MONTHLY BELL

December 2023

BELL POTTER

CONTENTS

Christmas may have come early in equities markets, with a Santa Claus style-rally since the market bottomed at the end of October and climbed 4.5% to the end of November. Health Care (up 11.7%), Real Estate (up 10.8%) and Information Technology (up 7.3%) were the leading sectors.

While uncertainty around interest rates will likely keep a lid on equity markets in the near term, we think the general trajectory will continue to be up.

In this month's report, contributing columnist Damon Kitney interviews Mark Allison, Managing Director and Chief Executive Officer of Elders (ASX:ELD). Mark discusses succession planning and how artificial intelligence (AI) can potentially transform the agriculture company. See page 10.

We introduced real estate research to our coverage last month in conjunction with our Foundations Real Estate Conference (you can watch the recordings on Bell Potter Client Access **here**). For our December Feature, we summarise key real estate investment themes and three favoured stocks on page 12.

For Lose the Home Bias on page 7, we analyse the athleisure opportunity. The global athleisure market size was US$328.39 billion in 2022 and is projected to be worth around US$740.7 billion by 2032. Who knew there was so much money to be made from tracksuit pants and sneakers?!

We introduce two new stocks to our Australian Equities Panel on page 15 – a provider of novel assay services to the global gold mining and exploration industry, and a real estate and alternative asset manager with over $8 billion under management.

This will be our final Monthly Bell for 2023. Please note we will not publish a report in January. You can expect the next Monthly Bell in early February.

On behalf of the Bell Potter team, I would like to wish you and your family a safe and happy holiday season.

Regards,

Chris Savage
Head of Research
Bell Potter Securities

IS THIS THE CHRISTMAS RALLY?

Chris Savage, Head of Research

He picked it. Last month we wrote that Phil King from Regal came into our offices and said he was cautious on the market but then followed it up by saying "don't get too negative, there could be Santa Claus rally around the corner, maybe November". Lo and behold (or Ho, ho, ho and behold) the market bottomed at the end of October – the 30th to be precise – then rallied hard in the first week of November and has continued an upward trajectory since. The reason? Better than expected inflation data – especially out of the US – and a general view that interest rates may have peaked. China being more proactive in supporting its property sector and engaging in face-to-face dialogue with the US also helped.

Where to from here? There is still some uncertainty around whether interest rates have peaked or not – especially here in Australia – and that has tapered the market rally somewhat. The debate now is whether we get one more rate rise in Australia or not – if we do the general view is it will most likely happen in February – but the consensus view is it will be one more increase at most. The debate in the US is similar with a view perhaps the Fed is now done but key focus will obviously remain on inflation and jobs data going forward. The uncertainty around interest rates will likely keep some lid on equity markets in the near term though we think the general trajectory will continue to be up.

So how do you play it? If interest rates are peaking then the logical shift is into those stocks or sectors which have been negatively impacted by the interest rate rises we have seen over the past 18 months or so. These are typically high growth stocks and sectors where a lot of the value is in earnings or cash flows generated over the medium or long term (and that value gets discounted more greatly when interest rates rise). The table to the right shows this is indeed how it played out in November with sectors like Health Care (up 11.7%), Information Technology (up 7.3%) and Materials (up 4.9%) all outperforming the market (which was up 4.5%). We would expect this trend to continue and notably we cover each of those sectors and so some of our key picks are highlighted in this report.

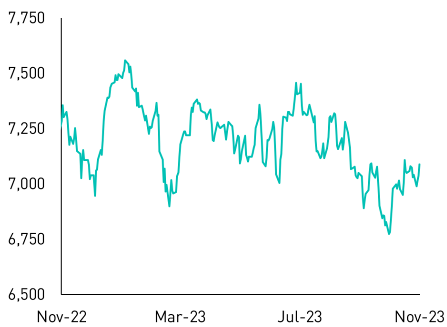
One other sector which performed well in November was Real Estate (up 10.8%) and, again, this is a sector that should perform well in a flattening or falling interest rate environment. We recently hired a Real Estate analyst, Andy MacFarlane, and he recently initiated coverage on a number of stocks. Some of his key picks are highlighted in this report.

ASX200 Sector Performance

Communication Services	2.8%
Consumer Discretionary	4.7%
Consumer Staples	-0.9%
Energy	-7.4%
Financials	4.1%
Health Care	11.7%
Industrials	6.6%
Information Technology	7.3%
Materials	4.9%
Real Estate	10.8%
Utilities	-6.0%

Source: Bloomberg

ASX200 Index



Source: Bloomberg

All Ords 10 Year Historical Dividend Yield

Source: Bloomberg

Top Performers (ASX200)

Block Inc (SQ2)	58.8%
Neuren Pharmaceuticals (NEU)	44.6%
IRESS Ltd (IRE)	40.9%
Cromwell Property Group (CMW)	37.5%
Centuria Capital Group (CNI)	28.0%
Genesis Minerals (GMD)	26.4%
West African Resources (WAF)	26.4%
James Hardie Industries (JHX)	24.6%
Collins Foods (CKF)	24.1%
Elders (ELD)	24.0%

Source: Bloomberg

Worst Performers (ASX200)

Santos (STO)	-9.9%
Healius (HLS)	-10.5%
AMP (AMP)	-10.5%
Treasury Wines Estates (TWE)	-10.7%
Sayona Mining (SYA)	-12.0%
AGL Energy (AGL)	-12.3%
Liontown Resources (LTR)	-14.6%
Chalice Mining (CHN)	-15.1%
Karoon Energy (KAR)	-19.5%
Core Lithium (CXO)	-22.2%

Source: Bloomberg

INFLATION...GOING, GOING... STILL GOING?

Radhika Singla, Research Associate

Amid many stops and starts and market volatility, global inflation now appears to be on a downward trajectory. The proverbial sixty-four-thousand-dollar question however still lingers. 'Are we returning to normal on the current policy setting?', or do central banks still have to do more?

Starting in late 2008 with the Global Financial Crisis (GFC) and compounded in 2019 when the COVID-19 pandemic struck, central banks globally led by the U.S. Federal Reserve launched into over a decade of aggressive easing of monetary policy. Money supply grew substantially as stimulus measures, plus pandemic-era distortions, forced interest rates to record lows (almost 0.0%) and triggered demand-led inflation conundrum that has remained in the spotlight since mid-2022 – thereby prompting central banks to significantly tighten policy measures to bring inflation back to target range.

While global headline inflation remains well-above target levels, encouragingly, it is now on a sharp downwards trajectory. Core inflation has also dropped, but not by as much – as food and energy price reductions have been the primary drivers of the fall in headline inflation.

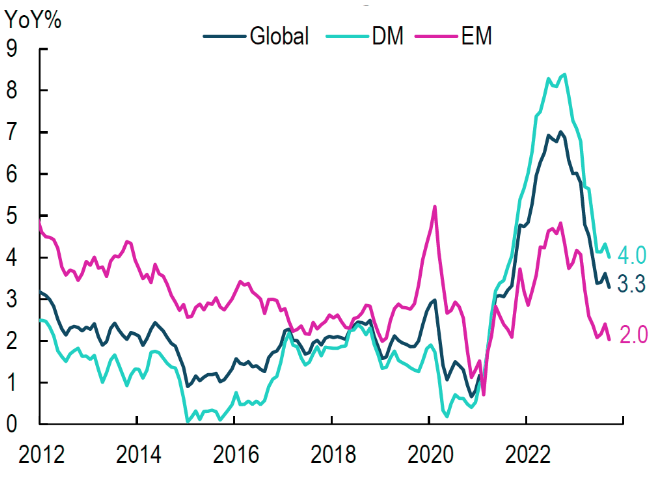
As 2023 draws to a close, it's clear that global inflation is about half-way back from the 2022 peaks to the pre-pandemic level, both in advanced economies, and emerging markets. Although upside risk remains, this has raised hopes that most major central banks are at the end of their tightening cycles.

Heading into 2024, we are seeing evidence of a new desynchronised global economy regime characterised by gradual disinflation and decelerating growth. This reflects the ongoing effects of tighter monetary policy on demand in advanced economies, as well as a soft outlook for the Chinese economy. In the U.S., in spite of healthy consumer demand, rising continuing jobless claims and an upward trend in unemployment are indicative that higher interest rates are finally slowing the American economy.

We expect the lagged effect of high interest rates to act as a drag on global economies in the months ahead, increasing the likelihood of a recession, both in the U.S. and the U.K in 2024, and compounding the slowdown in China. The Euro area economy is expected to contract from late this year into early 2024. Global growth is therefore forecast to slow and remain well below-trend in the year ahead. In tandem, Citi forecasts global growth to come in at 2.3% for calendar 2023, then slowing modestly to 1.7% in calendar 2024. For global inflation, Citi forecasts 5.6% at the end of 2023, and then 4.5% in 2024.

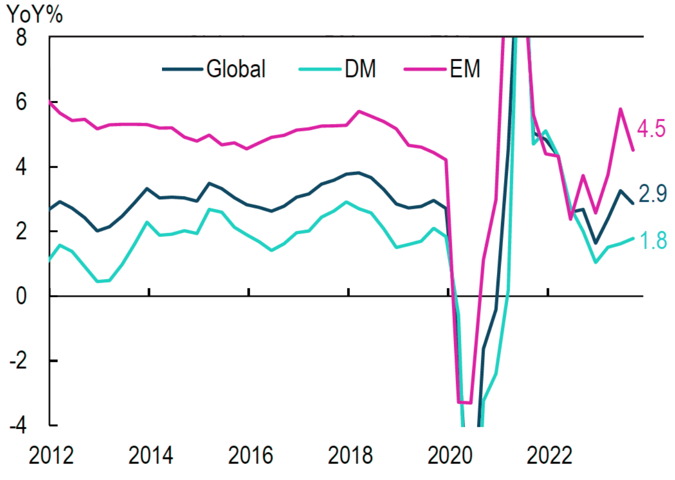
Domestically, the Australian economy continues to display remarkable pliability in a world of

Headline CPI: Longer-Term View



Source: Citi Research

Real GDP: Longer-Term View



Source: Citi Research

growing geopolitical tensions and macroeconomic challenges. The Australian economy has proved to be more resilient in recent quarters than previously expected – which is supporting demand conditions for Australian businesses.

However, economic growth in the Australian economy is also expected to remain below-trend for calendar 2024 as cost-of-living pressures and lagged effect of higher interest rates weighs on demand. We now expect the Australian economy to grow a modest 1.9% in 2023, slowing further to 1.4% in 2024.

