Market Opener

Friday, February 21, 2020

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Futures Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
E-mini S&P 500 Futures	3371.5	-15.75	-0.46
E-mini Dow Futures	29188	-149	-0.51
E-mini NASDAQ 100 Futures	9631	-102.5	-1.05
SFE 200 Futures	7109	-1	-0.01

Local Market Commentary

Investors fled for safety overnight on the back of fresh coronavirus fears. The Australian sharemarket felt the brunt of it on Thursday afternoon as it retreated from record highs, but could suffer further falls to start the day this morning. At 7.45am AEDT, futures are pointing to a drop of 1 point at the open.

The ASX200 managed to rally to new record highs yesterday, as the night prior's Wall Street lead, along with lower bond rates, supported a run into equity markets.

The market touched an intraday high of 7197, before selling off on those fresh coronavirus fears, to close trade a relatively modest 0.2 per cent higher for the session. The gains were broad-based, consumer stocks topping the market-map. Growth names in the health care and IT sector were the laggards.

World Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
Dow Jones	29210.59	-137.44	-0.47
S & P 500	3371.81	-14.34	-0.42
NASDAQ	9735.6629	-81.5166	-0.83
FTSE 100	7436.64	-20.38	-0.27
DAX 30	13664	-125	-0.91
CAC 40	6062.3	-48.94	-0.8
Milan MIB30	25080.16	-397.39	-1.56
Nikkei	23479.15	78.45	0.34
Hang Seng	27609.16	-46.65	-0.17
Hang Seng China Enterprises	10913.97	5.4	0.05
Straits Times	3198.68	-15.03	-0.47
Shanghai Composite	3030.1542	54.7523	1.84

Australian Stock Watch

Accent Group Ltd (AX1): Accent, Australia's largest footwear retailer, revealed same-store sales in the first seven weeks of the new half rose 3 per cent after posting a doubledigit increase in first-half sales supported by opening more new stores than expected. While many companies have warned about disruptions due to the coronavirus, chief executive Daniel Agostinelli said he did not expect any impact this half. The upbeat assessment came as the company reported first-half net profit rose 4.4 per cent to $33.6 million while earnings before interest and tax (EBIT) was up 11.1 per cent to $55.5 million, reports the AFR.

Ardent Leisure Group Ltd (ALG): Struggling Dreamworld operator Ardent Leisure is poised to announce it will seek a partnership deal for its Main Event division. As first reported by Street Talk, Goldman Sachs has been appointed to run a process that should test the appetite of potential private equity and strategic investors to partner up. Ardent is looking for a partner that will invest in the division and help support its growth. The announcement of the initiative will be made when Ardent hands down its half-year results today. The company's Main Event division is an entertainment business in North America, with 43 centres in states like Texas, Arizona, Georgia, Illinois and Colorado, among others. The centres are anchored around ten-pin bowling but also offer laser tag, high ropes adventure courses, billiards, video games and dining. Revenue from Main Event's 42 outlets across 27 US states rose 7.9 per cent to $US297.3 million last year, helped by the opening of one new store, but same store revenues fell 2 per cent, reports the AFR.

Austal Limited (ASB): Shipbuilder Austal says it is in a strong position to win more work as the US Navy acts on Congress orders to grow the fleet and pivot towards Asia. Austal is one of four companies in the running to build new guided missile frigates for the US Navy, with a decision expected by the end of September. The fleet expansion is also set to breathe new life into Austal's established Expeditionary Fast Transport (EPF) shipbuilding program. The Perth-based company reported net profit after tax of $40.8 million for the first half, up 72 per cent on the same period last year. Revenue increased by 22 per cent to $1.039 billion and earnings before interest and tax climbed 48 per cent to $59.9 million. The net profit after tax result beat consensus forecasts by more than 30 per cent and, in the case of Citi, by 35 per cent. Citi analyst Sam Teegar said a key positive for Austal was an increase in its US shipbuilding margin to 8.1 per cent through efficiencies in the EPF and littoral combat ship building programs, reports the AFR.

