

HD Australian Equities Roundup -- Market Talk**WC** 3,999 words**PD** 5 August 2014**ET** 15:06**SN** Dow Jones Institutional News**SC** DJDN**LA** English**CY** Copyright © 2014, Dow Jones & Company, Inc.**LP**

0716 - The Australian dollar should be capped in the upcoming session by the Australian trade balance and its central bank's policy stance, says ANZ. "While the June headline for retail sales was stronger than expected, retail spending increased only 0.1% in Q2, keeping markets subdued. This adds to reasons for the RBA to maintain their neutral bias today," **firm** says. ANZ adds that the Australian trade deficit is forecast to remain at AUD\$2B. NZD/AUD currently trading at 0.9134. ANZ expects the pair to trade in a short-term range of 0.9100 to 0.9160. (lucy.craymer@wsj.com; @lucy_craymer)

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0722 - NZD/USD, AUD/USD should break higher during the session on better global sentiment, which saw US equities halt a week-old slide, says Westpac currency strategist Imre Speizer. "There were few catalysts to point to (for improved sentiment) apart from the Portuguese central bank bailing out the country's largest lender, containing fears of contagion." Speizer says the highlight of the session will be the RBA meeting, while trade is also due. NZD/USD at 0.8524 vs 0.8513 late Monday in Wellington. Westpac expects the pair to break above 0.8535 during the next day. AUD/USD at 0.9334 vs 0.9315 late Monday in Sydney. Westpac expects a move above 0.9335 in the next day. (lucy.craymer@wsj.com; @lucy_craymer)

0853 - CSL's (CSL.AU) FY14 NPAT growth should meet or beat guidance for 10% growth in constant currency and before adjustment for legal settlement, according to UBS. It also sees scope for a new share buyback program and guidance for 10% profit growth in FY15. UBS is keeping a **buy** rating and A\$80 target. CSL last at A\$64.94. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0907 - Reserve Bank of Australia Governor Glenn Stevens has talked extensively in recent times about how readers should interpret the bank's language or guidance. Michael Blythe, chief economist at the Commonwealth Bank of Australia, said there will therefore be much analysis of the final paragraph of the post-meeting statement when it is published at 0430 GMT. Blythe says the most likely outcome is that the previous reference to a likely "period of stability" in rates remains. But if the reference is dropped it shouldn't be construed as a signal that the RBA is preparing to raise interest rates, he adds. Stevens said recently a wording change would still be consistent with low rates. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

0907 - Credit Suisse cut Crown Resorts Ltd. (CWN.AU) to Underperform from Neutral on valuation after the stock hit its A\$16.30 (\$15.17) target last week. CWN last A\$15.82. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0919 - Credit Suisse ups its target price for Gryphon Minerals (GRY.AU) by 8% to A\$0.27/share, retains an outperform call, after becoming more confident about the miner's Banfora **gold** project in Burkina Faso. Monday's release of a definitive feasibility study into Banfora confirms it to be a viable project. A negative is that an earlier study pegged the net present value of Banfora at US\$154 **million**, but this has now fallen to US\$81 **million**. Gryphon is targeting an 18-month construction period, with the first **gold** to be poured in 1Q 2016. The project is fully permitted. GRY last traded at A\$0.185. (david.winning@wsj.com; @dwinningWSJ)

0922 - Bank of America Merrill Lynch sees a strong earnings growth outlook for JB Hi-Fi's (JBH.AU) across FY15 and FY16 as well as increased capital management potential. The broker says JBH could sustainably increase its dividend payout ratio to 85% from 60% currently, triggering a potential share price rise of up to 15%. It also says JBH could undertake an A\$85 **million** share **buy**-back in FY15 and FY16.

