ANALYST OUTLOOK & STOCK PICKS JUNE 2024

BELL POTTER

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BELL POTTER

LISTED INVESTMENT COMPANIES

Kion Sapountzis
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 management expense ratio of 0.14% (annually) is particularly compelling when juxtaposed to popular low-cost passive ETFs. AFI has generated an annualised pre-tax asset return of 6.8% over the last 10 years, and is now priced at a cyclical low, with the more traditional LICs exhibiting a greater confidence for mean-reversion.

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Metrics Master Income Trust (MXT)

MXT provides exposure to the Australian corporate loan market, whilst being diversified by borrower, industry and credit quality in the portfolio. The manager uses active management in the credit market to reduce capital volatility, providing a monthly income stream to unitholders. Due to changes to capital requirements for banks regarding corporate lending, non-bank lenders such as Metrics have helped support the Australian corporate loan market, with manager holding ~$19 billion in assets across credit markets. The management expense ratio of 0.61% remains competitive, especially considering MXT's active strategy overlay. Amongst the current higher for longer interest rate environment the trust has generated an annualised pre-tax return of 9.5% over the last year and 6.3% over the last 5 years.

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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 pre-tax asset return of 15.0% over the last 10 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 -16.4% (with respect to the NTA p/s).

* Discount as at 21 June 2024

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AGRICULTURAL & FMCG

Jonathan Snape
Industrials Analyst

Investments in the Agricultural & FMCG sector should be considered high risk and come with volatility from both commodity prices and seasonal factors. For this reason we tend not to so much focus on a directional share price move in the coming months but rather where we are seeing a value in the current share price relative to a stocks through the cycle earnings. As such the three stocks we identify should not so much be considered key picks on a directional 6 monthly share price direction, but rather valuation dislocations where we are see a buying opportunity.

Bega Cheese (BGA)

Bega Cheese Limited (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 is based on: (1) a historically low forward multiple; (2) consolidating milk processing infrastructure; and (3) the material valuation upside should BGA execute on its 5 year targets. In addition, we note that the key drivers of FY25e appear to have improved in recent months, with: (1) Australian milk production continuing to demonstrate YOY growth through 4Q24; (2) YOY gains in SMP pricing in FY25e futures markets; and (3) a material YOY downdraft in farmgate milk prices in FY25e based on minimum opens by major processors.

Buy, Price Target $5.35

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Rural Funds Group (RFF)

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

RFF trades at a material >30% discount to its market NAV ($3.09pu) and while this is in general a theme with ASX listed farming and water assets, the discount that RFF is trading appears excessive and historically high. 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 ~6% 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, are likely to be that catalyst.

Buy, Price Target $2.40

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Elders (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.

We estimate ELD normalised EBITDA range to $270-280m (recently upgraded from $246-251m) reflecting business investment initiatives (backward integration and system modernisation) and recent acquisitions. While we expect FY24e to be a difficult year, we would see YOY comparison becoming easier as we move through 2H24 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 $9.30

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TECHNOLOGY

Chris Savage & Michael Ardrey
Industrials Analysts

We have a positive or constructive view on the outlook for the tech sector given interest rates both domestically and internationally have stabilised and cuts look likely to start in the not-too-distant future if they have not already. A falling interest rate environment is positive for the tech sector which typically has 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 already been a strong rally in tech stocks offshore in anticipation of interest rate cuts – the NASDAQ is at an all-time 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 is likely to be led by large caps with the mid and small caps to eventually follow.

Technology One (TNE)

Technology One is an S&P/ASX 100 stock with a market cap of c.$6bn. The company designs, develops and installs ERP (enterprise resource planning) software for medium to large corporate and government customers. A key strength of the company is the software is now almost purely delivered on a SaaS basis (i.e. software-as-a-service) which is the same as companies like WiseTech (WTC) and Xero (XRO). The advantage of this delivery model is it generates recurring revenue for the company and makes the earnings very predictable. The shift to SaaS and the visibility of earnings has driven a re-rating in the PE ratio of the stock from c.30x a few years ago to c.40x now. We believe this re-rating will continue and think a PE of c.50x is ultimately achievable.

