

HD Weekly Recommendation, Target Price, Earnings Forecast Changes

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Guide:

The FNArena database tabulates the views of eight major Australian and international stock brokers: BA-Merrill Lynch, CIMB, Citi, Credit Suisse, Deutsche Bank, JP Morgan, Macquarie and UBS.

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For the purpose of broker rating correlation, Outperform and Overweight ratings are grouped as **Buy**, Neutral is grouped with Hold and Underperform and Underweight are grouped as Sell to provide a **Buy**/Hold/Sell (**B**/H/S) ratio.

Ratings, consensus target price and forecast earnings tables are published at the bottom of this report.

Summary

Period: Monday July 21 to Friday July 25, 2014 Total Upgrades: 8 Total Downgrades: 14 Net Ratings Breakdown: **Buy** 39.32%; Hold 44.05%; Sell 16.64%

The week ending Friday, July 25, proved once again a continuation of the pattern witnessed for a number of weeks now. At face value, it appears the trend is negative for Australian equities, with FNArena registering more downgrades for ratings on individual stocks than upgrades. But dig deeper and a positive trend emerges in support of ongoing positive sentiment. Positive observation number one remains that analysts are very reluctant to lower their valuations and price targets, maybe with the exception of specific resources stocks. Positive observation number two is that resources stocks, bulk commodity producers and explorers in particular, remain the main targets of any negative revisions to profit estimates. On the positive side we find insurers, **energy** companies and selected cyclicals including Incitec Pivot, Western Areas and BlueScope Steel, while **Alumina** Ltd continues to enjoy renewed interest and upwards momentum for aluminium. Negative revisions appear large at face value, but this side of the trend remains heavily dominated by smaller **iron ore** producers, **gold** stocks and companies issuing disappointing (operational) market updates, such as Sims **Group** and Sandfire Resources.

Upgrades

Atlas **Iron** ((AGO)) upgraded to Neutral from Underperform by BA-Merrill Lynch. **B**/H/S: 0/5/3

Merrills is upgrading to Neutral from Underperform as weak results have now been laid bare and **iron ore** prices have stabilised, limiting near-term downside. That said, the broker thinks material upside will continue to be limited by oversupplied **iron ore** markets and uncertainty regarding future growth plans. The target is raised to 60c from 50c.

See also AGO downgrade.

A2 **Milk** ((ATM.NZ)) upgraded to Neutral from Underperform by Credit Suisse. **B**/H/S: 1/1/0

The signal for the resumption of exports for a2 Platinum infant formula from the **Chinese** authority is a positive step, in the broker's view. This has not changed the sales trajectory Credit Suisse had assumed but the recent pull back in the stock price has led to an upgrade to the rating to Neutral from Underperform. Target is unchanged at NZ73c.

Ausenco ((AAX)) upgraded to Neutral from Underweight by JP Morgan. **B/H/S**: 0/3/0

The broker is upgrading to Neutral from Underweight following recent falls in the share price. The target is rolled forward to 62c from 65c.

Drillsearch **Energy** ((DLS)) upgraded to Neutral from Underweight by JP Morgan. **B/H/S**: 2/2/0

The broker is upgrading to Neutral from Underweight based on the improved sector-relative valuation as the stock retreats from its April highs. The target is raised to \$1.60 from \$1.56 and JP Morgan increases FY15 earnings forecasts by 8%. The quarterly result beat on revenue, capex and cash flow. Further improvements will depend on the longer-term outlook and the broker awaits the investor briefing on August 1.

Henderson **Group** ((HGG)) upgraded to Outperform from Neutral by Macquarie. **B/H/S**: 4/2/0

The broker notes 80% of Henderson's funds are outperforming over one and three years but this is not reflected in the current share price given, the broker suspects, concerns around European political risk. The broker believes performance and inflows offset macro and regulatory risks. The broker has increased forecast earnings by 4-5% in 2014-15 and lifted its target 11% to \$4.90. Upgrade to Outperform.

IOOF ((IFL)) upgraded to **Buy** from Neutral by Citi. **B/H/S**: 3/3/1

Given recent weakness in the share price, Citi is upgrading to **Buy** from Neutral and reducing the target to \$9.15 from \$9.30. The broker expects June reports should deliver another quarter of strong flows into the **company's** flagship platforms. The broker thinks some of the market scepticism regarding the Shadforth **acquisition** is misplaced. Additional revenue should be able to be generated in a way that Shadforth in isolation could not achieve.