On a positive note, recent inflation data shows that the October monthly CPI gauge was pleasingly lower than expected at 4.9% year-on-year, thanks to an increase in commonwealth rental assistance, falling fuel prices and a sharp decline in international airfares and holidays.

While inflation has been tracking down since its peak in the December quarter 2022, it remains stubbornly high and continues to be at the forefront of the RBA's decision making, leading to a divided market expectation regarding the RBA's next move.

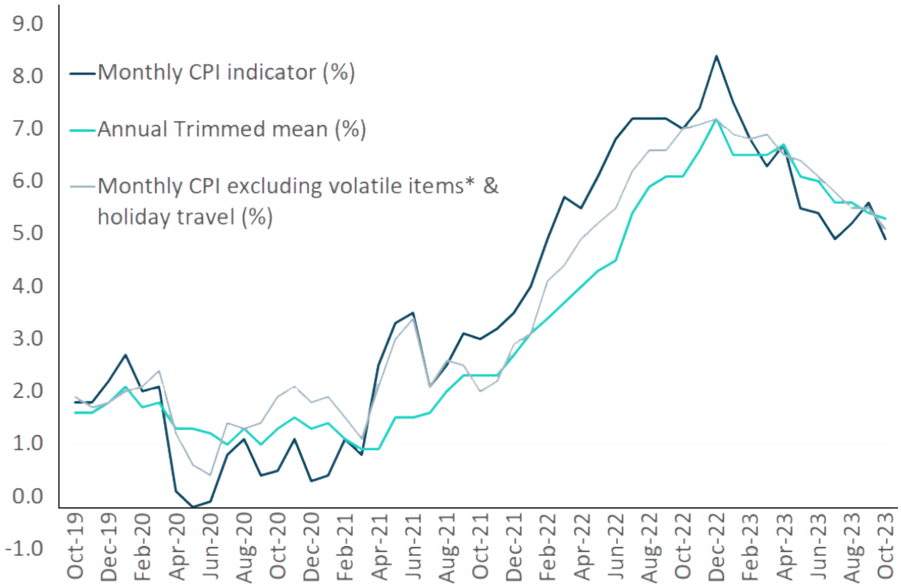
This was also evident in Governor Bullock recent speech implying that the inflation problem facing Australia is largely homegrown demand driven which will require continued vigilance and possibly further monetary policy action to better balance supply and demand.

Bullock's comments largely echo our existing expectations about inflation, productivity, and capacity. Therefore, we lean towards the likelihood of one further 25 basis points rates increase next February.

In Conclusion

Globally, upside risks to inflation remain but downside risks to economic growth are becoming slightly more apparent. Even though we expect most central banks to have now reached/ nearly reaching peak cycles–, for at least the next few months–, we expect inflation to remain above the consensus 2.00% target rate of central banks' and we therefore expect interest rates to remain elevated for longer.

Monthly inflation



Source: Citi Research, ABS

It is worth noting that goods inflation, particularly in Australia is heading in the right direction and we expect it to continue to do so over the coming months. In contrast, services inflation remains sticky and will likely keep overall inflation elevated and above the RBA's 2%-3% target band. Consequently, we believe services inflation may be the catalyst for another 25 basis points hike likely in February 2024 for a terminal cash rate of 4.60%.

All up, a more sustainable balance between supply and demand across the economy, including in labour and product markets, is expected to support the return to low and stable inflation as growth in domestic activity returns to trend over time.

CHRISTMAS CHEER IN NOVEMBER MAKES IT ONE TO REMEMBER

Radhika Singla & Kevin McKay, Research Associates

What a month November turned out to be for global equities and in particular U.S. equities. Christmas cheer has come early for many investors this year amid general optimism that central banks led by the U.S.

Federal Reserve are close to ending their tight monetary policy, leaving the path open to lowering interest rates next calendar year. Indeed, one major U.S. bank strategist recently wrote that they anticipate 2024 to be a 'stock picker's paradise', based on how the Fed has managed to bring inflation down and keep the U.S. economy sufficiently robust.

The S&P 500 index, the best gauge for large-cap U.S. stocks, closed 8.9% higher for the month having endured a few tough months prior, securing its largest monthly increase since July 2022.

In the Eurozone, positive signs emerged on inflation as consumer prices moderated last month. The CPI stood at 2.9% in October, dropping sharply from 4.3% the month before and well below economists' expectations of 3.3%. Food inflation also continued to ease, reaching 7.5% in October from 8.8% the month before. In response the European Central Bank held rates steady in November adding to the sense that the European Central Bank's tight monetary policy is cooling.

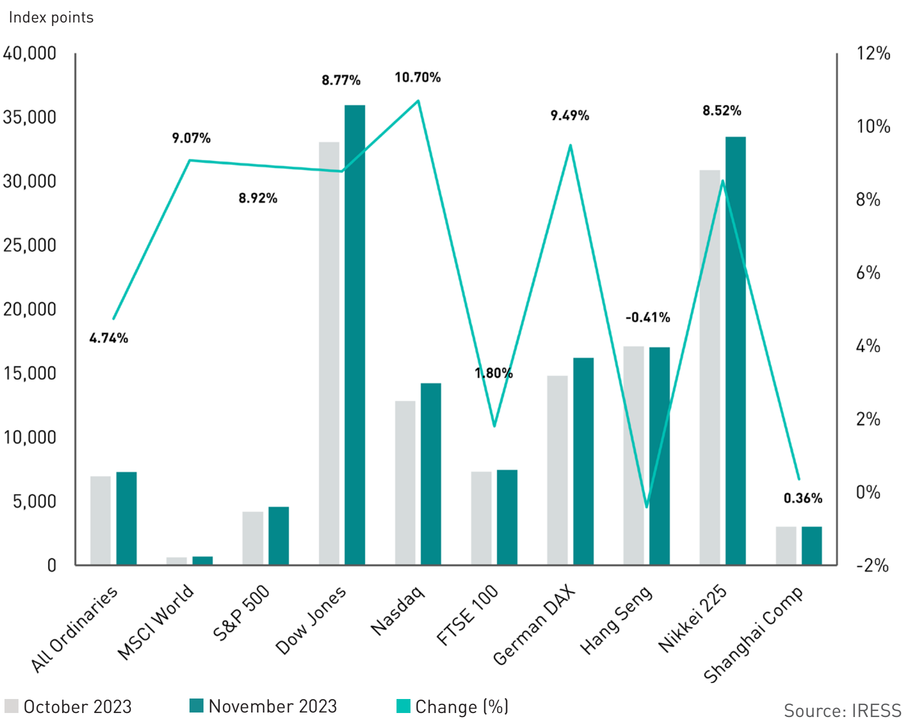
Elsewhere, China's broader economic woes continued, with regulators now working to formulate a funding plan for property developers in its latest efforts to consolidate growth as the country grapples with an ongoing property crisis. There is anticipation that government advisers may propose an economic growth target of around 5% in 2024 at the annual Central Economic Work Conference in December.

On the commodity front, while the Israel/Palestine conflict initially pushed oil prices back towards US$90/barrel, prices subsequently weakened after OPEC's monthly market report eased worries about waning demand and a U.S. probe into suspected violations of Russian oil sanctions raised concerns about potential supply disruptions. The gold price rose sharply in November, driven by a retreating US dollar and expectations that the U.S. Federal Reserve has finished hiking interest rates. The price is now within sight of moving to all time highs.

With a little less than a month left in 2023, U.S. growth stocks continue to be the star performers over their value style counterparts. Interestingly, this is in sharp contrast to 2022, when value outpaced growth. With the 3Q-23 earning season all but done, the S&P 500 looks set to record an average gain of 4.3% over the same quarter a year earlier, according to the latest data from FactSet. That result would mark the first quarter of earnings growth since the third quarter of 2022.

Investor confidence remains high amid expectations interest rate hikes will soon be in the past. The resilience shown by the U.S. economy leaves the U.S. Fed well placed to navigate the U.S. economy past any lagged effects of high interest rates that may filter through the U.S. economy in the months ahead. It is worth noting that seasonally stocks perform well post the Thanksgiving holiday. This suggests that November's Christmas cheer will most likely extend into December, amid expectations Santa Clause (The Fed) will deliver given the current goldilocks conditions.

Global Performance - November 2023



Source: IRESS

ATHLEISURE: A FASHION FOR ALL SEASONS

Radhika Singla & Kevin McKay, Research Associates

The fashion industry witnessed a remarkable shift when the COVID-19 pandemic struck, and consumers were forced to spent extended periods at home exercising and seeking comfort in mentally challenging times. Fashioned out of necessity, Athleisure – the perfect marriage of fashion and functionality – has taken the fashion industry by storm. What was once considered mere gym wear has now become a mainstream trend embraced by people of all ages and backgrounds.

Athleisure, a term coined by combining "athletic" and "leisure," represents a fusion of fashion and functionality in clothing and footwear. Athleisure typically includes items such as yoga pants, leggings, sweatpants, hoodies, and sneakers. These items often feature moisture-wicking fabrics, stretchability, and ergonomic designs, making them suitable for both active and leisurely pursuits.

What initially began as workout wear designed for physical activities has now evolved into a versatile fashion phenomenon embraced by people from all walks of life.

While people are now back working out at the gym and frequenting sports leisure centres again, they are also paying more attention to self-care, spending their money on clothes that are simply multi-seasonal and multifunctional.

While the fashion industry itself has struggled in recent times, in contrast, activewear and athleisure brands have flourished more than ever. With more business meetings taking place in front of a computer screen at home these days, leggings, sweatpants, and loungewear have quickly become inherent pieces of our professional wardrobes.

