ANALYST OUTLOOK & STOCK PICKS FOR 2022.

December 2021

BELL POTTER

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BELL POTTER

BANKS

TS Lim
Bank Analyst

Our 2022 top picks once again possess proven risk management capabilities, defensive qualities including healthy balance sheets and surplus capital that could be returned to shareholders in due course, and strong growth prospects. These companies have undergone massive transformation since the GFC to improve earnings quality and consistency. Our selection comprises two major banks. The longer term operating environment post COVID-19 remains positive for ANZ and NAB. Both are well-provisioned and well-placed to capitalise on post-pandemic opportunities in retail and SME banking.

ANZ Banking Group (ANZ)

FY21 cash net profit was once again impacted by COVID-19 given community health and economic activities. On the other hand, the September 2021 half saw the end of support packages and this is a good thing for the sector. With the rollback in expected credit losses probably now complete, we see them reverting back to expenses post the end of 2H21 and beyond. The final dividend was 72¢ fully franked, 2¢ higher than 1H21, and in line with expectations of a 60-65% payout on a sustainable basis. Finally, CET1 ratio was 12.3% and ahead of the "Unquestionably Strong" benchmark of at least 10.5%.

Buy, Price Target $30.00

National Australia Bank (NAB)

NAB's FY21 performance reflected a better credit impairment outcome more than anything else but there was still ongoing momentum across home lending (+2.5%), SME lending (+5.1%) and New Zealand (a whopping +11.2%). Overall, there is nothing to suggest things haven't improved and the bank rightly remains "optimistic about the long-term outlook for Australia and New Zealand". Cash earnings before tax was 69.8% higher and wholly due to the absence of large notable items (both income and expenses) that more than offset declines in NII and other income plus higher operating expenses.

Buy, Price Target $31.00

LISTED INVESTMENT COMPANIES

Hayden Nicholson
ETF/LIC Specialist

Discount contraction continues to occur amid numerous wind-ups, restructures and delistings for corporates under pressure. The collective lived experience of LIC investors is positive, with the market cap weighted average premium/discount being just above par at 0.30% for October 2021. Despite this, attractive pockets of discounts still exist, particularly due to the influence of smaller Companies and Trusts with thin liquidity and brief historical performance, albeit which benefit from information asymmetry that flows through into undiluted superior returns.

Qualitas Real Estate Income Fund (QRI)

QRI aims to provide investors with monthly cash income and capital preservation through a portfolio of Australian originated Commercial Real Estate (CRE) loans, secured by real property mortgages that are diversified by borrower, loan type, property sector and location by specialist manager Qualitas. The Trust seeks to achieve a Target Return equal to the prevailing RBA Cash Rate plus a margin of 5.0-6.5% p.a. net of fees and expenses, where it has consistently performed at the upper echelon, posting a trailing 12 month distribution return of 6.2% based on the $1.60 IPO price for 30 November 2021. Despite COVID-19 implications, there have been no impairments or interest arrears across the loan portfolio, resulting in a stable NAV position since the float. Growth in borrower demand for alternate financiers and a pull-back from banks in the circa $355bn Australian CRE debt market as a result of increased regulatory and capital requirements also bodes well for the manager.

Future Generation Global Investment Co. Ltd (FGG)

FGG was Australia's first internationally focused LIC with the dual objective of providing shareholders with diversified exposure to a select pool of prominent global fund managers, in lieu of management and performance fees (typically ranging from 1.00-1.35% and 10-15% subject to high watermarks, respectively), while supporting children and youth mental health charities. An increase in the acceptance of socially responsible investing makes this philanthropic wealth creation vehicle seem attractive at a discount. The Company currently has 12 foundation managers, with the majority delivering strong long-term net performance against relevant benchmark indices. Although past performance is no guarantee of future performance, it does highlight the fact that these managers have had an ability to consistently outperform through various market cycles. FGG currently follows an annual payout frequency, with a latent ability to increase this frequency through the LIC structure.

