ANALYST OUTLOOK & STOCK PICKS DECEMBER 2024

BELL POTTER

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BELL POTTER

LISTED INVESTMENT COMPANIES

Kion Sapountzis
ETF/LIC Specialist

Australian Foundation Investment Company (AFI)

AFI commenced operations in 1928 and is Australia's largest listed investment entity by market capitalisation. The Company adopts a long-term perspective that emphasises 'quality' investments, with a focus on efficient after-tax returns for shareholders. The fixed cost base also enables for the provision of a highly competitive, low-cost investment vehicle, and with no ongoing management or performance fees attributable to an external manager. While still actively managed, the management expense ratio of 0.15% (annually) is particularly compelling when juxtaposed to popular low-cost passive ETFs, whilst providing benefits unique to the LIC structure, including the ability to smooth dividend payments during periods of 'lumpy' earnings. AFI has generated an annualised pre-tax asset return of 8.8% p.a. over the last 5 years and 8.0% p.a. over the last 10 years, whilst currently priced at a discount to its NTA value.

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Qualitas Real Estate Income Fund (QRI)

QRI provides investors exposure to the Commercial Real Estate (CRE) loans, secured by real property mortgages that are diversified by borrower, loan type, property sector and location. The manager uses their extensive experience in the CRE sector and portfolio size to optimise loan selection to ensure a steady stream of distributions to unitholders whilst managing risk. Since the GFC and the implementation of the Basel III regulatory framework, the share of traditional financiers in the CRE sector has been steadily declining, creating more investment opportunities for QRI, which is further strengthened by the continued growth of the Australian property market. The trust trades near its Net Tangible Asset (NTA) value and at a net yield of 8.4%. During the current elevated interest rate environment, the trust has generated pre-tax NTA returns of 9.1% over the last year and 7.8% p.a. over the last 3 years.

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MFF Capital Investments (MFF)

MFF seeks to identify and invest in large international companies that display sustainable competitive advantages and above average profitability growth. The Investment Manager adopts a long-term view when assessing these companies which are considered to be trading below their intrinsic value. MFF has generated an annualised pre-tax asset return of 13.5% p.a. over the last 10 years and maintains a robust balance sheet. Total equity for the financial year included $1.34 billion in retained earnings and $706.97 million in contributed equity, and we calculate an excess franking credit balance of 29¢ p/s. This translates to an annual gross dividend cover of 6.2x as of 30 June 2024. We see the investment track record and prudential capital management as highly attractive, particularly given a current indicative discount of -10.4% (with respect to the NTA per share), coupled with potential future managerial efficiencies unlocked through the intended acquisition of Montaka Global.

* Discount as at 6 December 2024

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TECHNOLOGY & GAMING

Chris Savage, Michael Ardrey & Baxter Kirk
Industrials Analysts

We have a positive or constructive view on the outlook for the technology and gaming sector given, firstly, the generally strong or above average forecast revenue and/or earnings growth and, secondly, the easing interest rate environment which is expected to commence in Australia next year. Lower interest rates are in general good for high growth stocks with low or negative cash flows/earnings now and only reasonable or meaningful cash flows/earnings in several years' time. Interestingly, however, tech stocks have still performed well over the past couple of years in a rising interest rate environment but this has been more led by large cap stocks which already have reasonable cash flow/earnings. The likely cuts in domestic interest rates next year, therefore, could have a more positive impact on small to mid cap tech and gaming stocks and accordingly we have chosen three mid caps for our key picks.

Life360 (360)

Life360 develops and operates a mobile app for families – called Life360 – that provides a range of safety features including communications, driving safety and location sharing. The app is used globally by over 75 million people and, of these, there are around 7 million paying subscribers. The penetration rate, therefore, is around 10% and the company has a stated long term target of 30% so there is the potential for the paying subscriber base to triple from here. Life360 is also adding new verticals – like advertising, pet and elderly tracking – which provide additional areas of growth. The next potential catalysts are when Life360 releases its Q4/2024 result in February – we expect a strong result towards the upper end of the guidance ranges – and the S&P/ASX index rebalance in March where we see a good chance Life360 will be added to the Top 100.

