ANALYST OUTLOOK & STOCK PICKS
DECEMBER 2023

BELL POTTER

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LISTED INVESTMENT COMPANIES

Hayden Nicholson
ETF/LIC Specialist

Australian Foundation Investment Company (AFI)

AFI commenced operations in 1928 and is Australia's largest listed investment entity by market capitalisation. The Company adopts a long-term perspective that emphasises 'quality' investments, with a focus on efficient after-tax returns for shareholders. The fixed cost base also enables for the provision of a highly competitive, low-cost investment vehicle, and with no ongoing management or performance fees attributable to an external manager. While still actively managed, the internal cost ratio of 0.14% (annually) is particularly compelling when juxtaposed to popular low-cost passive ETFs. AFI has generated an annualised post-tax asset return of 7.5% over the last 15 years, and is now priced at a cyclical low, with the more traditional LICs exhibiting a greater confidence for mean-reversion.

Plato Income Maximiser (PL8)

PL8 provides exposure to a well-diversified portfolio of Australian companies that aims to deliver regular income, as well as capital growth over the long-term, for predominantly pension-phase and SMSF investors. The Investment Manager achieves this through a multi-pronged investment process that focuses on: (1) value; (2) business momentum; (3) quality; (4) dividend and dividend run up; and (5) dividend trap avoidance. The recent Share Purchase Plan has provided a rare catalyst and unwound the embedded premium to NTA for prospective shareholders. We calculate this as an indicative +9.4% based on an NTA of $1.02 p/s (ex-dividend) which compares to the preceding 6-month average of +20.0%. The trailing 12-month net and gross dividend yield is 5.9% and 8.5% respectively, based on a purchase price of $1.11 per share.

MFF Capital Investments (MFF)

MFF seeks to identify and invest in large international companies that display sustainable competitive advantages and above average profitability growth. The Investment Manager adopts a long-term view when assessing these companies which are considered to be trading below their intrinsic value. MFF has generated an annualised post-tax asset return of 11.5% over the last 15 years and maintains a robust balance sheet. Total equity for the financial year included $976.6 million in retained earnings and $710.7 million in contributed equity, and we calculate an excess franking credit balance of 19.73¢ p/s. This translates to an annual gross dividend cover of 4.8x. We see the investment track record and prudential capital management as highly attractive, particularly given a current indicative discount of -15.2% (with respect to the NTA p/s).

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 focus on a directional share price move in the coming months, but rather where we see value in the current share price relative to a stock through the cycle earnings.

As such the three stocks we identify should not so much be considered key picks on a directional 6 monthly share price direction, but rather valuation dislocations where we see a buying opportunity.

Bega Cheese (BGA)

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

Our Buy rating remains on BGA based on: (1) a historically low forward multiple; (2) consolidating milk processing infrastructure; and (3) the material valuation upside should BGA execute on its five year targets.

In addition, we note that the key drivers of FY24e appear to have improved in recent months, with: (1) Australian milk production demonstrating modest year-on-year growth through early 1Q24e; (2) double digit gains in SMP returns per litre from the lows and further gains implied in futures pricing; and (3) recent private label price increases in fresh dairy categories.

Buy, Price Target $3.35

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.

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 $2.40

Elders (ELD)

Elders (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.

We estimate ELD normalised EBITDA range to $246-251 million (recently upgraded from $215-230 million) reflecting business investment initiatives (backward integration and system modernisation) and recent acquisitions. While we expect FY24e to be a difficult year, we would see year-on-year comparison becoming easier as we move through 2Q24 and see ELD as having high levels of operating leverage to more normalised levels of activity, particularly in livestock markets, where the discount of cattle to meat it at one of its widest historical points.

Buy, Price Target $8.35

TECHNOLOGY

Chris Savage
Industrials Analyst

Michael Ardrey
Industrials Analyst

We have a positive or constructive view on the outlook for the tech sector given the consistent increases in interest rates both domestically and internationally over the last 18 months now appear to be nearing or at an end. This is positive as it suggests 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 there has been a strong rally in tech stocks in the US over the past couple of months – the NASDAQ is now around a two year high – but there has not been anywhere near as strong a rally in Australia. We therefore believe a rally in tech stocks domestically is overdue and, if and when it comes, is likely to be led by large caps with the mid and small caps to eventually follow.

