ELD, BRN, CHN, TPW, ZIP, NEC, SLX, STX, LYC

In: ELD, INR, ZIP

Movers & Shakers

Domino's Pizza has been a stoic incumbent of the 5%-plus shorted table for quite some time, up until last week when it fell out.

Last week, Citi decided it was time to upgrade the stock to Buy. While there remains a longer road to be travelled, the broker acknowledged, the view taken is that an inflection point has been crossed and ongoing improvement in key financial metrics should follow.

At its trading update, Domino's reiterated expectations of materially higher earnings in FY24, albeit skewed to the second half, thanks to improving trends in Australia and New Zealand, offset by a slowing in Europe.

Macquarie has this week upgraded to Outperform. The broker anticipates margin improvement for franchisees from the addition of higher-margin menu products, and notes commentary from offshore competitors indicates fast food customer demand remains solid, despite rising cost of living pressures.

Five of six brokers monitored daily by FNArena now have Buy ratings on Domino's. The outlier is UBS (Sell).

While Buy-raters are of the view input cost inflation has now peaked, UBS isn't.

ASX20 Short Positions (%)

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

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

“short covering” may spark a short, sharp rally in that share price. However short positions held as an offset against another position may prove merely benign.

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

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

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

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

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

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

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WEEKLY REPORTS

In Brief: Population Growth, Housing Cyclicals & (Lack Of) Financial Advisors

Population growth is obscuring a fall in household consumption, the case for housing-exposed stocks & the lack of financial advisors.

-Declining consumption obscured by population growth
-The case for housing-exposed stocks, with reservations
-Financial advisor numbers lag expected demand

By Mark Woodruff

Declining consumption obscured by population growth

The main reason household consumption growth in Australia has remained in positive territory is population growth, argues Oxford Economics, pointing out real spending is being weighed down by inflation and higher interest rates.

In close to the fastest pace on record, net overseas migration has surged to 490,000 in FY23, and will likely remain elevated at around 375,000 in FY24, notes Oxford. These numbers represent year-on-year population growth of 2.3% and 1.9%, respectively.

Despite briefly returning to the pre-pandemic trend in the third quarter of 2022, consumption on a per-capita basis has declined for the last three quarters.

Spending on essential items has tracked sideways since covid and has failed to return to its pre-pandemic trend, indicative of an inflation squeeze, suggests Oxford, and the effectiveness of monetary policy in curbing spending.

Oxford attributes the relative weakness in spending on essential items to falling consumption-per-capita on food, utilities, and vehicle maintenance, along with reduced spending on insurance and financial services.

The rebalancing of consumption between goods and services has finished, suggests Oxford, after the pent-up spending on services following covid. The share of spend on goods is stabilising very close to its pre-pandemic average.

Oxford believes this decline in consumption-per-capita is approaching its nadir, and forecasts the metric will track sideways over the next year.

During 2025, it's thought a recovery in real incomes, along with cash rate cuts (during late-2024 at the earliest) will facilitate a rebound in spending.

Nominal wages growth will be supported by an ongoing tight labour market, while inflation should return towards the Reserve Bank's target range.

Both of these outcomes should support real wage growth, suggests Oxford Economics, thereby boosting disposable income and consumption growth.

<u>The case for housing-exposed stocks, with reservations</u>

Jarden likes to track where the housing market and residential construction are positioned in the cycle, given housing is a key driver of both the macroeconomic cycle and of housing-exposed stocks such as banks, building materials, residential REITs, and retailers.

At present, the broker determines the residential construction sector (generally) remains in the contraction phase and should remain subdued until 2025 given affordability constraints.

By contrast, the analysts point out the Australian housing market has moved firmly into the recovery/expansion phase from contraction.

This time around, however, there are two factors undermining the usual theory of increasing one's investment exposure to housing cyclicals at this juncture.

Firstly, the **high-price/low-volume housing recovery reduces the macroeconomic benefits**, explains Jarden.

The economy normally benefits not only from dwelling construction but also turnover in the existing housing stock, which triggers additional consumption.

Broader housing activity, which includes ownership transfer costs and durable goods consumption, explains the broker, represents 12-15% of nominal GDP, yet because of volatility within the housing cycle, it often represents more than a 20% share of domestic demand growth.

Secondly, **the prospect of higher-for-longer interest rates acts as a drag** compared to rate cuts of -15 basis points per quarter historically associated with a recovery.