Buy, Price Target $26.75

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Light & Wonder (LNW)

Light & Wonder is a leading cross-platform games company that develops and manufactures slot machines, creates free-to-play social casino games for mobile platforms, and produces online real-money gaming content for online casinos. Operating globally, LNW historically derives over 67% of its revenue from the US. Since reducing its debt levels in 2022, LNW has increased its Research & Development (R&D) spending, leading to improved game performance. We anticipate 8-11% annual EBITDA growth rates over CY24-26, driven by further R&D investment that enhances game performance and results in market share gains across the North American premium leased market, global outright game sales markets, and online gaming markets. Additionally, we view the recent turmoil surrounding the Dragon Train preliminary injunction as an attractive entry point.

Buy, Price Target $180.00

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Gentrack (GTK)

Gentrack develops, provisions, and integrates its billing/CRM platform into energy and water utilities, generating up-front project revenue (from deployments/integrations) that transitions into SaaS-type recurring revenue and embeds GTK within utility tech stacks long-term due to high switching costs. Demand for modern-day utilities billing solutions is growing rapidly due to dual tailwinds in (1) an evolving energy grid generating significant amounts of data and complexity in billing and customer management, and (2) legacy tech debt incurred from historical underinvestment in the utility billing stack. GTK has a track record of upgrading and beating guidance, with the interim result in May likely to be the next catalyst potentially from lumpy, large contract wins in Southeast Asia. GTK appears expensive at ~90x/~56x FY25e/26e P/E however the valuation reflects high earnings leverage emerging, noting PEG ratios of ~1.2x and ~0.9x respectively.

Buy, Price Target $13.90

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DIVERSIFIED FINANCIALS

Marcus Barnard
Industrials Analyst

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

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

Perpetual (PPT)

On 8 May the company announced a disposal of the Corporate Trust (CT) and Wealth management (WM) businesses to KKR for $2.175bn, which we regarded as an excellent price for this business and underpins the value in the group. The shares have since underperformed a strong equity market reflecting continued outflows, the level of on-going cost in the asset management business and most recently a negative ruling on tax from the ATO – which probably means the sale of CT & WM will not proceed.

We remain positive for three reasons. Firstly, although the demerger may not happen, CT & WM are good businesses which are growing, have relatively stable earnings, and are cash generative. Secondly, the new CEO Bernard Reilly has made it a priority to address the cost base. Clarity about costs should start to see forecasts rising. Thirdly, the shares are unloved and undervalued, with the asset management business having an implied valuation of 4.5-5.5x EBITDA. The recent share price movements highlight the upside from a small positive change in sentiment.

Buy, Price Target $24.76

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Regal Partners (RPL)

Regal Partners has continued to show value creation in CY24 with further inflows, new fund launches, strong performance (which is translating into high performance fees), and further acquisitions.

The company has made an approach to Platinum Asset Management (ASX:PTM, HOLD PT$1.21). It remains to be seen whether PTM will agree terms. RPL would add $12bn of FUM, and would be well placed to reduce costs, improve investment performance and reduce outflows. A paper deal would also increase the market cap and free float, making index inclusion more likely.

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

Buy, Price Target $4.85

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REAL ESTATE

Andy MacFarlane & Connor Eldridge
Real Estate Analysts

Bond yield expansion and domestic views that rates cuts are further away and potentially a 'more shallow' than previously priced by the market has slowed a broader sector rebound, notwithstanding some strong thematics (e.g. data centres) are emerging, driving a divergence in haves and have nots. Amongst our coverage our two preferences are: (1) 'Living' (which spans residential, land lease and retirement), supported by the strong tailwind of a growing/ageing population and housing undersupply; and (2) convenience retail (fuel stations), which we think will continue to provide more resilient returns that other asset classes given small cheque sizes, strength of covenants and constrained supply/demand dynamics. At the other end of the spectrum, the outlook for office continues to prove challenging with limited capital appetite even at reduced pricing. Any deviation from the prevailing "higher for longer" consensus would be a positive catalyst for the sector. In the interim, fund managers with access to lower-cost capital are positioned to outperform.

Aspen Group (APZ)

Aspen Group is a leading provider of quality affordable accommodation to the 40% of Australian households with income <$90k p.a. APZ owns, develops, and operates residential, retirement and holiday park communities across Australia. The group has a sector agnostic, high ROE focus on sub-sectors that are nonfungible and repeatable over time. APZ's target tenant/owner sits within a very defensive segment of the market - affordable living. The national undersupply equation means that this will remain a crucial pillar of the housing market and will be upheld by robust demand and government subsidy for the foreseeable future. Conservative underwriting in place and strong early FY25 updates suggests that APZ is in a good position to deliver sales and settlements at or above expectations. In addition, APZ screens attractively relative to peers (c.10% premium to NTA vs. c.30-35% for LIC & INA respectively).