WAM Alternative Assets (WMA)

WMA currently invests in a diverse range of alternative asset classes, including but not limited to: (1) private equity, (2) real assets, (3) real estate and (4) cash. Wilson Asset Management, by way of appointment as the Investment Manager in October 2020, also agreed to adhere to a 'Premium Target', an uncommon objective in the Australian LIC market which would see shareholders empowered to vote on wind-up should shares fail to trade above the pre-tax NTA at least 3 times over the next 5 years. Portfolio Manager Dania Zinurova is continuing to release educative insights and updates to help with awareness. With interest rates remaining depressed, and stagflation a looming risk, alternative assets, like fixed income securities, exhibit a similar low correlation to equities with strong annuity-style returns. The substantial lock-up allocation to agricultural assets and water entitlements may be the driver of future returns.

AGRICULTURAL & FMCG

Jonathan Snape
Industrials Analyst

Investments in the Agricultural & FMCG sector should be considered high risk and come with volatility. For this reason we tend to focus on stocks where we see either: a structural uplift in ROIC through the cycle, cyclical growth stories, or counter-seasonal crop exposures.

Bega Cheese (BGA)

Bega Cheese Limited (BGA) is engaged in: (1) the processing, manufacturing, distribution and marketing of dairy and associated products to both Australian and international markets: and (2) the processing and manufacturing of dairy foods, spreads and condiments for consumer markets.

The acquisition of Lion Dairy & Drinks (LDD) and targeted synergy base is expected to drive a material step change in returns for BGA over the next three years. In addition, we see BGA benefiting from recent upward moves in both commodity price drivers (SMP returns up +32% since Jun'21) and price increases on private label milk for only the second time in 20 years (+10¢/l by both Woolworths and Coles).

Buy, Price Target $6.45

The a2Milk Company (A2M)

The a2 Milk Company (A2M) is in the business of producing, marketing and selling branded dairy and infant milk formula (IMF) products in Australia, New Zealand, China, US and UK. A2M branded milk contains only A2 Protein rather than both A1 and A2 proteins which are found in Regular Cows' Milk.

We see the scope for EPS to double by FY26e, if A2M can execute on the China offline expansion strategy, while recovering 50% of the lost sales (from FY20-21) in English label IMF. The catalyst to regaining lost English label sales is likely to be boarder reopening and the return of international students. Exiting the loss making US assets or navigating a turnaround at the MVM asset would likely accelerate this turnaround. We do not see the current share price as reflecting this potential.

Buy, Price Target $7.70

Synlait (SM1)

Synlait Milk (SM1) is NZ's fourth largest milk processor (accounting for ~4% of NZ's milk intake) and a B2B supplier of dairy ingredients (SMP, WMP & AMF), infant formula (IMF) products and Lactoferrin. SM1 counts global FMCG companies among its client base, including The a2Milk Co (A2M) for which SM1 is the exclusive supplier of infant formula in China, Australia and NZ.

SM1's FY21 performance is reflective of a business that completed the commissioning of major capital works, while experiencing an unfavourable shift in sales mix and the added complexity of unwinding IMF inventory positions accumulated over 2H20-1H21. Looking into FY22-24e, a stabilisation in A2M demand, commencement of a material new nutritionals contract at Pokeno and execution against the consumer based strategy in liquids and cheese are expected to drive a material recovery in operating earnings and the share price.

Buy, Price Target $4.40

TECHNOLOGY

Chris Savage
Industrials Analyst

We are more cautious on the outlook for the tech sector in 2022 than in years gone by given the likelihood that interest rates will start to rise both domestically and offshore (if they have not already). Such an environment is negative for high growth stocks which have low or negative cash flows/earnings now and only reasonable or meaningful cash flows/earnings in several years' time. With this in mind we are more attracted to stocks in the tech sector with reasonable cash flows/earnings now and which also have reasonable to strong growth outlooks. We believe these sorts of stocks will continue to perform well – even in a rising interest rate environment – given we are still also in a low growth environment.

Infomedia (IFM)

Infomedia is a leading provider of software solutions to the parts and service sectors of the global automotive industry. The company was negatively impacted by COVID-19 and global lockdowns in 2HFY20 and 1HFY21 but returned to good organic growth in 2HFY21 as these lockdowns eased. We expect this good organic growth to continue into FY22 and this is consistent with the guidance which is for around 20% revenue growth (split roughly evenly between organic growth and an acquisition). The recent issue has been the sudden departure of the CEO but we don't believe this means there is anything wrong with the company and, rather, when a new CEO is appointed we see this as a likely catalyst for the share price.

