ANALYST OUTLOOK & STOCK PICKS FOR FY23.

June 2022

BELL POTTER

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LISTED INVESTMENT COMPANIES

Hayden Nicholson
ETF/LIC Specialist

Sector premiums and discounts are highly reactive to market conditions, where negative sentiment usually exceeds the extent of potential losses. Market weighted average sector discounts tend to be at their widest during May with tax loss selling, before reverting over the second half of the calendar year to par or above. July is on average the best performing month for LICs and LITs when coupling the magnified returns effect of an uplift to the share price that races back to meet a higher net asset backing. High quality managers outside of large-to-mid cap Australian equity mandates are now trading at attractive prices after the recent de-risking events on higher inflation and interest rate increases.

L1 Long Short Fund (LSF)

LSF implements a variable beta strategy aimed at lowering volatility relative to the broader Australian market to preserve capital through-the-cycle, while also exhibiting a mild value and contrarian style bias. Blending this exposure into portfolios can bring important benefits in the current climate of geopolitical tensions, supply chain fragility and withdrawing central bank liquidity. By changing the net sensitivity of the portfolio, LSF can enhance investor outcomes by mitigating drawdown risk in falling markets without sacrificing the upside capture, which in turn may lead to superior risk-adjusted returns. The Company is trading at an 11.1% indicative discount based on a post-tax NTA of $2.9137.

PM Capital Global Opportunities Fund (PGF)

PGF seeks to provide long-term capital growth through a concentrated portfolio of global securities that are assessed to be trading below their long-term intrinsic value. Unlike direct global equities, the Company offers an historic dividend yield of 6.6% (9.4% grossed-up) on current prices due to organic incremental and profitable realisations across the portfolio. Investee positions also have a tendency to exhibit high free cash-flow while the research investment framework routinely identifies bottom quartile buys and top quartile sells. Shifting the focus from an absolute valuation to the direction in valuations may help to explain the reasons why, or locate anomalies in sentiment, where downside loss can be protected while exits and in turn profits are crystallised at a pre-defined point. The structured approach removes the potential for any emotional investing and biases.

WAM Alternative Assets (WMA)

WMA currently invests in a diverse range of alternative asset classes, including private equity, real assets, real estate and cash. With interest rates gaining pace and stagflation a risk, alternative assets can exhibit strong annuity-style type total returns (capital and income), with low or even negative correlations to the equity market. All exits across the portfolio since Wilson Asset Management acquired the mandate in October 2020 have been achieved in excess of their carrying value. The Company currently holds 27.0% in cash, 25.0% of which has been committed to capital investment opportunities in infrastructure, healthcare real estate, industrial last mile real estate, mid-market buy-out private equity and turnaround/special situation private equity strategies. Stripping all cash out of the Company would suggest a 22.2% discount on the residual invested net assets.

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.

SELECT HARVESTS

Select Harvests (SHV)

Select Harvests (SHV) is an integrated grower, processor and marketer of almonds owning and operating farming and processing assets in Australia. SHV offers a vertically integrated model with core capabilities in farming, processing and marketing. SHV operates a diversified portfolio of almond orchards as well as a state of the art processing facility in Carina VIC (with capacity to process 30,000t of almonds).

We see SHV as exposed to a favourable asset revaluation cycle (we estimate market NAV at $6.00-6.50ps based on recent orchard and crop right transactions) and the potential for a more favourable almond pricing cycle to develop in outward years as Californian bearing acreage expansion slows (with recent new acreage development at levels consistent with previous cyclical lows of 2001 and 2011).

Buy, Price Target $6.95

costa well grown

Costa Group (CGC)

The Costa Group (CGC) business can trace its roots back more than 130 years to a fruit shop established in 1888 in Geelong. Today, CGC is Australia's largest horticultural company with diversified operations across the supply chain from farming and packing to marketing and distribution. Globally, CGC operates ~7,300Ha of farming assets across five key categories (in berries, avocados, citrus, tomatoes and mushrooms) across three regional hubs (Australia, Morocco and China).

CGC has deployed ~$540m of capital since CY19 through the acquisition of citrus properties, development of berry acreage in Morocco and China and investment in mushroom and tomato capacity. A return on this investment is expected to be the main driver of earnings through to CY23e. In addition we are seeing favourable YTD pricing trends across the majority of CGC's product portfolio which provides insulation against inflationary cost pressures.