"This would **lead** to up to 6% EPS accretion in FY16 providing an attractive supplement to the 10% organic earnings growth we have forecast," BAML analysts Michael Courtney and David Errington say. JBH last A\$19.75. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0922 - For Australia's Aristocrat Leisure (ALL.AU), a frenzy of **M&A** in the slot-machine industry means the odds of continued market share gains are improving. And that's a good thing, says Credit Suisse, because the prospects of U.S. slot-machine gambling remain poor. The broker notes that an aging baby-boomer population and squeeze on incomes aren't being offset with younger players. The result is that industry players are trying to grow via **M&A** instead, the latest example being Scientific Games's (SGMS) US\$3.3 **billion** takeover bid for Bally Technologies (BYI). Credit Suisse models a 10% decline in U.S. slot-machine demand to 67,000 units for 2014, adding there's downside risk to its assumption of flat demand in 2015. It rates Aristocrat at neutral with a A\$6.00 price target. ALL last traded at A\$5.54. (david.winning@wsj.com; @dwinningWSJ)

0930 - Australian consumer confidence fell a modest 1.0% to 115.0 in the week ended Aug. 3 to sit a touch above its long-run average, according to a survey by the ANZ Bank. ANZ expects that consumer-spending growth will remain moderate this year, amid only modest wages growth. Weakness in household perceptions about economic conditions in a year's time, pulled confidence lower over the week. "Consumer confidence appears to have stabilised at or just above long-run average levels reflecting strong asset price gains, better job prospects and an improving world economy," said Warren Hogan, chief economist at ANZ Bank. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

0930 - Activity in Australia's services sector showed some improvement in July from June, but overall, activity continues to contract. The Australian Industry **Group** Australian Performance of Services Index was up 1.7 points to a mildly contractionary level of 49.3 (readings below 50 points indicate contraction). Sales and new orders improved, but found some offsets in supplier deliveries, stocks and employment conditions. AIG said businesses are still unwilling to commit more working capital or to hire more staff due to the relatively flat economic outlook. Only three of the nine services sub-sectors expanded in July, as was the case in June, it added. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

0930 - Citi lifts Treasury **Wine** Estates (TWE.AU) to neutral from sell as the shares are now trading in line with a raised bid from KKR and Rhone **Group**. The brokerage says although TWE's earnings are depressed by short-term challenges and management's vision for the future is compelling, the risks in the **wine** industry suggest shareholders are unlikely to reject the higher offer. The timing for the offer is excellent given conditions in Australia and New Zealand are still suffering from TWE's decision to pull back on promotions in November, while in the U.S. the **company** is struggling to keep pace with the market and excess inventory issues are still to be resolved. Citi raises its target price on TWE to A\$5.20/share from A\$4.70. TWE last traded at A\$5.15. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

0939 - Citi's target for Navitas Ltd. (NVT.AU) rose to A\$5.80/share (\$5.40) from A\$4.95 after the **company** signed a 10-year agreement to establish a university pathway program with Florida Atlantic University, Navitas' sixth U.S. partnership. The brokerage has a **buy** stance, arguing the market's worries about recent contract losses should, in time, switch to renewed enthusiasm for its U.S. growth strategy as student numbers grow. "At the current share price, little is being factored in for U.S. growth despite the significant opportunity ahead in that market." NVT last traded at A\$4.95. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

0944 - Another steady Reserve Bank of Australia rate decision is anticipated at 0430 GMT, with a neutral bias intact, says Elsa Lignos, senior currency strategist at RBC Capital Markets. The RBA will repeat that "a period of stability" in rates is likely. Ms. Lignos says Friday's Statement on Monetary Policy from the RBA will be watched for any changes to the RBA's macro forecasts, but RBC doesn't think they'll be substantial. The RBA's core inflation forecast will be broadly unchanged at 2.5% over the next 18 months, with GDP forecasts remaining slightly below trend. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

0953 - Scientific Games's (SGMS) recommended US\$3.3 **billion** takeover offer for Bally Technologies (BYI) will make Australia's Aristocrat Leisure (ALL.AU) a distant third in the North American slot machine, with around 15% market share. But Citi analyst Michael Goltsman sees a silver lining. "Near term we see industry consolidation as a positive tailwind for Aristocrat's market share as competitors are inevitably disrupted," Goltsman says. Issues facing Scientific Games include a heavily geared balance sheet, which could impact its ability to invest in innovation, benefiting rivals such as Aristocrat. Citi rates Aristocrat a **buy**, with a A\$6.00 price target. ALL last traded at A\$5.54. (david.winning@wsj.com; @dwinningWSJ)

