

HD Morgan Stanley Sees SAI Rising on Deal Talks -- Market Talk

WC 1,620 words

PD 17 July 2014

ET 10:13

SN Dow Jones Institutional News

SC DJDN

LA English

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Contact us in Singapore. 65 64154 140; MarketTalk@dowjones.com

0013 GMT [Dow Jones] Now is the time for investors to get behind standards and compliance services provider SAI Global (SAI.AU), as the stock is likely to rise over the next 30 days, says Morgan Stanley. SAI opened a data room to bidders after private **equity firm** Pacific **Equity** Partners made a takeover offer worth up to A\$1.11 **billion**. The data room was due to shut on July 15. "We see a likely scenario of the SAI board supporting a deal at least in the previously announced A\$5.10-A\$5.25 range, a premium to the current price," Morgan Stanley says. It rates this scenario as 60%-70% likely to happen. SAI last traded at A\$5.10. (david.winning@wsj.com; @dwinningWSJ)

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0007 GMT [Dow Jones] The next six months are important to Iluka Resources (ILU.AU), which needs to see improvements in prices and volumes of mineral sands such as zircon, says Bank of America Merrill Lynch. "If there are no signs of price and volume improvement (then) demand recovery in 2015 would be at risk," the broker says. Iluka's production report Wednesday was solid, with the main positive being free cash flow of A\$69 **million**--above BAML's forecast of A\$39 **million**. Demand for zircon in **China** and North America is robust, but subdued in other markets including Japan and India. Still, risks surround a deteriorating **China's** property market, although this hasn't been reflected in recent sales. BAML rates Iluka a buy, with a A\$10.00 price target. ILU last traded at A\$8.53. (david.winning@wsj.com; @dwinningWSJ)

0008 GMT [Dow Jones] The Brazilian central bank keeps its benchmark interest rate unchanged at 11% Wednesday, but leaves the door open for a rate cut in the near term because of the country's weak economy, Goldman Sachs economist Alberto Ramos says. The bank leaves unchanged from the previous meeting the wording of its statement announcing the decision, saying it is based on economic conditions "at this time." A rate cut however isn't warranted at this time, Ramos says, because a shift to activity targeting from inflation targeting would undermine the bank's credibility. (jeffrey.lewis@wsj.com)

2327 GMT -- Perceptions of "too big to fail" and "moral hazard" are clearly going to figure in the final report from Australia's financial system inquiry, based on the interim report released this week, UBS suggests. Although no recommendations have been made to date, options mentioned so far include forcing the big banks to hold even more capital as a buffer against future crises. "We see limited incentive for the government not to accept recommendations for a stronger, more resilient banking system," UBS says. Indeed, the solid return-on-**equity** and elevated multiples of the big banks suggest they are well-positioned to absorb additional buffers. Still, UBS says the banks are looking expensive and regulatory uncertainty is likely to cap further gains. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

2327 GMT -- Shares in Incitec Pivot (IPL.AU) have recovered well over the past two months, helped by an improving outlook for explosives demand in the U.S. after the depletion of excess **coal** inventories. Further good news has come from a \$70/ton rise in global prices of diammonium phosphate, used as a fertilizer, which has been driven by strong demand in Latin America. J.P. Morgan notes that a \$1/ton rise in prices translates to an extra 950,000 Australian dollars (US\$889,900) of earnings before interest and tax on an annualized basis. Not everything is rosy, however. "We remain concerned with the weakness in Australasian explosives markets, an expected moderation in fertilizer prices in 2H and Incitec's

long-term competitive position in fertilizer manufacturing," J.P. Morgan says. The broker has a neutral call on Incitec and a A\$3.20 price target. IPL last traded at A\$3.04. (david.winning@wsj.com; @dwinningWSJ)

2327 GMT [Dow Jones]--Bell Potter cuts its target price and earnings forecasts for Iluka Resources (ILU.AU) after taking a less positive view of a recovery in mineral sands and **iron-ore** prices. The broker now expects Iluka to record an FY14 net profit of A\$31 **million**, down from its previous forecast of A\$100 **million**. It also slashes its earnings forecasts for FY15 and FY16 by 52% and 28%, respectively. "Whilst the downgrades to earnings appear large, a recovery in free cash flow will **lead** earnings as Iluka draws down on inventory in 2014 and 2015," Bell Potter says. Zircon demand in Europe and Asia remains subdued, while a recovery in TiO2 feedstocks won't happen until next year. Bell Potter retains a buy call, but cuts its price target by 13% to A\$10.00. ILU last traded at A\$8.53. (david.winning@wsj.com)