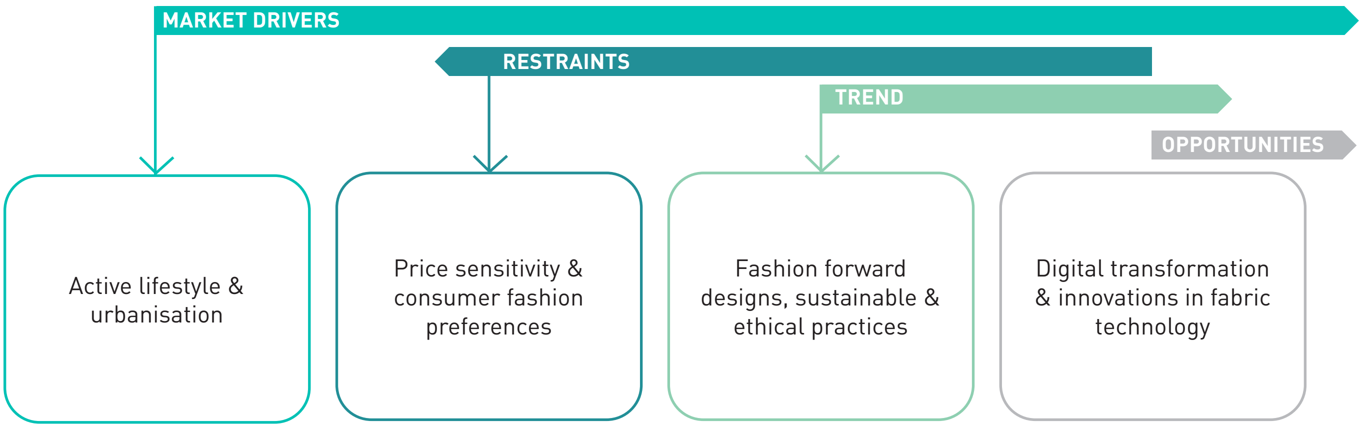
This fusion of athletic and leisure has witnessed significant growth and popularity in recent years. The market is driven by several factors including rising health and wellness trends, increasing preference for comfortable yet functional clothing, as well as social media/celebrity endorsements.

Furthermore, with this adoption of a more casual lifestyle, luxury brands are embracing athleisure with keen enthusiasm, tapping into the lucrative activewear market. Esteemed names like Christian Dior, Louis Vuitton, and Chanel have launched athleisure lines, encompassing everything from trainers to leggings and gym accessories.

In this regard, they are increasingly incorporating high-end materials like cashmere, silk, and leather into athleisure pieces, redefining the boundaries of comfort and luxury.

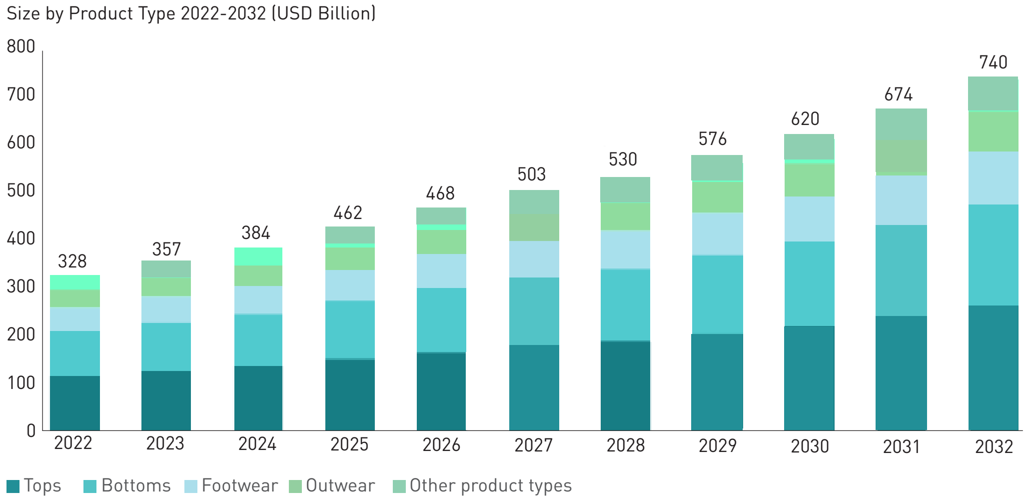
As we move towards a more conscious fashion industry, athleisure is also evolving to align with sustainable practices and technological advancements.

Global Athleisure Market



Source: HTF Market Intelligence

Global Athleisure Market



Source: Market.US

Compound annual growth rate (CAGR) forecast

8.7%

Forecasted market size for 2032 (USD)

$740.7b

Brands are increasingly using eco-friendly materials like recycled polyester and organic cotton for their athleisure offerings.

Moreover, technology is revolutionising the athleisure market with advancements like moisture-wicking fabrics that keep you dry during workouts, temperature-regulating materials that adapt to your body's needs, and even smart clothing that tracks your fitness progress.

These innovations are making athleisure not just a fashion statement but also a functional and performance-enhancing choice which is driving significant growth in the sector. This is underpinned by a great appeal in its diversity and inclusivity for all consumer segments across all ages.

By designing clothing brands that are both affordable and size appropriate for the consumer, athleisure companies can secure a footprint following, particularly within certain sporting arenas. For example, the Nike brand has become is synonymous with basketball, and golf and the logo and slogan 'Just do it', while Lululemon athletica is a technical athletic apparel company synonymous with yoga, running, training and most other sweaty pursuits.

According to market.us research, the global athleisure market size is expected to be worth around US$740.7 billion by 2032 from US$328.39 billion in 2022, growing at a CAGR of 8.70% during the forecast period from 2023 to 2032.

The chart above makes it clearly evident that athleisure is not showing any signs of slowing down. It has come a long way from being a simple trend; it has become a lifestyle and a fashion choice.

With its integration into luxury fashion and its commitment to sustainability and technological advancements, athleisure is here to stay. As we embrace and adopt these hybrid wardrobes and its ability to keep us comfortable and stylish in all seasons. we identify four Buy-rated companies by Citi that are actively continuing to reshape the fashion landscape.

Our preferred athleisure stocks:

Lululemon Athletica Inc (Lulu.O) Latest research >

LULU, together with its subsidiaries, designs, distributes, and retails athletic apparel, footwear, and accessories. The company offers pants, shorts, tops, and jackets for healthy lifestyle, such as yoga, running, training, and other activities. It also provides fitness- inspired accessories and footwear. The company sells its products globally, as well as through mobile apps and lululemon.com e-commerce website.

LULU is well positioned in the U.S. to grow a narrowing inventory to sales gap and limited markdown pressure and in China, growth continues to impress despite a volatile macro environment. With the brand healthy in the US and China a "coiled spring" with several years of outsized growth ahead, we believe LULU is one of the most compelling growth stories in retail with strong earnings growth forecast as LULU unlocks its global growth potential.

Adidas AG (ADSGn.DE) Latest research >

The adidas Group consists of the Adidas brand across major categories (football, running, training, outdoor, golf, specialist sports and US sports) and three banners (Adidas Performance, Adidas Originals, and Adidas Sportswear, the latter having been launched in 2021 to address the growing relevance of the athleisure segment).

Adidas is well positioned to benefit from ongoing structural trends such as emerging middle-class consumers, healthier lifestyles, and casualisation of the workplace. We also believe adidas can execute a successful China turnaround strategy, providing growth despite a more lacklustre macro environment. We still view the sporting goods industry as an attractive oligopoly, with major brands well placed to continue to gain share of the market with rising self-care and athleisure wear trends. Furthermore, Stella McCartney's collections for Adidas puts a luxury high-fashion spin on sportswear, which prioritise style just as much as they do performance.

JD Sports (JD.O) Latest research >

JD Sports is a UK specialist retailer of fashionable branded, sports and casual wear. The Group operates a global retail network, including physical retail (73% of sales) and e-commerce (24% of sales). Footwear contributes 54% of group sales, while Apparel is 35% and Accessories and Other the remaining 11%.

We rate JD Sports as a Buy based on the significant opportunity to deploy its capital on expansion, generating returns above its weighted average cost of capital. As the sporting goods industry grows JD is well positioned to benefit from ongoing structural trends. We expect JD's greater geographic diversification to create less revenue volatility in the current environment and expect its efficient control of working capital to continue to drive great cash conversion, in turn supporting growth.

TOPSPORTS

Topsports (6110.HK) Latest research >

Topsports is the largest sportswear retailer and service platform in China, with 6,565 directly operated POS in nearly 300 cities. It is also the largest retail partner and customer of Nike and Adidas in China, and the two brands together represented about 87% of group sales in FY23.

Topsports, has a vast offline retail network and a consumer-centric business model, with the latter enhanced by disruptive digital initiatives at its stores and in procurement/ replenishment orders. Topsports has a rich portfolio of 14 foreign and Chinese brands in various segments, which ensures its resilient growth amid segmentation of China consumption even in an uncertain macro environment, in our view. Given the strength of its multi-brand strategy, continuous market share gains, and its unchanged intention to return most free cash flow to shareholders, Topsports remains our Top Buy in the China sportswear athleisure sector.

SUCCESSION: ELDERS (ASX:ELD)

Damon Kitney, Contributing Columnist

Christmas 2022 was a unique moment in the life of Mark Allison.

For the first time in almost a decade, he was contemplating life after running Elders, the Australian rural services icon that traces its roots back to 1839.

Allison had secured two chairman roles in the agriculture sector that were due to start in January, one in the listed space and the other in the private world.

"I was super excited about the new options and had also resolved in my mind that I was starting a new life," he says.

But the news of his retirement as Elders managing director and chief executive that had hit the market a month earlier had halved the share price, spooking investors and the board.

In the early months of 2023, the Elders directors and chairman Ian Wilton resolved to ask their star CEO to stay.

For Allison, the biggest challenge was convincing his three adult children to support the u-turn. All had welcomed newborns in the previous months, giving Allison his first grandchildren.

"The biggest call for me was around convincing the kids to be honest. One of them worked in financial services in New York and is pretty competitive, so I won't give you his opinion," Allison quips with a wry smile.

"But seriously, their core feeling was, 'Well, hold on, haven't you given them enough and you made a decision'."

But as in 2014 when Allison was convinced by his board to move from the chairman to managing director role, his long-held passion for rural Australia and the eventual blessing of his children twisted his arm.

Elders was his seventh executive role and a return to CEO life following five years as a non-executive director within the agribusiness and industrial and safety industries.

Noting he has always been a "red cordial guy" who lives life at a fast pace, the 63 year old says he is treating his reappointment in June as "like I'm a brand new CEO."

During his tenure Elders has lifted its ROC to 16 per cent and it has committed to investors to continue to deliver at least 10 per cent growth in EPS and EBIT and maintain ROC above 15 per cent.

A key has been his focus on people and largely retaining a stable management team, which has maintained the company's strategic focus.

> "The secret of succeeding in agriculture is you need to have a capital base where you make good money in bad seasons and great money in good."

Again showing his penchant for good humour, he quickly adds: "The only difference is I don't criticise the previous guy."

Over his tenure Allison has engineered a strong turnaround at Elders as the firm has sharpened its focus on lifting investment returns while riding through agricultural cycles.

When he took over in 2014, the company was almost bankrupt. He and the 40 most senior members of the team assembled an "Eight-Point Plan" to return the group to sustainable earnings growth by FY2017.

It was based on a Return on Capital (ROC) driven, portfolio approach to running the business, with high financial discipline.

