

# ANALYST OUTLOOK & STOCK PICKS FOR 2023.

December 2022

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# LISTED INVESTMENT COMPANIES

Hayden Nicholson  
ETF/LIC Specialist

2022 has been an unusual year where traditional defensive assets and sectors have performed out of line with investors' expectations. Cyclical and higher beta segments of the market have instead added downside protection. Our top picks therefore focus on utilising the experience of professional investment managers to better enhance return potential through a possible recession or adapt to changing market conditions.



## L1 Long Short Fund (LSF)

LSF implements a variable beta strategy aimed at lowering volatility relative to the broader Australian market, with an objective to preserve invested capital through-the-cycle while delivering strong and positive absolute returns. The management style exhibits a mild value and contrarian bias. Choosing to blend this exposure can pivot portfolios into the prevailing equity risk premium without needing to adjust an allocation yourself. The net sensitivity of the portfolio had tempered to 41% as at 31 October 2022. LSF could enhance an outcome by mitigating drawdown risk in further falling markets without sacrificing a large degree of upside capture, which in turn may lead to superior risk-adjusted returns. The Company is trading at a 6.3% indicative discount based on a pre-tax NTA of \$2.7757.



## MFF Capital Investments (MFF)

MFF seeks to identify and invest in large international companies that display attractive business characteristics at an assessed discount to their intrinsic value. As a result of profitable realisations across the investment portfolio, MFF continues to pay large tax instalments that degrades NTA along with short-term sentiment and pushes forward returns. However shareholders will reap the benefits of a pass through in franking credits attached to the Company's growing stream of dividends. The franking credit balance had grown significantly to an estimated ~\$105.3m after adjusting for dividends declared and tax payable on FY22 profits. The MFF Board of Directors declared a \$0.04 fully franked final dividend in respect to FY22, which, even when annualised, could be sustained for 5.3 years assuming that no accounting profits are generated.



## Regal Asian Investments (RG8)

RG8 follows a unique mandate that provides access to a concentrated portfolio of long investments, supplemented by short positions, all underscored by the focus for capital preservation. Peers with global strategies are often precluded from investing in some Asia-centric companies and mid-cap opportunities, making this a compelling opportunity for a Company that is also trading at an indicative discount of 14.7% based on a post-tax NTA of \$2.38. Subsequent to the reverse takeover of VGI Partners in June of this year, lead portfolio responsibilities within the Company were transitioned to Regal's Chief Investment Officer, Phil King. Since then in the 4 months to 31 October 2022, RG8's investment portfolio has produced a post-tax NTA return of 12.2% by Bell Potter estimates. This is far superior to a -5.9% return during the same time for the MSCI All Country Asia Pacific NTR Index in A\$.

# AGRICULTURAL & FMCG

**Jonathan Snape**  
Industrials Analyst

Investments in the Agricultural & FMCG sector should be considered high risk and come with volatility. For this reason we tend to focus on stocks where we see either: a structural uplift in ROIC through the cycle, cyclical growth stories, or counter-seasonal crop exposures.



## Nufarm (NUF)

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

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

Buy, Price Target \$7.15



## The a2 Milk Company (A2M)

A2M is in the business of producing, marketing and selling branded dairy and infant milk formula (IMF) products in Australia, New Zealand, China and the US. A2M branded milk contains only A2 Protein rather than both A1 and A2 proteins which are found in Regular Cows' Milk.

If A2M can execute on its strategy to achieve ~NZ\$2Bn in FY26e revenues and EBITDA margins in the teens, then it would imply compound double digit EPS growth through to FY26e. We view the initial entry into the US IMF category as incrementally positive, though note the scale of A2M's existing US fresh distribution footprint implies this could be a more meaningful contributor should sales velocities approach levels seen in other markets.

Buy, Price Target \$6.80



## Synlait Milk (SM1)

SM1 is NZ's fourth largest milk processor and a B2B supplier of dairy ingredients (SMP, WMP & AMF), infant formula (IMF) products and Lactoferrin. SM1 counts global FMCG companies among its client base, including the a2Milk Co (A2M) for which SM1 is the exclusive supplier of infant formula in China, Australia and NZ.

