

HD MARKET RISES SHARPLY ON POSITIVE CHINA, JAPAN NUMBERS

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The S&P/ASX200 is up 44.7 points to 5464.2 at midday on average volume worth \$1.8 billion. There are 541 issues higher and 401 down. The SPI Future is up 44 points to 15,424 points on good volume of 11,416 contracts. Aussie 10 year bond yields are up 1 point to 3.67%. The \$A is at 94.38US c, up about 50 points from early levels.

The banks have contributed 11.4 positive points to the index, insurers have contributed 0.7 positive points, resources have contributed 13.6 positive points, property trusts have contributed 0.1 positive points, retailers have contributed 2.4 positive points and Telstra has contributed 1.5 positive points.

*the Nikkei Dow futures is up 20 points to 15,400 points, Shanghai CSI physical was up 4.75 points to 2031.43, Hang Seng futures was up 178 points to 23,349 points, S&P futures is up 4.2 points to 1957.90, Nasdaq futures is up 10 points to 3803.25 points, Dow futures was up 41 points to 16,899 points.

Spot gold is down \$2 to \$1313. Crude futures is down 8c to \$107.18.

*China's May flash m'fr PMI exceeds expectations

China's May flash manufacturing PMI has come in at 50.8 on June vs 49.4 in May and vs 49.7 expected.

*Japan flash M'fr PMI at 51.1 in May, first growth in 3 months

The flash Japan Manufacturing PMI came at 51.1 (49.9 in May), which marked the first growth in activity for first time in three months.

Amy Brownbill, Economist at Markit, which compiles the survey said: "With new orders and output returning to growth in June only three months after the increase in sales tax, it looks like the Japanese manufacturing sector has taken a positive upward trajectory."

Our market has risen sharply on China's May flash PMI number coming in better than expected while Japan's PMI was also higher. There has not been much local news to drive our market either way. Woodside is the only weakener in the Top 20.

"China's flash PMI could dictate .. up about 12"

"Bernborough" said, "China's flash Manufacturing PMI today could dictate where we go - if its a strong number buyers could get on top again. (China's flash M'fr PMI had recovered to 49.7 in May from 48.1, beating expectations).

"I will call us up about 12. A lot of instos have ruled off their books already. People are pretty happy with where the index is'.

S&P/ASX200 closed down 48.7 points to 5419.5

TOP STOCKS

*Westfield **group** is up 1c to \$10.83 on 4m shares, Westfield Retail is up 2c to \$3.23 on 4.2m shares after the carve up and start up of Scentre was agreed.

*Dexus is up 1.7c to \$1.13.7 on 11.13m shares.

Among the financials, AMP is up 3.5c to \$5.37.5 on 2.3m shares, ANZ is up 11c to \$34.09 on 2.23m shares, CBA has gained 58c to \$82 on 967,484 shares, NAB is up 31c to \$33.44 on 1.6m shares, Westpac is up 26c to \$34.41 on 1.6m shares.

Among the TMT's Telstra is up 3c to \$5.20 on 7.6m shares, Telecom NZ is down 1.5c to 42.46.5 on 243,078 shares, SingTel is steady at \$3.23 on 167,345 shares.

Among the resources BHP is up 54c to \$36.49 on 3.5m shares, RIO has gained \$1.65 to \$60.16 on 1.5m shares. Fortescue is up 24.5c to \$4.46.5 on 18.12m shares, Iluka is up 17c to \$8.37 on 1.4m shares, Paladin is down .5c to 29.5c on 3.89m shares, Western Areas is up 9c to \$4.75 on 634,917 shares.

Among the oils, Woodside is down 10c to \$41.29 on 773,538 shares, Santos is up 14c to \$14.29 on 1.17m shares. **Oil** Search is up .5c to \$9.82.5 on 2.7m shares.

Among the golds, Newcrest is down 3.5c to \$10.77.5 on 1.58m shares, Resolute rose 1c to 68.5c on 1.88m shares, Silver Lake is up 1.7c to 48.2c on 3.6m shares. Oceana fell 28c to \$3.16 on 2.9m shares.

