

HD MARKET TRADING HIGHER AT MIDDAY LED BY THE BANKS

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The S&P/ASX200 is up 15.9 points to 5527.6 at midday on light volume worth \$1.3 **billion**. There are 486 issues higher and 340 down. The SPI Futures is up 12 points to 5539 on light volume of 5727 contracts. Aussie 10 year bond yields are steady at 3.74%. The \$A is at 92.60US c, unchanged since last evening.

*The banks have contributed 6 positive points to the index, insurers have contributed 1.5 positive points, resources have contributed 1.2 positive points, **property** trusts have contributed 0.2 negative points, retailers have contributed 2.1 negative points and Telstra has contributed 1.4 positive points.

*The NikkeiDow futures is up 40 points to 14,650 points, Shanghai CSI physical is down 2.56 points to 2032.01, Hang Seng futures is up 15 points to 22,966 points, S&P futures is up 0.8 points to 1910 points, NASDAQ futures is up 0.5 points to 3721.75. Dow futures is up 12 points to 16,666 points.

Spot **gold** is steady at \$1265. Crude futures is up 11c to \$104.22.

Our market has outstripped most of the Asian markets at midday, led higher by the banks, already seen to have stretched valuations.

Meanwhile the Westpac survey below may suggest the optimism may be short lived.

"Close up or down a few. Next major move will be down, but don't know when"

"Bernborough" said, "We are really just chipping away at the moment. People are unsure. The financials look over stretched, the market looks fully priced with 'sell' signals on Commonwealth Bank.

"We might be up slightly early then close down about 5 points, but I really don't know. I am busting to go short, but am not brave enough. I think the next major move will be a down one, but am not sure when".

The S&P/ASX200 closed down 1.1 points to 5511.7 last evening.

ECO NEWS

Seasonally adjusted and trend construction work up in March qtr

The ABS reported the trend estimate for total construction work done rose 0.2% in the March quarter 2014.

The seasonally adjusted estimate for total construction work done rose 0.3% to \$53,621.1m in the March quarter.

The trend estimate for total building work done rose 1.4% in the March quarter.

The trend estimate for non-**residential** building work done remained unchanged in the March quarter while **residential** building work rose 2.4%.

The seasonally adjusted estimate of total building work done rose 3.3% to \$21,766.9m in the March quarter.

The trend estimate for engineering work done fell 0.5% in the March quarter.

The seasonally adjusted estimate for engineering work done fell 1.6% to \$31,854.2m in the March quarter.

WBC/Melb Institute leading index points to sharp slowdown

The run of disappointments for the economy continues with the release this morning of the Westpac Leading Index of Economic Activity.

Westpac reported:

The six month annualised deviation from trend growth rate of the Westpac Melbourne Institute Leading Index which indicates the likely pace of economic growth three to nine months into the future fell to -1.16% in April from +0.03% in March.

Westpac says this is a sharply weaker reading which points to a significant loss of momentum.

The May Leading Index reading is the weakest since late 2011 when the RBA embarked on its latest interest rate easing cycle. At that time, Europe's sovereign debt crisis was in full swing and consumer sentiment had slumped heavily.

The latest decline has also been associated with a sharp fall in consumer sentiment and deteriorating external conditions including declining commodity prices and slowing growth in US industrial production.

TOP STOCKS

*Iluka is up 37c to \$8.93 on 1.7m shares on the report below.

*ALQ has gained a further 84c to \$8.80 on 1.8m shares after its profit result yesterday.

*Aristocrat is up 13c to \$5.30 on 1.3m shares on its profit result below.

*Programmed is up 14c to \$2.93 on 164,000 shares.

Among the financials, AMP is up 1.5c to \$5.29.5 on 1.4m shares, ANZ has gained 15c to \$33.70 on 960,814 shares, CBA is up 18.5c to \$81.86.5 on 3.4m shares, NAB is up 13c to \$33.42 on 1m shares, Westpac has added 13c to \$34.45 on 1.27m shares.

Among the TMT's Telstra is up 3c to \$5.35 on 3.95m shares, Telecom NZ has gained 6c to \$2.51 on 428,691 shares, SingTel is down 2c to \$3.31 on 195,186 shares.

