EDISON

Australasia Monthly Book

October 2018

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Contents

Prices at 19 October 2018 Published 26 October 2018

Welcome to the October 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

- The October blues continue to rattle the Australian equity and capital markets, with rising US interest rates, increasing China trade wars, significant global tech sell-off and growing concerns on the Australian housing market all weighing on domestic investor sentiment. The Australian share market is currently at its cheapest since 2015.
- The ASX All Ordinaries index has now slipped to negative for the year and is currently trading near four-month lows. The benchmark ASX 200 index is trading on a 12-month forward price-to-earnings ratio of 14.7 after starting the month at 16, according to JP Morgan. That is well below the three-year average P/E of around 16.2, but is pretty much bang on the longer-term average.
- Chinese investment into Australia slumped 40% last year, twice the drop worldwide, according to new figures, which highlight the impact of Beijing's crackdown on trophy acquisitions and Canberra's tougher stance on sensitive infrastructure and property.
- The value of Australian exchange-traded products has overtaken the value of listed investment companies for the first time and the market could double the size of its more established cousin within three years, if growth continues. As of 30 September, the 18-year-old Australian ETF market had a market capitalisation of A$42.29bn compared to the 80-year-old LIC sector's market capitalisation of A$42.23bn.
- Cashed-up private equity firms are seeking to exploit a greater willingness by directors to cut deals, a shift that will put further pressure on the ASX, which is already feeling the brunt of takeovers for listed companies hitting their third-highest level since 1995.
- Fund managers surveyed by Bank of America Merrill Lynch this month are hoarding cash as they become the most bearish on global activity in a decade, worrying about an end to the long expansion. A record 85% of fund managers say the global economy is in late cycle, 11% over the prior high recorded in December 2007.
- The Shanghai Stock Exchange (SSE) and New Zealand's exchange (NZX) have signed a memorandum of understanding. Under the memorandum terms, the SSE and NZX will agree a framework to assist each exchange to work more closely to develop their respective markets. Representatives from NZX and the SSE will meet in early 2019 to advance these discussions.
- The Australian Investor Relations Association has released a recent update on an alarming trend emerging in sell-side research. In total, 46% of respondents said the number of sell-side analyst reports about their company has dropped over the past 18 months. There has also been a drop in the number of analysts covering listed companies, with 38% of respondents stating the number of sell-side analysts covering their firm has fallen over the past 18 months.
- Edison has now launched video-embedded research notes. The team continuously strives to develop the accessibility of its research and by incorporating video content within our notes we are ensuring the greatest engagement of our clients' equity profiles on a global platform. Click here for the launch note: https://bit.ly/2CstFwT

Market statistics

Australia

Statistics as at September 2018

- Number of companies
  2,155

- Total market capitalisation
  $1,980bn

- Average market capitalisation
  $982m

- Number of international companies
  140

- Primary fund raisings
  $608m

- Secondary fund raisings
  $7,177m

Global perspectives: Halfway house

Analyst

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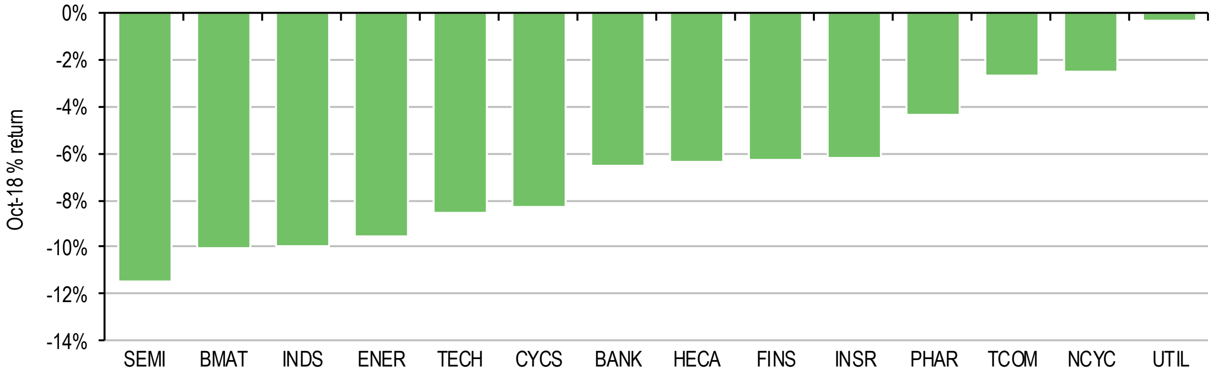
- **The global equity declines seen in recent weeks have had no clear trigger and therefore there is no clear path for a rapid recovery, in our view.** Having considered the modest moves in other asset classes and the absence of credit stress we view the global equity declines as a continuation of an ongoing de-rating process, as US monetary policy is normalised. We can understand that value investors might remain frustrated as there has been no sense of capitulation, nor obvious bargains at the market level.
- **Fundamental risks remain in place**. The US administration shows no sign of backing away from its trade confrontation with China. Furthermore, press reports suggest that the trade truce with the EU remains uneasy. The UK's Brexit negotiations remain unresolved while the EU has in recent days rejected Italy's proposed budget. Finally, US Fed policymakers remain on the hawkish side of prior market and our expectations. For these reasons we do not expect a rapid rebound in equities, even if earnings estimates for 2019 call for another year of 10% global profits growth and recent economic data has been in line with consensus forecasts.
- **We retain a cautious position on developed market equities.** While valuation risks have certainly diminished in continental Europe and the UK, US markets still appear very highly valued in a historical context. Investors looking to take advantage of recent market volatility may find opportunities in specific situations where poor liquidity has led to disproportionate price falls. However, for the broader market, we believe with the US Fed on a more hawkish path than we anticipated, the most likely scenario is that the de-rating process will continue, with profits growing while equities underperform traditional hurdles of 7-8% annual return.