Buy, Price Target $2.00

Technology One (TNE)

Technology One is a provider of ERP (enterprise resource planning) software to large corporates and government agencies in Australia, New Zealand, Asia Pacific and the UK. The key competitive advantage of the company is it has developed a fully integrated SaaS solution of its software and is now switching customers to this solution. The migration is now >50% complete and Technology One is starting to reap the benefits of greater recurring revenue and a higher margin. This combination will in our view drive double digit earnings growth for years to come and, as the migration of customers approaches 100%, we expect the multiple to re-rate to that of a pure SaaS company.

Buy, Price Target $15.00

Life360 (360)

Life360 develops and delivers a mobile app for families – called Life360 – that provides communications, driving safety and location sharing. The company adopts a freemium model to attract customers but has been successfully converting a portion of these customers to paying subscribers over the last five years or so by providing valuable features. The company has also recently announced two acquisitions – Jiobit and Tile – so that now it not only connects and protects people but also pets and things. Yes Life360 is currently not profitable but the unique positioning of the company means it is well placed to disrupt the safety and security market and so achieve strong top line growth for years to come.

Buy, Price Target $16.25

DISCRETIONARY RETAIL & PROF. SERVICES

Sam Haddad
Industrials Analyst

We are cautious on the lookout for discretionary retailers based on several factors. These include: 1) emerging inflationary pressures and the prospects of rising interest rates; 2) the expected ramp-up of international travel in CY22, which will reduce share of wallet to retailers; and 3) ongoing risks surrounding the pandemic. Amongst our retail coverage, we have retained CCX and added AX1 as our preferred picks. Both offer strong through-the-cycle growth prospects, with AX1 also supported by an undemanding valuation following the stock's retreat in Aug'21.

Based on our cautious macro view, we believe building exposure to a defensive sector is sensible and have retained funeral service provider, PFP, as a preferred pick. Over the past two years, the funeral services industry has been impacted by below trend case volumes and COVID-19 limits on funeral attendees. While timing is difficult, we expect case volumes will normalise, providing re-leverage benefits for funeral service providers such as PFP. We believe PFP's 1Q-FY22 update provided early indication this normalisation in volumes is now underway.

Accent Group (AX1)

AX1 is a market leading retail and distribution business of performance and lifestyle footwear, apparel and accessories in Australia and New Zealand. Key retail banners include The Athlete's Foot, Platypus, Skechers, Hype, Stylerunner, The Trybe and PIVOT. AX1 also recently acquired Glue Store which will accelerate the company's growth in youth apparel. The company's recent AGM update indicated strong forward momentum, including a material upgrade in expected store openings in FY22, a turnaround in Glue Store, continued sales traction in Stylerunner which we believe offers material growth prospects, and the signing of a new exclusive distribution agreement for Reebok. AX1's valuation is undemanding with FY23 PE of ~14x, and the dividend yield is an attractive ~5% (ff).

Buy, Price Target $3.05

City Chic Collective (CCX)

CCX is a global multichannel retailer, with >70% of sales online, specialising in plus-size women's apparel, accessories and footwear. It is a collective of customer-led brands including City Chic, Avenue, Evans, CCX, Hips & Curves and Fox & Royal. Following CCX's recent acquisitions of Evans and Navabi, the company now has four high traffic online platforms across four key markets. These include City Chic in ANZ, Avenue in the USA, Evans in the UK and Navabi in Europe (primarily Germany, France and the UK). CCX also recently announced multiple new marketplace partnerships with major retailers across all key regions. With this foundation, plus >$60m in net cash available to acquire additional brands/ businesses, we believe CCX is well placed to grow market share globally.

Buy, Price Target $7.40

Propel Funeral Partners (PFP)

PFP is the second largest provider of funeral services in Australia and New Zealand. PFP's portfolio footprint comprises 138 locations, including 32 cremation facilities and 9 cemeteries. Based on a proven growth strategy, the leadership of an experienced management team and with a strengthened balance sheet in place (post recent equity raise), we believe PFP is well positioned to drive further industry consolidation. PFP also stands to benefit from the attractive industry fundamentals, including the positive long term trend in case volumes underpinned by an ageing population, the industry's highly defensive attributes and the relatively high barriers to entry.

Buy, Price Target $5.00

INDUSTRIALS

Hamish Murray
Industrials Analyst

DDH1 (DDH)

DDH1 (DDH) is a leading provider of specialised drilling services to the Australian mining industry and operates Australia's largest surface fleet of operational mineral drill rigs.