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 app is used globally by close to 60 million people and, of these, there are around 5 million paying subscribers. There is, therefore, a very long runway to go in terms of converting users to paying customers and even after a recent hefty price rise the company is adding around a few hundred thousand paying subscribers a quarter. The next potential catalyst is when Life360 releases its Q4/2023 result in early March and this is likely to show another strong quarter of subscriber growth and strong momentum heading into the new year.

Buy, Price Target $11.00

WiseTech Global (WTC)

If tech rallies in Australia, then it is most likely going to be led by WiseTech given it is the largest and probably best listed tech stock domestically. It is also truly global and doesn't face a major competitor like, for instance, Xero does with Intuit. The company also has a huge opportunity before it as it tries to expand from its core market of freight forwarding into customs and compliance, and also landside logistics. These two markets are both larger than freight forwarding so if WiseTech is successful in penetrating and dominating these then revenue is likely to double or more over the next several years. The stock has not performed well the last few months due to the investment it is making in entering these new markets but in our view that provides a buying opportunity.

Hold, Price Target $72.25

Task Group (TSK)

Task is a founder-led Enterprise Management platform delivering an end-to-end SaaS solution in the Quick Service Restaurant (QSR), Gaming/Casino, Stadium/Event and Food Service verticals to a high-quality client list, which includes the provision of McDonald's GMA-lite app into 60+ markets globally via its Plexure division, a contract held since 2013. FY24 remains a transition year (March year-end) ahead of an FY25 which is likely to include the commercialisation of a payments processing solution and higher capacity to deploy solutions concurrently following investment in operations in line with client demand. The Group is also targeting a significant opportunity it sees in the North American Stadiums and Gaming verticals where it aims to utilise its native end-to-end platform to supplant incumbent and 'clunky' competitors.

Buy, Price Target $0.54

DIVERSIFIED FINANCIALS

Marcus Barnard
Industrials Analyst

The diversified financials sector has performed poorly in CY2023, held back by subdued equity markets and interest rate increases, with the last one in November. Inflation remains high but is below peaks seen in late CY2022. To date 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.

Against this backdrop, the sector has been sold down fairly indiscriminately. For our key picks we look to strong business with growth strategies that are capable of delivering better than expected figures and that trade below our fair value.

Perpetual

Perpetual (PPT)

PPT is a global financial services firm operating in asset management, financial advisory and trustee services.

Since mid-2022, PPT shares have been sold down over doubts over the achievability of the Pendal merger and associated synergies, and fears of outflows. The FY23 announcement showed lower revenue as a result of outflows from some of the Pendal strategies, with Q1 FY24 showing more stable FUM.

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 11.7x 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 $27.09

REGAL PARTNERS

Regal Partners (RPL)

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

RPL has a highly entrepreneurial management culture, illustrated by its expansion through M&A (Attunga, Kilter, VGI Partners, East Point), in addition to recent transformational 50% acquisitions of Taurus Capital Group and PMC Capital Partners, offering new strategies and distribution channels. These acquisitions, which didn't require capital raisings, increase FUM from $6 billion to $11 billion.

Shares were sold down in November to $1.80, (perhaps due to fears of a capital raise), and subsequently recovered to $2.40 post the announcement of PMC and Taurus. At current levels we find the shares undervalued compared to the underlying profitability and growth potential.

Buy, Price Target $3.36

PSC

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 often lack insurance knowledge, so value the advice and expertise on the level and type of insurance cover they require. As such the company sees a high level of repeat business.

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.

Buy, Price Target $6.47

REAL ESTATE

Andy MacFarlane
Real Estate Analyst

Connor Eldridge
Associate Analyst

As interest rates started to rise in 2022 and 2023, the REIT 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).

We prefer REITs where there is a combination of: (1) Low future interest expense impact via higher hedging, already higher WACD, low gearing or actively selling assets in a more-liquid sub-sector; (2) Underlying earnings growth look forward / solid LFL rental growth; and (3) Prefer healthcare, petrol stations and industrial sub-sectors over retail and office.

