

HD Weekly Recommendation, Target Price, Earnings Forecast Changes

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Upgrades

AGL **Energy** ((AGK)) upgraded to Outperform from Neutral by Macquarie. **B**/H/S: 3/5/0

TD

AGL is now the front runner to **acquire** Macquarie Generation over ERM Power ((EPW)) now the **Chinese** consortium has pulled out, the broker suggests. If not successful, Delta Coastal is another opportunity which should ensure market position. Ahead of the Feb result, the broker has upgraded to Outperform. Target rises to \$16.80 from \$16.70.

See also AGK downgrade.

APA **Group** ((APA)) upgraded to Neutral from Underperform by BA-Merrill Lynch. **B**/H/S: 2/4/2

The broker has reviewed the regulated utilities sector and is now more comfortable with APA's growth profile. Expansions in Queensland and Western Australia are expected to underpin growth. Analysis of cash earnings since FY08 reveals returns are on an upward trajectory over a 10-year period. The rating is upgraded to Neutral from Underperform and the price target is \$6.05.

Aristocrat Leisure ((ALL)) upgraded to **Buy** from Neutral by UBS. **B**/H/S: 4/3/1

Some positive signs are emerging, in UBS' view, particularly in regard to the **company**'s participation in the US market, while in Australia, despite a competitive environment, products appear to be performing strongly. The broker has upgraded to a **Buy** rating from Neutral, justified as Aristocrat is now trading at a discount to the All Industrials ex Financials. The price target is raised to \$5.20 from \$4.50.

Atlas **Iron** ((AGO)) upgraded to Neutral from Sell by Citi and to Hold from Sell by Deutsche Bank. **B**/H/S: 2/6/0

Production and shipments were strong in the December quarter and earnings guidance ahead of Citi's estimates. Capex for the next stage of growth remains a key concern for the broker. The upgrades to earnings and valuation mean an increase in the target price to \$1.10 from 90c. The broker upgrades the recommendation to Neutral from Sell. Deutsche Bank thinks the **company** has been clever in lifting FY14 sales guidance by using lower grade material. The broker also notes some modest savings have been identified at Mt Webber and this is a key driver of the valuation uplift. The next catalyst is the long-awaited rail access agreement. The rating is upgraded to Hold from Sell and the price target is raised to \$1.05 from 90c.

Boral ((BLD)) upgraded to Neutral from Underperform by Credit Suisse. **B**/H/S: 2/1/4

Credit Suisse has upgraded to Neutral from Underperform following Boral's trading update. The broker has increased FY14 earnings forecasts by 7%. Credit Suisse sees the **company** making good progress on controlling the controllables -reducing overheads, simplifying the structure and conserving capital. The broker considers operational and macro concerns are now reflected in the share price and the value is better on a risk/reward basis.

Fletcher Building ((FBU)) upgraded to Neutral from Underweight by JP Morgan. **B**/H/S: 3/3/2

The broker now expects the residential and non-residential upswing in New Zealand to persist for longer. Moderate short-term earnings downgrades are made but long-term there's a rise in forecast cash flow and JP Morgan has upgraded the price target to NZ\$8.50 from NZ\$8.00. The recommendation is upgraded to Neutral from Underweight.

Fortescue Metals ((FMG)) upgraded to **Buy** from Neutral by Citi. **B/H/S:** 7/0/1

The December quarter was below the broker's estimates because of cyclone activity but costs were better than expected and, combined with the Australian dollar depreciation, has driven earnings upgrades. On the back of a share price correction Citi has upgraded the rating to **Buy** from Neutral and the target to \$6.70 from \$6.40.

Goodman **Group** ((GMG)) upgraded to Outperform from Neutral by Macquarie. **B/H/S:** 3/3/1

Macquarie considers the backdrop is favourable for investment flows and the lower Australian dollar provides a filip, with a positive translation benefit. Conversion of industrial sites to higher and better use provides another tailwind, in the broker's opinion. The **company's** global diversity underpins a growing development pipeline and the broker has upgraded to Outperform from Neutral. The price target of \$4.98 is retained.