Beacon Lighting Group Ltd (BLX): Beacon Lighting says sales remain patchy in a subdued retail environment but it will not run

Overseas Markets & Gold Commentary

Gold prices are moderately up and have hit a seven-year high in midday U.S. futures trading Thursday. Featured this week in the precious metals markets is a marked uptick in safe-haven demand as the negative economic consequences from the coronavirus outbreak appear to be increasing. A sell-off in the U.S. stock market today worked to push the precious metals to daily highs in late-morning trading. April gold futures hit a new contract high and were last up $8.30 an ounce at $1,619.80. March Comex silver prices were last up $0.014 at $18.325 an ounce.

This week's impressive price performances in the gold and silver markets have prompted fresh technical and chart-based buyers to step in on the long sides of those markets.

The coronavirus outbreak remains on or close to the front burner of the global marketplace, and today the concerns seem a bit greater. China's central bank cut its one-year loan prime rate to 4.05% from 4.15% and the five-year loan rate to 4.75% from 4.80%. The move was not surprising and is an effort to keep the world's second-largest economy afloat as the negative impact of the covid-19 outbreak is growing. China's manufacturers are running out of needed materials and some have shut their doors. This situation is impacting global businesses and underscores the significance of the world supply chain that has many links in China.

There is now talk that with supply shortages of some commodities in China, those commodity prices could actually rise on the world market due to hoarding and China's manufacturers scrambling to procure those commodities. Such talk is ironic given the coronavirus has worked to crimp global economic growth, including pushing several raw commodity prices lower on expectations for reduced demand for them.

out of stock because of the coronavirus outbreak. The specialist lighting products retailer said it was well positioned with inventory ''to buffer against any potential product supply issues from China due to coronavirus''. Like-for-like sales, which strip out the impact of new store openings, were 1.9 per cent lower in the first half of 2019-2020. It generated a net profit after tax of $12.7 million in the six months ended December 31, compared with $11.7 million a year earlier, reports the AFR.

Bingo Industries Ltd (BIN): Credit Suisse sales trader Sujit Dey has sounded a note of caution on Bingo Industries in an email to clients, with the subject heading ''BIN – A closer look at the accounts.'' Dey points to Bingo's half-year numbers released yesterday, noting the waste management company managed to hit EBITDA estimates despite the weak top line ''because it managed to increase EBITDA margins to a record 33.7 per cent, compared to 27 per cent in the last two halves.'' Assuming Dial-A-Dump, which Bingo bought in 2018, contributed $90 million of additional revenue this half (since it did $180 million in FY19 as a stand-alone entity and no contribution to Bingo's 1H19 result), ''then the base business top-line went backwards by 13 per cent, which is not a good sign.'' When the company was asked about the large revenue miss on the conference call, Dey noted Bingo responded by saying that they focused on margin at the expense of volume, reports the AFR.

Boral Limited (BLD): Ailing building products group Boral has started a strategic review of its operations as it searches for a new chief executive, but current boss Mike Kane said this was not a forerunner of any break-up plan. Mr Kane said on Thursday the review was designed to give whoever became the new chief executive a head start in assessing each of the Boral businesses and their growth prospects. ''We are trying to do preliminary work in advance of changing of the guard here,'' he said. ''This is simply a preparatory analysis and pulling together of information.'' Mr Kane said he was in charge of the analysis and it would be given to the new chief executive. ''It's an analytical analysis of each of the businesses.'' The group on February 10 announced its fifth profit downgrade in two years and preliminary first-half results. The official set of numbers released on Thursday was identical, reports the AFR.

Carbon Revolution (CBR): The chief executive of high-tech carbon fibre wheel maker Carbon Revolution says there's no extra pressure from the share price soaring 60 per cent in three months since the group made its ASX debut. Carbon Revolution now has a sharemarket capitalisation of more than $500 million even though it only expects to move into profit on an earnings before interest, tax, depreciation and amortisation basis in the June quarter, as production of its lightweight wheels ramps up. That brings a sharemarket value well in excess of department store group Myer at $320 million, with the retailer battling in an industry in decline. The Myer business began in 1900 in regional Victoria but has been overtaken by a young and nimble manufacturer from another part of the state with its eyes on the world stage. Jake Dingle said the company, which is closing in on