The analysts will adopt a more positive view on housing cyclicals when signs emerge of a broadening housing recovery on higher volumes. Also, there needs to be greater confidence around a pause by the Reserve Bank on further tightening of interest rates, and the prospect of eventual easing.

Despite this overall caution, Jarden still asserts housing cyclicals should be held in the current phase of the cycle.

The combination of house prices in recovery and expanding home sales historically leads to an average quarter-on-quarter performance of 8% across a basket of 35 housing-exposed stocks, according to the broker's

historical analysis.

Financial advisor numbers lag expected demand

Australians may suffer from a lack of crucial advice, as financial adviser numbers are barely keeping pace with expected consumer demand, according to data gathered by financial sector researcher Rainmaker Information.

While the number of financial advisers has stabilised at around 16,000, and is projected to climb, such levels may not be enough to avert a supply shortfall, according to executive director of research and compliance, Alex Dunnin.

A mismatch between advisors and advisers is evident from the -43% decline in financial adviser numbers since December 2018, and the projected 17% increase in the number of individuals aged between 55 to 84 years in Australia by the end of the next decade.

While the number of advisers may be stabilising and approaching the bottom, Rainmaker anticipates adviser numbers will remain within the range of 15,000 to 18,000 for the foreseeable future.

“Australia's financial advice industry must remain agile and proactive in finding innovative solutions to bridge the adviser shortfall, ensuring that financial advice remains accessible and reliable for all Australians,” suggests Rainmaker.

Rainmaker Information is owned by Institutional Shareholder Services, a provider of data, analytics and insights to the global financial services industry.

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 24-11-23

Broker Rating Changes (Post Thursday Last Week)

Upgrade

ARISTOCRAT LEISURE LIMITED ((ALL)) Upgrade to Buy from Overweight by Jarden.B/H/S: 0/0/0

On November 10, prior to FY23 results for Aristocrat Leisure on November 15, Jarden upgraded its rating to Buy from Overweight given ongoing market share gains across an elevated US gaming market. The target was also increased to $47 from $41.90.

Following the results, the target was increased further to $47.20 from $47 as revenue exceeded the broker's expectation by 2%, but was in line with consensus. Strong operating cash flow generation resulted in a stronger year-end cash balance.

Jarden's Buy rating was retained.

The analysts highlight Aristocrat Leisure offers above market earnings and operating free cash flow (FCF) growth, a high return on invested capital (ROIC) and a debt-free balance sheet with ample buyback support.

CALIDUS RESOURCES LIMITED ((CAI)) Upgrade to Speculative Buy from Hold by Canaccord Genuity.B/H/S: 0/0/0

Canaccord Genuity's site tour of Calidus Resources' Warrawoona and Haoma gold interests appears to have pleased the broker.

The broker spies relief for the company's staff, grade reconciliation and water challenges as extra higher-grade feed from Haoma JV boosts an improvement from Warranoona now the Cuban pit cutback has been completed.

The company closed the September quarter with cash and equivalents of $15m and repaid $6m in debt, leaving debt of $75m. The company's hedge position also reduced.

The broker conjectures that the company is trying to renegotiate its repayment schedule and/or hedging obligations given the balance sheet is likely to be tested prior to a likely recovery in the March quarter, and the broker is awaiting updates.

Rating is raised to Speculative Buy from Hold. Target price jumps to 30c from 15c, as the broker unwinds its risk weighting.

CSL LIMITED ((CSL)) Upgrade to Buy from Neutral by Goldman Sachs.B/H/S: 0/0/0

Due to a sharp improvement in Goldman Sachs return on invested capital (ROIC) forecast, and historically-high earnings growth, it's felt CSL is now entering a period of more capital-efficient growth.

The historical correlation between CSL valuation and forward returns is set to return, suggests the broker, after the relationship broke down over FY22/23 due to a multiple de-rate.

The broker's rating is upgraded to Buy from Neutral and the target increases to $307 from $296.

PEXA GROUP LIMITED ((PXA)) Upgrade to Neutral from Underweight by Jarden.B/H/S: 0/0/0

Jarden upgrades Pexa Group to Neutral from Underweight after raising its FY24 revenue forecasts by 5% in response to stronger than expected settlements, suggesting a more-resilient than expected market.

The broker now sits 7% ahead of consensus and is ready to go higher should listings supply improve, boosting operating leverage.

