Switzer Report
Advice you can trust

Monday 14 October 2019

My 10 stock tips from the trade deal

This is the first chance I've had to share my views since Donald Trump delivered what he calls "Phase 1" of the trade deal. And Phase 2 and its negotiations are set to start in three weeks' time, after the weekend's agreement is "papered", as the President put it. What follows in my article today are the straightforward stocks and investments that should do well in the short term as well as the medium term

Sincerely,

Peter

Peter Switzer

Inside this Issue

My 10 stock tips that will benefit from this trade deal

by Peter Switzer

02

switzersuperreport.com.au

Switzer Super Report is published by Switzer Financial Group Pty Ltd AFSL No. 286 531
Level 4, 10 Spring Street, Sydney, NSW, 2000
T: 1300 794 893 F: (02) 9222 1456

My 10 stock tips that will benefit from this trade deal

by Peter Switzer

I seldom write about stocks I like on my *Switzer Daily* website as I leave those thoughts and insights to the *Switzer Report*. However, I broke with that tradition last week ahead of trade talks in Washington because the breakfast team on Sky News — Laura Jayes and Peter Stefanovic — asked me to pinpoint 10 stocks worth investing in before the trade deal.

So effectively, this is the first chance I've had to share my views since I wrote my piece and Donald Trump has delivered what he calls "Phase 1" of the trade deal. And Phase 2 and its negotiations are set to start in three weeks' time, after the weekend's agreement is "papered", as the President put it.

What follows are the straightforward stocks and investments that should do well in the short term as well as the medium term, as I suspect the Trump team construct a credible trade truce to set themselves up for a positive start to the 2020 election campaign.

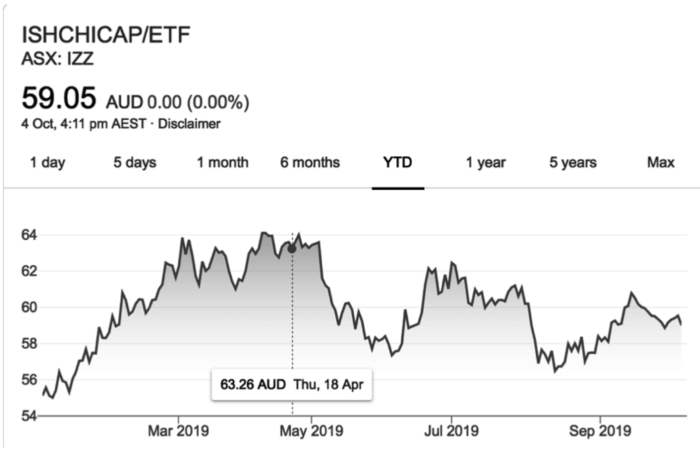
An economy rebounding helped by a confident stock market not only is a great clarion call ahead of an election but it will hose down the fires that will be pushing for the President to be put on an impeachment bonfire.

Let's start with big index plays first. I want to be long the US S&P500 Index, with the likes of Professor Jeremy Siegel of the Wharton Business School at the University of Pennsylvania tipping a deal could shoot stocks up 10-20%. I'm happy to buy the likes of IVV from iShares that give me the top 500 stocks in one trade.

And if Wall Street is to spike on a trade deal, history says we play follow the leader. So I want to be long IOZ or STW or A200. These all pile in the top 200 stocks in Australia on the stock market into one trade, so that looks like a sensible play.

But wait there's one more index play I'd suggest. If there is a trade deal, then China must get a great dividend too. Here the IZZ exchange traded fund gives you large cap Chinese companies in one trade. These include TENCENT, PING AN INSURANCE, CHINA MOBILE, etc.

The chart below of IZZ shows how the price rises on good news and dips on bad.

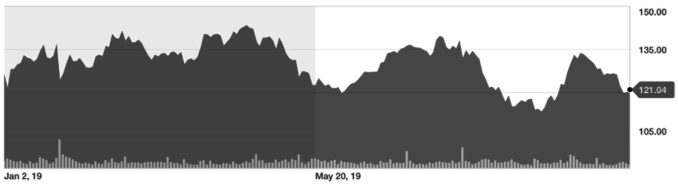


Up until April, there was a lot of positivity around a trade deal happening and see how IZZ climbed.

OK, it's time to find individual stocks that will do well out of a trade deal.

The founder of Aitken Investment Management, fund manager Charlie Aitken (who you all read in this *Report* each week), instantly fired back with Caterpillar, when I asked him for his best trade deal stock. He pointed out this company has big Chinese economy exposure — and the chart above justifies his argument.