International Economic Data

• **AU Employment Data** - Australia's seasonally adjusted unemployment rate rose to 5.3% in January 2020 from 5.1% in the previous month, above market expectations of 5.2%. It was the highest jobless rate since October last year, as the number of unemployed people increased by 31,000 to 725,900. People looking for full-time work went up by 19,600 to 508,500 and those looking for only part-time work increased 11,400 to 217,400. Employment rose by 13,500 to 12,995,400 and above estimates of a 10,000 gain. Fulltime employment grew 46,200 to 8,882,200, while part-time employment dropped 32,700 to 4,113,300. Meantime, the participation rate edged up 0.1 points to 66.1%, the highest in four months and slightly above forecasts of 66%. The underemployment rate rose to 8.6% in January from 8.3% in December, while the underutilisation rate went up 0.5 points to 13.9%. Monthly hours worked in all jobs fell by 8.1 million hours, or 0.4% to 1,781.8 million hours, reports ABS.

• US Jobless Claims - The number of Americans filling for unemployment benefits increased by 4 thousand to 210 thousand in the week ended February 15th from the previous week's revised level of 206 thousand and matching market expectations.

• **US EIA Natural Gas Stocks Change** - Working gas held in storage facilities in the United States decreased by 151 billion cubic feet in the week ending February 14 of 2020, reports TradingEconomics.

• **US EIA Crude Oil Stocks Change** - Stocks of crude oil in the United States increased by 0.414 million barrels in the week ended February 14th 2020, following a 7.459 million gain in the previous week and compared with market expectations of a 2.494 million gain, according to EIA Petroleum Status Report. Meanwhile, gasoline inventories went down by 1.971 million barrels after decreasing by 0.095 million in the previous week and compared with market consensus of a 0.435 million rise, reports TradingEconomics.

• **US EIA Gasoline Stocks Change** - Stocks of gasoline in the United States decreased by 1971 thousand barrels in the week ending February 14 of 2020, reports TradingEconomics.

Economic News This Week

• ***Today EU Inflation Rate***
• ***Saturday US Markit Composite PMI***
• ***Saturday US Existing Home Sales***
• ***Saturday US Baker Hughes Oil Rig Count***

an annual production rate of 32,000 wheels by the end of June from its factory at Waurn Ponds in outer Geelong, is focused on building a business of the future, reports the AFR.

Charter Hall Retail REIT (CQR): Charter Hall Retail REIT upgraded its full-year earnings guidance for the second time in two months as part of a robust interim update that starkly highlighted the two-speed nature of the retail property landscape. While both earnings upgrades at the supermarket-anchored mall landlord were driven by acquisitions, chief executive Greg Chubb also pointed to the strong underlying performance of its $3.2 billion portfolio where ''all major operating metrics are improving''. On Thursday, the Charter Hall-run fund said it would lift its 14.3 per cent stake in a portfolio of 225 BP petrol stations to 23.3 per cent. Mr Chubb said that unlike its ''discretionary retail property peers'', the property trust was not exposed at all to the impacts of the coronavirus, with January sales and foot traffic ''running at the same trajectory of previous months'', reports the AFR.

City Chic Collective Ltd (CCX): Plus-sized fashion retailer City Chic expects same-store sales to rise in the June half even though the coronavirus outbreak could squeeze stock levels, crimping growth. City Chic, which sells fashionable clothing and footwear for women sized 14-plus, sources all its stock from China, including from a factory in Hubei province, the epicentre of the virus. ''The majority of our factories are open – the challenge we have is workers getting back to factories," chief executive Phil Ryan told investors yesterday after delivering a better than expected interim result. If supplies are disrupted it would affect stock levels in the June quarter, but City Chic still expected to deliver positive same-store sales. ''This will only impact the level of positive comps, we don't see it reversing,'' Mr Ryan said. City Chic shares, which have more than doubled over the past 12 months, rose another 9.5 per cent to $3.42 on Thursday, reports the AFR.