HMC Capital (HMC)

HMC is a founder-led real estate fund manager that has quickly gained in scale since listing on the ASX in 2019. HMC is the parent manager to externally managed REITs HomeCo Daily Needs (HDN) and HealthCo Healthcare & Wellness REIT (HCW), with exposure to both listed and unlisted capital. HMC's underlying investments span across daily needs (non-discretionary retail), and healthcare real estate primarily, with its unlisted HMC-CP fund strategy investing in real asset backed listed companies. HMC is not burdened by legacy investments, has exposure only to higher growth sub-sectors, and is growing at an above average rate with lower on-balance sheet gearing relative to peers.

Buy, Price Target $5.55

Dexus Convenience Retail REIT (DXC)

DXC is a convenience retail / service station REIT with a network of over 100 assets across the country predominantly leased to institutional and strong covenant tenants including Chevron, Viva, EG, Mobil and 7-Eleven. DXC trades at a circa 34% discount to stated NTA which we think is overly punitive for a sub-sector where there is clear price discovery (double digit number of asset sales for DXC at a blended 2-3% discount to book, and 65 market transactions in FY23), and investors for commercial real estate have a clear preference for smaller cheque size assets.

Buy, Price Target $2.85

HealthCo Healthcare & Wellness REIT (HCW)

HCW is Australia's largest diversified healthcare REIT which includes hospitals, aged care, childcare, government, life sciences, and primary care & wellness property assets. The company has doubled in asset size in the last 12 months, with a strong development pipeline with attractive yields on cost (+7%), and a low cost of capital where other externally managed REITs are unable to grow and at the behest of volatile 10yr bond yields / debt base rates. Healthcare real estate is highly fragmented and has a long runway domestically in Australia.

Buy, Price Target $1.75

RETAIL

Chami Ratnapala
Industrials Analyst

Australian retail spend within non-food categories (excluding food, groceries and cafes/takeaway) for the first 9 months of CY23 has remained broadly flat (-0.1%) on an elevated pcp. However, 3QCY23 non-food retail spend has seen a more pronounced -1.6% on pcp given the step up in the cash rate by 275 basis points as of June 2023 (versus June 2022) and rollover of the second largest fixed rate mortgage tranche in June 2023. Based on the RBA's current inflation target timeline which points to the end of 2024, further reallocation of consumer discretionary spend towards categories such as utilities, transport and education will occur, in particular in Gen X & Y categories who make up ~65% of the retail spend.
As more supportive comps are approached in mid-1Q2024, 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 with diverse customer demographics.

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 with the latest update showing +80% revenue growth for October (first 3 weeks).

We think CTT will continue to outperform its peer group given the ~0.5% market share in a large personal luxury goods market, despite the overall industry softness with the growth in both established (mainly US) and emerging/new markets. We also view CTT's current EBITDA margins ahead of other e-commerce players with minimum risk associated with the drop-ship inventory model. The current backdrop in the global luxury industry has seen some leading online players such as Farfetch and Richemont/YOOX Net-a-Porter seeking strategic responses.

Buy, Price Target $4.00

Propel Funeral Partners (PFP)

Propel Funeral Partners (PFP) is among the defensive names in the Consumer Services sub-sector as the second largest funeral home operator in ANZ with a BPe market share of ~11%. We continue to view PFP's growth as well supported by a healthy underlying business with good pricing power and acquisitive strategy given the early stages of chasing a large and fragmented market, well supported by management track record. We expect organic volume growth to return in 2Q24 as we have seen in NSW/VIC death statistics for the month of October and mid-long term growth to be further supported by ageing baby boomers as the older cohorts reach average life expectancy in ~3 years.

While PFP remains to be one of the few listed deathcare players globally, we think the premium to the peer group PFP trades at is justified considering the current market position, M&A opportunity ahead and successful track record.

Buy, Price Target $5.70

Accent Group (AX1)

Accent Group (AX1) commands a dominant ~30% market share in the $3 billion Australian footwear retailing market, in addition to a broader opportunity given the expansion of its entry into the athleisure market. We continue to view AX1 as a relative preference in our retail sector coverage given the company's scale and exposure in terms of channels, brands and size as the overall industry navigates a challenging retail spend environment in addition to growth adjacencies via exclusive partnerships with globally winning brands such as Hoka and growing vertical brand strategy (~8% on owned sales).