Caterpillar's share price

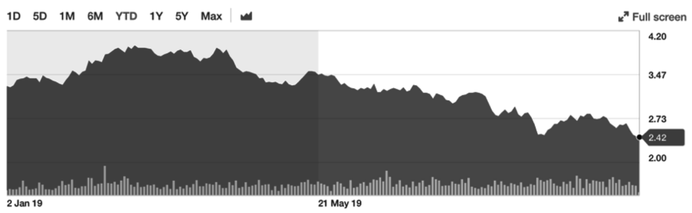


Julia Lee of Burman Invest thinks a trade deal would mean the markets would “embrace growth stocks” and she likes stocks like Afterpay Touch and Lendlease.

Afterpay is very pricey but the same was said about Amazon and CSL in their time — and look at their respective share prices this week – $US1,732 and $239. Amazon was once a $1.50 stock, while CSL effectively IPO’d at 77 cents!

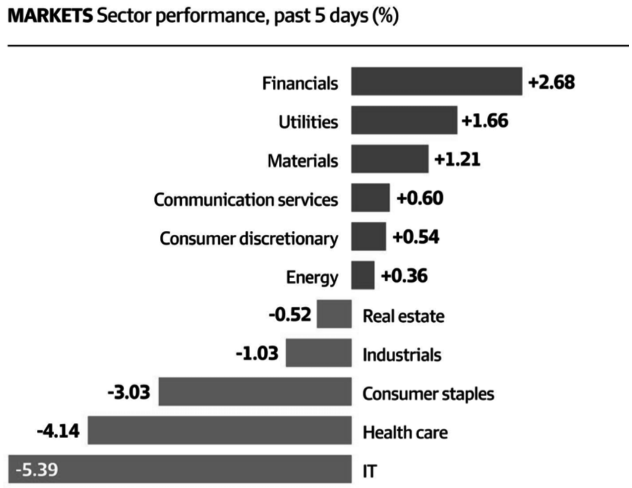
Michael McCarthy thinks a lot of the growth stocks are very high-priced so he’s looking for stocks that could be the secondary effects of a trade deal leading to no recession and instead a period of growth. He likes the miner South 32 as a potential recipient of higher demand for its resource commodities, if the world is set for growth. Its share price shows how good news about a trade deal around March and April was good for the company and vice versa.

South 32



In a similar vein, when the news was positive when the European Central Bank in mid-September put out a stimulus bazooka and the US President talked positively about a trade deal, our market spiked and the financial sector was the big winner. And as the CBA is still regarded as the best bank in the country on a number of measurements, it’s the one I’d expect to do well out of a trade deal.

The chart below was the *AFR’s* snapshot of the local sectors that did well over the week before last, as trade deal positivity increased.



Note how “materials” did well, which is a nice piece of support for McCarthy’s call on South32.

If you believe the mining sector can do well out of a trade deal, then a mining services company, which has a great reputation (namely Monadelphous Group Ltd or MND) is the one to think about. FNArena, which surveys the expert analysts, says the smarties think this stock has a 16% upside!

My final stock to buy as a beneficiary of the trade deal is the one I put on the stock market — the Switzer Dividend Growth Fund (SWTZ). This fund shouldn’t be so sensitive to growth but it is, and maybe the big name companies it invests in gives this ETF more volatility than I expected.

This is designed to harvest good dividend-paying stocks, which should deliver say a 5-6% income yield plus franking credits. Last year, the net yield was 7.9% and the gross was 11.2%. But that was a huge year for dividends, with many companies getting rid of franking credits before the May 18 election, where Bill Shorten was promising to crack down on these tax gifts, especially to retirees.

This would be a safer kind of play for the more nervous investor, who wants to get income in case the stock market tanks. Remember, dividends don’t collapse like share prices.

So here are the 10 trade deal stock plays:

1. IVV (the US stock market).
2. IOZ or STW or A200 (the Aussie stock

market).
3. IZZ (The Chinese stock market).
4. Caterpillar (CAT).
5. Afterpay (APT).
6. Lend Lease (LLC).
7. South32 (S32).
8. CBA (CBA).
9. Monadelphous (MND).
10. Switzer Dividend Growth Fund (SWTZ).

Sure, this is a few days late for those who might have been brave enough to buy before the trade deal but that's not how I invest. Admittedly, I'm already committed to many of these ETF plays, because, as you know, I believed a deal would happen, however, as an investor, I usually want to see my suspicions confirmed and I don't care if I miss the first leg up.

Missing out on the first market lift is a small price to pay, as once I'm sure my forecasts or predictions are right, I then go in harder than I would have if I was still in guess-mode.