2319 GMT -- Bell Potter expects only a modest earnings lift for Smartpay Holdings from a deal to partner on epay-payment terminals in New Zealand but sees further gains from cross-selling opportunities where merchants have epay and a rival terminal. It lifts its EPS forecasts for fiscal 2015 by 1.4%, for FY2016 by 2.3% and FY2017 by 3.2%. The terminals have only the epay app installed on them, which means they currently accept only epay products such as gift cards and bill payments, so the average revenue a unit is less than for other payment terminals. But Bell Potter says there is an opportunity for Smartpay to add the app to its own fleet of terminals, which would help lift average revenue. It retains a buy recommendation and lifts its price target to A\$0.43/share from A\$0.42. SMP last traded at A\$0.275. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

2305 GMT [Dow Jones] An upgrade cycle in Australian earnings consensus for FY15 may prove illusive, according to Morgan Stanley. "Growth conviction remains low as we enter the FY15 year...consensus EPS growth for this period currently sits at 7.4%, well below the double digit rates usually set as the opening bar," the broker notes. "The issue for near term earnings momentum however is that with the Australian dollar/commodity pressure on resource earnings combined with a down draft in consumer post Budget, improved optimism on earnings is hard to envisage." They do note, however, that FY14 earnings consensus started at 8% in August and currently sits at 7.8%, not bad considering that in the last 25 years, consensus EPS growth on average fell from 14% to below 7% over the year. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

2301 GMT Karoon Gas (KAR.AU) is a leveraged play on potentially large **oil** discoveries off the shore of Brazil after the **sale** of most of the **company's** Australian assets, and WilsonHTM analyst James Redfern thinks the risk/reward for investors is skewed to the upside. Karoon's **sale** of its **stake** in the Greater Poseidon gas field to Origin **Energy** (ORG.AU) for 640 **million** Australian dollars (US\$599 **million**) represents A\$2.50/share. That implies the "market is ascribing just A\$0.85/share for the significant upside in Brazil, Peru and the Carnarvon Basin," Mr. Redfern says. WilsonHTM retains a buy call on Karoon with a A\$7.50 target price. KAR last traded at A\$3.34. (david.winning@wsj.com; @dwinningWSJ)

6:40 p.m. EDT Citrix Systems (CTXS), which makes software that allows businesses to more efficiently manage their computers, is applying analytics to make its data centers more efficient, says Paul Martine, the **company's** chief information officer. "We're gathering all of our network information and we're trying to run some analytic tools around that to see if we can gain efficiencies," Mr. Martine said Wednesday. Analyzing network traffic could enable CTX to glean greater operational intelligence, says Dan Vesset, an IDC analyst who covers analytics technologies. This could help the **company** improve efficiencies by writing software that fixes performance degradation or other problems, he said. (clint.boulton@wsj.com)

18:25 EDT - Total jobs advertised in June in New Zealand were up 5.7%, "however, a large part of this increase is due to a rebound from the 4.8% decline measure in May," says ANZ economist Steve Edwards following the release of the ANZ NZ Job Ads survey. Edwards adds the lift in job advertising is consistent with a continuing but more modest rise in employment. "We expect the unemployment rate to edge down towards 5.5% by year's end." NZ unemployment rate was at 6% in 1Q14. (lucy.craymer@wsj.com; @lucy_craymer)

18:23 EDT -- As the legal saga between Argentina and a small group of bondholders drags on without progress in New York, the possibility that Argentina could default on its debt in 10 days is making people nervous. That seems to be reflected in the changing value of Argentina's black-market exchange rate. The rate is 12.25 pesos to the US dollar, versus 12.18 yesterday and 12 on Monday. The rate often rises or falls in line with expectations the government will reach a deal with the bondholders, so it should not surprise if the rate continues to weaken if there is no news of a settlement. (taos.turner@wsj.com; @taos)

(END) Dow Jones Newswires

July 16, 2014 20:13 ET (00:13 GMT)

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