Buy, Price Target $2.75

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Cedar Woods (CWP)

Cedar Woods is a residential property developer based in Perth, WA. The group also develop and own commercial property where they see a value add. CWP's pipeline is diversified by product type, price point and geography, enabling them to maintain smooth earnings throughout the cycle to ride the tailwind that is Australia's undersupply of housing. We believe CWP is being held down (trading in-line with NTA vs long-term 30% premium) by noise from larger residential peers, and not being appropriately rated by the market for its exposure (soon to be earnings) to stronger markets such as WA, SA and SEQ. The longstanding management have a track record of being conservative (and beating) guidance, so the 10% NPAT growth target set in August demonstrates the strong level of confidence in how things are going.

Buy, Price Target $7.20

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Dexus Convenience Retail REIT (DXC)

Dexus Convenience Retail REIT is a convenience retail/service station REIT with a network of c.100 assets across the country predominantly leased to institutional and strong covenant tenants including Chevron, Viva, EG, Mobil and 7-Eleven. DXC trades at a c.20% discount to stated NTA which we think is overly punitive for a sub-sector where there is clear price discovery, high transaction volume ($1.25bn CY24 YTD) and high velocity (avg. 50 days on market nationwide). DXC also pays a c.7% dividend yield in addition to the potential for a re-rate.

Buy, Price Target $3.30

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RETAIL

Chami Ratnapala
Industrials Analyst

Overall traffic trends have remained largely positive in Australia leading into the seasonal period, with preliminary data points indicating a ~4% increase in overall industry retail spend over the marquee 4-day Black Friday weekend. We view a relatively resilient backdrop for most retailers during the seasonal period, apart from some categories such as mass apparel retailers who we have seen discounting more than our average coverage (such as City Chic and Premier Investment's five non-core Apparel Brands).

Looking ahead, we have seen the Consumer Sentiment Index in October peaking back to the level similar to the start of the rate hiking cycle back in May 2022 in Australia which we view as supportive for 2025 with rate cuts expected in 1HCY25 (between February to May 2025, as per BP house view). With a better backdrop for overall retail anticipated from 4Q25, we continue to look for retailers with differentiating customer value propositions & balance sheet strength and support names who may grow via market share expansion and have exposure to product/customer categories with attractive themes such as technology, sporting goods, niche trend-wear and Gen Z cohort.

JB Hi-Fi (JBH)

Being Australia's market leader in consumer electronics with a BPe ~27% market share and as a leading technology destination, JBH has also expanded its home appliances offering through both JB Hi-Fi and Good Guys banners and made a foray into the commercial vertical in the household goods market with the acquisition of e&s (75% owned).

We view the retailer as being able to support a higher multiple as we see a sizable upside from the AI driven upgrade cycle/replacement cycle of devices purchased during the COVID-peak and given the similarities of JBH and other low gross margin yet high-earnings quality retailers globally.

Buy, Price Target $98.00

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Premier Investments (PMV)

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

With the divestment of the non-core Apparel Brands (AB) to Myer (MYR) in an all-script deal expected to be completed in Jan-25, we see PMV retaining the higher margin Smiggle and Peter Alexander (PA) earnings base post-demerger. We view the highly profitable retail business with domestic:offshore exposure of 70:30 (BPe) growing at ~13% (BPe, FY26e), ~26% stake in Breville Group (BRG), together with property assets valued at cost and a strong cash balance (~$327m, BPe), as worthy of a re-rate in the multiple.

Buy, Price Target $38.00

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Accent Group (AX1)

Accent Group commands a dominant ~30% market share in the $3b Australian footwear retailing market, in addition to a broader opportunity given the expansion into the athleisure market via its own brands.

We continue to view AX1 as a key pick in our retail sector coverage given their scale as Australia's market leader, growth adjacencies in both footwear/apparel from exclusive partnerships & TAF channel conversion and growing vertical brand strategy led by Nude Lucy. We also view the strategic investment by Frasers Group (FRAS) in AX1 (~15%) and the board appointment recently as a step forward to unlocking the sizable store roll-out opportunity of FRAS's core Sports Direct banner in Australia.