Since Wednesday this portfolio is up 2.3%, with CAT up 8.8% and APT up 4.8%, which shows you that a trade deal is pro-growth — and it's risk on!

Important: This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regard to your circumstances.

CommBank's PERLS XII hybrid issue will be gobbled up

by Paul Rickard

Investors desperate for fixed interest style investments with a little bit of yield will gobble up CommBank's new hybrid securities issue, PERLS XII. Set to pay a fixed margin of 3% over the 90-day bank bill rate and an offer size in excess of $750 million, the final terms of the issue will be announced after a bookbuild on Wednesday.

Historically, a margin of 3% would be considered to be on the light side, particularly for an issue with a term of almost 7.5 years to the call date (see table below of CommBank's PERLs issues over the last 7 years).

Issue	Fixed Margin	Term to Call	Term to Exchange
PERLS VI	3.8%	6 years	8 years
PERLS VII	2.8%	8.3 years	10.3 years
PERLS VIII	5.2%	5.5 years	7.5 years
PERLS IX	3.9%	5 years	7 years
PERLS X	3.4%	7 years	9 years
PERLS XI	3.7%	5.5 years	7.5 years
PERLS XII	3.0%	7.5 years	9.5 years

However, the environment for hybrid securities is very different today. Firstly, banks are stronger and better capitalised following APRA's requirement that they become "unquestionably strong". Secondly, Bill Shorten's loss at the Federal Election on May 18 eliminated the franking credit fear, which impacted the demand for hybrid securities and would have made them less attractive to SMSFs and other low rate taxpayers. Finally, the RBA's move to cut interest rates by 0.75% and the subsequent collapse in government bond yields has meant that there is an enormous thirst for lower risk, yield based investments.

The hybrid securities market has been starved of new issues, and despite the term of PERLS XII, I expect the issue to be met by very strong investor demand. Here are the details of the issue.

CommBank PERLS XII

CommBank PERLS XII Capital Notes will pay a quarterly, fully-franked distribution. This is calculated at a fixed margin of 3% over the then 90-day bank bill rate, and then adjusted by the company tax rate (to take into account the benefit of the franking credits). The distribution is re-calculated each quarter based on the then current 90-day bank bill rate.

With the 90-day bank bill rate currently around 0.85%, this implies a gross distribution rate of 3.85% pa for the first 3 months (0.85% plus 3%). The actual distribution in cash, which is adjusted down for the franking credit benefits, would then be 2.7% (3.85% x 0.7 = 2.7%).

If at the next quarter the bank bill rate has moved higher to 1%, the gross distribution for that quarter will be 4%. On the other hand, if the RBA continues to cut interest rates and the bank bill rate has fallen to 0.5%, the gross distribution rate will be 3.5%.

Distributions are discretionary and subject to distribution payment conditions. If a distribution is not paid, it doesn't accrue and won't subsequently be paid. To protect holders from this discretion being misapplied, Commonwealth Bank is then restricted from paying a dividend on its ordinary shares.

Exchange into CBA shares or Early Repayment

PERLS XII are perpetual and have no term. However, CBA must (subject to a test) exchange the PERLS XII Notes into CBA ordinary shares on 26 April 2026 (in about 7.5 years' time). If exchange occurs, holders are issued $101.01 of CBA ordinary shares for every PERLS XII Capital Note of $100 face value (which effectively means that they are issued CBA shares at a 1% discount to the then market price). The test for the exchange is the price of CBA ordinary shares at the time – provided they are higher than approximately $40, exchange occurs – otherwise, it is retested on the next and subsequent distribution date(s) until the test is met.

To qualify as regulatory capital for CBA, two further events cause automatic exchange – a 'capital trigger event' and a 'non-viability trigger event'. Under these tests, the Australian Prudential Regulatory Authority (APRA) can require CBA to immediately exchange PERLS XII Notes into ordinary shares if CBA's Common Equity Tier 1 Capital Ratio falls below 5.125% (the ratio was 10.7% on 30/6/19 and 11.8% on a proforma basis adjusted for announced divestments), or if it believes CBA needs an injection of capital to remain viable. In these distressed circumstances, exchange would most likely result in a holder receiving considerably less than $100 of CBA ordinary shares, as there is a cap on the maximum number of shares that can be issued.

CBA also has an option to redeem the PERLS XII Capital Notes early on 20 April 2027 (in approximately 7.5 years' time) by paying holders $100 per PERLS XII Capital Note. This is at the Bank's sole option (not the investor's option), and as all previous issues of PERLS and other major banks' Capital Notes have been "called" early, the secondary market will initially trade and price PERLS XII on the assumption that the Notes will be redeemed early for $100 in April 2027.

