

ANALYST OUTLOOK FOR 2021.

Our analysts share their outlook and top stock picks for 2021.

To learn more about the stocks mentioned in this report, speak to your adviser or refer to the Client Access Research Library.

Please note that Speculative securities may not be suitable for retail clients (refer to final page of this report).

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Our 2021 top three picks once again possess proven risk management capabilities, defensive qualities including healthy balance sheets and surplus capital that could be returned to shareholders in due course, and strong growth prospects.

These companies have undergone massive transformation since the GFC to improve earnings quality and consistency. Our selection comprises one diversified financial (MQG), one major bank (ANZ) and one regional bank (ABA). The longer term operating environment post COVID-19 remains positive for MQG (a leader in global asset management and infrastructure/green investments), ANZ and ABA (both well-provisioned and well-placed to capitalise on post-pandemic opportunities in retail and SME banking).

Macquarie Group (MQG)

MQG remains our top sector pick. Looking past the COVID-19 noise, this longer term “Cash and Growth” story remains intact. The way MQG’s business model is split across annuity-style and markets-facing activities – respectively 70% and 30% of net profit contribution – strengthens resilience in withstanding market volatility and improves flexibility in being able to capitalise on higher risk-adjusted return opportunities when operating conditions normalise. MQG also enjoys strong capital adequacy with a 12.5% pro-forma CET1 ratio at the end of 1H21 (~\$6.7bn surplus capital based on 10.5% RWA or ~\$19.00 per share) due to strong organic capital generation and efficient asset utilisation.

Buy, price target \$150.00

ANZ Banking Group (ANZ)

ANZ remains our top major bank pick. FY20 performance may have been impacted by large notable items and COVID-19 provisions but underlying performance was sound and included a better outcome in 2H20 – driven by stable income and lower expenses resulting in positive “Jaws”. Good organic capital generation enabled the bank to resume paying dividends. With a normalised target payout ratio lower than those of its peers, we believe there is greater upside for ANZ to increase dividends and especially when APRA relaxes its current payout restriction. Credit provisions are higher than the sector average and support the potential for write-backs.

Buy, price target \$24.50

Auswide Bank (ABA)

ABA provided an upbeat four month trading update with earnings momentum having further strengthened since the end of 1Q21 and performance indicators that are sector-beating. Statutory NPAT increased by 34% and this was driven by lending and deposit volume growth ahead of system growth, higher NIM, good cost management and what we infer to be lower provisions. Incremental performance per work day has also improved, likewise loan book and deposit productivity. This represents a dream start to FY21 that should comfortably ensure an unbroken track record for ABA in generating profitable growth. All FY21 targets are set to be exceeded.

Buy, price target \$6.70

Life360 (360)

Life360 is our top pick. Life360 is carving out a significant global footprint, with a family safety app at its core. The company delivered a significant membership feature launch in the middle of 2020, and the benefits of this are set to flow through over the medium-term. As a location sharing app, we see this as a COVID recovery stock, as when people start moving around again (particularly in the key US market), we anticipate the usage to increase. Despite COVID, the company grew its memberships and Monthly Average Users throughout 2020 and hit cashflow breakeven in the June and September quarters.

Pendal Group (PDL)

PDL is set to enjoy meaningful positive mark-to-markets in the December 2020 quarter given recent strength in global equity markets and is benefiting from a relative fund performance spike. More importantly, we expect a return in performance fees from Jo Hambro which could reach \$50m for CY20, which compares to less than \$1m last year. PDL is a key beneficiary of a post-COVID-19 recovery, especially as sentiment returns in European markets. PDL continues to look attractive, trading at relatively low multiples, and pays healthy dividends at a yield over 6%, at current prices.

Afterpay (APT)

APT remains a key pick in our coverage. We see a significant pipeline of catalysts which will support growth moving forward. These include further integration with other key e-commerce and payment infrastructure players in the market, further growth in customers and GMV in the US and UK as spending ramps up ahead of Christmas, a healthy Net Transaction Margin (with bad-debts remaining low) to continue into 2021 and commentary on progress made with regard to its international expansion. Pleasingly, ASIC's second report and recent commentary by the RBA on Australia's Buy Now Pay Later (BNPL) sector have both been supportive and suggest no new regulations are being recommended. This should set a precedence for markets APT currently operate in and markets APT are establishing a presence in.

Laybuy (LBY)

An emerging BNPL provider, with a strong market position in NZ and rapidly growing presence in the UK. The business has small operations in Australia with the US set to launch in April next year. The company is achieving rapid GMV growth, closing out 2020 with around 200% GMV growth versus pcp. It is one that isn't well followed, but where we see significant opportunity. This pick comes with a Speculative Risk warning.

Challenger (CGF)

We believe CGF is a post-COVID-19 recovery stock. Much of the risks around the Life Company's balance sheet have been reduced given a COVID-19 recovery is imminent. With investment experience likely turning positive in 1H FY21, CGF should be able to redeploy capital in more attractive investments over the coming year, thus improving margins. CGF is already showing signs of improvements throughout its business given stronger sales in its Life business and robust net-flows from its Funds Management business as reported in its September 2020 quarter update. CGF is also set to gain from favourable superannuation reform given the integration of Lifetime and deferred annuities in superannuation pension phase.

Praemium (PPS)

PPS is our preferred choice in the platform space. Following the acquisition of its competitor, Powerwrap (PWL), the company is now positioned as a meaningful presence of scale among its competitors. Much of the headwinds that PPS faced in the past are coming to an end. Moving forward, PPS will enjoy cost synergies through to FY22, a more diversified client base given PWL's reach in the High Net Worth Individual market segment, improved inflows, international reach, improved liquidity and a more flexible balance sheet. PPS is also set to enjoy positive mark-to-markets in the December 2020 quarter given recent equity market gains.

LISTED INVESTMENT COMPANIES & LISTED INVESTMENT TRUSTS

Hayden Nicholson

2020 has cemented the idea of market dislocations, with many LIC/LITs trading at an unprecedented discount to their Net Tangible Assets (NTA). Observing such trends may provide access to leading and renowned investment managers at a price under cost.

We remain positive into 2021, even though the arithmetic average discount across Domestic Equity, Global Equity and Alternative Strategy mandates has tightened considerably post March 2020. While COVID-19 has produced a difficult landscape for income investors and risk-averse individuals to traverse, the sector continues to provide sustainable yield and strong diversification benefits.

MFF Capital Investments Limited (MFF)

MFF's primary focus is to invest in large listed international companies where the manager has identified and monetised attractive business characteristics at a discount to assessed intrinsic values. As at 30 November 2020, the fund has generated a total shareholder return (including net dividends) of 17.5% p.a. over the past 10 years. During this same time, the benchmark MSCI World Index (AUD) returned 13.2% p.a. The Portfolio is highly concentrated, insofar as the underlying constituents are top-heavy. Major holdings as a percentage of investment assets and cash for November were Visa (18.1%), MasterCard (16.4%), Amazon (9.3%) and Home Depot (9.1%). MFF continues to see large profitable realisations, with \$129.4m in taxes paid for FY20. While this creates a drag on NTA, shareholders will ultimately benefit from the pass through of franking credits attached to future dividends. MFF paid a 3 cent fully franked final dividend in respect to 30 June 2020, a 50% increase from the previous year; with the company either maintaining or increasing the amount of annual net dividends (excluding special) paid for the last 9 consecutive years. We calculate MFF's indirect cost ratio at 0.44% with no attributable performance fees.

