Australasia Monthly Book

May 2018

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Contents

Prices at 25 May 2018

Published 01 June 2018

Welcome to the May edition of Edison's Australasia Monthly Book. The Asia Pacific region has continued to attract investment attention, with international funds looking for quality companies in safe jurisdictions with strong cash flow and yield.

Access to information on the Asia Pacific region continues to be affected by the recently implemented European GDPR and MiFID II reforms, which have significantly changed the way that the buy-side can receive its research information. Our approach continues to improve the visibility of our client companies to potential investors, enhances liquidity and provides the opportunity to attract the widest range of potential investors and stakeholders.

Readers wishing for more detail should visit our website, where reports are freely available for download (www.edisongroup.com). All profit and earnings figures shown are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

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We welcome any comments/suggestions our readers may have.

Dean Richardson

Director, Australasia

Australia and New Zealand Round-Up

- Following the sensational findings of The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, which has so far claimed the chair, CEO and three board members of financial services company AMP (ASX: AMP), the focus is now on the behaviour of the big four banks when dealing with small business clients.

- ASX stocks have retraced most of their first-quarter share price losses, with healthcare, technology and energy leading a four-week rally that has resulted in the major indexes reaching close to 10-year highs.

- Harbour Energy, the US private equity giant, has sweetened its takeover bid for ASX top 50 oil and gas producer, Santos (ASX: STO). It has increased its offer to a binding, conditional proposal to acquire all the company through a scheme of arrangement for US$5.21 per share (equivalent to A$6.95 per share based on an exchange rate of 0.75).

- Australian Super, one of Australia's largest superannuation funds with two million members, is one of a consortium of financial investors that has announced a proposal to acquire Healthscope (ASX: HSO). Private equity is an increasingly important asset class with the global mega funds managing assets over $100bn.

- The Kiwi export sector, as well the general NZ economy, looks set to gain fresh impetus from a New Zealand dollar that has fallen by 7% against the all-important US dollar in just over a month, economists said. The New Zealand dollar's sharp decline against the greenback reflected what analysts said was renewed strength in the US dollar and a return to more 'text-book' relativity between the markets now that US interest rates are on the rise after several years of stagnating at abnormally low levels.

- David Allen, global chief investment officer at AMP (ASX: AMP) in his May monthly insight paper stated that AMP has "fully embraced the advantages of separating payment for research from dealing and have unbundled our commission costs globally, not just in Europe (as required under MiFID II). I believe regulators in many major markets will roll out similar regulations to MiFID within the next three to five years. Unbundling research costs will become mandatory in these markets, most likely including our home country of Australia."

- A further AFR article on the effects of MiFID II on domestic research coverage can be found here.

- Federal treasurer Scott Morrison announced changes to the research and development tax incentive in this year's budget with the R&D offset rate to be calculated based on the company's tax rate plus 13.5%, capped at A$4m.

- The ASX is looking to increase the number of technology stocks on the exchange and is targeting a total of 250 by the end of 2018. Tech accounts for less than 3% of the benchmark S&P/ASX 200 index, compared with more than 25% for the US S&P 500. However, that is still about twice the number listed in 2016.

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Market statistics

Australia

Statistics as at April 2018

- Number of companies
  2,151
- Total market capitalisation
  $1,910bn
- Average market capitalisation
  $949m
- Number of international companies
  137
- Primary fund raisings
  $2,354m
- Secondary fund raisings
  $4,732m

Global perspectives: Return of the risk premium

Analyst

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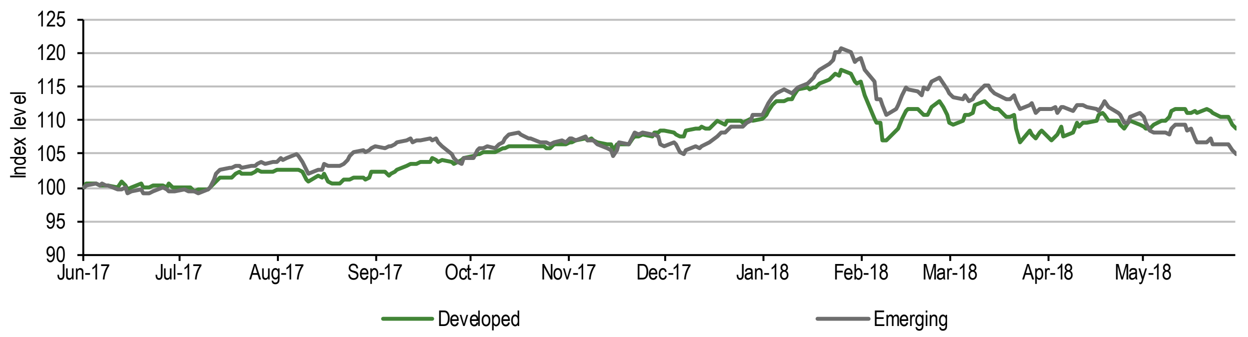
- **In 2018, we observe underperforming emerging markets, a strong dollar, rising volatility and a repricing of fundamental credit risk in Italian bond markets.** These may appear to be disparate narratives but suggest to us that global risk premia are rising as US monetary policy is tightened. We believe the Fed may be reaching the point where questions are raised on just how fast rates can be increased without putting excess pressure on the dollar or inverting the US yield curve.
- **Political developments in Italy have reignited concerns over the sustainability of the euro project.** The long march of populism in Italy has finally knocked on the door of government, only to be turned away. Credit risk premia have surged in Italy and also in other eurozone nations. As market stress has ebbed in recent days, the ECB may have neatly avoided having to reassure investors that euro redenomination risk remains at zero. However, new elections mean that Italian political risk will remain elevated for some months. On the positive side the volatility has led to sharply lower market-implied interest rate expectations on both sides of the Atlantic.
- **Although there has been a notable weakening of economic momentum in Europe, consensus profits growth estimates remain stable.** We believe that, provided this remains the case, there is the prospect of a benign de-rating of currently expensive equity markets as profits grow, while markets move sideways in a volatile trading range. However, the period of outperformance of the energy sector may be drawing to a close following the recent meeting between Russia and Saudi Arabia, which suggests that production increases are on the agenda.
- **US foreign policy is inconsistent and remains a wildcard.** Trade war on, trade war off – then 25% tariffs announced on $50bn of Chinese technology products. North Korea summit on – then off – then possibly back on. While this may yet prove to be genius at work, the appearance for now is of a poorly coordinated administration lacking a unified strategic direction. US foreign policy uncertainty remains at risk of affecting global business confidence.
- **There is no change to our cautious outlook.** We continue to believe equity markets are in a period of consolidation as valuations move closer towards long-run averages as monetary policy is normalised.

Return of the risk premium

Profits growth supports equities as bond yields and political tensions rise

Taken purely from a fundamental perspective, 2018 continues to deliver a strong GDP and profits growth performance in both developed and emerging markets. Yet from a markets perspective, equities have made little headway this year, especially given the positive momentum in corporate profits (Exhibit 1).

Exhibit 1: Global equity markets tread water in 2018

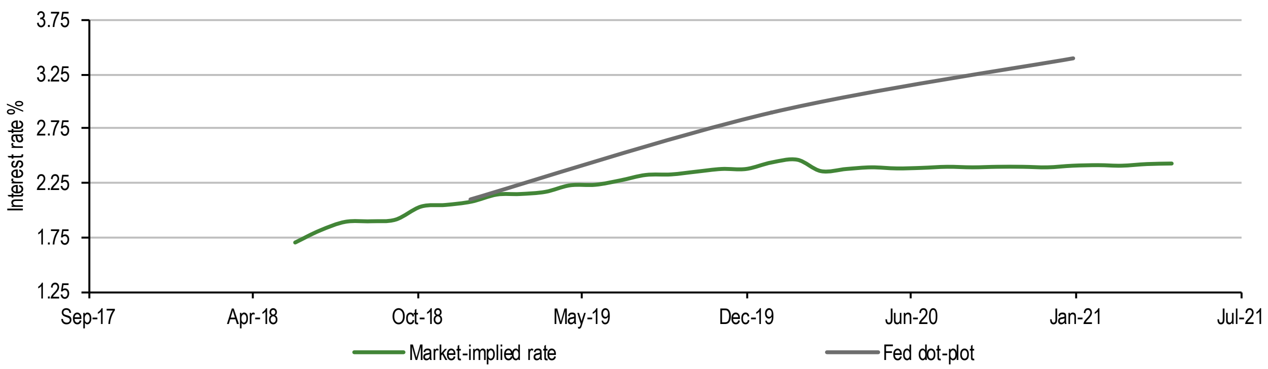


Source: Thomson Reuters. Note: Index level shown in US$

Emerging markets have also underperformed, especially where political risk is evident. Market volatility has risen and the US dollar has also been rising relatively sharply in recent weeks as the trajectory of US monetary policy increasingly diverges from other regions. The very sudden repricing of country risk in Italy is a further example of a situation where the risks were well known, but investors were prepared to ignore them while monetary conditions were loose.

We believe the common factor is the continuing normalisation of US monetary policy. The US Fed may have flagged the trajectory of rate increases and emphasised gradualism but US short-term rates have risen by 1% over the last six months, and just as rapidly as the prior tightening cycle of 2002–06. There appears to be little US policymaker concern at present on the possible risks to the global economy and, in particular, emerging markets, from this normalisation.

Exhibit 2: Market-implied US interest rates diverge from Fed dot plot after 2018



Source: Thomson Reuters

However, looking forward, having already lifted US rates well away from the lower bound without troubling the US economy, we expect international developments such as the rising exchange rate, turbulence in emerging markets and events in Italy to weigh more heavily on Fed thinking over the summer. The knee-jerk reduction in market-implied US interest rates for 2019 following events in Italy may overstate the case in the short term, but at least some policymakers are fearful of inverting the US yield curve or placing excess pressure on the US dollar by an overly large interest rate differential with other regions such as the eurozone. While for the remainder of 2018 interest rate futures are close to the Fed's dot plot projections (Exhibit 2), markets currently have little confidence in US rates significantly above 2.25% in later years. The probability of a pause in US interest rate normalisation, or at least an easing of rhetoric, is rising, in our view, and would facilitate a continued benign derating of equity markets as profits grow.