Coca-Cola Amatil Ltd (CCL): Coca-Cola Amatil is confident of finally achieving its profit growth targets this year after sales grew in its largest market, Australia, in 2019 for the first time in seven years. CCA group managing director Alison Watkins expects the turnaround in volumes and sales in Australia, which was fuelled by double-digit sales growth in Coca-Cola No Sugar and strong demand for energy and dairy drinks, to continue in 2020 and generate low-single-digit profit growth. Combined with double-digit growth in earnings from Indonesia and Papua New Guinea, and from alcohol and coffee, this should enable the bottler to deliver its mid-single-digit earnings per share growth target. CCA has achieved this target only twice since Ms Watkins took the helm in March 2014, mainly because of falling volumes in this country and volatile earnings in Indonesia. ''Clearly the ability to achieve low single-digit growth from Australia is really important,'' Ms Watkins said, after reporting a 1.4 per cent increase in underlying net profit from continuing operations to $393.9 million, reports the AFR.

CSL Limited (CSL): CSL briefly overtook Commonwealth Bank as the Australian sharemarket's No. 1 stock in a historic changing of

Commodities (Source: IRESS)

COMMODITY	CLOSE	+/-	%
COMEX			
Gold Apr 20	1622.8	11	0.68
Silver Mar 20	18.355	0.044	0.24
Copper May 20	2.5985	-0.0155	-0.59
NYMEX			
Platinum Apr 20	981.9	-22.6	-2.25
Palladium Mar 20	2606.5	35.3	1.37
LONDON METAL			
Gold (AM Fix)	1609.5	21.3	1.34
Gold (PM Fix)	1604.2	14.35	0.9
ENERGY			
Light Crude Apr 20	53.85	0.36	0.67
Brent Crude Oil	59.24	-0.06	-0.1
CBT			
Wheat Dec 19	559	-3.5	-0.62
Soybeans Nov 19	901.75	-3.75	-0.41
Corn Dec 19	382.75	-2.5	-0.65
OTHER			
Iron Ore (China Port)	90.5	-1	-1.09
Coal (ICE-GC Newcastle)	67.95	-0.03	-0.04
LME Indicative			
Copper - Cash	5708	-37.75	-0.66
Copper - 3Mth	5742	-41	-0.71
Lead - Cash	1933.5	4	0.21
Lead - 3Mth	1864	-12	-0.64
Zinc - Cash	2099.75	-12.25	-0.58
Zinc - 3Mth	2117	-25.5	-1.19
Aluminum - Cash	1686	-4.25	-0.25
Aluminum 3Mth	1712.5	-10.5	-0.61
Nickel - Cash	12581	-158	-1.24
Nickel - 3Mth	12720	-140	-1.09
Tin - Cash	16570	52	0.31
Tin - 3Mth	16575	50	0.3

AUD exchange Rates (Source: IRESS)

CROSS	CLOSE	+/-	%
AUDUSD	0.6625	-0.0053	-0.79
AUDJPY	74.318	-0.051	-0.07
AUDGBP	0.5144	-0.0024	-0.47
AUDCAD	0.8785	-0.0043	-0.49
AUDNZD	1.0459	0	0
AUDHKD	5.1558	-0.0348	-0.67
AUDSGD	0.9282	-0.0032	-0.34
AUDMYR	2.7726	-0.0099	-0.36
AUDEUR	0.6139	-0.004	-0.65

the guard underscoring the biotech’s profile as a national champion and the market’s relentless appetite for growth. Helping CSL’s ascent is the depreciating Australian dollar triggered by the coronavirus outbreak, which threatens the growth of Australia’s largest trading partner, China. A lower currency means US dollar earnings are more valuable to Australian investors; it settled yesterday at US66.47¢, a post-GFC low. But fresh stimulus from China, where banks lowered benchmark borrowing costs, boosted the S&P/ASX 200 to a fresh closing high of 7162.49, defying concerns that weakness in the Chinese economy would keep tourists and students away and sap demand for commodities. Blue-chip stocks have benefited from the market nervousness, thanks to their reliable earnings, reports the AFR.