Buy, Price Target $20.25

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Gentrack (GTK)

Gentrack is a recent S&P/ASX All Technology Index inclusion after a significant share price appreciation of c.150% (market cap c.<1bn) over the past year due to strong execution and consistent guidance upgrades. GTK generates 85% of its revenue (majority recurring) from its specialised energy/water utilities enterprise billing/CRM (customer relationship management) platforms and is leveraged to future-facing distributed energy and decentralised storage trends, which have coincided with significant tech debt within legacy solutions. Although it appears expensive at c.40x FY24 and c.30x FY25 EV/EBITDA multiples, we believe the valuation is justified with a long and visible opportunity for revenue growth, as well as margin expansion following investment in headcount to deliver on its pipeline of deployments and integrations in addition to geographic expansion into Asia and EMEA.

Buy, Price Target $10.90

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REA Group (REA)

REA Group is the number one property listings platform in a resilient Australian residential property sector, with recent all-time highs supported by a positive supply and demand dynamic maintaining a 'sellers' market generally despite the extended, higher interest rate environment at present. PropTrack data up to May suggests a strong end to FY24 for listings, with the potential for a strong geographic mix from key Sydney and Melbourne markets. Although we are Hold rated at a c.45x FY25e PE ratio, we remain positive on REA's medium and long-term prospects through the cycle with a free cash flow profile able to sustain materially higher capex for platform development compared to its nearest competitor, as well as encouraging early signs for penetration in the fledgling-yet-substantial Indian residential property listings market.

Hold, Price Target $203

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DIVERSIFIED FINANCIALS

Marcus Barnard & Hayden Nicholson
Industrials Analysts

The diversified financials sector has performed relatively well in CY2024 to date, helped in part by a stability in interest rates, falling inflation, low unemployment, and a strong domestic housing market and rising international stock markets. This background bodes well for financial services.

Asset managers have seen rising markets boost FUM, and to some extent offset outflows. This is yet to be reflected in their share prices which in general remain undervalued, in our opinion.

Elsewhere, salary packaging companies have weakened on softer trading updates from automotive dealers and we see current multiples as undemanding.

Perpetual (PPT)

On 8 May Perpetual announced a disposal of the Corporate Trust (CT) and Wealth Management (WM) businesses to KKR for $2.175bn. This price was ahead of our expectations ($1.5-1.9bn), and should result in a cash payment to shareholders of between $804m-1,104m or $6.95-9.55 per share, dependent upon the assumptions, particularly tax and deal costs. We estimate the residual asset management business is being valued at between $1.3-1.6bn or between 3.5x-5.5x EBITDA. We believe this is too low for an international asset manager. Valuing the residual asset management business on 6.3x FY25 would imply a value of $2.1bn or $18.17/per share.

Our price target of $27.60/sh is at the top of this range of outcomes ($18.17 for AM plus a cash distribution up to $9.55), implying upside from the current share price.

Buy, Price Target $27.60

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Regal Partners (RPL)

Regal Partners has continued to show value creation in CY24 with further inflows, new fund launches, and strong performance which is expected to translate into high performance fees, and recently another acquisition.

RPL is to acquire 100% of Merricks, a leading alternative investment manager focused on private credit investments across commercial real estate, agriculture, and other assets with $2.9bn of FUM. This acquisition will add to FUM, is enhancing to EPS, but does not create an immediate overhang of stock.

This latest acquisition further highlights the entrepreneurial culture, illustrated by the expansion through M&A (Attunga, Kilter, VGI Partners, Taurus, PM Capital and now Merricks) and is growing through the launch of new strategies. It is also highly profitable with earning high management and performance fees.

Buy, Price Target $4.75

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McMillan Shakespeare Ltd (MMS)

MMS is a leading provider of employee benefits, fleet management and disability support services. The customer base includes health care, government and not-for-profit employer clients who derive a concessional treatment when salary sacrificing. Our utilisation forecasts are supported by cost-of-living pressures, tight labour markets, interest rates and easing new vehicle supply.

We see a strong FY24e earnings outlook, underpinned by our assumption for 17.6% novated lease volume growth YoY and passage of the Federal Government's Electric Car Discount Bill in November 2022, which exempts certain non-luxury zero and low emissions vehicles from Fringe Benefits Tax. MMS could additionally catalyse a reported $34.9m in unfulfilled vehicle orderbook revenue, provided that vehicle supply constraints reverse and derive operational efficiencies upon the release.