Halfway house: An unsatisfactory position

Rolling global equity declines offer few directional signals

October's equity market performance to date may be amongst the weakest on record for this decade but is likely to be frustrating investors rather than enabling a new direction to be charted for portfolios. On reflection, we do not believe there was a proximate trigger for the recent declines. A hawkish interpretation of the most recent commentary emanating from Fed policymakers may have been unhelpful however, pushing two-year and 10-year US government yields higher in early October.

Exhibit 1: Global sector declines during October*



Source: Thomson Reuters. Note: *To 23 October 2018.

However, the prospect of higher US interest rates and bond yields could not have been more clearly flagged by policymakers and was well known by the market. Investor surveys suggested that concerns in respect of slowing growth were similarly widespread, thus overly bullish investor positioning is also unlikely to be the culprit. The widely reported issues in respect of Brexit or the Italian budget negotiations have been a long-running theme during the summer and could hardly have caught investors off guard.

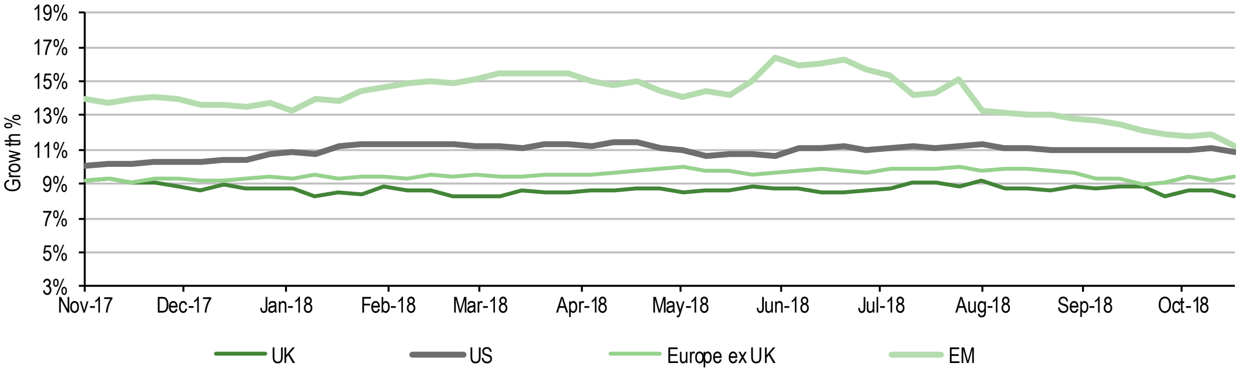
We have also not been able to discern, despite the recent warning from the Bank of England's financial policy committee, any meaningful widening of corporate credit spreads in recent weeks that might have spooked equity investors. Similarly, credit spreads in wholesale funding markets have barely moved during October. Gold has risen, but only modestly and the dollar and yen have strengthened only a little as global equity markets have fallen. We also note that during October emerging equity markets have fallen only in tandem with developed peers.

If there was a single hidden factor that triggered the recent market declines, we believe it would have been identified by market participants at this stage. A more likely scenario in our view is that equity market declines, in the absence of credit stress or falling bond yields, point to a re-appraisal of either valuations or the likely direction of corporate profits during 2019. Our cautious view on equity markets – which has been in place for some time – has been based primarily on valuation concerns.