Insurance Australia ((IAG)) upgraded to Neutral from Sell by UBS. **B/H/S:** 1/6/1 UBS has updated forecasts following lifting of research restrictions. The broker estimates the proposed transaction with Wesfarmers ((WES)) to be neutral for FY15 earnings and boost FY16 by 6.3%. The rating is upgraded to Neutral from Sell, given the recent underperformance. IAG in the latest update provided no details of why the GWP range had been ratcheted down by 2%. UBS thinks a small contributor could be the need to make refunds in the personal lines segment in Victoria. A refund is required to be paid to customers for not passing on full benefit of lower premiums from July 1 2013. UBS believes the issue must be dealt with carefully in an environment where growth is slowing and market share needs to be protected. Origin **Energy** ((ORG)) upgraded to Overweight from Neutral by JP Morgan. **B/H/S:** 4/4/0 Origin's earnings are expected to recover through FY15 and FY16 while fears surrounding APLNG's capital requirements have diminished, according to JP Morgan. The broker has re-set timing to capture first gas in late 2015. This accounts for a large portion of the revision in the target price, raised to \$16.15 from \$14.40. The rating is upgraded to Overweight from Neutral.

Regis Resources ((RRL)) upgraded to **Buy** from Neutral by UBS. **B/H/S:** 1/4/2

Despite the **company** lowering the life of mine production profile at Garden Well the broker's valuation for the **company** has increased because of the recent lift to long-term **gold** price assumptions. Regis remains one of the lowest cost producers in the Australian **gold** sector. UBS believes the **company** has the ability to maintain a healthy dividend stream. The rating is raised to **Buy** from Neutral and the price target is steady at \$3.30.

Roc **Oil** ((ROC)) upgraded to Overweight from Neutral by JP Morgan. **B/H/S:** 4/0/0

After the fourth quarter exceeded expectations JP Morgan is upgrading the recommendation to Overweight from Neutral. The broker expects a solid operating cash flow in the year ahead and the expected FID on the phase 1 of the Malaysian RSC project this half should act as a positive catalyst. The price target is raised to 61c from 54c.

The Reject Shop ((TRS)) upgraded to Neutral from Underperform by Credit Suisse. **B/H/S:** 0/3/0

Credit Suisse suggests the valuation has become more appropriate following the **company's** shock profit announcement and the subsequent sell-off. Price target loses 20c to \$13.50. Rating moves to Neutral from Underperform. CS analysts are pointing the finger at an increasingly more competitive environment that seems to be hurting the **company** in traditional hard goods categories. Estimates have been slashed.

See also TRS downgrade.

Western Areas ((WSA)) upgraded to **Buy** from Neutral by UBS. **B/H/S:** 4/2/0

December quarter production of contained nickel was down 3% but ahead of the broker's forecasts. The **company** expects to update guidance at the half year result. UBS has raised the 2014 nickel price forecast but lowered the 2015 and 2016 price forecasts. Offsetting some of this decline is an average 3% reduction to the Australian dollar for 2014-2015. The net impact is an increase in FY14 earnings forecasts by 20%. The rating is upgraded to **Buy** from Neutral. The broker thinks recent investor concerns over debt have been overstated. Under current price assumptions the broker expects Western Areas to have sufficient liquidity to repay the July 2015 convertible bond.

Westfield **Group** ((WDC)) upgraded to Outperform from Underperform by Macquarie. **B/H/S**: 2/4/0

The broker considers the **company**'s poor share price performance has resulted in an improved value proposition. The exposure to a recovery in the US market and leverage to a depreciating Australian dollar bodes well for Westfield in Macquarie's view. The rating is upgraded to Outperform from Underperform and the price target is reduced to \$10.72 from \$11.12. Earnings growth appears subdued, but Macquarie considers the stock is approaching a point where earnings growth will accelerate. The Scentre proposal is not yet a done deal and, while it makes strategic sense, Macquarie thinks the price is too high. The broker suspects the proposal's metrics may change ahead of the shareholder vote in May.

Downgrades

AGL **Energy** ((AGK)) downgraded to Neutral from Overweight by JP Morgan. **B/H/S**: 3/5/0

At the right price, **acquisition** of MacGen, or part thereof, should enable AGL to strike a balance between the drag on near-term earnings and longer-term value creation, in the broker's opinion. In the meantime, the focus is on the falling away of the Loy Yang A compensation. The broker envisages gas sales are unlikely to bridge the gap from falling compensation. The FY15 earnings forecast is lowered and the price target is reduced to \$16.40 from \$16.90. The rating is also downgraded, to Neutral from Overweight.

