Australasia Monthly Book

August 2018

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Prices at 24 August 2018

Published 31 August 2018

Welcome to the August 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

- Australia's revolving-door parliamentary leadership is in evidence again as Prime Minister Malcolm Turnbull is challenged by the conservative wing of the party, with expectations of further leadership challenges and declining poll numbers set to dent any hopes of re-election.
- Positive earnings results and strong sector performances from banking, resources and energy stocks have the ASX indexes trading at 10-year highs.
- Across listed and unlisted markets, announced private equity-led mergers and acquisitions have climbed almost 47% to be worth US$11.4bn (A$15.6bn) as at August 10, compared to a year earlier, according to Dealogic. More broadly, listed markets have a been a hotbed for M&A this year, with announced deals targeting ASX companies amounting to US$39.3bn, the third highest year to date tally since 1995.
- US interest in Australian companies had almost doubled over the past two quarters, according to Ansarada, a provider of AI-powered virtual data rooms and material information platforms, with the proportion of overseas interest in Australian M&A deals coming from US-based investors jumping from 16% to 32%.
- Global investors will be monitoring Turkey's unfolding currency crisis amid fears it will spread to other emerging market economies and beyond. The Turkish lira has now declined by almost 25% since 9 August. The slide has triggered falls of more than 6% in both the South African rand and Argentinean peso.
- A recent article by Edison CEO Fraser Thorne has highlighted the increasing international impacts of MiFID II, forcing ASX and NZX companies to find new ways of communicating with global investors to ensure markets are properly informed about their activities. A recent survey by the Australasian Investor Relations Association (AIRA) showed that research coverage by investment banks has fallen sharply. "This is also having an impact on consensus earnings estimates, used by investors to make decisions on whether to buy, sell or hold", AIRA's chief executive Ian Matheson said. "Not only is there less research on which to base the estimates, but many listed entities report the quality of research and therefore many forecasts have declined making the consensus or average of the analysts' forecasts less reliable".
- The Australian Securities Exchange (ASX) is hosting its inaugural Small and Mid-Cap Conference at the International Convention Centre, Sydney on 6 September.
- Edison has just completed a resources road trip across Australia. We received feedback which confirmed that companies are seeing research support from brokers decreasing, increased time in research reports being updated post results, less clarity and support for overseas road shows as focus on Australian stocks by offshore offices reduces, MiFID II and concerns regarding consensus estimates impact on their investor reach.
- The Diggers & Dealers Conference 2018, the Australian mining forum held annually in Kalgoorlie, attracted 2,300 delegates with money flooding back into the rest of the mining sector as the Pilbara's big producers (RIO, BHP, FMG) contemplate a $20bn+ spend to extend the life of their operations over the next five years.
- NZX has been consulting the market on its ideas to overhaul its rules and processes in an effort to revive investor interest. NZX had already signalled plans to drop its NZ Alternative and NXT markets with an update expected in the third quarter of 2018.

Market statistics

Australia

Statistics as at July 2018

- Number of companies
  2,157

- Total market capitalisation
  $1,989bn

- Average market capitalisation
  $922m

- Number of international companies
  139

- Primary fund raisings
  $5,392m

- Secondary fund raisings
  $1,815m

EDISON

Global perspectives: Towards emerging markets

Analyst

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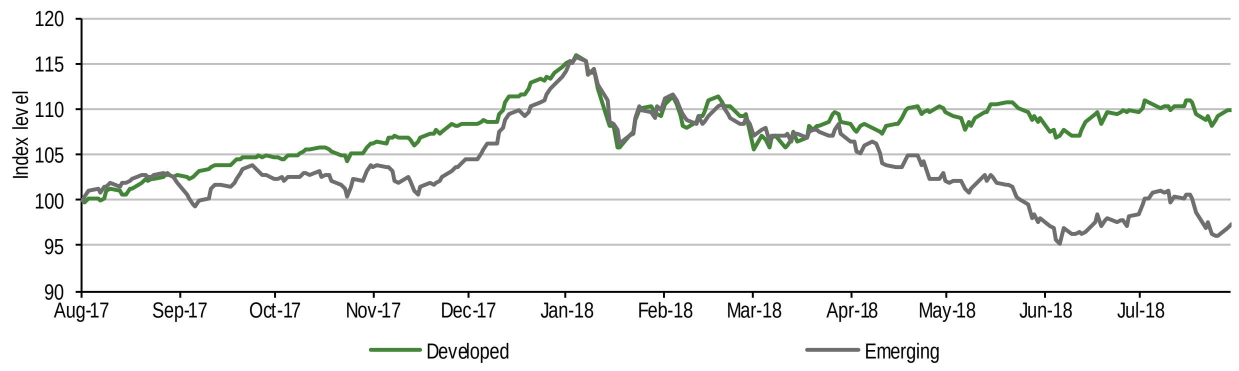
- **We believe it is now time to look more positively towards emerging markets.** Emerging markets (EMs) have underperformed significantly since the start of 2018, as a rising US dollar and unpredictable trade tensions spooked investors. Now, EMs offer relative value and stronger GDP and profits momentum into 2019. Furthermore, a careful read of Fed chair Powell's Jackson Hole comments opens up the prospect of the Fed moving more cautiously with monetary tightening during 2019, as US rates are closer to the neutral rate of interest. If so, the upward pressure on the dollar would be likely to ease.
- **Earnings estimates outside the US have declined modestly over the past month.** We note that economic sentiment has been improving in Europe as trade fears subside. However, the lack of earnings momentum in the UK and Europe compared to the US has been a key driver of the relative outperformance of the US, in our view. While US earnings momentum in 2018 has been very strong, for 2019 we note that consensus sales growth forecasts on both sides of the Atlantic are at the lower levels more typical of this decade.
- **In the context of a possible inflection point in Fed policy and easing trade tensions, we are modestly more positive on the outlook for global equities in the near term.** Even so, due to relatively high valuations for developed market equities, the risk of below-average returns for the medium term remains in place. In the short term, however, markets are likely to respond favourably if we continue to see fading trade and monetary risks during the remainder of 2018.