L1 Long Short Fund (LSF)

LSF is a Listed Investment Trust that aims to deliver positive absolute returns while seeking to preserve capital over the long-term (being a period of more than 5 years). The company's portfolio is comprised of both long and short positions in Australian and New Zealand securities, with the added capacity to invest in global securities up to 30% of gross exposure. The manager actively seeks to identify mispriced securities through a fundamental assessment of valuation, quality and leverage. As at 30 November 2020, the benchmark-agnostic fund had recorded a 12 month total shareholder return of 23.0%. LSF traded at a -14.5% discount to the pre-tax NTA for this same time. This has since widened to -18.4% as at 8 December 2020. The fund notably acquired some sound companies during the widespread sell-off during March, giving rise to an increasing net exposure. Recent vaccine announcements, protracted low interest rates and large global monetary/fiscal stimulus provide a positive backdrop for further equity rallies; and in particular stocks that were previously sold-off for non-fundamental reasons. Key share price performances from the long portfolio included Unibail-Rodamco-Westfield (73.1%), Webjet (65.3%) and Empire State Realty Trust (61.0%) for the month of November.

WAM Alternative Assets (WMA)

WMA currently invests in a diverse range of alternative assets, including but not limited to: private equity, real estate and cash. Previously affiliated with BSAAF Management Pty Ltd, the managerial transition to Wilson Asset Management International Pty Ltd (WAMI) occurred in October 2020 following allegations of asset over-valuation, which ultimately resulted in the stock trading at a persistent and substantial discount to NTA. This had materially tightened to -11.5% by 31 October 2020. WAMI, by way of appointment, has also agreed to implement a 'Premium Target' objective, which would see shareholders empowered to vote on wind-up should the shares fail to trade at a premium relative to pre-tax NTA. With further uncertainties such as trade war escalations and additional lockdowns, alternative assets exhibit highly favourable characteristics such as low correlation to equity markets and strong annuity-style income returns. Portfolio Manager Dania Zinurova recently highlighted new property asset investment opportunities within infrastructure, particularly from the healthcare sector with leases and rents that may be set to benefit from global trends such as an ageing population. Should commodity prices continue to surge, exposure to alternative assets may also serve as a hedge to cost-push inflation.

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.

Our key commodity calls for 2020 were: (1) the unwinding of the drought induced dislocation between domestic cattle prices and export meat prices; and (2) a normalisation of domestic grain prices to international benchmarks. Both of these dynamics have now largely played out and as we look to 2021 we see main themes as being: (1) elevated domestic grain production continuing to generate favourable grain spreads for domestic users and traders; and (2) a rotation to late cycle drought recovery plays that should benefit from lower water costs and higher yields. Key stocks we see leveraged to this as at December 14 include:

Inghams Group (ING)

ING is a leading vertically integrated poultry producer (from stock feed to end products) with a market leading position in Australia and the number 2 participant in New Zealand.

We see ING as a second derivative beneficiary of improved seasonal conditions, lifting Australian grain production. We have seen the normalisation in cropping volumes drive a rapid contraction in Australian wheat prices, which should result in a material contraction in feed costs from 4Q21e for ING. This tailwind in lower feed costs is likely emerge as COVID-19 related demand headwinds from 3Q20-1Q21 are likely to be reversing. To this end we see FY21-22e as likely to be characterised by improving returns for ING.

Costa Group (CGC)

CGC is Australia's largest horticultural company with diversified operations across the supply chain from farming and packing to marketing and distribution.

Our favourable view on CGC is driven by: (1) expansion and maturation of the international berry operations; (2) maturation of the avocado orchards resulting in lower per unit costs and stronger volumes at a time of elevated pricing; (3) non-recurrence of seasonal factors impacting the citrus, tomato and berry operations in CY19-20 (i.e. drought, bush fires, hail and fruit fly); and (4) completion of the GH4 expansion. In the near term we also see CGC as a beneficiary of stronger YOY pricing comparisons YTD across the majority of the portfolio.

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).

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 reasonable number of good quality stocks in the sector with reasonable to strong growth outlooks.

What has changed, however, is many stocks in the sector have had a strong re-rating over the past year or more and we are struggling to find quality stocks that we believe still represent value. We believe value is important in the current environment as if a number of vaccines are successfully developed and distributed in 2021 then there is likely to be a general switch out of tech stocks into more cyclical stocks and there will be less downside risk for those tech stocks that represent relative and/or absolute value.

Uniti Group (UWL)

Uniti is a constructor, owner and operator of private fibre networks and also a provider of value-add telecommunications services in identified niche markets. The company has grown rapidly through both organic growth and a number of acquisitions over the past 18 months and just recently acquired key competitor Opticomm which significantly strengthens its market position. We are positive on the outlook for the combined company given the strong pipeline and also the potential for synergies to be greater than flagged. We also see the stock as a potential takeover target over the next six to twelve months. The stock looks reasonable value on an FY22 EV/EBITDA multiple of around 10x (based on current share price of \$1.45).

Buy, price target \$1.85

Adacel Technologies (ADA)

Adacel is a leading global provider of simulation and control systems for the civil aviation and defence sectors. The company generates around three-quarters of its revenue from services – which is recurring and underpinned by long term contracts – and around one-quarter from the sale of systems (which can be lumpy and cause some volatility in total revenue). Adacel has already upgraded its FY21 guidance once – it now forecasts PBT b/w \$6.5-7.0m – and we believe there is some chance of another upgrade sometime in 2HFY21. The company has net cash of several million dollars and has flagged it intends to commence a share buyback. The stock looks value on an FY21 PE ratio of around 14x (based on current share price of \$0.95).

Buy, price target \$1.15

Technology One (TNE)

Technology One is a provider of ERP (enterprise resource planning) software in Australia, New Zealand, Asia Pacific and the UK. The key competitive advantage of the company is it has developed a fully integrated SaaS solution of its software and is now switching customers to this solution. The migration is now >50% complete and Technology One is starting to reap the benefits of greater recurring revenue – through the sale of more products – and a higher margin (through economies of scale). This combination will in our view drive double digit earnings growth for years to come and, while not cheap, makes the FY21 PE ratio of around 40x look reasonable. The company also has net cash of well over \$100m which provides the potential of special dividends and/or a share buyback.

Hold, price target \$10.00

It has been an unprecedented year for the discretionary retail sector on the back of the pandemic, with retailers having to grapple with significant disruption/uncertainty with respect to consumer demand, supply chain flow, store trading restrictions, rental commitments, and liquidity position. Retailers with strong management teams and flexible business models, along with the support of government subsidies, have to date successfully navigated through these uncertainties. In many cases, these retailers have emerged in a stronger position, particularly with respect to online capability, cost structure (reduced rents agreed with landlords), and balance sheet liquidity (successful inventory sell-through or equity raising). With this, along with further macro stimulus (income tax cuts), the listed retail sector as a whole has experienced a strong rally over the past six months. Another key tailwind for the sector has been flight travel restrictions, which has seen retailers enjoy a larger share of consumer discretionary spend.

While we expect CY2020 to finish strongly, we are cautious on the outlook for CY2021. Key reasons include: 1) continued risks surrounding the pandemic; 2) the significant stimulus and sales pull-forward that needs to be cycled (especially from April onwards); 3) the expected resumption of flight travel (means discretionary spend will reverse back towards travel); and 4) the current elevated valuation multiples.

