ANALYST OUTLOOK & STOCK PICKS JUNE 2023

BELL POTTER

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BELL POTTER

LISTED INVESTMENT COMPANIES

Hayden Nicholson
ETF/LIC Specialist

Sector premiums and discounts are reactive to market conditions, with negative sentiment usually weighing on share prices. On Bell Potter estimates the average weighted sector discount is circa 13.3%, with larger more liquid companies trading at unusual heightened discounts. Our top picks therefore focus on companies with additional upside that could be harvested through normalisation.

L1 Long Short Fund (LSF)

L1 Long Short Fund (LSF) implements a variable beta strategy aimed at lowering volatility relative to the broader Australian market, with an objective to preserve invested capital through-the-cycle while delivering strong and positive absolute returns. The management style exhibits a mild value and contrarian bias. Choosing to blend a sophisticated style can pivot investor portfolios into the prevailing equity risk premium; without a need to adjust exposures. As of May 2023 the net sensitivity of the portfolio remained cautious at 47%. LSF could enhance an outcome by mitigating the influence of market beta into a softening demand environment; and without sacrificing a large degree of upside capture, which can lead to superior risk-adjusted returns.

MFF Capital Investments (MFF)

MFF Capital Investments (MFF) seeks to identify and invest in a portfolio of large international companies that display sustainable competitive advantages and above average profitability growth; all at an assessed discount to their intrinsic value. Quality at suitable acquisition should be supported by the tailwind of bifurcating equity markets, particularly when Index Funds are driving incremental money flows into concentrated investments. The Company has generated a net total return of over 10.5% over the last twelve months, compared to a shareholder return of 4.1%; a disconnect of 6.4%. The indicative discount to NTA has extended to 19.1%, meaning investors can effectively purchase the book of underlying assets at 80c in the dollar.

Metrics Master Income Trust (MXT)

Metrics Master Income Trust (MXT) aims to provide investors with monthly cash income and capital preservation through a portfolio of originated Australian corporate loans; diversified by borrower, industry and seniority. The Trust seeks to achieve a Target Return equal to RBA Cash Rate plus a margin of 3.25% p.a. net of fees and expenses – where it has achieved an excess spread of 1.3% p.a. over the last 12 months. Interest charged is predominantly floating rate and loans are supported by covenants negotiated in controlling for risk. MXT is a beneficiary of rising interest rates, supported by Swap Curve; which on Bell Potter estimates imply ~4.97% p.a. by October 2023. MXT could be yielding 8.22% based on Swap plus the 3.25% target margin, similar to the implied YTM on major bank hybrids.

AGRICULTURAL & FMCG

Jonathan Snape
Industrials Analyst

Investments in the Agricultural & FMCG sector should be considered high risk and come with volatility from both commodity prices and seasonal factors.

For this reason we tend not to so much focus on a directional share price move in the coming months but rather where we are seeing a value in the current share price relative to a stocks through the cycle earnings.

As such the three stocks we identify should not so much be considered key picks on a directional six monthly share price direction, but rather valuation dislocations where we see a buying opportunity.

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.

FY22 was a strong result despite the headwinds of product deregistrations in Europe and dry conditions across the Mediterranean and North America in 2H22. While we expect Australia to normalise down in FY23e, we expect this to be mitigated by an upward normalisation in crop protection demand in the US and Europe and a growing contribution from new revenue streams in Omega-3 and Carinata, which we expect to be material earnings drivers in FY24-25e. Achieving FY26e targets implies a materially higher earnings base than that currently reflected within consensus. We see the valuation upside in the seeds portfolio from higher earnings and a multiple re-rating as the key value arbitrage in NUF.

Buy, Price Target $7.35

Rural Funds Group (RFF)

Rural Funds Group (RFF) is a listed agricultural REIT with a portfolio focused on almond orchards, vineyards, cattle, cotton and macadamias. Assets in the portfolio are some of the most productive in the industry and leased to high quality tenants including Treasury Wine Estates, Olam, JBS, AACo and Select Harvests.

RFF trades at its largest discount to its market NAV ($2.78pu) in its listed history at ~39%. While we are in general seeing a large ~35% discount in ASX listed farming and water assets to market NAV, the discount that RFF is trading appears excessive. In effect we are seeing the market imply a depression type correction in agricultural asset values and with this in mind we are seeing a value opportunity in RFF. While the timing of that value discount closing is difficult to call, investors are likely to be rewarded with a ~7% yield to hold the position until such a time as the asset class re-rates. Interest rates peaking and divestment of non-core assets proving up NAV and releasing capital, may well be that catalyst.

Buy, Price Target $2.20

GrainCorp (GNC)

GrainCorp (GNC) provides handling, storage, marketing, logistics and agronomic services to the east-coast grain industry. GNC also holds an interest in listed malt producer UMG.

