


Support / Potential "buy" levels
\$8,862
Resistance
\$9,068.

KEY TAKEAWAYS

Aussie Market Climbs 0.7% with Metals and Tech in Focus – Recommendation: MTS

Today we are issuing a "buy" rating on Metcash (ASX: MTS), reflecting its strong balance of dependable income and long-term growth potential. Revenue rose 7.2% to A\$19.5 billion in FY25, underpinned by strategic acquisitions like Superior Foods, Alpine Truss, and Bianco, while statutory profit increased 10.1% to A\$283.3 million, supported by robust cash flow of A\$539 million and a fully franked dividend of 18 cents per share (4.75% yield). Trading around A\$3.83 with a 12-month target of A\$4.67, Metcash combines steady earnings, disciplined capital management, and growth initiatives in higher-margin ventures such as LocalEyes and private-label brands, making it an attractive mix of income and future upside.

Market Movers: Australian stocks closed higher on Tuesday, with the ASX 200 up 0.70% to a record high, led by gains in Gold, Metals & Mining and Materials. Hub24 surged 10.63% to 118.59, DroneShield rose 8.72%, while Zip Co fell 8.13%. The Aussie dollar slipped to US\$0.650, and 10-year bond yields fell to 4.12% amid higher unemployment. Globally, China's Shanghai Composite rose 0.6%, WTI oil dropped to US\$56.8, and gold held near US\$4,340.

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OUR LATEST RECOMMENDATION

Metcash (ASX: MTS) Balances Income Strength with Long-Term Growth Potential



Metcash Limited (ASX: MTS), a cornerstone of Australia’s wholesale distribution network spanning grocery, liquor, and hardware, has continued to demonstrate its resilience in a challenging economic environment. For the year to June 2025, group revenue rose 7.2% to A\$19.5 billion, supported by strategic acquisitions. Underlying profit after tax eased 2.4% to A\$275.5 million, though statutory profit climbed 10.1% to A\$283.3 million, highlighting the company’s ability to manage one-off factors effectively.

Recent performance reflects a steady improvement in sentiment, driven by Metcash’s disciplined strategy and solid operational footing. While competition and a softer hardware market weighed on results earlier in the year, the food division delivered strong earnings growth that helped offset weaker contributions from liquor and hardware. Continued investment in its network of independent retailers has also helped underpin stability and reinforce its position in key markets.

Looking ahead, Metcash’s focus on strengthening its core businesses, expanding margins, and investing across its pillars sets the stage for further growth. Early signs in FY26 are encouraging, with sales advancing across all segments. Combined with a robust dividend yield and indications that the stock remains attractively valued, Metcash offers a convincing long-term story within Australia’s consumer staples sector.

Valuation and Recommendation

Strategic Acquisitions and Brand Initiatives Reinforce Metcash’s Growth Platform

Metcash Limited continues to consolidate its position as one of Australia’s leading wholesale and retail distribution groups through a mix of strategic acquisitions and brand innovation. The company’s purchases of Superior Foods, Alpine Truss, and Bianco have deepened its presence across the Food, Liquor, and Hardware pillars, broadening both product range and geographic reach.

In parallel, the launch of ‘LocalEyes’, a retail media network leveraging store-level insights, and the national ‘Family Founded’ campaign have strengthened the company’s connection with its customer base and improved visibility for independent retailers. These initiatives are key to diversifying revenue streams beyond core distribution, building a more data-driven and consumer-facing business model.

Defending Market Leadership in a Competitive and Consolidating Industry

Despite fierce competition from large-scale rivals, Metcash maintains strong market positions as the largest supplier to independent food retailers and the second-largest player in both liquor and hardware. Its diversified operating model and regional distribution strength provide resilience, particularly in areas underserved by major chains.

This competitive moat has allowed Metcash to retain share even amid subdued construction activity affecting hardware demand and rising promotional intensity in liquor. However, competition in the retail media and private-label segments is intensifying, and sustaining growth will depend on continued innovation and supply chain efficiency.

Still, the company’s regional dominance, coupled with close ties to independent retailers, offers a meaningful buffer against broader retail headwinds and gives Metcash a unique role in Australia’s consumer supply ecosystem.

