ANALYST OUTLOOK FOR 2018.

Our analysts share their outlook and top stock picks for 2018.

BELL POTTER

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).

www.bellpotter.com.au

1300 0 BELLS (1300 023 557)

info@bellpotter.com.au

CONTENTS

BANKS & GENERAL INSURERS.

TS Lim

We expect underlying momentum for the major banks to be steady heading into 2018 and the Royal Commission. This would reflect steady margins (repricing and lower funding cost benefits in the previous period to offset competition), volume growth in line with GDP expectations, easing prudential headwinds (e.g. capital and liquidity), stable asset quality and ongoing cost discipline to absorb the cost of the Inquiry, estimated at up to $150m for each major bank. The distraction would certainly be much greater for those with larger retail banking operations – although we feel CBA has been through a lot more soul searching in the past year and could spend incrementally less than the above figure.

We also expect the Inquiry to be less pronounced for those with larger wholesale banking (e.g. NAB and ANZ) or offshore/ more diversified operations (e.g. MQG). The regional banks may emerge relatively unscathed but they remain susceptible to price wars that could be instigated by the larger banks as a response to the Commission. Adverse weather volatility aside, the general insurers should be in the sweet spot in 2018 – thanks to premium rate rises, efficiency gains, sufficient prudential buffers including strength of reinsurance arrangements and fewer political risks.

Macquarie Group (MQG)

MQG's value lies in its ability to manage risk and adapt its strategy to remain ahead of the curve. This has enabled MQG to continually transform and push for higher/more sustainable revenues. These attributes in addition to lower-risk annuity-style earnings streams (~79% of Group net profit contribution before unallocated corporate costs, profit share and income tax), offshore exposure (~62% of operating income with ~24% from North America) and strong capital management flexibility (~$2.5bn surplus capital based on 10.5% RWA) continue to underpin our Buy rating. The strong likelihood of a lower US corporate tax rate would provide further valuation upside.

Price target $108.00, Buy

National Australia Bank Ltd (NAB)

NAB could have saved $2.3bn in investment and restructuring spend by forsaking its accelerated strategy, and this may have kept the market on its side for a while. Instead, NAB has taken a long term view to create a bank of the future and the only way to preserve its competitive advantage especially in business banking and remain a going concern is to further enhance customers' front line experience. The investment would be over three years and is expected to generate savings of >$1.0bn p.a. by 2020. Given management's transformation track record, we back NAB in successfully executing this strategy.

Price target $34.20, Buy

Suncorp Group Ltd (SUN)

We see value emerging after rebasing its risk profile and lowering its discount rate to 10.0%. SUN's Marketplace strategy may be a concern in the short term but the operating environment remains in far better shape for general insurers than the banks – with upside coming from rate rises and further cost-outs, and little to fear from the Royal Commission. SUN is also possibly closer to divesting its life insurance business. This is in addition to having shelved its Tower New Zealand plans should provide a kicker to its surplus capital position – and a capital return in August cannot be ruled out.

Price target $15.50, Buy

DIVERSIFIED FINANCIALS.

Lafitani Sotiriou

Leaders

BT Investment Management (BTT)

BTT is a globally diversified multi asset funds management business that is continually evolving its offering to win new fund flows. BTT enters 2018 trading on ~16x FY18 PE, and we expect the company to achieve 20%+ EPS growth during the period. The company is set to benefit from both higher performance fees, and a greater base management fee, with the company well placed to exceed $100 billion in Funds Under Management (FUM) over the year ahead.

BUY, Price target $15.20

Janus Henderson Group (JHG)

JHG is a large diversified global fund manager. Following the merger of Janus capital and Henderson group, the group has seen a marked turn around with the earlier than anticipated return to positive net-flows, and improved performance across a number of funds. JHG remains a top pick, as we expect to see the company achieve double digit EPS growth, and deliver material cost saving and revenue synergies over 2018.

BUY, Price target AU$63.00

Challenger (CGF)

CGF is Australia's largest annuities provider, and is arguably at the forefront of retirement product innovation in Australia's Superannuation sector. CGF is well placed for a strong 2018; with the MS Primary relationship expected to gain further scale, and the forthcoming rollout of CGF annuities on AMP and BT platforms anticipated to further grow CGFs distribution footprint. We remain confident CGF remains on track to bolster its product offering, with the ramp up of deferred lifetime annuities expected to support sales growth during FY18.

BUY, Price target $15.75

Emerging

Afterpay Touch Group (APT)

APT is one of Australia's fastest growing fintech companies, which has in the last year added over 1m new users and signed merchant deals with a number of the largest retail outlets and brands in Australia. On its current trajectory APT is set to record its first profitable year in FY18, however we believe the company has no shortage of opportunities in the pipeline in the lead up to 2018. With the possibility of further geographic expansion and collaborative efforts in the future, we believe Afterpay's offering should be considered amongst the likes of Paypal and MasterCard.