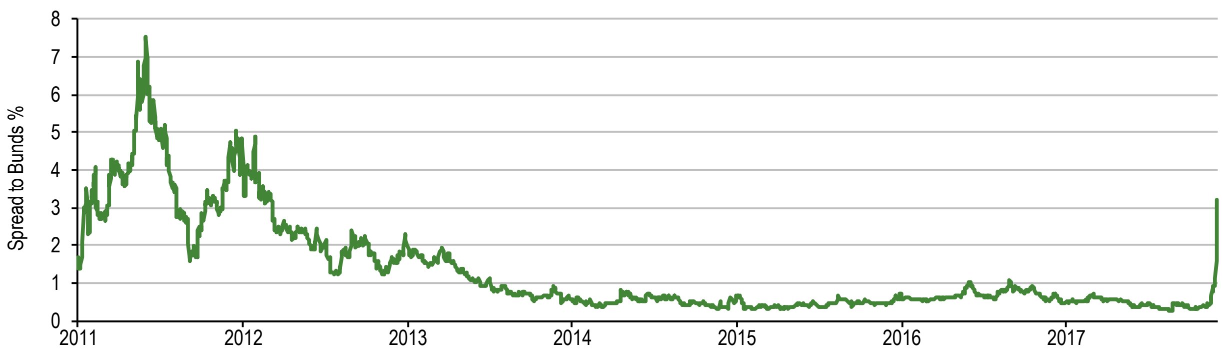
Long, hot Italian summer

New elections may be a referendum on euro and EU membership

Italy's failure over the weekend to form a government was driven by the refusal of the Italian President Mattarella to appoint the hardline Eurosceptic, Paolo Savona, to the position of economy minister. From the perspective of President Mattarella, the recent election was not a referendum on the euro. However, for the Five Star/League coalition the refusal to accept Savona was interference in the democratic process. An incoming caretaker government may have to be put in place but is not the issue; elections either in July or September would in effect be the referendum on the euro. For investors, this creates significant uncertainty over the summer months and into the autumn.

The ECB has been notably silent on developments in Italy, leaving it to Italian central bank head Visco to suggest that only emotional reasons can explain the violent market moves in Italian bond markets this week. It is difficult to understand why he would say this with Italian 10-year bonds showing their worst daily performance in 25 years and short-term interest rates up 50bp since last week (Exhibit 3), unless he had little else to offer.

Exhibit 3: Surge in spread between Italian and German two-year government bonds



Source: Thomson Reuters

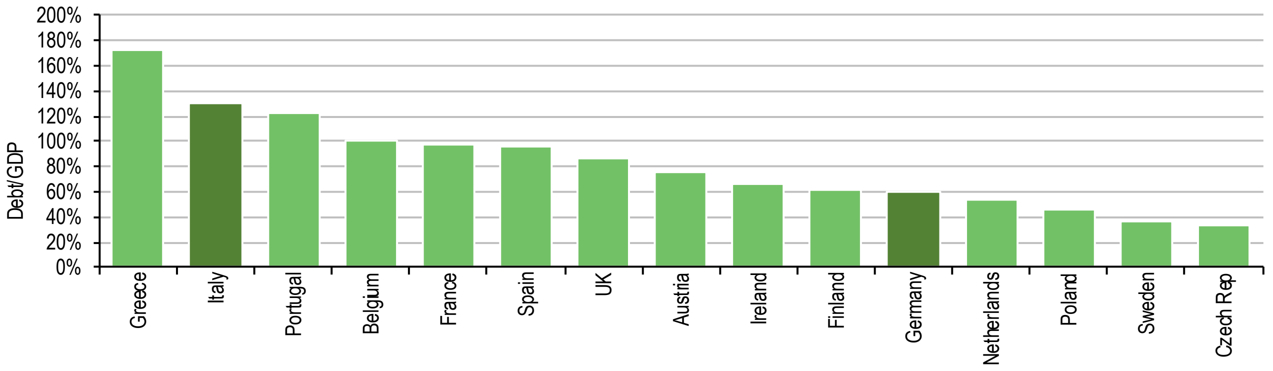
We do not expect the situation to die down rapidly but at the same time would also be surprised if ECB policymakers failed to intervene, should the situation risk getting out of hand. Preventing the break-up of the eurozone has been at the heart of the ECB's and EU's policies for most of this decade. However, these institutions may also privately have an incentive to show the electorate what it feels like to be out in the cold over the summer months. It may have been tactically astute for EU officials to quickly publically distance themselves from comments to this effect by EU budget commissioner Oettinger.

While theoretically the proper transmission of monetary policy is well within the mandate of the ECB, it could yet be seen as advantageous for the ECB to demonstrate the negative effects of an anti-EU vote in Italy, while preventing contagion to other markets. Preventing contagion is a task for the present as credit default swap spreads for peripheral eurozone sovereigns and French banks have surged during the recent turmoil.

There is an inherent conflict in doing whatever it takes to save the euro when the same liquidity support could potentially be viewed in northern European states as enabling free-loading populist politicians. The risk is that conditional support, if necessary, may not soothe markets, which sense a stand-off. Outgoing ECB vice-president Constancio said in an interview this week that any ECB intervention would have to “serve the fulfillment of our mandate” and “meet certain conditions” for any liquidity support.

In our view, the Italian fixed income markets were previously priced on the assumption that the ECB would continue to support the market, making credit fundamentals less relevant, and any Italian government would not ultimately lurch in an anti-euro direction, even if populism was growing at the fringes. Both those assumptions have been challenged. The indebtedness of the Italian government is clearly at the upper end of the eurozone average (Exhibit 4), even if the current account has in recent years moved into surplus.

Exhibit 4: Italian government debt to GDP among highest in eurozone



Source: Thomson Reuters

For investors who were cautiously positioned coming into this volatility, we would highlight that the ECB has still not shown its hand. With redenomination risk rising across the eurozone, careful ECB communication will be necessary to calm markets now that risk aversion has risen to levels which can no longer be ignored and we would not be surprised to see such a communication in the near future.

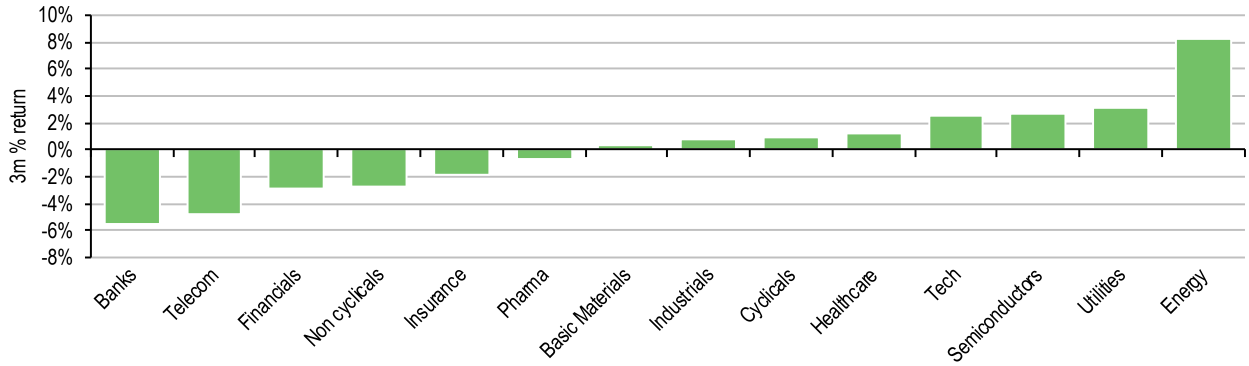
Eurozone money markets have already moved ahead to discount only one ECB rate increase in 2019, compared to three earlier in the year. Ultimately, we believe an Italexit scenario remains unlikely even if the market-implied probability may have risen in recent days. However, the immediate question is the risk of another run on eurozone financial institutions, derailing the economic recovery. ECB President Draghi will have to consider whether he can and will do whatever it takes – all over again.

Energy drives 2018 estimates higher but oil now under pressure

Risks rising as Russia and Saudi Arabia debate whether to turn the taps back on in H2

While it may seem that global investor sentiment has broadly improved over the past three months given the rapid recovery in equity markets, returns have been dominated by the energy sector (Exhibit 5). With Russia and Saudi Arabia now discussing production increases to head off a loss in market share to US shale, momentum in the oil price now appears poised to ease.

Exhibit 5: Global energy sector has dominated three-month market performance



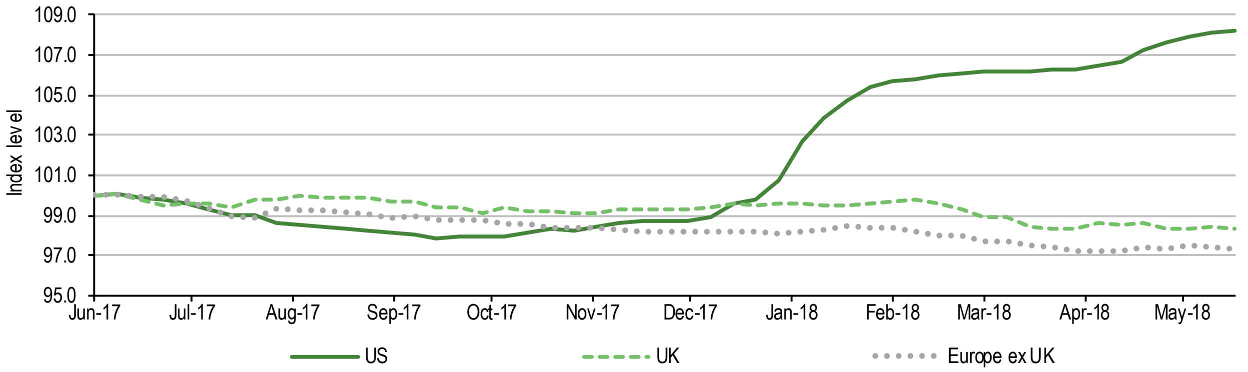
Source: Thomson Reuters Datastream to 27 May 2018. Note: Shown in US$.

Cutbacks in supply and an improving demand picture have led to a remarkable rally in the oil price over the past 12 months. It is by no means clear, however, that the restraint in Russian and OPEC supply is sustainable or even strategically rational in the medium term.

A $20/bbl increase in oil prices since February was, in our view, sufficient to create a dampening of demand and drag on the economic performance of net oil consumers such as Europe. In addition, the Vienna-agreed OPEC supply cutbacks were due to expire after 2018. Press reports indicate that an increase in supply is already under discussion, even before the June OPEC meeting.

