Switzer Super Report

Monday 10 August 2015

Money mouth

Today I share with you my very own *Super Stock Selectors* – I asked five experts personally for their picks for the next five months and I'm putting my money where my mouth is. I'll be buying these five stocks and seeing how they fair before the end of the year.

Also in the *Switzer Super Report* today, Paul Rickard takes a look at three listed investment companies that give you exposure to one of the biggest trends of our time – the Asian middle-class consumer, and James Dunn looks at what companies might surprise on the upside with this week's earnings numbers. Forget CBA, it's our new $100 stock – CSL – that everyone is expecting great things from.

In *Buy, Sell, Hold – what the broker says*, Rudi Filapek-Vandyck explains the upgrades for Rio Tinto and Downer.

Sincerely,

Peter Switzer

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by Peter Switzer

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5 experts 5 stocks for 5 months

by Peter Switzer

At a time when newspapers and media outlets are preoccupied with the "$37 billion wiped off the value of shares", which they love running with, you won't be surprised to hear or read that I think this is just another buying opportunity.

In fact, nearly all the experts on my show agree with me that stocks are likely to head higher this year. Some think fair value is around 5800 but most think momentum will build after the Yanks raise interest rates, probably in September, and we will take out 6000 before we pop the first bottle of champagne for New Year's Eve.

Clearly, I'm talking about a Santa Claus rally.

Assuming we're right, and this still could be a courageous assumption given so much sideways movements lately, what stocks should you buy now to hold at least for the rest of the year? This is a question I often get asked, so I put it to five experts, who think about stocks daily and I asked them for their best stock to buy and hold for the five months left of this year.

They came up with some interesting choices and I'm personally going to buy them, hold them and see how they do over the time in question. So, here they are.

1) Resmed

George Boubouras, chief investment officer at Contango Asset Management, emailed me this on Friday:

A current high conviction large cap stock is ResMed (RMD) following recent price weakness.

Rationale

- Targeting the defensive healthcare cashflows and importantly the non-Australian dollar exposure.
- Recent quarterly report update showed momentum, with US sales growth steadily improving and providing a better platform for margins on a one-year view. I anticipate it will maintain market share.
- Valuations are not as stretched versus its peers compared to earlier this year. While the stock has underperformed the HealthCare Index year-to-date, I see some upside going forward.
- Accumulate in the $7 – $7.50 range. Sell above $9.

2) Eclipx — ECX

ST Wong is portfolio manager at Prime Value Asset Management, and is an outside the square thinker, but he has good attention to detail when it comes to value stocks. He likes Eclipx — ECX for the following reasons:

- A strong market position in ANZ for Fleet Management, an industry where scale drives efficiencies. It holds 10% of the Australian fleet market, with $1.5 billion motor-related lease receivables and 78,000 vehicles.
- A relatively new management team, which is experienced/well regarded and is in a position to reinvigorate the business.
- Earnings potential to come from: (1) targeting new segments with its core Fleet Leasing product; (2) expanding the CarLoans brand in the consumer space; (3) cross selling commercial equipment finance to existing customers; (4) extracting cost synergies and improving procurement from FleetPlus and CarLoans; and (5) reducing cost to income ratio.

3) iSentia — ISD

One of my regular mates from my Switzer program on the Sky News Business Channel is Rudi Fillapek Vandyck, who founded FN Arena. Rudi watches the analysts and he likes iSentia — ISD.

This is the old Media Monitors business and he argues has "really sticky customers". Furthermore, he pointed out that the company is expanding into Asia and there are double-digit growth projections. It's in the new media space and has the potential to be included in the S&P/ASX 200 index later this year, which attracts buyers on that basis.

Rudi says: "The company is largely unknown amongst investors as it only listed less than 12 months ago."

I would throw in that Roger Montgomery is also a big supporter of the stock and he said so on Thursday.

4) RedHill Education — RDH

Mark Southwell-Keely is a stockbroker who owns Select Equities in Sydney. Mark is smart and careful and I was interested when he put forward education provider RedHill Education — RDH, which he says:

- Has strong organic growth driven by existing Sydney campus expansion, new Melbourne campus expansion and a degree offering.
- Is supported by strong tailwinds.
- Has a reasonable valuation; and
- Only relatively limited reliance on government funding. (I like that!)

It is a fairly illiquid stock – so when buying or selling, you may need to be patient.