Ramsay Health Care ((RHC)) upgraded to **Buy** from Neutral by BA-Merrill Lynch. **B/H/S**: 3/4/1

The broker is upgrading to **Buy** from Neutral after reviewing the **acquisition** of Generale de Sante. The target is raised to \$52.10 from \$49.10. A more positive view of the value of the French **business** is based on procurement savings in the next three years and greater margin leverage from volume growth. Merrills thinks Ramsay can leverage a comparable lower cost now that it has purchasing power in France and drive up to \$100m in savings in Ramsay Australia over the next 2-3 years.

Sims Metal Management ((SGM)) upgraded to Outperform from Neutral by Macquarie. **B/H/S**: 4/2/2

The broker believes overcapacity in the scrap metal market will remain an issue and turning Sims around will take some time. However if the new CEO can deliver on even a part of his ambitious new strategy for the **company** the risk is skewed to the upside, the broker believes. SGM should return to net cash by FY16 on the broker's estimates, which allows some room for the odd stumble along the way. It's enough for the broker to lift its target to \$12.23 from \$10.74 and upgrade to Outperform.

Downgrades

Atlas **Iron** ((AGO)) downgraded to Underperform from Neutral by Macquarie. **B/H/S**: 0/5/3

The good news is Atlas' preliminary June quarter shipment numbers beat the broker's forecast by 25%, including increases to both standard and low-grade ores, and that impressive testing results from Corunna Downs suggests higher grades than nearby McPhee Creek. While the broker expects Atlas to ship less lower grade **ore** ahead, it has adjusted its grade discount forecast to 10% from 5%. Forecast earnings fall 45% and 78% in FY14-15. Target falls to 50c from 75c. Downgrade to Underperform.

See also AGO upgrade.

Australian Pharmaceutical ((API)) downgraded to Neutral from Outperform by Macquarie. **B/H/S**: 2/2/0

With supermarkets moving more aggressively into the health and beauty space, which the broker estimates represents around 30% of pharmacy sales, more pharmacy insolvencies and distributor bad debts may result and Aust Pharma's own Priceline franchises will come under increased competitive pressure, the broker suggests. Cost controls and sales growth mean API should hit the top end of guidance in the short term, the broker notes, but longer term the outlook is less certain. Downgrade to Neutral. Target falls to 64c from 65c.

Australand ((ALZ)) downgraded to Neutral from Outperform by Credit Suisse. **B/H/S**: 1/4/0

Residential margins drove a 30% increase in earnings in the first half. The **company** has reiterated guidance for 20-25% earnings growth in 2014 and 10-15% in 2015 and 2016. Credit Suisse expects an

11% fall in FY17 **residential** earnings as the cycle moderates. The broker thinks the Frasers' offer will be hard to beat and a counter offer from Stockland ((SGP)) is unlikely. Credit Suisse sets the target at the bid price of \$4.48, which is above the broker's takeover valuation of \$4.40, and lowers the rating to Neutral from Outperform.

Bendigo & Adelaide ((BEN)) downgraded to Neutral from **Buy** by BA-Merrill Lynch. **B/H/S**: 1/6/0

The broker is downgrading to Neutral from **Buy**. The bank is fundamentally attractive and better positioned from a regulatory perspective compared with the majors but its recent performance is reflected in the share price, in Merrills' view. The stock is up 14% since April while the sector is up 3%. The broker acknowledges a key risk in relation to the Great Southern class action has now been removed, as an agreement has been concluded with investors. The target is steady at \$12.20.

Blackmores ((BKL)) downgraded to Neutral from Overweight by JP Morgan. **B/H/S**: 0/1/0

The broker downgrades to Neutral from Overweight and trims earnings forecasts slightly for the outer years, leading into the FY14 result. The target is rolled forward to \$26.10 from \$25.49.

Insurance Australia ((IAG)) downgraded to Neutral from Outperform by Macquarie. **B/H/S**: 0/6/2

IAG has pre-announced an insurance margin well ahead of guidance. But notwithstanding synergies from the incorporation of the Wesfarmers' **business**, the rate of premium growth is slowing and IAG's share price is currently reflecting a favourable claims environment, the broker notes. Having pre-released its result "surprise", there'll be no more surprises at the actual result release, the broker suggests. Downgrade to Neutral. Target unchanged at \$6.20.