0957 - S&P/ASX 200 is likely to be flat to higher before the RBA meeting concludes at 0430 GMT. Economists unanimously expect the RBA to keep interest rates on hold this month. However, while most expect interest rates to stay on hold before a rise in late 2015, Goldman Sachs still expects a September 2014 cut, so although a cut this month is unlikely, sellers may hold their fire before the interest rates

decision. Overnight, the S&P 500 rose 0.7% after falling 3.8% last week, and BHP (BHP.AU) ADR's rose to A\$38.54, up 0.6% on BHP Australian close. Also, the Shanghai Composite closed up 1.7%. LME **copper** rose 0.6%, Nymex crude **oil** gained 0.6% and spot **iron ore** rose 0.2%. Thus the S&P/ASX 200 has mostly positive offshore leads after Monday's 0.3% fall to 5540.9. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

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0959 - The pipeline of prospective initial public offerings over the next 12 months in Australia looks fairly full, with investment managers receiving a steady stream of pre-IPO research from sponsoring investment banks. Hugh Dive, head of listed securities at Philo Capital Advisors, says his Philo currently receives about two to three 80- to 100-page research reports a week. The two biggest IPOs expected to list in the coming year are government-owned Medibank Private and share registry **company** Link Market Services, he says, adding he anticipates taking a very close look at the former. "Typically when the government is the vendor of the IPO, they have an incentive to price the new issue to allow it to perform well after listing as this is positive for retail investors and voters," Mr. Dive says. As well, he says private health insurance is easily understood and profitable, and under private management Medibank Private should be able to raise profits in the near term by reducing the higher cost base normally carried by state-owned enterprises. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1008 - Westpac Banking's (WBC.AU) appointment of Dave Curran as chief information officer is positive as the lender and the industry in Australia grapple with rapidly changing technology and the increase risk of "digital disruption" to the very profitable market dominance of the major banks, says Morningstar analyst David Ellis. "Westpac continues to invest heavily on technology and **business** simplification," Mr. Ellis says. Mr. Curran, who takes up the new role Monday, earlier led Commonwealth Bank's (CBA.AU) five-year banking modernization project. Morningstar has a hold recommendation and A\$35/share fair value estimate for Westpac. WBC shares are flat at A\$33.85 in early trading. (robb.stewart@wsj.com ; Twitter: @RobbMStewart)

1017 - High-yield Australian blue chips including ANZ (ANZ.AU), CBA (CBA.AU), NAB (NAB.AU), Telstra (TLS.AU), Westpac (WBC.AU), Woolworths (WOW.AU) and Woodside (WPL.AU) are vulnerable to profit-taking from retail investors as volatility increases, Bell Potter Executive Director Charlie Aitken says. "If this happens at the same time as global investors start locking in multi-year profits in yield compression trading strategies, which has already started, then it will be hard for a period to find the marginal new buyer of these names." (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1025 - Deutsche Bank has offered a rather sobering assessment of KKR and Rhone **Group's** A\$5.20/share bid for Treasury **Wine** (TWE.AU), saying they appear to be offering too much and could walk away once they've had a good look at the vintner's books. "In our view, an **acquisition** at A\$5.20 would be a very good outcome for shareholders given it would represent a price much higher than where we believe fundamental value lies," the broker says. At that price, Deutsche Bank reckons the buyers would only be able to generate an internal rate of return of below 10%, even if they tip in very high levels of debt. (Ross.Kelly@wsj.com)

1035 - If you want to take the pulse of the Australian **mining** sector then an annual pilgrimage to the **gold**-rush town of Kalgoorlie in Western Australia state for the Diggers & Dealers conference is in order. A check on the bald attendance statistics would suggest that the mood in the industry is glum. According to Deutsche Bank analyst Brett McKay, attendance at this year's conference is down 5% on year at 1,850 delegates. It's also well below the peak attendance of 2,500 in 2012. However, McKay reports that the conference crowd "appears relatively upbeat and enthusiastic." **Gold** and nickel miners have most to cheer, with prices ahead of where they sat at the start of January. In contrast, prices of **iron ore** and thermal **coal**--Australia's two largest exports--have fallen 29% and 19% so far this year. (david.winning@wsj.com; @dwinningWSJ)