EPS forecasts rise 5% in FY24 and 13% in FY25.

Target price rises to $11.95 from $10.40.

TPG TELECOM LIMITED ((TPG)) Upgrade to Buy from Overweight by Jarden.B/H/S: 0/0/0

The cessation of discussions to sell TPG Telecom's non-mobile fibre assets to Vocus group doesn't impact Jarden's investment thesis on TPG Telecom. It's felt the -12% share sell-off on November 13 presented a more attractive entry point.

The $5.40 target is unchanged, and the broker upgraded the rating to Buy from Overweight on valuation.

Management noted ongoing interest in the company's fixed infrastructure assets from financial and strategic buyers.

Downgrade

DATA#3 LIMITED. ((DTL)) Downgrade to Neutral from Buy by Goldman Sachs.B/H/S: 0/0/0

While Data#3's key growth drivers including digital transformation and cyber spending remain in place, Goldman Sachs believes a lower normalised demand environment awaits, following the buoyant covid-impacted FY20-23 period.

A growing mix of services is expected to boost earnings (EBITDA) margins over the medium-to-long term.

The broker has become more conservative on margin growth across FY24-26 given the necessity for front-loaded investments into its Services franchise and management's anticipated pursuit of lower-margin deals to expand up-market.

The target falls to $7.65 from $7.95 and the rating is downgraded to Neutral from Buy.

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

Double-digit Q3 revenue growth across all of Light & Wonder's three business segments, along with margin expansion, resulted in a 10% beat for adjusted earnings (EBITDA) against the consensus forecast, explains Jarden.

Scale is driving enhanced operational efficiencies, explain the analysts, with year-to-date adjusted earnings growing by more than 20%. The broker points out this outcome is well ahead of management's 15% compound annual growth rate (CAGR) ambition for FY23-FY25.

Jarden's target price rises to $141 from $136, while the rating is downgraded to Overweight from Buy on valuation after a period of share price outperformance.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ARISTOCRAT LEISURE LIMITED	Buy	Buy	Jarden
2	CALIDUS RESOURCES LIMITED	Buy	Neutral	Canaccord Genuity
3	CSL LIMITED	Buy	Neutral	Goldman Sachs
4	PEXA GROUP LIMITED	Neutral	Sell	Jarden
5	TPG TELECOM LIMITED	Buy	Buy	Jarden
Downgrade				
6	DATA#3 LIMITED.	Neutral	Buy	Goldman Sachs
7	LIGHT & WONDER INC	Buy	Buy	Jarden

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
ABB	Aussie Broadband	$3.79	Wilsons	4.20	3.76	11.70%
AKE	Allkem	$8.62	Canaccord Genuity	18.50	20.00	-7.50%
ALL	Aristocrat Leisure	$40.08	Jarden	47.20	41.90	12.65%
ALQ	ALS Ltd	$12.18	Goldman Sachs	13.70	14.10	-2.84%
AMP	AMP	$0.91	Jarden	1.05	1.22	-13.93%
ANZ	ANZ Bank	$24.36	Jarden	24.80	25.10	-1.20%