The table below summarises the offer details:

Issue Size	$750m, with right to accept more or less
ASX Listing	ASX code CPAPI, expected 15 November 2019
Issue Price	$100 per PERLS XII Capital Note
Scheduled Exchange Date	20 April 2029 (into CBA ordinary shares at 1.0% discount)
Call Date	20 April, 2027
Automatic Exchange	Capital Trigger, Non-Viability Trigger or Change of Control Event
Distributions	Floating, based on 90 Day Bank Bill + Margin, adjusted for franking
Margin	3.00% pa (final margin to be determined in bookbuild on 8 Nov)
Distribution Dates	Quarterly: 15 March, 15 June, 15 September, 15 December
Payment of Distributions	Payable at CBA's discretion and subject to Distribution Payment Conditions. Non-cumulative. Dividend stopper on CBA ordinary shares.
Offer Closes (scheduled)	8 November
Issue Date	14 November
Minimum Subscription	$5,000 or 50 Notes, then in multiples of $1,000 or 10 Notes

How to invest

Following a bookbuild by institutions and brokers on Wednesday that will set the final margin (the Bank has indicated a range of 3% to 3.2%, but it is absolutely odds on that it will be 3%), the Offer will open on Thursday 17 October. It is scheduled to close on Friday 8 November.

There are two offers: a Broker Firm Offer and a Securityholder Offer. Several brokers and financial planners are involved in the issue, including CommSec, Morgans, Morgan Stanley, Bell Potter, UBS, Evans Dixon and Ord Minnett. If you are investing via a broker or financial planner in the broker firm offer, they are receiving a selling fee of 0.75% of the proceeds invested and, in some cases, may be willing to share some or all of this with potential investors.

CBA shareholders and holders of PERLS VII, VIII, IX, X and XI can also access PERLS XII Notes directly through a Securityholder offer at www.commsec.com.au (you don't need to be a CommSec client).

Don't invest in something you don't understand

Hybrid securities such as PERLS XII are complex investments. If a banking crisis happened in Australia or Commonwealth Bank got into real financial difficulties, investors could potentially lose most, if not all, of their capital. So it is important to understand the risks of investing and how the securities work.

You can learn more about hybrid securities at ASIC's MoneySmart website (go to https://www.moneysmart.gov.au/investing/complex-investments/hybrid-securities-and-notes). Commonwealth Bank has also developed an interactive module on bank hybrid securities, which is available at www.commbank.com.au/about-us/shareholders/securities/bank-hybrid-securities-basics.html

As the old adage goes, don't invest in something you don't understand.

Important: This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regard to your circumstances.

4 interesting ASX listed cyber security stocks

by James Dunn

The scale of the cyber-security problem is immense, with cyber-crime costing $US1 trillion in 2018 alone, and forecasts suggesting that losses will grow to $US6 trillion as soon as 2021.

In Australia, the government says cyber-security incidents cost Australian businesses up to $29 billion per year, with cybercrime events affecting almost one in three Australian adults in 2018.

Chinese tech giant Huawei recently admitted that it endures about a million cyber-attacks on its computers and networks every day. Cyber-security consultant Tony Barnes, director of Cyber Research Group, told me recently, “When you switch servers on, they’re like magnets in the way they attract attacks.” Barnes said that showing companies the scale of the constant attacks on them is a penny-dropping moment: “When people visualise it, it scares the pants off them,” he said.

And what really worries the cyber-security community is that innovation in cybersecurity is falling behind innovation by the global hacker community.

“As long as humans remain predisposed to click on interesting emails, rely on easy (or no) passwords, or browse to places we shouldn’t, the hackers will have the edge,” says Saumitra Das, chief technology officer and co-founder of deep-learning cyber-security platform Blue Hexagon.

Of course, cyber-security is a great business opportunity for those with the products and systems that can help governments, companies, organisations and individuals get ahead of the bad guys. According to the Australian Cyber Security Growth Network, the global cyber-security market is currently worth about US$131 billion, and is set to increase to US$248 billion by 2026.

Looking at the Australian stock market, though, you would not know that cyber-security is a growth business.

The ASX does host cyber-security companies, but sadly, it is a desert in terms of investment success. Is this because of the technology offerings being lacking in some way, or the relative lack of specialist investors to pick-up on the opportunities being presented, and give them some market support and impetus? That appears to be a big problem.