EVs represented around 42% of new order volumes in 1H24 and annualised sales have grown strongly from 6.4% of the light duty vehicle segment to 8.9% in a rising market.

Buy, Price Target $22.20

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REAL ESTATE

Andy MacFarlane & Connor Eldridge
Real Estate Analysts

After bond rates fell materially in November 2023, into EOY CY23, the REIT sector has since recalibrated with negative newsflow (valuation, cap trans wise). While this might be seen as a false start, we do think the REITs sector is presenting significant value from a historic valuation metric perspective with material discounts to NTA (c.20% discount for passive REITs), high dividend yields (6.1% sector WAV) and undemanding PE ratios (14.3x sector WAV). There is a divergence in REITs to like at the moment, believe 'expensive' names continue, or taking a medium term view on reversion for value-oriented names. We prefer REITs with: (1) Low gearing or actively selling assets in a more-liquid sub-sector, at close to peak WACD; (2) Underlying earnings growth look forward / solid LFL rental growth; and (3) Prefer petrol stations, residential-derivates, and non-discretionary retail sub-sectors over office and industrial.

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 $3.00

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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 10 year bond yields / debt base rates. Healthcare real estate is highly fragmented and has a long runway domestically in Australia.

Buy, Price Target $1.50

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GDI Property Group (GDI)

GDI is an internally-managed REIT which owns, manages, and develops predominantly office property, with the addition of exposure to car parks, and co-living sectors. While not pure play, GDI is considered by the market to be an Office REIT, but has focus on total returns through active asset management, and a strong track record delivering. We think GDI requires patience, but ultimately see strong value trading at a -49% discount to NTA, with a 'free' operating business on the side.

Buy, Price Target $0.75

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RETAIL

Chami Ratnapala
Industrials Analyst

Recent sector trends have been impacted by cash rate hikes (up to Nov-23) and we see tough comps ahead in May. However, catalysts appear for a more optimistic outlook from June onwards supported by favourable comps (Australian non-food retail sales) and Stage 3 income tax cuts from 3QCY24 (1QFY25) which will be incremental to disposable incomes of a broader group of low-middle income level households. While broader market expectations for interest rate cuts skew to CY25 (earliest expectation for Nov-24) and could delay the recovery in the retail sector, the redesigned Stage 3 income tax cuts effective from July (3QCY24) could benefit essential categories such as food & beverage and discretionary categories such as recreation & other retail.

We continue to look for retailers with differentiating customer value propositions and balance sheet strength and support names who may grow via market share expansion and have exposure to the customer categories who could benefit in the current consumer backdrop.

Premier Investments (PMV)

In addition to PMV's market share of ~6% in the apparel vertical and ~15% in the stationary space in Australia, the Smiggle brand is also a large player in the UK market. As the Smiggle brand looks to grow its presence in Middle East & Indonesia via a low-risk wholesale model and Peter Alexander into the UK, we think the two brands have a long runway ahead.

PMV is currently trading on ~15x FY26e P/E (BPe) which we think is conservative given the value that we see emerging from the potential demerger of PMV's two key brands, Smiggle and Peter Alexander which we believe are global roll-out worthy and highly profitable. We see further upside from the higher ownership PMV shareholders could receive in the Myer Group (MYR) given the potential to grow post MYR's turnaround phase and synergies from merging with PMV's apparel brands.

Buy, Price Target $35.00

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Universal Store Holdings (UNI)

Universal is a leading youth focused apparel, footwear and accessories retailer in Australia. UNI has ~80 stores under its flagship 'Universal Store' brand and is expanding private label brands by growing the stand-alone format of 'Perfect Stranger' and 'Thrills' with more than 100 stores in total.

Management execution remains a key strength for UNI and we see good growth trajectory for the name given the building of core brands while growing its store rollout. In our view, the higher margin sales from the majority private label sales should become a major driver of margin improvement and earnings growth, in an expanded store footprint. While we remain cautious on the overall consumer sentiment, given the return to positive comps while cycling elevated pcp through Jan-Feb (+1% for Universal Store and +10% for Perfect Stranger) and potential benefits from income tax cuts to the customer demographic, we think UNI is well placed given supportive 4Q comps.

