ANALYST OUTLOOK & STOCK PICKS FOR FY22.

June 2021

BELL POTTER

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BELL POTTER

LISTED INVESTMENT COMPANIES

Hayden Nicholson
ETF/LIC Specialist

The S&P/ASX 200 Index recovered and then exceeded its pre-pandemic high in the space of approximately 15 months, notwithstanding a 36.5% drawdown 22 days into March last year. Using pre-tax NTA growth as a gauge for underlying investment portfolio performance, Domestic Equity, International Equity and Alternative Strategy Managers all on average added substantial value over their respective benchmarks during the last 12 months. While the market average discount to underlying asset value has materially contracted since the onset of the pandemic, we anticipate income dependency, sector consolidation, shareholder activism and recent strong performance of actively managed alpha generating solutions to drive further contraction and realisation of value.

WAM Alternative Assets (WMA)

WMA currently invests in a diverse range of alternative asset classes, including but not limited to: (1) private equity, (2) real assets, (3) real estate and (4) cash. Wilson Asset Management, by way of appointment as the Investment Manager of the Fund in October 2020, has also agreed to adhere to a 'Premium Target', an uncommon objective in the Australian LIC market which would see shareholders empowered to vote on wind-up if shares fail to trade above the pre-tax NTA at least 3 times over the next 5 years. With yields remaining depressed, alternative assets, like fixed income securities, exhibit a similar low correlation to equities with strong annuity-style returns. Leveraged to Australia's comparative advantage, the substantial allocation to agricultural assets and water entitlements may be the driver of future returns amid further supply-chain disruptions and price increases.

MFF Capital Investments (MFF)

MFF's primary focus is to invest in large listed international companies where the Investment Manager has identified attractive business characteristics at a discount to their assessed intrinsic values. We believe there is a potential for share price appreciation given strong reported profit reserves, franking credits and supportive guidance from the Company's Directors to revise the dividend policy from a 3cps 6 monthly fully franked dividend to 5cps within the next two years. An overhang does exist from in-the-money options, however the low cost base embedded within the portfolio makes the turnover of investments with reasonable risk-adjusted returns undesirable. MFF has historically outperformed its benchmark MSCI World Index (in AUD) by 3.7% p.a. over the last 10 years, and we believe this injection of liquidity will facilitate further long-term growth.

Ellerston Asian Investments Limited (EAI)

Asia has attracted significant fund flows, however historic US-China relations have undermined the expansion of this capital allocation. The new Biden Administration and the Fed's avoidance to address tapering targets for quantitative easing may be set to benefit Emerging Markets. Positive prospects for China's growth trajectory are supported by tailwinds such as: (1) an increase in the administration of vaccinations, (2) a focus on carbon neutrality with the production of electric vehicles and renewables infrastructure and; (3) an improvement in living standards with increased domestic consumption and services. EAI provides access to a benchmark agnostic, concentrated portfolio of high growth companies across the Asia region with a proprietary integrated Environmental, Social, and Corporate Governance approach through the investment process.

AGRICULTURAL & FMCG

Jonathan Snape
Senior 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.

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.

The recent share price of ELD has benefited from rainfall and strong cattle prices . However, we continue to see upside to consensus FY21-22e earnings reflecting the annualised benefit of the AIRR acquisition (and synergy realisation), a normalisation in the summer crop (sales flow in 1H21e), gains from integrating three generic portfolios across the combined ELD + AIRR business (and from migrating independents onto the AIRR platform); and continued business investment (which traditionally has averaged ~$40m pa at 3-5x EBIT).

Buy, Price Target $13.75

Bega Cheese (BGA)

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

The acquisition of Lion Dairy & Drinks (LDD) and the targeted synergy base is expected to drive a material step change in returns for BGA over the next three years. In addition, we see BGA benefiting from an improved competitive position at the farmgate in FY22e on the back of recent operational issues at competitors and the material outperformance of SMP relative to other dairy ingredients in recent months. In the medium term we see the potential for additional LDD synergies to be realised as seasonal milk flows are better utilised.