Allison says as a patterns and numbers person, he has always been driven by an ROC focus.

"It is around the portfolio management and the cost of capital discipline. You can only do it with absolute discipline and transparency about where the costs are," he says.

"There has been some turnover but when you put it over a decade, it is not significant," he says.

"Elders is also such a trusted brand so there is a real pride in our people. When bad things happen in our communities we are there to help."

The group has been able to ride out the agricultural cycle because of its diversified business model, which sees it sell not only rural and crop protection products, but also insurance, banking and real estate. "That is critical. It is why for 10 years we have been able to grow," Allison says.

He describes the Elders culture as a "very loyal, stoic, community and family based."

"When Elders was in trouble, some leadership stepped over to an attitude of arrogance and domination. A lot of that has now gone. That swagger has gone. Part of my role is to allow people to be who they really are: hard working, smart and humble people. In bad times, revenue earners get a lot of power in businesses. But we have culled out all the non team players as we have got stronger," he says.

Over the past decade Elders has also largely been a consultant and investment banker-free zone, which has been a deliberate decision by Allison to remove wasteful expenditure and unnecessary distraction.

External advisers are now employed only in specific areas of the business, such as in the automation of wool handling and testing and supply chain rationalisation.

"On the product supply chain rationalisation project, we had LEK help us on some of the broader supply chain issues from active ingredients in China, through to formulation facilities through to wholesale and retail etc. But to be honest, even with that project, it was more just to bring the management team up to speed with supply chain efficiency," Allison says.

Elders saw its shares and earnings continue to climb through the years of the COVID pandemic, underpinned by improving weather conditions, bumper seasons after the break of the drought and the need for people to eat despite being locked down at home.

"We dug in and the communities supported each other. The culture was strengthened. We helped our competitors as well through that period. For us, it was a great time. We did really well, we had a record two years and last year was on top of that," Allison says.

While record years of drought have forced the agribusiness sector to rapidly accelerate the adoption of technology and innovation, Elders is taking a wait and see approach to where artificial intelligence (AI) can potentially transform its business model.

"What the term means in agriculture is artificial insemination," Allison quips, noting AI is already used to automate tasks in more transaction-focussed parts of the business.

But he stresses the current implementation of the Microsoft 365 cloud-powered productivity platform across the business, which is almost finalised, will be far more transformative.

Elders will celebrate 185 years in business in 2024 and asked what keeps him awake at night about the future, Allison replies without hesitation: succession.

He believes he has multiple internal candidates on the runway to take over and will play a more active role when the time comes to choose his successor in the coming years.

"Last year, the succession implications for shareholders were really unnecessary. I had limited involvement in the process after I announced I was leaving, which was probably a mistake. With hindsight, I probably should have been more actively involved in helping choose my successor," he says.

"So my focus is on ensuring the next transition in a number of years time is smooth, internal and that shareholder value is enhanced."

ABOUT ELDERS (ASX:ELD)

ELD is a leading supplier of fertiliser, agricultural chemicals and animal health products to rural and regional Australia, with strong agency positions in livestock, wool and real estate.

Market Cap $1,150m
Price $7.35
Dividend yield 4.4%

* As at 30 November 2023

View Bell Potter research >

REITS VALUE SCREEN & KEY PICKS

Radhika Singla, Research Associate

With mixed global inflation data and interest rates reaching peak cycles in most economies, Australian real estate is back in the investment debate. Find out when is the correct time to look at Australian Real Estate stocks and which sub-sectors and companies are best positioned for a recovery.

As interest rates started to rise in 2022 and 2023, the REITs sector has underperformed the broader S&P/ASX 200 and other industrials. The sector is therefore presenting significant value from a historic valuation metric perspective with material discounts to NTA (c.27% discount for passive REITs), high dividend yields (6.3% sector WAV) and undemanding PE ratios (14.6x sector WAV).

In this regard, one of the key questions on Australian listed real estate investors' minds is how the sector will perform as we approach the top of the interest rate cycle and possibly start turning our focus onto the first-rate cutting cycle. Even though this is potentially still a little while away, we have initiated coverage of Australian REITs, and below we discuss some key investment themes that we see for investors in the sector over the next 12+ months.

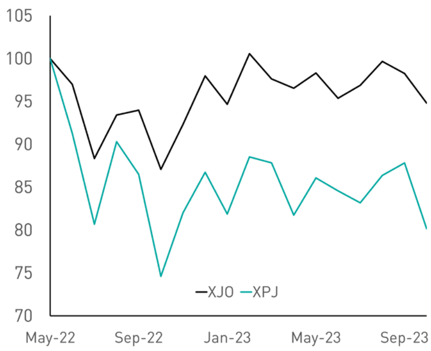
Although we acknowledge that we could be closer towards rate cycle peak for 10-year bonds (Australia c.4.5% spot vs. 5.25% implied forward yield peak) and the cash rate (4.35% vs. 4.35% Bloomberg consensus peak), we are cautious overall on the sector given:

1. Bond market volatility and recent increase in the long end of the curve – as REITs is a rate-sensitive sector which also creates uncertainty for direct real estate investors;
2. Cost of capital will dictate earnings growth and the ability to grow via development or acquisitions, or necessitate disposals; and
3. Challenging 3rd party capital raising environment and dislocation in offshore markets where global investors can realise greater risk-adjusted returns which would otherwise help to improve direct market confidence.

While there is some risk that equity raisings could occur for REITs with more illiquid assets and/or balance sheet risk (especially given recent sharp reversion), balance sheets are in good shape by and large with disposal programs well underway. Therefore, to see the sector back in favour we would want to see:

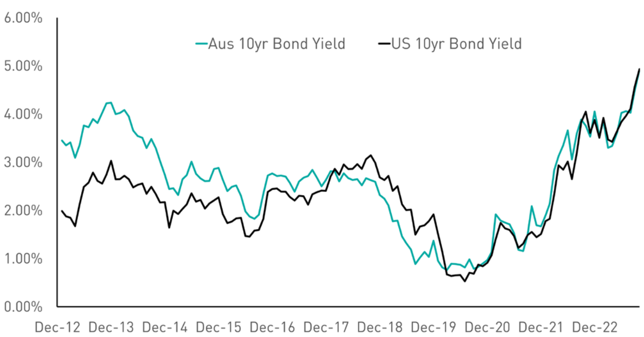
- Stabilisation in macro markets as well as funding costs;
- Pick up in direct transaction markets from sharp shooters and global real estate capital: and
- Sector consolidation which we anticipate will be more likely for alternate / growth sub-sectors.

XPJ index has underperformed versus XJO since FY21



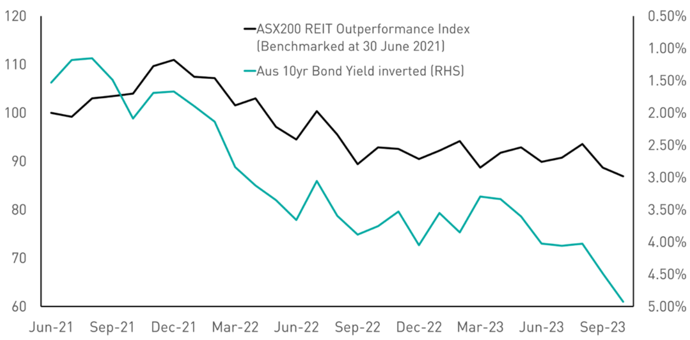
Source: IRESS, Bell Potter Securities Estimates

Australian & US 10 year bond yield have accelerated so far in FY24 TYD negatively impacting REIT sector performance



Source: Bloomberg

XPJ outperformance versus Australian 10 year bond yields inverted - strong historic correlation



Source: IRESS, Bell Potter Securities Estimates

Keeping in mind the cautious environment, we prefer REITs where there is a combination of:

1. Low future interest expense impact via higher hedging, low gearing or actively selling assets in a more-liquid sub-sector;
2. Have underlying earnings growth look forward / solid LFL rental growth; and
3. Prefer defensive and emerging sub-sectors such as healthcare, service stations and industrial over retail and office.

The table (right) summarises our views for the sub-sectors exposure and prima facie, we believe Industrial will continue to hold up much better than other main food groups being Office and Retail. In our view, demand-side headwinds still face the Office sector, we think that retail has had its post-covid recovery, but industrial has limited vacancy and still double-digit rental growth. Amongst alternate sub-sectors we see a strong growth profile for Healthcare real estate and we also believe Service Stations as a sub-sector should prove more resilient given the small cheque size of assets (wider buyer set available to privates / HNW), strength of covenants and constrained supply/demand dynamics.

As rates peak, the REITs sector has a history of negative correlation to bond yields and interest rates benefitting from both the plateau at the top of the interest rate cycle as well as the commencement of interest rate declines. In our view, this may be positioning the sector for a more resilient performance once the cycle starts to peak and potentially turn. That said, we discuss our three most-preferred picks spanning externally-managed REITs and their parent managers (right).

Read our 55 page REITs initiation report by Andy MacFarlane >

Andy MacFarlane
Head of Real Estate Research
Andy MacFarlane has recently joined Bell Potter as the Head of Real Estate Research He is an experienced sell-side analyst with over 14 years' experience in Real Estate & Finance industries spanning equity research, private equity, and capital transactions.

Summary of sub-sector preferences

Sub-sector	View	Comments
Health Care / Life Sciences	++	Strong long-term thematics in a sub-sector that has limited current supply, long term demand and multiple new entrants looking to increase exposure
Service stations	+	Small cheque size assets with liquidity; strong covenants and reliable cash flows should underpin valuations
Industrial	+	Double digit rental growth, albeit slowing, across core infill markets; valuations should hold up better than other sectors given strong global capital appetite
Retail	-	Cycling COVID reopening benefits, but overall metrics remain sold across regional through to large format retail. Capital transaction activity robust across the board but wary of rising interest rate impacts on household balance sheets
Office	-	Limited capital appetite, and persistent, weak fundamentals. Australian CBD prime net effective rent decreased -0.4% in 3Q23, with hihger face rents but higher incentives (per JLL). Vacancy remains at historic highs in most markets and is forecast to remain elevated on a 5 year view

Favoured REITs

HMC Capital (HMC)

HMC is an Australian listed real estate and alternative asset manager with over $8 billion under management. HMC primarily manages real estate assets, particularly convenience-based assets via the listed fund HomeCo Daily Needs (HDN) and the unlisted Last Mile Logistics fund, and have recently moved into healthcare assets via the HealthCo Listed Fund (HCW) and the unlisted Health & Life Sciences Fund. By its nature (non-direct rental income back earnings), HMC earnings are likely to be more volatile than its peers, and at points regarded as lower quality, but to date the stock has grown materially faster than the sector average which given the scale of the business we expect to continue.