Buy, Price Target $6.15

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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 an 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 4Q24 as the volume decline has moderated as per the May trading update 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 firepower/opportunity and successful track record.

Buy, Price Target $6.20

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AEROSPACE & DEFENCE

Daniel Laing
Industrials Analyst

We remain optimistic about the outlook for the domestic Aerospace & Defence sector in 2024, which is benefitting from favourable macroeconomic conditions that are accelerating structural growth in the market. The invasion of Ukraine and conflict in the Middle East are forcing most developed nations to reassess their military capabilities and increase investment in their national security. This is driving greater investment than ever before in defence-related companies, with total military expenditure increasing by 6.8% in 2023 to reach a new high of $2,443 billion USD.

Electro Optic Systems (EOS)

Electro Optic Systems is an Australian high technology business operating in the global space, defence and communications domains. The company possesses a range of world leading IP, specialising in space domain intelligence, Remote Weapon Systems, C-UAS technologies and naval satellite communications.

In CY23, EOS recorded its highest ever revenue ($234.0m), generated positive underlying EBITDA ($5.7m) and delivered operating cashflow of $113.0m. We estimate the company will record CY24e EBITDA of $12.1m and return to profitability in CY25.

We believe the current market capitalisation of EOS materially undervalues the company and thus the current share price provides an attractive entry point. In our view, the current valuation is underpinned by the strong performing EM Solutions business (CY23 EBITDA $19.3m), with the Defence and Space divisions providing significant upside potential.

Buy, Price Target $2.10

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Austal Limited (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.

ASB currently has a record contract book of ~$12.7b AUD, largely consisting of contracts with the US Navy, and was recently announced as the Australian Government's shipbuilder of choice in WA. This deal also included the award of the "Landing Craft (Medium)" vessel program (BPe ~$800m) to ASB, with the likely award of further contracts under the agreement (BPe ~$7b - $10b), providing a deep pipeline of work for the next decade.

The company is also a takeover target, with Austal recently rejecting a $2.825 per share takeover offer from Hanwha Ocean Co. and another two North American Private Equity firms speculated to be interested in acquiring the company.

Buy, Price Target $2.85

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INDUSTRIALS

Sam Brandwood
Industrials Analyst

Brickworks (BKW)

Brickworks (BKW) is a building materials and property development company with a 26.1% shareholding in listed investment vehicle Washington H. Soul Pattinson (SOL).

Despite some recent normalisation in market rent growth and vacancies, near-term supply in BKW's precincts continues to remain heavily pre-committed. BKW has recently secured DA approval for Oakdale East 2 (250k sqm GLA) and last month announced Amazon (58k sqm GLA) as its anchor tenant, providing the group with strong optionality and, in our view, an effective 12 to 18 month lead on most incoming local supply. Over FY25-26e we see development potentially approaching 100k+ sqm p.a. (+$20-25m p.a. gross rent or 11-13% p.a.). Given BKW's relatively short-WALE and 30-35% under-rented book, a relatively benign annual mark-up should then see rent growth in the mid-teens fairly comfortably, in our view.

Buy, Price Target $25.76

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IPD Group (IPG)

Electrification continues to present 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.

Pleasingly, the bulk of IPD's earnings growth continues to be driven organically and, notwithstanding some softness emerging in commercial construction end markets, we think that FY25 is shaping up to be another year of outperformance for the group. Favorable considerations should include continued ABB market share wins, a strong project pipeline for CMI Operations, a growing presence in data centers, and an Australian EV charging market that looks to us like it is on the precipice of finally breaking through. IPD trades on a below peer average FY25e EV/EBITDA of ~9x with, in our view, a superior growth profile.

Buy, Price Target $4.40

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Cleanaway (CWY)

Cleanaway (CWY) is Australia's leading waste and environmental services company with a national footprint of over 330 sites, 6,100 trucks, and 7,500 employees. CWY operates a vertically integrated waste model from collections and processing, through to resource recovery and disposal/landfill. CWY provides solutions for >130k customers in commercial, industrial, government and residential sectors.