Suggesting an east coast grain handler as we transition from La Nina to El Nino may seem a perplexing proposition. However, when we consider the uplift in baseline PBTDA and improved corporate net cash position, GNC looks to already be trading at levels consistent with the previous cyclical low. Trading at 6.0-7.0x through the cycle PBTDA, valuation is undemanding, with multiples likely to contract further as cash is released in lower crop volume years (i.e. unrealised trading cash earnings and lower working capital). In the near term further investment in oilseed crush capacity with an alignment to sustainable biofuels should improve the baseline PBTDA further. GNC is a stock where seasonal headwinds are emerging, but that is traditionally the point in the cycle we become buyers of the stock.

Buy, Price Target $9.45

TECHNOLOGY

Chris Savage
Industrials Analyst

Michael Ardrey
Industrials Analyst

We have a positive or constructive view on the outlook for the technology sector given the consistent increases in interest rates both domestically and internationally over the last 12 to 18 months now appear to be nearing an end. This is positive as it suggests cuts or decreases in interest rates are not too far away and this is good for high growth stocks with low or negative cash flows/earnings now and only reasonable or meaningful cash flows/earnings in several years' time. We note the rally in the sector over the past several months has been led by large cap technology stocks with positive earnings but only reasonable growth outlooks. We believe the next area of the sector to rally could well be the mid cap stocks which are just becoming profitable but have strong growth outlooks.

Life360 (360)

Life360 develops and operates a mobile app for families – called Life360 – that provides a range of safety features including communications, driving safety and location sharing. The company has also made two acquisitions – Jiobit and Tile – so that now it not only connects and protects people but also pets and things. The core business has been performing very well though the acquisitions have had a difficult 12 to 18 months due to supply chain constraints and/or a drop in consumer electronics demand. The overall outlook, however, is positive with recent price rises in the core business driving strong top line growth and the recently commenced bundling of Tile products with subscriptions to provide a further boost to subscription revenue.

Buy, Price Target $9.00

Catapult Group (CAT)

Catapult develops and sells wearable tracking and analytics solutions to sporting teams and athletes globally. Importantly the company has just turned EBITDA positive and said it will be free cash flow positive in FY24 (thus reducing or eliminating the need for an equity raise). We expect continued strong revenue growth in the core Wearables business in FY24 and also expect growth in the previously lagging Video business to significantly improve this year. This suggests or implies a return to double digit revenue growth in FY24 and with a relatively stable fixed cost base, a reasonable portion of the additional revenue is expected to fall through to earnings.

Buy, Price Target $1.20

ikeGPS Group (IKE)

IKE delivers operational efficiencies within Utilities and Communications companies and related Engineering firms by replacing legacy pole asset assessment and maintenance processes with hardware and software solutions. IKE's growth is underpinned by the $410 billion fibre, 5G, and rural broadband rollout in North America, which offers IKE the opportunity to embed its solutions within clients. IKE is planning to release its Next Gen PoleForman product in 2HCY23, which has already displaced a competing product from a 20-year account prior to hard launch, and is currently in the development phase of a pole-specific AI automation project with "one of the world's largest digital data collection businesses for global infrastructure". Although we anticipate a soft June quarter, we currently forecast positive full year EBITDA and operating cash flows for FY24e.

Buy (Speculative), Valuation $1.18

DIVERSIFIED FINANCIALS

Marcus Barnard
Industrials Analyst

The diversified financials sector has performed poorly in CY2023 to date, as the RBA continued to raise interest rates in the face of high inflation. There are few signs of a dramatic slowdown in the economy or significant increase in unemployment, but there are signs that consumers are scaling back discretionary spending, meaning we expect interest rates to peak in Q3.

Rising rates have affected all financials. Asset managers have been impacted, with longer dated bonds and equities falling. In the medium term, equities should be an inflation hedge and the sector is well placed to benefit.

For our key picks we look to strong business with growth strategies that have been recently sold off.

Perpetual (PPT)

Since mid-2022, Perpetual shares have been sold down due to doubts over the achievability of the Pendal merger, associated synergies and fears of outflows. The recent Q3 FY23 announcement showed net flows virtually flat and signs that the company will achieve and exceed its synergy targets.

We continue to find the combined group attractive with greater geographic scale, more distribution channels, a diversity of strategies (including a wider ESG focus) and further scope for cost and revenue synergies.

At the time of writing, the shares trade on a PE of just 9.7x FY24E, and we expect the company to deliver 9-10% EPS growth in FY24 and FY25. We expect a valuation re-rate as investors appreciate the value being created in the combined business.

Buy, Price Target $30.60

Regal Partners (RPL)

Regal Partners is a well diversified alternative asset manager, with around 27 funds offering active, high conviction exposure to a wide range of assets and strategies including: long/short, emerging companies, small companies, resource royalties, water assets, carbon assets, and private markets.

We find the company attractive because of its highly entrepreneurial culture, illustrated by the expansion through M&A (Attunga, Kilter, VGI Partners, East Point) and its growth through the launch of new strategies (seven in the last three years). It is also highly profitable with high management fees (averaging 115bps), and has considerable scope for earning performance fees.

The recent sell down in shares creates an attractive entry point.

Buy, Price Target $3.71

PSC Insurance (PSI)

PSI is a fast-growing insurance broker with operations in Australia and the UK. It operates in an attractive niche as an intermediary between small to medium sized companies (SMEs) and insurers. These SMEs tend to grow more rapidly than larger companies but lack insurance knowledge, so value the advice and expertise on the level and type of insurance cover they require.