Buy, Price Target $7.35

The a2Milk Company (A2M)

The a2 Milk Company (A2M) is in the business of producing, marketing and selling branded dairy and infant milk formula (IMF) products in Australia, New Zealand, China, US and UK. A2M branded milk contains only A2 Protein rather than both A1 and A2 proteins which are found in Regular Cows' Milk.

While not without near term risks as supply chains stabilise, at its core we see A2M as a business that, once MVM is consolidated, has baseline revenue of ~NZ$1.4-1.5Bn and EBITDA of ~NZ$300m, with a pathway to being a ~NZ$1.7Bn revenue business generating ~NZ$445m in EBITDA on its existing China offline distribution footprint (with a materially higher portion of direct China sales than in the past). We do not see FY21e earnings as reflective of the returns the business can generate in the medium term, but acknowledge the high level of risk involved in timing the inflection point at which destocking activity concludes.

Buy, Price Target A$8.50

TECHNOLOGY

Chris Savage
Industrials Analyst

We continue to be positive on the technology sector in Australia as, in an environment of low interest rates and low growth, we believe there are a number of good quality stocks in the sector with reasonable to strong growth outlooks. What we are cognisant of, however, is the threat of inflation and a return to some sort of normality post the widespread rollout of the COVID vaccines which may result in a sector rotation out of technology and into more value or cyclical stocks. We therefore believe it is now more of a stock picker's market and are particularly focused on those technology stocks where we believe there is either relative or absolute value.

Nitro Software (NTO)

Nitro is a global document productivity software company that enables digital transformation in organisations around the world through a suite of products built to enable digital workflows. The company has had a strong start to the calendar year with annual recurring revenue (ARR) at 31 March 2021 up 66% compared to 31 March 2020 and the CEO saying there is "accelerating sales momentum" in the business. We believe there is a reasonable chance the company will upgrade its 2021 guidance at or around the release of the 1H result in August and our forecasts already reflect this. The stock is not cheap on an EV/Revenue multiple of c.7x in 2022 but looks reasonable value relative to global comps.

Buy, Price Target $3.75

Life360 (360)

Life360 provides a market leading app for families – called Life360 – with features that range from communications to driving safety and location sharing. The company is likely to be a major beneficiary of the widespread rollout of COVID vaccines – particularly in its home market of the USA – as the return to normality and outdoor life will see demand for its app increase. This was evident in the Appendix 4C release in late April and we expect this trend to continue over the remainder of the year and into next. The stock is not cheap on an EV/Revenue multiple of c.5x in 2022 but, like Nitro, looks reasonable value relative to global comps.

Buy, Price Target $7.00

Adacel Technologies (ADA)

Adacel is a leading global provider of simulation and control systems for the civil aviation and defence sectors. The company has already upgraded its FY21 guidance once – it now forecasts PBT b/w $7.0-7.3m – and we believe it will at least achieve the guidance if not exceed it. Adacel has net cash of several million dollars and recommenced a share buyback at the start of the year (and has been quite active). The company has already paid an interim dividend of 2.75c this year and we expect another reasonable dividend at year end. The stock looks value on an FY22 PE ratio of around 13x.

Buy, Price Target $1.25

DISCRETIONARY RETAIL & PROF. SERVICES

Sam Haddad
Research Analyst – Emerging Growth

Discretionary retailers continue to be buoyed by international travel restrictions, the low interest rate environment and an improved employment backdrop. The listed retail sector has experienced a strong rally over the past 12 months, however looking forward into FY22 we are cautious based on several factors including: 1) the continued risks surrounding the pandemic which may stall economic recovery/consumer spending; 2) the significant stimulus and sales pull-forward that needs to be cycled; 3) the expected resumption of international travel in CY22; 4) emerging inflationary pressures; and 5) the current elevated valuation multiples. We have retained retailer CCX amongst our preferred stock picks. To switch exposure to a more defensive sector, we recommend funeral service providers IVC and PFP. Throughout CY20, the funeral services industry was impacted by below trend case volumes and COVID-19 limits on funeral attendees. While timing is difficult, we expect case volumes will normalise, providing re-leverage benefits for both IVC and PFP off a depressed pcp.

city chic collective

City Chic Collective (CCX)

CCX is a global multichannel retailer, with >70% of sales online, specialising in plus-size women's apparel, accessories and footwear. It is a collective of customer-led brands including City Chic, Avenue, Evans, CCX, Hips & Curves and Fox & Royal. Following CCX's recent acquisition of Evans, the company now has three high traffic online platforms, each with a strong customer following, across three key markets. These include City Chic in ANZ, Avenue in the USA and Evans in the UK. With this foundation, we believe CCX is well placed to grow market share across these key markets. Furthermore, with ~$83m in net cash, CCX is well placed to acquire additional brands/businesses to accelerate its international expansion.