1041 - The significant capex needed plus the likely relatively low returns means Crown Resorts' (CWN.AU) Las Vegas push is negative for the **company**, says Deutsche Bank. Crown is forming a majority-owned **company** to **buy** a vacant site on the Vegas strip, with costs to date for Crown estimated at about US\$280 **million**. The brokerage estimates the project will cost roughly A\$3 **billion**-A\$4 **billion** and Crown will struggle to generate a return on capital above 10%. The cost may have implications for future dividends and may mean Crown doesn't continue to pursue the Queen's Wharf project in Brisbane, Australia. Still, Deutsche Bank retains a **buy** recommendation and A\$19.40/share target on CWN. CWN is trading down 2.5% at A\$15.43. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1109 - The NZD/JPY would have more room to advance than the AUD/JPY as New Zealand has already entered a tightening cycle, says Marito Ueda, director at FX Prime by GMO Corp. "A rate cut cycle in Australia appears to be over, but the economy isn't strong enough to raise rates. It is still subject to **energy** prices and the **Chinese** economy," he says. Meanwhile, the NZD/JPY could eventually rise to

90.00, he adds. It is at 87.41. Traders are mindful of the RBA's verbal intervention to rein in the AUD's rise when the central bank will announce the outcome of its policy meeting later in the day. Ueda says the market has priced in the lack of any policy change and a possible statement checking the AUD's rise. The AUD/JPY is at 95.68, down from its session high of 95.78. (tatsuo.ito@wsj.com)

1121 - Australia's S&P/ASX 200 falls 0.3% to 5526.2 before the RBA meeting concludes at 0430 GMT. "It was good to see a rebound in the U.S. market on the bank of stronger earnings reports," Macquarie Private Wealth division director Martin Lakos says. "I think markets are comfortable that there's no risk of contagion either out of Argentina or Portugal (in relation to their debt problems). Crown (CWN.AU) falls 3.2% after Credit Suisse cut its rating to Underperform from Neutral. Major banks fall 0.2%-0.4% and BHP (BHP.AU) declines 0.5%. Cochlear (COH.AU) jumps 7.4% after expressing confidence in its FY15 outlook, following record 2H14 sales despite a regulatory delay in the launch of its Nucleus 6 hearing implant. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1128 - The outlook for Australia's banking system remains stable, a reflection of anticipated sustained economic growth and stable asset quality over the coming 12-18 months, says Moody's Investors Service. Frank Mirenzi, a Moody's vice president and senior analyst, says growth in resource-related exports should underpin headline economic growth of about 3% for 2014 and again for 2015. At the same time, while rising house prices are being watched, developments aren't yet a threat to banks' credit profiles since the rise hasn't been fueled by excessive credit growth or loosening lending standards, he says. Indeed, he finds that low interest rates have allowed a high level of mortgage prepayments, which should provide a buffer against any borrower stress. The banks' capitalization levels, which Moody's says are already at high levels, are likely to improve further as lenders ready themselves for additional Basel III capital requirements that will be implemented in 2016. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1204 - The Aussie dollar jumped as high as 1.0963 from 1.0946 against its New Zealand counterpart Tuesday after Australia's June trade deficit came in at A\$1.68 billion, narrower than the consensus forecast of a A\$2.0 billion deficit. But the cross quickly pulls back as caution prevails ahead of the Reserve Bank of Australia's cash rate decision due at 0430 GMT. Spot AUD/NZD was last at 1.0950 versus 1.0947 in late New York trade Monday. (jerry.tan@wsj.com)