For example, the highly promising Australian cyber-security firm VeroGuard Systems, which says it is the “first and only platform to make indisputable verification possible in online use,” is considering an offshore listing, to maximise its likelihood of reaching the specialist investors that would be the cornerstones of its share register – although the company’s hardware security modules (which make possible the ultra-secure authentication, encryption and communications at both ends of every online transaction) will be manufactured in Adelaide.

Here are four interesting candidates in the ASX-listed cyber-security world – but be warned, all of these have severely tested their investors’ patience.

Tesserent (TNT, 4.6 cents)
Market capitalisation: $2 million
No profit
One-year total return: –33.3%
Three-year total return: –34% a year

Listed in 2016, Tesserent can be considered a pure-play cyber-security stock: it provides “Internet security-as-a-service” for a customer’s computer infrastructure, including firewall, authentication, anti-virus, anti-malware/spyware, intrusion detection, and security event management, typically provided on a subscription basis. Its customers – both Australian and international – come from the government, corporate and education fields.

Earlier this month, Tesserent bought the security division of ICT (information and communications technology) and digital consulting organisation PS&C Limited (PSZ), an acquisition the company says will make Tesserent Australia's largest listed dedicated cybersecurity firm, with more than $30 million revenue forecast in FY20. Even before buying PS&C's security arm, Tesserent had told its shareholders that it was on track to achieve cashflow positivity and profitability in FY20.

The integration of the PS&C Security business will give Tesserent full cyber-security capabilities including security advisory, penetration testing, deployment and management of security infrastructure and secure application development. The customer footprint of the combined business covers Australia, Asia and the UK. PS&C Security brings a strong and growing financial history to Tesserent, having delivered revenue of $16.4 million in FY19 (up 33% on FY18) and normalised EBITDA (earnings before interest, tax, depreciation and amortisation) of $3.1 million (up 11% on FY18).

Senetas Corporation (SEN, 7.7 cents)
Market capitalisation: $83 million
FY19 EPS (earnings per share): 0.14 cents
FY20 analysts' consensus expected EPS: 0.4 cents
One-year total return: –14.7%
Three-year total return: –13.7% a year
Five-year total return: 9.9% a year

Senetas Corporation is also a pure-play cyber-security company: it provides data encryption hardware, engineered for high-speed networks, to major corporations and governments. Senetas' encryptors now protect network transmitted data in more than 30 countries, and are used by customers ranging from government organisations with highly sensitive information, for example, the US defence forces, to commercial and industrial organisations, banks and global financial transactions systems providers, cloud service providers and small businesses.

Senetas' encryptors are the world's only products of their type certified by all four leading international certification authorities – the US government's FIPS (Federal Information Processing Standards) certification, Common Criteria (required by Australian government and defence organisations), Communications-Electronics Security Group (CAPS) for its Ethernet IG product in the UK (the first up-to-1GB encryptor for government data networks ever certified by CAPS) and the NATO (North Atlantic Treaty Organisation) information security product certification, which covers the 28 NATO member states. Global digital security heavyweight Thales is Senetas' exclusive global distributor.

In 2018, Senetas bought a major stake in Israeli cyber-security company Votiro Cybersec Global, which has 400 global customers and 1.5 million users. Senetas sees a major growth opportunity with Votiro, whose content disarm and reconstruction (CDR) technology protects against content-based threats from all communication channels and represents a significant global market opportunity. Founded by a team of senior cyber-security experts who served with the elite intelligence unit of the Israel Defence Forces, Votiro's CDR platform is a patented solution that automatically scans and sanitises each and every file sent or shared with the organisation, and reconstructs a fully functional, threat-free file in less than a second.

In FY19, Senetas grew its revenue by 12.3%, to $21.3 million, and lifted underlying net profit by 28%, to $4.8 million (it reported a net loss of $463,000). The company has a strong balance sheet, with no debt, and cash/cash equivalents on hand of $17.9 million. Analysts expect further profit growth – and reported net profit – in FY20, which would be welcomed by long-suffering shareholders.

WhiteHawk (WHK, 7.2 cents)
Market capitalisation: $11 million
No profit
One-year total return: 64.3%
Three-year total return: n/a

Listed in January 2018 at 25 cents, WhiteHawk bills itself as the first global cloud-based cyber-security exchange, enabling small-to-medium enterprises (SMEs) to discover their major cyber-business risks, then decide on, and buy, the cyber-security solutions that directly mitigate these risks. The platform conducts virtual consultations and artificial intelligence cyber-risk profiles, that immediately match SME customers to tailored ‘solutions on demand. WhiteHawk’s 360 Cyber Risk Framework includes continuous monitoring, alerting and mitigation of business and cyber risks for supply chain and vendor companies in real time.