Buy, Price Target $4.90

InvoCare
Innovation Vocation Care

InvoCare (IVC)

IVC is the largest provider of funeral services in Australia and New Zealand, with also a presence in Singapore. Across its markets, IVC operates ~290 funeral locations and 17 cemeteries and crematoria. Following a challenging CY20, we believe tailwinds will emerge for IVC through 2H21/CY22. We forecast a rebound in earnings driven by: 1) the cycling of low case volumes; 2) opex re-leverage; and 3) benefits from completion of IVC's Protect & Grow program. We believe completion of Protect & Grow will: reduce disruption to operations; reduce capex spend; and enable full benefits of the program to be realised. IVC's balance sheet is conservatively geared (leverage ratio ~1.3x), providing strong foundation to pursue growth opportunities.

Buy, Price Target $12.20

PFP PROPEL FUNERAL PARTNERS

Propel Funeral Partners (PFP)

PFP is the second largest provider of funeral services in Australia and New Zealand. PFP's portfolio footprint comprises 138 locations, including 32 cremation facilities and 9 cemeteries. Based on a proven growth strategy and the leadership of an experienced management team, we believe PFP is well positioned to drive further industry consolidation. PFP also stands to benefit from the attractive industry fundamentals (that IVC is also leveraged to), including the positive long term trend in case volumes underpinned by an ageing population, the industry's highly defensive attributes and the relatively high barriers to entry. We also believe PFP's internalisation proposal will help unlock the intrinsic value of PFP's assets, operations and growth prospects.

Buy, Price Target $4.25

INDUSTRIALS

Hamish Murray
Industrials Analyst

IMDEX (IMD)

IMDEX (IMD) is the market leader in downhole instrumentation solutions for mining exploration and development, with a presence on ~70% of mineral drill sites globally.

Trading in 2H21e has been characterised by record demand for high margin tools and accelerating adoption of the IMDEXHUB-IQ cloud platform which should support a strong FY21e result.

We continue to see a strong outlook for FY22e, given: (1) supportive commodity pricing; (2) record capital raising activity; (3) strong results from global drillers; and (4) increasing exploration forecasts from majors, while the net cash position provides potential for high payouts or acquisitions.

Buy, Price Target $2.35

Mader Group (MAD)

Mader Group (MAD) is a leading provider of specialised contract labour for maintenance of heavy mobile equipment in the resources industry.

Easing interstate border restrictions and new hiring initiatives continue to ease pressure on growth impediments in the strong WA market, while ongoing growth in the US business, a potential market entry into Canada and a steady return to the 'Rest of World' business should drive margin expansion. Balance sheet headroom to support strategic bolt-on acquisitions is a likely medium-term catalyst.

Labour availability is the key risk, although MAD is well placed to attract talent and pass through wage increases.

Buy, Price Target $1.30

Emeco Holdings (EHL)

Emeco Holdings (EHL) is a leading provider of earthmoving equipment rental and maintenance services to the Australian mining industry.

We see a strong outlook for FY22e, with the business expected to capitalise on strong demand in WA and surging east coast coal prices. A large proportion of latent equipment on the east coast and a skew towards dry hire reduces the risk of tight labour markets.

EHL is expected to recommence capital management at the end of FY21e and in our view, the heightened FCF profile and large franking credits balance increase the likelihood of dividends.

Buy, Price Target $1.55

INDUSTRIALS

James Filius
Analyst

Money3 (MNY)

Money3 is a specialist consumer finance provider in Australia and New Zealand with a focus on providing Secured Commercial and Consumer Automotive loans to near-prime and non-conforming customers. MNY manages a growing and profitable loan book of ~$556.7m and services over 60,000 active customers across its 3 core brands: Money3, Automotive Financial Services (AFS) Australia, and Go Car Finance (NZ).