Among the resources BHP is up 2c to \$37.91 on 1.2m shares, RIO is up 22c to \$61.43 on 948,236 shares. Fortescue rose 2.5c to \$4.64.5 on 6.1m shares, Atlas **Iron** rose 1c to 75c on 2.8m shares, OZL gained 11c to \$4.23 on 1.9m shares, Western Areas was up 20c to 44.79 on 740,515 shares, Paladin recovered 2c to 40.5c on 4.2m shares.

Among the oils, Woodside is up 19c to \$42.05 on 422,951 shares. Santos is up 8c to \$14.53 on 970,624 shares, **Oil** Search is down 2c to \$9.45 on 5.5m shares.

Among the golds, Newcrest is down 38c to \$9.87 on 2.4m shares on the fall in the **gold** price, Northern Star is down 5c to \$1.16 on 2.1m shares, Medusa fell 6.5c to \$1.61 on 2.1m shares.

AT THE SMALLER END

*Devine is up 1c to 73c on 50,000 shares, also report below.

*Noni **B** is down a half cent to 38c on 43,000 shares on the report below.

*Ambassador **Oil** rose on a recommended scrip offer from Drillsearch **Energy**.

NEWS OF THE DAY

Changes in substantials reported May 26 and 27 inc posted separately.

Ex div: DLX ex 10c.

LARGE CAP INDUSTRIALS

*ALL: Int NPAT up 9.2%, 8c unfr div, no DRP/Outlook positive

Aristocrat Leisure Ltd for the half year ended March 31 announced net profit after tax was up 9.2% to \$57.379 **million** on revenue up 7.7% to \$409.899 **million**.

An 8c unfranked dividend was announced, ex date June 2, record date June 4. The DRP will not apply to this dividend.

Fully diluted EPS was 10.4c vs 9.5c for the previous corresponding period (pcp).

NTA backing per security is 42c vs 35c for the pcp.

Operating cash flow was \$61 **million** vs \$45.6 **million** for the pcp.

Net debt was \$233.7 **million** up 26.3%.

CO and managing director Jamie Odell said in the report the gains have flowed directly from the rapid improvements the **group** is making in its game portfolio, which have been exceptionally well received by customers and players.

Outlook

The CEO said "Performance will be weighted to the second half, reflecting the carry forward of a higher gaming **operations** installed base, strengthening fee per day and the impact of a full pipeline of compelling new game content".

Analysts expectations: \$50.7 mln, div 8c/\$57.7 mln, div 7c.

* 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.

*ALZ/SGP: Lifts scrip offer to 1.124SGP/1 ALZ, declares offer final

Stockland announced an increased and final non binding and incomplete proposal to **acquire** all remaining ALZ securities at an implied price of \$4.35 per security. The offer is a full scrip offer of 1.124 Stockland securities for every Australand security. The proposal is final in the absence of a superior proposal.

*FSF: F/cast Farmgate **milk** price steady @ \$NZ7/kg/rev. cash payout \$NZ8.50

Fonterra Co-operative **Group** Ltd announced an opening forecast Farmgate **Milk** Price of \$NZ7 per kgMS for the 2014/15 season, matching the opening forecast provided 12 months ago at the start of the 2013/14 season.

The forecast Cash Payout which comprises the Forecast Farmgate **Milk** Price and dividend for the 2014/15 season will be announced in July when Fonterra's budget is completed and approved.

The Co-op is forecasting **milk** supply for the new season of 1,616 **million** kgMS, up 2% on the current season forecast.

Chairman John Wilson said the new season Farmgate **Milk** price remains historically high, matching the co-op's opening price of the previous season but also reflecting current market conditions. "Our farmers understand the realities of **dairy** commodity price cycles and will exercise caution at this early stage in the season".

CEO Theo Spierings said volatility continues to exert a strong influence over the global outlook for **dairy**. There is more **milk** available for the international market to absorb. Demand from **China** is expected to remain strong. In Russia there will be pressure on the balance between imports and local production.

Revised 2013/14 forecast

The Co-op also confirmed it is reducing its current forecast Farmgate **Milk** Price for the 2013?14 season to \$NZ8.40 per kgMS, along with a reconfirmed forecast dividend of 10c per share, which amounts to a forecast Cash Payout of \$8.50 for a fully shared up farmer.