1218 - Australia's S&P/ASX 200 continues to fall, hitting a 3-week low of 5517.6 after disappointing China services sector data. HSBC Markit's China services PMI fell to 50.0 in July vs 53.1 in June, the lowest reading in the nearly nine-year history of the release. The data are weighing on iron-ore miners, with BHP (BHP.AU), Rio Tinto (RIO.AU) and Fortescue (FMG.AU) down 0.7%-1.4%. Financials remain weak, with the four major banks down 0.4%-0.6%. The index is down 0.4% at 5518.7. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1236 - The China-sensitive Australian dollar slipped as low as 95.54 from 95.68 against the yen Tuesday after the HSBC China services PMI fell to 50.0 in July from 53.1 in June, in contrast with the Markit Japan services PMI which rose to 50.4 in July from 49.0 in June. Further downside in the Aussie/yen cross may encounter support at 95.37--the Monday low which is currently near the 55-day moving average. Spot AUD/JPY was recently at 95.57 versus 95.73 late Monday. (jerry.tan@wsj.com)

1252 - A deterioration in Australia's trade performance over the second quarter may see 1.5 percentage points cut from GDP, Deutsche Bank chief economist Adam Boyton says. But that will be shortlived, Boyton says. Second-quarter capital imports won't continue as mining investment retreats. Combined with continuing growth in nonrural exports should see net exports contribute to growth beyond the second quarter, he adds. Boyton forecasts quarter-over-quarter GDP growth of 0.5% in the second quarter. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

1259 - Macquarie reiterates its underperform rating on Cochlear (COH.AU) due to slow growth in unit sales. "Our fundamental concern for Cochlear however (sales growth) remains unresolved, with new patient growth (unit sales) for the year of only +1.4%, something we find incongruous with the company's 1-year forward PE multiple of 28 times," the broker says. COH last up 8.3% at A\$67.71. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

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1310 - Transurban's (TCL.AU) operating profit of A\$934 million beats Macquarie's expectation of A\$927 million, while free cashflow surprises even more on the upside, helping to justify the broker's "outperform" recommendation on the toll road operator's stock. Solid progress on road upgrades, including a widening of the M5 in Sydney, will likely start contributing to profits in 2Q15, Macquarie says. "(The) growth outlook remains strong, and the continuing fall in funding costs gives Transurban capacity to grow into new projects like NorthConnex." Work on the NorthConnex project in northwestern Sydney is due to start next year. Transurban was last down 1 cent at A\$7.64 vs. Macquarie's price target of A\$8.26. (Ross.Kelly@wsj.com)

1319 - Australian fixed-income markets rarely care for monthly international trade data, but the string of large deficits in April, May and June have **lead** some analysts to ask, "Where is the growth coming from?" said Annette Beacher, Singapore-based Head of Asia-Pacific Research at TD Securities. The Australian yield curve is flat ahead of the central bank policy meeting outcome at 0430 GMT, she said. The Australian overnight indexed swap curve is "dead flat" at 2.5%, she added, not even pricing in a plus 25 basis points by 2015-end. Beacher is forecasting two rate increases over this time. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

1457 - Las Vegas would round out Crown Resorts' (CWN.AU) portfolio of **operations** but the high-profile gambling market is mature and highly competitive, which limits the potential return on investment, says Goldman Sachs. The size, scale and scope of the project have yet to be disclosed but the **company** expects to break ground in late 2015 and complete work in 2018. Goldman Sachs estimates Crown will spend about A\$1.6 **billion** on Crown Las Vegas, on top of the roughly A\$300 **million** spent so far. The brokerage retains a **buy** recommendation and A\$20.80/share target. CWN is trading 3.9% lower at A\$15.21. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1502 - Australia's central bank has blamed higher 2Q inflation on last year's fall in the exchange rate, but it believes low wages growth will keep inflation in check, even if the exchange rate were to fall. "Growth in wages has declined noticeably and is expected to remain relatively modest over the period ahead, which should keep inflation consistent with the target even with lower levels of the exchange rate," the RBA said after its **board** meeting. With economic growth still expected to be "a little below trend" in the year ahead, and wages growth remaining low, the RBA is betting that a lower exchange won't push up import prices. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

(END) Dow Jones Newswires

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