BUY, Price target $7.30

OneVue Holdings (OVH)

OVH is a leading Australian Superannuation Administrator which has 3 integrated and product offerings across Super & Managed Fund Admin, Superannuation Trustee, and Platform services, all of which are profitable. With improving cashflow generation and a robust net-cash position we believe OVH is well placed to capitalise on a number of prospective opportunities to help accelerate growth in 2018.

BUY, Price target $1.10

Praemium (PPS)

PPS has been exhibiting strong organic growth in both its Australian and International platform businesses, underpinned by improving net-flows. This growth has provided PPS with the ability to scale profitability in its Australian business, and continues to drive momentum in the international business. With a number of organic and inorganic growth opportunities available to PPS we anticipate the company will continue to benefit from its ability to scale platform FUA and we expect PPS to re-rate as the international business reaches breakeven in 2018.

BUY, Price target $1.00

LISTED INVESTMENT COMPANIES (LICs).

Nathan Umapathy

The Listed Investment Company (LIC) sector has been one of the great success stories of the Australian Securities Exchange (ASX) in recent years. LICs have been trading on the ASX for nearly 100 years, but it is only of late that a broader range of investors have capitalised on the opportunities offered by the sector.

LICs are professionally managed portfolios that offer diversification and access to quality fund managers, with emphasis on liquidity and transparency.

For 2018, we anticipate growth will occur away from large-capitalisation domestic equity products and into those areas that are well under-represented. Global equity focused products are likely to be a key beneficiary and an increase in both the size and style of offering is likely. We also expect growth in more index-unaware products and those that offer a high and sustainable income. It has been a strong period of growth for the LIC sector and we believe there are several drivers now in place that may see the LIC Sector continue to grow for the next five years and beyond.

Here are three different LICs to consider for 2018:

MFF Capital (MFF)

MFF's primary focus is to invest in large listed international companies assessed to have attractive business characteristics at a discount to their assessed intrinsic values. MFF has been able to consistently outperform its benchmark, the MSCI World Index, over the last 10 years by 6.9% p.a. MFF has traded at a discount historically because of an option overhang and its relatively low dividends. However, these options have now expired and management have announced an increase in their dividends. This represents a great opportunity to purchase a prominent global LIC at a discount to its NTA.

Perpetual Equity Investment Company (PIC)

PIC offers investor's access to Large to Medium Cap Australian companies along with a small portion in global listed securities. PIC has delivered strong investment performance, outperforming the ASX 300 Accumulation Index by 2.6% in the last 6 months. We believe there is potential for share price appreciation given the company has a strong profit reserve, sufficient franking credits and recently taken a more proactive approach in marketing the LIC. PIC has paid a 5.8% fully franked dividend yield in 2017.

PM Capital Asia (PAF)

Asia has been a big component of the performance in Emerging Market sector in 2017. And we believe a great way to get exposure to Asia is via PM Capital Asia (ASX: PAF). PAF traditionally offers a diversified portfolio of 15-35 Asian listed equities (ex Japan), with the Manager focusing on key thematics like Gaming and the eCommerce industry. PAF has paid a grossed up yield of 5.7% over the last 12 months and we expect PAF to be able to continue to pay this yield going forward (subject to financial conditions). PAF represents exposure to Asia with a good yield.

FIXED INCOME.

Damien Williamson

The 2017 year has been a positive year in the ASX Debt and Hybrid market, where an absence of shock events has restored investor confidence. A 0.34% fall in major bank wholesale funding costs has also been supportive of the hybrid market, combined with historically low levels of market volatility. With a trading range of 9.2% between year high and low, the All Ords is set to record its narrowest yearly trading range since 1966.

Other major economic indicators such as economic growth, unemployment and inflation remaining below the RBA 2-3% target band since 4Q2015 point to scope for the RBA official cash rate to remain on hold at 1.50% in 2018.

The rally in the ASX listed hybrid market raises the question of whether there is a risk of a near term bear market developing, as we had in late 2015 / early 2016. We have compiled a list of 25 items which we see as having an impact on major bank hybrids across categories of Valuation, Issuance, Sentiment, Bank Profitability and Capital Levels. In the 2015 / 2016 bear market, we have identified 7 headwinds mainly across the Issuance and Sentiment categories which impacted the market.

In the current In the current environment, we find it difficult to identify factors which appear to jeopardise the strength in the current hybrid market. The 2 key negatives in late 2015 / early 2016 of Issuance and Sentiment have done a complete U turn. In terms of valuation, hybrid spreads to senior debt have normalised to where we now view them as fair value.