With the US staging a considerable production recovery, OPEC members will be concerned not to lose market share. Notwithstanding the upcoming $1.5trn IPO of Saudi state oil producer Aramco, which may suggest a strong incentive for Saudi Arabia to maintain a high oil price, with supply increases under discussion energy equities are unlikely, in our view, to sustain the strong outperformance of the past three months.

Exhibit 6: Median 2018 earnings forecast rising modestly in US, stable in UK and eurozone

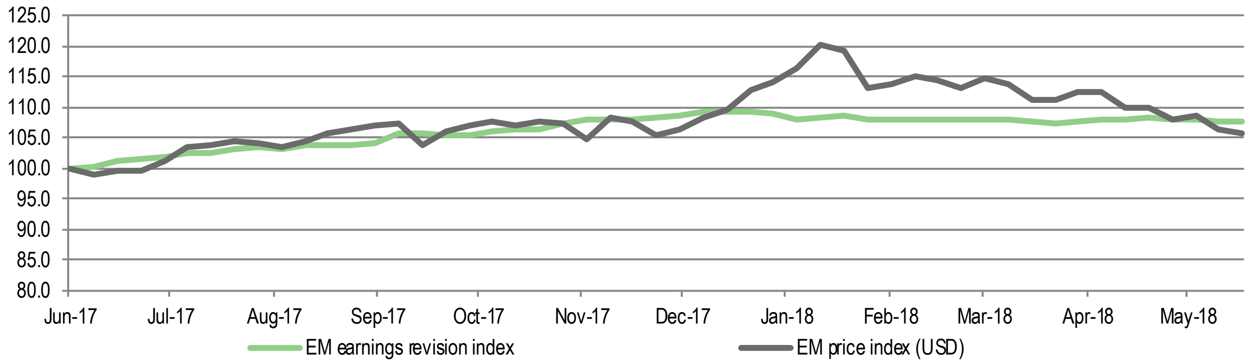


Source: Thomson Reuters, Edison calculations

Outside the energy sector, the median earnings forecast has remained stable in Europe and the UK over the past month and increased modestly in the US. Profits growth forecasts of near 10% for Europe and the UK, and 17% for the US, remain intact even if market volatility has increased in recent days.

For emerging markets, our aggregates show that while there have been very modest declines (1%) since the peak reached in January, consensus forecasts are still indicating 15% earnings growth for the median emerging market equity during 2018, towards the upper end of the range this decade.

Exhibit 7: Emerging market earnings revisions index also stable



Source: Thomson Reuters, Edison calculations

Yet there is clearly concern in the market for the traditional correlation between tighter US dollar funding conditions and emerging market performance. Given the robustness of estimates, recent declines in emerging market assets appear to be a correction from over-exuberance earlier in the year and possibly rising expected returns worldwide as US monetary policy is normalised, rather than any meaningful deterioration in fundamental profits performance.

US foreign trade and foreign policy risks appear haphazard

There may be a method – but it is difficult to discern

The current US administration has delivered a number of mini-shocks to markets during 2018. These include a verbal confrontation with North Korea, threats of trade tariffs on China and pulling out of the international agreement on Iran. Tariffs on European products, most recently autos, are also an unwelcome novelty for traditional allies within the EU.

While this strategy of rattling the tree is highly visible, it remains to be seen whether the long-term strategic interests of the US are being fully served. According to a recent report in the FT, at a recent meeting of influential Chinese officials, academics and businesspeople, the western model of democracy and free-market capitalism was discredited both by the failure to invest in physical and human assets, and the relatively poor quality of elected leaders. On trade, from China's perspective, there was said to be puzzlement by what the US sought to achieve by a trade confrontation. For example, restricting technology-based exports while being unable to produce basic commodities competitively appeared at odds with the aim of reducing the US/China trade deficit.

We expect the Chinese elite will be further confused by the recent suspension of the threat of a trade war without a detailed agreement on trade between the two nations – and then the imposition of 25% trade tariffs on a range of Chinese technology goods one week later. The high-profile US trade delegation, which arrived in Beijing only three weeks ago, delivered a strongly worded list of demands to China, only to return home empty-handed.

The first sign of a change in the US position came in Trump's surprise reprieve for China telecom equipment supplier ZTE following violations of US trade sanctions on Iran and North Korea in April. The US/China statement released the following weekend contained no firm commitments on trade, nor on intellectual property protection or market access. Nevertheless, US Treasury Secretary Mnuchin declared the trade war over.

Disquiet grew rapidly within the US business community about whether the long-term strategic interests of the US were being protected. The surprise imposition of trade tariffs this week shows that public statements from this US administration have to be treated with caution. We are struggling to piece together a coherent strategic position from these events. Even if this may be the intention, we see few signs that the US administration will stop contributing to market volatility through trade and foreign policy.

Conclusion

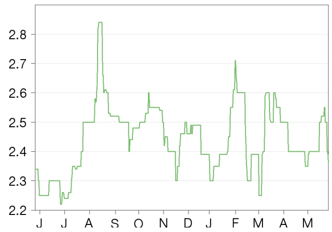
The fingerprints of tighter monetary policy can be found in rising market volatility, a stronger dollar, underperforming emerging markets and newfound respect for fundamental risks such as those evident in Italy. However, given that at least some US Fed policymakers such as James Bullard have expressed a desire not to invert the US yield curve, the probability of an easing of Fed rhetoric is in our view increasing, thus facilitating a continuation of the benign de-rating scenario for equities.

Although profits growth has to date remained robust, we believe events in Italy should serve as a reminder that fundamental risks remain, even if for a time investors have been more focused on central bank support for asset prices. There is no change to our cautious positioning. In a sideways-moving equity market, investors should remain focused on company- or event-specific ideas to drive portfolio returns.

Sector: Pharma & healthcare

Price:	NZ$2.36
Market cap:	NZ$230m
Market	NZSX

Share price graph (NZ$)



Company description

AFT Pharmaceuticals is a specialty pharmaceutical company that operates primarily in Australasia but has product distribution agreements across the globe. The company's product portfolio includes prescription and over-the-counter drugs to treat a range of conditions and a proprietary nebuliser.

Price performance

%	1m	3m	12m
Actual	0.4	(1.3)	0.4
Relative*	(2.6)	(3.0)	(10.3)

* % Relative to local index

Analyst

Maxim Jacobs

AFT Pharmaceuticals (AFT)

INVESTMENT SUMMARY

AFT Pharmaceuticals is a New Zealand-based speciality pharmaceutical company that currently sells 130 prescription speciality generics and OTC products through its own sales force in New Zealand, Australia and South-East Asia and has been expanding its geographic footprint. Maxigesic, its combination acetaminophen/ibuprofen product that is addressing a $10.4b market, is currently sold and launched in 10 countries and distribution agreements are in place in a total of 125. Additionally, AFT recently reported positive results from a pivotal trial for Maxigesic IV. AFT is also developing a handheld device called SURF Nebuliser, which is able to deliver therapies intranasally, with a main focus on the $3 billion conscious sedation market.

INDUSTRY OUTLOOK

AFT is a multi product company targeting pharmacy prescription, OTC and hospital markets. Data for Maxigesic offers them a competitive advantage in a fragmented industry.

Y/E Mar	Revenue (NZ$m)	EBITDA (NZ$m)	PBT (NZ$m)	EPS (c)	P/E (x)	P/CF (x)
2016	64.0	(7.8)	(10.8)	(11.12)	N/A	N/A
2017	69.2	(15.1)	(18.5)	(19.12)	N/A	N/A
2018e	80.6	(9.4)	(12.2)	(12.89)	N/A	N/A
2019e	98.0	1.3	(0.5)	(0.56)	N/A	N/A

Sector: Oil & gas

Price:	A$0.31
Market cap:	A$233m
Market	ASX

Share price graph (A$)

Company description

AJ Lucas has investments in the exploration and commercialisation of shale gas in the UK through licence equity interests and a stake in Cuadrilla. AJL also has two Australia-based operating business units: Drilling Services (LDS) and Engineering & Construction (LEC).

Price performance

%	1m	3m	12m
Actual	(8.8)	(11.4)	17.1
Relative*	(9.9)	(11.4)	10.9

* % Relative to local index

Analyst

Sanjeev Bahl

AJ Lucas Group (AJL)

INVESTMENT SUMMARY

AJ Lucas offers investors exposure to the most advanced UK shale appraisal programme. Current activity is focused on drilling at Preston New Road where AJL has approval to drill and test up to four horizontal wells. To date one horizontal well has been drilled and a second is currently being drilled. An application for hydraulic fracturing of the first of these wells has been submitted to the government. Given uncertainties, we currently utilise a probabilistic approach to valuation estimating a 67% chance of commercial success for UK shale (NPV15>0). At a group level, incorporating AJL's operating business units and net debt, we derive a P50 (mid-case) valuation of A$0.86/share.

INDUSTRY OUTLOOK

AJ Lucas has investments in the exploration and commercialisation of shale gas in the UK through licence equity interests and a stake in Cuadrilla. Central government supports the exploitation of shale gas resource in order to increase domestic energy security and to support intermittent renewable energy sources.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2016	126.0	(2.4)	(12.7)	(4.93)	N/A	N/A
2017	122.6	(8.7)	(36.3)	(6.67)	N/A	N/A
2018e	122.1	(5.4)	(23.7)	(3.46)	N/A	N/A
2019e	97.3	1.1	(12.0)	(1.89)	N/A	N/A

Sector: Mining

Price:	A$0.29
Market cap:	A$147m
Market	ASX

Share price graph (A$)

Company description

Alkane Resources is a multi-commodity explorer and developer, with projects in the central west region of New South Wales in Australia. Alkane owns the Tomingley Gold Operation and DZP rare metal and rare earths projects (both 100%).

Price performance

%	1m	3m	12m
Actual	0.0	0.0	20.8
Relative*	(1.2)	0.1	14.5

* % Relative to local index

Analyst

Tom Hayes

Alkane Resources (ALK)

INVESTMENT SUMMARY

A strong Q3 saw the Tomingley Gold Operation (TGO) mine generate operating cash flows of A$21.2m, driving Alkane's (ALK) cash pile to A$60.6m with a further A$8.4m held as bullion-on-hand. Two critical path catalysts are due in Q418, the final modular costing plan for the Dubbo Project (DP) and the way forward for extending the TGO's mine life. While financing the DP continues, we see ALK using its cash pile to extend the life of the TGO processing facility via either underground mining or potentially, exploration and development.

