

HD MARKET MILDLY LOWER AT MIDDAY

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The S&P/ASX200 is down 25 points to 5511.1 at midday on good volume worth \$2.1 **billion**. There are 369 issues higher and 466 down. The SPI Futures is down 19 points to 5514 on light volume of 9172 contracts. Aussie 10 year bond yields are down 1 point to 3.92%. The \$A is at 92.38 US c, down about 20 points on early levels.

*The banks have contributed 5.5 negative points to the index, insurers have contributed 0.6 negative points, resources have contributed 9 negative points, **property** trusts have contributed 0.5 positive points, retailers have contributed 3.6 negative points and Telstra has contributed 0.2 positive points.

*The Nikkei Dow is closed on holiday. Shanghai CSI physical is up 1.17 points to 2004.66, Hang Seng futures is down 19 points to 22,138 points. S&P futures is up 1.2 points to 1867.2, Nasdaq futures is up 4.25 points to 3545 points, Dow futures are up 11 points to 16,408 points. Spot **gold** is steady at \$1296. Crude is up 4c to \$100.88.

Our market has again teetered on either side of flat all morning, as uncertainty on Ukraine, **China** (the official manufacturer PMI is due out shortly - **iron ore** prices were sharply lower last night), our Budget and the usual tax loss selling ahead of the June close off weighs on investors.

"For today, I expect the market will rise about 20 points"

"Maree" said, "It looks today as if we will have a gain on the market."

"There has been a lot of focus on Australia's (lower) growth. We have not made new highs like the rest of the world, we have factored in a lot of this slowdown. We have factored in **China's** slowing. A lot of the negatives from the forthcoming Budget have also been factored in - we expect it will be in deficit, may be another 5/10 years.

"While the \$A is too high for manufacturing exporters and others, the Aussie dollar at current levels keeps inflation restrained. If the \$A was weak the RBA would probably be forced to lift interest rates - and we know the level of debt for households is alarmingly high. I don't think a weaker \$A would get us out of trouble.

"Meanwhile, we have the 4th largest level of funds under management in the world.

"For today, I expect the market will rise about 20 points'.

The S&P/ASX200 closed at 5536.1, up 5.1 points last evening.

TOP STOCKS

*Wesfarmers is down 60c to \$43.29 on 3m shares after an excellent quarterly sales result - perhaps on investors reducing their stakes in the "over valued" category at present.

*Santos is up 13c to \$13.65 on 1.8m shares and **Oil** Search is up 13c to \$8.93 on 2.84m shares on the report below.

*ROC is up a half cent to 46c on 1.3m shares and Horizon is down 2c to 35c on 7.3m shares after their merger announcement. Both have also released quarterlies, yet to be entered apologies.

*Goodman Fielder is up another 2.7c to 66.2c on 36.6m shares.

Among the financials, AMP is down 5c to \$5.07 on 5.7m shares, ANZ has shed 21.5c to \$34.72.5 on 5.7m shares, CBA is down 14c to \$79.31 on 1.2m shares, NAB has shed 41c to \$35.58 on 3.18m shares, Westpac is down 26c to \$35.670 on 2.6m shares.

Among the TMT's Telstra is steady at \$5.20 on 12.4m shares, Telecom NZ is up 3.5c to \$2.49.5 on 785,182 shares, SingTel has gained .5c to \$3.23.5 on 574,454 shares.

Among the resources BHP is down 40c to \$37.47 on 3.2m shares, RIO is down \$1.02 to \$61.04 on 1.3m shares. Fortescue is down 19c to \$4.93 on 17.9m shares, Atlas is down 1.8c to 90.7c on 4.5m shares, OZL fell 8.5c to \$3.65.5 on 381,425 shares. Paladin rose a half cent to 45c on 3.18m shares.

Among the oils, Woodside is up 5.5c to \$41.13.5 on 1.1m shares, AWE is up .5c to \$1.59.5 on 1.14m shares, has also reported its quarterly, yet to be entered, Karoon is down 8.5c to \$2.60.5 on 382,287 shares.

Among the golds, Newcrest is down 22.5c to \$10.51.5 on 1.9m shares, Resolute is down 3c to 62.5c on 2.4m shares, St Barbara is down 1.3c to 21.7c on 3.1m shares, also quarterly yet to be entered apologies. Alacer is down 5.5c to \$2.59.5 on 98,821 shares.

AT THE SMALLER END

*Valence is up 2.5c to 45.5c on 276,000 shares on the first export of graphite from Australia for 20 years, more below in mid to small resources.