We find PSI attractive given its strong track record of organic and inorganic growth, which has seen EBITDA grow by 24.8% CAGR over the last 5 years, and we believe this growth will continue at a rapid pace.

The shares have been sold down recently as the company pulled out of a joint venture with AUB Group, which had been a key part of its growth strategy. We anticipate it will rapidly redeploy capital into other acquisitions to make up for this and see this current weakness as a buying opportunity.

Buy, Price Target $5.86

RETAIL

Chami Ratnapala
Industrials Analyst

Following outperformance over the past three years, the consumer discretionary sector has started seeing headwinds from tightening monetary policy, higher cost of living pressures and the decline in the accumulated household savings buffers. Australian store traffic which remained resilient in 1Q2023 partly aided by weaker comps earlier in the quarter, has since then deteriorated from mid-late April. We continue to look for retailers with differentiating customer value propositions and balance sheet strength, and support names who may grow through market share expansion in addition to those names who would benefit from higher replacement cycles and more diverse customer demographics.

Accent Group (AX1)

Accent Group (AX1) commands a dominant ~30% market share in the $3 billion Australian footwear retailing market and we think there is a larger opportunity with the emerging global athleisure trend where consumers seek dual function shoes. AX1 remains a key pick with its exposure to a diversified customer demographic in their core brands and overweight position in footwear which we believe would be supported by continuing casual footwear trends and as sports, fitness and wellness related spending remains a priority. We also view the current valuation as attractive (11x BPe FY24e P/E), considering a medium term earnings growth trajectory.

Buy, Price Target $2.50

Lovisa Holdings (LOV)

Lovisa Holdings (LOV) is currently trading on ~21x FY24e P/E (BPe) which we think is justified given market expectations for the highest 1-year forward EBITDA growth within the global peer group of high quality retailers/vertically integrated brands that we consider. We view LOV as a key pick in our Retail sector coverage with its ability to execute on the large global roll-out opportunity as a strong player in the fashion jewellery market while remaining relatively better immune to consumer spend pressures given the accessibility of the product from a price point perspective, once comps normalise.

Buy, Price Target $30.50

Cettire (CTT)

Cettire (CTT) is a fast growing global online luxury personal goods retailing platform in a large market with a structural shift to online well underway. The company is the fastest growing retail play in our coverage driven by the expansion in its market share and delivered a solid trading update recently (as of April). We think CTT will continue to outperform its peer group consisting of global luxury retailers and local e-commerce players given its <1% market share in a large and growing market which could remain more resilient than other discretionary categories in a likely recessionary environment.

Buy, Price Target $2.50

EDUCATION

Olivia Hagglund
Industrials Analyst

IDP Education (IEL)

IEL is one of the largest education services providers globally who facilitate the placement of international students into education institutions; co-own and distribute one of the most well-renowned English language proficiency tests, 'IELTS'; operate English language schools in South East Asia; and provide marketing and event services.

In our view, the recent re-rating of the stock presents an opportunity for investors to buy an established market leader in education experiencing strong structural growth tailwinds and paying a solid dividend. In addition, the business requires relatively low capital expenditure and working capital intensity and has historically maintained strong levels of cash conversion (~100% in FY22). Whilst IEL still trades at a premium to its peers on a FY24e EV/EBIT of ~24x, we believe this is justified given its market leading position, potential for M&A and successful track record.

Buy, Price Target $27.40

NextEd Group (NXD)

NXD is an Australian private tertiary education organisation that operates nine brands across English language, Vocational and Higher Education sectors as well as an international student recruitment agency. They offer courses to ~22k domestic and international students (75% international) and are delivered either online or at the 10 campuses located across Australia.

The company remains highly leveraged to the recovery of international students in Australia and, combined with market share gains, has continued to see record growth in demand for its English language courses (>3x peak pre-COVID levels). This has been a key driver of higher classroom utilisation and improved operating leverage (1H23 EBITDA margins +~600bps YoY to 15%) with NXD anticipating a material increase in revenue and profit in 2H23 and FY24. We view strategic M&A as the key catalyst for share price movement going forward.

Hold (Buy), Price Target $1.90

Janison Education (JAN)

JAN is a global 'EdTech' company focused on the provision of online assessment software to deliver high-volume, high-stakes digital exams such as NAPLAN, assessment products (exam content), and assessment services (invigilation, marking and test development). The Company's core customer segment is the Schools market (K-12).

We believe the medium-long term growth outlook for JAN has recently improved with clients shifting back to 'pre-pandemic' schedules and levels of investment, in addition to new and extended assessment software agreements with key customers including Education Services Australia and two of the largest global exam publishing houses, Oxford and Cambridge. JAN has also reiterated its FY23 guidance and revenue CAGR of +20% for the next 3-5 years which we view as highly achievable.