INDUSTRY OUTLOOK

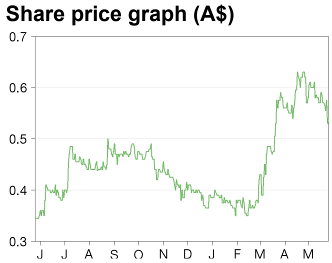
Zirconium products have been aided by zircon supply shortages driving prices to levels last seen in 2011. Although supply is largely controlled by CBMM, FeNb price support is being driven by the c 257% vanadium pentoxide price increase (October 2016 to December 2017). As for magnet REEs, prices have fallen since the highs of August to October 2017, although in our opinion their importance has not yet been properly accounted for in the future of electric vehicles (EV), especially as China will likely drive for its own REE magnet resources to be used for its domestic EV industry. Hafnium remains subdued by a stagnant nuclear industry, which is the traditional supplier of the metal.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2016	109.6	40.9	11.0	2.2	13.2	3.3
2017	117.8	61.3	18.0	4.5	6.4	2.8
2018e	128.4	41.5	(1.3)	(0.7)	N/A	7.5
2019e	N/A	N/A	N/A	N/A	N/A	N/A

Sector: Pharma & healthcare

Price:	A$0.54
Market cap:	A$261m
Market	ASX

Share price graph (A$)



Company description

Bionomics is a Australia based pharmaceutical company developing drugs to target ion channels to treat neuropsychiatric diseases and cancer.

Price performance

%	1m	3m	12m
Actual	(5.3)	25.6	56.5
Relative*	(6.4)	25.7	48.3

* % Relative to local index

Analyst

Dr Nathaniel Calloway

Bionomics (BNO)

INVESTMENT SUMMARY

Bionomics is a clinical-stage pharmaceutical company with two small molecule discovery platforms: ionX for ion channel targets and MultiCore chemistry for rapid candidate identification. The company is testing BNC210 in Phase IIb for post-traumatic stress disorder (PTSD) and had a programme licensed to Merck in Phase I for royalties, and US$506m in upfront and milestone payments.

INDUSTRY OUTLOOK

There are currently limited options for sufferers of PTSD, which does not respond to treatment as well as other anxiety centered disorders. BNC210 hopes to surmount this with its novel anxiolytic mechanism.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2016	8.1	(15.4)	(16.7)	(3.51)	N/A	0.2
2017	18.6	(3.2)	(4.4)	(1.00)	N/A	0.2
2018e	17.5	(6.0)	(7.2)	(1.11)	N/A	0.2
2019e	5.1	(27.1)	(28.4)	(5.13)	N/A	0.1

Sector: General industrials

Price:	HK$7.56
Market cap:	HK$12163m
Market	HKSE

Share price graph (HK$)

Company description

China Water Affairs Group owns and operates regulated water supply assets across 50 cities in mainland China, serving 10 million customers in the residential, commercial and industrial sectors.

Price performance

%	1m	3m	12m
Actual	(0.1)	9.4	48.5
Relative*	(1.8)	9.6	23.7

* % Relative to local index

Analyst

Graeme Moyse

China Water Affairs Group (855)

INVESTMENT SUMMARY

Interim figures and the recent announcements of a framework agreement in Shishou, the acquisition of the water supply companies in Wuzhu County, Xiayi and Xinzhan, and a jv in Gongan, indicate continued growth at CWA. The results themselves showed revenue increasing by 16.3%, while basic EPS rose by 22.9%. Driving overall growth was the rise in revenue (+10.4%) and segmental profits (+22.8%) at the key water supply business. A turnaround in the performance of the associate line and tight control of costs also helped boost profitability. Following the results, we increased our valuation to HK$8/share. At HK$8/share, CWA would trade on a P/E of 12.3x. We believe such a rating is sustainable for a company that we expect to grow EPS by c 14% CAGR in 2017-20e (PEG ratio of under 1.0x).

INDUSTRY OUTLOOK

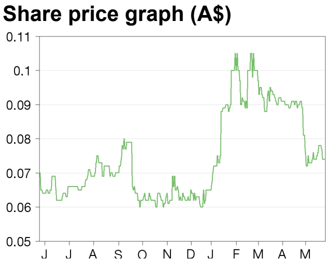
Water supply in China remains fragmented. The central government encourages local governments to deleverage their own balance sheets with private–public partnerships. This trend remains positive for CWA.

Y/E Mar	Revenue (HK$m)	EBITDA (HK$m)	PBT (HK$m)	EPS (c)	P/E (x)	P/CF (x)
2016	4740.0	1951.0	1505.0	40.1	18.9	N/A
2017	5708.0	2647.0	1963.0	55.4	13.6	N/A
2018e	7069.0	2968.0	2279.0	64.9	11.6	N/A
2019e	8075.0	3404.0	2641.0	72.1	10.5	N/A

Sector: Oil & gas

Price:	A$0.07
Market cap:	A$112m
Market	ASX

Share price graph (A$)



Company description

Elk Petroleum is focused on low-cost tertiary recovery of residual oil. It has production from its Madden/Lost Cabin gas and CO2 project and the Aneth oil field. The Grieve CO2 EOR oil project in the US achieved first oil in April 2018.

Price performance

%	1m	3m	12m
Actual	(8.6)	(23.7)	13.8
Relative*	(9.7)	(23.7)	7.9

* % Relative to local index

Analyst

Sanjeev Bahl

Elk Petroleum (ELK)

INVESTMENT SUMMARY

Elk Petroleum's (ELK) acquisition of a 63.7% operated interest in the Aneth Rocky Mountain CO2 EOR project from Resolute Energy has transformed it into one of the largest producers on the ASX. Management forecasts 2018 net production of 11mboe/d. At US$160m, the Aneth deal was priced at a discount to our 1P estimate of proven developed reserve value of US$178m (excluding US$23m, which ELK retains in escrow to cover abandonment costs). ELK completed a A$13.5m capital raising to fund part of the development of Aneth, in which the company estimates a net capital expenditure of c US$16.4m during 2018. Following this capital raise we are reviewing our forecasts.

INDUSTRY OUTLOOK

Alongside field operators Denbury and ConocoPhillips, ELK management has identified numerous field optimisation opportunities at Grieve and Madden with high risk-adjusted returns (many in the 50-100% IRR range). ELK continues to consolidate Rocky Mountain CO2 EOR projects.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2016	0.0	(4.7)	(5.2)	(2.0)	N/A	N/A
2017	5.0	(5.2)	(8.1)	(0.9)	N/A	N/A
2018e	N/A	N/A	N/A	N/A	N/A	N/A
2019e	N/A	N/A	N/A	N/A	N/A	N/A

EDISON

Sector: General industrials

Price:	A$1.54
Market cap:	A$396m
Market	ASX

Share price graph (A$)

Company description

ERM Power is an energy retailer and trader founded in 1980 and listed in 2010. In Australia it operates an electricity supply business (second largest retailer to C&I customers) and two gas-fired generation plants. Key areas of growth are the US electricity retail market (entered in 2015) and energy solutions.

Price performance

%	1m	3m	12m
Actual	(9.1)	(14.2)	26.6
Relative*	(10.2)	(14.1)	20.0

* % Relative to local index

Analyst

Dario Carradori

ERM Power (EPWX)

INVESTMENT SUMMARY

ERM Power's trading update confirmed its outlook for the Australian activities (in line or above for 2018 and in line for 2019) but downgraded the outlook for its US activities (slightly lower volumes and significantly lower gross margins). Our initial calculations suggest this could have a potential A$4m and A$13m negative effect on our 2018-19e net income forecasts respectively; we place our forecasts under review. Although the trading update for the US activities is disappointing, we see downside risks as limited for ERM Power as the US business is independently financed. Our valuation of $2.6/share implies significant potential upside even if we attribute no value to the US activities.

INDUSTRY OUTLOOK

While electricity supply activities in Australia remain very competitive with limited growth opportunities, ERM Power has experienced significant positive momentum which led to a double upgrade to Australian medium-term profit guidance over the last 12 months. The energy market in Australia (and globally) is undergoing significant transformation as a result of the energy transition, the emergence of new technology and the customers' demand for higher energy efficiency and sustainable solutions. We expect the recently launched Energy Solutions business to take advantage of these changes.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2016	2691.0	71.0	23.0	7.6	20.3	3.1
2017	3127.0	78.0	15.0	(10.8)	N/A	2.5
2018e	3406.0	89.0	15.0	4.4	35.0	4.0
2019e	3544.0	109.0	31.0	9.4	16.4	3.5

Sector: Pharma & healthcare

Price:	A$0.03
Market cap:	A$74m
Market	ASX

Share price graph (A$)

Company description

Immutep has a pipeline of four LAG-3 related product candidates: eftilagimod alpha (IMP321) for cancer chemo-immunotherapy and immunotherapy-immunotherapy combinations, two partnered products IMP731 (GSK) and IMP701 (Novartis), as well as IMP761 for autoimmune diseases.

Price performance

%	1m	3m	12m
Actual	34.8	37.8	3.3
Relative*	33.2	37.9	(2.1)

* % Relative to local index

Analyst

Dr Dennis Hulme

Immutep (IMM)

INVESTMENT SUMMARY

Immutep has three promising clinical product candidates in six ongoing clinical trials and one pre-clinical asset, all based on a versatile immunotherapy target Lymphocyte activation gene-3, LAG-3 (one partnered with GSK and a second partnered with Novartis). The lead in-house LAG-3 product, eftilagimod alpha (IMP321), is being developed initially in metastatic breast cancer in combination with chemotherapy (226-patient randomised Phase IIb study to fully recruit in Q318, 47% response rate in the 15-patient dose-escalation phase) and in melanoma in combination with the anti-PD1 checkpoint inhibitor Keytruda (33% preliminary response rate in first two of three dose-finding cohorts; currently recruiting an additional six-patient expansion cohort at the highest dose). Novartis and GSK are progressing clinical trials of partnered LAG-3 programmes, providing additional validation for the technology and the target. Immutep will collaborate with Merck (MSD) in a study of IMP321 plus Keytruda in lung, ovarian and head and neck cancers in H218.