See also AGK upgrade.

Drillsearch **Energy** ((DLS)) downgraded to Neutral from Overweight by JP Morgan and to Neutral from **Buy** by UBS. **B/H/S**: 2/2/0

Drillsearch has increased production guidance by 30% and now beat expectations over two strong quarters. JP Morgan continues to like the strategy and asset mix but believes there are better options on a valuation basis, such as Senex **Energy** ((SXY)). The broker thinks it's time for the share price to take a breather. December quarter production was 30% ahead of UBS estimates, driving a 28% rise in sales revenue, quarter on quarter. The **company** has increased production guidance but UBS was surprised at the size of the increase. A reserves upgrade is expected to follow. The broker likes the performance of Bauer but thinks the share price adequately captures the upside. Hence, after a 21% rally over the past three months, the rating is downgraded to Neutral from **Buy**.

Forge **Group** ((FGE)) downgraded to Sell from Neutral by Citi. **B/H/S**: 0/1/2

Forge has materially downgraded expectations just two weeks after confirming FY14 guidance. The **company** now forecasts an EBITDA loss of \$20-25m. Citi thinks this poor visibility is because of weak reporting systems as well as a function of industry-wide margin pressure, project losses and focus on cash flow rather than profitability. Citi suspects another dilutive **equity** raising is on the cards. The broker does not think the stock is investment grade and has downgraded to Sell/High Risk from Neutral. Citi thinks there is continuing risk to underlying earnings given the damage to reputation in the Perth market. The price target is reduced to 60c from \$1.10.

ResMed ((RMD)) downgraded to Hold from Outperform by CIMB Securities. **B/H/S**: 4/4/0

Earnings for the second quarter were below CIMB's expectations while pricing continued to be affected by competition. In the broker's view it is not clear if the competitive bidding is a "distraction" and can be addressed or whether there is more damage in the pricing/volume dynamic. CIMB expects ResMed is well placed to offset the pressures but suspects the stock will be volatile over the short to medium term. The price target is lowered to \$5.40 from \$6.44 and moves to a Hold rating pending greater visibility on earnings.

SP AusNet ((SPN)) downgraded to Underperform from Neutral by BA-Merrill Lynch. **B/H/S**: 2/2/2

The broker is downgrading the rating to Underperform from Neutral, citing lower total returns. Merrills finds the stock is underperforming with a distribution yield of 7% and 5-year compound growth rate of just 1.5% based on forecasts. The broker does not think the stock is particularly cheap versus history and, while this trait may be common at present in the sector, it does confirm the view that the stock will underperform its peers.

The Reject Shop ((TRS)) downgraded to Neutral from **Buy** by UBS. **B/H/S**: 0/3/0

The **company** grew first half sales by 18% but like-for-like was flat, softer than budgeted in the **lead** up to Christmas. UBS estimates that the earning contribution per established store has been in decline since the second half of 2012. The reasons given centre on the fact that new stores are smaller than average but UBS thinks investors need more assurance that this is not a deeper problem. In the interim, the broker is downgrading to Neutral from **Buy**. The price target is reduced to \$12.30 from \$18.20.

See also TRS upgrade.

Treasury **Wine** Estates ((TWE)) downgraded to Neutral from Outperform by Macquarie. **B**/H/S: 1/3/4

Treasury **Wine** yesterday cut its FY14 guidance by 17% based on weaker sales in Australia and a slowdown in **China** and the broker does not see conditions improving in the near term. The broker has also replaced its TWE analyst, pulling its rating back to Neutral pending a full review of the numbers. Target falls to \$4.00 from \$5.75.