Company	Last Price	Broker	New Target	Old Target	Change
APM APM Human Services International	$1.46	Canaccord Genuity	2.12	2.65	-20.00%
AVH Avita Medical	$3.32	Wilsons	5.39	6.34	-14.98%
BLD Boral	$4.95	Jarden	5.35	4.95	8.08%
BRG Breville Group	$23.42	Goldman Sachs	25.70	24.50	4.90%
CAI Calidus Resources	$0.18	Canaccord Genuity	0.30	0.15	100.00%
CAJ Capitol Health	$0.21	Goldman Sachs	0.24	0.26	-7.69%
CAT Catapult International	$1.12	Canaccord Genuity	1.70	1.50	13.33%
CBA CommBank	$103.69	Goldman Sachs	81.64	81.68	-0.05%
		Jarden	98.00	98.30	-0.31%
CSL CSL	$258.68	Goldman Sachs	307.00	296.00	3.72%
CTM Centaurus Metals	$0.50	Canaccord Genuity	1.40	1.60	-12.50%
DGL DGL Group	$0.86	Canaccord Genuity	1.70	1.55	9.68%
DHG Domain Holdings Australia	$3.51	Goldman Sachs	3.50	3.60	-2.78%
DTL Data#3	$7.80	Goldman Sachs	7.65	7.95	-3.77%
EBR EBR Systems	$0.63	Wilsons	1.32	1.65	-20.00%
ELD Elders	$7.31	Moelis	7.92	7.45	6.31%
		Wilsons	7.02	6.49	8.17%
EVN Evolution Mining	$3.68	Jarden	3.23	3.11	3.86%
FLT Flight Centre Travel	$19.10	Goldman Sachs	20.00	22.50	-11.11%
		Jarden	22.00	23.60	-6.78%
GNC GrainCorp	$7.77	Wilsons	6.74	7.44	-9.41%
IGO IGO	$8.83	Canaccord Genuity	8.00	14.25	-43.86%
IPL Incitec Pivot	$2.85	Jarden	2.70	2.85	-5.26%
JHX James Hardie Industries	$47.24	Jarden	48.00	45.20	6.19%
LIC Lifestyle Communities	$16.66	Canaccord Genuity	17.00	18.00	-5.56%
LNW Light & Wonder	$134.61	Jarden	141.00	136.00	3.68%
NAB National Australia Bank	$28.00	Goldman Sachs	30.52	30.49	0.10%
		Jarden	29.50	29.40	0.34%
NHF nib Holdings	$7.60	Goldman Sachs	8.40	8.75	-4.00%
NUF Nufarm	$4.64	Moelis	5.40	5.01	7.78%
		Wilsons	5.13	6.04	-15.07%
NWC New World Resources	$0.04	Petra Capital	0.12	0.14	-14.29%
NWS News Corp	$34.74	Goldman Sachs	38.50	35.10	9.69%
OFX OFX Group	$1.38	Canaccord Genuity	2.20	2.60	-15.38%
		Wilsons	2.17	2.35	-7.66%
ORI Orica	$15.71	Goldman Sachs	19.90	19.85	0.25%
PNR Pantoro	$0.05	Petra Capital	0.14	0.13	7.69%
PPE PeopleIN	$1.42	Petra Capital	2.57	4.20	-38.81%
PXA Pexa Group	$11.90	Jarden	11.95	10.40	14.90%
REA REA Group	$157.22	Goldman Sachs	179.00	175.00	2.29%
REG Regis Healthcare	$2.75	Moelis	3.38	3.00	12.67%
RHC Ramsay Health Care	$49.55	Jarden	58.00	62.08	-6.57%
RUL RPMGlobal	$1.56	Moelis	2.04	2.03	0.49%
SDF Steadfast Group	$5.50	Jarden	6.20	6.00	3.33%
SDV SciDev	$0.25	Canaccord Genuity	0.40	0.54	-25.93%
SHL Sonic Healthcare	$28.88	Jarden	29.90	30.74	-2.73%
TYR Tyro Payments	$1.03	Wilsons	1.08	1.37	-21.17%
VEA Viva Energy	$3.05	Goldman Sachs	3.29	2.70	21.85%
WDS Woodside Energy	$32.03	Jarden	34.00	34.90	-2.58%
WIN Widgie Nickel	$0.14	Petra Capital	0.40	0.54	-25.93%
XRO Xero	$100.18	Goldman Sachs	141.00	147.00	-4.08%
		Jarden	108.00	129.00	-16.28%

More Highlights

ABB AUSSIE BROADBAND LIMITED

Telecommunication - Overnight Price: $3.85

Wilsons rates ((ABB)) as Market Weight (3) -

Wilsons notes a number of levers at Aussie Broadband's disposal to accelerate organic and inorganic growth, not only delivering from strong first quarter broadband subscriber additions, but also the proposed Symbio ((SYM)) purchase and additional capital held by the company.

The broker sees the Symbio acquisition as earnings accretive, and notes there are likely further incremental merger and acquisition opportunities in the current market, with Aussie Broadband alluding to being progressed on a number of opportunities.

The Overweight rating is retained and the target price increases to $4.20 from $3.76.

This report was published on November 15, 2023.

Target price is **$4.20** Current Price is **$3.85** Difference: **$0.35**
If **ABB** meets the Wilsons target it will return approximately **9%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **0.00** cents and EPS of **14.30** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **26.92**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **22.40** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **17.19**.

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

CAT CATAPULT GROUP INTERNATIONAL LIMITED

Medical Equipment & Devices - Overnight Price: $1.12

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

Catapult International's September-half result appears to have pleased Canaccord Genuity, the company logging revenue growth of 21% and a profit uplift of 35%, retaining its long-term margin target of 80%.