5) ARB Corporation – ARB

My final expert is the founder of Share Wealth Systems — Gary Stone — whose analysis I respect and I know many of my TV followers agree with me. He likes ARB Corporation (ARB). ARB has been described as a "bloke's business" as ARB Corporation Limited designs, manufactures, distributes, and sells motor vehicle accessories and light metal engineering works in Australia, the United States, Thailand and Europe.

Gary calls it the "the quite achiever". Why? This is what he says:

It's one of the few that I would pick as a 'One stock only portfolio' stock on the ASX. It is one of only 16 stocks that qualify to be a gold medal stock on our fundamentals list.

It had a two year consolidation period from Mar 2013 to May 2015 when its price had a breakout above the $12.50 – $12.80 resistance zone. It rose to $14.40 then fell to retest that resistance zone. It has passed the test and bounced off that zone.

ARB's trailing PE Ratio of 23 is above the All Market PE Ratio but being a growth stock, it has continuously had PEs higher than the overall market its whole life.

During unstable market periods, it tends to hold up relatively well against the broader market.

There are some early signs during this week that the Sept/Oct period could be a bit rocky. ARB will hopefully perform relatively better if Sept/Oct gets a bit ugly.

By the way, ARB just pipped Adelaide Brighton — ABC — for my pick. So there's a bonus selection but as all of you know, I always like to over-deliver!

So to recap, my/our five stocks from five experts for five months and possibly longer are:

1. Resmed — RMD
2. Eclipx — ECX
3. iSentia — ISD
4. RedHill Education — RDH
5. ARB Corporation — ARB

Plus a bonus called Adelaide Brighton — ABC.

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3 reasons why you need to buy Asia

by Paul Rickard

Key points

- *The new Platinum Asia Investments Limited is expected to be closely correlated to the existing Platinum Asia Fund, which has consistently outperformed the benchmark – since inception in March 2003 to 30 June 2015 by 5.9% per annum.*
- *The AMP Capital China Growth Fund has returned over 100% during the last 12 months and 19.4% per annum over the five years to 30 June 2015. It is trading at 26% discount to NTA.*
- *In financial year 2015, the PM Capital Asian Opportunities Fund Limited returned 15.5%. It is trading at an 8% discount to NTA.*

The launch this week of *Platinum Asia Investments Limited*, the latest listed investment company (LIC) from Kerr Neilson and the team at Platinum, has galvanized attention on two of the '"hottest" investment themes – investing offshore and listed investment companies.

However, before you rush into this LIC, you might want to compare it to two existing Asian focused LICs, both of which are trading at a discount to their net tangible asset value. These discounts highlight one of the real problems (some would argue opportunities) with the listed investment company structure.

And while investing in the Asian markets might not be quite your cup of tea for investing offshore – it is still only a relatively small part of the global market at 15%, of which Japan is half – let's assume it is at least on the radar because it is so hard to argue with the demographic forces at play (read Tony Featherstone's article on the growing power of the Asian middle class) . Timing is everything, but over the long term, it is more likely to be a case of "time in the market".

Here are three LICs to consider. Let's start with the new IPO from Platinum.

1) Platinum Asia Investments Limited

The Platinum team is modelling this LIC on the highly successful Platinum Asia Fund, which has attracted more than $5.5 billion in funds. Through an IPO, subscriptions of up to $600 million are being sort.

Platinum Asia Investments will invest primarily in undervalued listed securities of companies in the Asia region, excluding Japan. It aims to provide capital growth over the long term, targeting net returns over a five-year plus investment horizon that are in excess of the MSCI All Country Asia ex Japan Index (as measured in Australian dollars).

A bottom up approach to stock selection will be applied, using both qualitative and quantitative analyses. Typically, the portfolio will comprise 75 to 150 securities, with the ability to leverage through derivatives up to 150% maximum net exposure, or through cash and short selling, to minimize the net exposure to 50% of the portfolio value. The currency exposure will be actively managed.

While there may be some differences in the short term, it is expected that over the medium term, the LIC's performance will be closely correlated to the existing Platinum Asia Fund. As the following diagram demonstrates, the latter fund has consistently outperformed the benchmark – since inception in March 2003 to 30 June 2015, a staggering 5.9% pa (17.0% pa cw 11.1% pa).