Although developed for small business, the company is expanding the range of its business upward: this year, it has signed contracts with a “top ten US financial institution,” a “top 12 Defense Industrial Base (DIB) company” and “a US federal government department Chief Information Office (CIO).”

In addition, WhiteHawk says it is currently testing “proof of value” of its 360 Cyber Risk Framework with what it describes as a “multi-billion-dollar international insurance group, in the top 100 listed companies globally,” and is also on a shortlist for face-to-face demonstration with the US Department of Defense Cyber-Procurement arm, US Cyber Command (USCYBERCOM). Success in this venture could open up significant opportunity in future US Defense Department contracts. Again, disappointed shareholders need to see a continued flow of good news.

archTIS (AR9, 12.5 cents)
Market capitalisation: $15 million
No profit
One-year total return: –16.7%

Listed in September 2018, Canberra-based archTIS has developed a cloud-based software-as-a-service (SaaS) security and collaboration platform called Kojensi, which arose out of a solution built for the Australian Department of Defence, and further developed in trials involving a number of Australian Federal Government agencies, including the Commonwealth Attorney General’s Department (AGD) and the federal Aged Care Royal Commission. Subsequently, in September, the Attorney General’s Department signed on as the platform’s first customer.

Kojensi Gov is hosted within a protected cloud environment accredited by the Australian Signals Directorate (ASD), and offers in-built government-compliant data classification (the Australian government’s Protective Security Policy Framework, or PSPF) and meets information management standards and security (ISM) requirements. The unique selling point of the platform is that it allows collaboration between government and industry in working on information classified at the “Protected” level.

The platform is being marketed as a secure content and collaboration cloud service, which offers a combination of enterprise content management capabilities, collaboration tools and workflows. Instead of using passwords, the Kojensi platform creates an electronic “fingerprint” on the data or documents, determining who can access the material, where, and when. While testing and the first sale took place at a government level, archTIS says any organisation concerned about protecting the security of their information is a potential customer.

Buy, Hold, Sell – What the Brokers Say

by Rudi Filapek-Vandyck

As the world of global finance continues to be dominated by macro factors, including Trump versus China and central bank stimulus/interventions, stockbroking analysts continue to downgrade more ASX-listed stocks than they issue upgrades.

For the week ending Friday, 11th October 2019, both Domino's Pizza and Netwealth were responsible for two downgrades each. Netwealth received two fresh Sell ratings ahead of a better-than-anticipated trading update (it's the outlook for margins).

Packaging company Orora, soon without paper operations, is represented on both sides of the week's ledger.

The week's table for positive revisions to earnings estimates sees Corporate Travel Management on top, followed by ResMed, AP Eagers and Baby Bunting. The flip side has gold miner St Barbara on top, but the numbers are smaller, followed by EclipX Group, Orora and Bingo Industries.

Throughout the short term momentum on the back of Trump versus China news flow, investors' attention will likely draw to corporate earnings in the US, with the Australian calendar offering banks and AGMs.

In the good books

1. BRAMBLES LIMITED (BXB) was upgraded to Neutral from Underperform by Credit Suisse
B/H/S: 1/5/0

The company reported first quarter revenue growth of 2% actual and 5% at constant currency, in line with Credit Suisse forecasts. Management reiterated guidance and noted CHEP Americas revenue was up 7% because of higher pricing, particularly in Latin America, amid rollover benefits from US pallet contracts and solid volume growth. Credit Suisse upgrades to Neutral from Underperform. Target is steady is $11.20.

Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	BRAMBLES LIMITED	Neutral	Sell	Credit Suisse
2	FLIGHT CENTRE LIMITED	Buy	Neutral	Credit Suisse
3	NEXTDC LIMITED	Buy	Neutral	Morgans
4	ORORA LIMITED	Buy	Neutral	Credit Suisse
5	SYDNEY AIRPORT HOLDINGS LIMITED	Buy	Neutral	Macquarie

2. FLIGHT CENTRE LIMITED (FLT) was upgraded to Outperform from Neutral by Credit Suisse
B/H/S: 5/2/0

Credit Suisse suspects the discussion regarding the sustainability of the shop network will only intensify. The broker disagrees with the bear case which suggests that the growth of online and home-based consulting will put pressure on the shops. Flight Centre is considered well-placed to implement a transition and the cost base can be reduced with a manageable impact on profit. On the upside, Flight Centre now operates one of the largest online travel booking businesses in Australia. The home channel is growing strongly as is corporate. The broker upgrades to Outperform from Neutral and raises the target to $49.91 from $47.76. Guidance will be provided at the AGM on November 9.