Dexus Convenience Retail REIT (DXC)

DXC is an externally-managed REIT with over 100 wholly owned service stations and convenience retail assets positioned alongside major roads on the Eastern Australian seaboard. DXC is differentiated by the high-quality and long-term tenants that it leases these assets to including Chevron, 7-Eleven, United, Mobil and Ampol. DXC operates in a defensive sub-sector with a high level of ownership from privates and HNW's means petrol stations are typically more liquid that any commercial real estate that carries larger cheque sizes. Management has actively recycled capital leading to a balance sheet with low headroom & ICR risk. DXC offers a yield >9% based on mid-point of FY24 DPS guidance.

HealthCo Healthcare and Wellness REIT (HCW)

HCW is an externally-managed REIT under parent HMC, which manages circa $1.6 billion of healthcare assets. It is Australia's largest diversified healthcare REIT with a portfolio including investment in hospitals, aged care, childcare, government, life sciences, and primary care & wellness property assets. The tenant base includes a combination of large-scale operators including Healthscope and Acurio, as well as the Australian Government which is the third biggest tenant by gross income. HCW has significant scope for growth with an estimated $218 billion addressable market where an ageing and growing population should underpin long-term sector demand.

THE TRANSFER BALANCE CAP

Jeremy Tyzack, Head of Technical Financial Advice

In the 2016 Federal Budget, the Government introduced the transfer balance cap as part of a broader superannuation reform package. The transfer balance cap imposes a lifetime limit on the amount of superannuation that can be transferred into a tax-free retirement pension account. While it may appear straightforward, understanding its nuances is essential for effective retirement planning.

What is it?

The transfer balance cap places a restriction on the amount of superannuation savings that can be transferred into one or more retirement pension phase accounts. It is important to understand that this cap doesn't restrict the total amount a member can have in a pension account; rather, it limits the amount that can be transferred.

Currently, the general transfer balance cap is set at $1.9 million. This cap applies individually, which means that a couple can collectively transfer up to $3.8 million into the pension phase if they begin their pensions today. If a member's superannuation exceeds their personal transfer balance cap before starting a pension, the excess amount may stay in the accumulation phase or withdrawn from superannuation.

When an individual starts a retirement phase income stream for the first time, their personal transfer balance cap will be equal to the general transfer balance cap at that time. However, the personal transfer cap will change based on usage and indexation, which we'll explain in further detail.

How does it work?

The transfer balance cap comes into effect when a member moves from saving in the accumulation phase to starting a retirement income in the pension phase. When assets are held in the pension phase, the balance can grow, and the earnings will remain tax-free. It is important to remember that a member cannot top up their pension balance once they have used their personal transfer balance cap, even if the balance falls due to unrealised losses or pension payments.

The ATO maintains a record of all members' personal transfer balance caps, which is accessible through MyGov. The record includes balances from different superannuation funds. Additionally, self-managed super fund (SMSF) members must report specific events like starting an account-based pension to the ATO. This reporting must be done quarterly as part of the transfer balance account report (TBAR).

Interestingly, the transfer balance cap is not indexed in line with Average Weekly Ordinary Time Earnings (AWOTE) like other superannuation caps such as contributions. Instead, the general transfer balance cap is annually adjusted based on the Consumer Price Index (CPI) in increments of $100,000. The cap was introduced at $1.6 million on 1 July 2017, and now thanks to the recent surge in CPI, it's $1.9 million.

Now, let's dive into indexation. Since its establishment in 2017, the general transfer balance cap has been indexed twice, first to $1.7 million, and then to $1.9 million. If a member has used a portion of their personal transfer balance cap, any indexation increase is determined by the unused cap percentage. Put simply, if a member initially used 80%, they can then use 20% of any indexation increase. Members who have exhausted their personal transfer balance cap won't receive an increase. Additionally, various factors like starting another pension or taking a lump sum withdrawal can affect the remaining personal transfer balance cap.

What happens if you exceed the cap?

The complexity of the cap makes it easy to see how a member could unintentionally go over the limit. If the ATO finds that a member has exceeded the cap, they will get a notice called an 'excess transfer balance determination'. This notice will show the excess amount, the estimated earnings on that excess, the deadline to fix it, and which superannuation fund will get the commutation authority if it's not rectified on time.

Once it's corrected, the member will receive an 'excess transfer balance tax assessment', which is essentially a 15% tax on the estimated earnings to replicate what would have happened if the excess had stayed in the accumulation phase. If the member exceeds the cap again, the tax goes up to 30%.

Opportunities?

The recent increase in the general transfer balance cap means members can now transfer more funds from the accumulation phase to the tax-free pension phase where there is space in their personal transfer balance cap. When combined with the contribution changes we've discussed in previous monthly notes, such as March 2023 The benefit of inflation – indexation and October 2023 Downsizer contribution – It doesn't get much better, it's an ideal time to think about making additional contributions and moving more funds into the tax-free pension phase.

Learn more

Working with you and your Bell Potter adviser, our team of technical financial advisers can help put together a strategy designed to help you achieve your retirement objectives.

Get in touch with your Bell Potter adviser for a complimentary initial appointment over the phone or in person across Australia.

Please note that Bell Potter does not provide tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors.

AUSTRALIAN EQUITIES PANEL

Our panel of favoured Australian equities offer attractive risk-adjusted returns over the long term. We consider the current macro-economic backdrop and investment environment, focusing on quality companies with proven track records, capable management and competitive advantages. We've examined our analysts' buy-rated stocks and preferred high conviction calls, to identify our preferred stocks in a range of sectors.

Favoured stock panel

Company Name	Category	Share Price ($)	Price Target ($)	Market Cap ($m)	PE (x) FY1	PE (x) FY2	EPS (%) FY1	EPS (%) FY2	FY Dividend Yield (%)	Estimated Franking
Allkem Ltd (AKE)	Resources	8.60	18.45	$5,498	11.1	6.5	-24.4	70.9	1.0	0%
Cettire Ltd (CTT)	Consumer Goods	3.09	4.00	$1,178	49.5	37.3	31.2	32.9	0.0	0%
Chrysos Corporation (C79)	Commercial Services/Suppliers	7.46	8.70	$564	N/A	119.5	N/A	N/A	0.0	0%
Goodman Group (GMG)	REITs	22.75	25.50	$43,206	21.7	19.6	11.7	10.5	1.3	0%
GUD Holdings (GUD)	Consumer Disc. Auto Components	11.05	13.27	$1,557	13.3	12.0	15.3	10.8	4.7	100%
HMC Capital Ltd (HMC)	Real Estate	4.63	5.55	$1,589	21.7	16.1	-19.0	35.0	2.6	100%
IPD Group Ltd (IPG)	Commercial Services/Suppliers	4.77	5.50	$414	22.1	19.9	16.0	10.9	2.2	0%
MFF Capital Investments Ltd (MFF)	Listed Investment Company	3.00	3.57	$1,734	N/A	N/A	N/A	N/A	3.2	100%
Mineral Resources Ltd (MIN)	Materials	61.17	90.00	$11,940	40.9	10.6	20.0	285.0	1.2	100%
Neuren Pharmaceuticals Ltd (NEU)	Pharmaceuticals & Biotechnology	15.50	17.50	$1,962	16.5	14.0	-35.7	17.9	0.0	0%
PSC Insurance Group (PSI)	Diversified Financials	4.48	6.47	$1,633	23.3	21.6	22.0	8.2	3.2	60%
Regis Resources (RRL)	Materials	1.95	2.31	$1,473	23.2	6.7	0.0	243.8	0.0	0%
ResMed CDI (RMD)	MedTech	24.34	29.00	$13,784	21.2	18.6	19.8	13.9	1.3	0%
Rural Funds Group (RFF)	Agriculture REIT	1.91	2.40	$741	17.2	16.1	4.1	7.1	6.1	0%
Transurban Group (TCL)	Infrastructure & Motorways	12.96	15.90	$40,024	N/A	N/A	N/A	N/A	4.9	0%

Note: EPS/PE FY1 (Forecast 1) and FY2 (Forecast 2) refer to FY24 and FY25 forecasts respectively for all companies except NEU where the forecast years are still FY23 and FY24.

Data as at 30/11/2023. Source: Citi, Bell Potter

Ins and outs

Additions	
Chrysos Corporation (C79)	Chrysos is an Australian based provider of novel assay services to the global gold mining and exploration industry. PhotonAssayTM is considered superior to the traditional Fire Assay assaying technique, with comparisons highlighting faster assay time per sample, reduced labour and operating costs as well as some other benefits. We believe C79's disruptive PhotonAssayTM technology will command a significant foothold within the large gold assaying market, with current lease agreements providing good near-term deployment visibility.
HMC Capital Ltd (HMC)	HMC Capital is an Australian listed real estate and alternative asset manager with over $8 billion under management. HMC earnings are likely to be more volatile than its peers, and at points regarded as lower quality, but to date the stock has grown materially faster than the sector average which given the scale of the business we expect to continue.
Removals	
ANZ Group Holdings (ANZ)	Although ANZ's lending growth is expected to remain robust (in mortgages) and asset quality environment remains benign, operating costs base is likely to stay elevated with strong inflationary environment. Overall, we see ANZ's current share price as fairly valued and therefore downgrade to a Neutral rating.
Seven Group Holdings (SVW)	Seven Group Holding's share price has appreciated amost 14% since our last report publication reflecting the company's FY24 EBIT growth outlook upgrade at its 2023 AGM presentation. With the current share price approaching our $33.00 Target Price, we believe SVW is now fairly valued.
Telix Pharmaceuticals (TLX)	We have removed Telix from the recommended panel following the recent release interim efficacy data from the ProstACT trial which showed lower than expected reductions in prostate-specific antigen (PSA) levels for men in this study. While PSA is not an endpoint in the trial, previous studies have shown a meaningful correlation between PSA reduction and overall survival. We were not particularly impressed with the expert commentary from the recent Expert Forum on this matter. Further data is due in the new year.

Favoured stock panel

Allkem

Allkem (AKE)

Allkem is a lithium chemicals company with a global portfolio of producing and development assets. The company's flagship project is the Olaroz brine project in Argentina (66.5% AKE) where Stage 2 is currently ramping up to increase production to 42.5ktpa from current levels of 17.5ktpa LCE (lithium carbonate equivalent). Also in Argentina, AKE's Sal de Vida project is currently in development. AKE's hard rock assets include the spodumene producing Mt Cattlin in Western Australia and the James Bay project in Canada which is in the final stage of permitting. AKE has a 75% interest in a lithium carbonate to lithium hydroxide facility in Naraha, Japan.