Two retail stocks that we believe have emerged in a stronger position, have ample levers to continue growing despite the noted macro headwinds in CY2021, and yet trade on undemanding valuations, are AX1 and CCX. On the larger cap end we like DMP, albeit the stock trades on higher valuation multiples given its significant long-term growth prospects.

Accent Group (AX1)

AX1 is an investment holding company which owns & operates a number of footwear businesses in the performance, comfort and active lifestyle sectors. AX1's growth strategy is to drive innovation in its core business and expansion through new concepts and small targeted acquisitions. Today the company has a leading omni-channel capability with The Athlete's Foot, Platypus, Skechers and Hype as its key footwear retail platforms. AX1 also has a number of new footwear concepts including PIVOT, Stylerunner and The Trybe. We believe management has steered the company exceptionally through the pandemic, underpinned by a quick adoption to online as top priority, successful negotiations with landlords/suppliers, effective cost management and the successful unwind of excess inventory. We believe AX1 has emerged as a stronger retailer across online capability, vertical product presence, rental terms, balance sheet strength, as well as levers to drive growth (store network and online). Based on these factors, we believe AX1's valuation is undemanding with FY21 PE of ~16x. AX1 also offers an attractive FY21 fully franked yield of ~5%.

City Chic Collective (CCX)

CCX is a global multichannel retailer, with circa two-thirds of sales online, specialising in plus-size (size 14+) women's apparel, accessories and footwear. It is a collective of customer-led brands including City Chic, Avenue and Hips & Curves. City Chic appeals to fashion-forward women and its multichannel model comprises: a network of ~90 stores across Australia/New Zealand; multiple websites operating in Australasia and USA; and marketplace and wholesale partnerships in the USA and Europe. Avenue targets value-conscious women and Hips & Curves is an intimates brand; both are online only with a significant customer following throughout the USA. Led by a strong management team and equipped with a strong online presence / flexible business model, CCX is navigating successfully through the pandemic. The company continues to build traction in the significant USA market, with Avenue.com resonating strongly in the current environment and City Chic USA beginning to benefit from cross-selling with Avenue. With ~\$110m in net cash, CCX is also poised to acquire brands/businesses to accelerate its international expansion.

Domino's (DMP)

DMP is Domino's largest franchisee outside of the USA. It holds the Master Franchise licence to the Dominos brand and network for Australia, New Zealand, France, Belgium, the Netherlands, Germany, Japan, Denmark and Luxembourg. Across these markets, DMP currently operates >2,700 franchised and corporate owned stores, with a target of 5,550 stores by FY25-FY33. This equates to ~2x organic expansion versus the company's current store footprint, plus the company remains active in pursuing suitable Domino's acquisitions. Amongst DMP's current territories, Germany and Japan are key large growth markets which continue to go from strength-to-strength. Germany is now leveraging off TV advertising under one brand, with rising brand awareness driving market share growth in a highly fragmented market. In Japan, DMP is successfully changing consumer habits towards more frequent pizza consumption rather than just seasonally. At DMP's recent AGM, the company revealed continued robust performance notwithstanding disruption from COVID. Overall, we believe DMP has significant long-term growth prospects with Europe, Japan and acquisitions the major drivers.

After a rocky beginning to the year in light of the coronavirus pandemic and associated lockdown measures, the outlook for the Engineering & Construction (E&C) sector is becoming increasingly bullish.

This is being driven by both the Resources & Infrastructure sectors, with contract awards in our BP E&C Index setting new 2020 calendar monthly records in 3 of the previous 4 months to October. This culminated in an estimated \$1.1bn of new contract awards in October, creating a clear V-shaped recovery from the trough of just \$56m in April.

Activity in the Resources sector is being underpinned by strong growth in most commodity prices, which are broadly benefiting from large levels of global currency debasement. This is a tailwind that is likely to continue, with a global economic re-opening likely to add further fuel to the fire.

With economic stimulus measures putting a further focus on Infrastructure projects both large and small, E&C contractors with Infrastructure exposure are also likely to see numerous opportunities to expand their order books in the halves ahead.

GR Engineering Services (GNG)

GNG is one way to gain exposure to increased mining investment, with the company providing E&C services to the mining and minerals processing industries. While GNG's adjusted FY20 profitability was disappointing, and impacted at a statutory level by a large bad debt, the company was established in 2006, and has a long history of generating solid free cash flow and delivering material dividends.

With a large order book expected to see GNG deliver record FY21 revenue, we expect that it should deliver a year of much improved profitability, and with commodity price tailwinds likely to persist, improved profitability should continue for several years to come.

Johns Lyng Group (JLG)

Johns Lyng Group (JLG) is an integrated building services group that primarily delivers insurance building and restoration services (IB&RS), and commercial building services across Australia. JLG is anticipated to deliver a strong FY21 result, building from a number of contract and insurance panel wins during the year. We believe that the company is well positioned for growth during CY21, for the following reasons:

1. JLG entered FY21 with record job registrations, and the current pipeline of work in hand remains high, which should provide the company with a solid runway into 2H21. Normalisation of trading in JLG's Commercial Building Service (CBS) division should also boost earnings during CY21 as the SME market begins to recover from COVID-19 lockdowns;
2. We remain confident that the benefits of integration and cross selling of JLG services into the Strata management market will begin to emerge over the course of FY21 & FY22, which should deliver additional revenue gains and improved operating leverage; and
3. Ongoing claims activity from 6 Major Catastrophic weather events during 2019/2020, along with the

development of La Niña presents potential upside to JLG's guided CAT revenues for FY21.

4. Overall we continue to see JLG as a well-funded and strongly positioned business to deliver solid organic growth during CY21. We remain confident that JLG has the potential to grow into its multiple as it expands into the strata management market, with carefully selected strategic acquisition opportunities in this space likely to be highly EPS accretive.

Buy, Price Target \$3.60

PSC Insurance (PSI)

PSC Insurance Group (PSI) is a diversified insurance company that acquires, establishes and operates general insurance intermediary businesses within Australia, NZ & UK.

Following PSI's recent \$60.0m equity raising, we estimate that the company holds ~A\$90-95m of liquidity and has free cash flow to support prospective acquisition activity, with typical acquisition multiples ranging between 8.0x-10.0x EBITDA for commercial insurance broking businesses in Australia and the UK. The company is now guiding to the top-end of FY21 Underlying EBITDA range of \$65m-\$70m. We estimate that (subject to timing, structure & size) PSI could

potentially deliver annualised acquisition related NPATA accretion of ~13.7%-18.5% in excess of levels currently implied by guidance. This should see PSI re-rate higher as and when acquisitions are completed.

Underlying this acquisitive backdrop, we believe that PSI will continue to deliver positive underlying organic growth during CY21, which will be supported by rate hardening across a range of commercial insurance lines.

Buy, Valuation \$3.40ps

RMA Global (RMY)

RMA Global (RMY) is an emerging online digital marketing business providing extensive data on for-sale and sold residential property, as well as reviews of agent performance from vendors and buyers of residential real estate in Australia, the USA and NZ. This data can be used by agents to build an online marketing profile, or by vendors to find and compare agents/agencies to sell their property.

The Australian market has acted as a positive test case for the Rate My Agent Platform (with ~1 in 3 Agents in Australia covered by a subscription). We are optimistic that the US market adoption will be equally as impressive, with the company having connected to >22 multiple listing services (MLS), which has seen >86,800 US Agents claim their

free Rate My Agent profile and generate >48,500 property reviews.