Buy, Price Target $0.70

INDUSTRIALS

Sam Brandwood
Industrials Analyst

IPD Group (IPG)

Electrification is emerging as a dominant market narrative with IPD Group (IPG), in our view, highly leveraged to this growth trend through its supply of 'low voltage' electrical equipment that reduces the energy use of buildings and infrastructure. IPD is set to deliver two consecutive years of circa 15% volume growth and we believe continues to have a large runway for market share growth in Australia through its exclusive arrangement with industry leading manufacturer Aussie Broadband (ABB) (ABB's market share in Australia is ~8% vs. 20-30% in Europe).

In addition, we see IPG's electric vehicle charging opportunity reaching a tipping point in FY24e. The company is engaged with two large Australian petroleum companies who have set bullish 2025 roll out targets and has a significant pipeline of opportunities with other recipients of Australia's $250m Future Fuels Fund. IPG also has ample room for accretive M&A with >$25m in net cash.

Buy, Price Target $4.00

The Environmental Group (EGL)

The Environmental Group (EGL) is an Australian environmental engineering company with a focus in resources and waste sectors. EGL operates five core segments that are all profitable, growing >15% p.a. and exposed to favourable environmental growth trends (e.g. landfill diversion, bio/energy from waste, battery minerals development).

In addition, EGL's novel Per- and polyfluoroalkyl substances (PFAS) water remediation solution could be a game changer. The Biden administration has listed PFAS contamination as one of the top environmental issues of the decade, where in the US it's thought that ~60% of Americans now have unsafe concentrations of PFAS in their drinking water. EGL has recently secured its first and second PFAS unit sales to an Australian waste management company, providing an important step towards broad industry validation for its technology.

Buy, Price Target $0.32

Brickworks (BKW)

Brickworks (BKW) is a building materials and property development company with a 26.1% shareholding in listed investment vehicle Washington H. Soul Pattinson (SOL). Whilst the company's Building Products division faces a difficult outlook for FY24e, we are attracted to the structural post COVID-19 ecommerce/supply chain tailwinds supporting BKW's industrial property trust, where ~90% of leased asset value is located in suburbs surrounding the new Badgerys Creek airport in Western Sydney.

A combination of rental reviews on short weighted average lease expiry (WALE) segments of the existing portfolio (~40% of asset value) and residual development of the Oakdale estate (+394k sqm GLA) should provide a mechanism for shareholders to benefit from the recent uplift in market rents (+40% YOY in 1Q23) over the mid-term. In addition, Brickworks retains a further ~5,200ha operational land located on urban fringes of cities across Australia and North America, providing long-term development option value.

Buy, Price Target $27.00

AEROSPACE & DEFENCE

Daniel Laing
Industrials Analyst

We are optimistic about the outlook for the domestic Aerospace & Defence sector in 2023, which is benefitting from favourable macroeconomic conditions that are accelerating structural growth in the market. The invasion of Ukraine and tensions in the Asia-Pacific are forcing most developed nations to reassess their military capabilities and increase investment in their national security. This is driving greater investment than ever before in defence-related companies, with total military expenditure increasing by 3.7% in 2022 to reach a new high of $2,240 billion USD.

DroneShield (DRO)

DroneShield Limited (DRO) is an Australian defence manufacturer specialising in counter-drone technology. DRO products are designed to detect and defeat small drones, such as those recently deployed in Ukraine.

The company is leveraged to the current trend of global rearmament and the addressable market for counter-drone technology is expected to exceed $7.62 billion USD over the next decade.

The company has made significant progress in the last 6 months, announcing two record $11m contracts in December 2022 and January 2023.

We anticipate significant near-term sales opportunities, likely stemming from the company's contract to roll out their technology across US military bases or military aid to Ukraine from the US and/or Australia.

Buy, Price Target $0.40

Austal (ASB)

Austal (ASB) is an Australian shipbuilder and defence contractor providing design, manufacturing and support capabilities for defence and commercial customers. The company is Australia's largest defence exporter and in the last 35 years has contracted more than 350 vessels across 59 countries.

Naval shipbuilding is experiencing significant tailwinds globally and ASB is positioned to be a prime beneficiary of structural growth in both the Australian and US markets.

ASB is set to enter FY24 with a record contract book of ~$11b AUD, with recent contracts such as the OPC (~$4.3b), the T-AGOS (~$4.7b) and the likely award of the EMS (~$1.25b) contract, providing a deep pipeline of work for the next decade.

Buy, Price Target $3.10

HEALTHCARE

John Hester
Healthcare Analyst

The first half of calendar year 2023 has been a market for stockpickers amongst mid-market capitalisation healthcare and biotechnology stocks. Top performers in our research coverage have demonstrated strong revenue growth (AVH, TLX), commercialisation progress (NEU, 4DX) or are on the cusp of major clinical and commercialisation milestones (CYC, MSB).

Valuations amongst pre-revenue stocks generally remain challenged and for those in this position, balance sheet strength remains a key focus. Several stocks raised capital on the back of clinical data or commercialisation progress (e.g. 4DX, IMM, MSB) and these were generally well supported by institutions and retail investors, hence capital markets remain open when supported by good data. For those with commercial operations, the market has maintained a laser focus on earnings or for those operating at a loss, identifying a realistic pathway to profitability.