Macro Conditions Offer a Balanced Outlook for FY26

Australia’s macroeconomic backdrop in 2025 presents both tailwinds and risks. The Reserve Bank of Australia’s rate cuts, with further easing expected, should help stimulate consumer demand and retail spending. Inflation is now

within the RBA's target range, but consumer inflation expectations ticked higher in October 2025, suggesting persistent pricing pressures in essentials.

Meanwhile, the weaker Australian dollar could lift import costs, particularly for Metcash's food and liquor divisions, potentially squeezing margins. Even so, lower borrowing costs and resilient employment conditions should provide a supportive backdrop for the company's key markets in FY26.

Revenue Growth Driven by Core Strengths and Strategic Expansion

Metcash's top-line growth in FY25 demonstrated the effectiveness of its diversified model and recent strategic acquisitions.

Key highlights include:

- **Group Revenue: Increased 7.2% to A\$19.5 billion**, including charge-through sales. This reflects strong execution across all operating pillars, with Food remaining the primary growth driver and Hardware showing signs of recovery.
- **Segment Contribution:** The Food pillar benefited from robust sales to independent retailers, while Liquor showed resilience amid tighter promotional conditions. Hardware, despite broader construction weakness, delivered incremental growth supported by the Bianco and Alpine Truss acquisitions.
- **Acquisition Impact:** Newly integrated businesses contributed positively to top-line expansion, underscoring Metcash's ability to absorb and scale acquired operations efficiently.
- **Organic Momentum:** Even excluding acquisition benefits, core sales trends were stable, suggesting underlying demand remains healthy across key retail categories.

Overall, the FY25 result reinforces Metcash's ability to grow revenue consistently in a competitive retail landscape through both strategic acquisitions and strong regional partnerships.

Profitability Margins Remain Steady Despite Cost Pressures

Metcash's FY25 margins reflected disciplined cost control and improved operational efficiency, offsetting inflationary

pressures and higher finance costs. Key margin indicators include:

- **Gross Margin: Reported at 12.76%**, reflecting effective procurement strategies and price management despite rising supplier costs.
- **Operating Margin: Improved to 4.3% in FY25 (versus 2.68% over the trailing 12 months)**, highlighting operating leverage from recent acquisitions and improved scale efficiency.
- **Net Profit Margin: Held steady at 1.6%**, underscoring consistent profitability despite macro headwinds and cost inflation.
- **Underlying EBIT: Increased 2.3% to A\$507.8 million**, supported by strong Food performance and cost efficiency initiatives.
- **Underlying Profit After Tax: Declined 2.4%**, primarily due to higher finance costs and depreciation expenses from ongoing investments in systems and logistics infrastructure.

These results demonstrate that while margin expansion opportunities are modest, Metcash's profitability profile remains solid, sustainable, and well-supported by scale benefits and ongoing efficiency programs.

Earnings Momentum Softens, but Recovery Is in Sight

While short-term earnings growth moderated in FY25, forward projections point to renewed momentum as cost headwinds ease.

Key metrics and insights:

- **Underlying EPS: Fell 11.3% to 25.1 cents**, reflecting higher finance costs and amortisation tied to the company's recent expansion. Despite this decline, earnings quality remains high, with consistent cash conversion.
- **Reported EPS: Marginally increased 0.4% to 25.9 cents**, indicating minimal non-recurring adjustments and demonstrating resilient bottom-line performance.
- **Earnings Growth Forecast: Consensus expectations suggest 5.92% annual EPS growth over the next few years**, supported by revenue expansion, improved operating leverage, and cost optimisation.
- **Earnings Mix:** The growth trajectory will increasingly depend on higher-margin initiatives, such as the LocalEyes

media platform, private-label expansion, and supply chain optimisation—all of which are expected to enhance profitability from FY26 onward.

Taken together, the outlook suggests that FY25 represents a temporary pause in earnings growth, with fundamentals well aligned for recovery and steady compounding in the medium term.

Strong Cash Flow Generation and Robust Capital Efficiency

Metcash’s financial strength continues to shine through its cash generation. Operating cash flow climbed 11.7% to A\$539 million, while free cash flow (FCF) stood at A\$390.5 million, or A\$0.36 per share, a clear indicator of its ability to fund dividends and reinvest in growth organically.