Looking out to 2018, the strong performance of new hybrid listings in 2017 and the increasing difficulty of gaining access to new money bookbuilds and Securityholder offers is likely to result in increasing pre-positioning trading in maturing hybrids, providing the potential to participate via Reinvestment Offers. The two big refinancings for 2018 are the $1.2bn WBCPC by March, and the $2.0bn CBAPC by December.

We see support continuing for the ASX listed debt and hybrid market, particularly when considering the potential for 2018 being a second straight year of net redemptions. With 2017 ASX listed debt and hybrid market redemptions of $9.3bn exceeding $5.4bn of issuance by $3.9bn, 2018 issuance may not exceed the pipeline of $7.0bn of redemptions.

AGRICULTURAL FMCG.

Jonathan Snape

The agricultural FMCG sector encompasses a group of ~35 stocks covering a diverse set of commodities. Earnings in the sector are highly volatile and subject to short term changes in weather patterns and commodity values which are often dependent on global trends. For this reason we tend to focus on stocks or sectors where we see either: (1) a structural uplift in ROIC through investment or strategy; (2) a favourable supply-demand backdrop emerging to support an elevated period of ROIC; or (3) a long-term through the cycle growth thematic in the underlying asset base. At this point in the cycle we are seeing value in three key names being Synlait Milk Ltd, the a2 Milk Company and NuFarm.

Synlait Milk Ltd (SM1)

SM1 is NZ's fourth largest milk processor (accounting for ~4% of NZ's milk intake) and a B2B supplier of dairy ingredients (SMP, WMP & AMF), infant formula (IMF) products and Lactoferrin. SM1 counts global FMCG companies among its client base, including the a2Milk Co (A2M) for which SM1 is the exclusive supplier of infant formula in China, Australia and NZ.

We do not see the current share price as reflecting the favourable margin gain that SM1 generates as it transitions its sales mix from dairy ingredients towards higher margin canned infant formula (IMF) and adult nutrition products. Importantly we expect this transition to accelerate in FY18-20e with completion of the new Auckland canning line and as investments in flexible packaging capacity for IMF and adult nutrition products are progressed. Growth in A2M branded products is a key driver of near term growth, however, we also expect the customer base to diversify in FY19-20e improving the risk profile of SM1. In addition SM1 continues to trade a material discount to its global dairy ingredient and IMF peer group.

The a2 Milk 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.

Over the next twelve months we see a number of key growth catalysts for A2M being: (1) an acceleration in China IMF sales as brand rationalisation post Jan'18 favours brands which have achieved CFDA registration; (2) an acceleration in demand for the existing range of a2 branded adult nutrition powders (WMP/SMP sachet packages) and the potential for a launch of more advanced formulations in this category; (3) an acceleration in the distribution reach of fresh dairy products in the US reducing losses in this market in FY19-20e: and (4) the potential for higher margin products to be added to the existing UK portfolio (infant and adult nutrition). In our view A2M is at the commencement of its growth trajectory utilising a strong IP base to expand its product portfolio globally.

NuFarm (NUF)

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

Having recently executed two material acquisitions in Europe the focus of investors will likely begin to become the underlying strategy of NUF to deliver earnings growth through to FY21e, a strategy predicated on: (1) the integration of the Century and FMC portfolios (combined $110-115m EBITDA by FY19e); (2) delivery of ~$15m in cost savings from back office consolidation in Europe; (3) investments in working capital systems to facilitate a further reduction in working capital; (4) delivery on the launch of omega 3 canola, which is expected to see commercial sales commence in FY19e (with a positive EBIT contribution by FY21e). Following the recent share price correction NUF is trading at ~8.0x ProForma FY18e EBITDA, a 15-20% discount to global agricultural input producers and at 10-15% discount to the ANZ average for input producers and suppliers.

TECHNOLOGY.

Chris Savage

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. We acknowledge that many stocks in the sector have had a strong re-rating over the past year or so but we believe there is still some value in the sector with a number of good quality stocks on reasonable forward PE ratios. Our goal is to find good quality tech stocks with strong growth outlooks that are currently trading on forward PE ratios of around 30x or less and that, over time, can re-rate up to over 30x as has happened with stocks like WiseTech Global (WTC) and Altium (ALU).

The Citadel Group (CGL)

Citadel is a software and services company that provides integration and managed services solutions to state and federal governments and the private sector in Australia. The stock is currently trading on an FY18 PE ratio of c.25x and so, in our view, is being priced by the market as a mix of both software and services which is probably reasonable. Over time, however, we believe the company will become more like a pure software company and so will get re-rated by the market and trade on a forward PE ratio of c.30x or more. We believe this transition will become increasingly evident during 2018 and so the re-rating will gradually occur over the next 12 months or so.