AKE is our preferred lithium exposure noting it is a top 5 global producer and its slated merger with Livent is expected to bring US$125 million per annum in synergies and expedite expansions. All up, the merged company will be a top 3 global producer of lithium and will benefit from soaring demand for lithium spurred by a rapid growth in global electric vehicle (EV) production.

Price Target	$18.45
Dividend Yield	1.0%
PE FY24e	11.1x
EPSg24e	-24.4%

Latest research >

CETTIRE

Cettire (CTT)

Cettire is a global online retailer, offering a large selection of in-demand personal luxury goods via its website, cettire.com. CTT's extensive online catalogue of over 2,500 luxury brands and over 400,000 products (database) of clothing, shoes, bags and accessories is supported by a large, diversified network of suppliers. The company's business operations are underpinned by a scalable proprietary technology platform that has been developed to acquire large volumes of customers, process and fulfil large order volumes, and maintain large data sets of products from suppliers with a high degree of automation.

Cettire has a rapidly growing global online luxury personal goods retailing platform in a large market with a structural shift to online well underway. We believe 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 growing market, which could remain more resilient than other discretionary categories in a likely recessionary environment.

Price Target	$4.00
Dividend Yield	0.0%
PE FY23e	49.5x
EPSg23e	31.2%

Latest research >

CHRYSOS CORPORATION

Chrysos Corporation (C79)

Chrysos is an Australian based provider of novel assay services to the global gold mining and exploration industry. PhotonAssayTM is considered superior to the traditional Fire Assay assaying technique, with comparisons highlighting faster assay time per sample, reduced labour and operating costs, lower CO2 emissions, no hazardous waste generated, and improved occupational health and safety.

We believe C79's disruptive PhotonAssayTM technology will command a significant foothold within the large gold assaying market (BPe 25% market penetration by FY30), with current lease agreements providing good near-term deployment visibility. These lease agreements with some of the largest gold miners and international laboratory businesses provide third-party technical and commercial validation for PhotonAssayTM technology adoption, which we expect to support further industry take-up.

Price Target	$8.70
Dividend Yield	0.0%
PE FY24e	N/A
EPSg24e	N/A

Latest research >

Favoured stock panel

Goodman Group (GMG)

The Goodman Group is a vertically-integrated, internally-managed global property group specialising in industrial property ownership, funds management, property development, project and development management, and property services. It is one of the world's largest integrated industrial property groups with operations and ownership throughout Australia, New Zealand, Asia, Europe, United Kingdom, North America, and Brazil.

Although, rising interest rates and higher cost of capital are starting to have impact on asset values, accelerating industrial rents– driven by record low vacancy– has meant industrial property has outperformed. We see potential for GMG's earnings to grow further as it captures the significant rental upside to market, as well as via ongoing development activity in a market where vacancy levels are low. In our view, GMG is a well-run business and the long-term outlook for industrial and logistics properties is favourable given the continuing growth in ecommerce (or online retail sales) and the growing middle class in developing countries.

Price Target	$25.50
Dividend Yield	1.3%
PE FY24e	21.7x
EPSg24e	11.7%

Latest research >

GUD Holdings (GUD)

GUD Holdings is an Australasian marketing business that actively manages a number of consumer and industrial product companies primarily focusing on the automotive aftermarket parts and accessories. GUD has operated across two discrete business segments: Automotive aftermarket products (Ryco, Wesfil, Goss, Brown & Watson); and APG (4WD accessories).

The company recently reported an impressive FY23 result with NPAT of $119 million beating Citi forecast by 3% and consensus by 14%. This was driven by the better-than-expected APG performance (the highest-quality business in GUD, in our view) and the improvement in gearing. We see GUD as well-placed to benefit from the ongoing improvement in OEM supply constraints into FY24. Overall, our Buy rating for GUD is predicated on the relative resilience of the legacy auto business and improving momentum in new car sales, which should be favourable for APG's earnings.

Price Target	$13.27
Dividend Yield	4.7%
PE FY24e	13.3x
EPSg24e	15.3%

Latest research >

HMC Capital Ltd (HMC)

HMC Capital is an Australian listed real estate and alternative asset manager with over $8 billion under management. HMC primarily manages real estate assets, particularly convenience-based assets via the listed fund HomeCo Daily Needs (HDN) and the unlisted Last Mile Logistics fund, and have recently moved into healthcare assets via the HealthCo Listed Fund (HCW) and the unlisted Health & Life Sciences Fund.

By its nature (non-direct rental income back earnings), HMC earnings are likely to be more volatile than its peers, and at points regarded as lower quality, but to date the stock has grown materially faster than the sector average, which given the scale of the business we expect to continue. This stock is also featured in our REITs article on page 12.

Price Target	$5.55
Dividend Yield	2.6%
PE FY24e	21.7x
EPSg24e	-19.0%

Latest research >

Favoured stock panel

IPD Group (IPG)

IPD Group is a leading Australian distributor of electrical equipment and industrial digital technologies operating nine distribution centres and servicing over 4,200+ customers nationally. IPG supplies products used in buildings, infrastructure and process sectors which help to reduce energy use and/or reliance on the transmission network.

We view IPG as a high quality play on the electrification growth trend which is emerging as a dominant market narrative. Our favourable investment thesis is based on three key points: (1) product volumes being driven by refurbishment/upgrade of existing infrastructure and by virtue of relatively low demand risk; (2) IPD's large turnaround opportunity with a globally leading manufacturer in ABB (market share in Australia of 5-10% compares to Europe of 20-30%); and (3) IPD's electric vehicle charging opportunity reaching a tipping point in FY24e. Australia is set for a $650m public fast charging investment cycle by 2027 and IPD is engaged with a number of players who we expect to lead this transition (e.g. service station chains and network operators).

Price Target	$5.50
Dividend Yield	2.2%
PE FY23e	22.1x
EPSg23e	16.0%

Latest research >

MFF Capital Investments (MFF)

MFF Capital Investments is a closed end structured pooled investment vehicle, launched and managed by MFF Capital Investments Ltd, a subsidiary of Magellan Asset Management. The company invests in world equity markets across diversified sectors and aims for a portfolio focused on companies with attractive business characteristics ("Quality") at discounts to their intrinsic values ("Value").

The fund seeks to benchmark the performance of its portfolio against the MSCI World Index and invests 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.

Price Target	$3.57
Dividend Yield	3.2%
PE FY24e	N/A
EPSg24e	N/A

Latest research >

Mineral Resources (MIN)

Based in Western Australia (WA), Mineral Resources is a mining services company, which holds a portfolio of mining operations and development projects spanning a wide range of business activities. MIN's services business encompasses construction, mining, crushing, processing, and haulage, as well as a range of other services. MIN operates two Iron Ore export businesses in WA, the Yilgarn Hub, and the Utah Point Hub, with combined capacity of ~20Mtpa. MIN holds direct interests in two lithium mines (Mount Marion and Wodgina) in WA. MIN's lithium business is one focus of its expansion efforts, in response to increasing demand for lithium products.

In contrast to its peers, MIN completes everything from engineering, to construction, to all aspects of operations in-house. Our Buy view is underpinned by MIN's earnings diversification, strong insider ownership, clearly articulated strategies, expertise in contracting and internal growth options at Onslow as well as potential lithium expansions including into downstream. All up, MIN offers diversified exposure to steady income streams from the contracting business and market-driven commodity exposure coupled with earnings derived from both lithium and iron ore.

Price Target	$90.00
Dividend Yield	1.2%
PE FY23e	40.9x
EPSg23e	20.0

Latest research >

Favoured stock panel

Neuren Pharmaceuticals Ltd (NEU)

Neuren Pharmaceuticals is a commercial stage drug development company targeting disorders of the Central Nervous System. The company engages in the development of new therapies for brain injury, neurodevelopment, and neurodegenerative disorders and chronic conditions, such as Rett syndrome and Fragile X syndrome. The lead asset in the company's pipeline is trofinetide (DAYBUE™) which became the first FDA approved treatment for Rett syndrome in March 2023 (~ 4,500 patients in the US). Neuren's second product NNZ-2591 is currently in Phase 2 clinical trials in Phelan-McDermid syndrome, Angelman syndrome, Pitt Hopkins syndrome and Prader-Willi syndrome.

Price Target	$17.50
Dividend Yield	0.0%
PE FY24e	16.5x
EPSg24e	-35.7%

Latest research >

PSC Insurance Group (PSI)

PSI is a diversified insurance company that acquires, establishes and operates general insurance intermediary businesses within Australia, NZ & UK. PSI operates a portfolio of 40+ specialist insurance businesses at various stages of development, encompassing a broad spectrum of insurance broking and underwriting related activities and ancillary services.

PSI has a strong track record of organic and inorganic growth, which has seen EBITDA grow by 24.8% CAGR (over the five years to FY22). As an intermediary between small to medium sized companies (SMEs) and insurers, PSI's core business sits in an attractive niche because these SMEs tend to grow more rapidly than larger companies. In addition, the insurance broking sector is currently helped by rising interest rates and ongoing hard premium rate environment which is supportive of organic revenue growth. The business continues to generate strong (double digit) organic growth in EBITDA and when combined with accretive acquisitions, there is scope for the company to double EBITDA over the next four to five years. All up, PSI is both a growth company and a defensive business with a high level of recurring business that should support earnings growth over the next 2-3 years.

Price Target	$6.47
Dividend Yield	3.2%
PE FY24e	23.3x
EPSg24e	22.0%

Latest research >

Regis Resources (RRL)

RRL is an established multi-mine gold producer with all its operating mines located in Western Australia. The Duketon Gold Project (located in the Laverton region 350km north, north-east of Kalgoorlie in WA) is RRL's flagship project and comprises the Duketon North Operations (DNO) and the Duketon South Operations (DSO) which produce a combined ~300kozpa.

As one of the largest ASX listed gold producers, we are attracted to its all-Australian asset portfolio and organic growth options which are unique at this scale. Furthermore, we see key opportunities in the fundamental, medium-term outlook and, in our view, these may also make RRL an appealing corporate target in the current conducive M&A environment.