Time to tilt towards EMs?

Potential inflection point in both monetary policy and US trade policy

The underperformance of EMs during 2018 (Exhibit 1) during a period of strong global GDP growth and relatively strong commodity prices has been a striking feature of 2018. We believe that the combination of tightening US monetary policy and significant concerns in respect of confrontational US trade initiatives led to an additional risk premium for EM equities. This was reinforced by the strength of the trade-weighted dollar. As a result, EM equities now trade in line with historical valuation averages compared to still-large price/book and price/sales premiums for developed markets.

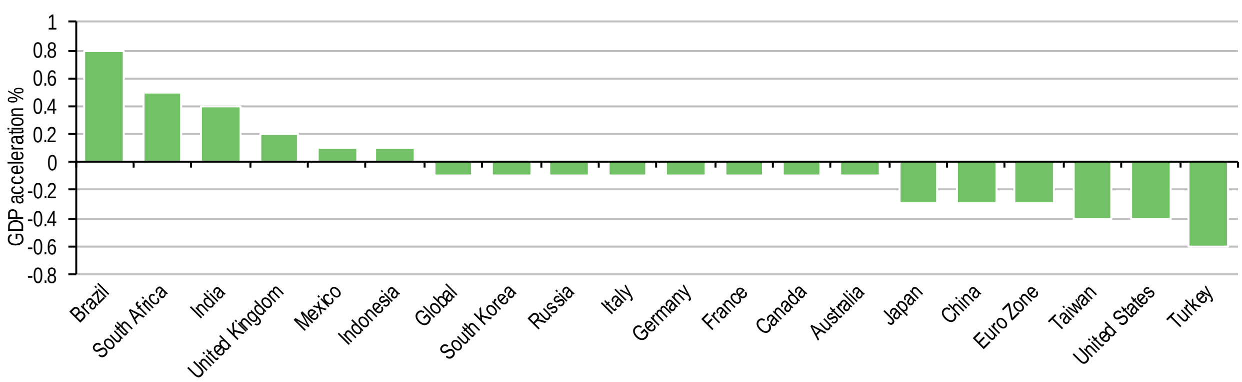
Exhibit 1: EM equities a surprise underperformer in 2018 to date



Source: Thomson Reuters. Note: Returns shown in US$.

The question has, however, been one of timing. With the recent calls from EM central bank heads for the US Fed to take note of financial conditions outside the US, we sensed that the concern that a crisis was brewing in EM FX was being felt at the highest policymaking levels. Furthermore, the widely reported recent difficulties in Turkey led to a degree of contagion across other EMs, even if in many respects Turkey is clearly a country-specific political and economic problem. The situation in Turkey remains challenging, although with both the currency and equity valuations trading at long-term lows, this appears largely discounted by the market.

Exhibit 2: Many EMs rank highly for GDP momentum in 2019 compared to the US and eurozone

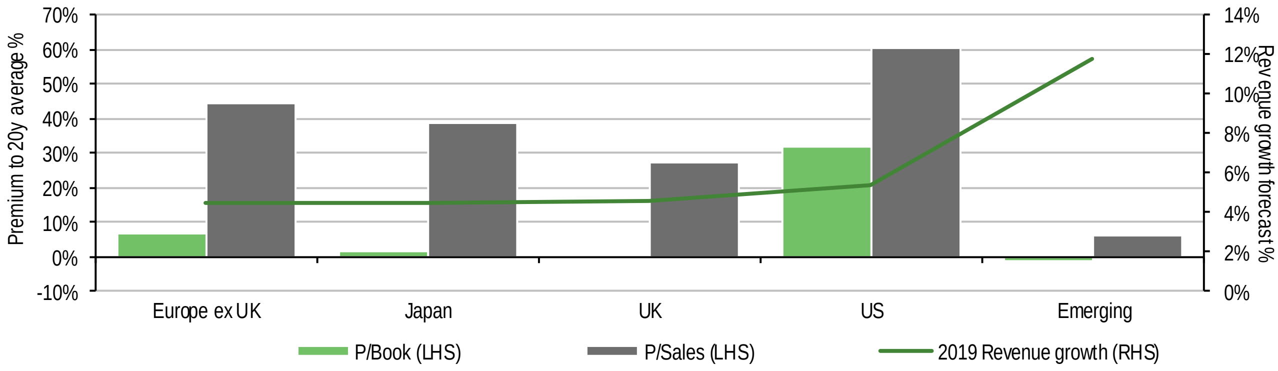


Source: Thomson Reuters, Edison calculations. Note: GDP acceleration defined as 2019 less 2018 consensus forecast GDP growth.

We have continued to monitor earnings revisions for EMs since the sell-off began in April and believe that although both the median and weighted-average 2018 estimates have been falling (Exhibit 3), the downgrades are modest in the context of 15% forecast earnings growth. In fact, EM earnings projections have been falling only at a similar pace to those in Europe and the UK in recent months. While we think a precautionary discount for EMs in the context of US monetary and trade risks was understandable up to now, company fundamental performance does not appear to justify such a significant sell-off, at least to date.

Furthermore, while contingent on the absence of a full-blown EM FX crisis, consensus GDP forecasts currently suggest that economic momentum will favour EMs over developed markets in 2019 (Exhibit 2). The US in particular is likely to show a slowing of growth compared to 2018, potentially providing the room for the US Fed to slow the pace of rate increases next year.