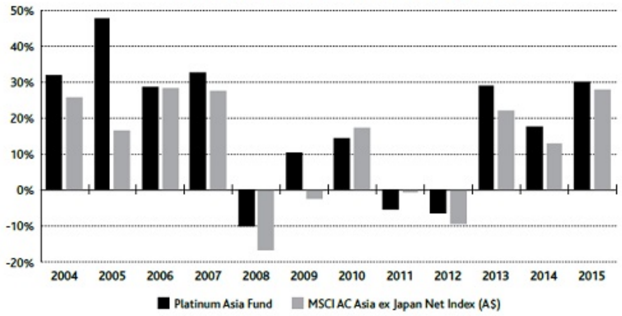
Historical Performance of the Platinum Asia Fund

	1 year	2 years compound p.a.	3 years compound p.a.	5 years compound p.a.	10 years compound p.a.	Since inception* compound p.a.
Platinum Asia Fund	29.9%	23.5%	25.1%	11.6%	12.7%	17.0%
Benchmark	27.5%	20.0%	20.6%	9.5%	9.3%	11.1%
Outperformance	2.4%	3.5%	4.5%	2.1%	3.4%	5.9%

* Inception on 4 March 2003.

Source: Platinum Investment Management Limited and MSCI via Factset.

Platinum Asia Fund – Annual Returns to 30 June 2015



Source: Platinum Investment Management Limited and MSCI via Factset.

Platinum Investment Management Limited (ASX Code PTM) will manage the investments. It will charge a management fee of 1.1% plus GST, and be entitled to a performance fee of 15% of the amount by which the company's investment portfolio return exceeds the benchmark. The company will also be required to meet certain other expenses.

Shares in Platinum Asia Investments Limited will be listed on the ASX under stock code PAI. Initial subscribers will also be given one "free" option for every share subscribed (minimum 2,000 shares or $2,000). The options allow investors to subscribe for another share at $1.00, and can be exercised at any time up until 15 May 2017. The options will be separately listed under code PAIO.

The offer opens today (Monday) and is due to close on 7 September, with listing expected on 21 September. Many leading brokers (CommSec, Bell Potter, JB Were etc) are involved in the IPO – and are being paid placement fees on subscriptions lodged through them. Due mainly to these placement fees, each $1.00 unit will be "worth" approximately $0.982 on listing – the company's net tangible asset value (NTA) per share.

2) AMP Capital China Growth Fund (ASX Code: AGF) – 26% discount to NTA

The AMP Capital China Growth Fund aims to achieve long-term capital growth by investing in China A shares, which are shares in companies listed on China's Shanghai or Shenzhen stock exchanges. Management fees are 1.65% pa.

Despite the recent stock exchange turmoil in China, the company has returned over 100% during the last 12 months. Over the five years to 30 June 2015, it is a much less impressive 19.4% per annum, marginally ahead of its benchmark, and since inception in 2007, it is only 13.1% per annum, below its benchmark of 14.0% per annum.

The turmoil led the Chinese Government to suspend a number of stocks from trading, which impacted part of AGF's portfolio. In some nervous trading, AGF's unit price on the ASX got hit hard, leading to a blow out in its discount to NTA.

While AGF has consistently traded at a discount to NTA, leading to a number of suggestions about how it could be closed, and a Singaporean hedge fund building up a stake of more than 11% in AGF, the discount currently sits at around 26%. According to its last filing, AGF's NTA on 3 August was $1.77, compared to a closing price on the ASX on that day of $1.31.

3) PM Capital Asian Opportunities Fund Limited (ASX Code: PAF) – 8% discount to NTA

Managed by the highly respected Paul Moore, this listed investment company started trading on the ASX in May last year. Similar to Platinum Asia, it invests in Asia excluding Japan. Its aim is to provide long-term capital growth by investing in a concentrated portfolio of predominantly undervalued listed Asian equities and other investment securities in the Asian region (ex-Japan).

The portfolio is typically 15 to 35 securities, with the maximum net equity exposure kept to 100%. On the other hand, the portfolio could potentially go to 100% cash. Currency exposures are actively managed.

Management fees are 1.0%, plus a performance fee of 15% of any excess return.

In financial year 2015, the company returned 15.5%

(the Platinum Asia fund returned 29.9% over this period).