'We also view the current valuation as justified (~12x BPeCY24e P/E), considering the ~10% growth in the store network (BPe) through the current challenging trading environment to deliver a supportive medium term earnings growth trajectory.

Buy, Price Target $2.35

INDUSTRIALS

Sam Brandwood
Industrials Analyst

Olivia Hagglund
Industrials Analyst

Daniel Laing
Industrials Analyst

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. CY23 has been a transformative year for DroneShield, with BPe forecasting the company to record $69.9 million in revenue for the year, approximately 4x the CY22 result ($16.9 million), and achieve profitability for the first time (BPe NPAT $15.2 million). The company currently has a sales pipeline of ~$400 million, with key near term sales opportunities including the roll out of counter-drone technology across US military bases, a $30 million plus framework agreement with a European Government and an Air Services Australia tender to install C-UAS technology across 29 airports.

Buy, Price Target $0.50

Austal (ASB)

Austal Ltd (ASB) is an Australian shipbuilder 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 it 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 entered FY24 with a record contract book of ~$11 billion AUD, largely consisting of contracts with the US Navy, and recently signed a HoA to establish a Strategic Shipbuilding Agreement with the Australian Government to become the Government's shipbuilder of choice in WA. This deal also included the award of the "Landing Craft (Medium)" vessel program (BPe ~$800 million) to ASB, with the scope for further contracts, providing a deep pipeline of work for the next decade.

Buy, Price Target $2.75

Corporate Travel Management (CTD)

Corporate Travel Management (CTD) is a founder-led global travel management solutions company with a focus on corporate travel. It operates across four key regions: Australia and New Zealand, Asia, North America, and the UK/Europe. We are positive on the Company's growth outlook and market-leading position as the corporate travel market continues to recover and view any existing uncertainty regarding the recovery trajectory, macro-outlook, and structural industry headwinds as largely priced in by the market. We therefore see upside risk with CTD: (1) having already exceeded pre-pandemic TTV driven by new client wins; (2) remaining well capitalised; and (3) forecast to deliver strong double-digit earnings growth in FY24-25e. On an FY24e P/E of ~18.0x, which is a ~5% discount to peers, despite also paying a solid dividend, we also think CTD looks value.

Buy, Price Target $21.00

INDUSTRIALS

Sam Brandwood
Industrials Analyst

Olivia Hagglund
Industrials Analyst

Daniel Laing
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 leading English language proficiency test, 'IELTS', operate English language schools in South East Asia and provide marketing and event services. Whilst increased competition in English language testing is likely to impact IELTS volumes, we expect this to be partially offset by strength in the student placement segment supported by strong 1QFY24 student visa data in the Northern Hemisphere and structural growth tailwinds. In addition, the business has a solid dividend yield, relatively low working capital intensity, and has historically maintained strong cash conversion. IEL trades at a premium to its peers on a FY24e EV/EBIT of ~24x, however, we believe this is justified given its dominant market position, potential for M&A and successful track record.

Buy, Price Target $27.00

IPD Group (IPG)

Electrification is emerging as a dominant market narrative and IPD Group is strongly leveraged to this growth trend through its supply of 'low voltage' electrical equipment that reduces the energy use of buildings and infrastructure. IPD has delivered two years of 15-20% organic growth since listing and we think 2024 is shaping up to be another strong year driven by continued ABB market share wins and a growing presence in data centres.

IPD has had a strong 1H24e on the earnings front and has flagged several projects at the higher end of the value curve in 2H24e. The group's recent acquisition of CMI Operations – one of Australia's leading industrial cables and plugs suppliers – is both a strong addition to the existing product suite (e.g. high internal IP, same customers) and highly EPS accretive at >25%. IPD trades on a pro-forma FY24e EV/EBITDA of ~9.5x.

Buy, Price Target $5.50

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, PFAS water treatment, battery minerals development).

EGL is guiding for >30% EBITDA growth in FY24e, however we think this represents more of a starting point than an end point. The Baltec business in particular is in a clear upgrade cycle, while we expect a potentially news flow rich 2024 in Waste and Clean Air with a material portion of the group's project proposals subject to near-term decisions. Broader industry validation through potential sales of the PFAS solution also remains a key area of upside.