We continue to see value in stocks with exposure to the molecularly targeted radiation (MTR) sector. In our view MTR is an emerging cornerstone in oncology.

Telix Pharmaceuticals (TLX)

We retain TLX as a key pick following strong execution of its US business plan over recent quarters. Revenues from the sale of Illuccix continue to grow each quarter and the product is now expected to generate revenues in excess of $450m in 2023 – representing a 50% increase from our forecast in December 2022. Short-term catalysts include regulatory submissions for TLX 101 (for imaging of glioblastoma) and TLX250-CDx for the imaging of clear cell renal carcinoma. TLX250-CDX is subject to Breakthrough Therapy Designation, therefore its regulatory submission is subject to several concessions. We expect the company to commence submission of its rolling Biological License Application in 2H2023 and the product is expected to receive FDA approval mid 2024. Telix remains well capitalised with $121m in cash at 31 March 2023 and based on our forecast, is expected to generate its maiden profit in CY2023.

Buy, Price Target $14.00

Cyclopharm (CYC)

The FDA expects to provide a decision on the approval of Technegas for the US market in September 2023. This follows a complete response letter (CRL) from 2021. In the period since June 2021, the company has generated substantial new data relating to the production process for Technegas as required by the FDA. This was required notwithstanding the tens of thousands of doses of product delivered to patients around the world each year outside of the US. The company has stated that the CRL did not relate to the efficacy or safety of the product.

In the lead up to a potential approval, Technegas has continued to enjoy strong support from the broader nuclear medicine community within the US eager to commence adoption. The company estimates the US market for Technegas at US$180m annually inclusive of US$90m being the initial market for diagnosis of pulmonary embolism (PE) which it believes it can win within 5 to 7 years from launch. The second stage of the market also relates to PE where the company believes it can win market share in those patients currently diagnosed via CT.

Buy, Price Target $2.80

4D Medical (4DX)

4DX's recent capital raise was well supported by institutions and retail shareholders following a spate of news flow regarding commercialisation activities for the XV LVAS in the United States. This included the first commercial contract with the University of Miami and first scan completed at a Department of Veterans Affairs (VA) hospital.

Following the raise our financial model anticipates the company will have sufficient capital to achieve cash flow breakeven, however there remains considerable uncertainty around the timing of key events including, in the main, large scale contracts with the VA. Notwithstanding, progress with VA negotiations accelerated after the appointment of Dr David Shulken (former Secretary to the Department of VA) as an advisor to the company in April. With 3.5m veterans potentially eligible for screening to toxins from burn pit exposure, this opportunity continues to be the most lucrative. For the remainder of CY23 it is reasonable to expect the announcement of a pilot programme with at least one VA hospital. We also expect a second commercial contract in the private sector.

Buy (Speculative), Valuation $1.10

HEALTHCARE

Anubhav Saxena
Healthcare Analyst

Whilst there has been a significant re-rating of the healthcare/biotechnology sector over the past 18 months, this has provided the opportunity to find the 'diamond in the rough'. For biotechnology the focus remains critical appraisal of clinical data and evaluating the pathways to commercialisation. Recent biotechnology milestones include FDA approval and commercial launch for trofinetide (NEU), achievement of primary endpoints for the WiSE device (EBR) as well as drug development progress within Alzheimer's Disease with positive Phase 3 results of donanemab (Eli Lilly) in May 2023 and the recent Advisory Committee review of lecanemab (Eisai/Biogen) in June 2023. There are also several upcoming catalysts including Phase 2b results for eftilagimod in head and neck cancer (IMM) in H2 CY23 and the Phase 2 myelofibrosis results for PXS-5505 in mid-2023 (PXS). Healthcare is also starting to return towards pre-pandemic operations in terms of surgical procedure volumes (ARX, PNV), diagnostic imaging (CAJ) and pathology services.

Aroa Biosurgery (ARX)

Aroa Biosurgery (ARX) is a commercial stage medical device company that operates within the complex wound care and soft tissue reconstruction sector. The portfolio includes Endoform/Myriad/Symphony (complex wounds) and the OviTex devices (breast & hernia surgery) which are distributed through TELA Bio in the US. FY23 Revenue NZ$63.4m (60% YoY growth) was driven by Myriad and OviTex sales. FY24 guidance includes revenues of $72-75m, EBITDA of $1-2m and improved gross margins to 85%. Important potential growth drivers include product launches of Myriad Morcells (fine) and Symphony during FY24, market opportunity following Integra recall (PriMatrix vs. Myriad & SurgiMend vs. OviTex) and stronger account penetration with the broader hospital coverage as ARX has agreements with the four largest GPOs in the US.