MNY recently completed the refinancing of its loan book into a new $250 million warehouse securitisation facility, providing the company with headroom to leverage and grow its loan receivables. This is also anticipated to deliver a significant cost saving of ~$10m once fully drawn.

We believe MNY now has a solid platform to deliver strong loan book growth, greater credit quality, and improved ROE over the medium term, with the company targeting ~$1bn of gross loan receivables by FY24.

Buy, Price Target $3.70

ikeGPS (IKE)

ikeGPS (IKE) is a specialist technology company that delivers a platform used in the collection, measurement, analysis, and data management of power pole infrastructure assets. The company services the North American Communications and Utilities markets, which collectively utilise and own ~220m pole assets across their respective networks.

IKE is leveraged to the US 5G & fibre investment cycle, which is projected to see Communication infrastructure providers invest ~US$300bn to upgrade existing networks and deploy new 5G capabilities across the U.S. over the next 3-5 years.

More recently, IKE has seen an increasing number of contract wins, including from AT&T, Verizon, Crown Castle and Corning. As network expansion activity within the Communications market continues to accelerate, we believe IKE is well positioned to deliver strong top line growth as its customers increasingly require fast, accurate and secure capture and assessment of pole asset data.

Buy (Spec), Valuation $1.35

INDUSTRIALS

Alex Mclean
Analyst

Flight Centre (FLT)

FLT is a diversified provider of travel services across leisure, corporate and wholesale. We are most attracted to FLT's Corporate business which generated 67% of FLT's profit despite making up only 43% of the company's TTV. The company also has a significant presence in the leisure travel market, particularly in Australia. This business - which naturally carries a high fixed cost-base due to its extensive in-store network has undergone a significant restructure since Covid-19 strangled the demand for travel – provides significant leverage to a rebound in long-haul international travel to and from Australia. Despite near term uncertainty, the recovery of FLT's leisure business at higher margins due to its structural cost-out program and market leadership from FLT's corporate business will be the key value drivers over the long-term. With trading conditions gradually improving, an acceleration of Australia's vaccination program provides upside bias to FLT's 2022 recovery profile.

Buy, Price Target $20.00

Rhipe (RHP)

RHP provides cloud-based subscription software and service licenses to a growing channel of IT service providers across Asia Pacific (APAC). Software subscriptions are distributed at a wholesale level from world leading software vendors such as Microsoft, Citrix and Symantec. We believe RHP remains well positioned to deliver another year of strong growth in FY21 despite the uncertainty facing markets due to its lean operating model and exposure to the digital economy. Ultimately, we believe the cloud computing megatrend – RHP's key structural growth driver - remains intact post Covid-19 and supports RHP's long-term growth outlook. We see two positive catalysts for the stock over the medium term: (1) RHP's entry into the Japanese market starting to become a reality; and (2) the continued deployment of the Company's $45m net cash position on complementary acquisitions, boosting EPS by up to +35%.

Buy, Price Target $2.60

ENGINEERING & CONSTRUCTION

Steven Anastasiou
Research Analyst

Following a rebound from lockdown induced uncertainty, contract momentum has steadily built across the Engineering & Construction (E&C) space, with high levels of global stimulus and monetary debasement resulting in strong commodity prices, and resources and infrastructure project activity. This backdrop is expected to continue over coming halves.

Nevertheless, investor sentiment across the E&C space has materially soured in light of significant resource constraints – particularly in Western Australia – on account of high demand combining with sporadic border closures. These constraints have impacted margins across much of the sector. While these pressures are expected to remain in the short-term, we hold a positive medium-term outlook, with margins expected to gradually improve as work priced pre-pandemic is completed, and replaced with new work priced in accordance with the current operating environment.

Monadelphous Group (MND)

While MND's heavy WA focus, large revenue and employee base have impacted productivity and margins on account of resourcing constraints (which also increases short-term project risks), we believe that MND's medium-term outlook is positive. Strong commodity prices should spur both new resources projects, and sustaining capital opportunities. MND's Zenviron JV, which holds a solid position in Australian wind farm developments, and its Chilean maintenance and construction business, Buildtek, provide further growth opportunities. With MND's shares trading much closer to 10-year lows than highs, we believe those investors with a medium-term timeframe will benefit from a gradual improvement in margins, and in turn, investor sentiment.