Iluka Resources ((ILU)) downgraded to Underperform from Neutral by Credit Suisse. **B/H/S**: 5/1/2

Disappointing sales in the first half have led Credit Suisse to downgrade its rating to Underperform from Neutral. The **company** has advised that 2014 sales may only match 2013's 370,000t. The broker slashes zircon sales forecasts across the forward estimates with a view that 300-500,000 tonnes per annum is looking like the new norm. Titanium dioxide is picking up but still disappoints. The broker continues to wait for a recovery in the price of mineral sands to consider Iluka attractive. The target is reduced to \$8.50 from \$9.00.

Investa Office ((IOF)) downgraded to Neutral from **Buy** by BA-Merrill Lynch. **B/H/S**: 2/4/1

The broker is downgrading to Neutral from **Buy** following the stock's performance over the past year. While speculation of a possible takeover may underpin the share price the broker thinks the current trading range factors most upside into the stock. Merrills has analysed the potential impact if either GPT ((GPT)) or Mirvac ((MGR)) acquired Investa. In both instances the broker envisages limited capacity to pay above the current share price. The price target is raised to \$3.61 from \$3.23.

Macquarie Atlas Roads ((MQA)) downgraded to Neutral from Overweight by JP Morgan. **B/H/S**: 1/4/0

The broker continues to view the stock as an investment **company** leveraged to improving economic conditions in the Eurozone, particularly France, as well as the US state of Virginia. With the stock now trading above the target the broker downgrades to Neutral from Overweight. The \$3.22 target is retained. A sustained reversal in Australian dollar strength would be a potential positive catalyst.

Nufarm ((NUF)) downgraded to Neutral from Outperform by Credit Suisse. **B/H/S**: 2/6/0

A month ago the broker was confident in its Outperform rating for Nufarm, driven by growth in Brazil. But in the interim, soft commodity prices have fallen in the region and may yet fall further, pressuring farmers to turn to cheaper pesticides, the broker suggests. The broker has thus cut earnings forecasts, its target to \$4.90 from \$5.00 and its rating to Neutral from Outperform.

Orora ((ORA)) downgraded to Neutral from Outperform by Macquarie. **B/H/S**: 7/1/0

Ahead of Orora's maiden result, the broker has reduced FY15 forecast earnings by 6% to reflect a slower Botany ramp-up but rolled forward discounted cash flow to produce a target increase to \$1.51 from \$1.40. The broker notes ORA is trading on a premium multiple to international peers and given a preference for Amcor ((AMC)) and Pact **Group** ((PGH)) in the space, the broker downgrades ORA to Neutral.

Sandfire Resources ((SFR)) downgraded to Reduce from Hold by CIMB Securities. **B/H/S**: 3/3/2

CIMB has had to downgrade FY15 estimates following guidance for lower grades and higher costs than previously modelled. The target is reduced to \$5.50 from \$6.00 and the rating downgraded to Reduce from Hold. The broker acknowledges there were some strong results on the operational front in the June quarter

but lower milled **copper** grades and a dip in recoveries caused production to miss forecasts. This highlights the challenges for single mine companies in delivering to high market expectations, in CIMB's opinion.

SEEK ((SEK)) downgraded to Sell from Neutral by UBS. **B**/H/S: 2/4/2

UBS has initiated coverage of SEEK's 67% owned **Chinese** subsidiary Zhaopin following its IPO. The broker has put a **Buy** rating on Zhaopin, but has downgraded parent SEEK to Sell on the local market. The Zhaopin IPO has left the stock in a stronger position to drive growth, the broker notes, but it failed to crystallise value for shareholders. The local market is valuing SEEK at a 22 times FY15 price/earnings but Zhaopin is valued only at 10.3 times, yet SEK already boasts 70% market penetration while Zhaopin offers plenty of upside from 15%, the broker points out. SEEK target falls to \$13.50 from \$14.50.

Sigma Pharmaceuticals ((SIP)) downgraded to Neutral from Outperform by Macquarie. **B**/H/S: 0/6/1

With supermarkets moving more aggressively into the health and beauty space, which the broker estimates represents around 30% of pharmacy sales, more pharmacy insolvencies and distributor bad debts may result. Sigma has nevertheless reduced the potential impact through various measures including tighter credit controls. The broker remains positive on Sigma's longer term outlook but near term structural headwinds are making current valuation look a bit stretched. Target retained at 74c but rating downgraded to Neutral.