Buy, Price Target $0.34

HEALTHCARE

John Hester
Healthcare Analyst

Investor conservatism in 2H CY23 continued to weigh on many small and mid-cap healthcare stocks. However, those that achieved material commercial milestones have generated positive shareholder returns in the last six months (NEU, DXB, 4DX and PME). With many companies currently trading at depressed valuations, there are stock picking opportunities for those with solid balance sheets to ride out the cyclical downturn and clear catalysts to drive momentum. The new class of GLP-1/GIP drugs continue to dominate news flow for their impact on weight loss and other health outcomes (e.g. lowering cardiovascular events). There is little doubt these drugs will form one of the biggest selling classes to date, with both Novo Nordisk and Eli Lilly unable to keep up with demand. ASX large-cap healthcare companies, including RMD and CSL were sold off as investors drew read throughs for what these drugs could mean for long term demand growth. Fortunately there were no adverse impacts on companies in our coverage and data suggests the sell off in large cap stocks has been overdone in any case.

Telix Pharmaceuticals (TLX)

We retain Telix Pharmaceuticals (TLX) as a key pick following continued growth in top line revenue over recent quarters. Revenues from the sale of Illuccix continue to grow each quarter and another record revenue quarter is likely in 4Q24.

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 and will shortly commence the rolling submission of its Biological License Application. The product is expected to receive FDA approval mid year 2024 before a launch later in the year. There are no near competitors to TLX in the renal cancer imaging space and we expect rapid adoption following approval. We continue to monitor the data for TLX591 carefully. In the short term we believe the FDA will open the IND for ProstACT Global, allowing enrolment to commence in CY2024.

Buy, Price Target $14.00

Cyclopharm (CYC)

The FDA approved Technegas for the US market in September 2023 and Cyclopharm (CYC) has commenced initiated contract signing its first US customers. The first installations of the Technegas flow generators are expected early in the new year followed by rapid adoption as the supply chain is filled.

Technegas is the international standard of care for the diagnosis of pulmonary embolism outside of the US where it is a registered product in at least 60 countries. CYC 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.

CYC remains well capitalised to execute on the roll out of Technegas in the US. We expect the market to focus on hospital Value Analysis Committee approvals and revenue growth in the short term.

Buy (Speculative), Valuation $4.25

Clarity Pharmaceuticals (CU6)

Clarity Pharmaceuticals specialises in the development of Targeted Copper Theranostics (TCT) for the imaging and treatment of selected cancers. The company has an extensive program of clinical trials, however, the focus is unquestionably prostate cancer.

The leading therapeutic candidate is 67Cu-SAR-bisPSMA targeting men with advanced metastatic disease. Interim data from a phase 1 clinical trial has demonstrated large reductions in PSA levels, supported by imaging which shows a single patient's metastatic tumours melting away following a single dose of therapy. We expect the company will report final data from the phase 1 SECuRE trial in FY24.

CU6 has an extensive register of patents including 17 patent families covering its intellectual property most of which has at least 15 years before expiry. The technology was developed in Melbourne and in our view has the potential to change the treatment landscape for the imaging and treatment of prostate cancer.

Buy (Speculative), Valuation $1.70

HEALTHCARE

Thomas Wakim
Healthcare Analyst

Clinuvel Pharmaceuticals (CUV)

Clinuvel Pharmaceuticals (CUV) is one of very few ASX-listed biopharma companies directly commercialising novel pharmaceuticals in the US and EU in a highly profitable manner.

Clinuvel's drug Scenesse® is the only approved treatment globally for the rare disease erythropoietic protoporphyria (EPP). In FY23, Scenesse generated $78 million in sales (+19% yoy), resulting in $42 million EBIT and $31 million NPAT. With no competing therapies expected to come to market for at least another ~3-4 years, Clinuvel will maintain its monopoly and sales growth should continue. Longer-term, CUV is undergoing Phase 3 clinical trials for expanding Scenesse approval into vitiligo, a far larger commercial opportunity compared to EPP.

At current prices we view CUV as an attractive long-term healthcare pick due to its growing and profitable core business plus multiple long-term growth opportunities.

Buy, Price Target $24.00

Immutep (IMM)

Immutep is a clinical-stage biotech company developing novel LAG-3 therapeutics for cancer and autoimmune diseases.