INDUSTRY OUTLOOK

Immunotherapies are among the most promising class of products for cancer and autoimmune diseases. The LAG-3 products are potentially first-in-class, each with distinct mechanisms and applications.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2016	1.9	(12.1)	(13.7)	(0.6)	N/A	N/A
2017	4.1	(7.8)	(8.4)	(0.4)	N/A	N/A
2018e	3.5	(13.2)	(12.9)	(0.6)	N/A	N/A
2019e	10.9	(7.1)	(6.4)	(0.2)	N/A	N/A

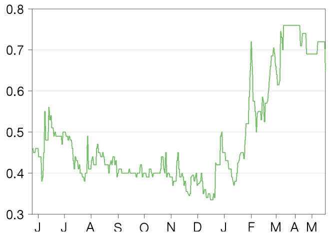
EDISON

Kazia Therapeutics (KZA)

Sector: Pharma & healthcare

Price:	A$0.65
Market cap:	A$31m
Market	ASX

Share price graph (A$)



Company description

Kazia Therapeutics has two clinical stage anti-cancer drugs GDC-0084 (targeting glioblastoma) and Cantrixil (targeting ovarian cancer) and a discovery-stage anti-tropomyosins program. GDC-0084 was inlicensed from Genentech, and Kazia is seeking other in-licence opportunities.

Price performance

%	1m	3m	12m
Actual	(5.8)	(1.5)	44.4
Relative*	(6.9)	(1.5)	36.8

* % Relative to local index

Analyst

Dr Dennis Hulme

INVESTMENT SUMMARY

Kazia Therapeutics is developing two groups of anti-cancer compounds, including GDC-0084, a PI3K inhibitor licensed from Genentech that has been granted orphan designation in the US for glioblastoma. It commenced recruitment in a US-based Phase II study of GDC-0084 in March; an initial dose-optimisation lead-in component will precede a randomised trial in 228 first-line glioblastoma patients (final data due 2021). It is also undertaking a Phase I trial of its third generation benzopyran drug Cantrixil. The 60-patient Phase I trial in ovarian cancer is expected to report MTD in Q218; while the primary aim is to assess safety and tolerability, radiological responses and biomarkers will be assessed for indications of efficacy. Kazia has de-emphasised its next-generation anti-tropomyosin drug discovery program which is supported by an A$3m government grant. It has outlicensed its preclinical benzopyran program to Heaton-Brown Life Sciences, and is collaborating with Noxopharm to support the development of NOX66.

INDUSTRY OUTLOOK

Kazia Therapeutics is a biotechnology company listed on the ASX and NASDAQ. Its two main drug technology platforms are third generation benzopyrans and a PI3K inhibitor.

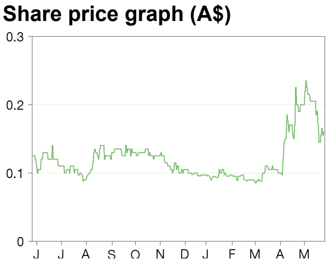
Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2016	3.7	(10.6)	(11.6)	(28.44)	N/A	N/A
2017	8.6	(10.2)	(10.9)	(22.81)	N/A	N/A
2018e	13.2	(2.4)	(4.3)	(8.71)	N/A	N/A
2019e	13.6	(5.6)	(7.2)	(14.42)	N/A	N/A

Leigh Creek Energy (LCK)

Sector: Oil & gas

Price:	A$0.16
Market cap:	A$67m
Market	ASX

Share price graph (A$)



Company description

Leigh Creek Energy has a certified PRMS gas resource of 2,964PJ (2C) at the Leigh Creek Energy Project in South Australia. Monetisation of this gas through ISG is expected to be de-risked by a demonstration programme in 2018.

Price performance

%	1m	3m	12m
Actual	(20.0)	83.9	23.1
Relative*	(20.9)	84.0	16.6

* % Relative to local index

Analyst

Sanjeev Bahl

INVESTMENT SUMMARY

Leigh Creek Energy (LCK) offers an option over the in-situ gasification (ISG) of an underground coal resource in South Australia (SA). Recent power blackouts in SA have highlighted the need for more baseload power generation capacity, while high electricity prices incentivise the monetisation of 2,964PJ of 2C ISG gas resource. LCK raised A$21.85m of new equity in 2017 with net proceeds being used to fund the company's pre-commercial ISG demonstration project. A new cornerstone investor has also been added to LCK's shareholder register, China New Energy. Our RENAV of $0.26/share reflects this source of funding.

INDUSTRY OUTLOOK

SA power prices have been volatile due to concentrated generator ownership, coal plant closures, limited import capability and higher than national average dominance of renewables. SA was the hardest hit state when energy retailers increased pricing by up to 20% in June 2017. The above-ground plant construction has been recently approved by the regulator.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2016	0.0	(5.4)	(5.4)	(2.0)	N/A	N/A
2017	0.0	(6.2)	(6.2)	(1.9)	N/A	N/A
2018e	0.0	(6.2)	(6.2)	(1.5)	N/A	N/A
2019e	0.0	(6.2)	(6.3)	0.2	80.0	66.5

EDISON

Sector: Mining

Price: A$0.04
Market cap: A$116m
Market ASX

Share price graph (A$)

Company description

Lepidico provides exposure to a portfolio of lithium assets via its wholly owned properties, JVs and IP in Australia, Canada and Europe. Uniquely, it has successfully produced lithium carbonate from non-traditional hard rock lithium bearing minerals using its registered L-Max® process technology.

Price performance

%	1m	3m	12m
Actual	2.6	(18.4)	220.8
Relative*	1.4	(18.3)	203.9

* % Relative to local index

Analyst

Tom Hayes

Lepidico (LPD)

INVESTMENT SUMMARY

Lepidico's disruptive (patent-pending) L-Max metallurgical technology recovers lithium from overlooked minerals such as lepidolite (a form of mica). The process uses readily available chemicals and large-scale tests have demonstrated stable and continuous operation. A recent PFS estimated C1 cash costs of lithium carbonate production at near zero net of by-products for a 3,000tpa operation (Phase 1). Engineered design for such a plant has now been completed and a 67-100% capacity expansion is being evaluated. A full feasibility study is scheduled for Q318.

INDUSTRY OUTLOOK

Lepidico's strategic imperative is now the development of the Phase 1 plant as well as the completion of a feasibility study on an industrial-scale operation. At steady-state, we estimate that the Phase 1 plant is capable of generating A$28.1m per annum, which we value at A$66.6m after capex. Conceptual estimates for a Phase 2 plant envisage producing c 7x as much lithium carbonate for 3.4x as much capex to generate 8x as much NPV.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2016	0.1	(0.5)	(2.3)	0.0	N/A	N/A
2017	0.1	(0.8)	(5.4)	0.0	N/A	N/A
2018e	0.0	(0.9)	(3.4)	0.0	N/A	N/A
2019e	0.0	(0.9)	(5.4)	0.0	N/A	N/A

Sector: Oil & gas

Price: A$0.43
Market cap: A$223m
Market ASX, OTC Pink

Share price graph (A$)

Company description

Liquefied Natural Gas Ltd is an ASX-listed company devoted to the development of LNG export terminals in the US, Canada and other potential locations. It has traded ADRs.

Price performance

%	1m	3m	12m
Actual	7.4	(10.3)	(35.1)
Relative*	6.2	(10.3)	(38.5)

* % Relative to local index

Analyst

Sanjeev Bahl

Liquefied Natural Gas Limited (LNGL)

INVESTMENT SUMMARY

Liquefied Natural Gas's (LNGL) Magnolia development is up to 30 months ahead of other US-based greenfield liquefaction plants in regulatory approvals, putting it in prime position for buyers/traders looking to take advantage of the expected rebalancing of the LNG market in 2022-23. With low capex/opex/gas prices, the project has the potential to be very lucrative for partners selling to Europe/Asia. As a result, we now expect LNGL to sign tolling agreements and move towards FID in 2018, with first production in 2023. Our valuation stands at A$1.00/share (US$3.23/ADR). On a longer-term basis, this valuation should grow as the project is de-risked by tolling agreements and moves towards first LNG.

INDUSTRY OUTLOOK

LNGL has few listed peers. Cheniere is much larger and already producing, while Tellurian (owner of the Driftwood LNG project) and Next Decade (IPO ongoing) are planning much larger projects, but are some way behind the Magnolia project on regulatory approvals.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2016	7.0	(101.0)	(101.0)	(0.2)	N/A	N/A
2017	1.0	(27.0)	(27.0)	(0.1)	N/A	N/A
2018e	0.0	(22.0)	(20.0)	0.0	N/A	N/A
2019e	0.0	(34.0)	(34.0)	(0.1)	N/A	N/A

Mesoblast (MSB)

Sector: Pharma & healthcare

Price:	A$1.47
Market cap:	A$695m
Market	ASX

Share price graph (A$)

Company description

Mesoblast is developing adult stem cell therapies based on its proprietary MPC and culture-expanded MSC platforms. It has six late-stage clinical trials across four areas.

Price performance

%	1m	3m	12m
Actual	(1.0)	(17.7)	(28.2)
Relative*	(2.2)	(17.6)	(31.9)

* % Relative to local index

Analyst

Dr Dennis Hulme

INVESTMENT SUMMARY

The potentially pivotal 55 pediatric patient acute graft vs host disease (GvHD) study met its primary efficacy outcome, reporting a 69% overall response rate vs 45% for historical controls (p=0.0003). The 100 day data is due in Q2 with 180 day safety data in Q3. This will lead to a fast track application to the FDA. A Phase III in chronic low back pain (CLBP) completed enrollment in March 2018. The NIH funded Phase IIb in end-stage CHF patients with an LVAD should have full data by Q4 CY18. The Phase III trial in heart failure has enrolled over 465 of the 600 patient target. Cash on 31 Mar was US$59.5m. The Q3 FY18 operating outflow was US$19.6m. In March, Mesoblast entered a US$75m non-dilutive credit facility with Hercules and has drawn-down $35 already.

INDUSTRY OUTLOOK

Mesoblast is the leading mesenchymal stem cell company. It has a manufacturing alliance with Lonza. JCR Pharmaceuticals markets Mesoblast's GvHD therapy in Japan; H1 FY18 royalties were US$1.6m.