We think visibility on CWY's 'Mission 500' (née '450') EBIT target by FY26e has recently lifted, with management having secured work in new end markets (e.g. Vic CDS, O&G, FOGO), shown early Operational Excellence delivery in NSW Solids, and proven a focus on pricing and mix discipline in landfills. At the time of writing, CWY's trading discount (EV/EBITDA) to its US peer group has also recently opened to more than a standard deviation below the 5-year average at ~30% (vs. 22% 5-yr average) and as such we believe screens relative value at current levels.

Buy, Price Target $2.75

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HEALTHCARE

John Hester
Healthcare Analyst

Recent months have seen an unprecedented level of corporate activity amongst small and mid-market healthcare stocks (OPT, IMM, RAD, CYC and CU6).

Elsewhere, Paragon Care completed a merger with Clifford Hallam in early June. The PGC share price has more than doubled since the merger was announced in early March. L Unit completed its acquisition of Volpara Health Technology in late May providing $1.15 in cash per share to VHT shareholders representing a 47% upside the last unaffected share price.

Among the larger cap stocks, Pro Medicus continues its outstanding run and appears unstoppable. Sonic Healthcare (not rated) downgraded its revenue and earnings guidance as was widely expected, while the Resmed (not rated) share price mostly continued its recovery, albeit remains volatile.

Telix Pharmaceuticals (TLX)

TLX's recent volatile share price has been largely due to the anticipated dilution from an intended NASDAQ listing and subsequent capital raise. Ultimately, the company failed to attract bids from US investors at a price acceptable to the Board, hence the offer was pulled. Fortunately, the primary purpose of the proposed listing was to facilitate a platform for US investors to acquire shares on a US exchange rather than raising capital.

TLX remains well capitalised and is expected to generate significant free cash flow in FY24. Consequently, the share price has bounced since the announcement that the NASDAQ listing would not proceed.

The fundamental drivers of value remain firmly in place, including: revenues from the sale of Illuccix continue to grow; recently completed submission of the Biological license application for Zircaix in early June; and additional catalysts including submission of the New Drug Application for Pixclara, commencement of enrolment in the prostate cancer therapy and initial data from the STARLITE trial.

Buy, Price Target $19.00

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Cyclopharm (CYC)

Cyclopharm recently completed a $24m capital raise with funds to provide working capital to support the expanding revenue base in the US. Since receiving FDA approval for Technegas in the US in September 2023, CYC has notched up numerous firsts including contract signings and first revenues earned.

The company recently announced CMS approval of Transitional Pass Through (TPT) reimbursement, coming into effect from 1 July 2024. The TPT represents a financial incentive to the hospital to increase utilisation of the new technology. Normally the awarding of a TPT reimbursement code is followed by a rapid increase in adoption rates as the hospital makes a small margin from conducting the exam.

The company estimates the US market for Technegas at US$180m annually inclusive of US$90m being the initial market for diagnosis of pulmonary embolism (PE) which it believes it can win within 5 to 7 years from launch. The second stage of the market also relates to PE where the company believes it can win market share in those patients currently diagnosed via CT.

Buy, Price Target $3.40

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Aroa Bioscience (ARX)

ARX is a wound repair specialist, currently trading on EV/FY25 Revenue multiple of ~2.2x. The company's core technology is its decellularised extra cellular matrix derived from ovine (sheep) gut. This class of product has been a mainstay of reconstructive surgery for decades.

The Myriad product achieved the highest rate of revenue growth in FY24. It is applied in the surgical setting to provide a substrate for regeneration of soft tissue and for reconstructive surgery. In FY24 revenues grew by 75% to NZ$23.3m and we expect a similar growth rate in FY25 and FY26 driven by an expanded user base and data from the Myriad Augmented Soft Tissue Regeneration Registry (MASTRR).

ARX also expects to report data from its 120 patient randomised clinical trial in diabetic foot ulcer patients. The trial is investigating the healing properties of the Symphony product. Earlier studies in a very difficult patient population with advanced DFU's provided highly supportive data on the rate of wound healing.

Buy, Price Target $0.90

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HEALTHCARE

Thomas Wakim
Healthcare Analyst

MedAdvisor (MDR)

MedAdvisor is a healthcare technology company providing tailored solutions to improve medication adherence in the US and ANZ markets.