The company’s Return on Invested Capital (ROIC) is 8.99%, with Return on Capital at 12% and Return on Equity (ROE) at 17.1%, reflecting sound capital efficiency across its diversified operations.

Metcash maintains a manageable balance sheet, with total debt at A\$1.89 billion and a net cash position of -A\$1.81 billion. The debt-to-equity ratio of 1.16 suggests moderate leverage, comfortably within management’s targets. Long-term debt accounts for A\$1.46 billion, leaving ample headroom for further investment or opportunistic acquisitions.

Attractive Valuation Signals Room for Upside

At a market price of A\$3.83, Metcash reveals to be undervalued relative to its intrinsic value and sector peers. The company trades on a trailing P/E of 14.69, a forward P/E of 14.28, and a PEG ratio of 1.47, all implying conservative market expectations.

Intrinsic value estimates range from A\$5.46 to A\$6.44, well above current levels. We assign a 12-month target price of A\$4.67 per share, representing moderate upside potential supported by solid cash flows, disciplined capital management, and improving margins.

Reliable Dividends Backed by Strong Cash Flow

Metcash declared a fully franked dividend of 18 cents per share for FY25, equivalent to 72% of underlying profit after

tax. This translates to an annual dividend yield of 4.75%, comfortably covered by both earnings and free cash flow.

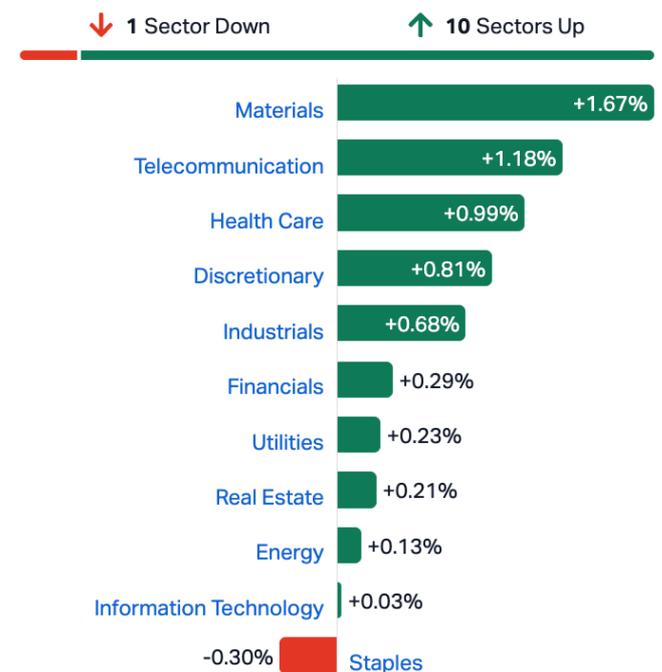
While dividend payments have shown moderate fluctuations over the past decade, the company’s payout ratio of 69.63% suggests sustainable distributions. For income investors, Metcash offers an appealing yield backed by consistent operating performance.

Metcash stands out as a compelling blend of dependable income and solid growth potential. The company’s diversified model, strong cash flow generation, and prudent balance sheet provide stability, while ongoing strategic initiatives position it for measured but sustainable growth. Trading below intrinsic value, Metcash offers investors an attractive entry point into a business with reliable dividends and growing exposure to higher-margin opportunities such as retail media and private-label products.

We are issuing a “buy” rating, with a target price of A\$4.67 per share and a dividend yield of 4.75%. We see upside driven by consistent revenue growth, operating leverage, and disciplined capital allocation, making Metcash both a defensive income play and a credible long-term growth story.

MARKET MOVERS

Australian equities extended gains on Tuesday, with the benchmark ASX 200 rising 0.70% to close at a fresh all-time high, driven by robust performances in the Gold, Metals & Mining, and Materials sectors.



Investor sentiment was buoyed by optimism over a recently signed US–Australia critical minerals partnership, although domestic economic data tempered enthusiasm elsewhere. Across the market, advancing stocks outpaced decliners, with 665 shares higher against 530 lower and 434 unchanged.