Exhibit 3: EM valuations more attractive than developed markets and 2019 sales growth markedly stronger

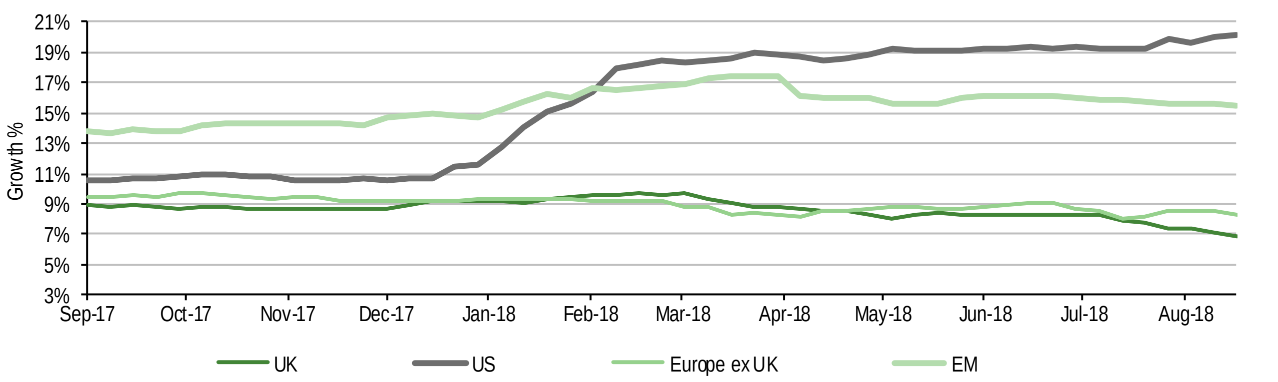


Source: Thomson Reuters, Edison calculations

Finally, we estimate that EM valuation multiples remain close to long-term averages on traditional multiples such as P/E, price/book and price/sales. The absence of a re-rating in terms of price/sales is especially notable when compared to developed markets. As investors turn to prospects for 2019, we believe 11% sales growth for the median EM equity will warrant close interest when compared to growth of less than half that figure for developed equities. As an added bonus, EM non-financial EBITDA margins may be at the high end of a tight cyclical range over the last seven years, but there is no evidence of an upward drift requiring not entirely irrational but novel models of 'superstar' firms (such as those that dominate US tech and extensively discussed at the Fed's Jackson Hole conference) to explain excess profitability.

We are not, however, suggesting that allocating assets towards EMs now is a once-in-a-lifetime opportunity or that it is without risk. EM valuations are only close to average rather than cheap, compared to their history over the past 20 years. Furthermore, there remain risks in terms of the possibility of newly heightened trade tensions and US monetary policy, which we discuss below.

Exhibit 4: Median 2018 earnings growth forecasts continue to decline outside the US



Source: Thomson Reuters, Edison calculations

Fed chair Powell: Jackson Hole speech suggests a risk managed approach

While at first sight the comments of Fed chair Powell at Jackson Hole appeared in line with both the recently released Fed minutes and his previous comments, his speech contained new material specifically addressing his views on decision-making under uncertainty. The uncertainty relates to the estimates of both the natural rate of interest and unemployment. By drawing a parallel with Greenspan's intuition during the 1990s that productivity was growing faster than real-time forecasts could capture and interest rates could stay lower for longer, Powell has certainly caught investors' attention in recent days, as US equities make new highs and the dollar falls.

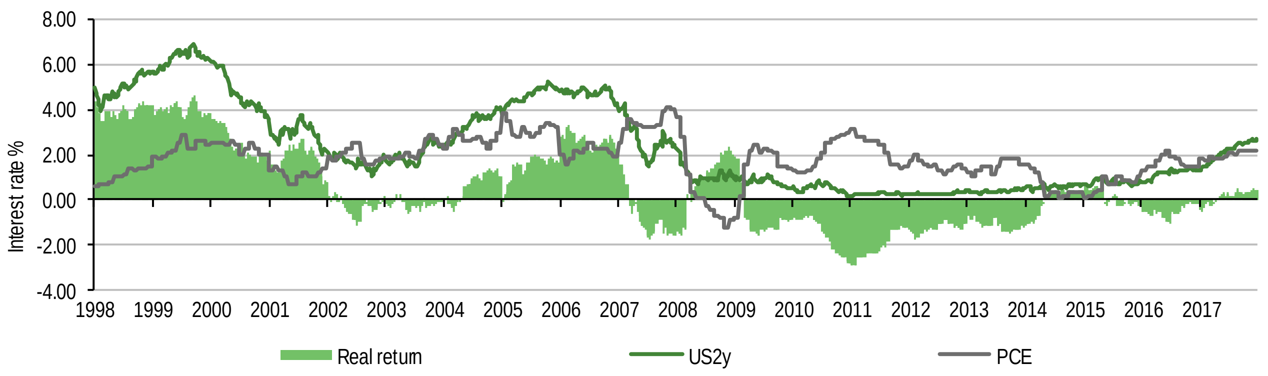
Powell also drew a distinction between circumstances where a central bank has to act forcefully – such as during a financial crisis or when inflation expectations have lost their anchor – and more typical conditions. In times of crisis, the risk is to move too slowly. However, when, as is the case now, inflation expectations are well-anchored and there is uncertainty in the economic parameters, Powell clearly favours Greenspan's wait-and-see approach. His definition of an adverse inflation outcome of more than 5% is also noteworthy, as it suggests a tolerance for higher reported inflation provided that the Fed's other data sources indicate an absence of inflationary pressure.

One speech does not of course change the entire landscape of future monetary policy and we continue to expect 75bp of further tightening over the next 12 months. Powell's speech may, however, represent an inflection point in terms of US monetary policy – and US two-year rates have in recent weeks been moving higher but at a slower pace.

We would also highlight that with US two-year rates close to inflation, Exhibit 5, the most perilous part of the market journey to interest rate normalisation – which historically is the period when real rates rise from being substantially negative to zero – has now been successfully navigated. In our view, Powell has reassured markets that from this point the US Fed can take a wait-and-see approach, which will become more in evidence in coming quarters. Such an approach is also consistent with a likely slowing of US GDP growth during 2019, due to the one-off benefits of US tax reform this year.