FY24 has been a breakout year for MDR; revenues continued to grow strongly, and management executed on its objective for maiden profitability in line with timing guidance. We expect continued growth for MDR in FY25, driven by strong vaccine demand in the US (particularly new RSV launches) as well as growing transaction fees from pharmacies in the ANZ market (e.g. UTI medications and vaccinations). Lastly, gross margins are expected to benefit from ongoing uptake of MDR's new omni-channel offering in the US, called THRiV.

Buy, Price Target $0.49

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Neuren Pharmaceuticals (NEU)

Neuren Pharmaceuticals (NEU) is a biotechnology company developing treatments for rare diseases of the central nervous system. Our positive outlook on the stock is driven largely by the company's second asset, called NNZ-2591, currently preparing to start Phase 3 clinical trials in CY25.

In the last six months, NNZ-2591 reported highly encouraging Phase 2 data in two rare diseases. NEU will once again have first-to-market opportunities in these two rare diseases, assuming future Phase 3 trials are successful. While short-term news will continue to be impacted by Acadia's commercialisation of NEU's first drug, called Daybue, we maintain our BUY recommendation for investors who have a longer 2 to 3-year investment horizon.

Buy, Price Target $28.00

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GOLD

David Coates & Bradley Watson
Resources Analysts

We continue to hold the view that the outlook for the gold price is very positive. While the focus has been on the peaking of central bank rate rising cycles and positioning for a declining interest rate environment, the gold price has maintained record levels despite rate cuts being delayed. Support from physical demand and Central Bank buying has been a factor, but we also believe gold's role as an independent currency separated from the debt service obligations of Governments and the expansion of Central Bank balance sheets is a driving force post-COVID-19. This has set up a strong base from which we expect the gold price to appreciate when Central Banks eventually cut rates and real interest rates and the US dollar weaken from multi-year highs as a result.

Capricorn Metals (CMM)

CMM is a gold exploration and development company whose primary asset is the 120kozpa Karlawinda Gold Project in WA. CMM has organic growth potential to group production of 270kozpa via the Mt Gibson Gold Project, also in WA, and one of the largest undeveloped gold projects in Australia. A Pre-Feasibility Study has been completed, outlining production of ~155kozpa at AISC of A$1,450-A$1,550/oz over an 11-year mine life. CMM has an excellent track record of project development, delivery to guidance, a strong balance sheet and generation of sector leading free cash flows. It recently bought back part of its hedge book, leaving it fully exposed to the gold price until the December quarter 2025.

Buy, Price Target $6.53

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Santana Minerals (SMI)

SMI has reported Scoping Study results for an initial Bendigo-Ophir Gold Project. Key metrics from the study include: (1) a post-tax Net Present Value (NPV) of A$852m, using a 10% discount rate, at a US$2,340 gold price, and 0.66 AUD:USD exchange rate (A$3,545/oz), (2) total gold production of 1.12Moz, averaging 110koz per annum over a 10-year mine life, after (3) initial capital costs of A$233m (A$130m processing plant and infrastructure, and A$103m pre-production mining costs), at (4) life of mine total production costs of A$1265/oz (real 2024 dollars). We anticipate that SMI will continue to be re-rated as it achieves the Project's milestones, with key environmental approval submissions expected in 4QCY24. SMI has significant additional value over the Scoping Study results from underground Resources not included in the Scoping Study, and the underexplored prospectivity of the 30km long Project, which is analogous to the Macraes Gold Mine (90km to the southeast) from which over 5Moz has been mined.

Buy (Speculative), Valuation $2.15

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BASE METALS

David Coates & Bradley Watson
Resources Analysts

The prospect of lower interest rates, a lower US dollar and strong, underlying fundamental demand remain favourable for base metals. However, in the near-term, concerns around the outlook for the Chinese property market – an important demand-side driver – is dampening sentiment.

In the nickel market, where the structural changes of increased supply from Indonesia is also a factor, our view is that this is providing an opportunity to accumulate quality companies at appealing valuations.