RMY has begun to actively offer its paid subscription within the US market in FY20/21, and is in the early stages of marketing to Larger Agent Groups (Teams/Offices/Agencies), completing its first integration into RealtyOne who have ~220 Offices & ~15,000 agents.

We see 2021 as a pivotal year for RMY, with the company currently in discussion with a number of large US brokerage groups, and believe contract wins should see the company begin to significantly monetise the US market. Additionally, RMY's new Mortgage Broker offering and new promotor product rollout in 2Q/3Q of FY21 should see broader revenue generation occur within Australia.

Buy (Spec), Valuation \$0.36ps

Carbon Revolution (CBR)

Carbon Revolution (CBR) is an advanced manufacturer that has developed the only single piece carbon fibre automotive wheels to Original Equipment Manufacturer (OEM) quality standards with commercial adoption across several major models.

CBR is expecting to return to strong sales growth in 2H21e, after CY20 was characterised by COVID-related disruptions to key customers Ferrari and Ford, which are expected to continue to impact 2Q21e volumes.

We see a range of other positive catalysts in 2H21e that should support capital growth, including: (1) 2-4 official vehicle launches, two of which are expected to enter production; (2) positive gross profit before the end of CY21e; and, (3) the potential to win new vehicle programs, such as the Asian based OEM that is currently in engineering validation stage.

Buy (Spec.), Val. \$3.72

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 and a potential market entry into Canada should drive margin expansion.

Near-term organic growth should support capital appreciation, while we see the potential return to the 'Rest of World' business and balance sheet headroom to support strategic bolt-on acquisitions as likely medium-term catalysts.

Buy, Price Target \$1.26

Emeco Holdings (EHL)

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

We see the potential for earnings to normalise as early as FY22e, with the business expected to continue capitalising on strong demand in WA and also benefit from any recovery in east coast coal markets.

EHL has commented that it will consider a resumption of dividends as operating conditions stabilise and we see the potential for this to occur as early as the FY21e result, particularly given EHL's heightened FCF profile and large franking credits balance.

Buy, Price Target \$1.58

Flight Centre (FLT)

Flight Centre Travel Group is a diversified provider of travel services across a number of sectors including leisure, corporate and wholesale, operating over 40 brands across the globe. 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 - also provides a value driver which is leveraged to a rebound in international travel. Despite near term uncertainty, we expect FLT to restore earnings at higher margins with the removal of structural costs and market leadership from FLT's corporate business to be the key drivers of value over the long-term. With trading conditions gradually improving since the March/April lows, a widely distributed Covid-19 vaccine provides upside bias to FLT's 2021 recovery profile.

Buy, Price Target \$19.00

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 in a post Covid world 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) \$50m net cash position to be used on complementary acquisitions, boosting EPS by up to +40%.

Buy, Price Target \$2.45

Biotech stocks are renowned for their volatility and 2020 was no exception. In our coverage universe the major winners together with their respective total shareholder returns included Cyclopharm (140%), Immugene (266%), 4D Medical (41%) and AFT Pharma (40%).

Stocks which underperformed included Elixinol Global and Mayne Pharma both of which suffered important regulatory set backs. The Hemp industry in particular has not yet realised its potential and continues to go through a shake out which will rationalise competition.

Other stocks in our coverage enjoyed continuing solid performance as they work towards their various long term goals. These included the likes of Volpara Health Technology, Nanosonics, Pro Medicus and Oncosil. All four have significant operations outside of Australia and each business was adversely affected by COVID, yet all four managed to increase revenues during the course of calendar 2020.

Looking forward to 2021, unquestionably the dominant theme will be COVID recovery. Of our three key picks AVH is perhaps the most likely to participate in a share market rally driven by increased levels of economic activity. Paradigm Biopharmaceuticals and Kazia Therapeutics should have a rich stream of news flow over the course of 2021. Paradigm's Zilusol may be approved for use in Australia and Kazia's drug paxalisib will have numerous data points from a swathe of clinical trials reporting in 2021.

Avita Therapeutics (AVH)

AVH is a medical device company specialising in the treatment of second and third degree burns requiring hospitalisation. The spray on skin technology was developed in Australia and was approved for use by the US FDA in September 2018. During the course of 2020 the company re-domiciled to the United States and its primary listing is now on NSDAQ.

AVH suffered a decline in revenues when COVID hit, however volumes recovered strongly in July and August with the company generating a record US\$5.1m in revenues for the September quarter. As the US economy returns to normal levels of activity as is anticipated over the course of 2021, revenues are expected to continue to increase rapidly. There are no competing innovative therapies to the Recell technology in the treatment of burns.

The company is proceeding with its program to expand into adjacent markets for the treatment of vitiligo, soft tissue injury (trauma wounds) and paediatric burns. Clinical trials are under way in all three indications with the highest levels of interest in the vitiligo indication. Eight previous investigator led clinical trials in more than 1,000 patients in vitiligo have proved highly successful. The current trial continues to recruit good patient numbers. We expect an approval in this indication in later calendar year 2022 or early 2023. Approval will require a relatively straight forward supplement to the existing PMA. Buy (Speculative), Valuation \$15.00

Paradigm Biopharmaceuticals (PAR)

Paradigm Biopharmaceuticals is a drug developer with a single asset in development. The company is repurposing Injectable Pentosan Polysulfate Sodium (iPPS) for the treatment of Osteoarthritis of the knee. The drug is known as Zilusol. Osteoarthritis (OA) of the knee with bone marrow edema (BME) is a painful, chronic disease for which there is no known cure. It affects tens of millions of people globally, mostly over the age of 50. The standard of care today is physiotherapy for mild disease and a combination of non steroid anti inflammatory and opioids for pain relief in later stage disease.

Results from the recent phase II study were highly encouraging. All primary endpoints were met. In the overall patient group, patients in the active arm of the study achieved a clinically meaningful and statistically significant reduction in the Knee Osteoarthritis Outcome Score (KOOS). The trial also showed a statistically significant reduction in the size of BME's known to be associated with OA pain. These results represent the first scientific proof that the treatment can modify disease progression and provide pain relief. The safety profile of iPPS is outstanding with non serious adverse events recorded.

The company is shortly expected to submit its investigative new drug application to the FDA with phase III approval study commencing in the US in early CY21. A confirmatory study will run concurrently in Europe. If successful the potential market size is measured in billions of US dollars. Data from these studies is expected by early CY2023.

Buy (Speculative), Valuation \$3.36

Kazia Therapeutics (KZA)

Kazia Therapeutics is the developer of paxalisib – a new chemical entity specifically designed for the treatment of Glioblastoma (aka GBM). Data from the company's single arm phase II study is now all but final and shows meaningful extension in both median progression free survival and median overall survival (3 months and 5 months respectively). The trial is expected to report final data in early 2021.

Paxalisib was in-licensed by Kazia from Genentech in the US in 2016. Genentech are a highly renowned drug developer based in San Francisco. The company is a leading developer of medicines for the treatment of various cancers including immunotherapy drugs (e.g. Herceptin). Paxalisib is already gaining international attention with six additional investigator sponsored studies under way in the US at prominent institutional level hospitals. These investigators are examining the use of the drug in a range of adjacent indications which include childhood brain cancers and brain metastases from other primary tumours. In addition, the company has been invited to join the platform study GBM Agile. This is an ongoing study for the simultaneous investigation of multiple drug candidates in glioblastoma. The platform uses a common control group and therefore, is expected to save millions of

dollars in development costs and months if not years in the development timetable. GBM Agile is intended to become the approval study for paxalisib with enrolment of the first patient expected in 2020.