BUY, PT $7.50

Technology One (TNE)

Technology One is an end-to-end provider and consultant of enterprise software in Australia, New Zealand, Malaysia and the UK. We regard Technology One as one of the highest quality listed tech stocks in Australia but, for that reason, it is not cheap and trades on an FY18 PE ratio of c.30x. The share price – and PE ratio – has recently fallen, however, due to a contract dispute which caused the rate of earnings growth to slow in FY17. The dispute has now been resolved, however, and so the outlook is for a strong rebound in earnings growth in FY18. We therefore see the pullback in share price as a buying opportunity and expect the stock to re-rate and return to a forward PE ratio of c.35x or more.

BUY, PT $6.20

Appen (APX)

Appen is a services company that provides language data and services to enterprise and government customers. Appen was a key pick of ours in 2017 and the stock performed well on the back of another year of strong earnings growth. The company recently, however, made a large and transformational acquisition which increased the customer diversification and also provided a strong earnings growth outlook for the next few years. The stock is now trading on a 2018 PE ratio of c.30x but, with the strong growth outlook and the exposure to the fast growing artificial intelligence (AI) market, we believe the stock can further re-rate to a forward PE ratio of c.35x or more.

BUY, PT $9.00

DISCRETIONARY RETAIL.

Sam Haddad

With consideration to the challenging domestic macro backdrop and the increasing competitive environment (with Amazon and other incoming international competitors), we prefer retailers with the following key attributes:

- Leveraged to global growth opportunities;
- Elements of scalability on a global platform;
- Preferably own their own brands;
- Preferably own differentiated brands or have a unique market position;
- Are market leaders in their category;
- Strong omni-channel capability; and
- Defensive attributes.

Amongst the retail stocks we cover, we believe LOV and PMV meet these key investment themes very well.

Lovisa Holdings Limited (LOV)

Lovisa Holdings is a leading specialist fast fashion jewellery retailer that is strategically focused on the affordable jewellery segment. Our positive view of LOV is supported by the company's strong long-term earnings growth outlook underpinned by significant global store rollout opportunities - with LOV recently entering the UK, Spain (in pilot) and the USA (in pilot).

We believe LOV is well placed to execute on its international growth plans given a number of attractive business attributes, including LOV's vertical business model that supports high gross margins and brand control, compelling store metrics with high sales intensity and short average payback period (all regions less than 9 months), fast supply chain (only 8-10 weeks from product development to being in-store), and a regionally adaptable product range. On the domestic front, we believe LOV has defensive attributes against macro headwinds as customers are able to treat themselves without putting pressure on their budgets (given LOV's low dollar value transactions).

Premier Investments (PMV)

Premier Investments is an investment company whose major investment is in discretionary retailer Just Group. Just Group operates specialty retail brands Just Jeans, Jay Jays, Portman's, Jacqui E, Peter Alexander, Dotti and Smiggle.

Our positive view on PMV is supported by the company's strong long-term earnings growth outlook underpinned by three key growth pillars: Smiggle's global expansion (the primary growth pillar), Peter Alexander and online. We note these growth pillars are higher margin and therefore a tailwind to group margins. We see the current cyclical softness in apparel as an opportunity to build exposure to PMV's Smiggle global growth thematic. The growth opportunity for Smiggle is significant, with the brand only now entering Continental Europe and yet to enter North America. Management has guided for Smiggle annual sales to exceed $450m by FY20, which represents a significant doubling vs Smiggle's FY17 sales.

Propel Funeral Partners (PFP)

Propel Funeral Partners is the second largest provider of death care services in Australia and Zealand. PFP's portfolio footprint comprises 99 locations including 21 crematoria and 5 cemeteries (including the Brindley Group acquisition expected to be completed by 31 March 2018). Based on a proven growth strategy, the leadership of an experienced management team and the backing of a strong balance sheet (pro-forma end-FY17 net cash of ~$50m), we believe PFP is well positioned to lead and drive further industry consolidation. Both markets in Australia and New Zealand are ripe for consolidation with a long tail of independently owned operators. PFP also stands to benefit from the compelling fundamentals of the death care industry, including the positive long term trend in the number of deaths underpinned by an increasing and ageing population, the industry's highly defensive attributes and the relatively high barriers to entry.

INDUSTRIALS.

Tim Piper

Reliance Worldwide (RWC)

RWC manufactures rough plumbing products and is the market leader in 'push-to-connect' fittings. We see further market share gains in the US within the existing Repair & Renovation end market, while the launch of a new range of products (EvoPEX) will open an additional end market in new residential construction. The key risk remains any further loss of Home Depot distribution, however as the US retail distribution agreements currently stand we see both revenue and margin upside once the Lowe's rollout is complete. We view the current FY18e guidance as conservative and forecast high-teen organic EPS growth over the medium term. RWC currently trades on a FY18e P/E of 25x, however we feel the premium is justified given the growth outlook, market leading position and likelihood of further acquisitions.