AT THE SMALLER END

*Triton rose 7.5c to 42c on 11.79m shares, also report still to be entered.

*Orbital s up 2c to 17c on 1.19m shares on the report below.

NEWS OF THE DAY

China beige book numbers show economy is slowing on investment

Bloomberg reports the **China** beige book, modelled on the US beige book that began in 2012 reported that for the first time no sector showed an improvement in investment vs the previous quarter. Transportation, **mining** and retail slowed and services weakened more sharply.

The report is composed from 2,043 ten minute interviews conducted from May 12 to June 3 and 32 face to face 20 minute interviews conducted June 9 to June 19.

Tobacco consumption in Australia falls significantly - ABS, Treasury statistics

"The Age" reports added to the Health Department's website quietly last week amid debate over the effectiveness of plain packaging, the Treasury data shows 3.4 per cent fewer cigarettes were **sold** last year than 2012. Plain packaging became mandatory on December 1, 2012.

The Treasury data is consistent with national accounts data that shows a decline of 0.9 per cent in the amount of tobacco and cigarettes **sold** between 2012 and last year. The national accounts show a further fall of 7.6 per cent in the three months to March after the first of a number of big increases in tobacco excise announced late last year.

The Bureau of Statistics bases the national accounts measure on a survey of households, whereas the Treasury collects information on every stick and pouch of tobacco **sold**.

The Treasury data suggests that, adjusted for population growth of 1.7 per cent, the number of sticks **sold** per person slid about 5 per cent between 2012 and last year.

The ABS data has consumption of tobacco the lowest ever recorded. Both measures conflict with industry claims that tobacco sales climbed by 59 **million** sticks or roll-your-own equivalents last year.

The claimed 0.3 per cent increase is said to be sourced from data analysis **firm** InfoView, although the data behind it has not been released.

Changes in substantials reported June 18, 19 and 20 inc.

Ex div: HNG ex 2c.

LARGE CAP INDUSTRIALS

*DJS: The Fin Review said on Friday market participants reported institutional shareholders had been approached 'by an unknown borrower' for stock.

*EGP: Proposes resort at Queens Wharf, Brisbane with FEC + Chow Tai Fook

Echo Entertainment **Group** Ltd announced it has signed a binding MOU with Chow Tai Fook Enterprises Ltd and Far East Consortium (Australia) Pty Ltd to create a new consortium to prepare a detailed proposal to develop an entertainment precinct and integrated resort at the Queen's Wharf Brisbane **site**.

Under the MOU announced today Echo, CTF and FEC will combine their considerable complementary capabilities to form the Destination Brisbane Consortium. This consortium will develop and submit jointly a proposal for the Queen's Wharf Brisbane Project.

Echo will contribute 50% of the capital to the development of the integrated resort and act as the operator under a long dated gaming operator agreement. CTF and FEC Australia will each contribute 5% of the capital to the development of the integrated resort and together will also undertake the **residential** and related component of the broader Queen's Wharf Brisbane development.

*ENV: Cheung Kong and associated companies announces \$1.32 cash offer

CK ENV Investment Pty Ltd, a **company** indirectly owned by Cheung Kong (Holdings) Ltd and companies associated announced the launch of its recommended off market takeover for Envestra Ltd at \$1.32 per share, a premium of 3.3% to the 30 day VWAP of Envestra shares at 99c on July 15, the last trading day prior to Envestra's announcement of May 8 of an indicative, non binding, conditional off market takeover proposal received from CKH, CKI and PAH. It is the only takeover offer available to Envestra shareholders at this time. The offer is subject to a number of conditions. FIRB approval has been obtained on June 13 and is not a condition of the offer. (Jun 20)

*MTS: NPAT down 17.9%, div 9c ff, reinv phase in 2015/positive on future

Metcash Ltd for the year ended April 30 2014 announced a net profit after tax down 17.9% to \$169.2 **million** on revenue up 3.2% to \$13.392.7 **billion**.

Underlying profit after tax was down 10.9% to 250.1 **million**.