*Cynata is up 7.5c to 40c on 136,000 shares on its quarterly report, yet to be entered apologies. (CYP is also the subject of our Week's Special, due out Friday).

*GBI is untraded, last at 14c, also report below.

*Promesa has gained 1.1c to 3.3c on 13.12m shares on the report below.

*Nanosonics is up 8c to 88.5c on 582,045 shares.

NEWS OF THE DAY

Ex div:MFF ex 1c;PPK ex 1.5c.

LARGE CAP INDUSTRIALS

*AIO: Quarterly haulage lifts vs pcg

Asciano Ltd in its third quarter volume update said for Pacific National, **coal** net tonne kilometres (NTK) were up 22.7% to 7,304 **million** vs the previous corresponding period. **Coal** tonnes hauled rose 21.8% to 40.8 **million**. Bulk rail NTK's fell 11.7 to 1,362 **million** NTK's.

Coal South East Australia tonnage hauled rose 16.7% and NTK's rose 14.5% over the pcg. **Coal** North East Australia tonnes hauled rose 44.4% and NTK's increased 35.7% over the pcg.

coal tonnes hauled vs contracted was 91% for the quarter with the **Coal** South East Australia region performing very strongly.

Other Bulk Rail NTKs fell 11.7% on the quarter primarily reflecting 22% decline in export grain volumes, offset to an extent by increases in construction related volumes.

*MSB: Japan progress/Prochymal Phase 3 trial for Crohn's disease to resume

Mesoblast Ltd advised in an update on its clinical programs using the product Prochymal acquired as part of the entire culture expanded mesenchymal stem cell business of Osiris Therapeutics that the key aspect for the acquisition was the potential for early and significant revenue streams using Pro chymal, the world's first approved allogeneic stem cell therapeutic and the only allogeneic stem cell therapeutic designated by the US FDA as both an Orphan and Fast Track product.

Mesoblast will meet with the US FDA shortly to discuss potential pathways for accelerated Prochymal product approvals for the treatment of steroid-refractory acute GVHD. In Japan, Mesoblast collaborator JCR Pharmaceuticals is expanding its manufacturing facility to prepare for the **commercial** launch of its MSC product JR-031. The product was granted orphan drug status in December 2013 and as a result will be subject to an expedited review.

Mesoblast expects to have a read out of the end of the year on whether the primary endpoint of day 28 remission in Crohn's disease biologic-refractory patients has been achieved and whether there is evidence of efficacy in high risk groups.

(Osiris had announced positive results from a pilot Phase 1/2 in 2006 for Prochymal in treatment of patients with moderate to severe Crohn's disease.

A Phase 3 trial had followed, with a pre-determined futility analysis resulting in temporary cessation of recruitment. MSB now intends to complete this Phase III trial).

*WES: Coles sales up 3.6% in 3rd qtr despite Easter falling in April

Wesfarmers Ltd in retail sales for the third quarter of 2014 reported:

Food & Liquor sales rose 3.9% to \$6.734 **billion**, convenience sales rose 2.4% to \$1.905 **billion** for total Coles sales up 3.6% to \$8.639 **billion**.

Home improvement sales were up 12.3% to \$2.086 **billion**.

Office supplies sales were up 6.7% to \$445 **million**.

Target sales were down 3.6% to \$674 **million**.

Kmart sales were up 0.4% to \$845 **million**.

Year to date total Coles sales were up 4.7% to \$27.9 **billion** vs the previous corresponding period.

Home Improvement sales year to date were up 11% to \$6.516 **billion** and office supplies sales were up 5.3% to \$1.189 **billion**.

Target sales year to date were down 4.8% to \$2.687 **billion**, Kmart sales were up 0.2% to \$3.210 **billion**.

Coles managing director Ian McLeod said the comparable sales growth was pleasing, particularly given the restrictions on fuel discounts from January 1 2014 and against the strong comparative sales achieved in the same period last year.

Wesfarmers managing director Richard Goyder said the retail sales performance was similar to last year, particularly considering the impacts of an Easter that fell in March last year.

Bunnings performance for the quarter was very strong with total sales up 12.3% on last year, Officeworks' total sales were 6.7% above last year.

Analyst's comment: A leading broker on April 24 retained an "underweight" on Wesfarmers with a price target of \$41.23. the broker said Coles like for like growth is expected to moderate to up 2.7% like for like with Bunnings to remain strong, up 5.3% like for like, Kmart to remain subdued with Target weakness remaining.

Resources prices continue to fall (the broker forecasts \$US120/tonne for the hard coking **coal** price) and said it retained an "underweight" due to valuation.