Buy, Price Target $2.75

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INDUSTRIALS

Joseph House & Marcus Barnard
Industrials Analysts

Activity has generally been robust across most construction and maintenance markets in 2024, notwithstanding the persistent capacity constraints brought about by tight labour conditions, material shortages and high inflation. The outlook for GenusPlus, SRG Global and Duratec is buoyed by healthy orderbooks that are driven by greater spend for growth and sustaining projects and maintenance across the Resources, Utilities, Defence and Infrastructure sectors. These companies are also well positioned to benefit from longer term structural tailwinds in growing critical mineral mining, renewable energy investment and Federal defence spending.

GenusPlus Group (GNP)

GenusPlus remains our key pick for exposure to the decarbonisation and electrification thematic across the utilities and mining sectors. The Humelink East transmission project is a cornerstone contract that underpins our double-digit EPS CAGR outlook over FY24-27. The project is now approaching final approval with the Commonwealth Government. Site mobilisation and construction works are expected to commence in early 2025, subject to timing of final approvals. We see upside risk to our forecasts should new construction contract award momentum continue over the next 6-12 months, building on ~$240m of work packages awarded in FY24 (ex-Humelink East).

Buy, Price Target $3.00

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SRG Global (SRG)

We are encouraged by SRG's contract awards and extensions in FY25-to-date, which are materially higher than the PcP and FY24, and outlines positive engagement with repeat clients in the recently acquired Diona business. SRG's valuation gap with its peer group has closed given the company's recent share price appreciation; we argue SRG should be trading at a premium given the company's attractive EPS growth and EBIT margin outlook and high proportion of recurring earnings vs peers. We anticipate SRG to deliver a guidance upgrade at its interim result in February 2025, representing an upcoming earnings catalyst.

Buy, Price Target $1.55

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Duratec (DUR)

Duratec is a WA based specialist engineering contractor in the asset protection and specialist construction space. Its work often involves existing structures, where age, usage and toxic environments has degraded the fabric, and simple economics mean the owner will favour repair over replacement. Its reputation and quality of completed projects, secures its position with existing customers, giving high levels of repeat business, and growth opportunities.

The AGM noted that the outlook in all its sectors was extremely bright, with additional projects and agreements secured. It often takes a role in early project planning, leaving it well placed to tender for the final work. A key focus is the planned $8bn spend at HMAS Stirling on which DUR is an authorised contractor, and well placed to secure additional work.

We see the recent share price weakness offering an attractive entry level.

Buy, Price Target $1.73

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INDUSTRIALS

Daniel Laing & Sam Brandwood
Industrials Analysts

In October, stronger-than-expected US economic data led to a reduction in overly optimistic rate cut forecasts, triggering a rise in bond yields. Although the global rate-cutting cycle may be shallower, unemployment is significantly lower than in previous cycles, which gives us confidence in the rotation potential towards domestic industrials with strong 'rebound' characteristics in 2025. For us these include Brickworks (BKW), IPD Group (IPG) and Cleanaway (CWY) to a lesser extent. Austal (ASB) and IPD Group (IPG) also remain top picks due to their longer-dated/secular growth stories – defence spending and electrification.

Austal Limited (ASB)

Austal, Australia's largest defence exporter, is a shipbuilder providing design, manufacturing and support capabilities for defence and commercial customers.

ASB has established itself as a key contributor to both the US and Australian naval industrial bases, which is reflected in its record contract book of ~$12.7b AUD. The company was recently announced as the Australian Government's shipbuilder of choice in WA, which is likely to result in the award of several additional contracts (BPe ~$7b - $10b) as part of the renewal of the RAN fleet.

Austal has successfully navigated the recent transition from legacy contracts to the current orderbook and we anticipate material earnings growth from FY25 onwards as these new programs mature.

Buy, Price Target $3.75

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Brickworks (BKW)

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

We see BKW as a high delta exposure to interest rate cuts and by extension a stock to own as we edge closer to the cycle pivot point (Bell Potter's base case for our first cut is 1H CY25). Specifically, we see a scenario unfolding where BKW could realise double digit mark-to-market NTA growth p.a. quite comfortably in coming years through positive revals (i.e. cap rate reversal), ongoing property development and rent reversion (BKW remains ~28% under-rented and 50% short-WALE), as well as continued SOL outperformance. This is a growth story we think few ASX-200 industrials can currently match.

Buy, Price Target $32.00

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IPD Group (IPG)

We view IPD Group as a high-quality play on electrification which has emerged as a dominant market narrative. The group mainly supplies electrical equipment designed to reduce the energy use of buildings, infrastructure, and transport sectors.