Buy, Price Target $1.45

Vitura Health (VIT)

Vitura Health (VIT) is the market leader in the distribution of medicinal cannabis products in Australia with the CanView platform providing the broadest portfolio (~ 30 suppliers, 250+ product lines) and access to 3,600+ pharmacies (~ 63% of total pharmacies in Australia). The commercial launch of CanView 2.0 across pharmacies, prescribers and patients provides an integrated platform to simplify the prescribing process and improve access for patients. Based on our FY23 forecasts (Revenue $121.5m, EBITDA $23.9m) VIT is currently trading at ~ 2x EV/Revenue and ~ 10x EV/EBITDA. The recent joint venture with Releaf Group will increase the utilisation of the CanView platform amongst prescribers and presents a collaboration model that can be replicated with other prescribing clinics across Australia. Establishing Cortexa (Joint Venture with PharmAla Biotech) for the supply of MDMA and Psilocybin provides diversification for Vitura and capitalises upon its experience in navigating the Authorised Prescriber pathway given the TGA decision that will come into effect from 1 July 2023.

Buy, Price Target $0.90

Neuren Pharmaceuticals (NEU)

Neuren Pharmaceuticals (NEU) is a commercial stage drug development company targeting disorders of the Central Nervous System. The lead asset in the pipeline is trofinetide which became the first FDA approved treatment for Rett Syndrome in March 2023 (~ 4,500 patients in the US). Under the exclusive partnership agreement with Acadia, Neuren has received US$40m following the commercial launch in April 2023 with additional milestone payments up to US$350m contingent on annual sales thresholds. Further revenue will be through the tiered double-digit royalties on net sales by Acadia in North America. Neuren has the opportunity for further partnerships outside North America with key jurisdictions including Europe (~13,000 patients), China (~28,000 patients) and Japan (~3,000 patients). Important catalysts include Acadia commercial launch metrics for the June quarter and clinical trial progress for NNZ-2591 with top-line results in Phelan-McDermid Syndrome expected in Q4 CY23.

Buy, Price Target $16.50

BASE METALS & GOLD

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

Resources Analysts

We remain optimistic about the outlook for the base and precious metals sector. Base metals remain well supported by the decarbonisation thematic, in particular copper, for which it is hard to see an adequate supply response to meet growing demand. We are happy to look past near-term price weakness, taking the view it is the ideal opportunity to build exposure ahead of strong pricing recovery. For gold, which has consolidated after a strong start to CY23, we believe the next leg up will be driven by the peak of the interest rate rising cycle, likely in 2HCY23.

Santana Minerals (SMI)

SMI's principal asset is its 100% owned Bendigo-Ophir Gold Project (the Project) in the Otago Region of New Zealand. Key points: i) SMI has grown the Resource to 49Mt at 1.9g/t gold grade containing 3.09Moz of gold, at a discovery cost of just A$3.50/oz, ii) feasibility studies and approvals processes have commenced, targeting mine development from ~FY27, iii) the current Resource is contained within just 4km of strike of 30km of the prospective regional mineralisation control, iv) which SMI is exploring for further discoveries and extensions to known deposits. SMI is one of our top picks because: i) we estimate an un-risked project NPV of $785m and a risked/diluted project value of $260m, ii) we anticipate that SMI's value will be progressively re-rated as it achieves the Project's development, approvals, and funding milestones, iii) further discovery could highlight Tier-1 gold production potential from the project, and iv) given the opportunity set, SMI could make an attractive acquisition target for other producers.

Buy (Speculative), Valuation $1.45

Aeris Resources Ltd (AIS)

AIS represents a copper dominant mining exposure whose primary assets are the Tritton Copper Operations in NSW, Cracow Gold Mine in QLD, Mt Colin Copper Mine in QLD, the Jaguar copper-zinc operations in WA and the Stockman copper-zinc project in VIC. Its near-term outlook is highly leveraged to rising copper grades at the Tritton copper mine, where high grade ore sources are commencing production and exploration success is likely to sustain it. We are of the view that now is the time to buy AIS as the delivery of higher grades and increased copper production into FY24 is substantially de-risked and set to drive a positive re-rating.

Buy, Price Target $0.89

Nickel Industries (NIC)

NIC's operations are located in Indonesia, where it holds interests in Rotary Kiln Electric Furnace (RKEF) nickel pig iron (NPI) projects which we expect to produce ~90kt of nickel (attributable) in FY23. In FY23 NIC is also on track to add its first High Pressure Acid Leach (HPAL) operation, lifting its Class 1 nickel production to ~15-20ktpa. NIC's assets are long-life, bottom-of-the-cost-curve projects. It is expanding and diversifying across a range of nickel products and markets which will make it unique among global, listed nickel producers. Its aggressive growth outlook and undemanding valuation metrics make it one of our top picks.

Buy, Price Target $1.84

STRATEGIC MINERALS

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

Resources Analysts

Decarbonising technologies (EVs, renewables, storage) will remain as key drivers of strategic minerals demand. We expect increased corporate activity from original equipment manufacturers (OEMs) at the asset and listed entity level to provide a supportive theme for equities with quality projects and strong ESG credentials. While capital inflation at project developments remains a risk, supply will unlikely meet the rapid demand growth we expect over the next 3-5 years, driving sustained higher strategic minerals prices.

Alpha HPA (A4N)

A4N's high purity aluminium and high purity alumina (HPA) products have value-adding application across lithium ion battery, micro-LED and semiconductor manufacturing. These technologies are at the forefront of the global decarbonising and reshoring themes.