3. ORORA LIMITED (ORA) was upgraded to Outperform from Neutral by Credit Suisse B/H/S: 2/4/0

The sale price of the Australasian fibre business, with proceeds of $1.57bn, was ahead of Credit Suisse's valuation. Management has indicated a trading update will be provided at the AGM next week. Credit Suisse reduces earnings estimates, suspecting weakness on the back of a soft US manufacturing survey, and given the company's statement that initiatives were being implemented to deliver earnings growth (does this mean earnings are not growing?).

Rating is upgraded to Outperform from Neutral and the target raised to $3.40 from $2.80.

See downgrade below.

In the not-so-good books

1. DOMINO'S PIZZA ENTERPRISES LIMITED (DMP) was downgraded to Neutral from Outperform by Macquarie and to Neutral from Buy by Citi B/H/S: 1/5/0

Macquarie observes the company's growth outlook is robust across Europe and Japan, as categories are expanded and market share is obtained. The company's investor briefing provided no trading update and the broker downgrades to Neutral from Outperform following the recent share price performance and transfers coverage to another analyst. The broker expects the stock to trade sideways until the market becomes more comfortable about Australasian earnings in FY20 and beyond as well as franchisee profitability. Target is $48.40.

Citi lowers the rating to Neutral from Buy, given the 28% rise in the share price. The investor briefing provided more detail about the benefits of store density. While the reasoning is logical, the broker believes there are intermediate challenges, where a pre-existing store can experience lower sales for several years when a new store opens nearby. The business has good prospects but the broker believes this is factored into the share price. Targets raised to $46.40 from $44.00.

Broker Rating

Order	Company	New Rating	Old Rating	Broker
Downgrade				
6	DOMINO'S PIZZA ENTERPRISES LIMITED	Neutral	Buy	Macquarie
7	DOMINO'S PIZZA ENTERPRISES LIMITED	Neutral	Buy	Citi
8	INDEPENDENCE GROUP NL	Sell	Neutral	Ord Minnett
9	NETWEALTH GROUP LIMITED	Sell	Neutral	UBS
10	NETWEALTH GROUP LIMITED	Sell	Neutral	Credit Suisse
11	ORORA LIMITED	Neutral	Buy	Ord Minnett
12	WESTERN AREAS NL	Neutral	Buy	Ord Minnett

2. INDEPENDENCE GROUP NL (IGO) was downgraded to Lighten from Hold by Ord Minnett B/H/S: 1/1/2

With nickel prices rising 65% in the year to date and stockpiles continuing to be drawn down, Ord Minnett increases FY20 estimates for the nickel price by 35%. This lifts earnings estimates for the company by 30%. The broker believes strong spot prices have come at a good time for offtake negotiations as concentrate markets are already tight. The broker raises the target to $5.70 from $5.30 but downgrades to Lighten from Hold, assessing the positives are priced into the equity.

3. NETWEALTH GROUP LIMITED (NWL) was downgraded to Sell from Neutral by UBS and to Underperform from Neutral by Credit Suisse B/H/S: 1/2/3

Netwealth's Sep Q net flows were up 40% on the prior year, but FY20 guidance requires a 60% increase. Given the ANZ Private Bank mandate win, UBS believes this is achievable. Thus earnings growth prospects remain strong. Target rises to $7.50 from $7.25. But margin risk is growing. The broker is forecasting an RBA cash rate of 0.25% by May, which would knock -9% off earnings on reduced cash spread margins. Given Netwealth's forward PE has re-rated to 49x from 39x in FY19, UBS downgrades to Sell.

Credit Suisse downgrades to Underperform from Neutral, as trading multiples are now limiting the share price upside. First quarter funds under administration were up 8.5% amid positive market movements. Flows were strong but slightly below expectations. While the company is making the most of its unique opportunity, created by the disruption of the wealth management industry, a declining revenue margin is diluting growth, in the broker's view. Target is $7.60.

4. ORORA LIMITED (ORA) was downgraded to Hold from Accumulate by Ord Minnett B/H/S: 2/4/0

Orora will sell its Australasian fibre business to Nippon Paper and Ord Minnett believes the latter has clearly paid a premium at $1.72bn. The broker believes the decision to sell was the right one as there were minimal synergies with the other businesses under Orora's umbrella. However, the quality of the portfolio has been diluted, as the North American business now represents close to half of group earnings (EBIT). Given this, the broker downgrades to Hold from Accumulate, awaiting an update at the AGM. Target is raised to $3.25 from $3.00. The broker assumes the transaction closes in January 2020 and $1.2bn is returned to shareholders via a special dividend.