1H25e has seen IPD continue to grow and win market share, despite a soft commercial construction end market (IPD's core exposure) and recent project delays – in our view, highlighting the resilience and quality of the service proposition. IPD continues to investment ahead of the curve to capitalise on the potential of markets such as data centres and electric vehicle charging, with order and backlog growth (+50% in 1H25) early success factors. While we acknowledge IPD needs to pull-through a greater level of backlog in 2H25e to meet consensus estimates, on a P/E of ~15x we think risk-reward is compelling given the long-term growth potential.

Buy, Price Target $5.30

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HEALTHCARE

John Hester, Thomas Wakim & Martyn Jacobs
Healthcare Analysts

As we enter 2025 there are encouraging signs for the Australian biotechnology sector as several prominent names prepare for the announcement of headline data in pivotal trials and product approvals. Amongst our coverage, Opthea's headline data from its phase 3 trial for the treatment of wet AMD is due mid year, while Clarity Pharmaceuticals is due multiple readouts from its clinical program commencing with the diagnostic imaging CLARIFY trial. Telix Pharmaceuticals is expecting FDA approval for Pixclara in April, however, before then Mesoblast is anticipating approval of Remestemcel-L in early January and EBR Systems is expecting approval of the WiSE device in March. Together these events add up to one of the busiest news flow schedules in recent memory. Elsewhere in the US, there are ongoing signs of life in the biotechnology sector. In 2025 we anticipate a flurry of M&A deals as large pharma buyers look to pick up late stage assets with blockbuster appeal. In this regard the timing is very good for Paradigm Biopharmaceuticals who continue to investigate all options for the ongoing development of Zilosul. Several other names are also likely to produce important interim data readouts in 2025 including Immutep, Imugene and PYC Therapeutics.

PolyNovo (PNV)

PolyNovo is a leader in the market for dermal replacement wound care products in the United States. Novosorb has gained excellent traction in the US hospital sector over recent years which has seen dozens of surgeons commence using the product for complex wound repair. FY25 revenues are likely to grow at >30% off a revenue base of $110m and the company is also expected to generate earnings and record its first full year of cash flow positive operations. In the clinic, PNV is expected to report headline data from the clinical trial in full thickness burns and this will likely lead to an upgrade in the registration from a 510K to a pre market approval (PMA) and improved pricing.

Buy, Price Target $3.00

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Clarity Pharmaceuticals (CU6)

Clarity Pharmaceuticals has continued to produce high quality interim data readouts from its numerous clinical trials during 2024. In 2025 we anticipate a flood of new data led by headline readouts from the pivotal study in prostate cancer imaging (CLARIFY) and perhaps more importantly, final data from SECuRE being the therapy trial also in prostate cancer. Earlier data from imaging studies indicates 64Cu SAR-bisPSMA is able to detect cancerous lesions in lymph nodes at a far earlier stage than the standard of care. Similarly, PSA50 data from the SECuRE trial is highly anticipated and is expected to be highly supportive of further development of this drug candidate.

Buy (Speculative), Price Target $10.00

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CSL Limited (CSL)

We expect CSL will achieve guidance of "annual double-digit earnings growth" over the mid-term driven largely by the legacy plasma business, Behring, particularly its immunoglobulin sales.

While CSL's Seqirus and Vifor business units do face near-term headwinds (reduced flu market demand and generic iron competition), these two units combined only contribute less than a third of total earnings.

CSL continues to be a high quality, global operator with a multi-year gross margin recovery well underway to drive earnings expansion. The stock is currently trading at a 12m forward PE 27% and 19% below 5- and 10-year averages, respectively.

Buy, Price Target $345.00

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HEALTHCARE

John Hester, Thomas Wakim & Martyn Jacobs
Healthcare Analysts

EBR Systems (EBR)

EBR Systems is a clinical stage company that has developed its patented Wireless Stimulation Endocardially (WiSE) technology for the treatment of cardiac rhythm disease and to eliminate the need for cardiac pacing leads when delivering cardiac resynchronisation therapy. The key significant near-term catalyst is the forthcoming FDA decision/approval in March 2025 that should be a valuation inflexion point for EBR. Upon approval, EBR will be launching into a market valued at c.US$3.6bn and which is highly concentrated, paving the way for relatively rapid market penetration

Buy (Speculative), Price Target $2.01

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Biome Australia (BIO)

Biome Australia develops and commercialises clinically backed innovative live biotherapeutics (probiotics), marketing 17 products under the 'Activated Probiotics' brand. We like how BIO differentiates itself through evidence-based condition specific products that provide the intellectual platform to target pharmacy/health practitioner distribution networks. BIO has an impressive distribution network covering more than 5,000 points of distribution across Australia and is also building an international business. BIO is moving up the quality scale via becoming cash flow positive and has released three-year cumulative guidance that aims to triple sales.