FY22 was a year of transition for SM1, with FY23e set to benefit from new customers in nutritionals and stabilising demand from A2M. The optimisation of capacity from ingredients towards nutritionals and valued added products results in a favourable margin gain for SM1, while also accelerating deleveraging (pre-payments and utilisation of assigned receivable facilities for IMF). This combination of operating leverage and balance sheet deleverage is likely to emerge as a key driver of future share price direction. We view the positive outcome on the USFDA process for A2M as an incremental positive for SM1.

Buy, Price Target \$3.60

## TECHNOLOGY

**Chris Savage**  
Industrials Analyst

**Michael Ardrey**  
Industrials Analyst

We remain cautious on the outlook for the tech sector in the first half of 2023 given the likelihood that interest rate rises will continue both domestically and offshore due to inflation remaining stubbornly high. Such an environment is negative for high growth stocks which have low or negative cash flows/earnings now and only reasonable or meaningful cash flows/earnings in several years' time. With this in mind we are more attracted to stocks in the tech sector with reasonable cash flows/earnings now or in the short term and which also have reasonable to strong growth outlooks. We believe these sorts of stocks will perform well – even in a rising interest rate environment – given the outlook of slowing growth and the risk of recession globally.



### Life360 (360)

Life360 develops and delivers a mobile app for families – called Life360 – that provides communications, driving safety and location sharing. The company has also recently made two acquisitions – Jibit and Tile – so that now it not only connects and protects people but also pets and things. The core business has been performing very well though the acquisitions have had a difficult 12 months (due to supply chain constraints and/or a drop in consumer electronics demand). The outlook for 2023, however, is positive with recent price rises in the core business likely to drive strong top line growth and the bundling of Tile products with subscriptions to provide a further boost to subscription revenue.

Buy, Price Target \$9.00



### ikeGPS Group (IKE)

IKE delivers operational efficiencies within Utilities and Communications companies and related Engineering firms by replacing legacy processes with hardware and software solutions. In addition to posting 1H23 revenue growth of 169.8% vs. pcp to \$15.4m, which was roughly equal to its full year FY22 revenue of \$16m, IKE also delivered a maiden interim positive operating cash flow and statutory net profit. The result was driven largely by increasing transaction volumes as use of its software and services grows within IKE's enterprise clients. IKE's business activity is underpinned by the \$310 billion fibre and 5G rollout in North America, which offers IKE the opportunity to embed its solutions within clients.

Buy (Speculative), Valuation \$1.21



### Frontier Digital Ventures (FDV)

FDV's business model of targeting underpenetrated emerging markets with classifieds/marketplace platforms remained resilient during a difficult 2022, as seen via 3QTD revenue growth vs. pcp of 38.1% to \$112.9m (100% basis). FDV also achieved positive EBITDA in all operating regions (ex. MENA one-offs) for the first time during 3Q22 in addition to Asia and LATAM regions operating on a cash flow positive basis during 1H22. FDV remains catalyst rich owing to its private equity-style portfolio management, noting FDV LATAM was recently valued at 5.0x CY22e revenue and portfolio crown jewel Zameen generated a likely valuation uplift following a funding round by its majority owner, EMPG, with both assets flagged for listings down the track. Although the operating environment remains uncertain, a China re-opening and tapering/pivot of US interest rates would potentially be a positive for performance in emerging markets.

Buy (Speculative), Valuation \$1.23

# DIVERSIFIED FINANCIALS

**Marcus Barnard**  
Industrials Analyst

The diversified financials sector has performed poorly in 2022, as interest rate increases have influenced the outlook for the housing market, the consumer and the equity market, affecting lenders, fund managers and property related companies. We believe that interest rates are starting to reduce consumer confidence and slow the economy, although we anticipate that consumers will continue to spend in the run up to a Covid-19 free Christmas. We expect interest rates will peak late Q1/early Q2 Calendar 2023, and as valuations remain low, we believe the property and fund management stocks should rebound quickly. Lenders may take slightly longer to recover as the market is competitive and consumers are putting off further borrowing until there is more confidence in the economy.



## Perpetual (PPT)

Perpetual (PPT) now looks set to complete its acquisition of Pental, having rebutted an approach from a consortium including Regal Partners and Baring Private Equity Asia. We continue to see the logic of the acquisition of Pental Group, which we believe will create a broad and diverse asset manager with opportunities for revenue, distribution and cost synergies.

PPT management need to justify this acquisition, especially after falling market levels and outflows, and after turning down an offer of \$33/share from a consortium.