While paxalisib is unlikely to be curative for GBM, the clinical data suggests it is effective in providing meaningful extension to overall survival with an acceptable safety risk. GBM is an orphan indication in both the US and Europe, however, despite the smaller market, peak revenues are estimated at several hundred million dollars annually. Key intellectual property protection extends to at least 2030 in key markets. The next milestones for the company are the enrolment of first patients in GBM Agile and a further update on key survival data from the phase II study.

As GBM is an orphan indication, paxalisib will also get a minimum of 7 years marketing exclusivity in the US from the data of approval.

The company is led by Dr James Garner – CEO and Executive Director. Kazia has virtually no presence in Australia with all of the clinical work taking place in the United States.

Buy (Speculative), Valuation \$ 2.76

COVID-19 pandemic has had far reaching impacts across businesses in 2020 and for the healthcare and biotech sector. The biggest impact for the sector was the reputational boost it got with the world looking at the sector for a solution to control and potentially end the pandemic in the form of treatments, vaccines and diagnostics.

Companies in the sector not directly involved in COVID-19 treatments also benefited from this reputational boost. We saw several IPO's even for earlier stage companies and high valuations with a lot of financial support being directed at the sector. Deal making slowed due to restrictions on travel but there were still a number of high value deals. In 2021 we expect the key thematic will still be the sector's ongoing response to COVID-19 with several trials for vaccines and treatments to read out which should help investors to pick winners. We also expect continued financial support for the sector. Companies with COVID-19 tailwinds are most likely to outperform and attract M&A or licensing interest as we have seen in 2020 as well. The second key area which we believe will continue to perform strongly in 2021 and see deal activity will be oncology. Companies that deliver solid, unequivocal data and commercial outcomes in 2021 are likely to be rewarded with MSB, IMM and SPL our Top 3 picks for having the potential to do so.

Mesoblast (MSB)

Mesoblast is the leading allogeneic regenerative medicine player with a diversified pipeline and several products in late stage. It has strategic licensing agreements in place with Tasly for China (heart), Grunenthal for EU and LATAM (back pain) and Novartis for worldwide (key focus ARDS including caused by COVID-19). The company is heading towards a transformational 2021, which could see its lead product remestemcel-L for COVID-19 ARDS being approved under emergency use and launched in the US in 2QCY21, subject to positive results from the ongoing randomised, controlled Phase 3 trial. This would trigger ~US\$105m milestones from partner Novartis. Results from the Phase 3 back pain trial are expected in Dec'20, which will be a key catalyst for the stock. At the back of it, we expect a EU trial protocol to be finalised for back pain in early CY21, triggering a US\$20m milestone from partner Grunenthal. We also expect the company to potentially license US rights out for the back pain product in 2021 in a US\$1bn deal. The recent deal with Novartis has strengthened its balance sheet with proforma cash of US\$158.1m. After the disappointing decision by the FDA to not approve remestemcel-L product for SR-aGvHD in children despite a 9-1 vote from the FDA advisory committee, MSB is likely to dispute the decision under the FDA dispute resolution process, an outcome for which is expected in 2021.

Buy (Speculative), Valuation \$7.40/sh

Immutep (IMM)

Immutep (IMM) is focused on the development of novel immunotherapies for the treatment of cancer and autoimmune diseases. It is the global leader in LAG-3. LAG-3 has potential to become the third most widely used checkpoint inhibitor in cancer with as broad utility as that seen with approaches targeting PD-1/PD-L1 and CTLA-4, which have yielded blockbuster therapies such as Merck's Keytruda. Validation for LAG-3 is expected in early CY21 with release of pivotal data from Bristol Myers Squibb's relatlimab, which would have positive read through for IMM. Validation of its technology is also provided by a host of high quality commercial and clinical trial collaborations with Big Pharma. Its lead asset efti with its unique mechanism of action (MoA) as an APC activator is in Phase 2 trials and has blockbuster potential. Interim data from the Phase 2 TACTI-002 trial with efti in combination with Keytruda continues to impress, with the most recent being reported at the SITC conference. At the back of it, partner Merck expanded its existing collaboration with the company and the TACTI-002 trial while also engaging with IMM to start a new trial called TACTI-003 in first line head and neck cancer. More mature results from TACTI-002 trial and first data from TACTI-003 trial is expected in CY21 and will be key catalysts. Recent data from Phase 2b AIPAC trial with efti+chemo showed significant overall survival benefit with the combo versus chemo alone and also provided immune monitoring data supportive of its MoA causing a significant re-rating in the stock, however we believe it is still undervalued. Final overall survival data is expected by mid-CY21. The recent capital raising and exercise of warrants has strengthened its balance sheet, with a cash runway into CY23.

Buy (Speculative), Valuation \$0.60/sh

Starpharma (SPL)

Starpharma is a Melbourne based platform company whose dendrimer technology is versatile with wide applicability across the pharmaceutical sector. It's already generating revenue through its VivaGel franchise and is also working on improved formulations of leading cancer drugs both internally and with external partners including AstraZeneca. COVID-19 has taken centre stage for the company, with the rapid development and reformulation of the active used in its VivaGel products into an anti-viral nasal spray called Viralezze for COVID-19 and other viral infections. The company is leveraging its huge dataset on safety/toxicology on the active to fast track the path to market, with the product expected to be on market in Europe in 1QCY21, less than 12 months since the company first started working on it. Market research indicates the product has wide appeal with its broad anti-viral capabilities, one of the key driving factors of enthusiasm around the product and we expect it will be complementary to other prevention strategies like vaccines & PPE (such as masks) in the fight against COVID-19. Beyond COVID-19, the companies DEP platform is the key value driver with multiple Phase 2 trials due to read out in 2021, which if positive are likely to result in the company partnering out the products.

Buy (Speculative), Valuation \$2.20/sh

The healthcare, and specifically, medtech sector has seen a continued recovery in-line with the market. During the February-June period, most healthcare companies that were not directly associated with COVID-19 treatment or prevention faced significant headwinds, since non-emergent procedures were cancelled or delayed in the major global markets.

In spite of a resurgence of COVID, hospitals are now better equipped to handle a higher number of cases, and are able to manage non-COVID patients in a more timely fashion. Since June, the medtech sector has seen a robust recovery as procedural volumes begin to improve (although they are unlikely to return to normal in the near-term). At this point, certain company's salesforces are now able to return to hospitals to resume marketing activities as normal, and companies continue to adapt and drive their digital sales marketing efforts and platforms simultaneously.

Positive developments on approval and distribution of a COVID vaccine has improved investors' confidence in a return to business as usual in the next ~18 months, and this has triggered a very robust recovery for medtech stocks in Australia and abroad. As companies can begin to more accurately forecast their near-term sales and growth, they are also likely to resume any activities that were halted or delayed during the COVID period, including hiring, manufacturing expansion, and R&D and clinical work. This should drive ongoing catalysts for companies that de-prioritized these initiatives during such an unpredictable period. We look forward to ongoing improvements in growth for the medical technology space.