Key revenue drivers of utilisations and revenue per rig exhibited strong YoY growth rates in 1Q22, while the acquisition of SWK is expected to be ~10-15% accretive (FY21e pro forma) when it completes in Jan'22.

We see a strong CY22e earnings outlook, given: (1) ongoing rig fleet growth; (2) a tight demand and supply environment, supportive of rate rises; (3) record Australian capital raising activity; (4) supportive commodity pricing; and (5) moderating pandemic-related costs.

Buy, Price Target $1.52

Calix (CXL)

Calix (CXL) is an emerging environmental technology platform company that is commercialising and developing a range of solutions derived from its patented minerals processing technology.

CXL is in 23 project-specific discussions relating to CO2 mitigation in cement and lime (LEILAC), and is targeting to convert at least two MOUs to full project / license agreement before the end of FY22e, which would represent another major catalyst in our view.

LEILAC remains the main driver in our valuation scenarios, although the expanding pipeline of other developing technologies (e.g. Spodumene processing, Advanced batteries, and Base load energy) provide additional near-term catalysts.

Buy (Speculative), Valuation $7.85

Emeco Holdings (EHL)

Emeco Holdings (EHL) is a leading provider of earthmoving equipment rental and mining services to the Australian mining industry.

Guidance for 1H22e Operating EBITDA was marginally softer than we were anticipating, although EHL reiterated its FY22e outlook implying confidence in a strong second half.

Our investment forecasts are predicated on utilisation rates returning to pre-COVID levels, which were produced in much more benign commodity price environments than current. Pre-COVID utilisation implies a FY23e P/E of 5.2x and FCF yield of ~19% at current market prices, which undervalues EHL's improved balance sheet and outlook for increased capital management.

Buy, Price Target $1.55

INDUSTRIALS

James Filius
Industrials Analyst

Money3 (MNY)

Money3 is a specialist consumer finance provider in Australia and New Zealand with a focus on Secured Automotive finance for near-prime and non-conforming customers, and a growing and profitable loan book of ~$680m.

MNY is a beneficiary of favourable macro conditions for loan book growth, evidenced by strong originations in Nov'21 which are likely to accelerate into CY22 as VIC/NSW and NZ emerge from lockdowns. With ample funding headroom to support its strong outlook and greater book leverage, we believe MNY is well placed for its FY22 NPAT Guidance of $50m.

Having built a solid platform for growth, and improved ROE over the medium term, we believe MNY is well placed to deliver double digit forecast EPS growth over the next 3 years, and we see value in the business at its current PER of ~14x FY22e & ~11x FY23e, with a FY22e dividend yield of ~3.6% ff (~5.2% grossed up).

Buy, Price Target $4.35

BWX Ltd (BWX)

BWX is home to a number of leading natural beauty and wellness brands, with a growing focus on global expansion that is expected to see its distribution footprint grow by ~42% YoY by FY22.

Despite having experienced COVID-19 lockdown impacts to ~7% of its retail distribution points between Jul-Oct'21, BWX is now seeing impacted channels return to normal trading in Nov'21, and remains on track with distribution expansion plans.

On a look through basis, we believe BWX is well placed to deliver strong Underlying Revenue & EBITDA growth in FY22 (weighted to 2H22) as retail trade normalises and sell-through improves. This should be supported by BWX's recent acquisition of 51% of Go-to Skincare which is tracking +13% vs. PcP in 1Q22, and manufacturing synergies over the medium term as BWX phases in the use of its purpose built facility in CY22. We believe the market has recently priced in expectations for a soft 1H22, which presents a compelling buying opportunity at current levels.

Buy, Price Target $6.10

ikeGPS (IKE)

ikeGPS (IKE) is a specialist technology company that delivers a platform used in the collection, analysis, and data management of power pole infrastructure assets. The company services the North American Communications and Utilities markets and is leveraged to the US 5G & fibre investment cycle, which is projected to see Communication infrastructure providers invest ~US$300bn to upgrade existing networks and deploy new 5G capabilities across the U.S over the next 3-5 years.