Total Recommendations | Recommendation Changes

Broker Recommendation Breakup

Broker Rating

Order | **Company** | Old Rating | New Rating | Broker

Upgrade

- 1 | ATLAS **IRON** LIMITED | Sell | Neutral | BA-Merrill Lynch
- 2 | AUSENCO LTD | Sell | Neutral | JP Morgan
- 3 | DRILLSEARCH **ENERGY** LIMITED | Sell | Neutral | JP Morgan
- 4 | HENDERSON **GROUP** PLC. | Neutral | **Buy** | Macquarie
- 5 | IOOF HOLDINGS LIMITED | Neutral | **Buy** | Citi
- 6 | RAMSAY HEALTH CARE LIMITED | Neutral | **Buy** | BA-Merrill Lynch
- 7 | SIMS METAL MANAGEMENT LIMITED | Neutral | **Buy** | Macquarie
- 8 | The a2 **Milk Company** Limited | Sell | Neutral | Credit Suisse

Downgrade

- 9 | ATLAS **IRON** LIMITED | Neutral | Sell | Macquarie
- 10 | AUSTRALAND **PROPERTY GROUP** | **Buy** | Neutral | Credit Suisse
- 11 | AUSTRALIAN PHARMACEUTICAL INDUSTRIES | **Buy** | Neutral | Macquarie
- 12 | BENDIGO AND ADELAIDE BANK LIMITED | **Buy** | Neutral | BA-Merrill Lynch
- 13 | Blackmores Limited | **Buy** | Neutral | JP Morgan
- 14 | ILUKA RESOURCES LIMITED | Neutral | Sell | Credit Suisse
- 15 | INSURANCE AUSTRALIA **GROUP** LIMITED | **Buy** | Neutral | Macquarie
- 16 | INVESTA OFFICE FUND | **Buy** | Neutral | BA-Merrill Lynch
- 17 | MACQUARIE ATLAS ROADS **GROUP** | **Buy** | Neutral | JP Morgan

18 | NUFARM LIMITED | **Buy** | Neutral | Credit Suisse

19 | ORORA LIMITED | **Buy** | Neutral | Macquarie

20 | SANDFIRE RESOURCES NL | Neutral | Sell | CIMB Securities

21 | SEEK LIMITED | Neutral | Sell | UBS

22 | Sigma Pharmaceuticals Ltd | **Buy** | Neutral | Macquarie Recommendation

Positive Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous Rating | New Rating | Change | Recs

1 | DLS | DRILLSEARCH **ENERGY** LIMITED | 25.0% | 50.0% | 25.0% | 4

2 | IFL | IOOF HOLDINGS LIMITED | 14.0% | 29.0% | 15.0% | 7

3 | SHL | SONIC HEALTHCARE LIMITED | 50.0% | 63.0% | 13.0% | 8

4 | RHC | RAMSAY HEALTH CARE LIMITED | 13.0% | 25.0% | 12.0% | 8

5 | SGM | SIMS METAL MANAGEMENT LIMITED | 13.0% | 25.0% | 12.0% | 8

6 | WES | WESFARMERS LIMITED | - 25.0% | - 13.0% | 12.0% | 8

7 | SKE | SKILLED **GROUP** LIMITED | 50.0% | 60.0% | 10.0% | 5

8 | HGG | HENDERSON **GROUP** PLC. | 60.0% | 67.0% | 7.0% | 6 Negative Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous Rating | New Rating | Change | Recs

1 | MQA | MACQUARIE ATLAS ROADS **GROUP** | 50.0% | 17.0% | - 33.0% | 6

2 | API | AUSTRALIAN PHARMACEUTICAL INDUSTRIES | 75.0% | 50.0% | - 25.0% | 4

3 | ALZ | AUSTRALAND **PROPERTY GROUP** | 29.0% | 14.0% | - 15.0% | 7

4 | IOF | INVESTA OFFICE FUND | 29.0% | 14.0% | - 15.0% | 7

5 | NUF | NUFARM LIMITED | 38.0% | 25.0% | - 13.0% | 8

6 | ORA | ORORA LIMITED | 100.0% | 88.0% | - 12.0% | 8

7 | BEN | BENDIGO AND ADELAIDE BANK LIMITED | 25.0% | 13.0% | - 12.0% | 8

8 | SFR | SANDFIRE RESOURCES NL | 25.0% | 13.0% | - 12.0% | 8

9 | IAG | INSURANCE AUSTRALIA **GROUP** LIMITED | - 13.0% | - 25.0% | - 12.0% | 8

10 | ILU | ILUKA RESOURCES LIMITED | 50.0% | 38.0% | - 12.0% | 8 Target Price

Positive Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous Target | New Target | Change | Recs