*MSB: Brings forward manufacturing plans, to be based in Singapore

Mesoblast Ltd CEO Silviu Itescue announced it is bringing forward plans for its **commercial** manufacturing **operations** in line with anticipated product launches in the US and other major markets. mSB announced it will also receive incentives from the Singapore Economic Development **Board** for manufacturing **operations** in Singapore as well as development and commercialisation.

*PRG: NPAT ex one off down 3.1%, div 11c ff, DRP susp/no outlook as such

Programmed Maintenance Services Ltd for the year ended March 31 2014 announced a net profit after tax down 5.2% to \$30.5 **million** on revenue down 5.4% to \$1.439.4 **billion**.

Profit before **equity** accounted loss for the 27.5% investment in OneShift, a start up online staffing **business**, was down 3.1% to \$31.1 **million**.

Profit before tax was up 5.5% to \$44.4 **million**.

EBIT was steady at \$51.8 **million** vs \$52 **million** last year.

An 11c fully franked final dividend was announced, up from 10c for the previous final, record date is July 4. The DRP remains suspended.

NTA backing per security is 127c vs 111.4c for the pcg.

The net debt/**equity** ratio at March 312014 was 10.3% vs 17.1% the previous year.

Managing director Chris Sutherland in the report said the **group** was pleased to have maintained EBIT before **equity** accounting the interest in OneShift, delivering a strong operational performance, reduced debt and increased dividends.

Analysts expectations: \$33 mln, div 9.2c/\$33.1 mln, div 10c.

*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.

*TAH: Racing Queensland's proposed Race Inf Fees could reduce NPAT by \$3m

TABCORP Holdings Ltd announced it has been advised of Racing Queensland's proposed Race Information Fees for 2014-15. The proposed fees which cover wagering on Queensland thoroughbred, greyhound and harness racing include totalisator bets at 1.5% of turnover for Standard Meetings and 2% of turnover for Premium Meetings and non totalisator bets charged at 2.5% of turnover for Standard Meetings and 3.5% of turnover for Premium Meetings.

There are 81 proposed Premium Meetings in full year 2015 made up of 34 thoroughbred, 18 harness and 29 greyhound meetings. There are 1,549 proposed Standad Meetings in 2015.

Had the proposed fees been applied to TAH's turnover on Queensland racing in full year 2014, and in the absence of any mitigating strategies the estimated NPAT impact would be approximately \$3 **million**.

Racing Queensland is holding a 28 day consultation period on the proposed fee structure with the new approval period commencing on July 1.

*WES: Wesfarmers Ltd managing director Richard Goyder in his over view for the **group** pointed to its continued strong performance while during the year Wesfarmers also **sold** its 40% **stake** in Air Liquide Wafor \$95 **million**, and insurance underwriting **operations** and insurance broking and premium funds have both neen **sold**, \$95 **million** and \$700/750 **million** due to settle in June.

"The Age" adds, " Wesfarmers boss Richard Goyder said this morning the Perth-based conglomerate would be "negligent" if it didn't eventually make a leap into international markets through an offshore

acquisition but that investors needed to be patient. Mr Goyder said Wesfarmers was continuing to invest in its newly created **business** development office in **Hong Kong** to help the **company** direct and lay the ground work an eventual move overseas with the **group** building its internal capabilities so that when the right opportunities came along the **company** had the skills to meet the challenge of an offshore deal.

"We have got the people, systems and processes that are capable of delivering value to shareholders from other jurisdictions," Mr Goyder told analysts.

Mr Goyder said investors shouldn't be alarmed about an expansion overseas by the Perth-based **group** whose origins stretch back to 1914 as a Western Australian farmers' cooperative. But this was something that could take years or even decades to occur.

"Don't hold your breath for it to happen but we would be negligent not to do it," Mr Goyder said.

Analysts comment: A leading broker yesterday retained an "equal weight" on Wesfarmers with a price target of \$43.

The broker lowered its EBIT estimates for WES Chemicals, **Energy** and Fertilisers **business** by 1% and 11% for full year 2015 and 2016 saying there was a looming oversupply to ammonium nitrate, where WES is investing \$550 **million** to construct a third AN plant to expand production by 260,000 tpa to 780,000 tpa, expected to become operational in the 4th quarter 2014.

However the broker added, this equates to less than a 1% cut in WES' **group** EPS.

The broker forecast NPAT this year of \$2.359 **billion**, rising to \$2.706 **billion** next year.