At its last filing on 31 July, the company's NTA had increased to $1.117. The share price on that day closed at $0.975. There are also options (PAFO) that can be exercised at $1.00 anytime until May 2016. If all the options were exercised at $1.00, then an adjusted NAV is $1.056. Effectively, PAV is trading at an 8% discount.

Bottom line

If you are interested in investing in China alone, then the AMP Capital China Growth Fund is priced to sell – a 26% discount provides some level of protection. If you want broader exposure to Asia, then on track record, it is hard to go past Platinum Asia.

The experience of initial subscribing shareholders in PM Capital Asian Opportunities Fund Limited does highlight a potential problem with the LIC structure – perennial discounts.

These subscribers paid $1.00 for their shares and "free" options. Fifteen months later, the shares are trading on market at $0.98, and the options $0.03 – a 1c or 1.0% return on market value, compared to an underlying improvement in the investment portfolio of 15%. While this is not a disaster, it does serve as a reminder that there are no bargains with LIC IPOs – you can sometimes, but not always, buy more cheaply in the secondary market.

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Earning season darlings –Telstra, Capilano Honey and CSL

by James Dunn

Key points

- *The theme emerging from the August 2015 reporting season is – don't disappoint.*
- *Telstra reports on Thursday and is expected to show a rise of almost 7% in underlying earnings, which would take it to a new record.*
- *Analysts are looking for a record profit from CSL and strong forward guidance for FY16.*

Already the theme emerging from the August 2015 reporting season is: don't disappoint. The market is not in a very forgiving mood for companies that fall short of expectations – or which foresee a difficult environment in their outlook statements.

The story so far

A case in point was engineering and infrastructure group Downer, which was tipped before the season as a positive surprise candidate. On Thursday, Downer reported a net profit that beat analysts' expectations – coming in down just 2.7% on last year's result – and lifted its dividend by 4.3%, to 24 cents. Over the year, the value of Downer's project pipeline – or 'work in hand' – increased by 5%. So far, so good, but Downer stated bluntly that because of weakness and a high degree of uncertainty in a number of its markets, net profit for FY16 was likely to fall by 10%.

That unnerved the market, and Downer shares lost 13.1% in two days.

Conversely, Rio Tinto reported a 40% fall in half-year net profit, but a fall was expected, and Rio's US$2.9 billion ($3.9 billion) interim result was well above the US$2.4 billion expected by analysts' consensus. Rio Tinto also beat expectations on its interim dividend, lifting it from 96 US cents to 107.5 US cents. Despite still-weakening commodity prices, the strong performance on cost savings and capital-spending cuts surprised the market. Analysts jumped to upgrade full-year 2015 estimates, and that was enough to see Rio shares lift more than $1 (2%) on the news.

The banks

This week all eyes will be on Commonwealth Bank, which reports full-year results on Wednesday. The market is looking for a 3.3% lift in earnings per share for CBA and a 4.8% lift in the dividend: the cash profit is expected to come in at about $8.68 billion to $9.1 billion, at the higher end of estimates. That would be a record, and would represent a profit of more than $1 million an hour.

However, the banking sector is all of a sudden looking more challenging than it has for a long while, if ANZ's third-quarter trading update last week is anything to go by. ANZ's third-quarter performance featured a weaker-than-expected cash profit of $1.73 billion, dragged down by a surge in bad debts – which signalled to the market that the banks' period of record low losses from bad and doubtful debts has come to an end. Cash profit for the nine months to June 2015 was $5.4 billion, up 4.3% on June 2014, but below expectations, and potentially signalling that more earnings headwinds are brewing.

ANZ also surprised the market with a capital raising to pull in up to $3 billion, in the lead-up to the higher capital requirements being placed on the banks by the Australian Prudential Regulation Authority (APRA). The fact that ANZ had previously stated that it did not need to raise capital combined with the weaker-than-expected profit to send ANZ shares tumbling 7% after the quarterly update.

CBA shares fell more than 3%, and investors are bracing for an even larger capital raising when it reports on Wednesday.

Possible stars

Telstra reports on Thursday and is expected to show a rise of almost 7% in underlying earnings, which would take it to a new record. But more than the profit, investors will be focusing on what Telstra has to say about the war for market share in mobile phones and how its profit margins are holding up; and the dividend. Last year Telstra lifted its dividend for the first time in seven years and the market is expecting a further rise, of about 1 cent.