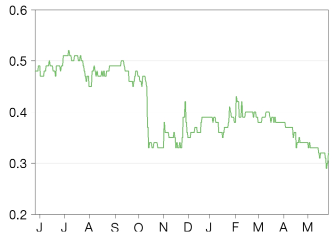
Y/E Jun	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2016	44.2	(86.3)	(87.4)	(0.20)	N/A	N/A
2017	3.4	(82.4)	(84.9)	(18.10)	N/A	N/A
2018e	6.7	(83.2)	(85.0)	(18.92)	N/A	N/A
2019e	9.0	(85.4)	(88.7)	(18.85)	N/A	N/A

Pacific Edge (PEB)

Sector: Pharma & healthcare

Price:	NZ$0.32
Market cap:	NZ$149m
Market	NZSX

Share price graph (NZ$)



Company description

Pacific Edge develops and sells a portfolio of molecular diagnostic tests based on biomarkers for the early detection and management of cancer. Tests utilising its Cxbladder technology for detecting and monitoring bladder cancer are sold in the US, New Zealand and Australia.

Price performance

%	1m	3m	12m
Actual	(5.9)	(26.3)	(34.4)
Relative*	(8.7)	(27.6)	(41.4)

* % Relative to local index

Analyst

Maxim Jacobs

INVESTMENT SUMMARY

Pacific Edge develops and sells a portfolio of molecular diagnostic tests based on biomarkers for the early detection and management of cancer. Tests utilising its Cxbladder technology for detecting and monitoring bladder cancer are sold in the US, New Zealand and Australia. The company announced the signing of a Federal Supply Schedule to the Veterans Administration, allowing the marketing of Cxbladder tests within the organization - the largest integrated healthcare system in the US. The company has also signed an agreement recently with Tricare, which handles the healthcare for all uniformed service members and their families. The company also announced positive data from a user programme with Kaiser Permanente Southern California, which could lead to a commercial agreement with that group.

INDUSTRY OUTLOOK

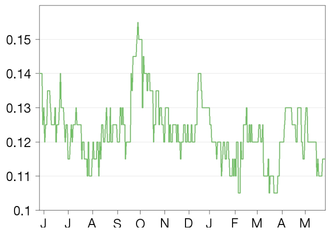
Molecular diagnostics is a growing, but increasingly competitive field. Lead time from the initiation of user programmes to payment can be long.

Y/E Mar	Revenue (NZ$m)	EBITDA (NZ$m)	PBT (NZ$m)	EPS (c)	P/E (x)	P/CF (x)
2016	6.4	(14.9)	(15.5)	(4.1)	N/A	N/A
2017	9.3	(19.6)	(20.8)	(5.4)	N/A	N/A
2018e	12.3	(13.1)	(14.0)	(3.2)	N/A	N/A
2019e	21.2	(3.2)	(3.9)	(0.9)	N/A	N/A

Sector: Pharma & healthcare

Price:	A$0.12
Market cap:	A$24m
Market	ASX

Share price graph (A$)



Company description

Regeneus is a clinical-stage regenerative medicine company developing innovative cell-based therapies for the human & animal health markets.

Price performance

%	1m	3m	12m
Actual	0.0	(4.2)	(17.9)
Relative*	(1.2)	(4.1)	(22.2)

* % Relative to local index

Analyst

Dr Dennis Hulme

Regeneus (RGS)

INVESTMENT SUMMARY

Regeneus is developing its mesenchymal stem cell technology for musculoskeletal conditions in humans (Progenza) and animals (CryoShot). It has entered a US$16.5m collaboration with AGC Asahi Glass (AGC) for manufacture of Progenza cells for the Japanese market. Regeneus and AGC have formed a 50:50 JV which is seeking to sub-license partners for clinical development and commercialisation of Progenza in Japan in a number of indications, with the first Progenza clinical development licence targeted for Q218. Japanese legislation offers an accelerated path to market for regenerative medicines. Progenza therapy reduced osteoarthritis knee pain in Phase I. Regeneus holds global rights to autologous cancer vaccines for human (RGSH4K, in Phase I) and veterinary (Kvax) applications. Its Sygenus topical secretions technology improved the appearance of acne in adults in a clinical study, and produced better pain relief than morphine in preclinical studies.

INDUSTRY OUTLOOK

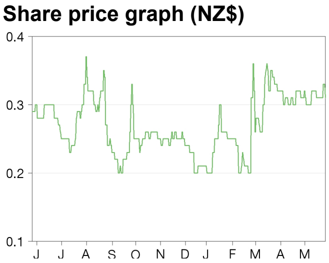
Regeneus focuses on early-stage product development, then partners. In addition to the AGC deal for Progenza in Japan, it has partnered with a global animal health company for CryoShot Canine. It will seek to identify wider applications of Progenza, beyond arthritis.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2016	1.7	(3.4)	(3.6)	(1.70)	N/A	N/A
2017	10.0	4.9	3.3	1.57	7.6	7.0
2018e	7.8	2.2	2.0	0.93	12.9	7.0
2019e	1.1	(4.3)	(4.5)	(2.17)	N/A	N/A

Sector: Technology

Price:	NZ$0.31
Market cap:	NZ$19m
Market	NZSX

Share price graph (NZ$)



Company description

SLI Systems' core products are e-commerce site search and navigation tools that learn from customer behaviours to improve the relevance of search results and therefore increase sales conversion.

Price performance

%	1m	3m	12m
Actual	(1.6)	17.3	6.9
Relative*	(4.6)	15.3	(4.6)

* % Relative to local index

Analyst

Dan Ridsdale

SLI Systems (SLIZ)

INVESTMENT SUMMARY

SLI Systems delivered its maiden H1 period of profitability, driven by outstanding net revenue retention and substantial cost savings. The company's imminent shift to a more indirect business model is likely to compress near-term margins and success is crucial to longer-term prospects. Nevertheless, the depressed share price does not demand steep growth assumptions for investors to see a return.

INDUSTRY OUTLOOK

The global retail e-commerce market is estimated to be $4tn by 2021, up from $2trn in 2015, indicating increasing demand for SLI's product suite. SLI estimates its global market opportunity at $2.2bn. The competitive landscape is crowded, however, with direct competition, e-commerce platforms and in-house solutions in the competitive mix.

Y/E Jun	Revenue (NZ$m)	EBITDA (NZ$m)	PBT (NZ$m)	EPS (c)	P/E (x)	P/CF (x)
2016	35.7	1.1	0.7	(0.4)	N/A	25.6
2017	32.0	(0.5)	(0.8)	(3.0)	N/A	N/A
2018e	33.5	2.7	2.4	2.8	11.1	10.0
2019e	34.5	2.0	1.7	1.7	18.2	25.3

Sector: Pharma & healthcare

Price:	¥179.00
Market cap:	¥10532m
Market	Tokyo

Share price graph (¥)

Company description

SymBio is a Japanese specialty pharma company with a focus on oncology and haematology. Treakisym is SymBio's branded formulation of bendamustine HCl. Rigosertib was in-licensed from Onconova.

Price performance

%	1m	3m	12m
Actual	(10.5)	(15.6)	(19.7)
Relative*	(10.2)	(15.7)	(28.8)

* % Relative to local index

Analyst

Dr Dennis Hulme

SymBio Pharmaceuticals (4582)

INVESTMENT SUMMARY

SymBio is on the way to becoming a key speciality pharma partner for Asia-Pacific markets, and has in-licensed two orphan blood cancer products. Treakisym was approved for r/r low grade NHL/MCL in 2010 and during 2016 received approvals in CLL and first-line low grade NHL/MCL; these additional approvals saw in-market Treakisym sales increase by 32% in Q1 2018, following 61% growth in 2017 (NHI price basis). In August SymBio initiated a Phase III trial in Japan of Treakisym in r/r diffuse large B-cell lymphoma, while in September it in-licensed liquid formulations that will provide Treakisym with patent protection that extends to 2031. Intravenous Rigosertib is in development for r/r higher-risk myelodysplastic syndromes (HR-MDS) and is in a pivotal Phase III global study which has expanded from 225 to 360 patients following an interim analysis in early 2018; SymBio is enrolling patients in Japan and is aiming for potential filing in 2021. SymBio intends to participate in a planned global trial of high-dose oral rigosertib in untreated HR-MDS patients.

INDUSTRY OUTLOOK

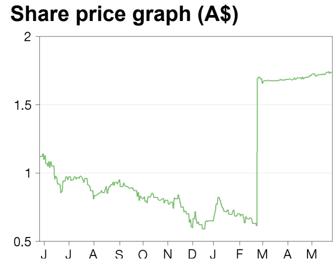
SymBio is focused on in-licensing niche opportunities in hard-to-treat indications often overlooked by big pharma. An in-house screening process to select additional pipeline candidates for development and commercialisation will be key to driving operating leverage.

Y/E Dec	Revenue (¥m)	EBITDA (¥m)	PBT (¥m)	EPS (fd) (¥)	P/E (x)	P/CF (x)
2016	2368.0	(2101.0)	(2317.0)	(59.0)	N/A	463.3
2017	3444.0	(3917.0)	(3977.0)	(79.8)	N/A	728.8
2018e	4203.0	(3004.0)	(3030.0)	(54.2)	N/A	243.7
2019e	4325.0	(3591.0)	(3636.0)	(62.9)	N/A	591.7

Sector: Pharma & healthcare

Price:	A$1.74
Market cap:	A$483m
Market	ASX, OTC QX

Share price graph (A$)



Company description

Viralytics is a biopharmaceutical company developing Cavatak oncolytic virotherapy to target late-stage melanoma and other solid tumour types. It is trialling Cavatak as a monotherapy and in combination with checkpoint inhibitors.

Price performance

%	1m	3m	12m
Actual	1.5	4.8	54.9
Relative*	0.3	4.9	46.8

* % Relative to local index

Analyst

Dr Dennis Hulme

Viralytics (VLA)

INVESTMENT SUMMARY

Viralytics agreed in February to be acquired by Merck & Co. for A$502m (US$395m) equivalent to A$1.75 per share. The acquisition price represents a 160% premium to the one-month VWAP. A shareholder meeting to approve the acquisition by way of a scheme of arrangement will be held on 28 May. Viralytics had reported promising data from a number of clinical trials for its Cavatak oncolytic virus immunotherapy. Of note, the CAPRA trial of intra-lesional (IL) Cavatak in combination with Merck's Keytruda in melanoma reported a 59% response rate in the first 27 of 50 patients, while in the Keynote 200 trial of IV Cavatak + Keytruda, responses were observed in 5/16 advanced lung cancer and 7/25 bladder cancer patients. In the MITCI study of IL Cavatak + the CTLA4 inhibitor Yervoy the response rate to date is 33% (3/9) in patients who had failed single line anti-PD1 therapies; we note that Merck has a CTLA4 inhibitor MK-1308 in clinical trials, which could potentially be combined with Cavatak in place of Yervoy.