*WES: **Coal** production up on pcip, MDL 162 to be progressed

Wesfarmers Ltd in its quarterly statement of production, development and exploration said at Curragh overburden removal was 9.8% lower than the previous quarter due to a planned 11 week major dragline shutdown commencing in February.

Coal production was 3,205,000 tonnes (comprising 2,375,000 tonnes of metallurgical **coal** and 830,000 tonnes of steaming **coal**), 9% higher than the previous quarter due to improved plant performance during the quarter.

For the 12 months to March 31 metallurgical **coal** production rose 8.2% to 8,382,000 tonnes with the prior comparable period impacted by a scheduled shut down and wet weather associated with Cyclone Oswald in early 2013. On the development front, in January 2014 the resources division acquired Mineral

Development Licence 162. MDL 162 is located between and adjacent to the Curragh and Curragh North **mining** leases with the **acquisition** to augment the total base of **coal** reserves potentially available for **mining** and processing at Curragh's **coal** handling and preparation plants. The additional **coal** reserves are expected to extend Curragh's mine life and provide future options to further optimise mine **operations**. A feasibility study has commenced with respect to potential future development of MDL162.

Wesfarmers share of **coal** production at Bengalla (WES 40%) was 948,000 tonnes for the quarter, up 18.9% on the previous corresponding quarter due to **operations** in a more productive section of the **mining** sequence.

LARGE CAP RESOURCES

*KCN: Qtr prod in line, affirms full year guidance, cash+dore \$51.7m

Kingsgate Consolidated Ltd for the three months ended March 31 announced **gold** production was 48,725 ozs vs 47,509 ozs for the previous corresponding period (pcp) and vs 54,539 ozs produced in the December 2013 quarter.

Chatree produced 31,609 ozs of **gold** at \$US805/oz and Challenger produced 17,116 ozs of **gold** at \$US1,293/oz for the quarter.

Total cash costs including royalty were \$US977/oz vs \$US1,040/oz for the pcp and vs \$US915/oz for the December quarter.

Average **gold** price received was \$US1,274/oz in the March quarter vs \$US1,625/oz for the pcp and vs \$US1,285/oz for the December quarter.

Chatree **gold** mine in Thailand produced 31,609 ozs of **gold** at \$US805/oz and Challenger **gold** mine in South Australia produced 17,116 ozs at \$US1,293/oz for the quarter.

The balance sheet was strengthened with an institutional placement and accelerated entitlement issue completed, raising \$28.5 **million** before costs. The retail component completed in April raised an additional \$30.9 **million** before costs.

The definitive feasibility study for the Nueva Esperanza silver/**gold** project in Chile confirmed robust project economics.

Field work at Bowdens in NSW was reduced to a minimum, expected to rise in the next two quarters to meet the timetable for EIS lodgement.

A search for the new CEO is well advanced. Gavin Thomas will remain on the **board** as an executive director.

Cash and bullion/dore totalled \$51.7 **million** comprising cash of \$37.4 **million**, bullion/dore of \$14.3 **million**. At quarter end Kingsgate had \$40 **million** outstanding under its restructured corporate debt facility and approximately /4US107 **million** outstanding under the Akara loan facility.

Outlook

Kingsgate is on track to meet **gold** production guidance for the year of between 190,000/210,000 ozs including 120,000/130,000 ozs from Chatree and 70,000/80,000 ozs from Challenger.

*OSH/STO: Exxon announces first PNG LNG cargo now before mid year

Exxon Mobil Corporation announced production of LNG from the first PNG LNG project train has started ahead of schedule with the first cargo now expected to be shipped before mid year and LNG production from the second train expected to start in the next several weeks.

Oil Search MD Peter Botten said in the report the start of production from the PNG LNG project (OSH 29%) represents a transformational milestone for both **Oil** Search and Papua New Guinea. Based on this new information we now expect OSH's 2014 production to be in the range of 14.5/17.5Mboe vs 13/16Mboe guidance range previously.

Santos MD David Knox said delivery of the PNG LNG project is a key step in Santos' strategy to become a major LNG supplier to Asia. PNG LNG will quadruple Santos' LNG production once the project reaches full output.

Santos' GLNG project also continues to make good progress and remains on track for first LNG next year within the current budget. Santos has a 13.5% interest in the PNG LNG project.

*PAN: Record qtr Ni production, lifts guidance again, \$67m cash in hand

Panoramic Resources Ltd in its quarterly report said in significant points **group** nickel production was a record 5,731 tonnes for the quarter on cash costs down to \$5.18/lb inclusive of royalties.