Some of the market's small-cap star stocks step into the reporting spotlight this week, with some big expectations on them. Watch out for agribusiness producer Capilano Honey, food retail star Domino's Pizza, vet chain Greencross and financial services group Magellan Financial tomorrow, and medical diagnostic imaging aggregator Capitol Health on Wednesday

Two of our global leaders, CSL and Computershare, report their US$ results on Thursday, as did Ansell earlier today. Ansell posted a strong lift in underlying full-year profits – up 20% – despite pressure from currency headwinds, which it expects will weigh on it over the coming financial year. The market will be concerned at the foreign exchange impacts on CSL and Computershare, as well as the strength of the underlying businesses.

This month CSL got final approval for its US$275 million ($378 million) acquisition of Novartis' influenza business, announced last October. The business will be merged with CSL's Melbourne-based vaccine subsidiary, bioCSL, and will become the second-largest player in the $US4 billion influenza vaccine market, after Sanofi. Analysts are looking for a record profit from CSL and strong forward guidance for FY16, with expected profit growth above 10%, while a strong balance sheet could mean another buyback for shareholders.

Here is the schedule for major companies reporting full-year June 30 results this week, as the season starts to get into full swing. Consensus analysts' earnings per share (EPS) and dividend per share (DPS) estimates come from FN Arena, unless otherwise stated.

Tuesday 11 August

Bradken (BKN)
Full-year

Consensus earnings per share (EPS): 15.3 cents, –52.1%
Consensus dividend per share (DPS): 5.7 cents, –78%

Boom Logistics (BOL)
Full-year

Consensus earnings per share (EPS): –1.1 cents, up from –16.8 cents
Consensus dividend per share (DPS): n/a

Capilano Honey (CZZ)
Full-year

Consensus earnings per share (EPS): 84 cents, +55%
Consensus dividend per share (DPS): 38 cents, +90%

Cochlear (COH)
Full-year

Consensus earnings per share (EPS): 275.2 cents, +67.2%
Consensus dividend per share (DPS): 192.4 cents, –24.2%

Domino's Pizza (DMP)
Full-year

Consensus earnings per share (EPS): 70.8 cents. +40.2%
Consensus dividend per share (DPS): 50.1 cents, +36.5%

GPT Metro Office Fund (GMF)
Full-year

Consensus earnings per share (EPS): 10.8 cents, –63.2%
Consensus dividend per share (DPS): 9.8 cents, –3.4%

Greencross (GXL)
Full-year

Consensus earnings per share (EPS): 34 cents, +41.7%
Consensus dividend per share (DPS): 17 cents, +36%

Magellan Financial Group (MFG)
Full-year

Consensus earnings per share (EPS): 86 cents, +50.9%
Consensus dividend per share (DPS): 69.4 cents, +110.3%

SkyCity Entertainment (SKC)
Full-year

Consensus earnings per share (EPS): 19.9 cents, +0.6%
Consensus dividend per share (DPS): 17.7 cents, +5.1%
(Thomson Reuters estimates)

Transurban (TCL)
Full-year

Consensus earnings per share (EPS): 16.3 cents, –10.9%
Consensus dividend per share (DPS): 39.9 cents, +13.9%

Wednesday 12 August

AGL Energy (AGL)
Full-year

Consensus earnings per share (EPS): 94.9 cents, –7.2%
Consensus dividend per share (DPS): 63 cents, unchanged

Capitol Health (CAJ)
Full-year

Consensus earnings per share (EPS): 2.2 cents, +30.9%
Consensus dividend per share (DPS): 1.2 cents, +33.3%

Carsales.com (CAR)
Full-year

Consensus earnings per share (EPS): 43.1 cents, +4.4%
Consensus dividend per share (DPS): 35.1 cents, –29.6%

Centuria Metropolitan REIT (CMA)
Full-year (listed December 2014)

Consensus earnings per share (EPS): 11.1 cents
Consensus dividend per share (DPS): 9.2 cents

Commonwealth Bank (CBA)
Full-year

Consensus earnings per share (EPS): 551.3 cents, +3.3%
Consensus dividend per share (DPS): 420.4 cents, +4.8%

Computershare (CPU)
Full-year

Consensus earnings per share (EPS): 55.8 US cents, +24%
Consensus dividend per share (DPS): 27.3 US cents, –5.7%