Price Target	$2.31
Dividend Yield	0.0%
PE FY24e	23.2x
EPSg24e	0.0%

Latest research >

Favoured stock panel

ResMed CDI (RMD)

ResMed is a medical devices company specialising primarily in the obstructive sleep apnea (OSA) market. Since its creation in the late 1980's, ResMed has been a leader in sleep therapy innovation, which has resulted in an installed base of over five million users globally. The OSA market is growing in the high-single digits and RMD is the largest player, ahead of Philips Respironics. RMD is also expanding in the hospital and home care respiratory ventilation market as well as in-house product development and invests 7% of its revenue into R&D.

The market for OSA and chronic obstructive pulmonary disease (COPD) remains under penetrated, and we expect industry volume growth to continue in the 6-8% range for the foreseeable future. In this regard, the competitive dynamics are very much in favour of RMD due to the Philips recall and improving semiconductor availability. Looking ahead, ResMed continues to expect device sales to be sequentially higher throughout CY2023. Furthermore, ResMed is well-positioned to build on its dominant share even after Philips returns to the global market, with the launch of its latest continuous positive airway pressure (CPAP) device, the Air Sense 11.

Price Target	$29.00
Dividend Yield	1.3%
PE FY24e	21.2x
EPSg24e	19.8%

Latest research >

Rural Funds Group (RFF)

Rural Funds Group is a listed agricultural REIT with a diversified farmland portfolio across five core sectors which are predominantly leased to corporate agricultural operators. The company is 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 a historical high discount to its market NAV per unit ($2.78 pu) at ~28%. While we are in general seeing large discounts to NAV in ASX listed farming and water assets to market NAV, the discount that RFF is trading appears excessive and 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 ~6% yield to hold the position until such a time as the asset class re-rates. Furthermore, RFF aims to achieve income growth through productivity improvements, conversion of assets to higher and better use along with rental indexation which is built into all of its contracts with its tenants.

Price Target	$2.40
Dividend Yield	6.1%
PE FY24e	17.2x
EPSg24e	4.1%

Latest research >

Transurban Group (TCL)

Transurban is Australia's largest builder, owner and operator of urban toll road networks, with a diversified suite of Australian toll road assets (in Sydney, Melbourne, and Brisbane) along with toll roads outside Australia (in Northern Virginia, USA). In Sydney, TCL wholly owns or has equity investments in some key roads including M1 Eastern Distributor, M2 Hills Motorway, Cross City Tunnel, Westlink M7, with a stake in Northconnex and Westconnex. In Melbourne, TCL wholly owns CityLink (along with the under-construction Westgate Tunnel).

We believe the current inflationary environment is favourable for Transurban given its inflation-linked revenue stream with annual escalators. Moreover, TCL provides low risk cash flows over the long term, with long concession duration (30+ years), and relative traffic/income resilience. The group's current pipeline of growth projects is $3.3 billion (TCL's share of total project cost) and further huge development opportunities are expected over the next few decades, supported by population and economic growth.

Price Target	$15.90
Dividend Yield	4.9%
PE FY23e	N/A
EPSg23e	N/A

Latest research >

FIXED INCOME

Securities with longer trigger dates, as defined by the first possible conversion stage at issuer discretion, offer commensurate value for the extra duration risk incurred. Shorter dated securities are trading more expensively at gross margins that imply a similar yield to that of a term deposit with the same issuer.

Issue	ASX Code	ASX Price*	Issue Margin	First Call Date	Trading Margin	Gross Yield to Call	Gross Run Yield	Rec.	Risk Rating
Bank Capital Notes									
ANZ Capital Notes 8	AN3PK	$100.37	2.75%	Mar-30	2.94%	4.60%	6.86%	7.53%	Hold
Commonwealth Bank PERLS XI	CBAPJ	$102.00	3.00%	Jun-30	2.90%	4.61%	6.99%	7.51%	Hold
Macquarie Bank Capital Notes 3	MBLPD	$101.00	2.90%	Sep-28	2.62%	4.51%	6.95%	7.13%	Hold
NAB Capital Notes 7	NABPJ	$100.85	2.80%	Sep-30	2.90%	4.62%	6.86%	7.52%	Hold
Westpac Capital Notes 9	WBCPL	$101.89	2.90%	Sep-29	2.80%	4.57%	6.91%	7.36%	Hold

*Data as at 28/11/2023. Source: IRESS, Bell Potter

Note: Yield to first all assumes swap rate based on yield curve. Trading margin reflects impact of capital price on issue margin. Portfolio has been constructed as at closing prices on the stated date. Prices are likely to vary.

INTERNATIONAL EQUITIES

Our panel of favoured international equities offer exposure to categories not available within the Australian stock market. Our focus is on attractive risk-adjusted returns over the long term. We consider the current macro-economic backdrop and investment environment, concentrating on quality companies with proven track records, capable management and competitive advantages. We've examined analysts' buy-rated stocks to identify our preferred stocks in a range of categories.

Favoured stock panel

					PE (x)		EPS (%)		Forecast
Company Name	**Category**	**Share Price**	**Price Target**	**Market Cap (million)**	**FY1**	**FY2**	**FY1**	**FY2**	**Div. Yield***
Alcon Inc (ALC.N)	MedTech	US$75.63	US$97	US$37,792	27.5	24	22.4	14.8	0.40%
Applied Materials Inc (AMAT.US)	Semiconductor Equipment	US$149.78	US$170	US$125,296	19.0	15.5	-1.8	22.5	0.90%
AstraZeneca PLC (AZN.L)	Pharmaceuticals	£101.26	£140	£156,944	17.6	15.6	10.6	12.4	2.50%
Compass Group PLC (CPG.L)	Restaurants/Catering	£20.73	£26	£35,481	23.9	19.8	34.4	23	1.80%
Deere & Company (DE.N)	Machinery	US$364.41	US$475	US$104,950	10.7	11.4	45.7	-5.9	1.40%
Meta Platforms Inc. (META.US)	Internet	US$327.15	US$425	US$840,731	16.3	13.8	47.8	18.5	0.00%
Novo Nordisk A/S (NOVOb.CO)	Pharmaceuticals	DKr695.00	DKr815	DKr3,137,000	36.7	27.1	55.2	35.3	1.90%
Prologis (PLD.N)	REITs	US$114.93	US$145	US$106,192	N/A	N/A	N/A	N/A	3.50%
Visa Inc. (V.US)	FinTech Infrastructure	US$256.368	US$270	US$515,476	25.9	22.6	13.1	14.4	0.80%
Volvo (VOLVb.ST)	Machinery	SKr243.25	SKr280	SKr496,662	8.0	11.2	60.6	-28.8	5.40%
Vulcan Materials (VMC.US)	Building Products	US$213.56	US$229	US$28,376	30.5	26.9	57.7	13.4	0.70%

Note: EPS/PE FY1 (Forecast 1) and FY2 (Forecast 2) refer to FY23 and FY24 forecasts respectively for all companies except Visa, Applied Materials where the forecast years are FY24 and FY25.

* No franking applicable. Data as at 30/11/2023. Source: Citi

Ins and outs

Additions	
AstraZeneca PLC (AZN.L)	AstraZeneca is a major pharmaceutical company with 2022 revenues of US$44 billion. The company has major products in cancer, cardiovascular, diabetes, gastrointestinal as well as other areas. We see potential for substantial upside given minimal value ascribed to AZN's extensive and growing cancer pipeline as well as earnings growth from AZN's acquisition of Alexion.

Removals	
Unilever PLC (ULVR.L)	Although we are still Buy-rated, we remove Unilever for our preferred international panel following slight earnings downgrades on the back of FX, lower 3Q volumes and slightly lower FY24 margin assumptions.

Favoured stock panel

Alcon Inc (ALC.N)

Alcon is a leading global eye care company that develops and manufactures a full suite of eye care products within its two franchises: Vision Care (43% of group net sales) and Surgical (57%). The US is the biggest single market for Alcon, accounting for 44% of group net sales. Other key markets include Japan (8%) and China (6%). The company was spun off from Norvatis in 2019.

We see the company as well-positioned to outgrow both the surgical and contact lens end-markets given its leading competitive position and significant competitive advantage in the surgical segment given its large phaco installed base. In addition, we see notable pipeline optionality in the Ocular Health business following the acquisition of Aerie Pharmaceuticals. The company should also benefit from recent product launches, especially in interocular lenses, equipment, and contact lenses.

Price Target	US$97
Forecast DY	0.40%
PE FY23e	27.5x
EPSg23e	22.4%

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Applied Materials Inc (AMAT.US)

Applied Materials is one of the largest manufacturers and suppliers of semiconductor wafer fabrication equipment (WFE) with a reported revenue of US$25.8 billion in 2022. The semiconductor manufacturing equipment is used to create semiconductor circuits, memory chips, and other components. Applied Materials makes the machines that manufacture semiconductor chips for electronics as well as flat panel displays and other display technologies for computers, smartphones and televisions. AMAT is probably the best-positioned among the equipment makers to benefit from artificial intelligence (AI), autonomous intelligent machines, and future display technologies that enable a natural 3D experience.

We consider AMAT to be the "big winner" from a majority of secular megatrends as it is well exposed to latest equipment and technology evolution like gate-all-around transistor architecture, advanced packaging/hybrid bonding, and ICAPS (IoT, communications, automotive, power and sensors). Furthermore, the demand for WFEs is likely to rise in tandem with growth in the global semiconductor market which is projected to become a trillion-dollar industry by 2030 (from ~US$590 billion in 2022). Given AMAT's industrial scale, expertise and portfolio of products, we see the company well-placed to benefit and continue its growth trajectory.

Price Target	US$170
Forecast DY	0.90%
PE FY23e	19.0x
EPSg23e	-1.8%

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AstraZeneca PLC (AZN.L)

AstraZeneca is a major pharmaceutical company with 2022 revenues of US$44 billion. The company has major products in cancer, cardiovascular, diabetes, gastrointestinal, infection, neuroscience, respiratory, and has a moderate biologics presence. The company has a strong presence in the key US market and reports in US dollars.

We rate AstraZeneca Buy as we see potential for substantial upside given minimal value ascribed to AZN's extensive and growing cancer pipeline - in particular Enhertu and dato-DXd, and underappreciated earnings and growth accretion resulting from the acquisition of Alexion.

Price Target	£140
Forecast DY	2.50%
PE FY23e	17.6x
EPSg23e	10.6%

Latest research >

Favoured stock panel

Compass Group PLC (CPG.L)

Compass Group is the largest contract catering company in the world, providing food and support services across 45 countries and 55,000 client locations worldwide. The group employs over 500,000 people and provides food and facilities management services to a wide range of clients including corporates, schools, hospitals, leisure facilities, and remote sites.