IMM's most advanced drug candidate, eftilagimod alpha (efti), has posted outstanding clinical trial results to date. Specifically, recent Phase 2 data in lung cancer patients showed an average survival duration far longer than previously achieved with standard of care treatments. Immutep is now preparing for a Phase 3 lung cancer trial to commence in CY24. Beyond lung cancer, there are four other Phase 1/2 clinical trials evaluating efti in different oncology settings. The next major catalyst for IMM will be topline data from a Phase 2 trial in head & neck cancer, expected in H1 CY24.

We view IMM as one of the leading clinical-stage ASX biotech companies that will ultimately look to partner with large biopharma companies to bring its drug candidates to global markets. Immutep is well capitalised with cash runway into CY26.

Buy (Speculative), Valuation $0.55

GOLD

David Coates & Bradley Watson
Resources Analysts

Looking to CY24, we are optimistic about the outlook for gold and copper in particular. For gold, the focus has been on the peaking of central bank rate rising cycles creating a supportive price environment. The market has prevaricated on the timing of this throughout CY23 but as inflation indicators have turned lower the market is now showing conviction that this is turning and the gold price has responded. With rate cuts expected through CY24, supportive geopolitical factors and the prospect of real interest rates and the US dollar coming off multi-year highs, gold and gold equities look like attractive exposures into CY24.

Regis Resources (RRL)

RRL is the 4th largest ASX-listed gold producer and the largest gold producer with an all-Australian asset base. FY24 guidance is 415-455koz @ AISC of A$1,995/oz-A$2,315/oz. Our analysis shows RRL to be one of the producers most leveraged to a rising gold price, with cash flows set to materially benefit from the closure of its out-of-the money hedge book (June 2024 at the latest) and lower total costs at the Tropicana JV, also from June 2024. RRL's meaningful scale, top jurisdictions, long-life assets, optionality on growth at its McPhillamys project in NSW and potential financing synergies also make RRL an attractive strategic target.

Buy, Target Price $2.31

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 for the Project include: i) SMI has delivered extraordinary exploration success, growing the Project's Resource to 49Mt at 1.9g/t gold grade containing 3.09Moz of gold, since late 2020, at a discovery cost of just A$3.50/oz, ii) SMI will commence feasibility studies and approvals processes targeting mine development from ~FY27, iii) the current Resource is contained within just 4km of strike of 30km of the prospective regional structural mineralisation control, the Rise-and-Shine Shear-Zone, and, iv) SMI is exploring for further discoveries and extensions to known deposits. Near-term catalysts for SMI include the release of an upgraded Mineral Resource to enable Scoping Studies to commence from early CY24.

Buy (Speculative), Valuation $1.45

BASE METALS

David Coates & Bradley Watson
Resources Analysts

Lower interest rates, a lower US dollar and the prospect of the US and China avoiding recession are favourable for base metals. However, we are cognisant of a much tighter copper market and its broader exposure to the renewable energy/electrification theme, in contrast with nickel's narrower exposure to lithium-ion battery demand and a strong supply response from Indonesia that is forecast to drive a nickel market surplus in CY24. We identify opportunities for both, but copper has stronger fundamental macro drivers, in our view.

Aeris Resources (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. Its near-term outlook is highly leveraged to rising copper grades at the Tritton copper mine, where new high grade ore sources are growing production in FY24. Exploration success at Constellation is likely to sustain higher production levels over the long term. The Cracow gold mine in QLD is running to plan and offers an unhedged gold exposure that is highly leveraged to a rising gold price. Recent refinancings have de-risked the balance sheet and we are of the view that AIS is well positioned to deliver on its production targets.

Buy, Price Target $0.23

Nickel Industries (NIC)

NIC's operations are located in Indonesia and are long-life, bottom-of-the cost-curve projects. It is in the middle of aggressive production growth, lifting attributable RKEF production from 56kt in CY22 to +100kt CY23 and 112kt CY24 from with a further 40kt to come from HPAL operations. NIC is diversifying across a range of nickel products to capture margins across the stainless steel, lithium-ion battery and nickel ore markets. While nickel prices are under pressure from the current supply response, NIC has shown the ability to make money through the price cycle which is a key attribute of attractive long-life assets. We forecast strong EBITDA growth driven by production and margin expansion. Sustainable dividends also support the current valuation.