CYTD IKE has signed ~NZ$21m of new contract wins (~$6.9m since Jun'21) laying a strong foundation for 2H22 & FY23 (March Y/E). With ~308 enterprise customers utilising IKEs Platform, we believe there remains significant opportunity for IKE to expand its share of wallet with some of the largest utilities and communication customers in North America. The company remains in the early stages of commercialisation of the IKE insight AI product, which will provide incremental revenue and cross sell opportunities which we believe will support further contract and revenue growth over the medium term.

Buy (Speculative), Valuation $1.25

INDUSTRIALS

Olivia Hagglund
Industrials Analyst

Sam Brandwood
Industrials Analyst

Cluey (CLU)

Cluey is an education technology company that provides online tutoring and education support services to school students in Australia. There is a large market opportunity in Australia with many tutoring alternatives lacking digital pedigree and COVID-19 prompting a structural change towards online learning. We believe the scalability of Cluey's business model and data-driven platform is a key differentiator that will be fundamental in the company's future growth. A potential catalyst for share price movement is strategic M&A and expansion. We see this as a significant opportunity for further synergies and integration.

As the number of students and student sessions continue to improve and Code Camp reaches full cadence we believe Cluey is well positioned to deliver strong top line growth and is an attractive investment on an FY22e EV/Sales multiple of c.3.6x relative to global comps.

Buy (Speculative), Valuation $1.60

Coventry Group (CYG)

Industrial supply and services group Coventry Group (CYG) has long been a perennial turnaround story. However, since FY17 new management has (1) driven a +$23.1m EBITDA turnaround; (2) achieved category leadership in New Zealand and near class-leading margins in its fluid systems business; and (3) right-sized the cost base for earnings leverage through a possible cycle upturn in building materials – all of which underpin our Buy rating for CYG.

The company's service-intense model is suited to provide superior customer outcomes in a tightening market, and with Coventry's step-up during 2H21 having accelerated further into Q1 FY22, we think a forward EV/EBITDA of 5.9x and 2.6% dividend yield presents value for a company with the potential to enter an earnings upgrade cycle.

Buy, Price Target $1.90

DGL Group (DGL)

Specialty chemicals and logistics company DGL Group (DGL) has had a strong start to listed life. Since prospectus forecasts were comfortably beaten at its debut result, DGL has deployed ~$70m of its balance sheet into acquisitions, reaching critical mass in crop protection, water treatment and entrance into clean energy transport markets.

We are constructive on the vertical being developed across the back end chemicals lifecycle – which includes manufacturing, logistics and recycling – as we think in terms of breadth DGL is currently unrivalled by any Trans-Tasman competitor. As market attention focuses on integration in the first half of 2022, should utilisation and/or synergies be extracted from acquisitions earlier than anticipated, we believe industry consolidation could serve as a highly scalable growth strategy for DGL over the mid-term.

Buy, Price Target $3.00.

HEALTHCARE

John Hester
Healthcare Analyst

2021 had the usual mixed bag of success stories and under performing stocks as is typical for any year in early stage drug development and medical device companies. The companies which enjoyed success included Mayne Pharma for its approval of Nextstellis – being a new chemical entity and the first for several years by an Australian company, Neuren – which delivered outstanding phase 3 results for its drug Trofinetide in the treatment of Rett Syndrome and Paradigm Pharmaceuticals – which has now progressed to a phase 3 study in osteo-arthritis with its drug Zilosul. Also, industry stalwart API is subject to a takeover offer at a 52% premium to its recent low with retail giants WOW and WES in a competitive bidding situation.

Kazia Therapeutics (KZA)

Kazia Therapeutics is the developer of paxalisib, a new chemical entity specifically designed for the treatment of Glioblastoma. Paxalisib was in-licensed by Kazia from Genentech, a highly renowned drug developer based in San Francisco. Paxalisib is gaining international attention with several investigator sponsored US studies examining the use of the drug in a range of adjacent indications including childhood brain cancers and brain metastases. Paxalisib is now part of GBM Agile, a randomised, controlled study which involves the simultaneous investigation of multiple drug candidates in glioblastoma. The platform uses a common control group and is therefore expected to save millions of dollars in development costs. GBM Agile will provide the data to support approval for paxalisib and we estimate the trial is 50% enrolled at this time. GBM is an orphan indication in both the US and Europe, however, despite the smaller market, peak revenues are estimated at several hundred million dollars annually. Key intellectual property protection extends to at least 2030 in key markets.