*WOW/LEP: Considering divestment of pubs, will retain leasehold interest

Woolworths Ltd advised regarding speculation this morning regarding a potential divestment of freehold **property** assets of ALH **Group**, owned 75% by Woolworths (25% by Bruce Mathieson **Group**, managed by LEP), said Woolworths is currently investigating options to divest a further part of its **property** portfolio including its **property** holdings in hotels and co-located retail liquor stores. These options include single **property** sales, portfolio **property** sales and the creation of separate vehicles to own the assets. Any divestment would involve the relevant Woolworths **group business** retaining operational control of the properties through a leasehold interest in the relevant premises.

Since July 1 2010 Woolworths has divested approximately \$2 **billion** of **property** assets including Shopping Centres Australasia **Property Group** in December 2012.

However no decision has been taken on the divestment of **property** assets in hotels and co-located retail liquor stores at this stage.

LARGE CAP RESOURCES

*ILU: Min sands sales to exceed 2013 levels/costs, capex better than expec

Iluka Resources Ltd announced at its 59th AGM in Perth, the managing director and CEO David Robb updated mineral sands market conditions.

Based on sales year to date and internal forecasts and in line with previous guidance, Iluka expects total zircon/rutile/synthetic rutile sales in 2014 to exceed production and to be above 2013 sales levels of 580,000 tonnes.

Other elements of guidance - cash and non cash costs, capital expenditure - are trending year to date at or better than guidance numbers, the **company** said.

*RIO: Alfredo Barrios to replace Aluminium CEO Jacynthe Cote on June 1

Rio Tinto announced the appointment of Alfredo Barrios as CEO of its Aluminium **business**, to succeed Jacynthe Cote who will leave the **business** for personal reasons to pursue other interests.

Alfredo will assume the role on June 1 and join the Executive Committee on that date. He will be based in Montreal, subject to obtaining all necessary immigration approvals from the Canadian authorities. Jacynthe will continue in an advisory role until September 1 2014 in order to ensure a smooth transition.

Alfredo Barrios was most recently Executive Director and Executive VP Downstream at the joint venture TNK-BP, one of Russia's biggest vertically integrated **oil** and gas companies. He joined BP in 1992 and has had senior leadership roles in the UK, US, Russia and Continental Europe.

MID TO SMALL INDUSTRIALS

*DVN: Expects to return to profits this year

Devine Ltd's chairman Peter Dransfield and MD David Keir addressed the **company's** 21st AGM.

The chairman said the **company** has moved to calendar year financial reporting, so that today's AGM is being held soon after the AGM held in November 2103.

The chairman said while financial results for last year were disappointing, the **company** has reduced its cost base, cleared challenging and non profitable stock and is selling assets that will not realise the desired outcome in an acceptable timeframe.

The chairman said the **company's** major financier ANZ agreed not to test certain banking covenants for the December 2013 period.

Major shareholder Leighton Holdings provided a \$50 **million** partial guarantee of Devine's debt facility with ANZ.

He said directors reaffirm the guidance of October 2013, to return the **company** to profitability in 2014.

Managing director Peter Dransfield said the **company** expects to deliver a profit before tax of \$7/10 **million** for the year ending December 2014.

*GER: Successful trials separate CO2 into CO + 2 via both **solar** and waste heat

Greenearth Energy Ltd announced its investee **company** NewCO2Fuels Ltd (Israel) (NCF) has advised it has successfully completed trials to dissociate CO2 into CO and oxygen, where the heat required for the process is generated by concentrated solar radiation. The NCF team ran a continuous test for over two hours, driving its proprietary reactor with renewable **solar** thermal **energy**. The performance of the reactor measured during these **solar** driven tests had a strong correlation with those announced in March using a reactor driven by excess/waste heat.

The results are very encouraging and demonstrate two clear paths to market for the same NCF reactor technology.

*HNG: U/lying int profit \$100,000 /2c ff div DRP at no disc/outlook positive

UGL Ltd for the half year ended March 31 announced a statutory loss of \$2.4 **million**, underlying profit of \$100,000 vs underlying and NPAT of \$200,000 for the previous corresponding period (pcp).

Underlying EBIT was steady at \$400,000 on the pcp.