Total Recommendations | Recommendation Changes

Broker Recommendation Breakup

Broker Rating

Order | **Company** | Old Rating | New Rating | Broker

Upgrade

- 1 | AGL **ENERGY** LTD | Neutral | **Buy** | Macquarie
- 2 | APA**GROUP** | Sell | Neutral | BA-Merrill Lynch
- 3 | ARISTOCRAT LEISURE LIMITED | Neutral | **Buy** | UBS
- 4 | ATLAS **IRON** LIMITED | Sell | Neutral | Citi
- 5 | ATLAS **IRON** LIMITED | Sell | Neutral | Deutsche Bank
- 6 | BORAL LIMITED | Sell | Neutral | Credit Suisse
- 7 | FLETCHER BUILDING LIMITED | Sell | Neutral | JP Morgan
- 8 | GOODMAN **GROUP** | Neutral | **Buy** | Macquarie
- 9 | INSURANCE AUSTRALIA **GROUP** LIMITED | Sell | Neutral | UBS
- 10 | ORIGIN **ENERGY** LIMITED | Neutral | **Buy** | JP Morgan
- 11 | REGIS RESOURCES LIMITED | Neutral | **Buy** | UBS
- 12 | ROC **OIL COMPANY** LIMITED | Neutral | **Buy** | JP Morgan
- 13 | THE REJECT SHOP LIMITED | Sell | Neutral | Credit Suisse
- 14 | WESTERN AREAS NL | Neutral | **Buy** | UBS
- 15 | WESTFIELD **GROUP** | Sell | **Buy** | Macquarie

Downgrade

- 16 | AGL **ENERGY** LTD | **Buy** | Neutral | JP Morgan
- 17 | DRILLSEARCH **ENERGY** LIMITED | **Buy** | Neutral | JP Morgan
- 18 | DRILLSEARCH **ENERGY** LIMITED | **Buy** | Neutral | UBS
- 19 | FORGE **GROUP** LIMITED | Neutral | Sell | Citi
- 20 | RESMED INC | **Buy** | Neutral | CIMB Securities
- 21 | SP AUSNET | Neutral | Sell | BA-Merrill Lynch
- 22 | THE REJECT SHOP LIMITED | **Buy** | Neutral | UBS
- 23 | TREASURY **WINE** ESTATES LIMITED | **Buy** | Neutral | Macquarie Recommendation

Positive Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous Rating | New Rating | Change | Recs

1 | REC | RECALL HOLDINGS LIMITED | - 25.0% | 17.0% | 42.0% | 6
 2 | AGO | ATLAS **IRON** LIMITED | - 13.0% | 25.0% | 38.0% | 8
 3 | WSA | WESTERN AREAS NL | 33.0% | 67.0% | 34.0% | 6
 4 | ROC | ROC **OIL COMPANY** LIMITED | 75.0% | 100.0% | 25.0% | 4
 5 | IGO | INDEPENDENCE **GROUP** NL | 60.0% | 80.0% | 20.0% | 5
 6 | GMG | GOODMAN **GROUP** | 14.0% | 29.0% | 15.0% | 7
 7 | BLD | BORAL LIMITED | - 38.0% | - 25.0% | 13.0% | 8
 8 | ALL | ARISTOCRAT LEISURE LIMITED | 25.0% | 38.0% | 13.0% | 8
 9 | WHC | WHITEHAVEN **COAL** LIMITED | 50.0% | 63.0% | 13.0% | 8
 10 | WOW | WOOLWORTHS LIMITED | 13.0% | 25.0% | 12.0% | 8 Negative Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous Rating | New Rating | Change | Recs

1 | DLS | DRILLSEARCH **ENERGY** LIMITED | 100.0% | 50.0% | - 50.0% | 4
 2 | FGE | FORGE **GROUP** LIMITED | - 33.0% | - 67.0% | - 34.0% | 3
 3 | RMD | RESMED INC | 75.0% | 50.0% | - 25.0% | 8
 4 | EVN | EVOLUTION **MINING** LIMITED | - 40.0% | - 60.0% | - 20.0% | 5
 5 | ORA | ORORA LIMITED | 100.0% | 86.0% | - 14.0% | 7
 6 | TWE | TREASURY **WINE** ESTATES LIMITED | - 25.0% | - 38.0% | - 13.0% | 8
 7 | WES | WESFARMERS LIMITED | - 13.0% | - 25.0% | - 12.0% | 8
 8 | BBG | BILLABONG INTERNATIONAL LIMITED | - 29.0% | - 33.0% | - 4.0% | 6 Target Price

Positive Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous Target | New Target | Change | Recs