In copper, where the supply-demand balance is much tighter and there is much broader exposure to the renewable energy/electrification theme, we see significant upside risk to current prices and favour more leveraged exposures.

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 driving production growth through CY24 and exploration success at Constellation is likely to sustain higher production levels over the long term. The Cracow gold mine in QLD 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 $0.30

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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 ~100kt CY23 to ~115kt in CY24 with a further 40kt to come from HPAL operations in CY26. NIC is diversified across a range of nickel products, capturing margins across the stainless steel, lithium-ion battery and nickel ore markets. NIC has shown the ability to make money through the price cycle which is a key attribute of attractive long-life assets. There have been material supply closures across the industry which, in-time, we expect to drive a tightening market and recovering prices. For NIC, we forecast strong EBITDA growth driven by production and margin expansion. Sustainable dividends (which we forecast to increase) also support the current valuation.

Buy, Price Target $1.54

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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 mid-CY24 relating to future growth projects, including further expansion in iron ore and lithium businesses, as well as first developments in energy.

Buy, Price Target $84.00

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STRATEGIC MINERALS

Stuart Howe & Regan Burrows
Resources Analysts

Markets for strategic minerals remain volatile. In lithium, persistent weak chemicals prices have materially impacted both producer and explorer/developer equities. Over 2023 to mid-2024, the ramp-up of African spodumene and Chinese lepidolite supply has met weakening apparent demand. There has been de-stocking through the lithium supply chain and a lack of conviction around preferred future battery chemistries. The market's expectations of 2H 2024 recovery now appear to be pushing into 2025. Despite this negative sentiment, most market analysts point to positive longer-term fundamentals, driven by global EV take-up and battery storage demand.

Meanwhile, markets for strategic chemicals/metals (e.g. high purity alumina and titanium) have been better supported as economies look to re-shore commodity supply and manufacturing from non-western sources.

Alpha HPA (A4N)

A4N's proprietary technologies produce ultra-high purity aluminium compounds with applications in high-technology growth sectors including the manufacturing of lithium-ion batteries, LED displays/lighting and semiconductors. The HPA First Project Stage 1 in Gladstone Queensland supported technical and commercial validation. A4N recently announced FID on Stage 2 which is now in development for ramp-up in 2026. A4N is also establishing a downstream synthetic sapphire glass subsidiary which targets the LED and specialty optics markets. Diversified Australian chemicals group Orica (ASX:ORI, not rated) is a substantial shareholder in A4N.

Buy (Speculative), Valuation $2.00

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IperionX Ltd (IPX)

IPX has the global rights to manufacturing technologies with the potential to disrupt the incumbent titanium supply chain through materially lowering production costs and manufacturing waste. Large-scale production will commence this year is Virginia USA, further de-risking the company's technologies and enabling IPX to progress commercial relationships with several high-profile aerospace, automotive, luxury goods and government end users. There is potential for IPX to rapidly scale its technology and cement itself as a key supplier in the US and global titanium value chains.

Buy (Speculative), Valuation $3.85

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Liontown Resources (LTR)

LTR's 100% owned Kathleen Valley lithium project remains highly strategic in terms of its stage of development, long mine life and location. The project is on track for first production from mid-2024. LTR has offtake contracts with top tier EV and battery OEMs (Ford, LG Energy Solution and Tesla). Kathleen Valley's development has benefited from recent sector experience across mining and processing lithium minerals. The asset's scale and long life provide potential for value-adding downstream lithium chemicals processing integration. Kathleen Valley's initial production rate is readily scalable as lithium markets recover.

Buy (Speculative), Valuation $1.85

Latest research >

ENERGY

Stuart Howe & Regan Burrows
Resources Analysts

Uranium equities have remained volatile over the last six months, driven by the volatility pick up in the underlying spot commodity price. The term contract price (effectively the price for long-term offtake with a nuclear utility) has remained resilient, inching higher to US$78.50/lb. In our opinion, the near-term outlook for uranium hasn't changed, we continue to see an undersupplied market out to the end of the decade which should be supportive of the commodity price and equities. The recent pull-back has created opportunities across our coverage universe, however a focus on quality may be key.