In respect of longer-term bond yields, the willingness to look-through temporarily higher inflation would on balance be expected to lead to higher bond yields. While US short-term rates by mid-2019 would be offering a real return of around 0.5%, close to long-run historical averages, US long-term real rates still appear anomalously low. Powell's comments were, in our view, positive for US growth and negative for the dollar (and also beneficial for EMs). If these comments do ultimately translate into US monetary policy, we would expect to see the yield curve steepen after flattening significantly over the past 12 months.

Exhibit 5: US two-year rates finally above US PCE inflation



Source: Thomson Reuters

US trade policy: First EU then NAFTA gives investors hope on trade

Only a few months ago, the Trump administration's controversial and confrontational trade tariff initiatives were raising fears of a breakdown in the global trading system. However, the recent truce between the US and the EU has already had a positive impact on business sentiment in Germany, with the IFO index scoring its largest gain this year during August.

Adding to the sense of a de-escalation in the US trade war has been the announcement of a proposed deal between the US and Mexico to replace the current North American Free Trade Agreement (NAFTA). Details of this proposed agreement are not yet available and a final agreement is still pending, making an assessment of the likelihood of ultimate success of this initiative difficult. Any final agreement would also require congressional approval. The conspicuous absence of Canada points, in our view, to negotiation dynamics and congressional leaders have already hinted that a deal that did not include Canada would be unlikely to be approved.

Even if these two developments in US trade relations represent preliminary moves, they deliver a significant reduction in the negative rhetoric from the US administration towards the rest of the world. While the dispute with China continues, the precedent of Mexico and the EU increases the perception that trade wars are more for the benefit of a domestic US audience and the popularity of President Trump. Trump's recent actions fit the theory of an opportunistic and populist agenda; should an accord be reached with China, we believe markets would quickly move to price in the end of what would have been a largely phoney trade war.

Conclusion

We take heart from Fed chair Powell's most recent comments that indicate a preference for having a bias (with the proviso of inflation expectations remaining properly anchored) towards a wait-and-see approach, due to the uncertainties present in the incoming data. This is, in some respects, forward guidance on what happens after the currently priced-in Fed rate hikes have been implemented. As a result, the upward pressure has eased on the dollar and it is now, in our view, time to look again at EM equities. For bonds, a more dovish Fed may create upward pressure on US 10-year bond yields, steepening the yield curve. We believe US 10-year yields remain too low in this context and also because of increased net issuance of US Treasuries in coming years to finance Trump's fiscal stimulus.

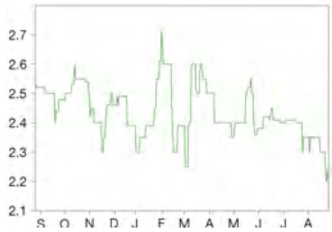
Emerging equities have underperformed so far this year but consensus forecast earnings growth both this year and in 2019 is well above developed market peers. Furthermore, valuations for EMs, while not inexpensive, are no higher than historical averages compared to relatively expensive developed markets. It is early days, but the apparently improved US trade relations with NAFTA members and the EU is also likely to lead to improved growth sentiment, if sustained.

AFT Pharmaceuticals (AFT)

Sector: Pharma & healthcare

Price:	NZ$2.25
Market cap:	NZ$219m
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	(4.3)	(4.7)	(11.4)
Relative*	(6.4)	(10.2)	(21.6)

* % Relative to local index

Analyst

Maxim Jacobs

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)
2017	69.2	(15.1)	(18.5)	(19.12)	N/A	N/A
2018	80.1	(10.5)	(12.9)	(13.30)	N/A	N/A
2019e	99.6	1.9	0.0	4.56	49.3	N/A
2020e	120.7	11.7	9.9	10.13	22.2	23.7

AJ Lucas Group (AJL)

Sector: Oil & gas

Price:	A$0.36
Market cap:	A$274m
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	(9.9)	19.7	51.9
Relative*	(9.7)	15.2	38.2

* % Relative to local index

Analyst

Sanjeev Bahl

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 two horizontal wells have been drilled. In July, AJL received consent to hydraulically fracture its first well, and in August applied for consent to fracture the second well. 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: Pharma & healthcare

Price:	A$0.49
Market cap:	A$237m
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	1.0	(8.4)	2.1
Relative*	1.2	(11.9)	(7.2)

* % 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 Phase IIa for agitation. It also 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 (c)	P/E (x)	P/CF (x)
2016	8.1	(15.4)	(16.7)	(3.48)	N/A	N/A
2017	18.6	(3.2)	(4.4)	(0.98)	N/A	N/A
2018e	5.0	(18.5)	(19.6)	(3.41)	N/A	N/A
2019e	17.6	(14.6)	(16.1)	(2.84)	N/A	N/A

Sector: General industrials

Price:	HK$9.05
Market cap:	HK$14561m
Market	HKSE

Share price graph (HK$)

Company description

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

Price performance

%	1m	3m	12m
Actual	(13.5)	19.1	109.0
Relative*	(11.8)	28.8	105.9

* % Relative to local index

Analyst

Graeme Moyse

China Water Affairs Group (855)

INVESTMENT SUMMARY

CWA's recent FY18 results extended the company's impressive track record (2013–18, CAGR in EPS of 29.6% and DPS of 35.7%). We believe CWA is capable of achieving further growth in the forecast period. Politics and regulation require further improvements to the Chinese water and sewage infrastructure and, as the recent opinion on changes to the price change mechanism (No. 943) issued by the National Development and Reform Commission (NDRC) acknowledges, tariffs should be reflective of costs and not force operators to supply the domestic water market at a loss. We have revised our forecasts taking a more optimistic view on the scope for tariff increases and we also revise our minority interest charge. Blended peer group multiples indicate a valuation for CWA of c HK$10.7/share.