Management reiterated guidance for 30% profit margins over the long term and incremental free cash flow margins of more than 30% in the short term.

The broker considers Catapult to be at an inflection point as it moves through free cash flow breakeven. FY24 and FY25 EPS forecasts are steady.

Buy rating retained. Target price rises to $1.70 from $1.60.

This report was published on November 15, 2023.

Target price is **$1.70** Current Price is **$1.12** Difference: **$0.575**
If **CAT** meets the Canaccord Genuity target it will return approximately **51%** (excluding dividends, fees and charges).
The company's fiscal year ends in March.

Forecast for FY24:

Canaccord Genuity forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 11.01** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 10.22**.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 6.18** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 18.20**.

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

DUR DURATEC LIMITED

Industrial Sector Contractors & Engineers - Overnight Price: $1.23

Moelis rates ((DUR)) as Initiation of coverage with Buy (1) -

Moelis has initiated coverage on Duratec, describing the stock as "tech-enabled asset maintenance experts with specialist defense and engineering credentials".

The broker points out as a preferred contractor, Duratec's specialist defense asset maintenance contracts underpin its near-term opportunities. The company is looking to double its recurring work profile, which currently accounts for 13% of revenue.

Moelis sees robust market tailwinds for Duratec. The broker initiates with a Buy rating and a target price of $1.50.

This report was published on November 17, 2023.

Target price is **$1.50** Current Price is **$1.23** Difference: **$0.27**
If **DUR** meets the Moelis target it will return approximately **22%** (excluding dividends, fees and charges).

Forecast for FY24:

Moelis forecasts a full year **FY24** dividend of **4.80** cents and EPS of **9.60** cents.
At the last closing share price the estimated dividend yield is **3.90%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **12.81**.

Forecast for FY25:

Moelis forecasts a full year **FY25** dividend of **5.80** cents and EPS of **11.60** cents.
At the last closing share price the estimated dividend yield is **4.72%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.60**.

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

REG REGIS HEALTHCARE LIMITED

Aged Care & Seniors - Overnight Price: $2.79

Moelis rates ((REG)) as Buy (1) -

In a move that Moelis believes highlights the deep sector consolidation opportunity available to Regis Healthcare, the company is set to acquire five aged care homes in Queensland at a cost of -$74.2m.

The homes boast a 96% occupancy rate and delivered $13m in earnings in FY23. The broker sees potential for Regis Healthcare to explore similar acquisitions in coming years, noting the company should hold more than $120m in debt capacity following this purchase.

The Buy rating is retained and the target price increases to $3.38 from $3.00.

This report was published on November 15, 2023.

Target price is **$3.38** Current Price is **$2.79** Difference: **$0.59**

If **REG** meets the Moelis target it will return approximately **21%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Moelis forecasts a full year **FY24** dividend of **9.50** cents and EPS of **9.70** cents.
At the last closing share price the estimated dividend yield is **3.41%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **28.76**.

Forecast for FY25:

Moelis forecasts a full year **FY25** dividend of **11.50** cents and EPS of **11.80** cents.
At the last closing share price the estimated dividend yield is **4.12%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **23.64**.

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

SKO SERKO LIMITED

Software & Services - Overnight Price: $3.85

Jarden rates ((SKO)) as Neutral (3) -

In an encouraging sign of adoption for Serko's unmanaged business travel platform in the 1H, given limited marketing efforts, the majority of new customers were net new growth as opposed to reactivation, explains Jarden.

While in line with expectations, the broker assesses a "strong" 1H result, along with an upgrade to FY24 revenue guidance. Traction was evident for the Bookings.com Business tool given 24% growth against the 2H of FY23 for completed room nights.

The analysts caution renegotiation of the partnership agreement with Bookings.com in 2024 poses a near-term risk should the terms change.

The Neutral rating is unchanged and the target is increased to NZ$4.85 from NZ$4.35.

This report was published on November 16, 2023.

Current Price is **$3.85**. Target price not assessed.
Current consensus price target is **$5.10**, suggesting upside of **32.5%**(ex-dividends)
The company's fiscal year ends in March.

Forecast for FY24:

Jarden forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 14.71** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 26.17**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **-10.3**, 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 FY25:

Jarden forecasts a full year **FY25** dividend of **0.00** cents and EPS of **1.11** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **346.85**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **0.6**, 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 **641.7**.

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

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