Buy, Price Target $13.95

Lycopodium (LYL)

With LYL generating the bulk of its revenue from African gold projects in recent years, COVID presented difficulties, with operating conditions and new contract awards impacted by global travel restrictions and lockdown measures. With economies reopening, and global travel restrictions being gradually rolled back, LYL has recently secured several new resources projects in Africa. We anticipate that further opportunities will arise over coming halves should commodity prices remain strong. While current resourcing constraints may be impacting its Australian based Mondium JV (of which MND is the other partner), we believe LYL's medium-term outlook is bright, with a solid track record of profits, dividend payments, and a large net cash position supporting our Buy rating.

Buy, Price Target $6.50

GR Engineering Services (GNG)

The only E&C top pick in our last Analyst Outlook, GNG has delivered solid shareholder returns over 1H CY21. GNG's operations have been supported by high commodity prices, which have in turn supported project activity from junior/mid-tier resources companies – GNG's core client base. GNG is expected to deliver record revenue and EBITDA in FY21, and has a solid outlook for FY22. Like LYL, GNG has a solid track record of profits and dividend payments, and maintains a solid net cash position. We continue to have a Buy rating, and maintain GNG as a top pick, though are cognisant that GNG's shares have already delivered material capital returns over the past 12 months.

Buy, Price Target $1.60

HEALTHCARE

John Hester
Analyst - Healthcare

Over the next 6 months we are expecting significant news flow from Mesoblast, Kazia Therapeutics and Aroa Biopharmaceuticals amongst others. Mesoblast is expected to consummate its development agreement with Novartis in COVID ARDS. Kazia is expected to release final data from its phase 2 study investigating the use of paxalisib in glioblastoma. Aroa along with Avita Therapeutics operate in the US hospital sector and both will benefit from the reopening of the US economy as it recovers from COVID. Aroa recently launched its new MYRIAD soft tissue matrix for surgical use while Avita has already had a material lift in activity levels during the June quarter.

Avita Medical (AVH)

AVH's spray on skin technology was developed in Australia and was approved by the US FDA in September 2018. Revenue growth declined in FY21 when COVID hit. As normal levels of activity in the US economy resume, the number of burn injuries is returning to pre COVID levels. Access to hospitals for Avita staff is improving as reflected in the recently upgraded guidance for 4Q21. AVH is pursuing adjacent markets for the treatment of vitiligo and soft tissue injury where clinical trials are under way. Approval is expected in FY23/24 respectively. Approval in Japan is expected by the end of CY21.

Buy, Target Price $9.80

Kazia Therapeutics (KZA)

Lead asset Paxalisib is in development for the treatment of glioblastoma (primary brain cancer). The open label phase 2 study is due to read out headline data later this year. The interim data showed a 5 month extension in overall survival. The company was invited to join the international platform study GBM Agile in the United States. This is an approval study and patients are currently recruiting. If approved the drug will have exclusivity until at least 2031 and likely longer following the grant of further patents. More recently the company in-licenced a second asset, being a next generation VEGFR3 inhibitor. Clinical trials start in CY21.

Buy (Speculative), Target Price $2.50

Mayne Pharma (MYX)

FDA approval of Nextstellis – the company's next generation contraceptive pill has the potential to significantly move the earnings dial. The product was launched in the June 2021 quarter and is supported by a 75 strong marketing team who will deliver thousands of samples to prescribers and patients over the coming weeks. The product is highly differentiated from competitors because it contains the first new form of estrogen to the market in over 50 years. Clinical trials have shown it to have an outstanding side effect profile with minimal impact on blood clotting and weight gain. We estimate Nextstellis will become a leading branded contraceptive in the US and Australia.

Buy, Price Target $0.56

HEALTHCARE

Tanushree Jain
Healthcare Analyst

In FY22 the key thematic for the healthcare and biotech sector will still be its ongoing response to COVID-19 with the focus shifting from testing to vaccines and therapeutics. IPOs and new issues will continue although at more realistic valuations for earlier stage companies. We continue to expect oncology as a key area for deal activity and strong performance. As investors move from growth stocks to COVID 19 recovery value stocks, diagnostic companies with COVID-19 tailwinds last year have been sold off and can re-rate once they dispel investor concerns about future growth.