BUY, PT $4.15

Corporate Travel Management (CTD)

CTD is a leading provider of corporate travel services globally and we see continued scale benefits as the company grows market share across ANZ, North America, Europe and Asia. CTD's focus on customer service, innovative online tools, and returns on investment for clients sees the company continue to win market share globally and as more booking activity shifts online we expect higher EBITDA margins across the group. We see the USA and Europe as key growth regions over the medium term and we expect further EPS accretive acquisitions in both of these regions. While a FY18e P/E of 25x is a premium to the sector we feel it is well justified and on a forward P/E basis CTD is currently at its cheapest level in almost 2 years.

BUY, PT $24.20

Johns Lyng Group (JLG)

JLG listed in October 2017 and is an Insurance and Commercial building company with a core focus on repair and restoration work following an insured event such as storms, flooding, cyclones, fire and more. We like the corporate structure of the group which is made up of 48 individual business units where the operator/s of that unit is incentivised through both equity ownership in the business unit and at the JLG group level. There is significant opportunity for JLG to increase the volume of work allocated from insurance brokers, grow panel representation, further expand the geographic presence, and to expand the product offering into adjacent areas. Any catastrophic weather events provide significant earnings upside to what is a largely non-cyclical underlying business, and we view the prospectus forecasts as conservative.

BUY, PT$1.40

RESOURCES.

David Coates, Peter Arden & Duncan Hughes

The Resources sector overall has had a strong second half of 2017, with the broader Metals and Mining Index up approximately 15% over the half year. This re-traced a loss of 1.3% in 1HCY17 for a 13.2% gain over the year to December 13th.

The continuation of interest in the renewable energy/lithium-ion battery thematic saw it gain momentum and emerge as the hottest sector in the space. Demand forecasts based on Electric Vehicle production are being revised ever-upward and cobalt (a key ingredient for lithium-ion batteries) is the commodity most exposed to this. Its price has appreciated 129% year to date and driven a rush to market by cobalt exploration and development companies. Lithium is also a key beneficiary and contract pricing has strengthened over 2017 as has interest in the sector. While there is potential for a medium term supply response to dampen price growth – particularly for lithium - there is a structural change to demand supporting prices that we expect to be maintained into 2018.

2017 has been a good year for base metals. Copper, zinc, nickel, aluminium and lead have all posted strong gains over 2017. Tin has also consolidated at higher levels. The supply demand balance has become tighter across the board with most metals in deficit or facing a deficit. Underpinning this on the demand side are positive fundamental indicators such as manufacturing PMI's across key global economies all evidencing co-ordinated global growth.

Iron ore continues to confound bearish forecasts, having maintained an average price for CY17 above US$71/t. We remain above consensus with US$60/t price forecasts. What has surprised the market is the increased spread between benchmark 62% prices and lower grade 58% grade product. Typically ~10-15% this has blown out to in excess of 40% on some measures. Whether this is structural or temporary remains to be seen, but with positive data underpinning demand fundamentals we remain optimistic on this exposure.

Gold has suffered from a distinct lack of interest in 2HCY17 but still gone up 9% in US dollar terms over CY17 and while only up 3% in A$ terms is still above A$1600/oz: very healthy levels for Australian producers. In our view now is a good time to be accumulating gold exposure.

With this in mind we are looking for company specific drivers to guide our latest top-picks for the sector, which are outlined in the following pages:

RESOURCES.

David Coates

Aeon Metals (AML)

AML is focused on the exploration and development of its 100%-owned Walford Creek Copper-Cobalt-Zinc project in NW Queensland. Following the delineation of a small, high grade Resource of 6.6Mt at 1.25% Cu, 0.76% Zn and 1,630ppm Co named the Vardy Zone, AML has developed a robust geological model for the Walford Creek deposit. This model was used to target a recent 9-hole diamond drill program which successfully intersected high grade extensions of the Vardy Zone and together with evidence from historic drilling points to the potential for significant Resource growth over 22km of prospective strike length. In the near-term the drilling is expected to drive a material Resource upgrade. However, with a $30m capital raise now completed AML is in an exceptionally strong position to complete a major drill-out in 2018. In our view AML has entered an exciting period of cost effective discovery and growth which we expect more of in 2018.

Speculative Buy, Valuation $0.43/sh

Pantoro Limited (PNR)

PNR is a growing gold production company, operating its flagship, 100% owned, Halls Creek Project (including the Nicolsons Gold Mine) in the Kimberley Region of Western Australia. After delivering positive free cash flows in 2HFY17 in ramp-up phase we have since seen the share price pull back ~20%. This is in contrast to increasing production, dropping costs, a strengthening balance sheet and ongoing drilling results pointing to further Resource growth and mine life extensions. Furthermore, successful testing of ore sorting technology is now going to enable expansion of production to +80kozpa for CAPEX of ~$2m (previously estimated at $10m) offeing an extremely value accretive growth option.

