

HD Downer's A\$450 Million Decision: Buyback or M&A? -- Market Talk

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23:36 GMT [Dow Jones] Downer EDI (DOW.AU) has around A\$450 million that it can spend on buying back its own shares or M&A, and Macquarie thinks the engineering contractor is likely to make a decision soon. In August, Downer said it would buy up to 10% of its stock but has yet to acquire a single share. For Macquarie, this means that Downer has either secured a material contract win or is looking at a potential acquisition. "We view the latter as more likely," the broker says. If Downer was to spend A\$300 million on acquisitions at a multiple of 6-7 times earnings, Macquarie estimates this would generate A\$46 million of additional earnings before interest and tax or A\$18 million of net profit after accounting for debt funding. DOW last traded at A\$4.23. (david.winning@wsj.com; @dwinningWSJ)

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23:35 GMT [Dow Jones] The breadth of Aristocrat Leisure's (ALL.AU) gambling products and its recent performance suggest the company is well positioned to continue grabbing market share in North America, Deutsche Bank says. "Customer feedback continues to improve and we believe recent industry consolidation provides additional opportunities for Aristocrat to increase share," it says, adding the company's Video Gaming Technologies business is much better positioned than the brokerage had first envisaged. It retains a buy recommendation with the shares trading at a discount to a price target lifted to A\$7.75/share from A\$7.20. ALL shares are currently down 0.1% at A\$5.885. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

11:26 GMT [Dow Jones] Year-to-date Uridashi issuance is on pace to pick up modestly from 2013, says Brown Brothers Harriman. Foreign currency-denominated issuance peaked at \$24.4 billion in 2010 before falling three straight years to \$15.3 billion in 2013, which was the lowest annual total since 2007. BBH says that so far in 2014, issuance is on a \$16 billion annualized pace. A fourth quarter pickup could see the full year total potentially eclipse the \$16.5 billion seen in 2012, it adds. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

23:26 GMT [Dow Jones] Bank of Queensland Ltd. (BOQ.AU) is likely to turn in a strong fiscal 2014 result, albeit a somewhat "messy" one due to the acquisition of assets from Investec Ltd. (INL.JO), Deutsche Bank says. It forecasts full-year cash earnings of 302.4 million Australian dollars (\$263.5 million), slightly ahead of the bank's own guidance for earnings of about A\$298 million. Still, the brokerage retains a hold recommendation and A\$12.45/share (\$10.85) target and says BOQ needs to demonstrate that it can return to reasonable levels of asset growth or show further upside from deposit repricing. BOQ is trading down 1.9% at A\$11.64. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

19:23 ET [Dow Jones] -- Iron-ore prices have crept higher, bouncing from five-year lows to regain their footing at the "psychological US\$80/ton barrier," says ANZ. While any lift in prices will help the many producers struggling to break even at current levels, the steelmaking commodity remains down 40% year-to-date after a surge in mine supply. Still, the immediate outlook for prices remains unclear, analysts say. Market liquidity remains weak, with many Chinese buyers having been absent for the so-called Golden Week holiday. China is the world's largest buyer of the raw material. Spot iron-ore lifted 1.4% on Tuesday to US\$80.00/ton. (rhiannon.hoyle@wsj.com; Twitter: @RhiannonHoyle)

11:24 GMT [Dow Jones] A tough start to the TV advertising market in FY15 is probably more cyclical than structural, meaning a recent sell-off in Seven West Media (SWM.AU) is overdone, says Deutsche Bank, which upgrades its recommendation on the Australian media group to buy from hold. Advertising volumes in 1Q15 are likely to be down around 10% on-year, but mostly because of a spike in government advertising last year for national elections. "Our discussions with media buyers suggest a

number of advertisers are increasing marketing spend, and, given that audiences for key events are continuing to hold up, we view the current issues around the TV ad market as cyclical rather than structural. The broker raises its price target to A\$2.00 from A\$1.90. SWM is down 1.5% at A\$1.60. (Ross.Kelly@wsj.com)