Immutep (IMM)

Immutep is developing immunotherapies for cancer and autoimmune diseases. It is the leader in LAG-3, which has emerged as the next big immuno-oncology checkpoint with recent validation from pivotal data on Bristol Myers Squibb's relatlimab. Clinical data released recently at ASCO of IMM's lead drug efti with Merck's Keytruda in lung and head and neck cancer has increased our confidence in the asset. A $65m capital raise is ongoing to extend the cash runway to 4QCY23 and fund new trials including a Phase 3. We see the release of further clinical data as the key catalyst for the stock in FY22, driving subsequent new collaborations and licensing/M&A interest.

Buy (Speculative), Valuation $0.85

Genetic Signatures (GSS)

GSS is a molecular diagnostics company developing PCR tests for infectious diseases using its proprietary platform technology, 3 base. COVID-19 test sales drove a record 1HFY21. Stock price rallied last year but has been sold off as a slowdown in the volume of testing with vaccine roll out reduced 3Q21 revenues and future COVID revenue outlook. Fundamentals remain intact and the accelerated path to customer acquisition provided by COVID-19 should serve GSS well to market its other approved tests in the aftermath of the pandemic. Key FY22 catalyst representing a step change in revenue will be the FDA approval of its enteric protozoa test and US launch in 2QCY22.

Buy (Speculative), Valuation $2.20

Mesoblast (MSB)

Mesoblast is the leading allogeneic stem cell company. Stock has pulled back on change in the timing of first revenues from its lead asset remestemcel-L for paediatric GvHD and COVID-ARDS. In FY22 regulatory pathway will be clarified for its two key assets across 4 indications determining next development steps, approval timeline and is important for partnering discussions. FDA interactions have progressed for paediatric GvHD, which could see a resubmission in 2HCY21, with potential approval and sales by mid-CY22, earlier than our current expectations and would be a material catalyst. Potential closure of Novartis deal for remestemcel-L with US$50m upfront in 3QCY21 will be a key catalyst.

Buy (Speculative), Valuation $3.60

HEALTHCARE

Elyse Shapiro
Healthcare Analyst

The last few months have seen a recovery in international non-emergent procedure volumes, fuelled by vaccine tailwinds. Providers have been focussed on the roll-out of large scale COVID-19 vaccination programs, with 2.8b doses administered globally. At this point, hospitals can work towards business as usual and to treating patients across all care modalities with significantly fewer restrictions.

The pandemic also drew attention to weaknesses in healthcare systems, especially around diagnostic speed and accuracy, patient management, and infection control mechanisms. Focus will begin to shift away from pandemic control measures, to making improvements across in and out of hospital care modalities.

AROA

Aroa Biosurgery (ARX)

Aroa developed and commercializes Endoform, a proprietary soft tissue regeneration platform. It provides a "holy grail" solution to the notorious trade-off between safety, efficacy, and cost versus competitors. FY22 revenue guidance incorporates conservative growth assumptions and leaves room for upside. The September-December quarter remains, in our view, the timing for an inflection point of account conversion and improved sales momentum for both Myriad and distribution partner Tela Bio.

Speculative Buy, Valuation $2.00

Imricor (IMR)

Imricor develops and commercializes MRI compatible cardiac ablation hardware and consumables devices. This unique feature addresses an unmet clinical need. The novel technology has evolved into a commercial execution story, with CE Mark approval and presence in 10 European hospitals. Distribution partnerships with Phillips and (pending) Siemens are validating and improve hospital awareness, with a more scalable growth opportunity. Current focus remains on the rate of adding new hospital accounts, which is expected to accelerate significantly in 2H21, and on the recovery of patient volumes in existing sites, which is improving.

Speculative Buy, Valuation $2.60

Alcidion (ALC)

Alcidion is a growing commercial healthcare IT company with technology that aims to improve patient care and operational efficiency in hospitals and healthcare systems. The product offering includes AI-driven clinical decision support tools that are differentiated and unique, with full mobile capability complete with active patient monitoring and back-end clinical workflow and patient flow. Sales momentum in ANZ and the UK has been impressive, with the main focus now on the rate of new contract additions in the UK. Long-term contracts provide a predictable largely recurring revenue base.