Among individual stocks, Hub24 Ltd (ASX:HUB) led the rally, surging 10.63% or 11.39 points to close at 118.59, marking an all-time high for the wealth management technology provider. DroneShield Ltd (ASX:DRO) rose 8.72% to 4.86, while Mesoblast Ltd (ASX:MSB) advanced 9.40% to 2.91, reflecting growing investor appetite for high-growth and tech-oriented plays. In contrast, Zip Co Ltd (ASX:ZIP) fell 8.13% to 4.24, Lynas Rare Earths Ltd (ASX:LYC) dropped 7.56% to 18.96, and Perpetual Ltd (ASX:PPT) declined 6.91% to 19.81, highlighting the volatility that continues to characterise certain segments of the market. The S&P/ASX 200 VIX, a gauge of implied market volatility, eased 1.15% to 12.17, suggesting a modest decline in near-term uncertainty.

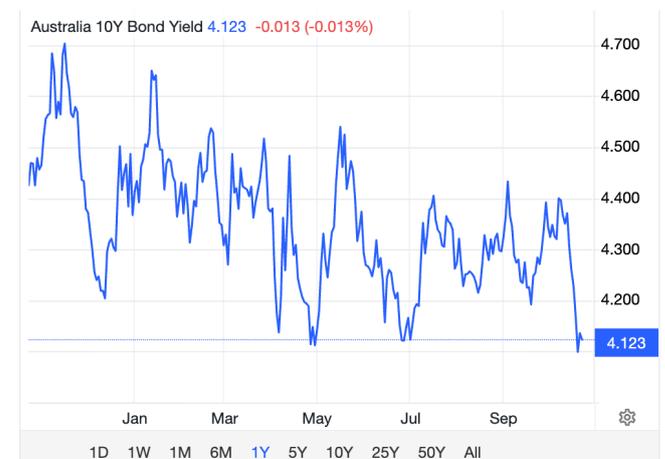
The Australian dollar slipped to around US\$0.650, ending a two-day winning streak despite the optimism surrounding the US–Australia trade deal.



The bilateral agreement, framed as a critical minerals partnership, was positioned by President Donald Trump and Prime Minister Anthony Albanese as a strategic move to reduce US dependence on Chinese supplies. The pact

allocates funding for “ready-to-go” projects worth A\$13 billion (US\$8.5 billion) to expand Australia’s mining and processing capabilities. Albanese emphasised that while cooperation has existed since the Trump administration, the latest deal represents a substantial step forward in strengthening bilateral ties. Domestically, investors remain focused on the forthcoming flash PMI data and scheduled speeches from Reserve Bank of Australia officials, which could provide further clarity on monetary policy.

Bond markets reflected heightened expectations for policy easing, with Australia’s 10-year government yield retreating to 4.12%, approaching a six-month low.



Bonds	Yield	Day	Month	Year	Date
Australia 10Y	4.1230	▼ -0.01%	-0.161%	-0.302%	13:16
Australia 52W	3.38	▼ -0.018%	-0.076%	-0.740%	Oct/21
Australia 20Y	4.72	▼ -0.044%	-0.198%	-0.193%	Oct/21
Australia 2Y	3.32	▼ -0.012%	-0.082%	-0.648%	Oct/21
Australia 30Y	4.82	▼ -0.047%	-0.205%	-0.128%	Oct/21
Australia 3Y	3.34	▼ -0.018%	-0.118%	-0.586%	Oct/21
Australia 5Y	3.55	▼ -0.016%	-0.145%	-0.477%	Oct/21
Australia 7Y	3.83	▼ -0.018%	-0.164%	-0.413%	Oct/21

The September unemployment rate rose to its highest since 2021, prompting markets to price in roughly a 70% probability of a 25 basis point RBA rate cut, up from around 40% prior to last week’s data release. Market participants are now closely watching upcoming economic indicators, including flash PMI readings later this week and the key Q3 CPI report next week, which could shape the RBA’s November policy stance.

Meanwhile, Chinese equities advanced, extending a two-day rebound as easing Sino-US trade tensions supported sentiment.

The Shanghai Composite climbed 0.6% to above 3,880, while the Shenzhen Component added 1.2% to reach 12,980.