Buy, Price Target $3.75

Nufarm

NuFarm (NUF)

NuFarm (NUF) is a leading supplier of off-patent agricultural chemicals (~77% of the contestable market), seeds and seed treatments globally, with a marketing presence in over 30 countries and sales in over 100 countries.

In recent weeks there has been a material derating in global crop protection and domestic peer trading multiples and NUF has not been immune to this sell off. However, we continue to see NUF as better placed to navigate a normalisation in Australian crop conditions than peers, given less than ideal conditions in North America and the Mediterranean (in the higher margin European operations) providing a buffer in FY23e. In addition we see the emergence of new seed revenue streams (carinata and omega-3) in FY23-24e as providing growth options.

Buy, Price Target $6.65

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TECHNOLOGY

Chris Savage
Industrials Analyst

We remain cautious on the outlook for the tech sector in the second half of 2022 given the likelihood that interest rate rises will continue both domestically and offshore due to inflation remaining stubbornly high. 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 rate environment.

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 around three-quarters 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 $12.50

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 several years by providing valuable features. The company has also recently made 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 is expected to be operating cash flow positive from 4Q2023 and has more than sufficient cash to fund its operations till then.

Buy, Price Target $7.50

Nitro Software (NTO)

Nitro is a global document productivity software company that enables digital transformation in organisations around the world through a suite of products built to enable digital workflows.
The company has been successfully switching its revenue model from perpetual to subscription and the latter – which is recurring – now represents around two-thirds of total revenue.
The company also recently made the acquisition of a leading eSign company called Connective which now positions Nitro as the third global player in the enterprise eSign market. Yes Nitro is also currently not profitable but is expected to be cash flow breakeven in 2H2023 and has more than sufficient cash to fund its operations till then.

Buy, Price Target $2.50

DIVERSIFIED FINANCIALS

Marcus Barnard
Industrials Analyst

The asset management sub-sector has performed poorly in 2022, driven by falls in assets values and with many stocks seeing continued outflows from the funds. Investors have not waited to see the effect of downgrades or reported results and the share prices of the stocks under coverage have fallen faster than the market in 2022 YTD.

There are reasons to be positive longer term. Valuations are not expensive, and all the stocks offer strong yield support. Falling markets should focus management attention on the cost base and/or achieving economies of scale, which should in turn be expected to lead to more corporate activity. Acquisitions often lead to new opportunities for growth.

Perpetual (PPT)

Perpetual (PPT) has made merger approaches to Pendal, which we believe would create a broad and diverse company with opportunities for revenue and cost synergies.

Before the merger proposal, management had outlined a clear strategy to drive the business forward. The strategy appears to be working, as the company has become more diverse, widening its range of styles and capabilities, and adding to its distribution and geographic reach. Its funds are seeing strong performance and many are recording positive flows.

Revenue and profitability is increasing across all its divisions, as a result of an entrepreneurial and industrious management team, who are identifying and adapting to the challenges facing the industry. We believe this sets Perpetual apart from many of its competitors.

Buy, Price Target $42.00

Pendal Group (PDL)

To date management have resisted Perpetual's merger approach, although we believe there are challenges for them to deliver something more valuable than what is on offer.

The company is doing many things we applaud. Structurally, Pendal sees itself as a boutique manager, and this is reflected in the culture, client service and investment returns. Its performance track record is good and performance fees were strong in FY 2021.

The company benefitted from rising markets in 2021, which increased FUM, revenue and profitability, but we expect this to be a headwind in 2022.

In an industry that we feel will inevitably see further consolidation, it has acquired TSW and is seeking revenue and cost synergies.

Buy, Price Target $6.90

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INDUSTRIALS

Sam Brandwood
Industrials Analyst

Michael Ardrey
Industrials Analyst

IPD Group (IPG)

Electrification is likely to be one of the dominant market narratives over the next decade and IPD Group (IPG) in our view is highly leveraged to this growth trend through its supply of electrical equipment that reduces buildings energy use and reliance on the transmission network.