Buy, Price Target $0.45

RESOURCES & PRECIOUS METALS

David Coates
Senior Resources Analyst

Metals demand continues to benefit from the global economic recovery as Governments worldwide seek to stimulate growth, with a focus on infrastructure and renewable energy investment. We believe this remains positive for commodity demand – particularly iron ore, copper and nickel. Despite China taking measures attempting to curb commodity price rises, we believe these will have limited impact and tight fundamentals will prevail as key market drivers. For gold, the recent shift among Central Banks that interest rate rises may be brought forward has damaged sentiment. Real interest rates, however, remain in negative territory and we continue to view this as supportive for the gold price.

Nickel Mines (NIC)

NIC has grown to become the largest nickel producer on the ASX and built a track record of achieving steady state production and all-in costs better than our original forecasts and nameplate capacity. NIC has repaid debt early and commenced paying dividends. We forecast a dividend of A3cps for FY21 for an unfranked yield of ~3%. NIC remains on an aggressive growth trajectory, with the acquisition of a 70% equity interest in the Angel Nickel Project set to lift attributable production by +25ktpa (~74%), commissioning October 2022. Also offering good value relative to peers NIC remains one of our top picks for 2HCY21.

Buy, Price Target $1.56

Aeris Resources (AIS)

AIS has continued to leverage off the transformational year it had in 2020 and is now a multi-mine copper-gold producer offering a balanced exposure to two of our preferred metals. Strong free cash flows from high copper and gold prices enabled AIS to accelerate debt repayments and invest in exploration. AIS became net cash positive in March 2021 for the first time in many years and drilling at Tritton has delivered significant exploration success with the Constellation discovery. Constellation looks likely to add to mine life, increasing AIS' copper exposure at a time when the market is searching for it.

Buy, Price Target $0.235

Regis Resources (RRL)

RRL recently completed the acquisition of a 30% interest in the Tropicana Gold Mine for a cash consideration of A$903m. We view this acquisition as a positive, transformative deal for RRL that will support its elevation into the top ranks of ASX-listed gold producers and create a strong foundation for future growth. We believe benefits to RRL include exposure to a long-life, low cost asset that is immediately cash generative, diversification of its production base, de-risking the funding of McPhillamys and setting a clear path to grow production to ~700kozpa – all of which would be in Australia, making RRL unique among the top ASX-listed producers.

Buy, Price Target $4.08

ENERGY

Stuart Howe
Senior Analyst (Resources & Energy)

Joseph House
Resources Analyst

Global energy demand has rebounded strongly in 2021 as economies recover from lockdowns and stimulus measures are enacted. The transition to renewable energy is gathering pace. However, existing installed electricity generation capacity and transport infrastructure remains highly reliant on fossil fuel supply. Increased Government and financing community focus on ESG adds risk to the expansions and new projects required to replace depleting energy resources. We believe that reduced supply reliability across oil, gas and coal, in domestic and internationally traded markets, will support stronger energy commodity prices in the medium term and support the free cash flow of incumbent producers.

Cooper Energy (COE)

We expect a step-change in COE's earnings from FY22 with the Gippsland Basin Sole project gas sale agreements now operating and further production improvements expected at this asset. In the Otway Basin, transitioning gas processing to the Athena Gas Plant should improve gas production and pricing through uninterrupted delivery terms. COE has long-life conventional gas assets to support production leveraged to Australia's tightening east coast market. Longer term, the company has a portfolio of prospective exploration and expansion projects to potentially support further production growth. In 2020, COE became Australia's first carbon neutral domestic gas producer.

Buy, Price Target $0.45

Central Petroleum (CTP)

CTP's recent sell-down of interests in its Amadeus Basin producing assets significantly improved the company's balance sheet strength and funding for future exploration. The company's established producing portfolio is highly prospective for resource and production growth. The assets could further benefit from a proposed new gas pipeline which would increase the Amadeus Basin's reach into Australia's east coast gas markets. CTP is also appraising the Range coal seam gas project for FID in 2022 alongside joint venture partner Incitec Pivot, potentially delivering first gas from this asset into the east coast market from 2024.