Indexes	Price	Day	Month	Year	Date	
HK50	26,248.00 ▲	389.17	1.50%	-0.36%	28.05%	Oct/21
SHANGHAI	3917 ▲	53	1.37%	2.30%	19.20%	13:17
CSI 300	4,613.16 ▲	74.94	1.65%	2.00%	16.56%	Oct/21
SHANGHAI 50	3,010.57 ▲	35.71	1.20%	3.02%	11.81%	Oct/21
CH50	15,261.08 ▲	251.05	1.67%	1.63%	12.40%	Oct/21

Investors were encouraged by statements from President Trump indicating expectations of a fair-trade deal with President Xi Jinping during their meeting later this month in South Korea, while trade officials from both countries are set to meet in Malaysia this week. Corporate results added further impetus: EV battery maker Contemporary Amperex rose approximately 3% after reporting a 41.2% year-on-year increase in Q3 net profit, up from 33.7% in Q2 despite intensifying competition. Foxconn Industrial jumped 4% following strong iPhone 17 sales in both the US and China, underpinning optimism in the tech manufacturing sector.

US futures were largely unchanged on Tuesday as investors awaited major earnings announcements from Netflix, Coca-Cola, and General Motors, while the broader market digested Monday's gains, when the Dow rose 1.12%, the S&P 500 gained 1.07%, and the Nasdaq added 1.37%.

Apple shares surged 3.9% to a record high after reports that iPhone 17 sales exceeded those of the previous generation in key markets. Bank stocks also strengthened, reflecting easing credit market concerns. Despite optimism around trade negotiations, the ongoing US government shutdown continued to inject uncertainty into the broader economic outlook.



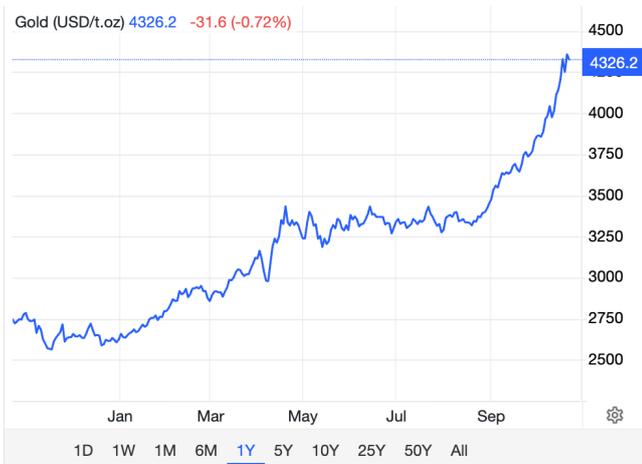
Commodity markets were mixed. WTI crude oil futures retreated to around US\$56.8 per barrel, extending losses amid concerns of global oversupply and persistent uncertainty surrounding US-China trade talks.



	Price	Day	Month	Year	Date	
Crude Oil	57.159 ▲	0.139	0.24%	-8.24%	-20.34%	13:18
Brent	61.169 ▲	0.159	0.26%	-8.16%	-19.60%	13:19
Natural gas	3.4049 ▲	0.0079	0.23%	21.45%	47.47%	13:18
Gasoline	1.8267 ▲	0.0005	0.03%	-7.56%	-11.58%	13:18
Heating Oil	2.1843 ▼	0.0078	-0.36%	-4.70%	-2.21%	13:18
Coal	104.00 ▲	0.55	0.53%	0.10%	-28.57%	Oct/20
Ethanol	1.75 ▲	0.0725	4.32%	-7.28%	11.98%	Oct/20
Urals Oil	54.76 ▼	-1.26	-2.25%	-13.34%	-17.23%	Oct/17

Tanker storage reached record levels, with approximately 1.24 billion barrels of crude and condensate in transit as of the week ending October 17, slightly higher than the previous week's revised 1.22 billion barrels.

Gold dipped to around US\$4,340 per ounce but remained near record highs, underpinned by safe-haven demand and expectations of US rate cuts.