Compass Group's focus on food plays to strong strategic trends around outsourcing and catering. Food business is an attractive vertical where customers are more focused on quality and correspondingly less on price. Compass is therefore well-leveraged to benefit from the low-cyclicality nature of the food industry along with rising nutrition and general health awareness trends. In our view, Compass Group is a quality defensive growth play that should benefit from operational efficiencies, strong organic growth, and market share gains – especially from the margin-accretive first-time outsourcing (FTO) clients.

Price Target	£26
Forecast DY	1.80%
PE FY23e	23.9x
EPSg23e	34.4%

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Deere & Company (DE.N)

Deere is the world's largest manufacturer of agricultural and turf machinery with 2022 segment sales of almost US$48 billion. This Fortune 500 company is also a major U.S. producer of construction, forestry, lawn and grounds care equipment and operates in more than 100 countries with over 75,000 employees.

Deere is competitively positioned within its core agricultural equipment markets, particularly in the Americas with respect to its dealer base, brand loyalty and precision AG offerings (mid-size tractors, combines, pickers/strippers, seeding equipments, golf/turf care applications). We also see the potential for Deere to benefit from an extended upcycle in large AG equipments on account of global supply chain constraints, which have limited the flow of both new and used equipment worldwide. With growth in both traditional and smart agriculture markets, Deere already has a solid foothold in the industry to grow further as the AG Tech theme unfolds. Deere is a well-diversified and resilient global AG powerhouse with a defensive earnings profile and a potential to grow further in the years ahead.

Price Target	US$475
Forecast DY	1.40%
PE FY23e	10.7x
EPSg23e	45.7%

Latest research >

Meta Platforms (META.US)

Meta is the largest social network in the world, with almost 3.9 billion monthly active users. The firm's Facebook app, along with Instagram, Messenger, and WhatsApp, are among the world's most widely used apps on both Android and iPhone smartphones. Facebook also provides developers with tools to build websites and applications. Through various tools, Facebook allows users to connect, share, discover, and communicate with one another over computers and mobile devices.

Meta's Reels monetisation is improving and, in our view, it can effectively compete with TikTok and other short-form video platforms. Impressively, ~75% of Meta's advertisers use Reels ads and Reels annual revenue run rate has jumped to $US10 billion, only a year after monetisation began. Importantly, we believe this momentum can continue as the broader online ad environment improves, aided by newer ad format tools like Advantage+ and Meta Lattice, Sponsored Reels, and Click-to-WhatsApp. Meta remains committed to operating efficiency, and with a robust pipeline of product innovations, Meta remains our high-conviction Buy in this sector.

Price Target	US$425
Forecast DY	0%
PE FY23e	16.3x
EPSg23e	47.8%

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Favoured stock panel

NovoNordisk A/S (NOVOb.CO)

Novo Nordisk is a leading Danish healthcare and life sciences company specialising in treatments for diabetes, obesity, NASH haemophilia, CVD, and other growth disorders. Novo employs 50,000 people in 80 offices globally and markets its products in 170 countries. It is the world's leading supplier of insulins and GLP-1s and notably exhibits stellar laboratory practices in the fields of diabetes and obesity. Novo aims to further enhance its research and development (R&D) expertise in biologics and develop innovative therapeutics, particularly in the areas of hemophilia, obesity, NASH, and most recently, Alzheimer's disease.

Novo Nordisk has a growing and progressing pipeline of developing drugs including cagrilintide, Mim8, ziltievikizumab, and Alzheimer's semaglutide. We view its CagriSema and oral amycretin drugs as the most promising diabetes/obesity pipeline assets, providing earnings visibility beyond 2035. We also see the Lilly/Novo GLP-1 duopoly continuing, with significant potential to provide expansion opportunities and further market penetration. All up, Novo Nordisk is a high top line growth story that offers a superior and sustainable growth profile supported by its best-in-class diabetes care portfolio, a promising drugs pipeline, and innovative R&D.

Price Target	DKr815
Forecast DY	1.90%
PE FY23e	36.7x
EPSg23e	55.2%

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Prologis (PLD.N)

Prologis is the global leader in logistics real estate, with a focus on high-barrier, high-growth markets. As of March 31, 2023, the company owned or had investments in properties and development projects expected to total approximately 1.2 billion square feet across 4 continents (19 countries), on a wholly owned basis or through co investment ventures. Prologis leases modern logistics facilities to a diverse base of approximately 6,600 customers, across two major categories, principally: business-to-business and retail/online fulfillment.

In our view, internal and external growth drivers support the premium valuation. Furthermore, the supply constraints present in the coastal infill markets will support demand and occupancy levels, leading to premium market rent growth overall and above-average cash rent spreads which should all be supportive of value creation longer-term.

Price Target	US$145
Forecast DY	3.50%
PE FY23e	N/A
EPSg23e	N/A

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Visa Inc. (V.US)

Visa is the world's largest retail electronic payments network offering advanced technology to authorise, clear, and settle transactions for customers, businesses, and institutions across more than 200 countries. It provides financial institutions with product platforms including credit cards, debit cards, prepaid cards, and cash access programs. Visa also offers consulting and analytics, fraud management and security services, merchant solutions, processing capabilities and other digital services.

Looking ahead, we expect Visa to further capitalise its fintech partnerships while also expanding its digital cashless technologies. All up, Visa is a long-term growth story that is well set-up to deliver healthy earnings growth over the next few years further aided by secular growth tailwinds, e.g. the global shift to electronic payments, digital commerce, emerging payments channels and B2B growth. This global payment-processing giant has a resilient business model underpinned by its dominant market position, barriers to entry, pricing power and operating leverage potential.

Price Target	US$270
Forecast DY	0.80%
PE FY23e	25.9x
EPSg23e	13.1%

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Favoured stock panel

Volvo (VOLVb.ST)

Volvo is the world's second largest manufacturer of heavy trucks, trading under the brands Volvo, Renault Truck, Mack, UD and Eicher. While Volvo's core activity is the production, distribution and sale of trucks, buses and construction equipment, the company also supplies marine and industrial drive systems and aerospace components.

Volvo recently reported a strong 2Q-2023 trading update that was ahead of our estimates, driven by solid margin progression in almost all segments including Trucks, improved backlog conversion, and strong cashflows. Looking ahead, we forecast higher sales and margin in Trucks and Buses as Volvo opens the order book in North America, where we see relatively stronger demand in comparison to Europe. All up, we find Volvo attractively valued in light of what we see as a solid margin turnaround story through 2023-2024 and a considerably improved business model along with upside from ZEV (Zero Emissions Vehicles) as a service. Furthermore, Volvo should benefit longer term from a combination of growing aftermarket connectivity and the shift from ICE (Internal Combustible Engine) vehicles to BEV (Battery Electric Vehicles) and FCEV (Fuel Cell Electric Vehicles).

Price Target	SKr280
Forecast DY	5.40%
PE FY23e	8.0x
EPSg23e	60.6%

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Vulcan Materials Company (VMC.US)

Vulcan Materials manufactures and supplies construction aggregates (crushed stone, sand and gravel) as well as aggregates-based construction materials (asphalt mix and ready-mixed concrete), primarily in the United States. Vulcan is the United States largest producer of construction aggregates, operating more than 350 active facilities across 20 U.S. states. Aggregates and aggregates-based materials are used in nearly all forms of construction. In particular, large quantities of aggregates are used to build and repair infrastructure, such as roads, bridges, waterworks and ports, and to construct buildings both residential and non-residential. Vulcan's coast-to-coast footprint and strategic distribution network align with and serve the nation's growth centres.

The US$1.2 trillion infrastructure bill passed by the U.S. government in November 2021 should provide Vulcan with a tailwind for revenue growth while EBITDA margins also expand on strong operating leverage primarily due to strong pricing power. Aggregates are essential in infrastructure and construction and with superior operations and distribution systems, Vulcan is well-positioned to grow earnings.

Vulcan recently reported a solid 2Q beat on topline as well as EBITDA and the company raised its 2023 EBITDA guidance to US$1.9-US$2 billion. The guidance raise was driven by a combination of improved Aggregates volumes expectations and stronger earnings momentum in Asphalt.

Price Target	US$229
Forecast DY	0.70%
PE FY23e	30.5x
EPSg23e	57.7%

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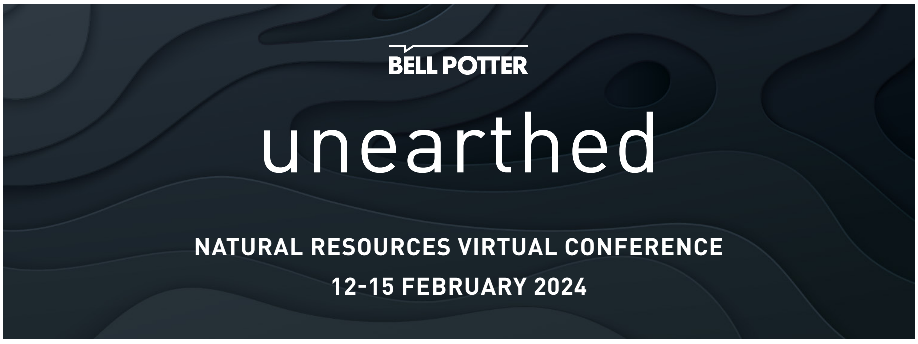
UPCOMING CONFERENCE

Bell Potter clients have access to our upcoming virtual conference, the Unearthed Natural Resources Conference.



An outstanding line up of local and global resources industry leaders are joining us at the Bell Potter Unearthed Natural Resources Conference 2024.

Unearthed will explore the diverse range of investment opportunities in resources. You'll hear directly from key management across a spectrum of large, mid and small cap resources companies – leaving you with a valuable snapshot as to the outlook for 2024 and beyond.

Date 12–16 February 2024

Time 9:00am–6:00pm AEDT

To join the conference, simply log in to **Bell Potter Client Access** on the day.

Don't worry if you can't make it, there'll be recordings made available on Bell Potter Client Access at a later date.

Get in touch with your Bell Potter adviser if you do not have a login for Bell Potter Client Access.

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Bell Potter Securities acted as the broker in a $35m block trade for CTT in Mar-22 and received fees for that service.

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

Bell Potter Securities Limited has acted as Co-Manager or Lead Manager to the following issues: CBAPM, MQGPF, NABPI and WBCPL.

Analyst David Coates holds a long position in RRL.

Bell Potter Securities Limited is acting as Co-Manager to the WBCPM issue and will receive fees for this service.

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