Over the coming quarters, we expect A4N to announce initial product offtake agreements with major battery supply chain and chemical participants in support of debt financing and Final Investment Decision (FID) for the full scale HPA First project in Gladstone.

Buy (Speculative), Valuation $1.53

Arafura Rare Earths (ARU)

ARU is a rare earths developer advancing its Nolans project, a complete ore to oxide solution in Australia's Northern Territory. Rare earths, in particular Neodymium (Nd), Praseodymium (Pr), Dysprosium (Dy) and Terbium (Tb), are critical minerals in a de-carbonised economy as they are crucial in the production of permanent magnets for EVs and wind turbines. ARU's Nolans Project is sufficiently advanced, with binding offtake agreements for ~1,900tpa (43% of nameplate capacity). ARU are advancing construction activities ahead of final offtake and funding discussions. We anticipate production from Nolans to begin towards the end of 2025.

Buy (Speculative), Valuation $0.72

Azure Minerals (AZS)

AZS has identified more than 700 individual outcropping (lithium bearing) pegmatites at the Andover Project (the Project, AZS ownership 60%). Initial drill testing of the first target area has returned broad intersections (up to 100m wide) of potential economic grade lithium mineralisation (+1% Li_2O), over a 400m strike length, to 350m depth. AZS has a Strategic Objective of defining a +100Mt Resource. AZS is supported by major shareholders SQM. NYS (not rated, one of the world's largest lithium producers), and Yandal Investments Pty Ltd (which owns the other 40% of the Project, and 8.87% owner of IGO Ltd). Soon, 6 drill-rigs will be testing potentially Tier-1 scale lithium deposits at Andover. In our opinion, over the next 12-months, there's an excellent chance exploration will delineate a large lithium resource, which could support a strategically significant spodumene concentrate business, close to bulk commodities ports, and major regional towns in Western Australia.

Buy (Speculative), Valuation $2.00

STRATEGIC MINERALS

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

Resources Analysts

Delta Lithium (DLI)

DLI is a lithium spodumene exploration and development company which owns two projects in Western Australia, Mt Ida, and Yinnetharra.

DLI announced the initial lithium Mineral Resource Estimate (MRE) for Mt Ida of 12.7Mt at 1.2% Li_2O. Mt Ida is contained within a granted mining lease, which is enabling its rapid development. At Yinnetharra, ongoing exploration has identified wide-spread lithium mineralisation, providing look-though to a second, larger lithium project.

DLI has several attractive characteristics as a lithium developer. i) Relatively near-term production, targeting a Direct Shipping Operation from 4QFY23. ii) Yinnetharra exploration results, and commentary, point to the potential of the project to host a second, larger, resource and mining operation. iii) DLI remains independent in an environment of accelerating strategic investment and partnering.

Buy (Speculative), Valuation $1.25

Green Technology Metals (GT1)

GT1's hard rock lithium assets are located in Ontario Canada, on the doorstep of North America's fast evolving EV sector. The company is fast tracking appraisal activities in partnership with leading mineral investment and processing groups and established North American lithium developers. Over the next six months, GT1 is expected to add to its Mineral Resource inventory and release a preliminary economic assessment. Our valuation is mostly supported by modelling a notional project development at Seymour.

Buy (Speculative), Valuation $1.46

Latin Resources Ltd (LRS)

We expect material value accretion as LRS continues to add to the Salinas Mineral Resource Estimate (MRE) and ultimately defines its path to development. Our LRS valuation is based on modelling a notional project development at Salinas, heavily risked for its early stage of assessment. We expect the company to aggressively pursue the required feasibility studies and environmental permitting to de-risk Salinas with further potential upside from step-out and regional exploration over the short term.

Buy (Speculative), Valuation $0.37

STRATEGIC MINERALS

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

Resources Analysts

Talga Group (TLG)

Talga Group (TLG) is a vertically integrated graphite anode development company based in Northern Sweden. TLG's project consists of a high-grade natural graphite mine in Northern Sweden, which feeds downstream processing facilities based in the port city of Luleå. TLG are advanced in the development of a battery anode material which is expected to supply high-quality European Automaker EV's like Mercedes and Stellantis. TLG is preparing for construction activities by the end of CY23 which should see commercial production begin in early 2025. Under Stage 1, TLG anticipates production of 19,500tpa of high-quality battery anode material anticipated to grow to over 100ktpa in Stage 2.

Buy (Speculative), Valuation $2.50

ENERGY

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

Resources Analysts

Energy markets are expected to remain volatile as a raft of uncertainties impact outlooks for supply and demand. Hawkish interest rate policy combined with the ongoing conflict in Ukraine and OPEC production cuts are likely to drive volatility in traditional energy commodities. For uranium, we expect to see continued activity in the long-term contracting market, and a lift in the contracting price from US$55/lb.