INDUSTRY OUTLOOK

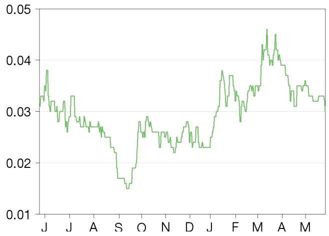
The December 2016 licence deal between Bristol-Myers Squibb and PsiOxus for its preclinical oncolytic virus NG-348 highlights the potential value of oncolytic virotherapy products; terms included US$50m upfront and up to US$886m in milestones.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2016	4.7	(8.5)	(8.0)	(3.8)	N/A	N/A
2017	6.5	(11.7)	(11.3)	(4.7)	N/A	N/A
2018e	5.9	(12.4)	(12.0)	(5.0)	N/A	N/A
2019e	6.1	(12.6)	(12.5)	(5.2)	N/A	N/A

Sector: Mining

Price:	A$0.03
Market cap:	A$41m
Market	ASX

Share price graph (A$)



Company description

Volt Resources is a graphite development company. Its main asset is the currently 100%-owned Bunyu graphite project located in Tanzania.

Price performance

%	1m	3m	12m
Actual	(14.3)	(14.3)	(9.1)
Relative*	(15.3)	(14.2)	(13.9)

* % Relative to local index

Analyst

Tom Hayes

Volt Resources (VRC)

INVESTMENT SUMMARY

Volt's quarterly report (dated 30 April 2018) provides few surprises, with all critical path work programmes and project financing requirements still in a state of progress. Unfortunately, delays getting core samples out of Tanzania has caused Volt's management to push out deadlines for the estimation of resources and reserves, the calculation of production schedules and also revenue projections. With the much-awaited Stage 1 Bunyu feasibility study (FS) now due by the end of June, as well as financing and project approvals, the next few months will be critical for the company to demonstrate its ability to get Bunyu firmly into the next stage of its development.

INDUSTRY OUTLOOK

Based on data points and inputs given in our May 2018 update note, we consider that a purely illustrative value for Bunyu Phase 1 could be worth 7.90 cents on an FY19 basis using a 10% discount rate to reflect general equity risk. This does not assume any build out of Phase 2, or reflect the potentially accretive value project expansion would bring. We look to the release of Volt's new FS to provide precise costing and the exact scope for Bunyu Phase 1 development, which will allow us to update our base case valuation.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2016	0.0	(3.4)	(3.3)	(0.4)	N/A	N/A
2017	0.0	(3.3)	(2.4)	(0.3)	N/A	N/A
2018e	N/A	N/A	N/A	N/A	N/A	N/A
2019e	N/A	N/A	N/A	N/A	N/A	N/A

NXT company spotlights

Marlborough Wine Estates

Food & beverages

3 May 2018

Q3 update and reset of full-year targets

Marlborough Wine Estates Group (MWE) is targeting development of premium New Zealand (NZ) wine brands in China and, increasingly, internationally. The global market is strong and the popularity of quality NZ wine is growing. In the face of slowdown in the Chinese market, MWE continues to explore US, Japanese, Australian, UK and Canadian markets. In this context, early inroads into the US and Japan are encouraging.

Q3 trading update

MWE has reported its Q3 trading results. Favourable climatic and growing conditions have meant that, unusually this year, part of the harvest took place in Q3, and the company has reported 785 tonnes against zero in Q317. Similarly, 587 tonnes of bulk grapes were sold in Q3 (Q317: zero), although management says that the larger part of such sales is still expected to fall into Q4. International wine sales revenue for Q3 at NZ$297k was at a similar level to that of Q2. With its current focus on international markets outside China, MWE has enjoyed some early success with exports to the US and Japan. Bottled wine revenue has continued at broadly similar levels in all three quarters, totalling NZ$224k after nine months.

Review and reset of KOM targets

Following a review, MWE has revisited three of its four key operating milestone (KOM) targets for FY18. The gross harvest KOM has been raised 12% to 1,790 tonnes, attributable to improved irrigation, the maturity of the vines and favourable weather conditions. The KOM for international wine sales revenue is being reduced by 35%, to NZ$1,300k, due to both slower than expected growth in the Chinese market and slower development in other international markets. We note the materiality of the NZ$700k reduction. The NZ bottled wine sales revenue KOM is being increased by 35% to NZ$315k, with improved product variety and portfolio, and the success of a greater focus on marketing and business development.

Valuation: Limited relevance in peer comparison

We review MWE's market valuation against two peers, which trade on an average FY18e EV/revenue of 2.6x, substantially lower than MWE's 19.2x (FY17). We caution that the comparison is of limited relevance. The listed peers are larger and well established, while MWE is at an earlier stage in its life cycle and is also repositioning its market focus, which detracts from the relevance of the comparison.

Historical performance

Year end	Revenue (NZ$000s)	NPAT*** (NZ$000s)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
06/15 PF*	2,788	170	0.1	0.0	N/A	N/A
06/15**	1,840	590	0.2	0.0	N/A	N/A
06/16	7,424	(481)	(0.2)	0.0	N/A	N/A
06/17	3,822	(717)	(0.2)	0.0	N/A	N/A

Source: Marlborough Wine Estates. Note: *Pro forma for 12 months; revenue includes sales revenue and other revenue. **Actual from 18 March 2015 to 30 June 2015. ***FY15 NPAT includes positive fair value adjustment of NZ$1.054m, according to management, and FY16 NPAT excludes one-off capital raising costs. FY16 and FY17 results are normalised.

Price	NZ$0.25
Market cap	NZ$73m

Share price graph

Share details

Code	MWE
Listing	NXT
Shares in issue	290.9m

Business description

Marlborough Wine Estates Group (MWE) owns and operates six vineyard blocks located in the Awatere Valley in the Marlborough wine district of the South Island of New Zealand (NZ). It sells bottled and bulk wine to NZ and international markets, as well as bulk grapes to wine producers in NZ.

Bull

- Potential for developing international markets building on the Marlborough region's global reputation for quality.
- Option to improve earnings by converting more of the grape harvest into bottled wine for local and export sales.
- Improvements in vineyard management, particularly in securing water supply, could improve grape yields.

Bear

- Maintenance of premium pricing is dependent on the quality of the product.
- Increased competition and regulatory barriers in Chinese markets.
- Development of international markets is still at an early stage.

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Edison profile page

Marlborough Wine Estates coverage is provided through the NXT Research Scheme

EDISON

NXT Company Spotlight

Oceania Natural

Consumer goods

5 December 2017

New focus on quality and ethical products

Oceania Natural (ONL) is an early-stage New Zealand company involved in producing and distributing food and drink products. It sources products from New Zealand and the Pacific Islands, and sells both domestically and into its key market, the People's Republic of China. In H118, ONL has been developing its routes to market for key products of water and Noni juice.

Preliminary first half results: Slow start to the year

In trading terms the period was a slow start to the year, with revenue only one-third of H117 and a net loss of NZ$0.97m against NZ$0.28m in H117. During H1, ONL's focus was on realigning the business in line with sales channels developed through China and New Zealand. Management's strategy is to expand its product range in available markets, focusing on new business opportunities to result in sales growth.

Future outlook: A food and beverage company

ONL is positioning itself as a food and beverage company with values of quality products and ethical sourcing. Expansion will centre on keystone products Noni juice and water. ONL will seek to develop relevant growth markets via new distributor networks and sales channels.

Update on China: Improved market information

Working with new Chinese sales channels and distribution partners, management has developed its understanding of product and geographical opportunities, enabling it to target sales efforts more precisely. ONL Noni juice was also shipped to Japan, Korea and Singapore, which are seen as key future growth markets.

Acquisition in the water business

In an asset purchase, the company is acquiring a New Zealand water bottling, sales and distribution operation, which trades as the "Water for Everyone" brand. The consideration is a maximum $740,000 plus stock, subject to downward-only adjustment based on performance to March 2019.

Valuation: Share price implies 16x FY17 EV/sales

The current price implies an EV/sales multiple of 16.1x based on FY17 sales. This is considerably higher than the peer group, which has a current year EV/sales average of 2.4x, reflecting peers' relative maturity and ONL's low liquidity. It should be pointed out that on the basis of the interim results, FY18 revenue may be lower than FY17, which would result in a higher EV/sales multiple.

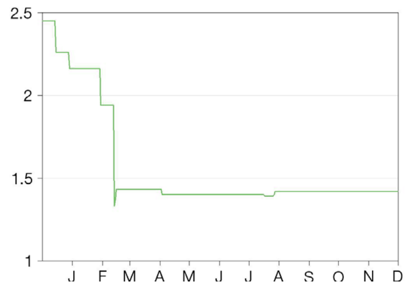
Historical performance

Year end	Revenue (NZ$000s)	EBITDA (NZ$000s)	EBIT (NZ$000s)	NPAT (NZ$000s)	Net cash (NZ$000s)	Net assets (NZ$000s)
03/15	1,512	45	20	1	4	(65)
03/16	3,351	305	276	183	(736)	1,874
03/17	2,429	(865)	(911)	(936)	(453)	5260

Source: Oceania Natural

Price	**NZ$1.42**
Market cap	**NZ$37m**

Share price performance



Share details

Code	ONL
Listing	NXT
Shares in issue	26.2m

Business description

Oceania Natural is a producer, distributor and reseller of natural food and drink products sourced from New Zealand and the Pacific Islands, sold both domestically and into the People's Republic of China.

Bull

- Tapping into demand for clean NZ products.
- Huge market potential in China.
- Board has strong experience in consumer products companies.

Bear

- Execution risk of developing a new business around ethically sourced and high-quality food and drink products.
- Low liquidity.
- Small player competing with large incumbents.

Analysts

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Oceania Natural coverage is provided through the NXT Research Scheme

QEX Logistics

General industrials

28 May 2018

Price	NZ$0.75
Market cap	NZ$38m

Share price performance

Share details

Code	QEX
Listing	NXT
Shares in issue	50.3m

Business description

QEX is a logistics company that facilitates direct trade between New Zealand/Australia and China, aiming to be a one-stop shop for Australasian entities looking to export products to China.

Bull

- Fast growth into a large market.
- Strong board.
- Diversified relationships.

Bear

- Acquisitions made could be dilutive.
- Rapid growth may present management problems.
- Majority of revenues dependent on daigou market.