This may be to highlight the benefits of the combined distribution and how much this could be expected to add to FUM and revenue. We believe it may be necessary to increase the cost saving target as \$60m which represented just 6% of combined costs was low and it may be possible to extract more. We do not see much mileage in a partial disposal of PCT, however selling one of the Australian asset management businesses or merging may now be appropriate.

Buy, Price Target \$38.73



## Cedar Woods (CWP)

This is a medium sized Australian property developer that operates in four states in Australia. Sales are supported by low unemployment, a national shortage of housing, and being exposed to more affordable markets. It starts 2023 with \$500m pre-sales meaning that earnings are well underpinned.

Rising interest rates and supply side shortages have impacted sentiment and the share price has retreated from over \$7.00 to \$4.50, with the PE multiple declining from 14.3x forecast to 10.1x now. We value the company at \$5.40 per share using a DCF valuation. We expect that if interest rates peak in Q1/Q2 2023, then as the economy adjusts we expect CWP shares should perform strongly.

Buy, Price Target \$5.40

# INDUSTRIALS

Sam Brandwood  
Industrials Analyst



## IPD Group (IPG)

Electrification is emerging as a dominant market narrative with IPD Group (IPG) in our view highly leveraged to this growth trend through its supply of electrical equipment that reduces buildings' energy use and/or reliance on the transmission network.

Overall we see volumes for IPG as a relatively low demand risk replacement cycle driven by technology adoption, supportive policy measures and changing consumer tastes. In addition the business is capital and asset light, operates in segments with few direct competitors and generates a strong >35% gross margin. We continue to believe IPG looks attractive on a FY23e EV/EBITDA of ~9x with ample room for further accretive acquisitions (>\$25m net cash).

Buy, Price Target \$3.35



## The Environmental Group (EGL)

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

In addition, EGL's novel PFAS water remediation solution could be a game changer. PFAS contamination has been listed by The Biden Administration as one of the top environmental issues of the decade after it was recently found that ~60% of Americans now have unsafe concentrations in their drinking water. If successful in commercial trials, EGL may have a best-in-class solution in terms of efficacy and running cost which we believe could lead to rapid market adoption.

Buy, Price Target \$0.26



## DGL Group (DGL)

We continue to remain constructive on the vertical that DGL Group (DGL) is developing across the back end chemicals lifecycle – which includes manufacturing, logistics and recycling – as we think in terms of breadth, DGL is unrivalled by any Trans-Tasman competitor.

In our view, improved earnings visibility and FY23e cash flow targets provided by management at the company AGM are both potential re-rate catalysts for DGL, with the current pull-back in share price an opportunity for investors to buy a founder-led business that has a potential multi-year growth horizon through industry consolidation. DGL is currently priced on a forward EV/EBITDA of ~9x with >\$150m in debt headroom and property recycling optionality for further acquisitions.

Buy, Price Target \$2.25

# INDUSTRIALS

**Olivia Hagglund**  
Industrials Analyst

**Daniel Laing**  
Industrials Analyst



## Cluey (CLU)

Cluey (CLU) is an education technology company that provides curriculum-aligned online tutoring and co-curricular after-school programs and holiday camps to school students in years 2-12 across Australia, New Zealand and more recently the UK. The Company is leveraged to the trend towards online learning and has a large TAM of ~4.8m school students across Australia and New Zealand. Whilst Cluey's growth has remained strong driven by unit economics, the Company recognises the high inflation and interest rate environment they are now operating in coupled with tight capital-raising conditions. Their focus has therefore shifted to conserving cash and containing costs with the target of reaching profitability in FY24 and on an annualised basis in FY25. The outlook for 2023, however, is positive with recent price rises likely to drive margin improvement and growth opportunities in newer markets including New Zealand and the UK remaining strong.

Buy (Speculative), Valuation \$0.90



## Ai-Media Technologies (AIM)

Ai-Media Technologies (AIM) is a global media accessibility provider of live and recorded captioning, transcription, audio description, translation and speech analytics services. This is done through a combination of automatic speech recognition software, machine learning/ AI and human curation by re-speakers. The Company has continued to make progress in their transition towards higher-margin SaaS and devices revenue which now represents ~30% of the revenue mix and gain market share globally through contract wins and renewals of key customers. Looking into 2023, we expect each of these areas to underpin growth via increased SaaS product minute volumes and the Company's "strong sales pipeline" accompanied by an improving regulatory environment. Ai-Media also reported positive operating cash flow for the first time in FY22 which they expect to maintain going forward.