Domain Holdings Australia Ltd (DHG): Domain chief executive Jason Pellegrino says there has been a steady improvement of people looking to sell their homes, with strong buyer demand after a challenging half for the Australian property sector. Mr Pellegrino said the listings environment – people putting their homes up for sale – was the worst it had been in 30 years in July and August. However, there has been consistent improvement since. ‘‘What we saw over the first half was a very strong buyer market, significant demand. You see in the auction clearance rates, press around off-market sales,’’ he said. ‘‘The listings market took some time to meet that strong demand.’’ Domain, 59 per cent owned by Nine, owner of The Australian Financial Review, reported statutory net profit of $22.8 million in the six months ended December 31, compared with a $154.1 million loss a year earlier, which included a $178.8 million non-cash impairment on goodwill. Domain’s shares fell 6.3 per cent to $3.55 on Thursday, reports the AFR.

Domino's Pizza Enterprises Ltd (DMP): Domino’s strong growth run could be nearing an end in the wake of its first half result, with brokers suggesting its valuation is now looking stretched. UBS downgraded its rating on the stock to ‘‘sell’’ and increased its price target marginally from $50.00 to $52.50, saying expectations were too optimistic. ‘‘Domino’s is a strong business [but] growth will take time to come through, with the first half result confirming this view,’’ said analyst Ben Gilbert. ‘‘Expectations are too optimistic given Domino’s is trading at a 17 per cent premium to global Domino’s peers, earnings risk across the three divisions [and] key management departure in a high multiple/high growth region.’’ Citi was similarly bearish, saying its P/E rerating over the past three months was not justified, holding its ‘‘sell’’ rating and increasing its price target only slightly from $48.60 to $49.80. Morgan Stanley, Macquarie and Morgans all held their equal-weight ratings, saying while the result was strong, the stock was fully valued, reports the AFR.

Iluka Resources Limited (ILU): Mineral sands miner Iluka Resources is moving to spin off a lucrative iron ore royalty it reaps from BHP in a move some analysts expect to unlock more than $2 billion in value. Iluka said it planned to demerge the royalty it earned from BHP’s Mining Area C (MAC), which is set to soar once

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the iron ore giant's new $US3.6 billion ($5.4 billion) South Flank iron ore mine in Western Australia begins production next year.

Iress Ltd (IRE): Iress has forecast 2020 profit growth of 3 to 8 per cent after reporting 2019 results. The group expects reported segment profit of $156 million to $164 million on a constant currency (2019) basis. Segment profit grew 10 per cent to $152.1 million and represents EBITDA, share-based payments, nonoperating items and FX gains or losses. Iress will pay a flat final dividend of 30¢ a share on March 20. Net profit rose 2 per cent to $65.1 million, reports the AFR.

Sydney Airport Holdings Pty Ltd (SYD): Sydney Airport ''will be OK'' despite airlines cancelling flights because of the coronavirus, says chief executive Geoff Culbert, despite the company scrapping its dividend guidance amid uncertainty over how long the China travel ban will last. ''This will be a short-term issue,'' Mr Culbert said. ''It will eventually pass and once it does we expect to return to normal business.'' The airport, along with Qantas, revealed yesterday that their earnings for the current half year would be hit as more flights were cancelled. The airline is reducing flights to mainland China, Hong Kong and Singapore as well as to New Zealand and domestically. Sydney Airport's international passenger numbers dropped about 15-20 per cent this month after the federal government banned mainland Chinese from entering Australia, Mr Culbert said. The government is also advising Australians not to travel to China, reports the AFR

Whitehaven Coal Ltd (WHC): Whitehaven Coal says Asian power utilities are showing strong interest in buying into its next NSW coal project as lenders from the region increase their participation in the miner's recent billion-dollar debt refinancing. Whitehaven wants to spend about $1.7 billion building two coal mines in the next six years, and its confidence that lenders will fund those projects was on show when it continued paying dividends yesterday despite a 91 per cent slide in half-year profits and its net debt more than tripling. Despite frequent pledges by banks to reduce lending to thermal coal miners, managing director Paul Flynn said Wednesday's refinancing of Whitehaven's $1 billion revolving debt facility was oversubscribed and had not increased lending costs. Mr Flynn said Asian banks' share of the loan had risen from about 20 per cent to more than 50 per cent over the past six years. ''We have migrated more deeply into the Japanese banking market and the Chinese banking market,'' he said, stressing that Australian banks remained involved, reports the AFR