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HD **Australian Equities Roundup -- Market Talk**

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0859 - BBY upgrades OZ Minerals (OZL.AU) to Buy from Underperform as after raising its **copper** price assumptions. "While **copper** forecaster consensus appears to favour an oversupplied **copper** market for the next two years, supply disruptions and project delays are causing the expected surplus to fall, and part of the surplus is likely to be in **copper** concentrate stocks rather than metal," BBY analysts Mike Harrowell and Kurt Worden say. "That means we see the **copper** price having a floor at US$3.00/pound, likely to trade at around US$3.20-3.60/pound, with possible upside on growth surprise." They also note that 1H14 production was ahead of expectations on **copper** and **gold**, with higher FY14 production guidance, although cash at December was guided to be less than the current level. Target price jumps 50% to A$6.00. OZL last A$4.30. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

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0921 - The Australian Financial System Inquiry is likely to recommend measures which further increase the capital requirements for the major banks, especially around the "too big to fail" issue, UBS analysts Jonathan Mott and Adam Lee say. "Banks with strong organic capital generation (Westpac and Commonwealth) are better placed, although they may be relatively disadvantaged by higher mortgage risk weights," the broker says. "There may be some benefit for the regional banks with the final recommendations due in November." (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0938 - Nine Entertainment (NEC.AU) is a natural predator within Australia's media industry, says Macquarie. Nine has a strong balance sheet, relatively clean position as an owner of TV and online media, strong TV ratings, and can deliver potential savings through its Nine Events unit. Its likely prey Southern Cross Media (SXL.AU) looks especially tasty. A deal at 9.5 times Southern Cross's earnings could be 28.3% accretive to Nine, Macquarie says. That implies a A$1.46/share price for SXL, above its last traded price of A$1.15. Macquarie rates Nine at outperform with a A$2.50 price target. NEC last traded at A$2.09. (david.winning@wsj.com; @dwinningWSJ)

0938 - Deutsche Bank keeps its Sell rating on OZ Minerals (OZL.AU) as the miner remains above a revised target price of A$3.40, and stronger 1H production was offset by declining cash flow. "Cash outflows continue and the **Company** no longer expects a cash neutral outcome for 2014," the broker says. "Whilst working capital swings can be significant, the considerable build in **ore** inventories consumes cash over the next few years." (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0950 - OZ Minerals (OZL.AU) is burning through cash to keep production high, and Credit Suisse worries this is putting intolerable pressure on the **company**'s dividend. While output of 22,181 tons of **copper** in the June quarter was 14% above the broker's estimates, it didn't mask the bad news that OZ Minerals expects full-year free cash flow to be negative. Credit Suisse isn't expecting cash flow to turn positive in 2015 either. As a result, it has cut its dividend forecast by 50% to 10 cents. Credit Suisse rates OZ Minerals at underperform with a A$3.80 price target. OZL last traded at A$4.30. (david.winning@wsj.com; @dwinningWSJ)

0956 - If there's an area of concern for Australia's banks in the government's interim report from a financial-system inquiry, it lies in the specter of "too big to fail," says Macquarie. At a bulky 460 pages, the report offers options rather than recommendations and will be followed by further consultations before a final report is due in November. Still, the section on "too big to fail" includes such options as making big banks hold additional capital, ringfencing their retail **operations**, greater powers for regulators and the ability to impose losses on creditors in the event of an institutional failure, Macquarie says. All things being equal, it estimates the consequence such moves could have on ratings and funding costs could lead to a 3%-5% hit to earnings. Still, Macquarie adds that would be over time and could be mitigated by the banks. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

0956 - While there are some "left field" proposals in the interim report looking into Australia's financial system that would be negative for the major banks, there is little change of them being implemented, suggests Deutsche Bank. It notes the report found the banking sector is already well regulated and capital ratios are in line with global peers. Still, there are some options presented in the report that could benefit regional lenders, including allowing them to adopt internal ratings-based modeling for mortgages. For Bendigo & Adelaide Bank Ltd. (BEN.AU), that could be worth A$0.50-A$1.40 ($0.50-$1.31) a share in net present value and A$1-A$2.40 a share for Bank of Queensland Ltd. (BOQ.AU), Deutsche Bank estimates. "Critically the report does not call for a radical reform but rather a refresh of the existing approach to prepare for future challenges." (robb.stewart@wsj.com; Twitter: @RobbMStewart)

0957 - Whitehaven Coal (WHC.AU) looks challenged in the short term with rangebound coal prices and a strong Australian dollar, but Macquarie sees plenty of signs for optimism. "We see a recovery driven by increased production from largely fixed-cost operations and a reduction in onerous take-or-pay obligations," the broker says of Whitehaven's medium-term prospects. Whitehaven's share of coal output at its mines totaled 2.08 million tons in 4Q, up 19% on year. "We have increased our FY14 earnings forecast from (a loss of) A$32 million to (a loss of) A$27 million as we factor in increased realized pricing and production from largely fixed cost base assets," Macquarie says. It rates Whitehaven at outperform with a A$1.70 price target. WHC last traded at A$1.55. (david.winning@wsj.com; @dwinningWSJ)