See upgrade above.

5. WESTERN AREAS NL (WSA) was downgraded to Hold from Buy by Ord Minnett B/H/S: 2/3/1

As nickel prices have risen 65% in the year to date and stockpiles are being drawn down, Ord Minnett updates nickel price forecasts. FY20 nickel price forecasts are increased by 35% which lifts earnings estimates for the company by 270%. The strong spot prices have arrived at a good time for offtake negotiations for miners as concentrate markets are already tight. However, the broker believes this is priced into the equities and downgrades Western Areas to Hold from Speculative Buy. Target is raised to $3.20 from $2.90.

Earnings forecast

Listed below are the companies that have had their forecast current year earnings raised or lowered by the brokers last week. The qualification is that the stock must be covered by at least two brokers. The table shows the previous forecast on an earnings per share basis, the new forecast, and the percentage change.

Earning Forecast
Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	100.33	87.07	15.24%	6
2	RMD	RESMED INC	56.11	51.57	8.82%	7
3	APE	AP EAGERS LIMITED	48.77	45.37	7.49%	5
4	BBN	BABY BUNTING GROUP LIMITED	16.35	15.25	7.21%	4
5	LLC	LENDLEASE GROUP	134.04	132.56	1.12%	5
6	CSL	CSL LIMITED	649.20	643.91	0.82%	7
7	ASX	ASX LIMITED	259.06	257.60	0.57%	7
8	IAG	INSURANCE AUSTRALIA GROUP LIMITED	37.87	37.73	0.38%	7
9	AQG	ALACER GOLD CORP	41.11	41.07	0.11%	3
10	RIO	RIO TINTO LIMITED	969.61	968.50	0.11%	7

Earning Forecast
Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	SBM	ST BARBARA LIMITED	33.29	34.92	-4.65%	4
2	ECX	ECLIPX GROUP LIMITED	9.98	10.40	-4.04%	5
3	ORA	ORORA LIMITED	16.89	17.49	-3.39%	6
4	BIN	BINGO INDUSTRIES LIMITED	9.60	9.93	-3.35%	4
5	VEA	VIVA ENERGY GROUP LIMITED	8.66	8.90	-2.67%	6
6	FLT	FLIGHT CENTRE LIMITED	264.44	270.93	-2.39%	7
7	TCL	TRANSURBAN GROUP	20.68	20.88	-0.96%	7
8	PTM	PLATINUM ASSET MANAGEMENT LIMITED	26.36	26.56	-0.75%	5
9	TAH	TABCORP HOLDINGS LIMITED	20.08	20.22	-0.68%	6
10	CWY	CLEANAWAY WASTE MANAGEMENT LIMITED	7.62	7.66	-0.56%	6

The above was compiled from reports on FNArena. The FNArena database tabulates the views of seven major Australian and international stock brokers: Citi, Credit Suisse, Macquarie, Morgan Stanley, Morgans, Ord Minnett and UBS. Important: This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regard to your circumstances.

My “HOT” stock — I like Brambles (BXB)

by Maureen Jordan

LIKE

Michael likes Brambles (BXB). “BXB surprised investors last week with a better than forecasted Q1 sale report,” he says.

“Conventional wisdom has the logistics group under trade dispute pressure but last week’s 5% lift in Q1 revenue directly contradicts that story.

“There is an argument that BXB is under-priced at current levels,” he adds.

Source:Google

DISLIKE

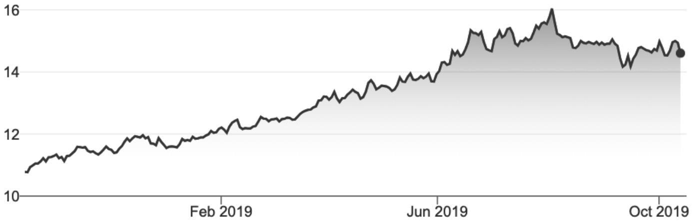
Michael doesn’t like Transurban (TCL). “The toll road operator is in my view priced for perfection,” he says.

“Seen as a bond proxy and a “defensive” investment, the unit price hit an all-time high in the lead up to the August results announcement.

“However, the disappointing result and share and institutional placement broke the upward momentum.

“Repeated failures at the $15 level point to a potential significant decline.

In my view there’s no reason to be here,” he adds.



Source: Google

Important: This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regard to your circumstances.