

HD Cochlear Should Cut R&D Spend, Focus on Distribution -- Market Talk

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0018 GMT [Dow Jones] Macquarie has an innovative idea for Cochlear (COH.AU) that could rev up the hearing implant maker's profits: spend less on research and development. It says Cochlear will spend more than A\$130 million on R&D this year, roughly 25% of likely annual profit and a ratio of 17% of sales. If Cochlear reduces R&D to the average for its peers of 7.6% of sales, it would boost earnings by 38%, Macquarie says. The lack of an effective distribution channel to reach hard-of-hearing adults is what's holding the firm back more, it says. "Cochlear has made little progress here, making a return to growth [is] some way off yet," Macquarie adds. It cuts COH to underperform from neutral, with a A\$48/share target. COH last trades at A\$59.80. (david.winning@wsj.com; @dwinningWSJ)

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0013 GMT [Dow Jones] With consumer confidence plunging Down Under on the back of a so-called "tough love" budget, the chatter among currency traders has again turned to the next move in rates being down. "I do think there will be a rate cut before the end of the year, and the second quarter is when the unemployment rate is really going to keep rising," says Matthew Harper, a principal and trader at Excalibur Management. "Just recently a couple of the big guys have come back in and started to sell," Harper adds. (james.glynn@wsj.com)

0002 GMT [Dow Jones] Base metals are likely to remain rangebound with HSBC China's manufacturing PMI data, released Thursday, offering some support. The data has given copper traders a little more reason for optimism," brokerage IG says. HSBC's China PMI manufacturing data for May rose to a five-month high, though it remained in contraction zone. The upbeat data reduces any chances of stimulus from the Chinese government, which in turn may weigh on sentiment, analysts say. Although copper prices aren't high enough to trigger aggressive selling, IG says it would "want to see much lower levels and improving Asian demand before being tempted into buying." LME 3-month copper ended up 0.6% at \$6,875/ton Thursday, while aluminum climbed 1.6% to close at \$1,796/ton. (arpan.mukherjee@wsj.com; Twitter: @ArpanMukherjee)

2350 [Dow Jones] Key supports for the Australian dollar like Chinese growth, interest rates and commodity prices are being hammered, says Ken Dickson, Investment Director at Standard Life. "These drivers suggest to us further weakness over the medium term...we tend to think the market was too quick to price in higher Australian interest rates," Mr. Dickson says. The U.S. recovery should accelerate this year and with tapering likely to end by the U.S. by Autumn "it won't be long before some focus on higher U.S. interest rates will pull the U.S. dollar higher and the Australian dollar lower," Mr Dickson adds. (james.glynn@wsj.com)

2342 GMT [Dow Jones] Nymex crude is likely to consolidate in a lower range near-term after settling down 33 cents Thursday at \$103.74/bbl, Dow Jones technical analysis shows. The daily continuation chart is still positive-biased as the five- and 15-day moving averages are advancing; the MACD and stochastic indicators are bullish, but the latter is at the overbought level, while an inside-day-range pattern was completed Thursday. Support is at \$103.55 (Thursday's low); a breach would expose the downside to \$102.78 (Wednesday's low), then to \$101.69 (Tuesday's low), \$101.39 (May 16 low), \$101.27 (May 15 low) and \$100.36 (May 13 low). But a rise above the \$104.22-\$104.29 band

(Thursday's high-Wednesday's high) would reinstate the positive near-term view, targeting 104.77 (April 21 high), then \$104.99 (April 16 swing high), \$105.22 (March 3 swing high) and \$108.99 (Sept. 19 reaction high). July crude is down five cents at \$103.69/bbl on Globex. (jerry.tan@wsj.com)

2334 GMT [Dow Jones] Insurance Australia Group's (IAG.AU) appears to be trying to squeeze out further savings on top of the A\$140 million the company already is targeting following its recent acquisition of Wesfarmers's (WES.AU) insurance unit, says J.P. Morgan. IAG said Thursday it would run a new operating model in Australia and New Zealand comprising three divisions. The insurer only plans to outline the financial impact in August, but J.P. Morgan says the move could mean better integration of claims and back office processes between IAG's CGU and Direct operations. "This could be meaningful and allow for efficiency in procurement." Still, the broker says it remains cautious on IAG's ability to hit its A\$140 million goal. It has a neutral stance on the shares and A\$5.48/share target. IAG closed Thursday at A\$5.79. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