1012 - The market isn't attributing enough value to Orica (ORI.AU), which could get up to A$950 million for its chemicals business and potentially launch a share buyback, says Deutsche Bank, keeping a Buy recommendation on the explosives company. "We do not believe the market is pricing in any upside from the potential sale of the chemicals business nor any benefits arising from the cost and productivity review," the broker says, adding it expects the explosives market to prove more resilient than many anticipate. Orica expects to announce the results of the sale process by November. Shares are last at A$20.69 vs. Deutsche Bank's price target of A$27.60. (Ross.Kelly@wsj.com)

1021 - Sirius Resources' (SIR.AU) Nova nickel deposit appears super to Deutsche Bank analyst Chris Terry. But there's a problem: many investors agree. After a recent share-price rally, Terry says Sirius is trading in line with Deutsche's estimated net present value and he cuts his recommendation from Buy to Hold. Terry sees key catalysts in 2H, including a native title agreement, mining lease award and possibly a decision on offtake customers. He also assumes a A$150 million equity raising to fund construction of the mine. Deutsche ups its price target 7% to A$3.75. SIR last trades at A$4.05. (david.winning@wsj.com; @dwinningWSJ)

1028 - Whitehaven Coal (WHC.AU) could find a buyer for part of its stake in the Vickery coal deposit in Australia next year, although first production won't happen for a further four years, reckons Deutsche Bank analyst Paul Terry. Whitehaven could get environmental approval to build an open-cut mine at Vickery producing up to 4.5 million tons of coal annually within the next couple of months. "This will pave the way for completion of the feasibility study and then the potential sell-down of 20-30% to a joint-venture partner," Young says. Still, Whitehaven likely won't develop Vickery until its Maules Creek mine is running at maximum capacity. Deutsche rates Whitehaven a buy with a A$2.25 price target. WHC last traded at A$1.555. (david.winning@wsj.com; @dwinningWSJ)

1042 - Productivity gains across Rio Tinto's (RIO.AU) portfolio delivered a solid first-half production result for the miner, according to Goldman Sachs. "Strong iron ore result and good beats in copper and thermal coal underpin what is on balance another solid result for Rio Tinto," GS analysts say. "The key underlying driver remains the ongoing push for productivity, with a substantial proportion of the growth delivered at minimal capital expense. Rio Tinto has provided CY14 production guidance upgrades in iron ore, copper and thermal coal, downgrades in hard coking coal and alumina." RIO last up 1% at A$63.75. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1047 - Transmission companySP AusNet's (SPN.AU) insurers may be covering the A$378.6 million bill from its settlement with Australian wildfire victims, but the stock remains exposed to more headwinds and should be sold, says Deutsche Bank. SP AusNet was among parties that settled with survivors of the Kilmore East fire in 2009, which was sparked by a damaged power line owned by SP AusNet. "Uncertainty surrounding issues in the company's smart meter roll out program remain unquantified," Deutsche Bank says, noting that it also faces a review of previous tax payments by the Australian Tax Office. SP AusNet last trades at A$1.35 vs. Deutsche Bank's price target of A$1.10. (Ross.Kelly@wsj.com)

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1116 - Risks are rising for Whitehaven Coal (WHC.AU), and the Australian miner likely needs either to convince lenders to relax its funding covenants or secure top-up funding of some form, says Morgans analyst Tom Sartor. His new base-case forecasts would see WHC failing its December 2015 funding covenant, assuming a moderate 10-15% increase above spot prices for average achieved FY15 coal prices. "This may even be generous," Sartor says. "Whitehaven's balance sheet becomes a bigger issue should coal markets continue their extended malaise." That's not to say management aren't doing a good job. Whitehaven recorded very strong 4Q output, good cost control and progress at its new Maules Creek mine, Sartor says. Morgans rates Whitehaven at add with a A$2.00 price target. WHC last traded at A$1.57. (david.winning@wsj.com; @dwinningWSJ)

1129 - Investors should continue to buy shares in PanAust (PNA.AU), even though the copper-and-gold miner's stock has bounced since it rejected a A$2.30/share offer from China's Guangdong Rising Assets Management, says UBS analyst Jo Battershill. "In our view, GRAM has been opportunistic with the timing of its proposal given that its offer price simply covers our net present value for the existing operations and doesn't ascribe any value for the Frieda River or Inca de Oro assets," he says. UBS believes the deal with Glencore (GLEN.AU) to buy the Frieda River copper deposit in Papua New Guinea will be completed in 3Q. At that point, the equity market could begin to include a risk weighted asset value into the PNA share price. UBS's un-risked valuation is around A$1 billion. UBS has a A$2.47 price target, above PNA's last trade at A$2.20. (david.winning@wsj.com; @dwinningWSJ)