There was a significant improvement in operating cash flow to \$2 **million** vs a \$600,000 outflow for the pcp with Nil HNG borrowing facilities being utilised vs \$2 **million** in the pcp.

A 2c fully franked interim dividend, steady, was announced, ex date June 23, record date June 25. The DRP is available at no discount.

NTA backing is 43.4c vs 61.9c for the pcp.

Basic and diluted eps is negative 4.4c vs eps of 0.3c for the pcp.

Outlook

Chairman Peter Miller said in the report with the exception of Anitech, the GPS strategy is producing the projected results. Phase one of the GPS (Growth, Profit and Sustainability) strategy is to rebuild the foundations and the **company** is well advanced into this phase. The next element of the rebuilding phase is to develop organic revenue growth.

*MMS: Changes to the **board** and management

McMillan Shakespeare **Group** Ltd announced the retirement of Michael Kay as CEO and Managing Director of the **company**. The **board** paid tribute.

MMS also announced Mike Salisbury will replace Michael Kay as CEO, effective October 1. Following an extensive external search, the **board** concluded that internal candidate Mike Salisbury was the best candidate to **lead** the **company**. Mike Salisbury joined MMS in April 2008 and has been managing director of RemServ based in Brisbane. He has been a key member of the executive team, and has over 20 years experience in the financial service sector, including a long career at AAMI.

MMS also announced the appointment of Ian Elliot as a non exec director. He was formerly Chairman and CEO of George Patterson Bates, and is currently a non exec director of Salmat Ltd and Hills Industries Ltd and a Commissioner of the Australian Rugby League. (May 26)

*NBL: NBL, profitable for 13 yrs since listing, expects loss on lower sales

Noni VB Lt announced a s a result of a review by the **board** the **company** expects an impairment charge to intangible assets in the current year. The write down of approximately \$5.5 **million**, subject to audit, represents the carrying value of the remaining intangibles on the balance sheet.

As a result of lower sales, Noni **B** expects a full year after tax loss before impairment of between \$1.8/2.2 **million**, subject to June trading conditions and any final full year audit adjustments. This follows a profit after tax in the first half of \$1.9 **million**.

The independent directors are presently considering and discussing with the Kindl family strategic alternatives with respect to the **company's** capital structure. The **Board** will inform shareholders of any material developments in this regard.

The **Board** has also commenced a management restructure in order to return the **company** to profit.

The **company** currently has no bank borrowings and costs remain under control.

*Our note: Our Week's Special dated May 18 2012, was trading at 72c. . NoniB has been profitable since listing in 1999 up until this year. Focused on design and manufacture of quality womens apparel for the 40+ age **group**, well run and never having held debt, the sharp fall in sales is perhaps a pointer to tough times facing older Australians.

*TZL: Master supply agreement for Parcel Lockers, initial order later this year

TZ Ltd announced its wholly owned subsidiary Telezygology Inc has entered into a master supply agreement with a Logistics and Transportation Corporation for the supply of Parcel Lockers to the US market. The Agreement covers the supply, servicing and support for a customised hardware and software parcel locker system solution.

The initial **Purchase** Order covers the supply of several Locker Banks to be deployed later this calendar year at a nominated US city. The award of this material contract comes after an extensive competitive tender evaluation process spanning almost nine months.

MID TO SMALL RESOURCES

*PIR: Seeks further suspension

Papillon Resources Ltd asked for further suspension pending an announcement regarding a potential corporate **transaction**.

Our note: generally thought to be a takeover offer.

*RNI/NST: Up to 17.4% Cu, 8.84gpt Ag, 2 gpt Ag at Cheroona j/v

Resource & Investments NL announced results of an initial program of reconnaissance exploration on tenement within its Cheroona j/v with Northern Star (RNI earning 70%) in Western Australia's Bryah Basin has identified a high grade **copper-gold** gossan at the T10 prospect. Best results include 17.4%Cu, 8.84gpt Au and 2gpt Ag in RNI30000025.

This follows the high grade Forrest Cu-Au discovery announced on May 26.

NS c1522 : Share Price Movement/Disruptions | m11 : Equity Markets | e1125 : Index of Leading Economic Indicators | nanl : Analyses | c15 : Performance | ccat : Corporate/Industrial News | e11 : Economic Performance/Indicators | ecat : Economic News | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nfcpin : FC&E Industry News Filter

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