Buy, Price Target \$0.60



## DroneShield (DRO)

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

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

The company has made impressive progress in the US, which is the largest counter-drone customer globally, recently announcing a \$1.8m contract with the US Department of Defense.

We believe DRO is at an inflection point; if it can establish an ongoing relationship with the US DoD it has the potential to become a major player globally.

Buy, Price Target \$0.30

# RETAIL

**Chami Ratnapala**  
Industrials Analyst

The consumer discretionary sector has performed well over the past few years which is evident from the ~8% annual growth in Australian retail sales from pre-COVID to latest October 2022 data [ABS data]. This performance has been well supported by Australian households continuing to sit on higher accumulated savings post-COVID with the household savings rate still well up from ~5% as of Sep-19 to ~7% at the last update [Sep-22]. However we remain cautious on the 2023 outlook for the sector as the growth in retail spend from current elevated levels may be hampered from ongoing interest rate hikes and as consumers adjust their spending patterns to the higher inflationary environment. The ASX consumer discretionary index is back to pre-COVID levels, although down ~20% over the past year from peak levels a year ago. We look for retailers with differentiating customer value propositions & balance sheet strength and support names who may well benefit from higher replacement cycles and younger customer demographics.



## Accent Group (AX1)

Accent Group (AX1) commands a dominant ~30% market share in the \$3b Australian footwear retailing market and we think there is a larger opportunity in the fast growing youth focused sports apparel vertical. We believe AX1 has the right strategies in place with Glue Stores and Style Runner expansion plans and should see greater customer engagement to these brands. AX1 remains one of our top picks in the Retail sector as we remain constructive on the name considering its exposure to a younger customer demographic in a tougher consumer spending environment, its longer term growth trajectory (12% EBIT CAGR, FY21-25e) and attractive valuation (11x BPe FY24e P/E).

Buy, Price Target \$2.10



## 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. We think PFP is still at the early stages of chasing a large and fragmented market, with the company well supported by management track record and funding facilities. We expect the incremental growth from acquisitions to support the business in retaining growth as the wider industry volume growth slows down given tough comps in the near term (from 2H23e) and as the mortality rate returns to the long-term baseline level. 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



## Best & Less (BST)

Best & Less (BST) is uniquely positioned in between specialty apparel retailers and discount department stores with the company's value offering of baby/kids/womenswear which is 86% in private label. Despite the recent trading update seeing cautious customer trends and delayed weather patterns, we still see BST as able to perform better in 2H23e driven by migration to value and new store openings supporting further growth from FY24. We remain constructive on the name considering the company's GP margins as a value retailer relative to its peers, the return on an average store, the pricing power as a stock developer in the vertical product model, healthy inventory position and fair valuation (8x BPe FY23e P/E).

Buy, Price Target \$2.60

# HEALTHCARE

**John Hester**  
Healthcare Analyst

Small and mid-market capitalisation healthcare and biotechnology stocks generally had a recovery in value over the second half of 2022 following a significant unfavorable re-rating in the first half of the year. Of the 31 stocks in our coverage universe, 23 increased in value (1 July – 9 Dec 2022). Of these, the median increase was 39%. Balance sheet strength remains a key theme for the sector with several biotechnology stocks raising equity capital. For those with commercial operations, the market has maintained a laser focus on earnings or for those operating at a loss, identifying a realistic pathway to profitability. Best performers in our coverage universe include Neuren, Clarity Pharmaceuticals and Actinogen.



## Telix Pharmaceuticals (TLX)

We retain TLX as a key pick following very strong execution of its US business plan over recent months. Revenues from the sale of Illuccix continue to grow each quarter and the product is now expected to generate in excess of \$300m in revenues in 2023. In the clinic, TLX 101 has generated positive trial data for the treatment of glioblastoma and TLX 250CDx reported positive data from its pivotal study for the imaging of clear cell renal carcinoma. The product is now expected to become the company's second on market in late calendar year 2023. Telix remains well capitalised with \$117m in cash at 30 September 2022 and based on our forecast, is expected to generate its maiden profit in CY2023.