Final dividend is 9c fully franked, record day is July 1. The dividend was 18.5c for the year vs 28c last year. The payout ratio was reduced to 65.4% from 85.9% last year. The decision was taken to reduce the payout ratio and underwrite the DRP to 50% reflecting greater allocation of earnings to internal investment in the business to fund the transformation program.

Basic and diluted eps is 19.2c vs 24c last year.

NTA backing per security is negative 19.33c vs negative 9.52c last year.

EBITA margin fell 14.4% to 3.04%. EBITA was down 11.7% to \$406.7 **million**.

Cash in hand \$24.7 **million** vs \$50.3 **million** last year.

Hardware & Automotive contribution to **group** rose 23.6% to \$1.159.5 **billion** and increased EBITA by 47.85 to \$53.5 **million**.

Food and grocery was down 0.5% to \$9.072.4 **billion**.

Liquor gained 8.3% to \$3.160.8 **billion**.

Metcash Ltd said in the report the trading environment during 2014 remained difficult. In particular the effects of ongoing deflation, estimated to be 1.4% for grocery, rising utility costs, a highly value driven consumer and excessive fuel discounting by the two large grocery chains impacted.

Metcash Food & Grocery segment was also impacted by the closure of 25 Franklins stores and a reduced "teamwork" score from the converted stores. Metcash has now completed the disposal of all 80 Franklins' corporate stores.

Outlook and guidance

As indicated at the March Strategy Day 2015 will start a significant reinvestment phase for the **group**.

Additional MFG opex investment is estimated at \$40/45 **million** over 2015 with earnings recovery expected in subsequent years as sales growth returns.

Group sales for the first six weeks of 2015 are in line with expectations.

Further insight on price match and Diamond store pilots will be provided at the AGM in August and first half results in December.

Group sales for the first six weeks are in line with expectations.

Analysts expectations: \$190 mln, div 9c/\$248 mln, div 9c

*On June 18 a leading broker retained a "lighten" on Metcash with a \$2.54 price target. The broker said it expects underlying eps to decline 14.2% in line with **company** guidance, and revenue and EBITA in the core Food & Grocery division to fall by 0.7% and 22.5% respectively. An update on the transformation plan announced in March will be of interest.

*On June 17 a leading broker retained a "neutral" on Metcash with a \$2.75 price target. The broker said there is no doubt MTS model is under pressure. "We expect pressure to intensify with Aldi's push into new markets (W/SA and Coles/WOW/s investment in loyalty and new stores (2/3% space growth pa) marginalising MTS' historical competitive advantage (convenience). With the above in mind, management's ability to demonstrate signs of stabilisation will be key - otherwise we see downside risk to the share price".

Company guidance: On March 20 Metcash Ltd announced in an update to its 2014 full year guidance, details of its strategic review to address structural challenges within the business will be presented to the market on March 21.

Aspects of this plan are being implemented and have begun to impact current year's earnings. January and February results were also below management forecasts. Management now expects a decline in underlying eps in the range of 13/15% for 2014.

Metcash CEO Ian Morrice said the reason for this update to guidance is entirely due to the Food & Grocery pillar.

Retail sales for independent retailers have lifted since the run in to Christmas , with the drivers for these retail sales primarily been in fresh departments and direct sales and items not stocked in the **group's** warehouses.

The carrying value of certain retail and other assets are being impaired, together expected to total \$30/35 **million** pre tax, predominantly non cash in nature.

*MTU/IFZ: M2 **Group** is looking to acquire Lumo **Energy** from Infratil for around \$280 **million**, the FinReview says.

*SGP: \$58.1m for 65.7ha in Perth's southern + northern growth corridors

Stockland announced it has acquired two large parcels of land totalling 65.7 hectares in Perth's southern and northern growth corridors for a combined total of \$58.1 **million**. The two parcels of land respectively adjoin Stockland's Newhaven and Whiteman Edge **residential** communities, two of its most successful **residential** developments in Western Australia.