1 | SGM | SIMS METAL MANAGEMENT LIMITED | 10.986 | 11.313 | 2.98% | 8

2 | DLS | DRILLSEARCH **ENERGY** LIMITED | 1.778 | 1.825 | 2.64% | 4

3 | SHL | SONIC HEALTHCARE LIMITED | 18.078 | 18.434 | 1.97% | 8

4 | IOF | INVESTA OFFICE FUND | 3.336 | 3.390 | 1.62% | 7

5 | IAG | INSURANCE AUSTRALIA **GROUP** LIMITED | 5.775 | 5.848 | 1.26% | 8

6 | NUF | NUFARM LIMITED | 4.663 | 4.719 | 1.20% | 8

7 | SFR | SANDFIRE RESOURCES NL | 6.594 | 6.669 | 1.14% | 8

8 | BEN | BENDIGO AND ADELAIDE BANK LIMITED | 11.691 | 11.809 | 1.01% | 8

9 | RHC | RAMSAY HEALTH CARE LIMITED | 47.320 | 47.658 | 0.71% | 8
 10 | ORA | ORORA LIMITED | 1.564 | 1.575 | 0.70% | 8 Negative Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous Target | New Target | Change | Recs

1 | ILU | ILUKA RESOURCES LIMITED | 10.088 | 10.038 | - 0.50% | 8
 2 | WES | WESFARMERS LIMITED | 41.399 | 41.270 | - 0.31% | 8
 3 | API | AUSTRALIAN PHARMACEUTICAL INDUSTRIES | 0.660 | 0.658 | - 0.30% | 4
 4 | IFL | IOOF HOLDINGS LIMITED | 9.327 | 9.306 | - 0.23% | 7
 5 | SKE | SKILLED **GROUP** LIMITED | 3.080 | 3.074 | - 0.19% | 5 Earning Forecast

Positive Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous EF | New EF | Change | Recs

1 | WSA | WESTERN AREAS NL | 10.000 | 10.729 | 7.29% | 7
 2 | SUN | SUNCORP **GROUP** LIMITED | 84.975 | 89.988 | 5.90% | 8
 3 | OSH | **OIL** SEARCH LIMITED | 38.396 | 39.690 | 3.37% | 7
 4 | IAG | INSURANCE AUSTRALIA **GROUP** LIMITED | 52.550 | 53.913 | 2.59% | 8
 5 | WPL | WOODSIDE PETROLEUM LIMITED | 327.402 | 332.368 | 1.52% | 7
 6 | BSL | BLUESCOPE STEEL LIMITED | 19.910 | 20.139 | 1.15% | 7
 7 | MIN | MINERAL RESOURCES LIMITED | 126.725 | 127.725 | 0.79% | 3
 8 | TWE | TREASURY **WINE** ESTATES LIMITED | 16.460 | 16.563 | 0.63% | 8
 9 | AWC | **ALUMINA** LIMITED | 0.201 | 0.202 | 0.50% | 8

10 | IPL | INCITEC PIVOT LIMITED | 19.763 | 19.850 | 0.44% | 8 Negative Change Covered by > 2 Brokers

Order | Symbol | **Company** | Previous EF | New EF | Change | Recs

1 | AGO | ATLAS **IRON** LIMITED | 8.510 | 1.850 | - 78.26% | 8
 2 | NCM | NEWCREST **MINING** LIMITED | 53.273 | 23.638 | - 55.63% | 8
 3 | GRR | GRANGE RESOURCES LIMITED | 2.300 | 1.775 | - 22.83% | 3
 4 | SFR | SANDFIRE RESOURCES NL | 66.616 | 53.030 | - 20.39% | 8
 5 | SGM | SIMS METAL MANAGEMENT LIMITED | 44.511 | 36.374 | - 18.28% | 8
 6 | BDR | BEADELL RESOURCES LIMITED | 15.240 | 13.640 | - 10.50% | 4
 7 | MQA | MACQUARIE ATLAS ROADS **GROUP** | 13.450 | 12.100 | - 10.04% | 6
 8 | MGX | Mount Gibson **Iron** Limited | 12.570 | 11.320 | - 9.94% | 7
 9 | ARI | ARRIUM LIMITED | 23.830 | 22.388 | - 6.05% | 8
 10 | STO | SANTOS LIMITED | 67.783 | 64.520 | - 4.81% | 7 Technical limitations

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