Aroa Biosurgery (ARX)

Aroa Biosurgery (ARX) is Speculative BUY rated with a valuation of \$2.10/share relative to the last close of \$1.18. The company 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 with currently available Synthetic and Biologic wound dressings and surgical meshes. The company has a track record of sales, should achieve positive earnings in the medium-term, and offers near and medium term catalysts to drive upside. We are looking forward to updated BRAVO followup data for the company's hernia product, additional publications showing success of the use of the Myriad surgical product in more clinical settings, and partner Tela Bio's quarterly results, which provide good read-through for about half of Aroa's revenue stream.

CleanSpace (CSX)

CleanSpace (CSX) is BUY rated with a price target of \$6.75/share. The company has a differentiated product suite in the powered respiratory protection space which has shown to be cost-effective for the Healthcare and Industrial clients while providing optimal airway protection and comfort for the user. Increased demand attributable to COVID created an inflection point for the company in terms of acceleration of the installed base and subsequent consumables revenues. While news of a COVID vaccine created some pressure on the stock, our view is that higher PPE utilization will still remain a part of standard practice for the medium term (~3 years) which is supported by our forecasts and valuation. We look forward to a solid 1H FY21 result, which we believe could beat already upgraded guidance, and appreciate a healthy cashflow conversion in the 85-90% range.

PointsBet (PBH) (Speculative)

Founded in Melbourne in 2015, PBH commenced operations as an Australian corporate bookmaker in February 2017. The May 2018 decision by the US Supreme Court to overturn the Professional and Amateur Sports Protection Act (PASPA) has provided the opportunity for PBH to expand its corporate bookmaking business into the US market, as individual states introduce legislation to permit both online wagering and sports betting.

To apply for a US online sports betting licence, PBH is required to partner with a licensed operator in the form of a casino or racetrack. PBH currently partnerships in 12 US states with a combined population of 94m, with operations live in five states with a combined population of 37m: New Jersey, Iowa, Indiana, Illinois, and Colorado. PBH expect to launch both online sports betting and iGaming (online casino) services in Michigan in the March 2021 quarter, and iGaming in New Jersey by June 2021. PBH is currently the 4th largest online bookmaker of the 18 operating in New Jersey, after reporting a 6.5% share of online sports wagering turnover in the September 2020 quarter. In August 2020, PBH announced a company transforming media partnership with NBCUniversal. This incorporates the largest sports audience of US media companies of 184m, spanning the NBC

and Telemundo (Hispanic) national networks, 8 Regional Sports cable channels, as well as other cable channels and digital networks. PBH's commitment of US\$393m of marketing spend with NBC over five years is reduced to a cash spend of ~US\$270m, after subtracting the value of the 4.9% equity stake (US\$47.5m), and 66.88m options (US\$75.5m) issued to NBC. PBH's domestic business has benefitted from the shift to online wagering following the closure of TABs, pokies and casinos during lockdowns, as well as customer leakage from the merger of Flutter (owner of Sportsbet) and The Stars Group (owner of BetEasy) in May 2020, with the BetEasy brand being replaced by Sportsbet. PBH's Australian operations reported \$6.9m of EBITDA for FY20, where PBH expects this division to remain EBITDA positive in FY21, with its share of online wagering turnover growing from ~3% in the 6 months to June 2020 to ~5% in the September 2020 quarter.

Following completion of a \$353m equity raising, PBH had corporate cash of \$436.5m at 30 September 2020, providing funding to execute on its target of generating US\$1bn of annual revenue by 2025, with a pathway to 10% market share in each US state.

Resimac (RMC)

RMC is one of Australia's leading non-bank mortgage providers, servicing over 50,000 customers with principally funded assets under management of \$12.7bn. Resimac is the pioneer of securitisation of Australian residential mortgages with its first Australian Residential Mortgage-Backed Security (RMBS) issuance dating back to 1988 under the name Fanmac. To date, RMC has issued over \$33bn across 53 domestic and international RMBS issues. RMC does not have the overhead of maintaining an extensive nationwide branch network, rather it has relationships with over 85% of Australia's mortgage brokers, where customer service and a quick approvals process have been key factors for RMC increasing originations. The FY20 Normalised Net Profit of \$55.7m represented an increase of 79% versus the \$31.1m reported in FY19, driven by an increase in Net Interest Margin from 1.31% to 1.69%, 21% growth in its principally funded mortgage book, and cost to income ratio reducing from 58.7% to 38.0%.

RMC's 1H21 Normalised Net Profit guidance of \$48-53m underlines its tailwind to quantitative easing measures, with guidance implying an increase of ~75% on 2H20 (\$28.8m). With most of RMC's mortgages funded by the issue of Residential Mortgage Backed Securities

priced at a margin to bank bill, we estimate each incremental 1bp of net interest margin is worth ~\$0.9m for RMC's FY21 Net Profit.

Since the 1 month bank bill rate shifted below the RBA cash rate in March 2020, the average spread has been negative 16bp since July 2020. This tailwind has moderated following the RBA cutting the cash rate from 0.25% to 0.10% on 3 November 2020 (current spot spread negative 8bp).

RMC's FY21 result is also likely to benefit from a lower impairment charge. RMC increased its impairment charge from \$3.8m (7bp of loans) in 1H20 to \$18.2m (30bp of loans) in 2H20, after it applied a substantial collective provision overlay of \$16.4m. Since 30 June 2020, it has seen the percentage of customers in COVID payment deferrals reduce from 10% to 4.4%.

RESOURCES & ENERGY

The 2021 outlook for the resources and energy sectors will be shaped by the pace of global economic recovery, the duration of COVID-19 northern hemisphere second infection waves, the effectiveness of vaccines in curbing future COVID-19 outbreaks, the forms of stimulus employed by the major economies and the impact of Australia-China trade restrictions. Climate focused government policy relating to energy and related technology remains an overarching theme.

2020 saw significant disruption for commodities on both the supply and demand side due to the COVID-19 pandemic and the implementation of social and economic restrictions to contain it. Major global economies were pushed into negative growth and technical recessions. Key indicators of consumption, such as manufacturing PMI's, showed rates of contraction not seen for a decade or more. Governments have been forced to alternate on multiple occasions between encouraging growth and severely restricting economic activity with lockdowns as waves of COVID-19 infections have come and gone.

However, there is a consistent theme across key global economies of Government stimulus programs to re-start and support economic growth. Now, with the emergence of effective vaccines and the likely acceleration of their roll-out in 2021,

we expect to see Government stimulus take the upper hand. Following severe contractions in 1H20, growth indicators have rebounded strongly in 2H20 – even in jurisdictions where infection rates remain high (such as the US, UK and EU), and both PMI and GDP measures have turned positive in the September 2020 quarter. With many Government stimulus programs focusing on infrastructure and renewable energy investment, we believe this will be positive for commodity demand in 2021 – particularly for iron ore, copper and nickel.

For gold, the emergence of effective vaccines has seen the retraction of the fear trade which had been a price support during 2020. Combined with increased risk appetite and the arrival of a seasonally weak period for gold bullion prices, we have seen a pullback (~11%, US\$ terms) from the all-time highs of August 2020. However, global gold ETF holdings remain within 4% of all-time highs and there appears to have been a recent de-coupling of gold prices from a weakening US dollar and negative real interest rates. This could provide a positive impetus for the gold price in early 2021 which, with loose monetary policy settings being maintained, should see a supportive gold price environment in 2021.