Overall we view volume for IPD as a relatively low demand risk replacement cycle driven by technology adoption, supportive policy measures and changing consumer tastes. In addition the business is capital and asset light, operates in segments with few direct competitors and generates a strong >35% gross margin – which we consider to be defining characteristics within tight, rising markets. The company is on an 11x FY23e P/E with ample room for further acquisitions (~$21m net cash) and offers investors a >4% dividend yield.

Buy, Price Target $1.80

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 FY21 result, DGL has deployed ~$75m 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. Looking into FY23e we see a supportive seasonal outlook that can continue to support strong earnings momentum. In addition, DGL has scope to benefit from further network benefits of FY22 acquisitions and a full 1H23e period of price realisation in key ag-chemicals.

Buy, Price Target $3.50

Pentanet Limited (5GG)

5GG is an early stage NBN alternative/RSP and cloud gaming provider delivering high speed fixed wireless internet into the Perth metro region.

Pentanet recently launched an Australian-first mesh network technology at scale under its 'neXus' brand with potential to deliver gigabit internet speeds. Successful take up of the service can accelerate 5GG's pathway to breakeven due to a higher ARPU profile versus existing services and gross margins expected to be at least consistent with its legacy fixed wireless network gross margins of 86%.

We remain positive on Pentanet with a Buy (Spec.) recommendation and valuation of $0.41 due to lagging internet quality in its current target market of Perth and changing media consumption trends demanding higher quality internet.

Buy (Speculative), Valuation $0.41

INDUSTRIALS

Olivia Hagglund
Industrials Analyst

Cluey (CLU)

Cluey (CLU) is an education technology company that provides online tutoring and education services across curricular and co-curricular subjects to school students in Australia and New Zealand. CLU has continued to see strong revenue growth of +145% YoY to $15.8m in 1H22 driven by improvement in key metrics including student sessions, new student adds and variable customer acquisition costs (CAC). We note that their recent acquisition of Code Camp continues to be affected by COVID restrictions however, the re-shift in focus from holiday camps to the after-school market with the launch of a pilot program in the UK in Q4 should generate more recurring revenue and reduce CAC. We believe CLU remains well positioned and is well capitalised to continue scaling the business globally and to pursue M&A opportunities as they work towards profitability.

Buy (Speculative), Valuation $1.50

Ai-Media Technologies (AIM)

Ai-Media Technologies (AIM) is a global media accessibility provider of live and recorded captioning, transcription, audio description, translation and speech analytics services. AIM is currently in the process of transitioning away from their 'legacy' transactional business and towards growing sales from higher margin SaaS and devices products. Whilst we expect this transition to create significant long-term value for shareholders, it has resulted in lower short-term revenue growth and share price volatility. AIM reiterated their FY22e outlook of revenues of $60-62m, gross margins of 53-54% and positive EBITDA implying confidence in a strong second half. Our investment forecasts are in line with guidance and are predicated on the continued growth in captioned minute volumes from AIM's ASR SaaS products Lexi, Smart Lexi and iCap network to offset lower services revenue.

Buy, Price Target $0.90

HEALTHCARE

John Hester
Healthcare Analyst

The biotechnology sector has been hit hard by a market correction as evidenced by a 26% decrease in the NASDAQ Biotechnology index over the last 12 months. Despite many of our stocks under coverage making encouraging progress either in the clinic or in commercialisation, valuations have been decimated. Past experience tells us that casualties are inevitable and that a re-capitalisation cycle should follow. Now is the time to concentrate on those names with sufficient capital to carry on through this downturn and with assets in areas of high unmet need. In our view both large pharma and private equity investors are likely to take advantage of the current depressed valuations.

Telix Pharmaceuticals (TLX)

Telix Pharmaceutical's first radiopharmaceutical drug (Illuccix) for the imaging of recurrent prostate cancer was approved in late 2021. Since then the company has made stellar progress towards commercialization in the US and Australia. PSMA imaging is now included in the NCCN guidelines for management of recurrent prostate cancer and reimbursement is also now approved in the US. The addressable market is expected to be worth in excess of US$1bn annually with Illuccix being one of three competitors in the US. The company is well capitalised following a $170m raise earlier this year and revenues from product sales are expected to generate the company's maiden profit in FY23.