23:25 GMT [Dow Jones] Citi initiates coverage of AGL **Energy** (AGK.AU) with a buy recommendation and A\$15.56 price target, noting the **energy** retailer has underperformed its peers and the ASX100 over the last six months. It also likes its recent **acquisition** of Macquarie Generation in New South Wales state, which it says the market is undervaluing. "MacGen's location in the Upper Hunter valley and burning low quality, non-exportable **coal** means that it has a structural **coal** cost advantage," it says, valuing the asset at A\$1.9 **billion**-to-A\$2.0 **billion**, or A\$2.90/share. AGK is down 0.4% at A\$13.53. (Ross.Kelly@wsj.com)

23:21 GMT [Dow Jones] **Gold**'s slide to around \$1,210/oz. can be explained not just by a stronger U.S. dollar--the pair tend to share an inverse correlation--but by easing concerns about inflation, according to HSBC precious metals analyst James Steel. "The decline in inflation expectations has played a secondary role in pressuring **gold**," he says, noting the U.S. 10-year break-even yield--a proxy for the market's inflation expectations--has fallen to a 15-month low. "A lack of inflationary expectations is traditionally bearish for **gold**," which is often bought as an alternative store of value, says Mr. Steel. (rhiannon.hoyle@wsj.com; Twitter: @RhiannonHoyle)

23:21 GMT [Dow Jones] Part of the decline in mall traffic among U.S. teenagers can be attributed to the establishment of mall curfews and added security in the 2000s, according to analysts at Piper Jaffray in their semi-annual Taking Stock With Teens report on teenage consumer behavior. The average number of annual mall trips by teens aged 13-19 has fallen 26% to 29 visits per year from its peak in 2007, the **firm** notes, due in part to the beefed up security against "disruptive" teens, as well as other factors including the rise of e-commerce and decline of logo-based fashion trends. To illustrate the imposing nature of mall security, the **firm** includes within the note a standalone screen grab of the DVD cover of "Mall Cop," a 2009 film starring Kevin James. (sara.germano@wsj.com @germanotes)

19:20 ET [Dow Jones] Travel insurer Cover-More Group (CVO.AU) is a good way to bet on changing travel preferences among Australians, according to Bell Potter. The broker expects the longer-term structural shift toward outbound versus domestic holiday travel to continue, despite slowing growth in outbound departures in August. "The best way to play this recovery is through CVO given its travel insurance business is leveraged to short-term international departure volumes for holiday purposes," the broker says. It notes that Cover-More isn't adversely impacted by any offsetting decline in international airfares, in contrast to Flight Centre (FLT.AU), given premiums change only marginally based on the price of travel. (rebecca.thurlow@wsj.com; @beckthurlow)

23:19 GMT [Dow Jones] The Australian dollar is among the G-10 currency basket's current top 10 performers having rallied overnight on the back of short-covering to a high around \$0.8834. It has covered a lot of ground quickly. After U.S. payrolls on Friday, it had been trading around \$0.8650. In the absence of key domestic data, the Aussie dollar is expected to trade quietly until the release of September employment data on Thursday. Greg Moore, senior currency strategist at RBC Capital Markets said **China** PMI data will be the most significant data in Asia followed by the release of September FOMC minutes. AUD/USD now \$0.8809. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

[Dow Jones] 22:47 Empired (EPD.AU), an Australian **company** that provides information technology services to business, offers a more technical and customized package than rivals, justifying a buy recommendation and A\$0.95 price target, says Bell Potter. The bullish call comes despite the **company** last month issuing new shares at a discount to potentially fund acquisitions, prompting Bell Potter to downgrade its per share earnings forecast by 8-10% over the next three financial years. Part of its price target is dependent on the **company** making an **acquisition** in the next few months. "So we are giving the **company** the benefit of the doubt at this stage but the clock is ticking," the broker says. Empired was last at A\$0.745. (Ross.Kelly@wsj.com)

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