Buy, Target Price $1.80

Mineral Resources (MIN)

MIN's business is undergoing considerable growth in the Iron Ore, Lithium and Energy units. Resulting production growth is forecast to increase earnings over the next two-years and provide improved leverage to lithium and iron ore prices, from a lower unit cost base. We forecast that MIN's uncorrelated earnings streams, and internal design and construction capabilities, will provide a sector leading growth platform.

In addition to the current growth projects, we expect further news flow late in CY23 or early CY24 relating to future growth projects, including: i) Wodgina Processing Train 4, ii) the new operating Bald Hill Lithium Mine, iii) downstream lithium processing studies, iv) potential further consolidation of WA lithium assets, and v) potentially, news relating to the Port Hedland South West Creek Iron Ore development. Given MIN's >20% 'Return on Invested Capital' hurdle, we expect these future investments to contribute earnings relatively quickly.

Buy, Target Price $90.00

BASE METALS

David Coates & Bradley Watson
Resources Analysts

IGO (IGO)

The Greenbushes Lithium Mine is the most valuable component of IGO. Greenbushes is Western Australia's highest grade operating lithium mine, with a large, high-grade Ore Reserve (191Mt at 1.9% Li2O), and a forecast mine life of greater than 20 years. The high average grade of ore (relative to other known deposits) results in low unit cash costs (FY24 guidance: A$280-A$330/t SC6), supporting profitable operations throughout lithium price cycles and providing strong justification for the self-funding (forecast) expansion plans.

In our view, IGO is oversold given the long-term earnings potential of the lithium assets. IGO offers excellent leverage to lithium prices and the electrification thematic. We forecast the lithium business will provide an excellent platform to fund exploration and inorganic growth, particularly post-expansion, from FY27.

Buy, Target Price $11.30

STRATEGIC MINERALS

Stuart Howe & Regan Burrows
Resources Analysts

Decarbonising technologies (EVs, renewables, storage) will remain as key drivers of strategic minerals demand. Lithium ion supply-chain de-stocking and growth in lithium supply from brownfield expansions has caused recent market weakness. However, over the medium to long term, we expect supply-chain inventories to normalise and that new and existing projects will unlikely meet rapid demand growth. Moreover, ESG and supply chain security remain overarching themes, favouring Australian and Canadian based critical minerals projects.

Lynas Rare Earths (LYC)

LYC is an Australian based rare earths mining and processing business.
At the beginning of year rare earth prices, particularly Neodymium (Nd) and Praseodymium (Pr), weakened as the sector worked through increased supply from China and slower than anticipated electric vehicle demand. We have since seen a normalisation in pricing back towards US$70/kg. LYC is the highest quality source of ex-China rare earth supply, with a trajectory towards doubling capacity over the next three years via the expansion of their mining and concentrating capacity at Mt Weld.

Buy, Price Target $8.80

Talga Group (TLG)

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 advancing early construction activities at its refinery site, 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

Liontown Resources (LTR)

LTR owns the Kathleen Valley (KV) lithium project in Western Australia. KV is in development and set to commence production in mid-2024, supplying into Ford, Tesla and LG Energy Solution offtake agreements. The company is funded to complete KV and has a strong cash buffer over and above remaining development and working capital requirements. We expect lithium market sentiment to improve into 2024 as EV supply chain inventories normalise. KV is highly strategic in terms of being large scale and located in a stable mining jurisdiction.

Buy (Speculative), Valuation $2.75

STRATEGIC MINERALS

Stuart Howe & Regan Burrows
Resources Analysts

Alpha HPA

Alpha HPA (A4N)

A4N is commercialising a proprietary technology which produces high purity aluminium compounds used in the manufacture of lithium ion batteries, LED displays, LED lighting, semiconductions and specialist optics. The technology is disruptive in that it is low cost and has low GHG emissions when compared with incumbent methods of production. A4N is therefore highly leveraged to the themes of ESG and supply chain security. We expect A4N to take FID on a large scale production project over the next few months, supported by debt funding from concessional government lending agencies.