The long period of ultra-loose monetary policy following the financial crisis of 2009 in effect brought forward gains in markets by increasing market valuations. The actuality of normalising monetary policy in the US and the end of quantitative easing and the prospect of higher interest rates in Europe in H219 is now pressuring markets, even as corporate profits grow strongly.

In terms of earnings estimates for 2019, Exhibit 2, median growth profits forecasts for the US remain at 11%, with the UK and Europe at 9%. After downgrades during September, emerging markets forecasts also now call for 11% profits growth. In developed markets at least, there has not been the magnitude of reductions in earnings forecasts that would justify the recent market volatility, in our view. However, we acknowledge that the downgrades in emerging markets do justify some of the market declines seen in the year to date, despite our earlier positive views.

Exhibit 2: 2019 median earnings forecasts remain stable in developed markets



Source: Thomson Reuters, Edison Investment Research calculations

Recent market declines have equally frustrated value investors and those with high exposure to highly valued technology or growth stocks. The global hedge fund index has suffered sharp declines, as share prices of companies with activist shareholders on the register have underperformed, suggesting a degree of de-risking among this investor base.

The frustration felt by value investors is likely to be compounded by the sense that the data suggests this correction was long overdue, and does not of itself provide compelling investment opportunities for the future. Price/book valuations outside the US are now close to historical averages, but merely average valuations are hardly a strong buy signal or reason to make a large shift in portfolio asset allocations.

Furthermore, we see no sign of capitulation among investors. For US investors, the recent declines are barely visible on a long-term chart showing a doubling of the S&P500 over the past six years. In Europe and the UK, overall market performance may have been muted over the same period but there is still no sense of panic.

From a fundamental perspective the ongoing tensions within the EU in respect of the Italian budget and Brexit show few signs of resolution. Globally, the US continues to engage in confrontational and unpredictable policies in respect of trade. While the objective of levelling the playing field for US corporations competing with Chinese peers is understandable, the means by which the current US administration pursues it is less so.

Investors looking to take advantage of recent market volatility may find opportunities in specific situations where poor liquidity has led to disproportionate price falls. However, for the broader market, we believe with the US Fed on a more hawkish path than we and the market anticipated, the most likely scenario is that the de-rating process will continue, with profits growing while global equities underperform traditional hurdles of 7-8% annual return.

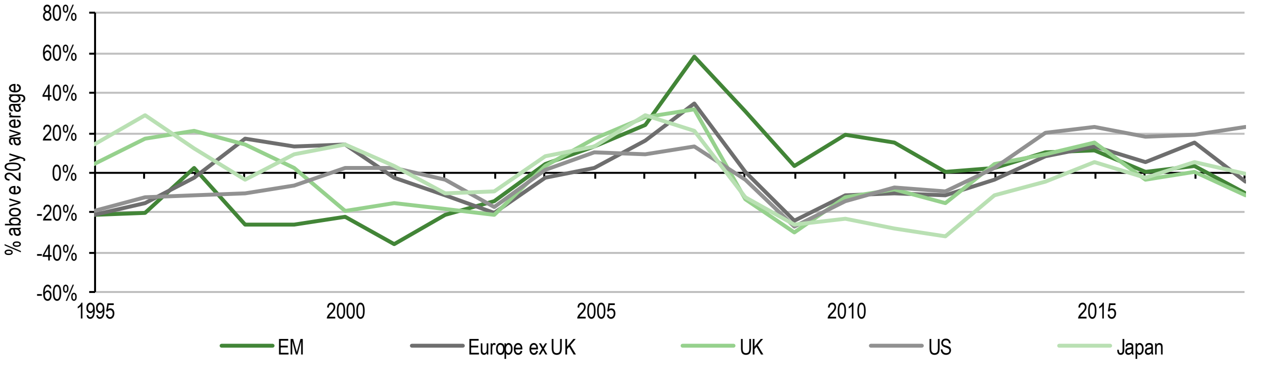
Market valuations improving in UK and Europe

Risks remain in place but at valuations that are now closer to long-term averages

Following the recent market declines, but following solid earnings growth and return on equity in 2018 to date, median non-financial price/book levels are now close to long-term averages in continental Europe, the UK and emerging markets. However, US equities remain the notable exception to this trend. While there may be concerns over the sustainability of current profit margins, rising bond yields or geopolitical events, valuations can now move down from the top of investors' lists of risks in our view.

This is not to say that lower valuations provide an excuse to become significantly more positive towards equity markets at the present point in time. For continental Europe and the UK there are meaningful challenges ahead, which may explain why equities have de-rated faster than in the US.