	Price		Day	Month	Year	Date
Gold	4326.20	▼ 31.59	-0.72%	15.40%	57.45%	13:19
Silver	51.498	▼ 0.832	-1.59%	16.54%	47.87%	13:19
Copper	4.9656	▼ 0.048	-0.96%	8.14%	14.04%	13:19
Steel	3,053.00	▲ 25.00	0.83%	-1.36%	-5.66%	Oct/21
Lithium	74,100.00	▲ 100	0.14%	0.34%	3.64%	Oct/21
Platinum	1,607.50	▼ 30.80	-1.88%	12.87%	55.96%	Oct/21
Iron Ore	105.50	▲ 0.15	0.14%	0.01%	0.26%	Oct/20

Market participants are awaiting key US economic releases, including Friday's September CPI report, delayed due to the ongoing government shutdown, as well as upcoming meetings between US and Chinese officials ahead of the planned summit between Presidents Trump and Xi.

Overall, the Australian market's ascent was supported by sector-specific gains and positive international trade developments, yet caution persists amid domestic economic pressures and global macro uncertainties. Investors continue to balance optimism around long-term structural deals with near-term data and policy signals, navigating a market environment defined by both opportunity and volatility.

Regards,
 Mark Elzayed
 Investor Pulse

MARKET DATA
ASX Top 20

 CBA^D Commonwealth Bank	173.56 +0.86 +0.50%	 WOW^D Woolworths	26.80 +0.01 +0.04%
 BHP^D BHP	44.13 +0.99 +2.29%	 TLS^D Telstra	4.93 +0.05 +1.02%
 CSL^D CSL	220.41 +2.75 +1.26%	 GMG^D Goodman Group	34.27 +0.35 +1.03%
 WBC^D Westpac Bank	39.20 -0.07 -0.18%	 TCL^D Transurban	14.96 +0.11 +0.74%
 NAB^D National Australia Bank	43.61 -0.14 -0.32%	 SQ2 Block Inc	
 ANZ^D ANZ	37.01 +0.24 +0.65%	 ALL^D Aristocrat Leisure	64.03 -0.13 -0.20%
 FMG^D Fortescue Metals	20.42 +0.26 +1.29%	 NCM Newcrest Mining	
 WES^D Wesfarmers	91.11 +1.42 +1.58%	 REA^D REA Group	226.00 +7.32 +3.35%
 MQG^D Macquarie Group	228.21 +1.36 +0.60%	 WDS^D Woodside Energy	22.39 +0.13 +0.58%
 RIO^D Rio Tinto	131.89 +1.18 +0.90%	 XRO^D Xero	151.54 -3.05 -1.97%



Commodities & Forex

 TIO1! IRON ORE		 AUDUSD Australian Dollar / U.S. Dollar	0.64883 -0.37% -0.00
 GC1! GOLD		 AUDGBP AUSTRALIAN DOLLAR / BRITISH POUND	0.4845 -0.23% -0.0011
 SI1! SILVER		 AUDEUR AUSTRALIAN DOLLAR / EURO	0.5581 -0.23% -0.0013
 HG1! COPPER		 AUDNZD Australian Dollar / New Zealand Dollar	1.13474 +0.17% +0.00
 ZW1! WHEAT		 AUDJPY Australian Dollar / Japanese Yen	98.308 +0.15% +0.15
 CL1! CRUDE OIL		 AUDCNY AUSTRALIAN DOLLAR / CHINESE YUAN	4.6181 -0.42% -0.02
 NG1! NATURAL GAS		 AUDTHB AUSTRALIAN DOLLAR / THAI BAHT	21.185 -0.32% -0.07
 NCF1! COAL		 AUDIDR AUSTRALIAN DOLLAR / INDONESIA ...	10,762.3 -0.39% -42.10
 LTH1! LITHIUM			



Economic Calendar

		Actual	Forecast	Prior	
 					
October 21					
19:30			Non-Farm Payrolls ▼	50 K Person	22 K Person
			Unemployment Rate ▼	4.3%	4.3%
October 22					
13:00			Core CPI MM ▼	0.2%	0.3%
			Core CPI YY ▼	3.7%	3.6%
			CPI MM ▼		0.3%
			CPI YY ▼	4%	3.8%
			RPI MM* ▼	-0.1%	0.4%
			RPI YY* ▼	4.7%	4.6%
October 23					
19:30			Initial Jobless Clm ▼	225 K Person	
21:00			Consumer Confid. Flash * ▼	-15 Net balance	-14.9 Net balance
			Existing Home Sales ▼	4.06 M Number of	4 M Number of
October 24					
19:30			Core CPI MM, SA ▼	0.3%	0.3%