Buy, Price Target \$9.00



## Clarity Pharmaceuticals (CU6)

CU6 is also a developer of radiopharmaceuticals for the imaging and treatment of various cancers. The company completed recruitment of the Propeller study for the imaging for newly confirmed PSMA positive prostate cancers in July 2022 and the trial is expected to report headline data in 1QCY2023. If successful, the trial will represent a breakthrough moment for the company being its first major success in the clinic and at the very least, we expect it to become a competitor in the market for prostate cancer imaging. CU6 has numerous other assets in development including SAR Bombesin for the imaging of PSMA negative prostate cancer and SARTATE for the imaging and treatment of neuroblastoma and neuroendocrine tumours. There are eight separate trials across various indications. Each of the assets in development features either  $^{64}\text{Cu}$  or  $^{67}\text{Cu}$  as either the imaging or therapeutic isotope. Closing cash at 30 September was \$84.7m.

Buy (Speculative), Valuation \$1.00



## Mesoblast (MSB)

Mesoblast is a global leader of the development of stem cell technology for the treatment of inflammatory disease including graft versus host, chronic lower back pain, crohn's and colitis to mention a few. The lead product is remestemcel-L for treatment of acute steroid refractory graft versus host disease in pediatric patients following bone marrow transplant for the treatment of cancer. The company is now on the cusp of resubmitting its biological license application (BLA) for this product following years of work in the clinic. The cornerstones of the resubmitted BLA include new long term survival data over 2 and 4 years together with potency assays for each batch of product. The BLA is expected to be submitted in January 2023 with a potential approval by mid CY2023. Closing cash at 30 September was US\$85.5m.

Buy (Speculative), Valuation \$1.65

# HEALTHCARE

Anubhav Saxena  
Healthcare Analyst



## Aroa Biosurgery (ARX)

Aroa Biosurgery is a commercial stage medical device company that operates within the complex wound care and soft tissue reconstruction sector. The portfolio includes Endoform/Myriad/Symphony (complex wounds) and the OviTex devices (breast & hernia surgery) which are distributed through TELA Bio in the US. 1H23 Revenue NZ\$29.3m (48% revenue growth on 2H22) has been driven by Myriad and OviTex sales. Aroa has maintained its FY23 revenue guidance of NZ\$62-64m, gross product margin of 84% and normalised EBITDA to be approximately breakeven. Key catalysts include the ongoing commercialisation of Myriad, Symphony launch during CY23 and product line extension involving OviTex.

Buy, Price Target \$1.40



## Cogstate (CGS)

Cogstate is a neuroscience technology company that provides computerised cognitive testing & consulting services for trials and assessment tools for cognitive impairment. Clinical trial contract revenue is driven by Alzheimer's Disease with key contracts with major pharmaceutical companies including Eli Lilly & Roche contributing to the US\$110.5m in revenue backlog. The Eisai agreement in the healthcare segment provides potential for upside as the race for disease modifying therapies progresses (US\$37.8m backlog). Important upcoming developments include the FDA decision regarding lecanemab, the CMS stance on reimbursement as well as headline results from the donanemab study expected in mid CY23.

Buy, Price Target \$2.05



## Polynovo (PNV)

The key offering of Polynovo is the proprietary biodegradable temporising matrix (BTM) that is utilised in the management of complex wounds and severe burns. The recent \$33m capital raising in November 2022 provides the growth platform to facilitate expansion of the US and global sales team with key markets in Asia & Canada being targeted. Product launch within Hong Kong and India has already taken place during 1H23 whilst entry into Japan/China is planned through a distributor model. These new operating segments increase the addressable market especially in regions with a significant healthcare burden of burns and complex/trauma wounds.

Buy, Price Target \$2.30

# HEALTHCARE

Tara Speranza  
Healthcare Analyst



## Immutep (IMM)

Immutep develops LAG-3 assets for the treatment of various solid cancers for use with immune checkpoint inhibitors. Their lead drug candidate is eftilagimod alpha (efti), for use in combination with keytruda for the treatment of either non-small cell lung cancer (NSCLC) or head and neck squamous cell carcinoma.

Recently published data from its phase II trial in first line therapy for NSCLC was highly encouraging. The primary endpoint of overall response rate (ORR) increased to 40.4% which is approximately double the rate achieved by immune checkpoint inhibitors as monotherapy.