Buy (Speculative), Valuation $8.10

Paradigm Biopharmaceuticals (PAR)

The company released headline data from the first randomised controlled trial of Zilosul for the treatment of osteo-arthritis of the knee in November 2018, almost 4 years ago. The trial met all primary endpoints and showed that the drug had a statistically significant impact on pain levels and improved patient's quality of life. In the September quarter 2022, PAR is due to release the first major clinical trial data since then via the headline data from OA-008 – being an analysis of changes in certain synovial fluid biomarkers associated with the drug's theorized mechanism of action. The data to emerge next quarter will be important to support the company's future funding endeavors. PAR is currently recruiting a phase 2b/3 study in the US.

Buy (Speculative), Valuation $1.90

Avita Medical (AVH)

AVH and others in the wound care space endured a very difficult two year period throughout the COVID-19 pandemic. Most of those access restrictions (for AVH clinical support staff) to US hospitals have lifted since the commencement of 2022. Access to surgeons and theatres is crucial for training purposes in the use of the Recell device, particularly in the current environment where there has been a high turnover of clinical positions within the hospital sector. We expect strong sequential quarter growth in the June quarter as more normal market conditions return. Short term catalysts include the upcoming release of headline data from clinical trials in trauma wounds and vitiligo. AVH remains well capitalised with cash of US$95m.

Buy (Speculative), Valuation $3.00

HEALTHCARE

Tara Speranza
Healthcare Analyst

Immutep (IMM)

IMM is a biopharmaceutical company focused on the development of immunotherapies for the treatment of cancer and autoimmune diseases. In early June, 2022, IMM announced a very impressive interim overall response rate of 38.6% in a Phase 2 trial of their lead LAG-3 check-point candidate, eftilagimod (or 'efti') + Merck's Keytruda®, in lung cancer patients. While Keytruda® sales currently surpass US$20m p/a, Keytruda® will come off patent in approximately 4 years – so Merck is very likely on the hunt for another drug to combine with Keytruda®, giving it another 5-10 years shelf-life.

In our view, Immutep has an asset in efti that is under very close watch by Merck and other large pharma companies. We expect efti to have a broad utility across multiple cancer indications in combination with various other treatment modalities and our outlook is for a multi-billion dollar sales potential for the uniquely acting efti.

Buy (Speculative), Valuation $0.65

Lumos Diagnostics (LDX)

Lumos is an Australian diagnostics development company. The company's fundamental competency lies in their proprietary assay development technology for rapid, point-of-care tests. LDX has three ready-for-use products, of which FebriDx® is, in our view, the company's most important asset - a test that first confirms an acute upper respiratory tract infection and neatly differentiates between a viral or bacterial infection. Both FebriDx® and ViraDx® (that tests for flu and COVID-19) remain under review by the FDA, and we expect an indicative clearance decision on 6 July 2022 for FebriDX®. If FebriDX® is approved, we expect to see a soaring increase in revenue, with no point-of-care options for detecting the source of a respiratory infection currently available to GPs or patients in the USA.

CoviDX®, a SARS-CoV-2 RAT, is sold mostly in Canada, creating the lion's share of the current revenue for the company.

LDX also maintains a services business that supports the Company's existing earnings base, and LDX has had continued success with securing new contract partners despite the COVID-related interruptions.

Buy (Speculative), Valuation $0.28

HEALTHCARE

Anubhav Saxena
Healthcare Analyst

Aroa Biosurgery (ARX)

Aroa Biosurgery uses ovine forestomach in its proprietary extracellular matrix (ECM) that is applied to various wound care products (Endoform, Myriad, Symphony). It also combines this biologic ECM with synthetic polymers in its OviTex range which is distributed in the US by TELA Bio (NASDAQ:TELA) for hernia and breast surgeries. Company guidance for FY23 of NZ$51-55m reflects 30-40% revenue growth. Key drivers include the ongoing commercialisation of Myriad in complex wounds, launch of Symphony and further development of their unique dead space platform. SARS-CoV-2 related elective surgical delays will likely reduce moving into FY23 creating further growth opportunities.