Buy, TP $0.31/sh

Fortescue Metals Group (FMG)

Despite the current headwinds from wide price discounts FMG is well placed to generate strong free cash flows and shareholder returns. The balance sheet continues to strengthen, with cash of US$2.3 billion, net debt of US$2.1 billion at end September 2017 and the earliest debt maturity in CY2022. Even at 30% discount to benchmark iron ore prices, we estimate FMG will generate US$1.3 billion Free-Cash-Flow (after US$910m CAPEX), US$1.2 billion (A$1.6 billion) NPAT and be able to pay ~A40cps fully franked dividend (A$1.2 billion). In our view the market has taken an overly bearish outlook and FMG is good buying at these levels.

Buy, TP $6.65/sh

RESOURCES.

Peter Arden

Gold Road Resources (GOR)

GOR is a largely de-risked attractive new gold development situation in WA. The 50% owned large (average of 270kozpa with scope for early production of 300+kozpa), low cost (average AISC of A$945/oz), long life (over 13 years) gold operation at Gruyere being built by 50% JV partner, Gold Fields (which owns 10% of GOR), is scheduled to produce first gold in early 2019. GOR is fully funded for its share of Gruyere's capex and it is also funding major regional exploration programs in its large Yamarna tenement area, where it has had considerable success. Several new gold camps such as Corkwood and Ibanez have been identified in the 100% owned North Yamarna area and the 50% owned South Yamarna JV continues to target 2+Moz deposits under cover.

Speculative Buy, Valuation $1.01/sh

Orocobre Limited (ORE)

ORE is a lithium carbonate producer based on its 66.5% interest in the new Olaroz brine facility in Argentina that is in the final stages of ramping up to nameplate capacity of 17.5ktpa, after overcoming considerable hurdles and rectifying some initial production issues. The Olaroz facility is underpinned by a large, high quality Resource and even in ramp-up it has one of the lowest operating costs for lithium carbonate in the world and is expected to sustain multiple expansions that should result in even lower unit operating costs. ORE is studying the near term doubling of output at Olaroz which includes a component for lithium hydroxide (the higher value and favoured feed for battery production) and is very well placed to develop a major strategic alliance with its partner, giant car maker, Toyota.

Buy, Target Price $6.95/sh

Xanadu Mines (XAM)

XAM is an advanced copper-gold exploration company based in Mongolia. Recent drilling at XAM's effectively 74.2% owned Kharmagtai Copper – Gold Project in the South Gobi porphyry district has discovered significant higher grade extensions outside the existing Resources at the White Hill and Stockwork Hill Prospects. The latest drilling has benefited from recent detailed structural studies that have given XAM new insights into the nature and extent of the porphyry mineralisation, and has indicated potential for high grade bornite-rich mineralisation at depth, confirming the Project is one of the most attractive undeveloped copper-gold prospects in one of the most pro-mining jurisdictions in the world at a time when there is a dearth of quality new copper projects. Recent drilling at XAM's other Mongolian project, Red Mountain, continues to discover significant new zones of high grade copper-gold porphyry mineralisation.

Speculative Buy, Valuation $0.55/sh

RESOURCES.

Duncan Hughes

Danakali Ltd (DNK)

DNK has a tier one potash project, the largest, likely lowest cost and highest quality undeveloped project in the world thanks to its unique geology. Our outlook for sulphate of potash is favourable and at current pricing the project operates at margins of > US$300/t on phase 1 production output of 472Ktpa. 2018 should be a company making year as DNK is expected to secure offtake which should then lead to a funding solution for the US$300m in capex to build the project. Given the project's location in Eritrea, concerns about funding are likely a big part of the reason the stock looks so undervalued and favourable news on this front should represent a substantial de-risk and potential re-rate milestone.

Buy (Speculative), Valuation $1.10/sh

West African Resources (WAF)

WAF is exploring and developing the Sanbrado Gold Project in Burkina Faso. We believe the exploration success achieved since February 2017 and the recent resource upgrade to 2.7Moz has transformed the project with high grade underground ore (575koz @ 22g/t Au) likely to complement bulk tonnage open pit operations. The blending of high-grade open pit and underground ore creates significant flexibility and diversification. The high grade M1 South Resource remains open at depth and is currently being drill tested. 2018 should be a significant year with news flow dominated by high grade drilling results, resource upgrade and a Definitive Feasibility Study that will likely culminate in decision to mine.

Buy (Speculative), Valuation $0.62/sh

Sovereign Metals Ltd (SVM)

SVM is looking to develop its unique Malingunde Graphite Project in Malawi. The natural advantages of the deposit, particularly as the mineralisation is very shallow and soft, yet still extremely high grade, give it major mining and processing advantages over its peers. Sector leading low costs are underpinned by low strip ratios, high grade and the lack of higher cost crushing or grinding of the soft ore. Development capital expenditure of just US$29m reflects the scale of the project thanks to its high quality. Low capex is boosted by the absence of a crushing circuit and the proximity to infrastructure including rail. In terms of flake size and purity Malingunde has high value premium product.