CSL (CSL)
Full-year

Consensus earnings per share (EPS): 296 US cents, +10%
Consensus dividend per share (DPS): 121.6 US cents, +7.6%

Dexus Property Group (DXS)
Full-year

Consensus earnings per share (EPS): 54.9 cents, –15.3%
Consensus dividend per share (DPS): 41 cents, +9.2%

Echo Entertainment (EGP)
Full-year

Consensus earnings per share (EPS): 25.2 cents,

+95.4%
Consensus dividend per share (DPS): 11.2 cents, +40.2%

Estia Health Group (EHE)
Full-year (listed December 2014)

Consensus earnings per share (EPS): 24.6 cents
Consensus dividend per share (DPS): 17 cents

Primary Health Care (PRY)
Full-year

Consensus earnings per share (EPS): 23.5 cents, –26.9%
Consensus dividend per share (DPS): 19 cents, –5.2%

REA Group (REA)
Full-year

Consensus earnings per share (EPS): 144.4 cents, +27%
Consensus dividend per share (DPS): 70.8 cents, +24.3%

Thursday 13 August

Crown Resorts (CWN)
Full-year

Consensus earnings per share (EPS): 73.1 cents, –18.8%
Consensus dividend per share (DPS): 37.4 cents, +1%

Fairfax Media (FXJ)
Full-year

Consensus earnings per share (EPS): 5.9 cents, –10.6%
Consensus dividend per share (DPS): 3.9 cents, –2.5%

Goodman Group (GMG)
Full-year

Consensus earnings per share (EPS): 38.8 cents, +11.5%
Consensus dividend per share (DPS): 22.3 cents, +7.7%

Mirvac Group (MGR)
Full-year

Consensus earnings per share (EPS): 12.2 cents, unchanged
Consensus dividend per share (DPS): 9.2 cents, +100%

News Corp (NWS)
Full-year

Consensus earnings per share (EPS): 46.3 US cents, +12.9%
Consensus dividend per share (DPS): 2 US cents, versus nil FY14

Sirtex Medical (SRX)
Full-year

Consensus earnings per share (EPS): 60.9 cents, +43.3%
Consensus dividend per share (DPS): 19 cents, +58.3%

STW Communications (SGN)
Half-yearly

Consensus earnings per share (EPS): 11 cents, –9.1%
Consensus dividend per share (DPS): 6.4 cents, –5.9%

Tabcorp (TAH)
Full-year

Consensus earnings per share (EPS): 21.6 cents, +25.8%
Consensus dividend per share (DPS): 13.3 cents, –16.9% (excluding special dividend of 30 cents, paid March 2015)

Telstra (TLS)
Full-year

Consensus earnings per share (EPS): 33.7 cents, +6.9%
Consensus dividend per share (DPS): 30.6 cents, +3.7%

Whitehaven Coal
Full-year

Consensus earnings per share (EPS): –1.6 cents, up from –3.9 cents FY14
Consensus dividend per share (DPS): 0.6 cents, up from nil FY14

Friday 14 August

Automotive Holdings (AHG)
Full-year

Consensus earnings per share (EPS): 29.9 cents, +16.3%
Consensus dividend per share (DPS): 22.1 cents, +7.7%

Colorpak (CKL)
Full-year

Consensus earnings per share (EPS): 6.2 cents, +33.6%
Consensus dividend per share (DPS): 2.5 cents, –28.6%
(Thomson Reuters estimates)

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Buy, Sell, Hold – what the brokers say

by Rudi Filapek-Vandyck

Resources stocks seem to be making a turn for the better, with Rio Tinto's interim report well received and responsible for a positive appearance in this week's report. All in all, views and opinions about resources stocks and about those who provide services to them, like Downer EDI, remain sharply divided. With good reason too, as shown by Orica's worse-than-expected market update during the week.

Banks are absent from this week's update because analysts have as yet not had the opportunity to respond to Friday's change of heart by ANZ bank. With both National Australia Bank and Bendigo and Adelaide Bank updating today, and with CommBank scheduled to update later in the week, this is about to change in a rather radical manner.