Boss Energy (BOE)

BOE's Honeymoon project recommenced production in April-24, with first sales expected in July-24. The business over the last six months has changed somewhat, with the acquisition of a 30% interest in the Alta Mesa project with JV partner enCore energy in South Texas. We continue to see significant value in BOE, with optionality around expansion at Honeymoon via low-risk and cost regional resources at Jasons and Goulds Dam. With the inclusion of Alta Mesa, BOE boasts a geographically diversified multi-asset portfolio with several growth levers yet to be pulled, heading into a uranium bull market.

Buy, Price Target $6.35

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Paladin Energy Ltd (PDN)

PDN recommenced production at its flagship Langer Heinrich Uranium mine in March-24. We recently attended a site visit, and walked away with a positive outlook for Langer, however we were cautious on the valuation for PDN given the lack of viable growth options. Since that trip in May, PDN has announced its intention to acquire Athabasca developer, Fission Uranium in an all-scrip deal. We see this transaction as transformative for PDN, with the potential to make the business a leader in uranium production across two sites and thus alleviating our concerns around future growth. With the recent pull-back in the stock we see this as an opportunity to gain exposure to a high-quality uranium producer.

Buy, Price Target $16.10

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MINING SERVICES

Joseph House
Industrials Analyst

Commodity prices for major Australian metal exports remain at levels we expect would reinforce mining and support activity. Gold and iron ore production volumes are expected to rise in the short-to-medium term, presenting growth tailwinds for companies leveraged to mining activity in these markets. Among the engineering businesses, major mining project tendering seems to be slowing, partly driven by significant price falls in critical mineral markets in the past year. Our visibility on the mining development pipeline suggests a rebound in tendering activity may not occur for another year. In the exploration sub-sector, strength in precious metal prices may spur greater activity among the majors, with current negative trending junior financings a driver of persisting headwinds.

SGH

Seven Group Holdings (SVW)

Activity outlooks for mining production, construction and transitional energy markets remain positive. Growth in iron ore production over the medium term will likely require an expansion of mining fleet and will enhance support opportunities, a positive for WesTrac. In construction markets, we are in the midst of a significant national infrastructure buildout, with peak activity not expected for another two years. Coates and Boral are key beneficiaries of this incoming activity growth. Beach Energy's strategic review has highlighted opportunities to optimise capital and operating expenditures while addressing medium-term growth opportunities tied to return hurdles. We view progress made towards these refreshed targets as value-accretive and supportive of greater dividend payouts to SVW.

Buy, Price Target $45.00

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MADER

Mader Group (MAD)

We expect ongoing earnings growth across the Group in FY25 as MAD's growth ambitions in Australia and North America gather momentum. Overall, commodity prices remain at elevated levels (compared with historical levels for gold and iron ore particularly), supporting mining activity and equipment utilisation. In Australia, incoming iron ore production growth should support equipment and plant maintenance opportunities. In Canada, a significant expansion of the workforce will see the North American segment become a larger contributor to Group earnings and profitability. The company achieving its medium-term net cash target may drive positive capital management initiatives.

Buy, Price Target $7.60

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SRG GLOBAL

SRG Global (SRG)

SRG's short-to-medium term outlook is reinforced by Government-stimulated construction activity in the infrastructure and non-residential sectors and increased development and sustaining capital expenditures in the resources industry. The resulting expansion in infrastructure bases across these sectors will likely support increased demand for asset care and maintenance in the medium to long-term. We anticipate Mining Services will be a beneficiary of growth in iron ore and gold production over the next five years. SRG's valuation multiples are undemanding, we see potential for a rerate higher towards the Industrial Services peer group average.

Buy, Price Target $1.30

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Bell Potter Securities acted as Joint Lead Manager to A4N's $175m equity placement and share purchase plan in May 2024 and received fees for that service. Bell Potter Securities owns shares in A4N.

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

Bell Potter Securities owns shares in A4N.

Bell Potter Securities acted as Lead Manager and Bookrunner to IPX's $50m placement in May 2024 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 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 for SMI's April 2024 $31m placement (and owns shares and share options in SMI) and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to BOE's Dec23 $205m placement and received fees for that service.

Bell Potter Securities acted as Underwriter and Lead Manager to IPG's $65m equity raising in Nov'23 and received fees for that service.

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

Exploration Risk Warning

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

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