Savannah production was up 18% to 2,375 tonnes Ni with receivable cash costs at \$4.81/lb Ni inclusive of royalties down 23%.

Lanfranchi production was 3,356Ni in **ore** at \$5.48/lb Ni inclusive of royalties.

At the Gidgee **gold** project the feasibility study is on track for delivery in the June 2014 quarter.

At Mt Henry (PAN 70%) the Bankable Feasibility Study is on track for delivery in the June 2014 quarter.

At Panton, Panoramic is planning to commence test work on the Panton PGM drill core samples. The strategy remains to find a strategic partner for the PGM assets.

Liquid assets rose 26% to \$67 **million** at quarter end with the cash balance building quickly.

Guidance: Based on the record quarterly production result the 2014 production guidance was increased again to 21,500/22,000 tonnes of contained nickel in concentrate/**ore**.

*ROC/HZN: All scrip merger of equals proposal

ROC **Oil** Ltd and Horizon **Oil** Ltd announced an all scrip merger of equals agreement. HZN shareholders will receive 0.724 ROC shares for each Horizon **Oil** share they hold.

Mike Harding, the current chairman of ROC will be chairman of the merged **group** and Brent Emmett, current CEO of Horizon will be CEO and MD of the merged **group**. Fraser Ainsworth the current chairman of Horizon will be appointed a non exec director and Alan Linn, current CEO of ROC will continue as President of ROC **Oil** Malaysia until April 2015.

The proposed merger has the unanimous support of both the ROC and Horizon **Oil** Boards. Following completion of the merger ROC shareholders will own approximately 42% of the merged **group** and Horizon **Oil** approximately 58%.

*WHC: Maules Creek on time and on budget/9 month prod up on pc

Whitehaven **Coal** in its quarterly report announced in highlights all major construction contracts for Maules Creek have been let at or below budgeted costs. Construction progress of the Maules Creek project was 36% complete and on schedule and budget at end March. Operating lease financing has been secured for overburden and coaling fleet necessary for the initial 6Mtpa phase with no use of Whitehaven capital and at very attractive financing rates.

The second longwall change out at Narrabri was completed in time and on budget, longwall **mining** at Narrabri is expected to recommence within 2/3 weeks.

Year to date ROM and saleable **coal** production was 7.7Mt and 7.4Mt up 14% and 25% respectively higher than the pc. **Coal** sales reached 7.9Mt for the nine months, 25% higher than the pc.

MID TO SMALL INDUSTRIALS

*BFG: Bell Direct chosen by Macquarie for white label share trading platform

Bell Financial **Group** executive chairman Colin Bell announced its online broking business Bell Direct has been chosen by the Macquarie Banking and Financial Services **Group** to provide a white label share trading platform that offers integration with the Macquarie Cash Management Account. Bell Direct CEO Arnie Selvarajah said the Bell Direct platform integrated easily into existing systems. Bell Direct recently signed a similar agreement with HSBC Australia.

*FXL: Mapping out 6 yr strategy of growth to \$200m NPAT by 2020 - Fin Rev

The Fin Review says FlexiGroup has hired consultants Bain & Co to conduct a sweeping review of its **operations** and map out a six year strategy partly based on an aggressive **acquisition** strategy - targeting \$200 **million** in net profits by 2020, nearly triple the \$72 **million** of 2013.

*GBI: Genera's HPV tests could become substantial **commercial** opportunity

Genera BioSystems Ltd executive chairman Lou Panaccio said the MSAC recommendations for a new PAP test is good news for Australian women as HPV testing has the potential to provide superior patient outcomes together with extended screening intervals.

Full genotyping of high risk types that cause 99.7% of all cervical cancer has the potential to substantially increase specificity of an HPV test.

If the MSAC recommendations are accepted, HPV testing in Australia will become a substantial **commercial** opportunity for Genera from 2016. Genera's PapType simultaneously genotypes all 14 high risk HPV types.

*GEM: Acquiring another 7 childcare and education centres for \$16.3mln

G8 Education Ltd announced contracts in place for the **acquisition** of 7 premium childcare and education centres from a number of different vendors, to be funded from existing cash and bank facilities Subject to satisfaction of the customary licensing and landlord approvals, the total **purchase** price for the 7 centres is \$16.3 **million**, payable at settlement. The centres are expected to contribute to EBIT immediately on settlement. The **transaction** will increase the number of places by 495.