Buy, Price Target $0.23

Beach Energy (BPT)

BPT is increasingly diversified across asset and energy commodity, providing leverage to tightening east coast gas markets and to internationally traded LNG and oil. The recent reset of expectations at its Western Flank operations was a material hit to value. However, BPT continues to trade on lower resource, reserve, production and earnings multiples compared with most peers. This discount is despite BPT having a strong FY22-23 earnings growth outlook, low levels of balance sheet leverage and significantly more project diversification than its peers. BPT is also at the forefront of participating in carbon capture and storage technology.

Buy, Price Target $1.73

STRATEGIC MINERALS

Stuart Howe
Senior Analyst (Resources & Energy)

Strategic minerals focused companies have benefited from increased debt and equity investor emphasis on environment, social and governance criteria. In particular, decarbonisation and the expected uptake of battery storage and electric vehicles has been dominant in driving battery minerals prices and equities higher (lithium, graphite, high purity alumina).

ESG and decarbonisation are long-term themes which we expect to continue driving strong strategic mineral demand. This structural shift in demand, coupled with a constrained short-to-medium term supply response and developing supply chains, should support higher minerals prices and therefore positive equity sentiment.

Alpha HPA (A4N)

A4N's high purity aluminium products have applications in lithium ion battery and micro-LED manufacturing; these technologies are at the forefront of the global decarbonising theme. The HPA First project continues to de-risk with A4N accelerating development of a smaller scale precursor production facility ahead of its full-scale plant. Market outreach programs continue to expand A4N's product suite, applications and potential customer base. We believe that it is increasingly likely that the commercialisation of A4N's proprietary process could involve investments beyond its initial Gladstone plant. Catalysts ahead include pending project approvals, offtake agreements and financial approval, all expected in 2H 2021.

Speculative Buy, Valuation $0.83

Agrimin (AMN)

AMN's Mackay Potash Project has the potential to deliver the world's lowest cost source of sulphate of potash (SOP) supply into seaborne markets. There is value potential as the project is de-risked through approvals, FID (mid-2022), development and then production. AMN has strong ESG credentials, committing to developing the Mackay Potash Project in alignment with the United Nations Sustainability Goals. Solar evaporation of a potassium-rich brine Reserve and supporting infrastructure powered by renewable energy results in a low carbon footprint. SOP provides key nutrients to high-value crops and its application rate in developing economies is still relatively low.

Speculative Buy, Valuation $0.97

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Bell Potter was a Co-Manager of the MFF Renounceable Rights Issue in May 2015 and received a fee for the service.

Bell Potter acted as joint lead manager and underwriter to Aroa's IPO in July 2020 and received fees for that service.

Bell Potter Securities acted as co-manager in Alcidion's placement in April 2021 and received fees for that service.

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

Bell Potter Securities acted as Joint Lead Manager to AMN's $7m placement and Share Purchase Plan in December 2020 and received fees for that service.

Bell Potter Securities is acting as an executing broker for ADA's on market share buy-back and received fees for that service.

Steven Anastasiou holds a Long position in MND.

Bell Potter Securities acted as Joint lead manager and underwriter in BGA's Nov'20 place-ment and entitlement offer and received fees for that service.

Bell Potter acted as lead manager of IKEs Jul'20 A$18.4m equity raising and received fees for that service.

Bell Potter acted as lead manager for MSB's A$75m capital raise in Oct'19 and A$138m capital raise in May'20 and received fees for that service.

Bell Potter acted as a Lead Manager in Immutep's capital raising in July'19, April'20, Nov'20 and June'21 and received fees for that service.

Bell Potter Securities acted as a Participant in RRL's $650m Equity Placement of April 2021 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager and Underwriter to AIS's $40m Equity Raise of June 2020 and their $50m Equity Raise of June 2021 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to NIC's $213m Entitlements Issue of May 2020 and Joint Lead Manager and Underwriter to their $364m Entitlements Issue of December 2020 and received fees for that service.

John Hester owns 1,000 shares in AVH, 4000 shares in KZA and 7815 shares in MSB.

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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