The company remains well funded to complete its current clinical program with net cash at 30 September 2022 of \$74.0m.

We expect efti to have broad utility across multiple cancer indications in combination with different treatment modalities, including other immuno-oncology agents and chemotherapeutic agents. We view a multi-billion dollar sales potential for the uniquely acting efti.

Buy (Speculative), Valuation \$0.60



## Monash IVF (MVF)

Monash IVF is a fertility services company that offers a wide range of assisted reproductive technology services, including in vitro fertilisation (IVF)/ICSI, egg and embryo freezing, genetic testing, genetic counsellors, surgical sperm collection, sperm bank, day surgeries and pathology, and specialist ob/gyn imaging services – with all of the infrastructure to support these services on a large scale. The company operates clinics across Australia (where it has approximately 20% market share), Singapore, Malaysia and Indonesia.

Earnings guidance is for underlying FY23 NPAT to grow by greater than 10% with earnings skewed to 2H23 as a result of the timing of doctor and business acquisitions; new specialists attracted over the past 12 months; contribution from recent acquisitions and improvements in the ultrasound business. The guidance is underpinned by an assumption of a return to normal trading conditions following an easing in pandemic impediments including a normalisation in labour supply for sonographers.

Buy, Price Target \$1.39

# BASE METALS & GOLD

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

Resources Analysts

We are optimistic about the outlook for the base and precious metals sectors in 2023. Base metals remain well supported by the decarbonisation thematic, despite recent weakness for traditional industrial demand. We consider that the Gold sector should continue its recent strong performance into 2023 supported by moderating US Dollar strength, reducing inflation in production inputs, and gold's re-emergence as the safe-haven asset of choice, following issues in cryptocurrency markets.



## Chalice Mining (CHN)

CHN's 100%-owned Julimar project is a globally significant PGE-Ni-Cu deposit. Located 70km north of Perth in WA, it represents a unique opportunity to establish new strategic PGE and base metals supply in a top mining jurisdiction. This is reinforced by the inclusion of PGE's nickel and cobalt on Australia's and the USA's critical minerals lists, due to their role in the lithium-ion battery and hydrogen fuel cell production value chain and Russia's market dominance. Exploration and project development updates in 2022 have reinforced the upside at the Gonville deposit, and the Julimar project.

Buy (Speculative), Valuation \$11.10



## De Grey Mining (DEG)

DEG is advancing its 100%-owned Mallina Gold Project (MGP) located 60km south of Port Hedland in WA. Mineral Resource for the MGP are 251Mt at 1.3g/t gold containing 10.6Moz of gold. Based on the PFS outcomes and our own modelling, we believe the MGP can support a large-scale, long life production asset with operational flexibility and robust margins in one of the world's top mining jurisdictions. We view the MGP as a rare opportunity that is attractive as both a foundation production asset for DEG or as a meaningful acquisition for any of the world's top gold production companies.

Buy (Speculative), Valuation \$1.83



## Nickel Industries (NIC)

NIC's operations are focused in Central Sulawesi, Indonesia, where it holds an 80% interest four Rotary Kiln Electric Furnace (RKEF) nickel pig iron (NPI) production lines. NIC's assets are long-life, bottom-of-the cost-curve projects. Despite volatile market conditions, project development and ramp-up remains ahead of schedule. Commissioning of the Oracle Nickel Project (ONI) is underway, and we anticipate first sales in 1QCY23, one quarter ahead of already accelerated forecasts. In 2022, NIC has also achieved what we view to be a key strategic milestone, with the Hengjaya Nickel Project (HNI) commencing production of nickel matte.

Buy, Price Target \$1.71

# ENERGY

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

Resources Analysts

Energy markets are expected to remain volatile with strong seasonal demand over the northern hemisphere's winter and shifting supply flows as a result of the Russia-Ukraine conflict. We expect prices for oil, gas and coal with exposure to international trade to remain elevated into early 2023 and then moderate. Recent Perth Basin corporate activity could see consolidation in this market. For uranium, we expect to see increased activity in the long-term contracting market, and a lift in the contracting price. We expect companies with a proven track record of production and de-risked assets to be favoured by utilities in contract proposals.