Buy (Speculative), Valuation $1.45

Pacific Edge (PEB)

Pacific Edge has identified specific genomic markers that are overexpressed in bladder cancer. It has developed the Cxbladder suite (Detect, Triage, Monitor) using these biomarkers for the workup of haematuria and monitoring of bladder cancer recurrence. The tests have been integrated into clinical pathways within New Zealand, US and recently Australia (Northern Melbourne in December 2021). The key market is the US with coverage by the Centre of Medicare & Medicaid Services (CMS) and commercial agreements with Kaiser Permanente. Widespread adoption will depend on guideline inclusion and a number of studies are underway comparing Cxbladder with the standard of care. Another important driver is the US team expansion to engage with clinicians more widely and facilitate the roll-out within the Kaiser network which has been limited by IT integration issues thus far.

Buy (Speculative), Valuation $0.95

BASE METALS & GOLD

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

Resources Analysts

As Central Banks play catch up to rein in inflation, we have seen an aggressive switch to hawkish monetary policy settings during 1HCY22. This has roiled financial markets and, in relation to commodities, dampened the demand outlook. While supply remains constrained due to COVID restrictions, logistical disruptions and lack of investment (particularly in the energy sector), demand forecasts have been lowered, implying more balanced markets for 2022 and 2023. For gold, we highlight its resilience in the face of skyrocketing real interest rates and the US$ Index (DXY) rising to 20-year highs. We also flag the emerging risk of stagflation. Historically, gold is a strong outperformer in a stagflationary environment and together as a safe-haven trade and store of value, we view gold as an important exposure to maintain.

Aeris Resources (AIS)

Although the demand outlook for copper has softened, we view AIS as currently trading at an extraordinarily deep discount and the most compelling ASX copper exposure. While a smaller, riskier proposition than key peers, it now has an asset portfolio with four producing assets and a key growth asset, providing exposure to copper, gold and zinc. Although a higher cost producer, we forecast AIS to be able to fund its growth through a lower copper price environment. It is debt free and a combination of exploration success and acquisition is driving positive step-changes for mine life extension and production growth, which we believe are not being recognised in the market.

Buy, Price Target $0.21

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. Despite rising input costs in CY22, NIC has been able to maintain and expand margins and following the successful commissioning of the Angel Nickel Project, NIC is on track for earnings growth of over 60%. In CY23, the Oracle Nickel project is on schedule to lift attributable production to ~80ktpa Ni in NPI and drive earnings growth of ~70%. NIC is trading on undemanding valuation multiples and remains one of our Top Picks for CY22.

Buy, Price Target $2.00

Capricorn Metals (CMM)

The ASX gold sector has suffered from input cost inflation due to rising fuel and energy costs and a tight and disrupted labour market. A stable A$ gold price has seen margins contract as a result. While we view some of the factors driving costs higher as peaking in mid-CY22 and there being potential for positive gold price catalysts, we believe the short-to-medium term outlook still favours the lower-cost producers. CMM not only has one of the lowest All-In-Sustaining-Costs (AISC) in the sector, but it is also one of the most cash generative producers and has built an attractive organic growth profile for minimum outlay. The management team has an exceptional track record and all of its assets are in the top mining jurisdiction of WA.

Buy, Price Target $3.90

ENERGY

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

Resources Analysts

The near-term oil market outlook is uncertain; elevated inflation, weaker expected global growth and the recent acceleration of monetary tightening have heightened the risk of recession for major developed economies. Offsetting the macro economic environment is current oil market tightness; OPEC+ will soon restore all curtailed production capacity announced in early 2020; persistent Ukraine-Russia conflict could extend energy supply concerns; and a limited ability for supply to respond is apparent with recent underinvestment in new projects. Tightness in Australia's east coast gas market has been highlighted in recent weeks, driven mostly by thermal coal plant outages causing record high gas prices. These demand and supply dynamics and heightened energy security concerns are supportive for incumbent energy producers exposed to international and domestic markets.

Beach Energy (BPT)

BPT should continue to benefit from elevated crude prices in the short-term, though operating leverage from its Western Flank asset will shrink as gas and LNG production from its growth projects ramp up over the next two years. The company's growth ambitions are fully funded; new development wells in the Victorian Otways should be commissioned by the end of FY23, lifting production capacity to plant limits (205TJ/day, gross) while improving marketing of gas volumes on a spot basis. The company's timely entry into global LNG markets (expected from 1H CY2023), through its Waitsia Stage 2 development, coincides with a robust outlook for LNG prices.