Buy (Speculative), Valuation $0.33/sh

HEALTHCARE.

John Hester

Zenitas Healthcare (ZNT)

ZNT listed in December 2016 and has delivered a shareholder return of 19% in its first year. Additional highlights from 2017 include the completion of 2 major acquisitions which have provided the company with a national footprint of allied healthcare providers. In addition the company recently completed a $30m capital raise to provide funding for a series of bolt on acquisitions across allied health, general practice and home care. For these acquisitions, we expect these acquisitions will add $3m to $4m in additional EBITDA on a full year pro rata basis.

The key aspects of the business model which differentiate Zenitas from healthcare role ups of the past are:

- the large components of self pay – particularly in allied health which is generally not covered by Medicare;
- the absence of key man risk – the business does not employ medical specialists upon whom the entire practice revenue relies; and
- the company allows allied health care professionals to retain a meaningful equity stake in the business, effectively providing important cash incentives for founders.

In FY18 we anticipate EPS growth (before the impact of the previously mentioned acquisitions) of 17%. ZNT is currently trading on a PE ratio of ~14x (based on the share price of $1.18). Speculative Buy, PT $1.52

Viralytics (VLA)

Viralytics remains an outstanding prospect in the field of immunotherapy for the treatment of various cancers. The key clinical highlights from 2017 included:

- First results from the keynote 200 trial which showed strong recruitment in both lung and bladder cancer patients. 64 of 80 patients are now recruited. Of the patients to reach the first evaluation point:
- 5 of 6 bladder patients have shown responses;
- 3 of 6 non small cell lung cancer patients have responded including one patient with a near complete response.

Success in the keynote 200 trial would transform the company from being merely able to address late stage melanoma into a vastly different proposition. Pending the results of this trial, Cavatak may potentially be combined with checkpoint inhibitors to treat a vastly expanded group of cancers and therefore increasing its potential value.

Investigators will be watching for this key data as results emerge during the course of 2018. Cavatak has achieved outstanding results in late stage melanoma patients who have shown long duration of response that are suggestive of an improvement in overall survival. Should these results be repeated in the keynote 200 trial, the likelihood of a substantial offer for VLA increases significantly.

VLA remains well capitalised with cash of ~$30m and an exceptionally supportive shareholder base amongst US based institutions as well as local institutional investors.

Speculative Buy

HEALTHCARE & BIOTECH.

Tanushree Jain

The fundamentals and demographic trends for the healthcare and biotech sector remained strong in 2017 and we expect this momentum to continue into 2018, based on the following 3 key themes:

1. Friendly regulatory environment - the US FDA not only approving more drugs, but also making efforts to expedite the approval of much needed innovative drugs.
2. Increased activity in licensing and M&A - driven by large pharma and biotech's need to replenish pipelines following the expiry of patents on their legacy blockbuster products. Also, potential US tax reform could provide these companies with a much larger war chest to be able to aggressively go after the most promising innovation.
3. Companies approaching maturity phase - several of the ASX listed biotech and healthcare stocks we cover will reach maturity, with sentiment overall likely to be driven by late stage trial read outs, regulatory approvals and launches, increased commercial momentum and partnering activity.

In view of these factors we believe the following stocks stand out as potential winners:

Medical Developments International (MVP)

MVP is a specialist health care company with pain relief and respiratory device products. Its flagship product is Penthrox, a non-opioid analgesic for emergency trauma pain treatment, which has been used for several years in Australia and is in the initial stages of global expansion.

MVP has re-rated on the back of commercial progress in existing EU countries and successful closure of its decentralised procedure (DCP) for approval in 22 additional European countries. We see the potential for further re-rating in 2018 with with sales expected in more than 50 countries.

With the opioid epidemic front and centre in US, with president Trump declaring it as a public health emergency and the FDA Commissioner's statement implying more efforts will be made to prevent new addictions which would include promoting development of non-opioid pain treatments, Penthrox's US path to market is increasingly looking de-risked. MVP will file a Fast Track application along with its IND in 1Q18. US partnering interest also remains high and MVP has now received its first conditional offer for the US market. For its respiratory device business, MVP expects to grow market penetration in the US from current ~16% to 40% by end of 2018, to be driven mainly by additional deals.

Buy, PT $7.77/sh

Starpharma (SPL)

Starpharma is a Melbourne-based platform company commercialising the science of nanoscale polymers called dendrimers. Its proprietary dendrimer technology is versatile with wide applicability across the pharmaceuticals sector. In drug delivery the company is focused on oncology (cancer). SPL's strong cash position of ~A$56.9m and sharpened focus on pharmaceuticals following sale of its agrochemical business underpins its future growth.