## Strike Energy (STX)

STX's upstream gas assets position the company to benefit from Western Australia's tightening domestic gas market and enable it to actively pursue downstream value adding manufacturing. Key to our investment view is the de-risking of the Project Haber urea manufacturing project which should benefit from low cost integrated gas supply and the urea fertiliser prices' correlation with international gas markets.

Buy (Speculative), Valuation \$0.45



## Boss Energy (BOE)

BOE's low-cost Honeymoon uranium operation in South Australia is preparing to restart production by the end of CY23, eventually ramping up to produce 2.45Mlbs U308 annually over 11 years. Declining global production over the last decade combined with nuclear reaction expansion have combined to create strong tailwinds for the sector and we believe BOE remains in prime position to capitalise on these drivers. We see upside from both an extension of the mine-life and an increase in production for BOE supported by their 71.6Mlb resource and 3.3Mlb U308 export permit.

Buy (Speculative), Valuation \$3.51

# STRATEGIC MINERALS

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

Resources Analysts

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



## Liontown Resources (LTR)

LTR's Kathleen Valley lithium project in Western Australia is currently in development and has the backing of major downstream EV participants. The project's scale and mine life lend optionality to future product value-adding though downstream lithium refining. ESG is at the forefront of LTR's development strategy, particularly across employing renewable energy and ensuring strong engagement with traditional owners. We expect LTR's value to respond to Kathleen Valley's de-risking through project development and with further consideration of potential downstream developments.

Buy (Speculative), Valuation \$2.87



## Red Dirt Metals (RDT)

RDT is leveraged to the electrification thematic, growing lithium market demand and geological discovery through two WA lithium projects: i) Mount Ida, and ii) Yinnetharra.

At the Mount Ida Lithium Project, an initial lithium Mineral Resource Estimate of 12.7Mt at 1.2% Li<sub>2</sub>O has been reported, providing critical mass to commence project development. Compared to other lithium development companies, one of RDT's competitive advantages is that the Mt Ida Lithium Project is on a granted Mining Lease. RDT is leveraging this by ambitiously targeting a DSO lithium project start in 1QCY24. At Yinnetharra, initial exploration results and target generation confirm the lithium prospectivity of the project. Longer-term, Yinnetharra has the potential to provide a second lithium development project for RDT.

Buy (Speculative), Valuation \$0.90



## Latin Resources Ltd (LRS)

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

Buy (Speculative), Valuation \$0.22

# STRATEGIC MINERALS

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

Resources Analysts



## Green Technology Metals (GT1)

GT1's hard rock lithium assets are located in Ontario Canada, on the doorstep of North America's fast evolving EV sector. The company is fast tracking appraisal activities in partnership with leading mineral investment and processing groups and established North American lithium developers. Our valuation is mostly supported by modelling a notional project development at Seymour.

Buy (Speculative), Valuation \$1.54



## Arafura Resources (ARU)

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

Buy (Speculative), Valuation \$0.64



## Dreadnought Resources (DRE)

DRE's Yin high-grade rare earth discovery aims to address the shortfall in supply for NdPr driven by uptake of EV's and wind turbines. DRE aim's to release a maiden Mineral Resource estimate over 3kms at Yin, which we estimate between 15-21Mt @1.1% TREO and 30% NdPr, by the end of CY22. In the year ahead, the business aims to test the mineralized carbonatites discovered on their tenements and progress drilling at Yin with a potential for early stage (scoping) study commencement.

Buy (Speculative), Valuation \$0.20

# STRATEGIC MINERALS

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

Resources Analysts



## Alpha HPA (A4N)

A4N's high purity aluminium and high purity alumina (HPA) products have value-adding application across lithium ion battery, micro-LED and semiconductor manufacturing. These technologies are at the forefront of the global decarbonising and reshoring themes. Over the coming quarters, we expect A4N to announce initial product offtake agreements with major battery supply chain and chemical participants in support of debt financing and FID for the full scale HPA First project in Gladstone.

Buy (Speculative), Valuation \$1.02

# MINING SERVICES

**Joseph House**  
Resources Analyst

We expect dominant 2022 industry themes, including labor shortages and cost inflation to continue into early 2023. Despite these challenges, mining activity and fleet utilisation in Australia should remain healthy, buoyed by a resilient outlook for commodity prices and a large development pipeline of mining projects. We expect these trends to be similar across other major mining jurisdictions, including North America. Though 2023 exploration budgets are expected to be weaker than 2022 levels, driven mostly by weakening junior financings, we view improving risk sentiment across global capital markets as a key catalyst to reignite funds raised, driving a subsequent lift in exploration activity.