Buy (Speculative), Valuation $ 2.40

Telix Pharmaceuticals (TLX)

Telix is a pharmaceutical group specialising in the development and commercialisation of radiopharmaceuticals for the imaging and treatment of certain cancers. Telix was established with a view to develop applications for metastatic castrate resistant prostate cancer, renal cancer and glioblastoma. The company has a large R&D program under way to develop these assets. Its core technology is Molecularly Targeted Radiation which has attracted major investment by top tier pharmaceuticals including US$6bn from Novartis. Several products in this class of drug are now approved in the US and Europe both for imaging and therapy.

Telix acquired and in-licensed most of the intellectual property related to its products and is funding the clinical studies which will underpin the approvals. The FDA is expected to decide in December 2021 on Illuccix for the imaging of metastatic castrate resistant prostate. If approved it will be the first prostate cancer imaging agent of its kind and we expect the drug to generate in excess of $60m in its first full year of commercialisation (CY2022).

Buy (Speculative), $8.30 valuation

Doctor Care Anywhere (DOC)

DOC is a UK-based telehealth company established to provide high quality, timely and efficient primary and secondary care to patients, whilst reducing the overall cost of providing clinical services. DOC is in the midst of an exponential growth period driven by the COVID pandemic and its agreement with AXA PPP in the UK which has guaranteed minimum volumes for which it is paid £45 per consultation. The company also earns a revenue stream from referrals to pathology, diagnostic imaging and other specialist medical referrals. DOC experienced exceptional growth during the first 9 months of calendar year 2021 with appointment volumes growing from an average of 30,000 per month in 1Q21 to nearly 40,000 per month by 3Q21. Due to unprecedented demand growth, the company supplemented its supply of doctors with short term contractors which resulted in a decline in margins. DOC has now increased capacity for 45,000 consultations per month from September 2021 and we expect a bounce in margins for the final quarter with ongoing margin growth in CY22.

Buy, Price Target $1.30

RESOURCES & PRECIOUS METALS

David Coates, Stuart Howe, Bradley Watson, Regan Burrows & Joseph House

Resources Analysts

While the short-term outlook for base metals and iron ore has been dampened by power restrictions and high energy prices in key economies, plus the emergence of new COVID strains, the underlying thematic of tight supply-demand fundamentals remains. For gold, we believe the market is reluctant to exit gold exposures due to rising inflation, uncertainty related to new COVID strains and the downside risk to elevated equity valuations. While rising interest rates also pose a risk to the gold price, on balance we view the momentum behind inflation as likely to outweigh the US Fed's appetite to tighten rates and the gold price outlook as skewed to the upside.

Nickel Mines (NIC)

NIC has grown to become the largest nickel producer on the ASX and built a track record of ahead-of-schedule project delivery, achieving steady state production above nameplate and returning capital to shareholders. In CY22, NIC's 80%-owned Angel nickel project is on track for first production in the March quarter and we forecast this to drive earnings growth of 60%. In CY23, the recently announced acquisition of a 70% interest in the Oracle Nickel project is forecast to drive earnings growth of 95%. Combined with NIC trading on undemanding valuation multiples for such aggressive growth, it is one of our Top Picks for 1HCY22.

Buy, Price Target $1.74/sh

Regis Resources (RRL)

RRL's share price has continued to drift on a forecast slow start to FY22 and a lack of conviction on the gold price. However, RRL continues to be competitive with peers on operating and cost metrics and is relatively cheap on a number of valuation metrics. While Duketon and Tropicana are currently not performing at their best, we expect stronger performances in 1HCY22 and, particularly in Tropicana's case, over the longer term. RRL offers exposure to a long-life, low-cost asset base and the opportunity of organic growth at McPhillamys lifting group production to ~700kozpa. On a risk-reward basis, at these levels, we view RRL is a standout in the sector.

Buy, Price Target $3.81/sh

Chalice Mining (CHN)

The release of CHN's maiden Resource for the Gonneville deposit at its Julimar PGE-Ni-Cu-Au project in WA confirmed its status as a world class discovery. Containing 10Moz 3E (Palladium + Platinum + Gold), 530kt Ni, 330kt Cu and 53kt Co, it remains open and prospectivity remains high. There are further opportunities for significant Resource growth along the 26km strike length of geophysical anomalies associated with the Gonneville mineralisation. We expect the Scoping Study due for release in Q2CY22 will be a material, positive catalyst, setting out a baseline development case that will be likely to grow with the Resource.