Key catalysts for 2018 include:

- Approval and launch in FY19 and licensing of its late stage VivaGel BV (Bacterial Vaginosis) product, including launch of VivaGel BV by Aspen in Australia in 1Q18
- Significant progress expected across its DEP drug delivery business
- Initiation of a Phase 1 trial for second internal candidate DEP Cabazitaxel and progress in recruitment with Phase 2 DEP docetaxel trial, and
- Initiation of a Phase 1 trial by partner AstraZeneca for AZD0466 triggering a US$3m milestone to SPL.

Buy (Speculative), Valuation $1.78/sh

Mesoblast (MSB)

Mesoblast is a biotechnology company commercialising the therapeutic use of mesenchymal lineage cells (MPCs and MSCs) – a kind of adult stem cell. It is the leading allogeneic regenerative medicine player with one of the most diversified pipelines and several products in late stage.

We expect positive results from the company's late stage paediatric GvHD (Graft vs. Host Disease) Phase 3 trial in 1Q18 that could trigger a partnering deal.

MSB recently received a RMAT (regenerative medicine advanced therapy) designation from the FDA for its MPC-150-IM end stage heart failure product in patients requiring LVAD, which makes it eligible to discuss an accelerated pathway to market for this product with the FDA.

A US National Institutes of Health (NIH) run and funded Phase 2b trial for this asset is due to read out data on 6 month primary endpoint in 1Q18, with full data read-out expected in 3Q18. Positive results could provide further impetus to MSB's ongoing partnering discussions for the asset.

MSB is also focusing its efforts and resources towards finding a partner for its chronic discogenic low back pain product. The ongoing Phase 3 trial for this product is due to complete enrolment in 1Q18.

Buy (Speculative), Valuation $3.69/sh

The following may affect your legal rights:

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited.

This is general investment advice only and does not constitute personal advice to any person.

Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect any of the information contained in this document and Bell Potter assumes no responsibility for updating any advice, views, opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued. Past performance is not a reliable indicator of future performance.

Except insofar as liability under any statute cannot be excluded, Bell Potter Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Disclosure of Interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document(which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Disclosures

TS Lim owns 125 shares in MQG and 368 shares in SUN.

Bell Potter acted as Co-manager in the following transactions and received fees for the services: NAB Capital Notes 2 (May 2016).

Lafitani Sotiriou owns 5,800 shares in BTT, 5,000 shares in CGF, 3,000 shares in APT, 130,000 shares in OVH, and 10,000 shares in PPS.

Bell Potter Securities acted as a broker to the May'17 WBC share sell down of BTT and received fees for that service.

Bell Potter Securities acted as lead manager and underwriter to PFP's IPO in November 2017 and received fees for that service.

Bell Potter Securities acted as Manager to Aeon Metal's $5.5m placement in August 2017 and received fees for that service.

Bell Potter Securities acted as sole Lead Manager and Bookrunner to KRM's $8.5m raising in July 2016 and received fees for that service.

Bell Potter Securities acted as Co-Manager to MLX's $100.6m raising in August 2016.and received fees for that service.

Bell Potter Securities acted as sole Lead Manager and Bookrunner to AWV's $7.1m placement in August 2016 and received fees for that service.

Peter Arden owns 100,000 shares in Gold Road Resources and 22,0000 shares in XAM.

Bell Potter Securities acted as lead manager for the $15.4m placement for XAM in October 2017 and received fees for that service.

Bell Potter Securities acted as lead manager for SVM's $1.1m placement in October 2016 & assisted in SVM's $6.5m placement in October 2017 and received fees for that service.

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

PAF paid a service fee equal to 1.5% (excluding GST) of the Application Monies provided with valid Application Forms bearing a Licensee's stamp to the extend Shares were allotted. Bell Potter and its advisors shared in this fee.

Jonathan Snape owns 22,500 shares in A2M and 7,000 shares in SM1.

Bell Potter Securities Limited has acted as Co-manager to the following issues: AMPHA, ANZPD, ANZPE, BENPD, BOQPD, CBAPC, CBAPD, CBAPE, CBAPF, CWNHA, IANG, MXUPA, MQGPB, NABPA, NABPB, NABPD, NFNG, SUNPC, SUNPD, TTSHA, WBCHB, WBCPF & WBCPG. Bell Potter Securities Limited received fees for these services.

Bell Potter Securities acted as Lead manager of the Zenitas Healthcare's 2016 IPO and 2017 capital raise and received fees for that service.

Bell Potter Securities acted as Lead manager of Viralytic's 2015 placement and 2016 SPP and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager, Joint Book Runner and Sole Underwriter for JLG's IPO in October 2017 and received fees for that service.

Bell Potter Securities acted as lead manager and underwriter in the March and September 2017 placements of MSB 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.