2313 GMT [Dow Jones] The USD/JPY will still likely remain in a range but may stay slightly on a firm side over the short term, says Kosuke Hanao, head of FX at HSBC, who tips the pair to move within a 101.50-102.00 range Friday in Asian trade. The USD/JPY tried downside earlier this week and temporarily fell below crucial support of 200-moving average (101.20-101.30) but failed to stay below the level. So market participants "probably feel tired of trying to sell," says Mr. Hanao. The pair is at 101.76 against 101.73 in New York late Thursday. (hiroyuki.kachi@wsj.com)

2312 [Dow Jones] Sell-side analysts critique Woodside's (WPL.AU) first investor day in two years warmly but pragmatically: it may be a long journey back to growth, but solid existing assets, a strong balance sheet, and a conservative approach to acquisitions mean there's little risk to the downside either, they say. J.P. Morgan downgrades its recommendation to "neutral" from "overweight", citing the stock's recent rally. While the company has its challenges, it's not facing a "production hole", the broker says. "We think a company like Woodside being leveraged to long-dated, capital intensive LNG-type assets will naturally face periods of production decline leading up to the introduction of new assets," it says. "Woodside's future growth potential is far from a one-way bet on acquisitions." Credit Suisse keeps an "underperform" recommendation, agreeing acquisitions seem unlikely, but declaring the company's made a "strong start to a long journey" underpinned by exploration and the Browse LNG project. "We did walk away today feeling that large-scale capital management is unlikely, but believe a \$1-2/share special dividend could be seen," it says. (Ross.Kelly@wsj.com)

18:17 EDT - Investor demand for Credit Suisse's (CS) \$5B debt sale lagged that of other recent corporate bond deals, raising the possibility that the bank's recent admission that it helped wealthy Americans evade taxes weighed on sentiment. The guilty plea "may have had some impact on demand" for the bonds, says Ron Quigley, head of fixed income syndicate at Mischler Financial. The bank received \$10B in orders for the debt, which compares with some recent deals that were five times oversubscribed. Still, Morningstar notes that it doesn't "see a long term impact to the bank's credit profile or business model." (mike.cherney@wsj.com)

17:41 EDT - Mexico's biggest real estate investment trust, Fibra Uno, sees plenty of potential acquisitions in the pipeline after announcing this week's \$1.8B deal, a record size for the company. "If we keep finding properties that add value, we will continue to buy," Deputy CEO Gonzalo Robina says on a conference call, while also insisting that the REIT's buying spree isn't pushing up real-estate prices in Mexico. "There is no bubble," he says. (amy.guthrie@wsj.com)

17:31 EDT - Capital Economics says while the pace of Canadian job creation appears to have slowed somewhat, "the corresponding deterioration in job quality is more perplexing." Lower-wage, part-time employment seems to be taking the place of higher paying full-time positions, casting more doubt on Canada's job-creation record since the recession, it says. "With the export-intensive manufacturing sector still underperforming and housing construction cooling, labor market conditions are likely to remain challenging this year," it says. (don.curren@wsj.com; @dbcurren)

17:29 EDT - Inflation remains low at the moment, yet the record 72% bidding from investors in the 10-year TIPS sale today signals some investors don't believe inflation will stay low a decade from now. "The auction demand was overwhelming in support of inflation protection," says Gemma Wright-Casparius, who manages \$25.9B in Vanguard's Inflation-Protected Securities Fund, the world's largest TIPS fund. "General expectation is that the trough in inflation is occurring." She declined to comment whether she bought from the auction today. Economists from Barclays expect US CPI to rise to 2.4% by December, above the Fed's 2% long-run target. (min.zeng@wsj.com; @minzengwsj)

(END) Dow Jones Newswires

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CO cchl : Cochlear Ltd

IN i372 : Medical Equipment/Supplies | i951 : Health Care/Life Sciences

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