Exhibit 3: Median price/book valuations outside US now in line with long-term averages

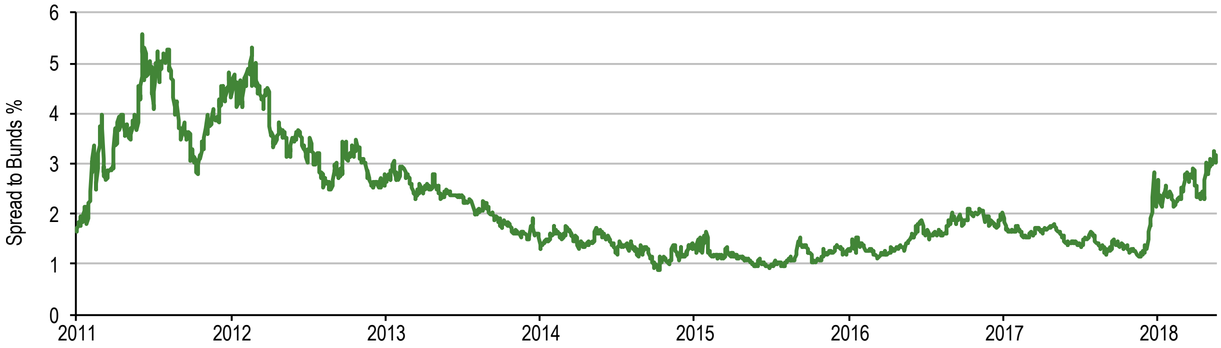


Source: Thomson Reuters, Edison Investment Research calculations

The challenges of reaching a Brexit accord that provides for no hard border in Ireland while at the same time allowing the UK as a whole to withdraw from the EU's customs union have thus far proved insurmountable. There appears to be a meaningful prospect that any withdrawal agreement that is acceptable to the EU will be unacceptable to the UK's parliament and vice-versa.

While this would be unlikely to lead to a no-deal Brexit directly by Q219 (as it would be logical to expect an extension to the Article 50 process in the circumstances), the probability of a change of UK government or a general election remains elevated. A future UK government might even find a way of derailing the entire Brexit project but, should it be left-leaning, investors would have to discount a number of potential tax and regulatory changes unfriendly to the corporate sector. Therefore, while valuations have moved lower, a risk premium for UK equities remains warranted, in our view. We have seen little in recent developments to suggest that substantive progress is being made in resolving the divisions within the current UK government in terms of Brexit policy.

Exhibit 4: Italy/Germany 10-year government bond spread continues to widen



Source: Thomson Reuters

In the eurozone, the elevated spread between Italian and German 10-year bond yields shows that the structural imperfections of the eurozone continue to simmer under the surface. Yet unlike the unpredictable dynamics of Brexit, there is a relatively predictable market mechanism for bringing populist politicians to heel within the eurozone, namely to threaten to withhold market support and allow sovereign financial pressures to build until fiscal policies are brought into line.

The recently proposed Italian budget deficit of 2.4% of GDP may be above the EU's target of under 1%, but the difference following negotiations is likely to be modest, and similar in magnitude to the additional interest expense faced by the Italian state due to higher bond yields. Despite the unprecedented rejection of Italy's budget proposals by the EU, it is not necessarily the case that a market crisis is unavoidable, at least in the near term. Over the longer term however, the challenges of refinancing Italy's debt burden as eurozone bond yields rise will require deft policymaking.

Conclusion

We do not see a proximate cause for the recent increase in equity market volatility which has been indiscriminate across developed and emerging markets but focused on more cyclical sectors. In the absence of a meaningful rise in credit stress, the declines still fit the theme of a de-rating as US monetary policy is normalised. Perhaps investors have in recent weeks belatedly woken up to the prospect of positive real yields on US bonds in 2019, at a time when US GDP growth is slowing from the fast pace of 2018. Yet a slowing rate of GDP growth is not necessarily a reason to fear a recession.

With investors still having to contend with a number of other fundamental risks such as US trade policy uncertainty, Brexit and Italian budget negotiations, we believe the de-rating is rational and that markets are likely to remain volatile.

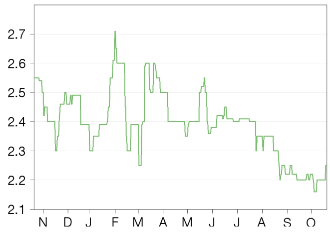
Helpfully, the lack of progress in European and UK markets over the last two years has allowed market valuations to catch up with growing profits and these markets no longer appear overvalued on a price/book basis. US equities remain well above historical multiples however and therefore remain at risk from rising US bond yields.

We therefore retain a cautious position on developed market equities for now due, in our view, to the likelihood of a continuation of the benign derating regime as profits grow while global markets underperform traditional hurdle rates for equity investment of around 7-8% pa.