Buy, Price Target $2.00

Strike Energy (STX)

STX will benefit from Western Australia's tightening domestic gas market while pursuing downstream value adding manufacturing. There are multiple upcoming catalysts as its upstream projects progress to production in 2023-24, and as its flagship Project Haber urea fertiliser project is de-risked through FEED and financing. STX has a strong eye to ESG commitments, with a net zero Scope 1 and 2 target by 2030 and an aspiration to also offset Scope 3; Project Haber and the company's geothermal project are key carbon offsets.

Buy (Speculative), Valuation $0.39

Boss Energy (BOE)

BOE is best positioned to outperform peers as uranium markets continue to recover, we believe. With a fully capitalized balance sheet (A$125m in equity raised Mar-22) and a lower risk restart operation targeting production by end CY23, BOE now will look to secure binding production offtake agreements with nuclear utilities. A shortage in supply over the coming years has emerged driven by a structural decline in uranium production over the last decade and a demand to increase nuclear energy in a decarbonized world.

Buy (Speculative), Valuation $3.32

STRATEGIC MINERALS

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

Resources Analysts

The prospect of tightening monetary policy and recession across major global economies has weighed heavily on battery minerals exposed equities, despite decarbonisation being a prevailing theme over the medium to long term. We think the global auto manufacturing sector is likely to continue its re-tooling to supply EVs, supported by corporate targets and government policy, leading to sustained strong battery mineral demand. But the battery minerals' supply side's response faces significant hurdles with respect to permitting, project development and ramp-up. On this basis, we remain positive on the sector.

Liontown Resources (LTR)

LTR's Kathleen Valley project now has binding offtake agreements with Tesla and LG Energy Solution, key participants in the EV supply chain, covering around 60% of the project's initial production. With these offtake arrangements and a cash balance of $466m at 31 March 2022, LTR is in a strong position to arrange supporting debt finance to fund the Kathleen Valley's development. Kathleen Valley is expected to commence production in 2024 and ultimately ramp-up production to 550ktpa SC6 by 2026. Key catalysts are now final project scope and costings, FID and commencing project development.

Buy (Speculative), Valuation $3.06

Alpha HPA (A4N)

A4N's aluminium precursor and high purity alumina (HPA) products have applications in lithium ion battery, micro-LED and semiconductor manufacturing technologies at the forefront of the global decarbonisation and reshoring themes. From the September 2022 quarter, A4N will commence small scale production of aluminium precursors, establishing cash flow and strengthening relationships across the strategic minerals supply chains. In parallel, A4N is negotiating offtake agreements for its full scale HPA First Project in support of debt finance and FID. The project was recently awarded up to $60m in government grants in support of development.

Buy (Speculative), Valuation $0.90

Arafura Resources (ARU)

ARU's advanced Rare Earth (RE) project, Nolans, is anticipated to feed potentially 8% of global supply directly into the permanent magnet market servicing expansion of electric vehicles and wind turbines. ARU will look to reach a final investment decision by the end of CY22, with first production expected around the end of CY24 subject to funding which is predicated on securing 85% of planned production over the first 7-10 years. The first step towards binding offtake was taken with Hyundai signing an MoU for up to 30% of production over 7 years beginning in 2025.

Buy (Speculative), Valuation $0.60

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Bell Potter acted as Co-Manager to LSF's IPO in April 2018 and received a fee for that service.

Bell Potter Securities acted as lead manager to the Dec '21 IPO of IPD and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to Pentanet's $20m placement of June 2021 and received fees for that service.

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

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

Bell Potter Securities acted as Joint Lead Manager and Underwriter to the $50m Equity Raise of June 2021 and Lead Manager and Underwriter to the $117m Equity Raising of May 2022 for AIS and received fees for that service.

John Hester owns 1000 shares in AVH.

Bell Potter Securities acted as Joint Lead Manager and Underwriter to the US$225m Equity Raise of February 2022 for NIC and received fees for that service.

Bell Potter Securities acted as Lead Manager to the $20m IPO of STX in March 2012 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.

Bell Potter Securities acted as as lead manager in IMM's A$60m capital raise in 2021 and received fees for that service.

Bell Potter Securities acted as a joint lead manager of LDX's $8m raise in June 2022 and received fees for that service.

Bell Potter Securities acted as lead manager of PEB's IPO in September 2021 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.

Biotechnology Risk Warning

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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