*PSH/LCE: Lodges notice of claim/calls for govt enquiry into Penrice

London City Equities announced they have lodged a notice of claim in connection with the Creditors Meeting of Penrice foreshadowed for April 28, saying LCE lost over \$6 **million** investing in Penrice and called for a full governmental investigation into Penrice. (Apr 28)

Our add: While LCE has been a disgruntled shareholder and sought without success for payout through various actions over the years, the Fin Review today reported administrators from McGrath Nicol said they were faced with an inefficient and ageing manufacturing plant dating back to 1935 describing it as a "highly distressed business' starved of cash.

They said while they saw some early signs of stability having been reached in the business, it would take a number of weeks before the administrators could confidently say that it had been fully stabilised. NAB is owed \$56 **million** and Westpac \$55 **million**. There are unsecured creditors owed \$14 **million** while the 180 employees are collectively owed \$4.5 **million** in employee entitlements.

Among the creditors Ridley Corp has put in a claim for \$27.6 **million**. Adelaide Brighton is claiming for 413,000, Scott's Transport Industries for \$1.43 **million**, Envestra for \$56,100 and Momentum **Energy** for \$648,000.

MID TO SMALL RESOURCES

*GPR: Further strong Au/Cu results at Kou Sa, Cambodia

GeoPacific Resources Ltd announced preliminary **gold** assays from follow up RC drilling at the 150 Prospect have extended the strike length of high grade **gold** values to at least 300m in an emerging **gold** and **copper** system at the **company's** Kou Sa project in Cambodia. .

Drilling highlights include 32m at 25.04 gpt Au and 1.31% Cu from 16m, 33m at 5.02gpt Au and 0.95%Cu from surface, supporting the initial discovery of 3.9m at 16.5gpt Au in KDH2.

*MAT: New assays inc 13m at 1.52% Ni, 0.012% Cu, 0.035% Co at Symons Hill

Matsa Resources Ltd announced significant new nickel assays at its Symons Hill project including an intercept of 13m at 1.52% Ni, 0.012% Cu, 0.035% Co in weathered serpentinised dunite at SGH03. The phase 3 aircore drilling program has been completed for a total of 495 drillholes and 17,264 **m**.

A total of 4,505 composite samples up to 4m in length were submitted for assay with 3,203 assays received to date.

A total of 495 end of hole samples were submitted for comprehensive lithogeochemical suite assays with 321 of the assays received. Three induced polarisation survey lines were completed in each of SHG01, SHG02 and SHG03.

moving Loop ground EM surveys were temporarily suspended to avoid interference with IP surveys and will now recommence.

*TRY: Paul Benson, MD and CEO gives notice of resignation

Troy Resources Ltd announced Paul Benson, MD and CEO has given his notice of resignation from his role with the **company**. Mr Benson will work with the **board** to ensure a smooth transition to his successor. Chairman David Dix paid tribute to Paul Benson for his outstanding service since joining the **company** in October 2007. Mr Benson said with **operations** in South America, he is spending a lot of time away from home and is looking forward to an extended break to spend time with his family. "Over the longer term I am looking forward to watching the value of my shareholding in Troy appreciate" he added.

*VXL: Graphite sales commence - first Australian graphite sales in over 20 yrs

Valence Industries announced it has **sold** its first graphite, the first sales in Australia for over 20 years. Shipments to Japan are to commence in the coming weeks.

Uley Graphite from reprocessed material will be used for applications ranging from industrial lubricants and refractories to battery applications.

Valence Industries' Phase 1 Re-commisisoning program continues.

(Our note: The Uley graphite resource is 1.9Mt indicated and 4.5Mt inferred in high grade flake graphite at a 3.5% graphitic carbon lower cut off grade with metallurgy confirming high process grades. It produced graphite for export from the 1800's up until 1993.

The mine is located on the southern Eyre Peninsula within 22 km of Port Lincoln with established regional support infrastructure and multi modal transport facilities.

Eagle Bay Resources had earlier struggled to commence production from Uley Graphite for many years, later changed hands several times.

July 26 1999: flake graphite upto 95% pure carbon has been produced.

CRA had previously estimated the mineralisation at Uley to be 387m tonnes at

7.4% graphite. While on care and maintenance, additional exploration

indicated a new in situ indicated resource of 1.5 **million** tonnes at 15.3%

graphite providing a 50% lift in head grade, giving at least a 10 year mine life.

The **company** is confident that acceptable marketing arrangements with Japanese trading houses can be re-established.

In July 1999 research carried out by Eagle Bay together with the South Australian Mines

Department and the CSIRO have produced during laboratory a HiC Graphite

(99.9% carbon) from the low value fines discarded during coarse flake processing.

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