*SKE: Saipem awards previously announced contract, worth around \$200 mln

Skilled **Group** Ltd announced as previously announced Skilled Offshore has been awarded a significant contract with Saipem to provide manning services to the Ichthys Gas Export Pipeline. The total contract value for skilled Offshore is approximately \$200 **million**. This phase of the project is due to complete by June 2015.

It is expected that SKILLED 's net debt will peak in first half 20-15 then reduce in the 2nd half in line with the work program for the Saipem project.

Skilled said its outlook for 2014 and 2015 remain consistent with its May 7 update.

LARGE CAP RESOURCES

*BRU: Laurel Formation Tight Gas Pilot Exploraton Program to begin

Buru **Energy** Ltd advised the Laurel Formation Tight Gas Pilot Exploration Program has been approved by the Department of Mines and Petroleum. This completes the regulatory process required for the program to proceed.

A summary of the exploration program will be posted on Buru's website within 10 days.

*BRU/OBL/OXX: Update on Permit EP 487

Oil Basins Ltd advised Permit EP 487 Level 1 Flora and Fauna Survey over the proposed route of the 500 km line km 2D seismic survey was successfully completed on June 20, within the wildflower blooming period. Work by Environmental consultants Pty Ltd will now focus on identifying the material collected and incorporating the new information into the Permit 487 Environmental Plan.

On the corporate front, OBL has held confidential discussions with Backreef **Oil** Pty Ltd, a subsidiary of Octanex NL and their proposed assignee Buru **Energy** Ltd to resolve an agreed way forward on the future ownership of Permit EP487.

OBL is also seeking full payment from Backreef for its gross \$725,000 share of proceeds of the OXX priority **transaction**.

*SBM: Bob Vassie appointed MD and CEO effective July 1

St Barbara Ltd announced the appointment of Bob Vassie to the position of Managing Director and CEO effective July 1 2014. Mr Vassie succeeds Tim Lehany who will step down as MD and CEO on June 30.

Mr Vassie is a **mining** engineer with 29 years international **mining** industry experience, including as MD and CEO of Inova Resources Ltd (formerly Ivanhoe Australia Ltd) and 18 years with Rio Tinto.

*YAL: Production at Panel A8 at Austar **coal** mine recommences

Yancoal Australia Ltd announced the scheduled relocation of the longwall to Panel A8 at Austar **Coal** Mine has been completed. Following successful commissioning, longwall production has now recommenced. Recommencement of production is in accordance with the mine's operating schedule and saleable **coal** production is expected to be within the previously forecast range for 2014. Longwall panel A8 is expected to provide up to 12 months of production.

The investigation into the underground incident on April 15 is ongoing, and development works have not recommenced at this time.

MID TO SMALL INDUSTRIALS

*GDI: Acquires Civic tower, 66 Goulburn St Sydney for \$136 mln

GDI **Property Group** announced it has exchanged contracts to acquire the iconic Civic Tower, 66 Goulburn St Sydney for \$136 **million**. Civic Tower is an A grade **property** which is being acquired from two vendors who each hold a 50% interest in the **property**, with settlement of both **purchases** to occur on or around July 15, subject to satisfaction of customary conditions.

The **property** comprises approximately 23,125 sq m of net lettable area over 24 levels of office space above the Masonic Centre podium plus a ground level lobby and retail area and has parking for 54 cars. It was constructed in 2004 by Grocon and was the first building in Australia to be fully supported on a central lift core. The **property** has 5.5 star NABERS **energy** rating.

*HIL: Phillip Bullock appointed non exec/Peter Stancliffe to retire at AGM

Hills Industries reported Phillip Bullock has been appointed non exec director. chairman Ms Jennifer Hill-Ling welcomed him to the **board**. Mr Bullock was formerly Vice President, Systems and Technology **Group**, IBM Asia Pacific, Shanghai and **China**. His career with IBM spanned almost 30 years.

The chairman also advised long serving director Peter Stancliffe will retire from the **board** at the AGM scheduled for October 31 after 11 years of service. The chairman paid tribute.