INDUSTRY OUTLOOK

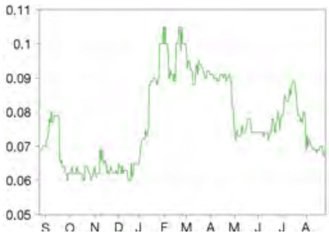
Water supply in China remains fragmented. The central government encourages local governments to deleverage their own balance sheets with private–public partnerships. This trend remains positive for CWA.

Y/E Mar	Revenue (HK$m)	EBITDA (HK$m)	PBT (HK$m)	EPS (c)	P/E (x)	P/CF (x)
2017	5708.0	2646.0	1963.0	55.4	16.3	N/A
2018	7580.0	3097.0	2462.0	71.8	12.6	N/A
2019e	8935.0	3599.0	2829.0	81.5	11.1	N/A
2020e	10481.0	4212.0	3384.0	97.5	9.3	N/A

Sector: Oil & gas

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

Share price graph (A$)



Company description

Elk Petroleum has three key assets: Grieve, Aneth and Madden. The Grieve CO_2 EOR project was commissioned in April 2018; Madden is a gas producer that provides strategic ownership of CO_2 and Aneth is one of the largest CO_2 EOR projects in the Rockies.

Price performance

%	1m	3m	12m
Actual	(13.8)	(6.8)	0.0
Relative*	(13.6)	(10.3)	(9.1)

* % 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 CO_2 EOR project from Resolute Energy has transformed it into one of the largest producers on the ASX. Management forecasts CY18 net production of just over 9kboed. 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). In May 2018, ELK completed a A$13.5m capital raising to fund the development of Aneth, and the field development plan started in June 2018. Our risked valuation increased 61% to A$0.19/share driven by near-term development potential and higher short-term oil prices.

INDUSTRY OUTLOOK

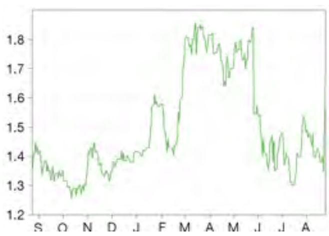
Alongside field operators Denbury and ConocoPhillips, ELK management has identified numerous field optimisation opportunities at Grieve and Madden with high risk-adjusted returns (many in the 50-100% IRR range). ELK continues to consolidate Rocky Mountain CO_2 EOR projects.

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	84.0	38.7	8.7	(0.1)	N/A	N/A
2019e	170.5	90.8	48.7	1.2	5.8	N/A

Sector: General industrials

Price:	A$1.68
Market cap:	A$429m
Market	ASX

Share price graph (A$)



Company description

ERM Power is an energy retailer and trader. In Australia it operates an electricity supply business and two gas-fired generation plants. A key area of growth is energy solutions, while the company has announced its intention to sell its US business.

Price performance

%	1m	3m	12m
Actual	9.4	1.8	19.6
Relative*	9.6	(2.0)	8.7

* % Relative to local index

Analyst

Dario Carradori

ERM Power (EPWX)

INVESTMENT SUMMARY

In the context of the FY18 results (23 August), ERM Power announced its intention to sell US supply activities, which we view as positive as we expect this business to continue to generate significant negative profit and cash flow. Underlying FY18 EBITDA was 12% better than expected, while net income was in line with our forecast. On the negative side, the company moved from a net cash position to a net debt position as a result of cash outflows related to derivatives variation margins. Overall, we see the announcement of the US business sale as a major positive catalyst and expect the stock to reverse the negative share price performance since the US outlook downgrade at the end of May.

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 customer 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)
2017	3127.0	78.4	51.7	(10.77)	N/A	2.7
2018	2047.0	97.5	43.1	12.37	13.6	N/A
2019e	2068.0	93.4	36.9	10.88	15.4	3.5
2020e	2124.0	103.5	46.4	14.01	12.0	4.2

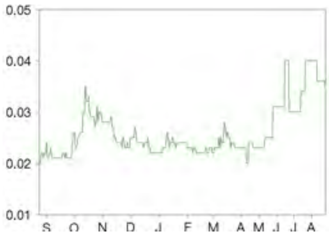
EDISON

Immutep (IMM)

Sector: Pharma & healthcare

Price:	A$0.03
Market cap:	A$82m
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	6.3	3.0	54.5
Relative*	6.4	(0.8)	40.6

* % Relative to local index

Analyst

Dr Dennis Hulme

INVESTMENT SUMMARY

Immutep has three promising candidates in clinical trials and one preclinical asset, all based on Lymphocyte activation gene-3, LAG-3 (one partnered with GSK and a second partnered with Novartis). Lead in-house LAG-3 product, eftilagimod alpha (IMP321), is being developed in metastatic breast cancer combined with chemo (126 of 226 patients recruited in randomised Phase IIb, initial PFS data expected 2019) and in melanoma in combination with Keytruda (33% response rate in three dose-finding cohorts, 61% response rate from start of Keytruda monotherapy screening; additional six-patient cohort is being treated at the highest dose starting on day 1 of Keytruda treatment). Novartis and GSK are progressing clinical trials of partnered LAG-3 programmes: GSK has announced ulcerative colitis as lead indication; Novartis has commenced two Phase II studies this year with LAG525 and a third is expected to start this month. Immutep will collaborate with Merck (MSD) in a study of IMP321 plus Keytruda in lung 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.