Buy, Price Target $0.85

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Genetic Signatures (GSS)

Genetic Signatures is an infectious disease diagnostic company on the cusp of launching its first, highly differentiated product into the US market.

While GSS has established a mature foothold among Australian pathology customers over the last 10 years, it is the upcoming US opportunity that could dwarf the domestic business and has investors excited.

With a new CEO at the helm, we remain optimistic about the US product roll out considering it detects twice the number of pathogens as competitors and provides a faster and more profitable workflow for lab customers, many of whom still rely on antiquated microscopy detection methods.

Buy (Speculative), Valuation $1.10

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GOLD

David Coates & Bradley Watson
Resources Analysts

As anticipated, numerous tailwinds created a supportive gold price environment in CY24 and it emerged as one of the top performing commodities of the year, setting multiple all-time highs in several currencies. The commencement of interest rate easing cycles by major Central Banks and Central Bank gold buying were key factors. Despite this, real interest rates and the US dollar remained at multi-year highs. Given their historic, strong negative correlation with the gold price and our expectation that both will drop as rates are cut, we see the current gold price as having an extraordinarily strong platform from which to continue to appreciate. Macro factors such as gold's role as an independent currency without debt service obligations, as a store of value against the debasement of fiat currencies and geopolitical volatility all remain supportive into CY25.

Genesis Minerals (GMD)

Genesis Minerals is a Western Australian gold production and development company, focussed on the Leonora District. GMD owns two gold processing plants (Leonora and Laverton). GMD estimates it has 15Moz of contained gold in Mineral Resources, and 3.3Moz in Ore Reserves, across four mining centres. Following a period of significant M&A activity, GMD has outlined plans to grow production to 325kozpa by FY29 (from 135koz in FY24), and 350kozpa by FY34. GMD aspires to get to 400kozpa and has significant optionality within its existing Resource portfolio.

GMD guides to near term growth with FY25 production guidance of 190koz to 210koz, a ~50% increase on FY24, and recently restarted the Laverton Gold Processing plant. Management is highly experienced, well known and respected. The combination of growing production, declining costs and a supportive gold price, will progressively enhance GMD as a growth platform.

Buy, Price Target $2.80

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Gold Road Resources (GOR)

Gold Road Resources is a gold producer through it's 50% ownership of the Tier-1 Gruyere Gold Mine in Western Australia. GOR is also a growth focused company, through active gold exploration and project assessment and acquisition work. GOR is a significant (17.3 %) shareholder in De Grey Mining Ltd (DEG), which is advancing the Tier-1 Hemi Gold Project, and subject to a Scheme of Arrangement with Northern Star Resources Ltd.

After experiencing production disruptions in late CY23 and early CY24, GOR's recovery from production issues is largely complete. Management commentary continues to highlight Gruyere's potential for significantly higher gold production and earnings (a sustainable 175kozpa on an attributable basis), which we expect from CY25. GOR has underperformed other gold producers which have rallied in the strong gold price environment. As GOR demonstrates that gold production is back on track in 4QCY24, we expect the share price to improve rapidly.

Buy, Price Target $2.55

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Santana Minerals (SMI)

Santana Minerals is a gold explorer and developer, focused on the Bendigo-Ophir Gold Project (BOGP) in New Zealand. The project has a high grade Ore Reserve of 1.2Moz @ 2.4g/t Au and is emerging as one of the most attractive gold development projects of this scale on the ASX. Bottom quartile costs, conventional mining and processing methods and an initial 10-year mine life on Reserves alone make it attractive for both debt and equity financing. It is well placed to advance through final studies, financing and permitting, with one of the most favourable and rapid development pathways to production (and production re-rating) among its peer group.

Buy (Speculative), Valuation $1.07

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BASE METALS

David Coates, Bradley Watson & James Williamson
Resources Analysts

While sentiment has prevaricated on copper as the success or otherwise of Chinese stimulus measures has been considered by the market, we remain cognisant of a tight supply-demand balance in the copper market over the medium term, the sector's capacity to provide a supply response to stronger demand signals and copper's broad exposure to the renewable energy / electrification theme. In our view, the fundamental drivers supporting long-term higher copper prices remain intact and any opportunity to add production exposure amidst weak sentiment is an excellent buying opportunity.