Buy (Speculative), Valuation $11.73/sh

ENERGY

David Coates, Stuart Howe, Bradley Watson, Regan Burrows & Joseph House

Resources Analysts

Global energy demand rebounded strongly during 2H 2021, with easing of lockdown restrictions and a recovery in industrial activity coinciding with low inventory levels and a constrained supply-side response. These factors have led to market deficits across the energy complex and year to date increases of: Brent crude +47%, Newcastle thermal coal +100%, JKM LNG futures +345% and uranium +52%. Growing regulatory and financing pressures for replacement projects in energy markets should support commodity prices and sector free cash flow generation in the medium term for incumbent producers.

Cooper Energy (COE)

Supply deficits in Australia's south east coast market should support gas prices over the medium to long term and COE has a portfolio of conventional gas assets leveraged to this theme. Upgrades at the Orbost Gas Processing Plant in the March 2022 quarter will provide a step-change in production and earnings in FY23. In the Otways, cutover to the larger, low cost Athena gas plant in late 2021 will provide uninterruptable gas processing and spare capacity for potential new Otway Basin discoveries. An upgrade to prospective Otway gas resource estimates is expected in the March 2022 quarter.

Buy, Target Price $0.38

Boss Energy (BOE)

Global uranium markets are recovering from a cyclical low with limited new supply in the near term and demand increasingly driven by decarbonisation efforts. The recent listing of physically backed investment vehicles has further highlighted the uranium market's tight supply-demand balance. BOE's Honeymoon uranium project in South Australia is fully permitted and on care and maintenance. Entering uranium supply agreements to support a final investment decision for a restart at Honeymoon over the next twelve months is the key value catalyst for BOE. BOE also has exploration upside across tenements adjacent to the Honeymoon project.

Buy (Speculative), Valuation $3.47

STRATEGIC MINERALS

David Coates, Stuart Howe, Bradley Watson, Regan Burrows & Joseph House

Resources Analysts

The strategic minerals sector continues to benefit from dominant market themes of ESG and decarbonisation. The November 2021 UN Climate Change Conference in Glasgow reinforced the need for clean energy technologies with flow through to lithium and high-purity alumina demand. Surging lithium commodity prices in 2021 have highlighted an emerging supply-demand deficit. This deficit is expected to widen with the ongoing uptake of electric vehicles and battery storage systems. The value of uncontracted lithium supply is evidenced by heightened sector corporate activity and record spot prices achieved by Australian spodumene producers.

Liontown Resources (LTR)

LTR is positioned to become a key supplier of battery raw materials and is now capable of funding Kathleen Valley's initial development capital. The project DFS highlighted production of 658ktpa SC6 with potential for conversion into 86ktpa lithium hydroxide (75ktpa lithium carbonate equivalent, LCE). LTR is independent, debt free and with all offtake uncommitted it is in a strong strategic position in a market for lithium facing supply shortages as decarbonisation policies are enacted. Key catalysts are now signing product offtake contracts, project permitting and commencing project development.

Buy (Speculative), Valuation $2.15

Lake Resources N.L. (LKE)

LKE is developing the Kachi lithium brine project located in north western Argentina. A March 2021 prefeasibility study evaluated a 25.5ktpa lithium carbonate project with average annual EBITDA of $260m and a post-tax NPV8 of US$1,580m. Kachi is unique in that LKE is aiming to employ direct lithium extraction through ion exchange technology to recover lithium from its brine Resource. The key advantages of this technology are a smaller environmental footprint, lower carbon emissions and greater process control. A definitive feasibility study for Kachi is due by mid-2022. With uncommitted product offtake and an independent share register, LKE has strategic appeal.

Buy (Speculative), Valuation $1.37

Alpha HPA (A4N)

A4N's HPA and aluminium precursor products have applications in lithium ion battery, micro-LED and semiconductor manufacturing – technologies at the forefront of the global decarbonising and onshoring themes. The company's proprietary process has produced product samples which have been recognised by a number of end users as the highest purity tested. The high purity products and competitive unit costs have the potential to disrupt incumbent production methods and establish A4N as an integral part of rapidly advancing technology supply chains. The company has line of sight to cash flows as operations commence from its Precursor Production Facility from August 2022.