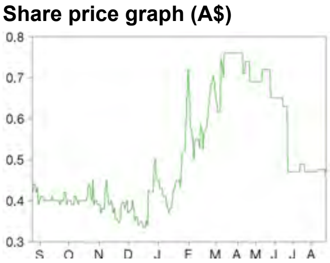
Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2016	1.9	(12.1)	(13.7)	(0.6)	N/A	N/A
2017	4.1	(7.8)	(8.4)	(0.4)	N/A	N/A
2018e	3.5	(13.2)	(12.9)	(0.6)	N/A	N/A
2019e	10.9	(7.1)	(6.4)	(0.2)	N/A	N/A

Kazia Therapeutics (KZA)

Sector: Pharma & healthcare

Price:	A$0.45
Market cap:	A$22m
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	(20.4)	(35.7)	2.3
Relative*	(20.2)	(38.1)	(7.0)

* % 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 Phase I trial in ovarian cancer has tentatively identified the MTD and is currently recruiting additional patients to better understand the safety profile, before recruiting a 12-patient expansion cohort. While the primary aim is to assess safety and tolerability, we note that 3/5 patients achieved stable disease after 2 cycles and one achieved a partial response in combination with chemo. Kazia has divested its discovery-stage anti-tropomyosin program to TroBio Therapeutics, 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

Sector: Oil & gas

Price:	A$0.15
Market cap:	A$73m
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	(11.4)	(3.1)	14.8
Relative*	(11.3)	(6.8)	4.4

* % Relative to local index

Analyst

Sanjeev Bahl

Leigh Creek Energy (LCK)

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. In June 2018, LCK completed an A$8.7m capital raise which will enable the company to complete the feasibility study for the small-scale power plant and the project associated drilling programme. Following this capital raise our forecasts are currently under review.

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	75.0	62.4

Sector: Mining

Price:	A$0.03
Market cap:	A$79m
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	(25.0)	(34.1)	134.6
Relative*	(24.9)	(36.6)	113.3

* % Relative to local index

Analyst

Charles Gibson

Lepidico (LPD)

INVESTMENT SUMMARY

Lepidico's (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 lab tests have demonstrated stable and continuous operation. The 2017 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 Q119.

INDUSTRY OUTLOOK

Lepidico's strategic imperative is now the development of the Phase 1 L-Max plant in Sudbury, Canada as well as the completion of a scoping study on an industrial-scale operation. At steady-state, we estimate that the Phase 1 plant is capable of generating A$28.1m pa, 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$0.79
Market cap:	A$451m
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	16.2	75.6	45.0
Relative*	16.4	69.0	31.8

* % 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. We expect LNGL to sign tolling agreements and move towards FID in 2018, with first gas in 2023. LNGL recently completed a fund-raise of A$28.2m, and our valuation now stands at A$1.01/share (US$3.18/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 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	7.3	(101.1)	(100.8)	(0.2)	N/A	N/A
2017	0.6	(26.8)	(26.7)	(0.1)	N/A	N/A
2018e	0.3	(22.1)	(22.1)	0.0	N/A	N/A
2019e	0.0	(29.7)	(29.9)	(0.1)	N/A	N/A

Sector: Pharma & healthcare

Price:	A$1.59
Market cap:	A$767m
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	(13.1)	3.9	(0.2)
Relative*	(13.0)	0.0	(9.3)

* % Relative to local index

Analyst

Dr Dennis Hulme

Mesoblast (MSB)

INVESTMENT SUMMARY

The potentially pivotal 55 pediatric patient acute graft vs host disease (GvHD) study met its primary efficacy outcome, with a 69% overall response rate vs 45% for historical controls (p=0.0003). The 100 day data showed high survival rates in responsive patients; 180 day safety data is in Q3. This is expected to lead to a fast track application to the FDA. The NIH funded Phase IIb in end-stage CHF patients with an LVAD should have full data by Q4 CY18. Cash on 31 Mar was US$59.5m. In March, Mesoblast entered a US$75m non-dilutive credit facility and has drawn-down $35m. A June deal gained $30m plus US$10m equity based on expected GvHD sales. A collaborative alliance with Tasly on developing MPC for CHF in China has given a US$20m upfront and US$20m for an equity subscription.

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

EDISON

Sector: Pharma & healthcare

Price:	NZ$0.35
Market cap:	NZ$166m
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	48.9	9.4	(26.8)
Relative*	45.6	3.1	(35.2)

* % Relative to local index

Analyst

Maxim Jacobs

Pacific Edge (PEB)

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 using its Cxbladder technology for detecting and monitoring bladder cancer are sold in the US, New Zealand and Australia. The company recently announced that the number of tests processed increased by 29% in FY18 and is guiding for 60% growth in FY19. The company is negotiating agreements with the Centers for Medicare and Medicaid as well as private payers to provide for improved reimbursement, which would be a major driver in the future.

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)
2017	4.4	(22.3)	(22.4)	(5.9)	N/A	N/A
2018	4.8	(19.4)	(19.5)	(4.4)	N/A	N/A
2019e	7.8	(17.9)	(17.7)	(3.7)	N/A	N/A
2020e	12.7	(14.1)	(14.2)	(2.8)	N/A	N/A

Sector: Pharma & healthcare

Price:	A$0.20
Market cap:	A$42m
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	(14.9)	81.8	66.7
Relative*	(14.8)	75.0	51.6

* % 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 collaboration with AGC for exclusive manufacture of Progenza cells for Japan. Regeneus and AGC have formed a 50:50 JV, which is seeking to sub-license partners to develop and commercialise Progenza in Japan in a number of indications; the first Progenza clinical development licence is close to finalisation. Japanese legislation offers an accelerated path to market for regenerative medicines. Progenza therapy reduced osteoarthritis knee pain in Phase I. Regeneus was granted a US patent in July covering the composition and use of Progenza. Its autologous cancer vaccine RGSH4K was safe and showed encouraging signs of immune stimulation and antitumour activity in a Phase I study. 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	12.7	11.6
2018e	7.8	2.2	2.0	0.93	21.5	11.6
2019e	1.1	(4.3)	(4.5)	(2.17)	N/A	N/A

Sector: Technology

Price:	NZ$0.33
Market cap:	NZ$21m
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	3.1	3.1	26.9
Relative*	0.8	(2.8)	12.4

* % Relative to local index

Analyst

Dan Ridsdale

SLI Systems (SLIZ)

INVESTMENT SUMMARY

SLI Systems has reported its first full year of profitability. FY18 revenues were stronger than expected, while cost reductions also exceeded our forecasts, leading to PBT of NZ$4.5m (forecast: NZ$2.4m, FY17: NZ$1.6m loss). However, 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. Our forecasts are under review.