For the energy sector, we have a positive medium to long term outlook for Australian domestic gas markets. The ACCC Gas Inquiry 2017-25 continues to highlight the risk of a supply shortfall in east coast markets over the medium term, particularly in southern states. Incumbent producers are expected to benefit from improved pricing. New entrants will have to navigate increasing regulatory hurdles.

In global oil markets, crude prices have rebounded strongly towards the end of 2020, with the OPEC+ group of nations effectively managing supply and improved demand as economic activity strengthens and population mobility increases. We see oil prices remaining relatively steady around current levels over the next two years.

For coal, China-enforced trade restrictions on Australian shipments are likely to continue to dominate sentiment. Recovery in demand ex-China will be important for Australian thermal and met coal producers as trade flows adjust. Australia will remain a dominant supplier of low cost met coal to the seaborne trade with recovering South American markets and India's emergence to be key sources of demand.

Battery raw material markets are also expected to strengthen as governments and industry promote electric vehicle (EV) take-up, battery storage projects for management of intermittent renewable energy sources and other carbon abatement technologies.

Markets for lithium are expected to return to deficit over a 3-year outlook. Global auto majors have firm plans for major new investments in EV capacity and new models; in cases like Toyota, EVs could become their dominant product by the middle of the decade. Battery cathode manufacturers are planning further capacity expansions in Europe and Asia to meet projected demand in 2022 and 2023. A recent spate of corporate activity in this sector has been supported by an increasingly positive view. Niche products such as high-purity alumina are also expected to be chronically undersupplied as its use is recognised in advancing lithium ion battery efficiency and safety.

Nickel Mines (NIC)

During 2020 NIC achieved the key milestone of becoming the largest nickel producer on the ASX following the completion of its acquisition of an additional 20% interest in the Hengjaya and Ranger RKEF Nickel Projects, lifting its ownership to 80%. During 2020 NIC's NPI production lines operated at steady state production levels and all-in costs that beat our original forecasts and nameplate capacity, resulting in production attributable to NIC of ~34ktpa. The strong operational performance and rising nickel price enabled NIC to repay debt early and declare a maiden A2cps dividend (unfranked).

Most recently, NIC has executed a binding Definitive Agreement with its partner, Shanghai Decent Investment, to acquire a 70% equity interest in the Angel Nickel Project, which is currently under construction in Indonesia. We view this as a positive development. The acquisition has been de-risked by the strong performance of NIC's existing operations and screens as excellent value on a number of metrics. It should lift attributable production by +25ktpa (~74%), commissioning October 2022.

We retain NIC as one of our top picks on the basis of it remaining cheap relative to peers, its aggressive growth profile and its pure nickel commodity exposure – one of our preferred base metals.

Buy, Target Price \$1.60/sh

Aeris Resources (AIS)

Aeris Resources had a transformational year in 2020, primarily due to the acquisition of the Cracow Gold Mine from Evolution Mining. From a single-asset copper company highly leveraged to the copper price, AIS is now a multi-mine copper-gold producer offering a balanced exposure to two of our preferred metals.

Following completion of the acquisition on 1 July 2020, Cracow delivered an excellent maiden quarter for AIS, with production and costs beating our expectations. Combined with a good performance from Tritton, AIS cut its net debt position from ~\$60m to \$28.3m over the quarter. AIS has since repaid a further A\$7.5m of its Bridging loan ahead of schedule and made a voluntary US\$2.0m repayment to its Tranche B facility.

The Cracow acquisition, the strengthening of the balance sheet, the re-structure of the share register and some exciting recent exploration success at Tritton is, in our view, just beginning to gain recognition in the market. We forecast strong earnings and cash flow growth in FY21 on low multiples and see the opportunity for a material re-rating for AIS in 2021.

Buy, Target Price \$0.112/sh

Regis Resources (RRL)

We continue to view RRL as an attractive, reliable gold producer. Consistent operating margins have been maintained across the business. RRL's FY20 EBITDA margin of 52% is competitive with, or ahead of, key industry peers. RRL's ongoing CAPEX is, in our view, an investment into attractive, capital efficient growth options that leverage off RRL's existing infrastructure – an aspect of its operations that set it apart from many peers. This includes the McPhillamys Project in NSW which has made good progress through the permitting process, is well placed to advance to production, should deliver material production growth and could commence construction during 2021. In our view, the market attributes little value to this asset.

RRL also remains one of the sector leaders for shareholder returns. Its FY20 dividend equates to a payout of \$41m and a payout ratio of 43% of NPAT for a 2.9% fully franked yield (at dividend declaration).

Buy, Target Price \$5.72/sh

Beach Energy (BPT)

BPT has the strongest production and EBITDA growth profile, and is one of the most diversified energy groups among its larger ASX-listed peers. Yet BPT trades on materially weaker EV multiples and a discount to our valuation. The group has identified projects to grow production from FY21 guidance of 26.0-28.5MMboe to 37-43MMboe by FY25, around a 50% uplift. This production growth will be supplied to domestic markets and to third party infrastructure access to LNG markets. Repricing of legacy gas sales agreements should also benefit price and earnings growth, with forecast supply shortages expected in Australian east coast gas markets. BPT is in a net cash position with significant undrawn liquidity to support its growth projects.

Buy, Target Price \$2.29/sh

Cooper Energy (COE)

COE is becoming a gas producer of scale, focused on conventional assets supplying southeast Australian energy markets. From early 2021 and following completion of processing infrastructure upgrades, the Sole gas project should commence deliveries into term sales agreements flowing through to stronger sales and earnings. COE also has relatively mature growth projects in the Otway and Gippsland Basins which could add further production and earnings over the medium term.

Buy, Target Price \$0.47/sh

Coronado Global Resources (CRN)

CRN owns a portfolio of long life metallurgical coal assets in Australia and the US which are positioned favourably on the global cost curve. These provide resilience to weaker met coal markets and will support a high margin and cash generative business once markets recover. Following a capital raising in August 2020 and extension to debt covenant waivers, CRN's balance sheet has been significantly deleveraged to US\$231m net debt and gearing to 21%. Free float also improved subsequent to the raising, which should support index inclusion and a broader investor audience.

Buy, Target Price \$1.60/sh

Byron Energy (BYE)

BYE is now generating strong cash flow after recently significantly lifting its oil and gas output from the shallow offshore waters of the Gulf of Mexico in the USA with two 100% owned wells in operation from its SM58 G Platform. The new producing wells were disrupted by several shutdowns for hurricanes and their production profile will change over time, moving from predominantly gas currently to predominantly oil. The SM58 G platform will also facilitate drilling of multiple exploration wells in the next two years for which the company remains well funded, aided by the Crimson Midstream debt facility. We expect the Louisiana Light Sweet oil price that BYE receives to gradually return to a modest premium to WTI over time and while small losses are forecast in FY21 and FY22, we see BYE's low operating costs standing it in very good stead, enabling it to continue its successful expansion strategy.

Buy, target price \$0.42/sh

Chalice Mining (CHN)

CHN continues drilling programs across its two main projects. Six rigs at the company's 100% owned Julimar Project just north of Perth in WA are expanding and infilling the extensive and shallow, world class palladium-nickel-copper discovery at the Gonneville Prospect. A Maiden open pittable Mineral Resource for Gonneville is planned for mid-2021 with a considerable proportion in the higher confidence Measured and Indicated categories to underpin initial economic studies. Metallurgical testwork programs to build on initial positive results continue while CHN awaits approval to enter the State Forest immediately north of Gonneville, where staged exploration leading to drilling to test three large, strong airborne electromagnetic anomalies is planned in 2021. Two rigs at CHN's large Pyramid Hill Gold Project in Victoria are evaluating the Karri discovery, where there is a major zone of gold mineralisation, and two gold-bearing diorite intrusions. The company is well funded with about \$140m in cash and investments after having recently purchased key farming properties covering the Gonneville deposit.