1147 - Dark clouds remain over Webjet's (WEB.AU) outlook despite its A$30.5 million purchase of SunHotels Group, a specialist in providing Mediterranean vacations to Scandinavian and British tourists, says Credit Suisse. Webjet's core business in Australia and New Zealand faces increased competition from airlines and international travel agents, posing a threat to the company's earnings. "To turn positive on Webjet, we would need to see signs of stabilization in ANZ flights volumes," the broker says. Still, Credit Suisse likes the SunHotels deal, which could boost EPS by up to 15%. Credit Suisse retains a neutral call on Webjet, but cuts its target price 12% to A$2.85. WEB last trades at A$2.95. (david.winning@wsj.com; @dwinningWSJ)

1222 - AMP Capital's Head of Dynamic Asset Allocation, Nader Naeimi, says he's "on alert" for selling opportunities in Australian shares after turning neutral in April. "I'm seriously thinking about underweighting the Aussie market," Mr. Naeimi says. "The trigger for a pullback will still be the market pricing in interest rate hikes occurring sooner in the U.S. and I think the prime time for a pullback will be September/October," he says. "We have had a massive search for yield, and in Australia, there may be increased regulation stemming from the Financial System Inquiry that could take the edge off banks." Mr. Naeimi is increasingly looking to switch into Japanese equities, although he feels the S&P/ASX 200 could rise initially as U.S. earnings season buoys the S&P 500. S&P/ASX 200 last down 0.1% at 5508. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1240 - The AUD/USD pair rose as high as 0.9371 on stronger-than-expected China 2Q GDP and June industrial output data but surrendered its gains quickly, falling back as low as 0.9334. That reveals a weak underlying tone for the AUD/USD pair. In the near term, spot AUD/USD may test near-term support at 0.9328 (July 3 low), and then at 0.9319 (June 18 low). Spot AUD/USD was recently at 0.9342 versus 0.9366 in late New York trade Tuesday. (jerry.tan@wsj.com)

1308 - AUD/USD hits a 2-week low of 0.9336, as the market focuses on Fed chief Janet Yellen's comments about the "reach for yield", which has caused "stretched valuations" in some sectors, and could "increase vulnerabilities in the financial system to adverse events". Although she specifically only referred to corporate bonds and U.S. biotech and internet stocks, Yellen's warning is accentuating selling of Asian currencies, including the Australian dollar, that have benefited from massive bond inflows this year, Westpac Senior Currency Strategist Sean Callow says. He adds that the fact that the Aussie fell after slightly stronger-than-consensus China GDP data is a bad sign for the currency. Also, with NZD/USD under pressure from weaker than expected CPI data today, Callow notes a positive correlation between NZ CPI and Australia CPI, which is due next Wednesday. AUD/USD last 0.9339. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1400 - Westpac Chief Economist Bill Evans reiterates his AUD/USD year-end target of 0.9000 despite his expectation that Australian 2Q CPI data next week won't be low enough to warrant the Reserve Bank moving to a policy easing bias, leaving its attempts to "talk down" the exchange rate largely unsuccessful. "Notwithstanding this rather bleak assessment of the success of "jawboning" policy we do expect the Australian dollar to lose some momentum through 2014 in lagged response to the sharp falls in commodity prices in the first half of 2014, some lift in volatility which will discourage carry trades, and around a 5% lift in the USD Index," Evans says in a report. Westpac expects 2Q underlying inflation next Wednesday at 0.7%, leaving annual underlying inflation at 2.8%--firmly in the upper end of the central bank's 2%-3% target range. The AUD/USD is at 0.9342. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1421 - Improved GDP in **China** is good news for Australia because it confirms slowing growth earlier this year is over and ministimulus efforts are working, AMP Capital head of investment strategy and chief economist Shane Oliver says. "While the days of 10% plus growth are long gone it's not going to collapse either," he says. "The policy regime of 'stimulate if growth slows; reform if growth accelerates' is likely to remain in place. This should help stabilize prices for key commodity exports with the **iron**-**ore** price likely to be supported around US$100" a metric ton. **China**'s GDP rose 7.5% year over year in 2Q from 7.4% in 1Q. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1442 - Spot **gold** is rebounding in Asia Wednesday after falling Tuesday to a three-week low of $1,291.70/oz--near the 55-day moving average and near the 50% Fibonacci retracement of the $1,240.61-$1,345.00 June 3-July 10 advance. However, the short-term technical picture remains negative. The five-day moving average has fallen below the 15-day moving average. The daily MACD and stochastic indicators are bearish and the rate-of-change momentum indicator is declining in negative territory--suggesting a sell-on-rally for the precious metal. Further downside in spot **gold** may encounter support at the 200-day moving average--now at $1,285.05--and then at $1,280.49 (61.8% Fibonacci retracement). Spot **gold** was recently at $1,296.80/oz versus $1,293.60/oz in late New York trade Tuesday. (jerry.tan@wsj.com)

(END) Dow Jones Newswires

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NS c1521 : Analyst Comments/Recommendations | c18 : Ownership Changes | c181 : Acquisitions/Mergers/Takeovers | m11 : Equity Markets | namt : All Market Talk | nsmcm : Stock Market Commentary | nrmf : Routine Market/Financial News | c15 : Performance | c152 : Earnings Projections | cactio : Corporate Actions | ccat : Corporate/Industrial News | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nfcpin : FC&E Industry News Filter | niwe : IWE Filter

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