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)
2017	32.0	(0.5)	(0.8)	(1.8)	N/A	N/A
2018	34.4	4.7	4.5	7.1	4.6	5.4
2019e	N/A	N/A	N/A	N/A	N/A	N/A
2020e	N/A	N/A	N/A	N/A	N/A	N/A

Sector: Pharma & healthcare

Price:	¥129.00
Market cap:	¥8625m
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	(3.7)	(28.7)	(46.5)
Relative*	(1.1)	(27.0)	(50.6)

* % Relative to local index

Analyst

Dr Dennis Hulme

SymBio Pharmaceuticals (4582)

INVESTMENT SUMMARY

SymBio is a speciality pharma focused on Asia-Pacific markets, and has in-licensed two orphan blood cancer products. Treakisym i.v. was approved for r/r low grade NHL/MCL in 2010 and in 2016 received approvals in CLL and first-line low grade NHL/MCL; these new approvals saw in-market Treakisym sales increase by 22% in H1 2018, following 61% growth in 2017 (NHI price basis). In August 2017, 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 for injection that will provide Treakisym with patent protection that extends to 2031. A Phase I trial of oral Treakisym commenced in January. Rigosertib i.v. 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 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.

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	333.9
2017	3444.0	(3917.0)	(3977.0)	(79.8)	N/A	525.2
2018e	4203.0	(3004.0)	(3030.0)	(54.2)	N/A	175.6
2019e	4325.0	(3591.0)	(3636.0)	(62.9)	N/A	426.4

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.

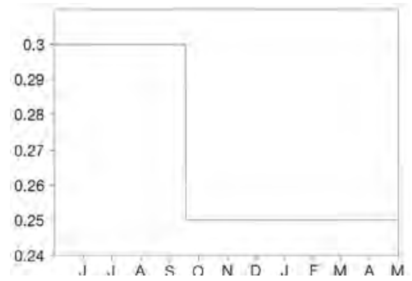
Historical performance

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.

Analysts

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Edison profile page

Marlborough Wine Estates coverage is provided through the NXT Research Scheme

QEX Logistics

General industrials

6 June 2018

Fuelling further business expansion

QEX continues to expand its business across New Zealand, Australia and China, with group sales up c 42% y-o-y in FY18 and the FY19 key operating milestone (KOM) target set at NZ$41m, implying c 30% y-o-y growth. The scope of future earnings improvement will depend on QEX's ability to address pricing pressures (FY18 gross margin down to 16.1% from 17.3% in FY17) and to manage working capital and cash flow effectively as the business grows. Shares currently trade at a FY18 (year ended March-2018) EV/EBITDA ratio of 14.7x.

Top-line growth remains strong

In line with its earlier announcement, QEX reported sales of NZ$31.5m, up 41.8% y-o-y. Sales of milk powder increased by 49% y-o-y to NZ$11.8m amid favourable demand trends and shortage of milk powder during the Chinese New Year season, whereas revenue from parcel delivery, logistics and customs service improved by 31.2% y-o-y to NZ$19.7m, with lower international parcel revenues in New Zealand offset by Australia and China. QEX's recently launched Australian operations contributed NZ$2.4m to the top-line. Future revenues may be supported by the JV which is currently being established by QEX to distribute Munchkin Grass Fed Infant Formula and Munchkin Accessory products.

Some pressure on margins

QEX's gross margin declined by c 120 bps to 16.1%, with margin on milk powder sale at 9.4% vs 10.3% in FY17. This may be the result of pricing pressures in the New Zealand international parcel business, coupled with high level of pricing sensitivity of dairy product customers. During the recent FY19 Key Operating Milestone (KOM) targets review, QEX's gross margin target was revised slightly down from 15% to 14%. Nevertheless, gross profit increased by 31.7% y-o-y to NZ$5.1m and adjusted EBITDA rose by 8.0% to NZ$2.8m.

Valuation: Peer comparison

QEX is priced at 14.7x FY18 (end-March 2018) EV/EBITDA, with logistics companies trading on consensus multiples of c 10.1x EV/EBITDA and 22.8x P/E on a trailing 12-month basis. However, QEX's ratio may decline further if the company meets its KOM targets for FY19.

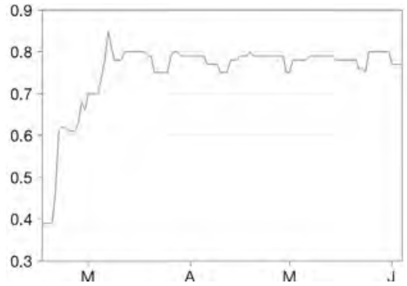
Company financials

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	1.8	1.8	(3.2)
03/19e**	41.0	N/A	N/A	N/A

Source: QEX accounts, Note: *Preliminary numbers. **QEX's KOM target.

Price	NZ$0.80
Market cap	NZ$40m

Share price graph



Share details

Code	QEX
Listing	NXT
Shares in issue	50.3m
Last reported net debt at 31 March 2018	€0.6m

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 with problems.
- Majority of revenues dependent on daigou market.

Analyst

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QEX Logistics coverage is provided through the NXT Research Scheme

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NXT Company Spotlight

Snakk Media

Media

7 June 2018

Price	NZ$0.08
Market cap	NZ$1.3m

Loss significantly reduced to near breakeven

The restructuring initiated in FY17 started to benefit the group in Q218 and Snakk Media finally returned to profit in its second half. Revenues for FY18 were close to the prior year at NZ$10.3m (NZ$10.6m), with increased self-service mobile advertising revenues offset by a decline in business in Southeast Asia (where overheads have been pared back). The cost base in FY19e will be lower with the full-year benefit. The group had year-end cash of NZ$1.1m, just below the current market capitalisation of NZ$1.3m.