Buy (Speculative), Valuation $1.68

ENERGY

Stuart Howe & Regan Burrows
Resources Analysts

Recent themes in oil markets include macroeconomic sentiment on demand and OPEC+'s apparent lack of cohesiveness with supply. Into 2024, global economic growth remains challenged, despite the expectation of monetary policy easing. Conflict in the Middle East and recent underinvestment by non-OPEC+ producers are key supply risks. We expect market volatility to continue.

For uranium, we have seen increased offtake activity over the past six months, lifting U3O8 prices from US$55/lb to over $81/lb. We anticipate prices to remain elevated in the face of growing demand for nuclear and a lack of near-term supply for U3O8.

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 $5.53

Strike Energy (STX)

STX is a gas development company with the largest 2P Reserves plus 2C Contingent Resources position in the supply constrained Perth Basin. Walyering (55% STX, going to 100%) commenced production in October 2023, taking the company to first cash flow. Sequential developments at South Erregulla and West Erregulla should see strong production and earnings growth over the next 2-3 years. Look out for: STX completing the acquisition of Talon Energy (TPD) in mid-December 2023, FID on South Erregulla in early 2024 and Reserves updates.

Buy (Speculative), Valuation $0.58

MINING SERVICES

Joseph House
Industrials Analyst

Baxter Kirk
Associate Analyst

Australian mining and development activity remains robust as outlined in the September 2023 quarter updates and Annual General Meeting presentations of mining services businesses in October and November 2023. Prices of many commodities remain elevated and are at levels we believe will continue to incentivise growth in mining activity. Looking at the exploration sector, the recent strength in gold prices may catalyse a rebound in activity, following weakness in junior equity raisings (since mid-2021) which has caused some juniors to postpone or downsize their exploration drilling campaigns.

Chrysos Corporation (C79)

Chrysos Corporation (C79) is ramping up PhotonAssay™ unit deployments across an expanding customer base. The company's deployment backlog of 27 units provides good visibility on unit installations over the next 18 months, which will be a key driver of near-term earnings and operating cashflow growth. Further out, we believe C79's disruptive technology will command a significant foothold within the large gold assaying market, implying ongoing industry uptake of PhotonAssay™ technology. C79's customer base, comprising some of the largest gold miners and international laboratory companies, signifies third-party technical and commercial validation of PhotonAssay™ technology adoption.

Buy, Target Price $8.70

Matrix Composites & Engineering (MCE)

Matrix Composites & Engineering's subsea division is leveraged to buoyant offshore energy development activity. Order backlogs for services providers to the global offshore energy sector, many of whom are MCE's customers, have increased to multi-year highs, with commentary indicating a positive near-term outlook. These encouraging indicators are supportive of strong expected demand for MCE's subsea buoyancy products. MCE has secured over $90m in subsea revenue over FY24 and FY25, significantly de-risking our revenue growth expectations; MCE are competing to secure an additional $70 million in near-term opportunities. MCE is also exposed to growing activity across the global offshore floating wind sector, a medium-term earnings catalyst.

Buy (Speculative), Valuation $0.34

GenusPlus Group (GNP)

GenusPlus (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 $1.50

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Bell Potter Securities acted as joint lead manager to EGL's $8m equity raising in Apr '23 and received fees for that service.

Bell Potter was JLM of IMM's June 2023 placement and entitlement offer for $80m and received fees for this service.

Bell Potter Securities acted as Joint Lead Manager and Underwriter to NIC's US$185m Institutional Placement of January 2023 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to AIS's $30m equity raise of November 2023 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to SMI's $15.5m Placement of May 2023 and Lead Manager to the $9.4m Placement of July 2022 and received fees for those services.

Bell Potter Securities owns shares and options in Santana Minerals (SMI).

Bell Potter Securities acted as Joint Lead Manager to LTR's October 2023 $365m placement and SPP and received fees for these services.

Bell Potter Securities acted as Joint Lead Manager for A4N's equity placement in November 2023 and received fees for that service.

Bell Potter Securities Limited acted as Joint Lead Manager to the $30m Placement for STX in September 2022

Bell Potter Securities acted as a Lead Manager for MCE's A$20.2m equity raising in March 2023 and received fees for that service.

Early Stage Company Risk Warning

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

Exploration Risk Warning

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

Biotechnology Risk Warning

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

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