In the good books

Downer EDI (DOW) was upgraded to Buy from Neutral by Citi, to Overweight from Neutral by JP Morgan and to Outperform from Neutral by Macquarie. Buy/Hold/Sell: 4/3/1 FY15 results were in line with guidance but exceeded Citi's expectations at the EBIT line. FY16 guidance appears appropriate in Citi's view, reflecting what management realistically expects to achieve rather than being aspirational. FY16 guidance is weak but JP Morgan believes the sell off is overdone. JP Morgan expects future years to be relatively flat in terms of growth. Macquarie says the 11% trashing of the share price ignores Downer's strong cash flow and balance sheet optionality. On a 5.9% yield and following the sell off, Macquarie has decided that the stock is worthy of an upgrade to Outperform.

See also DOW downgrade.

OceanaGold Corp (OGC) was upgraded to Outperform from Neutral by Credit Suisse. Buy/Hold/Sell: 3/3/0 The company has made a scrip bid for Romarco, a Canadian miner that has the Haile project in the US. Credit Suisse believes the acquisition will address the company's medium-term production profile and add life at low cost while diversifying risk.

Rio Tinto (RIO) was upgraded to Outperform from Neutral by Macquarie. Buy/Hold/Sell: 5/3/0 Rio's result beat the broker by 10% on stronger than expected cash flow. Cash flow, and announced reductions in capex, should relieve concerns over the company's capacity to maintain a progressive dividend policy, the broker suggests. The broker still sees a potential shortfall in 2015 but thereafter, cash flow generation should be strong enough to support the dividend, the broker believes. Rio may start to commit to previously flagged growth projects from next year but for now, dividends are the focus.

Spotless Group (SPO) was upgraded to Buy from Hold by Deutsche Bank. Buy/Hold/Sell: 4/0/0 While the company's margins are expected to compress over the medium term, the broker expects strong cash generation will allow it to supplement this with bolt-on acquisitions. Deutsche Bank upgrades, given the strong outlook for Spotless over the next 12 months.

Super Retail (SUL) was upgraded to Add from Hold by Morgans. Buy/Hold/Sell: 5/1/2 Given the sharp fall in the Australian dollar, the broker believes all retailers will have to address cost inflation. Morgans sticks with those best placed to effectively pass on the costs. The broker expects FY15 forecasts to be met and FY16 looks achievable.

Tiger Resources (TGS) was upgraded to Outperform from Neutral. Buy/Hold/Sell: 2/0/0 June quarter production beat the broker's estimates by 15%. Continued strong production is expected to provide an incremental catalyst for the company as will a reduction in the debt position. Macquarie expects free cash to improve markedly after commissioning of the enhanced plant and this should help repair the balance sheet.

In the not-so-good books

Aurizon (AZJ) was downgraded to Neutral from Buy by UBS. Buy/Hold/Sell: 4/4/0 UBS is adjusting the timing of regulated network forecasts, which results in a downgrade to FY16 and FY17 estimates. More clarity is expected from the final decision in October but, in the meantime, the broker downgrades reflecting the recent share price performance.

Downer EDI (DOW) was downgraded to Neutral from Buy by UBS. Buy/Hold/Sell: 4/3/1 FY15 results were slightly higher than UBS expected. FY16 guidance signals the difficulty in predicting the flow of uncontracted revenue, something the broker expected. Nevertheless, the scale of the decline in the base business is larger than UBS anticipated. The broker is attracted to the stock and related opportunities but downgrades to Neutral from Buy, assuming little or no growth in earnings over the next few years.

See also DOW upgrades.

Flight Centre (FLT) was downgraded to Underperform from Neutral by Macquarie. Buy/Hold/Sell: 2/3/1 On the company's own admission, Flight Centre is battling an increase in competitive forces. Macquarie analysts have re-opened their analysis into the matter and concluded the challenge is far from over for this former high-flyer. Online travel agents continue to grab market share, says Macquarie on the basis of credit card data analysis. In addition, the analysts now believe the bricks and mortar presence is acting as a disadvantage longer term due to higher operational costs.

Tap Oil (TAP) was downgraded to Sell from Neutral by UBS. Buy/Hold/Sell: 0/1/1 June quarter production was up 16.5% on the prior quarter but UBS notes liquidity has again become an issue, as the company has reached the end of its waiver term with debt financiers. Pressure on liquidity is coming from JV partner Northern Gulf being in default, lower oil prices and a steep repayment profile. UBS downgrades to Sell from Neutral. Target edges down to 26c from 27c.

FNArena 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.

***Important:** This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*