Boss Energy (BOE)

BOE is a uranium developer based in South Australia. BOE owns the Honeymoon project, a restart operation looking to begin production in December 2023. We continue to see support for uranium prices driven by 1) a lack of near-term supply, and 2) expansion in Nuclear adoption. We anticipate a rising price environment over the next 6-12 months as Nuclear utilities begin contracting for new supply. As BOE is yet to secure an offtake agreement, we see its portfolio of 2.45Mlbs annual production as being exposed to higher prices over the short-medium term.

Buy (Speculative), Valuation $3.42

Strike Energy (STX)

STX hold the largest Reserve and Contingent Resource position in the Perth Basin. These upstream gas assets position the company to benefit from Western Australia's gas market, where recent market consolidation, driven mostly by energy consumers, has highlighted the tightening supply-demand fundamentals. STX will enter first production at Walyering over the next few months, define a project and take FID at South Erregulla in 2H 2023 for potential production from early 2025, and progress West Erregulla through permitting for FID in mid-2024.

Buy (Speculative), Valuation $0.58

MINING SERVICES

Joseph House
Resources Analyst

Cost pressures remain a key risk for the Mining Services sector, led by persistently tight labour market conditions, with several Australian Resources companies continuing to report talent recruitment challenges. Given Australia's large development pipeline of greenfield and brownfield mining developments, driven by robust commodity prices following the onset of COVID-19, we expect a strong call on mining labour and services into 2H CY23, a positive for mining contractors and engineering firms. For companies leveraged to exploration activity, recent favourable movements in junior equity raising trends should support growth in greenfield exploration activity in FY24. Juniors are likely to drive most greenfield activity growth, with majors remaining committed to grassroot exploration.

Develop Global (DVP)

DVP's twelve month outlook is loaded with several value accretive catalysts. At Woodlawn, assay results from an exploration and Resource Definition Drilling program should continue to identify down-plunge extensions across several lenses, which will inform a Mineral Resource and Ore Reserve upgrade in 2H CY23. We expect near-term positive updates on processing plant modifications, underground infrastructure development, Life of Mine extension, project economics and financing will satisfy project operational readiness and ultimately production restart by mid-CY24. Expenditures on these activities will be largely met by cash flows generated by the Bellevue mining contract and funds raised from in-the-money options, limiting the need for equity financing.

Buy, Target Price $4.20

GenusPlus Group (GNP)

GNP is leveraged to increasing investment in renewable power, battery energy storage and transmission infrastructure on the east coast of Australia; these investments are considered essential for achieving ambitious decarbonisation targets set by state and federal Governments. We expect awarding of a design and construct contract for the HumeLink East project will formalise this multi-decade trend in transmission infrastructure investment while solidifying the company as a tier 1 provider of contracting services for large scale energy infrastructure. GNP's recently restructured communications division is now positioned to readily expand via servicing of new and existing customer relationships.

Buy, Target Price $1.18

Imdex (IMD)

IMD is leveraged to improving global exploration drilling activity, a pivot from bearish indicators that have materialised over the earlier months of CY23, some of which we believe are transitory, including adverse weather impacts on exploration activity in Australia, USA and Canada. Looking forward, junior exploration activity should rebound, underpinned by recent favourable movements in junior equity raising trends. Recent outlook commentary by Major Drilling, a global provider of drilling services and a peer to IMD, was upbeat on FY24 noting robust drilling activity has returned following a slow start to CY23, with several gold majors committed to prioritising greenfield exploration projects.

Buy, Target Price $2.50

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Bell Potter Securities acted as a Co-Manager to the Metrics Master Income Trust (MXT) Entitlement Offer in March 2018 and received fees for that service.

Bell Potter Securities acted as a Co-Manager to the Metrics Master Income Trust (MXT) Entitlement Offer in May 2019 and received fees for that service.

Bell Potter Securities acted as a Co-Manager to the Metrics Master Income Trust (MXT) Entitlement Offer in February 2020 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager of DRO's $10.9m capital raising in February 2023 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager of 360's A$50m capital raising in November 2022 and received fees for that service.

Bell Potter Securities acted as Joint Manager for RPL's $110m Sept 22 entitlement offer and received fees for that service.

Bell Potter Securities acted as Joint Manager in PSI's March 2022 $80m capital raise and received fees for that service.

Bell Potter Securities acted as Lead Manager to 4DX's May 2023 capital raise and SPP for $45m and received fees for the services.

Bell Potter Securities acted as Lead Manager to SMI's July 2022 placement (and holds shares/options in this company) and received fees for that service.

Bell Potter Securities acted as Lead Manager and Underwriter to AIS's $117m Equity Raising of May 2022 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager and Underwriter to NIC's US$185m Institutional Placement of January 2023 and the US$225m Equity Raise of February 2022 and received fees for the services.

Bell Potter Securities acted as Joint Lead Manager for ARU's Aug-22 A$41.5m and Dec-22 $121m capital raises and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to DLI's December 2022 $55m placement and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to GT1's $24m IPO in November 2021 and $55m placement in April 2022 and received fees for that service. Bell Potter Securities holds options in GT1.

Bell Potter Securities acted as Join Co-Manager to LRS's $37m placement in April 2023 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to STX's $30m placement in September 2022 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to EGL's $8m equity raising in Apr '23 and received fees for those services.

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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