## Mader Group (MAD)

We remain optimistic of MAD's mature Australian operations and growing businesses in North America heading into 2023. We expect healthy equipment utilisation and new mining project commissioning in Australia to benefit local operations. In North America, headcount growth should continue to support further market share gains and revenue growth in a jurisdiction short of heavy mobile equipment maintenance supply. A beat to FY22 guidance and a subsequent upgrade to an optimistic initial FY23 outlook in October 2022 indicates strong momentum in MAD's underlying operations. As such, we expect another guidance upgrade in 1H 2023 is likely.

Buy, Target Price \$4.20



## DDH1 (DDH)

DDH should maintain positive operating momentum from its Q1 FY23 performance as the company delivers an expanding rig fleet into buoyant production drilling demand over the remainder of FY23. This outlook is de-risked given DDH has already contracted or received commitments for the majority of its FY23 revenues while customers are reporting longer order books for drill rigs, more than double standard order lengths. DDH should also benefit from higher fleet utilisation and charge-out rates driven by ongoing strong demand for drilling services and industry-wide rig availability constraints.

Buy, Target Price \$1.44



## Imdex (IMD)

IMD is well positioned to grow across each of its operating markets as supportive commodity price outlooks incentivise exploration expenditure. We expect this exploration activity will support sensor rental and software subscription growth and Average Revenue Per Unit expansion. Additional awarding of contracts testing the commerciality of BLAST DOG should underpin its development in the short-to-medium term to ultimately drive full-scale deployment across IMD's mining production customer base. Improving capital market risk sentiment should underpin a turnaround in junior financings and a subsequent boost in greenfield exploration and development activity, supporting demand for IMD tools.

Buy, Target Price \$2.80

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Bell Potter Securities acted as joint lead manager of 360's A\$280m and A\$50m capital raisings in December 2021 and November 2022 and received fees for that service.

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

Bell Potter Securities acted as the broker in BST's \$32m fully underwritten block trade in August 2022 and received fees for that service.

Bell Potter Securities acted as CU6's Lead manager of the company's Initial public offer in 2021 raising \$92m and received fees for that service.

Analyst John Hester owns 7815 shares in MSB.

Bell Potter Securities acted as Lead manager in MSB's August 2022 capital raise for US\$45m and received fees for that service.

Bell Potter acted as Joint Manager of CGS's November 2022 \$33m capital raising and received fees for that service.

Bell Potter Securities acted as Lead Manager in IMM's \$60m raise in June 2021 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to the Placement of \$100m in May 2022 for CHN and received fees for that service.

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

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

Bell Potter Securities acted as Lead Manager for LTR's July 2021 \$52m placement and Joint Lead Manager to the December 2021 \$450m placement and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager for RDT'S \$55m placement in December 2022 and received fees for that service.

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

Bell Potter Securities acted as Joint Lead Manager for ARU's \$121m placement in December 2022 and \$41.5m placement in August 2022 and received fees for those services.

Bell Potter Securities acted as Joint Lead Manager for A4N's \$50m placement in June 2021 and received fees for that service.

## Early Stage Company Risk Warning

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

## Exploration Risk Warning

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

## Biotechnology Risk Warning

The stocks of biotechnology companies without strong revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. Since most biotechnology companies fit this description, the speculative designation also applies to the entire sector. The fact that the intellectual property base of a typical biotechnology company lies in science not generally regarded as accessible to the layman adds further to the riskiness with which biotechnology investments

ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Clinical and regulatory risks are inherent in biotechnology stocks. Biotechnology developers usually seek US FDA approval for their technology which is a long and arduous three phase process to prove the safety, effectiveness and appropriate application or use of the developed drug and even after approval a drug can be the subject of an FDA investigation of subsequently discovered possible links between the drug and other diseases not previously diagnosed. Furthermore, the Australian exchange listed biotechnology sector is subject to influence by the global biotechnology sector, particularly that in the USA. Consequently, Australian exchange listed biotechnology stocks can experience sharp movements, both upwards and downwards, in both valuations and share prices, as a result of a re-rating of the sector both globally and in the USA, in particular. Investors are advised to be cognisant of these risks before buying such a stock.

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