AIC Mines (A1M)

AIC Mines is a WA-based copper production and exploration company focused on its 100%-owned Eloise Copper Project (ECP), SE of Cloncurry in Queensland. ECP is an established underground copper-gold mine producing ~12.5ktpa copper and +5kozpa gold. It has a clear pathway to growth, having commenced expansion of the mine and mill to 20ktpa copper production. A1M's management team is led by Managing Director, Aaron Colleran and Chairman, Josef-El-Raghy. Both have a strong track record of value accretive acquisition and asset development. A1M represents leveraged copper exposure and the current share price represents an excellent entry point into a well-managed, Australian based copper producer.

Buy, Price Target $0.60

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Nickel Industries (NIC)

Nickel Mines' operations are located in Indonesia and are long-life, bottom-of-the cost-curve projects uniquely exposed to a diversified suite of nickel products capturing value across upstream and downstream operations. This strategic advantage has allowed NIC to demonstrate the ability to make money through the price cycle which is a key attribute of attractive long-life assets. It is in the middle of aggressive production and margin growth, lifting attributable nickel production from ~108kt in CY23 to +130kt CY25 and +160kt CY26. We expect margin expansion to be driven by an increased proportion of high margin HPAL production, rising from ~8kt in CY24 to ~50kt in CY26. Sustainable and rising dividends also support the current valuation.

Buy, Price Target $1.43

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STRATEGIC MINERALS

Stuart Howe & Regan Burrows
Resources Analysts

Strategic minerals are to remain topical following the US election, China's critical mineral export restrictions and lithium sector production cuts.

We expect the incoming Trump administration to focus on domestic minerals capabilities and allied supply sources (Canada, Australia), potentially accelerating market bifurcation across critical and strategic minerals. There have also been recent reports that China has banned exports to the US of gallium, germanium and antimony, adding to trade tensions.

Production curtailments in lithium, initially from Chinese chemicals producers then from Australian spodumene producers, should see pricing improve into 2025. In rare earths, traditional sources of demand remain weak on a slow-down in Chinese activity. Recent declines in Chinese domestic rare earth production growth saw a rally in rare earth oxide prices. However, absent growth in underlying demand has since stifled the rally. We see this weakened demand trend continuing over the next six months, keeping prices depressed.

Alpha HPA (A4N)

Alpha HPA's proprietary process produces ultra-high purity aluminium compounds with applications in technology growth sectors including lithium-ion batteries, LED displays/lighting, semiconductors and direct lithium extraction (DLE). The process is disruptive in terms of cost of production and product purity.

The HPA First Project Stage 1 in Gladstone, Queensland, commenced operations in 2022 and has supported technical and commercial validation of the process and products.

In May 2024, A4N announced FID on Stage 2 which will ramp-up in 2026 and is funded with up to $400m debt support from the Northern Australia Infrastructure Facility and Export Finance Australia, and grants from the Commonwealth and Queensland State governments.

A4N's downstream synthetic sapphire glass subsidiary value adds to the group's high purity alumina. Target markets are the LED and specialty optics sectors. Australian chemicals group Orica (ASX:ORI, not rated) is a substantial A4N shareholder.

Buy (Speculative), Valuation $2.00

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IperionX (IPX)

IperionX has the global rights to titanium manufacturing technologies developed at the University of Utah. The technologies have the potential to disrupt the incumbent titanium supply chain through materially lowering production costs and manufacturing waste.

Large-scale production will commence next year in Virginia USA, further de-risking the company's technologies and enabling IPX to progress commercial relationships with several high-profile aerospace, automotive, luxury goods and government end users.

There is then potential for IPX to scale its technology and cement itself as a key supplier in the US and global titanium value chains.

Titanium is a highly strategic metal given its applications across the defence and aerospace sectors. At present, the US imports around 95% of its titanium requirements, predominantly from Japan. Russia and China account for more than 70% of global titanium supply.

Buy (Speculative), Valuation $5.25

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BULKS & ENERGY

Stuart Howe, Regan Burrows
& James Williamson
Resources Analysts

We see upside risks to iron ore prices into 2025, with China's seasonal steelmaking activity strengthening into March-May and risks to supply (grades and volumes). Iron ore prices have maintained relative strength in recent months, despite adequate supply and China's crude steel production trending lower than recent years (though still at around 1Btpa). Recent quarterlies have highlighted declining grades from the Pilbara producers. Iron ore exports typically drop in the March quarter as mining operations and shipments are disrupted by the cyclone/wet season.