Substantial cost reductions

Employee costs for FY18 at NZ$3.8m were down from NZ$5.8m in the prior year, with other operating expenses also trimmed significantly to NZ$2.4m (NZ$3.7m). The group returned a profit after tax of NZ$0.35m for H218; the first six-month period in profit for six years. Resource was focused on those regions and activities with the better potential for positive returns, particularly Melbourne and Brisbane, with the Sydney team reorganised more recently. Management expects operating expenses to be lower still in FY19, showing a full-year benefit. In Southeast Asia, it is looking at how to offer managed services for its highly targeted geo and audience in-app advertising on a profitable basis. Self-service, introduced as an alternative service for clients that prefer to be more ‘hands-on’, has grown well, to 16% of group revenues. However, with negligible visibility, management is now less confident the momentum will be sufficient to drive growth. Snakk already gathers and blends consumer behavioural data to inform its audience targeting for its managed services products. It may be able to monetise this more effectively through charging for access or for activation fees.

Financial position strengthened

At the end of March 2018, Snakk had a cash position of NZ$1.1m, up from NZ$0.5m at the half year. There was an operating cash inflow in H218, which all but eliminated the H118 outflow, reflecting the reduced costs. The subscription by the Manji Family Trust raised NZ$108k in H118. Management continues to appraise capital strategy options.

Valuation: Little for operating business

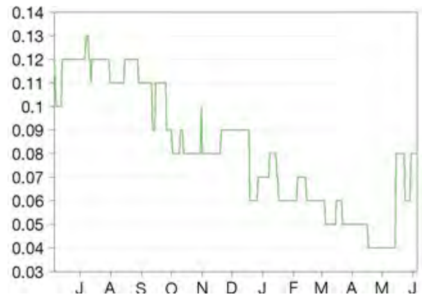
Snakk’s share price has lifted off the lows reached in April and May 2018. Given the scale of the group, comparisons to global peers are of limited use but, for context, these currently trade at median multiples of 1.1x EV/sales and 8.6x EV/EBITDA.

Historical financials

Year end	Revenue (NZ$m)	Gross profit (NZ$m)	PBT (NZ$m)	EPS (c)	EV/gross profit (x)	EV/Sales (x)
03/15	9.2	3.9	(4.0)	(25.6)	0.06	0.02
03/16	10.5	6.6	(0.9)	(6.6)	0.03	0.02
03/17	10.6	6.3	(3.2)	(20.2)	0.04	0.02
03/18	10.3	6.0	(0.3)	(1.6)	0.04	0.02

Source: Company accounts

Share price graph



Share details

Code	SNK
Listing	NXT
Shares in issue	16.3m
Cash (NZ$m) at 31 March 2018	1.1

Business description

Mobile advertising technology company Snakk Media specialises in engaging consumers. It works to identify and target mobile audiences, whether directly by advertising to mobile devices or indirectly using the mobile consumer data through other channels.

Bull

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

Bear

- Slower growth of self-service than anticipated.
- Highly competitive sector.
- 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. 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$54m

*As at 30 August 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$17m

*As at 30 August 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$102bn

*As at 30 August 2018

Share details	
Code	CSL
Exchange	ASX

Fluence

Fluence Corporation is an Australian company committed to becoming the worldwide leader in decentralized water and wastewater treatment solutions. With a team of 300 highly trained water professionals and experience operating in 70 countries around the world, Fluence provides local, sustainable, treatment and reuse solutions while empowering businesses and communities to make the most of their water resources.

Information from www.fluencecorp.com

Industrials

Market cap*	A$183m

*As at 30 August 2018

Share details	
Code	FLC
Exchange	ASX

Genesis Energy

Genesis Energy (GNE) is a New Zealand diversified energy company. GNE generates and sells electricity, natural gas and LPG to residential, commercial and industrial customers. GNE has three key areas of operation: customer experience, Kupe Oil and Gas and energy management, which comprises energy management (generation) and energy management (trading).

Information www.genesisenergy.co.nz

Industrials

Market cap*	A$2,290m

*As at 30 August 2018

Share details	
Code	GNE
Exchange	
	ASX/NZX

Imugene

Imugene (IMU) is an Australian immunoncology-focused biopharmaceutical company developing HER2 + ve gastric and breast cancer vaccines. The group's lead product is HER-Vaxx, a proprietary HER2 +ve cancer vaccine that stimulates a polyclonal antibody response to HER2/neu.

Information from http://www.imugene.com/

Pharma

Market cap*	A$76m

*As at 30 August 2018

Share details	
Code	IMU
Exchange	ASX

MGC Pharmaceuticals

MGC Pharmaceuticals (MXC, formerly Erin Resources) 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$68m**

*As at 30 August 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$10m**

*As at 30 August 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$10m**

*As at 30 August 2018

Share details	
Code	RAC
Exchange	ASX

EDISON

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$360m**

*As at 30 August 2018

Share details	
Code	RBL
Exchange	ASX

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

Rubicon

Forestry

Rubicon is a New Zealand-based company listed on the main board of the New Zealand Stock Exchange (NZX: RBC). Rubicon's advanced Arborgen technology is revolutionizing productivity in global plantation forestry, by applying advanced technology to critical tree traits to create new products that deliver 'step-changes' in tree-performance.

Market cap* **NZ$137m**

*As at 30 August 2018

Share details	
Code	RBC
Exchange	NZX

Information from http://www.rubicon-nz.com/

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$703m**

*As at 30 August 2018

Share details	
Code	SXY
Exchange	ASX

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

Telix Pharmaceuticals

Telix Pharmaceuticals (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.

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

Pharmaceuticals

Market cap*	A$174m

*As at 30 August 2018

Share details

Code	TLX
Exchange	ASX

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