Buy (Speculative), Valuation $0.87

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Bell Potter Securities acted as Co-Manager in NAB's NABPH November 2020 offer and received fees for the services.

T S Lim, authoring analyst, holds long positions in ANZ and NAB.

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Bell Potter Securities was a broker for FGG's Placement and Share Purchase Plan in October 2018 and received a fee for the service.

Bell Potter Securities acted as joint lead manager and underwriter in BGA's Nov'20 Placement and Entitlement Offer and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager and Underwriter to NIC's $364m Entitlements Issue of December 2020 and received fees for that service.

Bell Potter Securities acted as a Participant in RRL's $650m Equity Placement of April 2021 and received fees for that service.

David Coates has a long position in RRL.

Bell Potter Securities acted as Joint Lead Manager to CHN's Placement of $100m in November 2020 and received fees for that service.

Bell Potter Securities acted as Lead Manager to LTR's July 2021 $52m placement and Joint Lead Manager to the December 2021 $450m placement and received fees for these services.

Bell Potter Securities acted as Joint Lead Manager for A4N's $50m placement in June 2021 and received fees for that service.

Analyst John Hester owns 8,334 shares in KZA.

Bell Potter Securities acted as lead manager of KZA's 2020 capital raise for $25m and received fees for that service.

Bell Potter Securities acted as lead manager of DOC's 2020 IPO raising $102m and received fees for that service.

Bell Potter Securities acted as lead manager for CLU's $30m IPO in Dec '20 and received fees for that service.

Bell Potter acted as joint lead manager to DGL's May '21 IPO and received fees for that service.

Bell Potter acted as lead manager and underwriter to CYG's placements of $15.0m in Sept '18 and $27.6m in Feb '19 and received fees for those services.

Bell Potter Securities acted as joint lead manager of 360's capital raising in November 2021 and received fees for that service.

Bell Potter Securities acted as lead manager to PFP's~$50m placement in October 2021 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to DDH's Mar'21 IPO and received fees for that service.

Bell Potter Securities acted as JLM for MNY's $50m equity raising in Dec'20 and received fees for that service.

Bell Potter Securities acted as JLM and Underwriter for BWX's Aug'21 $85m equity placement and received fees for that service.

Bell Potter Securities acted as Lead Manager for IKEs Aug'21 A$23.5m equity raising and received fees for that service

Early Stage Company Risk Warning

The stocks of early stage companies without regular revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Investors are advised to be cognisant of these risks before buying such a stock.

Exploration Risk Warning

The stocks of resource companies without revenue streams from product sales should always be regarded as speculative in character. Since most exploration companies fit this description, the speculative designation applies to all exploration stocks. The fact that the intellectual property base of an exploration company lies in science and is generally only accessible to the layman in a limited summary form adds further to the riskiness with which investments in exploration companies ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Exploration and regulatory risks are inherent in exploration stocks. Exploration companies engage in exploration programs that usually have multiple phases to them where positive results at some stages are not indicative of ultimate exploration success and even after exploration success, there is often insufficient economic justification to warrant development of an extractive operation and there is still significant risk that even a development project with favourable economic parameters and forecast outcomes may fail to achieve those outcomes. Investors are advised to be cognisant of these risks before buying such a stock.

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The stocks of biotechnology companies without strong revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. Since most biotechnology companies fit this description, the speculative designation also applies to the entire sector. The fact that the intellectual property base of a typical biotechnology company lies in science not generally regarded as accessible to the layman adds further to the riskiness with which biotechnology investments ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Clinical and regulatory risks are inherent in biotechnology stocks. Biotechnology developers usually seek US FDA approval for their technology which is a long and arduous three phase process to prove the safety, effectiveness and appropriate application or use of the developed drug and even after approval a drug can be the subject of an FDA investigation of subsequently discovered possible links between the drug and other diseases not previously diagnosed. Furthermore, the Australian exchange listed biotechnology sector is subject to influence by the global biotechnology sector, particularly that in the USA. Consequently, Australian exchange listed biotechnology stocks can experience sharp movements, both upwards and downwards, in both valuations and share prices, as a result of a re-rating of the sector both globally and in the USA, in particular. Investors are advised to be cognisant of these risks before buying such a stock.

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