1 | AGO | ATLAS **IRON** LIMITED | 1.089 | 1.218 | 11.85% | 8
 2 | DLS | DRILLSEARCH **ENERGY** LIMITED | 1.603 | 1.688 | 5.30% | 4
 3 | NCM | NEWCREST **MINING** LIMITED | 9.738 | 10.138 | 4.11% | 8
 4 | REC | RECALL HOLDINGS LIMITED | 4.375 | 4.530 | 3.54% | 6
 5 | IGO | INDEPENDENCE **GROUP** NL | 4.170 | 4.250 | 1.92% | 5
 6 | ROC | ROC **OIL COMPANY** LIMITED | 0.643 | 0.655 | 1.87% | 4
 7 | ALL | ARISTOCRAT LEISURE LIMITED | 4.788 | 4.875 | 1.82% | 8
 8 | BLD | BORAL LIMITED | 4.629 | 4.704 | 1.62% | 8
 9 | WOW | WOOLWORTHS LIMITED | 34.025 | 34.564 | 1.58% | 8
 10 | ORG | ORIGIN **ENERGY** LIMITED | 14.623 | 14.841 | 1.49% | 8 Negative Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous Target | New Target | Change | Recs

1 | FGE | FORGE **GROUP** LIMITED | 0.717 | 0.493 | - 31.24% | 3

2 | EVN | EVOLUTION **MINING** LIMITED | 0.808 | 0.628 | - 22.28% | 5
 3 | TWE | TREASURY **WINE** ESTATES LIMITED | 5.061 | 4.448 | - 12.11% | 8
 4 | RMD | RESMED INC | 6.332 | 5.945 | - 6.11% | 8
 5 | WSA | WESTERN AREAS NL | 3.250 | 3.208 | - 1.29% | 6
 6 | ORA | ORORA LIMITED | 1.496 | 1.483 | - 0.87% | 7
 7 | WHC | WHITEHAVEN **COAL** LIMITED | 2.573 | 2.565 | - 0.31% | 8
 8 | WES | WESFARMERS LIMITED | 42.320 | 42.195 | - 0.30% | 8 Earning Forecast

Positive Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous EF | New EF | Change | Recs

1 | WSA | WESTERN AREAS NL | 0.620 | 2.346 | 278.39% | 6
 2 | AQA | AQUILA RESOURCES LIMITED | 3.483 | 4.983 | 43.07% | 3
 3 | AGO | ATLAS **IRON** LIMITED | 11.218 | 14.764 | 31.61% | 8
 4 | AWE | AWE LIMITED | 6.314 | 7.857 | 24.44% | 6
 5 | DLS | DRILLSEARCH **ENERGY** LIMITED | 23.675 | 28.225 | 19.22% | 4
 6 | ORA | ORORA LIMITED | 6.332 | 6.894 | 8.88% | 7
 7 | OSH | **OIL** SEARCH LIMITED | 14.185 | 15.351 | 8.22% | 7
 8 | REC | RECALL HOLDINGS LIMITED | 24.100 | 26.067 | 8.16% | 6
 9 | FMG | FORTESCUE METALS **GROUP** LTD | 108.890 | 115.839 | 6.38% | 8
 10 | BLD | BORAL LIMITED | 19.199 | 20.020 | 4.28% | 8 Negative Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous EF | New EF | Change | Recs

1 | GBG | GINDALBIE METALS LTD | 1.426 | - 0.778 | - 154.56% | 4
 2 | EVN | EVOLUTION **MINING** LIMITED | 9.645 | 7.465 | - 22.60% | 5
 3 | BDR | BEADELL RESOURCES LIMITED | 14.880 | 13.020 | - 12.50% | 5
 4 | TWE | TREASURY **WINE** ESTATES LIMITED | 26.920 | 24.008 | - 10.82% | 8
 5 | STO | SANTOS LIMITED | 63.688 | 57.266 | - 10.08% | 7
 6 | MML | MEDUSA **MINING** LIMITED | 39.728 | 37.879 | - 4.65% | 3
 7 | RMD | RESMED INC | 27.218 | 26.287 | - 3.42% | 8
 8 | NVT | NAVITAS LIMITED | 22.630 | 22.144 | - 2.15% | 7
 9 | IGO | INDEPENDENCE **GROUP** NL | 27.190 | 26.607 | - 2.14% | 5
 10 | ORG | ORIGIN **ENERGY** LIMITED | 68.240 | 66.990 | - 1.83% | 8 Technical limitations

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CO agkega : AGL Energy Limited | arstli : Aristocrat Leisure Ltd | austpi : APA Group | macgen : Macquarie Generation

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