

**HD JENNY PRABHU'S HOT & SPICY CURRY SHOP**

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the day's menu

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The S&P/ASX 200 as at 2:21pm: 0.1 to 5512.9

Telstra is a "buy"/an "add"/a "hold"/an "underweight"/a "sell" ..

Leading brokers covered the whole gamut of ratings on Telstra after its Mobile Day briefing yesterday, with price targets ranging from \$5.73 to \$4.35.

Nomura had a "buy" recommendation with a \$5.50 target price while another leading broker had an "add" with a \$5.73 target price.

Nomura said although Telstra shares are up 5% year to date - the whole market is up around 5% also - and trading at one of the highest levels in five years, "even then especially compared to other regional telcos, it is still a good investment we think. This is a combination of decent operational trends, good cashflows, dividends and valuations'.

\*A leading broker with an "Add" recommendation and a \$5.73 target price, unchanged after Telstra's briefing yesterday, saying the good operating cash flow performance in 2014 is underwritten by its solid and reliable performance in mobiles. The broker forecast a 14.5c final dividend for 2014 and 29c for the full year, there is room for a further cent, fully franked.

\*A leading broker with a "hold" recommendation had an unchanged price target of \$5 saying it thinks the pricing power bestowed by Telstra's leadership in network is yet to be tested by competitor responses, and its Telstra valuation assumes that mobile business EBITDA flattens in the next few years.

\*A leading broker with an "underweight" recommendation lifted its price target to \$4.80 from \$4.60 but said it maintained its out of consensus underweight rating, and said it was concerned that if TLS was to acquire assets in its international Network Application Service (NAS) business, this could be dilutive to overall returns.

\*A leading broker retained a 'sell' on Telstra with a price target of \$4.35. The broker said its key takeaways from Telstra's mobile investor day was that 1) industry mobile SIO growth has slowed, but Telstra did not release 3rd quarter 2014 subscriber stats (OPT plus 1,000, VHA minus 44,000), 2) post paid churn for the 9 months is steady at 10.5%, 3) post paid ARPUs ex MROs are up 2.2% year on year despite negative impacts from lower international roaming and excess data charges (prices around 80% 4) 4G LTE advanced and 4G 700Mhz will be launched in 2015. 5)\$100 **million** plus investment is planned in a national WiFi network, 6) M2M remains a large SIO opportunity but at low ARPUs and 7) cost per mb has fallen substantially, reflecting network and technology upgrades.

The broker added Telstra remains expensive by nearly every yardstick.

TLS down 3c to \$5.31.

\* \* \*

Programmed is a "lighten" ahead of its full year result tomorrow ..

A leading broker retained a "lighten" on Programmed with a \$2.90 price target ahead of its full year profit report tomorrow. The broker expects PRG to report a net profit of \$32.7 million up 1.7% on the year ago and underlying net profit of \$33.1 million down 2.5% on the previous year with a fully franked final dividend of 10c.

The broker said the recent Spotless IPO valuation supports the underlying business valuation. Spotless competes with much of PRG's property and infrastructure business and is trading at an EBIT margin of 3.6% in full year 2014 vs PG trading on a 2015 EBIT multiple of 5x.

PRG down 3c to \$2.76.

\* \* \*

Aristocrat is an "accumulate" ahead of its first half result tomorrow ..

A leading broker retained an "accumulate" on Aristocrat with a \$6.85 price target ahead of its first half result tomorrow.

At the full year 2013 result Aristocrat had guided for strong NPAT growth in full year 2014 driven by momentum in the US and share gains in Australia, partly offset by a significant uplift in R&D spend.

The broker said the market will increasingly focus on the second half outlook, with the broker expecting growth to accelerate 39% in the second half.

There is the possibility of capital management at the full year 2014 result.

ALL up 2.5c to \$5.17.5.

Diggers & Drillers

OZL remains a "hold"/a 'sell" with Khamsin resource grade uninspiring ..

\*A leading broker maintained a "hold" on OZ Minerals after the report on the Khamsin deposit, 10 km northwest of the proposed Carrapateena project. The broker said the resource grade appears relatively low for a block cave to be economic at current prices, a stake in Carrapateena could be less attractive for potential buyers based on the initial lackluster Khamsin resource. A follow up scoping study should give further insight.

\*Another leading broker retained its 'sell" on OZL with a price target of \$3.50 after the Khamsin result, which it believes is unlikely to be economic and was not a likely "game changer" for OZL.

OZL is up 2c to \$4.02.

\* \* \*

Russia/China gas deal unlikely to have major impact on Australia's LNG

A leading broker said it believes the downside risks from the RussiaChina gas deal of 38 bcm (28 mmtpa) of gas per year for 30 years at financial media estimates is \$US10/11mmbtu, which is quite a bit lower than the gas price required for Australian LNG companies to earn an adequate return on capital will have limited downside risks for Aussie gas supply.

Reasons include 1) the contracting of Australian LNG at oil linked prices, 2) china's current market share of the global LNG market and 3) Chinese natural gas consumption, which is expected to grow considerably over the next 5/10 years.

The broker added China is small in global LNG demand, unlike in iron ore, for example.

\* \* \*

Repeating and correcting - yesterday's report was wrong on the Ni/Al price targets

Grateful thanks to Reader who alerted

Nickel: The broker said for the first time in over two years there is a growing and pronounced raw material constraint in the metals market, that being nickel on the back of the Indonesian **ore** ban. While **ore** prices have already more than doubled this year, feeding through to higher LME nickel quotes, we think this story is only just getting going.. the broker raised its nickel price forecast by 50%.

\*The broker expects nickel prices to average \$23,500 in the 4th quarter, \$26,000 for full year 2015 and \$30,000 for full year 2016.

Aluminium: The broker said if the nickel story is just getting started, so is the aluminium one. The global deficit now widely expected for 2014 is a sign that finally ex-**China** supply is starting the necessary cuts.. We reiterate that a deficit is the natural state of a market needing to draw down excessive inventories, in which case it can hardly be considered bullish. This has been further compounded by a **Chinese** market where production is increasingly outstripping demand. As a result we have lowered our medium term LME price forecast by 8/12%.

\*The broker expects the aluminium price to average \$1,800 in the 4th quarter, \$1,825 in full year 2015 and \$1,900 in full year 2016.

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