*OEC: Rec'd \$1.2 mln+ dispute settlement with AAI/continues using OEC tech

Orbital Corporation Ltd announced it has reached settlement with AAI Corporation over the dispute related to past contracts that had resulted in AAI withholding payment on outstanding invoices. The terms of the formal settlement are commercially confidential, however Orbital expects to recover over \$1.2 **million** of the impairment recorded in the **company's** half year financial report.

Textron Systems Senior VP and GM William (Bill) Irby said in the report the resolution of the dispute is good news for both AAI and Orbital. The parties have entered into a long term agreement that will enable AAI to continue to utilise Orbital technology.

Orbital CEO and MD Terry Stinson said not only will the settlement have a material impact on financial results and cash flows for the year, but more importantly a significant business relationship for Orbital has

been restored. AAI Textron will continue to use Orbital's patented FlexDi technology for its propulsion system manufacturer.

*PAA: Trial initiating meeting for patient screening for recruitment

PharmAust Ltd advised a "trial Initiation Meeting" between the **company**, Principal Michael Brown, the principal investigator and the Contract Research Organisations managing the clinical services (IDT CMAX) and analytical services (CPR Pharma Services) for patient screening for recruitment and treatment has begun.

*RUL: Iluka, Newcrest, Southern Peru **Copper** first customers for HAULSIM

RungePincockMinarco Ltd in an update on its haulage simulation solution HAULSIM following the release in late February said following successfully used the simulation capabilities of HAULSIM in a number of operational advisory projects, software licences have now been **purchased** for use by three customers.

RUL's CEO and MD Richard Mathews said it is widely understood that mine haulage is one of the highest cost components within the **mining** process. HAULSIM incorporates RPM's 35 years of experience in **mining** and haulage system design to give users the ability to accurately model and visually simulate complex mine haulage systems. HAULSIM enables users to easily identify operational bottlenecks and to quantify the consequences and outcomes of potential changes to the haulage environment.

Clients include Iluka, Newcrest and Southern Peru **Copper**.

*SOO: CEO role redundant/divesting wholesale biz/to seek other opportunities

Solco Ltd advised it has made the CEO role redundant in the light of its decision to divest its wholesale business and look for other opportunities, subject to shareholder approval.

The **board** thanked the CEO Anthony Coles for his valued contribution over a period that saw significant changes in the industry for Australian p/v wholesalers. Solco has a strong balance sheet and will pursue other opportunities. (Jun 20).

Our note: Solco operated for 26 years, sometimes profitable, sometimes not, during which it supplied award winning **solar** powered pumps for farmers across Australia and numerous p/v installations, from domestic dwellings to retail centres.

A Week's Special twice, last in 2012, when Solco was trading at 9.3c.

MID TO SMALL RESOURCES

*BEZ: Victory Corp of Switzerland to **buy** 250m shares at 5.7US c each

Besra **Gold** Ltd announced it has signed a letter agreement for an investment by Victory Corporation **Group** of Switzerland pursuant to which VCG will **purchase** 250 **million** common shares in Besra **Gold** Inc at 5.7US c each from Treasury. If the financing totalling \$US14.25 **million** is completed it will make VCG the largest shareholder in Besra common shares.

*GBZ: 4 samples in broad intervals up to 60gpt Au in Lubuk Mandi, Malaysia

GBM Resources Ltd announced it has intersected high **gold** grades over broad intervals in LMD010, 10.5m downhole, averaging 11.1gpt Au in the Lubuk Mandi **gold** mine in Malaysia.

The intersection includes 4 individual samples returning assay values of over 60 gpt Au.

*TNG: Offtake MOU with trading house Guvnor **Group** for Peake **iron**

TNG Ltd announced it has signed a non binding MOU with global commodities trading house Guvnor **Group** for long term strategic cooperation with TNG. Discussions will begin immediately on binding agreements for the offtake, marketing and distribution of the **iron** products and by products from Mount Peake.

The agreements will be structure to assist TNG directly or indirectly in securing future financing to complete the Mount Peake Bankable Feasibility Study and advance the project towards development.

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