Fundamentals for uranium markets and pricing remain strong in our opinion, with the pipeline of reactors under construction (66) continuing to expand, whilst the trend in reactors being disconnected from the grid declines. On the supply side, recent production issues in restart operations have highlighted the risk in bringing production back online, whilst future supply remains concentrated in a handful of projects.

Boss Energy (BOE)

Boss Energy's Honeymoon project recommenced production in April-24, with 1Q25 production and sales of 89klbs and 57klbs respectively. The Alta Mesa project with JV partner enCore energy in South Texas also recommenced production, with a target of reaching 1.5Mlbs pa by CY26 (BOE share 450klbs pa). We continue to see significant value in BOE, with optionality around expansion at Honeymoon via low-risk and cost regional resources at Jasons and Goulds Dam. With the inclusion of Alta Mesa, BOE boasts a geographically diversified multi-asset portfolio with several growth levers yet to be pulled, heading into a uranium bull market.

Buy, Price Target $5.70

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Champion Iron (CIA)

Champion Iron's key asset is the Bloom Lake mining complex located in northern Quebec, Canada, which produces high grade (+66% Fe) iron concentrates at rates of around 15Mtpa. These concentrates are priced at premiums to underlying 62% Fe iron ore index prices due to the higher iron content and value-in-use. In January 2024, CIA announced a final investment decision to invest a further US$351m to upgrade around half its production to DR grade (69% Fe); commissioning is expected in 2H 2025.

The shift into higher grade production will likely support average realised prices and earnings amid an iron ore price environment generally expected to weaken.

CIA will benefit from maturing higher-grade iron concentrate markets which recognise emission reduction benefits in the hard-to-abate steel sector. CIA is a dividend payer; we expect earnings to continue to support dividends.

Buy, Price Target $7.10

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Fenix Resources (FEX)

Fenix Resources is unlocking stranded mining assets across the Mid-West region of Western Australia, through three wholly owned business pillars: (1) iron ore mining; (2) bulk commodity haulage (Newhaul Road Logistics); and (3) port services (Newhaul Port Logistics). The company's internal iron ore production is growing to 4Mtpa through its Iron Ridge (100% FEX, operating), Beebyn-W11 (10Mt Right to Mine agreement, in development), and Shine (100% FEX, operating) mining operations. FEX's logistics streams provision bulk commodity haulage and port services for in-house and third-party customers. The group controls the largest storage and throughput position at the strategic and fast growing Geraldton Port. Its portfolio of low-capital mining assets and integrated logistics networks should continue to underpin robust cash flows, funding growth expenditure requirements and shareholder returns.

Buy, Price Target $0.41

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

Bell Potter Securities owns shares in A4N.

Bell Potter Securities acted as Lead Manager and Bookrunner to IPX's $50m placement in May 2024 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager to IPX's $100m placement in October 2024 and received fees for that service.

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

Martyn Jacobs owns shares in BIO.

Bell Potter Securities acted as Sole Underwriter and Joint Lead Manager for the September 2024 A$50m Equity Raising for EBR's and received fees for that service.

Bell Potter Securities acted as the Sole Lead Manager, Underwriter and Bookrunner to the 2024 GNP's $60.0m Placement and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager of GSS's June 2024 capital raise for $30.0m and the December 2023 capital raise for $15.9m and received fees for that service.

Bell Potter Securities owns shares in SMI.

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

Exploration Risk Warning

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

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The stocks of biotechnology companies without strong revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. Since most biotechnology companies fit this description, the speculative designation also applies to the entire sector. The fact that the intellectual property base of a typical biotechnology company lies in science not generally regarded as accessible to the layman adds further to the riskiness with which biotechnology investments ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Clinical and regulatory risks are inherent in biotechnology stocks. Biotechnology developers usually seek US FDA approval for their technology which is a long and arduous three phase process to prove the safety, effectiveness and appropriate application or use of the developed drug and even after approval a drug can be the subject of an FDA investigation of subsequently discovered possible links between the drug and other diseases not previously diagnosed. Furthermore, the Australian exchange listed biotechnology sector is subject to influence by the global biotechnology sector, particularly that in the USA. Consequently, Australian exchange listed biotechnology stocks can experience sharp movements, both upwards and downwards, in both valuations and share prices, as a result of a re-rating of the sector both globally and in the USA, in particular. Investors are advised to be cognisant of these risks before buying such a stock.

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