Analyst

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Edison profile page

QEX Logistics coverage is provided through the NXT Research Scheme

Solid growth expected to continue in FY19

In line with earlier management expectations, QEX Logistics has made an upward revision to its FY19 KOM targets following strong preliminary FY18 numbers. The company now aims at total sales turnover growth of 30% over FY18 to NZ$41m and gross profit at NZ$5.74m in FY19. This implies a 14% margin, which is somewhat below the initial target of 15% and suggests that in its current rapid growth phase, QEX decided to trade off some of its margin against top-line growth.

Most FY19 KOM targets revised upwards

Following the recent positive announcement of FY18 KOM results on 26 April, QEX has completed its revision of KOM targets for FY19. It now expects to generate sales turnover of NZ$41m compared with the earlier target included in its listing document at NZ$28m, implying a 46.4% upward revision. This compares with FY18 sales turnover at NZ$31.5m (which was c 21% ahead of the initial KOM target) and suggests a c 30% y-o-y growth rate vs FY18. This is accompanied by an upward revision of the expected monthly volume of dairy products exported from 160 tonnes to 182 tonnes (up 13.8%) and the monthly number of parcels cleared from 72,000 to 80,800 (up 12.2%).

Gross margin KOM target slightly down

QEX's gross margin target (as a percentage of the sales turnover target) was revised down slightly from 15% to 14%. This compares with 16.0% achieved in FY18 amid an exceptionally strong Q418 at 18.4%, which was assisted by favourable pricing due to the tight supply of milk powder in China. The new gross margin target is also somewhat below the initial FY18 target of 14.3% included in the listing document. However, given the higher top-line growth expectations, this still translates into a significantly higher gross profit target at NZ$5.74m (vs NZ$4.2m previously).

Valuation: Peer comparison

QEX is priced at 14.8x FY17 (end-March 2017) EV/EBITDA, with logistics companies trading on multiples of c 10.1x EV/EBITDA and 22.6x P/E on a trailing 12-month basis. However, this ratio does not reflect the strong growth QEX posted in FY18.

Company financials

Year end	Sales turnover (target in future) (NZ$m)	PBT (NZ$m)	Cash (NZ$m)	Cash from operations (NZ$m)
03/16	18.1	0.6	0.3	0.9
03/17	22.2	2.6	0.1	0.4
03/18	31.5	N/A	N/A	N/A
03/19e	41.0	N/A	N/A	N/A

Source: QEX (historicals and forecasts)

Snakk Media

Media

5 February 2018

Improved cash performance

Snakk Media has issued its Q3 KOMs, which are broadly consistent with its full-year targets, with an outperformance of the compensation to revenue ratio and a higher staff turnover than indicated. This figure, though, is highly volatile due to the small numbers involved. The company is still undergoing a review of its capital strategy and the share price is unlikely to recover until the outcome of this is published.

Self-service underpinning revenue growth

The gross margin KOM at 56% slightly undershot its target, but this reflects the higher inventory cost over the peak advertising season before Christmas. The ytd number is only a shade under the annual target of 58%, well ahead of the industry average (Edison: 35%) and underpinned by its mobile data-driven targeting technology, based on the UberMedia platform. There were some timing issues benefiting the compensation revenue ratio and the staff turnover figure was inflated by a staff member leaving and later rejoining. The self-service offer, launched in October 2016, is growing well in Australia and New Zealand. This offers a programmatic geomobile platform for customers who prefer to manage their own advertising campaigns on UberMedia via Snakk. The growth of this in the mix will depress the group's gross margin, but should drive up the operating margin.

Operating cash outflow greatly reduced

At the end of September 2017, Snakk had a net cash position of NZ$0.5m, down from NZ$0.6m at the year-end and from $1.6m at end-H117. The operating cash outflow in the first half was greatly reduced at NZ$0.2m (from NZ$1.4m in H117), with a higher level of receipts from customers (+11%) and a cost base reduced by 9%. The subscription by the Manji Family Trust raised NZ$108k post year-end, in H118. The outcome of the appraisal of capital strategy options, announced with the full-year results, is still to be published.

Valuation: Awaiting clarification

Snakk's share price has continued to drift down over the last quarter from 10c to the current level, having initially been strongly marked down post the review of KOMs at the beginning of April 2017. We suggest that the catalyst for a significant change will be the clarification of the group's capital strategy, still under review. Given the scale of the group, comparisons to global peers are of limited use but, for context, these currently trade at median multiples of 1.1x EV/sales and 8.6x EV/EBITDA.

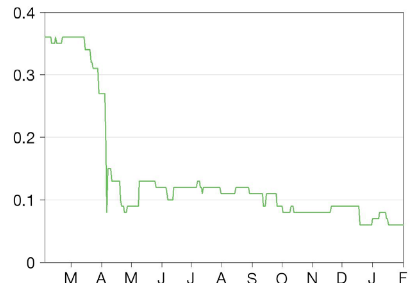
Historical financials

Year end	Revenue (NZ$m)	Gross profit (NZ$m)	PBT (NZ$m)	EPS (c)	EV/gross profit (x)	EV/sales (x)
03/14	7.1	2.9	(1.9)	(12.0)	0.16	0.07
03/15	9.2	3.9	(4.0)	(25.6)	0.12	0.05
03/16	10.5	6.6	(0.9)	(6.6)	0.07	0.04
03/17	10.6	6.3	(3.2)	(20.6)	0.07	0.04

Source: Company accounts

Price	**NZ$0.06**
Market cap	**NZ$1.0m**
Net cash (NZ$m) at 30 September 2017	0.5

Share price performance



Share details

Code	SNK
Listing	NXT
Shares in issue	16.3m

Business description

Mobile advertising technology company Snakk Media offers a full suite of mobile creative, content and technology services, empowering the world's leading brands and agencies to accurately reach and engage with consumers on their mobile devices.

Bull

- Broadening range of products and services.
- UberMedia technology partnership.
- Strengthened cash performance.

Bear

- Capital strategy under review.
- Heavy price competition.
- Comparatively small scale.

Analysts

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Snakk Media coverage is provided through the NXT Research Scheme

Other Edison clients

BCI Minerals

BCI is an Australian-based resources company that is creating value from its attractive portfolio of mineral interests through discovery, de-risking and transactions. BCI's portfolio currently includes interests in iron ore, salt, potash and gold projects. Iron Valley is an operating iron ore mine located in the Central Pilbara region of Western Australia, which is operated by Mineral Resources Limited. Iron Valley is generating quarterly royalty earnings for BCI (A$18.3M EBITDA in FY17).

Information from https://www.commsec.com.au/

Mining

Market cap	**A$59m**
	* As at 31 May 2018
Share Details	
Code	BCI
Exchange	ASX

Covata

Covata's SafeShare software enables users to share data securely within their businesses as well as with external parties. The software uses identity, policy and key management to protect data wherever it goes. The company is headquartered in Australia and has 25 employees.

Information from http://www.edisoninvestmentresearch.com/research/report/covata84816/full/

Software

Market cap*	**A$21m**
	* As at 31 May 2018
Share details	
Code	CVT
Exchange	ASX

CSL

CSL is a global specialty biotherapeutics company headquartered in Australia that delivers innovative biotherapies, with a focus on plasma products and vaccines. It is the largest global supplier of plasma-derived therapies and number two in influenza vaccines worldwide.

Information from http://www.edisoninvestmentresearch.com/research/report/csl/full/

Pharma & biotech

Market cap*	**A$84bn**
	* As at 31 May 2018
Share details	
Code	CSL
Exchange	ASX

EDISON

MGC

MGC Pharmaceuticals Ltd (MXC, formerly Erin Resources Limited) is a medical and cosmetic cannabis company with global operations to supply the legalized markets with cannabis products. The current activities of the company include development of non-psychoactive cannabidol (CBD) cosmetic products.

Information from https://www.commsec.com.au/

Pharma

Market cap*	A$84m
	* As at 31 May 2018
Share details	
Code	MXC
Exchange	ASX

Mustang Resources

Mustang Resources are a Mozambique-focused emerging mining company (ASX: MUS). We are currently fast-tracking the development of our two highly prospective projects: the Montepuez Ruby Project and the Caula Graphite and Vanadium Project. The two projects are located next to each other, in the Cabo Delgado Province of Northern Mozambique.

Information from https://www.commsec.com.au/

Mining

Market cap	A$19m
	* As at 31 May 2018
Share Details	
Code	MUS
Exchange	ASX

Race Oncology

Race Oncology is a development stage specialty pharmaceutical company which seeks to rescue, rediscover or repurpose overlooked drugs. Its main asset, bisantrene, is being developed for AML. In the US, the company is in the process of designing the pivotal trial. In Europe, it is on the verge of being used as part of an early access program aimed at relapsed/refractory AML.

Information from http://www.edisoninvestmentresearch.com/research/report/race-oncology/full/

Pharma & biotech

Market cap*	A$18m
	* As at 31 May 2018
Share details	
Code	RAC
Exchange	ASX

Redbubble

Consumer

Redbubble is an online marketplace that facilitates the sale and purchase of art and design on a range of products between independent creatives and consumers. The creative works can be printed on a large range of 64 physical products such as t-shirts, mugs, stickers and phone cases. The products are produced and shipped by third-party service providers (i.e. product manufacturers, printers and shipping companies) known as fulfillers.

Market cap*	**A$315m**

* As at 31 May 2018

Share details	
Code	RBL
Exchange	ASX

Information from http://www.edisoninvestmentresearch.com/research/report/redbubble/full/

Senex Energy

Oil & gas

Senex Energy is a growth-focused oil and gas exploration company with onshore assets in Australia's Cooper and Surat Basins. The company's Cooper Basin oil asset is currently in production, while Cooper and Surat Basin gas projects are under development.

Market cap*	**A$586m**

* As at 31 May 2018

Share details	
Code	SXY
Exchange	ASX

Information from http://www.edisoninvestmentresearch.com/research/report/Senex-Energy-08022018/full/

Telix

Pharmaceuticals

Telix Pharmaceuticals Limited (TLX) is a clinical-stage biotechnology company dedicated to the development and commercialization of molecularly-targeted radiation (MTR) therapy. The Company's products seek to address major clinical unmet needs in the management of prostate, renal (kidney) and glioblastoma (brain) cancer.

Market cap*	**A$136m**

* As at 31 May 2018

Share details	
Code	TLX
Exchange	ASX

Information from https://www.commsec.com.au/

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