Speculative Buy, Valuation \$5.35/sh

Gold Road Resources (GOR)

GOR's 50% Gruyere Joint Venture (JV) at Yamarna in WA is generating strong free cash flow as it takes steps to optimise and increase gold output after recent drilling at the base of the current open pit significantly increased the Mineral Resource and Reserve. The JV plans to expand gold output with the staged addition of a renewable energy hybrid microgrid from the current nameplate rate of 8.2Mtpa of ore and about 300koz (100% basis) to a target rate of 10Mtpa of ore by about the end of 2021 that could see average gold production increase to about 350kozpa. GOR continues active exploration of its large, highly prospective 100% owned areas at Yamarna, where it remains focused on discovery of gold resources that transform the company. GOR is in a strong financial position with cash reserves of about \$135m and no debt and it is about to commence paying franked dividends.

Buy, Target price \$1.85/sh

Hybrid market support likely to be driven by record low deposit rates

The decline in the 12 month major bank term deposit rate to 0.4% is likely to provide support to the ASX listed hybrid market, as investors seek higher yielding alternatives. A key factor driving deposit rates lower has been the RBA introducing the Term Funding Facility (TFF) on 19 March 2020.

The TFF is a 3 year funding collateralised by Residential Mortgage Backed Securities of the bank. The TFF fixed interest rate was reduced from 0.25% to 0.10% following the rate cut on 3 November. The TFF provided an Initial Allocation of \$81 billion of funding to Australian banks, with an Additional Allocation of a further \$120 billion available to be drawn down by March 2021.

Low term deposit rates drive shift to at-call accounts

The NAB FY20 result highlights the impact of the decline in the 12 month term deposit from 2.3% in early 2019 to 0.4%, which has translated to its term deposit book declining \$34 billion (24%) from a peak of \$142 billion at March 2019 to \$108 billion at September 2020. Westpac also saw its term deposit book shrink \$40 billion (20%) over FY20 to \$163 billion.

This decline reflects customers being unwilling to lock away money on low term deposit rates, and potentially the desire to keep cash at call awaiting higher yielding alternatives.

Preferred hybrid securities

Investors considering investing in bank hybrids (capital notes) need to consider whether the incremental return is sufficient for the incremental risk. This involves moving from a bank deposit protected by the Government guaranteed scheme, to a security that ranks behind deposits, senior debt and subordinated debt.

While the uplift in margin from hybrids may appear attractive if the issuer's current financial position is strong, incremental risks from moving lower on the capital structure can quickly escalate if there is a material deterioration in the issuer's financials.

Our preferred securities take into consideration the issuer's strength to pay scheduled income, and an impeccable track record of ensuring cash redemption at the first call date.

Westpac Capital Notes 7 (WBCPJ)

WBCPJ is our top pick of longer dated major bank hybrids, offering the highest trading margin of ASX listed major bank hybrids of 3.26%. This represents a margin uplift of ~3.00% when compared with 5 year major bank wholesale senior debt.

Forecast 12 month income \$2.52 fully franked (\$3.60 grossed up). Call Date March 2027.

Bendigo & Adelaide Bank Capital Notes (BENPH)

For investors willing to consider hybrid issuers outside the major banks, BENPH currently provides a healthy trading margin uplift of 0.46% when compared with WBCPJ.

Forecast 12 month income \$2.79 fully franked (\$3.99 grossed up). Call Date June 2027.

NAB Subordinated Notes 2 (NABPE)

NABPE, the only ASX listed Tier 2 subordinated debt security, provides unfranked interest payments that are not discretionary or deferrable, provided NAB is Solvent at the time of the payment, and immediately after making the payment. Historically, ASX listed subordinated debt has experienced lower capital price volatility than hybrids, and NABPE may be considered as an option to cornerstone a fixed income portfolio.

Forecast 12 month income \$2.21 unfranked. Call Date September 2023.

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Bell Potter Securities acted as Co-Manager in MQG's

Capital Notes 2 offer (MBLPC, May 2020) and received fees for the services.

T S Lim, authoring analyst, holds long positions in ABA, ANZ, MBLPC, MQG, MQGPC and MQGPD.

Bell Potter Securities acted as lead manager of UWL's capital raising in December 2019 and received fees for that service.

Bell Potter Securities acted as Co-Manager to the LSF IPO in April 2018 and received fees for that service.

Bell Potter Securities acted as a Joint Lead Manager and Underwriter to Aroa's IPO in July 2020 and received fees for that service.

Bell Potter Securities acted as a Joint Lead Manager and Underwriter to CleanSpace's IPO in October 2020 and received fees for that service.

Bell Potter Securities acted as a Joint Lead Manager on CBR's March 20 Capital Raising and received fees for that service.

Bell Potter Securities acted as Lead Manager of PSI's \$100m Placement and Sell-down in Nov'20 and received fees for that service.

Bell Potter Securities acted as lead managers of the RMY's Sep'19 & Aug'20 Placement and SPP and received fees for that service.

Lafitani Sotiriou, authoring analyst, holds long positions in 360, PDL, PPS and APT.

Bell Potter Securities acted as a participant in APT's July 2020 \$650m placement and ~\$250m sell down and received fees for that service.

Bell Potter Securities acted as a co-manager in relation to CGF's Capital Notes 3 issue and received fees for that service.

Bell Potter Securities acted as Lead Manager to the \$55m Placement of June 2019, Joint Lead Manager to the \$231m Entitlements Issue of June 2020 and Joint Lead Manager to the \$364m Entitlement Offer of December 2020 for NIC and received fees for those services.

Bell Potter Securities acted as Joint Lead Manager to the \$40m Equity Raise of June 2020 for AIS and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to CRN's August 2020 \$240m placement and entitlement offer and received fees for that service.

Bell Potter Securities acted as Lead Manager for the \$14m placement and Underwriter for the \$11.4m rights issue in December 2019 and as Lead Manager for the \$16m placement in May 2020 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager for the \$100m placement in CHN in December 2020 and received fees for that service.

Peter Arden has a long position in the shares of Chalice Mining (CHN).

John Hester owns 8334 shares in KZA.

Bell Potter Securities acted as Lead Manager of KZA's October 2020 capital raise for \$25m, March 2020 capital raise for \$9m and 2019 capital raise for \$4m and received fees for that service.

Bell Potter Securities acted as Lead manager of the PAR's capital raise in 2019 for \$78m and 2020 for \$35m and received fees for that service.

John Hester owns 1000 shares in AVH.

Bell Potter Securities acted as Lead manager of AVH's capital raise in 2020 for \$120m and received fees for that service.

Bell Potter Securities Limited acted as Lead Manager to PBH'S Institutional Placement and Entitlement Offers in Oct 2019 and Sep 2020 and received fees for these services.

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

Bell Potter Securities acted as lead manager for SPL's A\$45m capital raise in Sep'20 and received fees for that service.

Bell Potter Securities Limited has acted as Co-manager to the BENPH and WBCPJ offers and received fees for these services.

Bell Potter Securities acted as a Joint Lead Manager to LBY's September 2020 and received fees for that service.

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.

ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to Bell Potter, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.