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	2.3	(6.3)	(11.8)
Relative*	9.3	(3.8)	(15.7)

* % 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

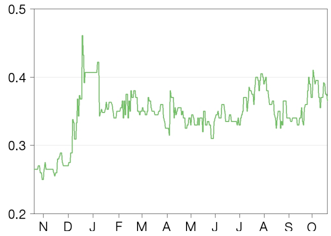
AFT is a multi product company targeting pharmacy prescription, OTC and hospital markets. Data for Maxigesic offers them a competitive advantage in a fragmented industry.

Y/E Mar	Revenue (NZ$m)	EBITDA (NZ$m)	PBT (NZ$m)	EPS (c)	P/E (x)	P/CF (x)
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

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	10.6	(5.2)	51.9
Relative*	15.3	(0.3)	49.8

* % 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 just started hydraulic fracturing operations. Operations will take approximately three months to complete for both horizontal exploration wells. 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, and based on AJL's 2018 full year results we update our P50 (mid-case) valuation to A0.93/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)
2017	122.6	(3.8)	(36.3)	(6.67)	N/A	N/A
2018	127.1	15.4	(16.7)	(1.14)	N/A	N/A
2019e	127.2	13.5	(8.9)	(1.47)	N/A	12.3
2020e	129.7	13.9	(4.0)	6.89	5.2	22.5

Sector: Pharma & healthcare

Price:	A$0.17
Market cap:	A$80m
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	(68.6)	(65.6)	(64.1)
Relative*	(67.2)	(63.8)	(64.6)

* % 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 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 no approved medications for agitation in the elderly. 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)
2017	18.6	(3.2)	(4.4)	(1.00)	N/A	N/A
2018	4.0	(22.5)	(24.4)	(4.84)	N/A	N/A
2019e	17.9	(17.7)	(19.3)	(3.65)	N/A	N/A
2020e	4.3	(28.4)	(32.5)	(5.86)	N/A	N/A

Sector: General industrials

Price:	HK$7.74
Market cap:	HK$12453m
Market	HKSE

Share price graph (HK$)

Company description

China Water Affairs (CWA) is a pioneer in the privatisation of water supply assets in China. It seeks to create growth via volume/price increases and acquisitions. CWA is a constituent of the FTSE Environmental Opportunities Asia Pacific Index.

Price performance

%	1m	3m	12m
Actual	(7.7)	(21.3)	30.1
Relative*	(1.1)	(13.7)	43.3

* % Relative to local index

Analyst

Graeme Moyse

China Water Affairs Group (855)

INVESTMENT SUMMARY

CWA's FY18 results extended the company's impressive track record (CAGR FY13-18 in EPS of 29.6% and DPS of 35.7%). We believe CWA is capable of achieving further growth as demonstrated by the recent JV in Jia County and the injection of capital into Gold Tact. Politics and regulation require further improvements to the Chinese water and sewage infrastructure and, as 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 would caution against read-across from recent proposals for gas regulation in Chongqing, as substantial differences exist between the two industries. Following the recent share price weakness CWA's valuation looks undemanding.

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	14.0	N/A
2018	7580.0	3097.0	2462.0	71.8	10.8	N/A
2019e	8935.0	3599.0	2829.0	81.5	9.5	N/A
2020e	10481.0	4212.0	3384.0	97.5	7.9	N/A

Elk Petroleum (ELK)

Sector: Oil & gas

Price:	A$0.07
Market cap:	A$105m
Market	ASX

Share price graph (A$)

Company description

Elk Petroleum has three key assets: Grieve, Aneth and Madden. The Grieve CO2 EOR project was commissioned in April 2018; Madden is a gas producer that provides strategic ownership of CO2 and Aneth is one of the largest CO2 EOR projects in the Rockies.

Price performance

%	1m	3m	12m
Actual	(14.5)	(19.8)	1.6
Relative*	(10.9)	(15.6)	0.2

* % Relative to local index

Analyst

Sanjeev Bahl

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 CY18 net production of just over 9kboed. 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. We will be updating our valuation based on Elk's 2018 full year results.

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.

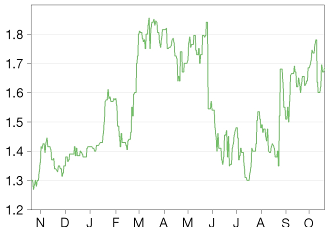
Y/E Jun	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2017	5.0	(5.2)	(8.1)	(0.9)	N/A	N/A
2018	95.1	(87.4)	(109.0)	(8.9)	N/A	N/A
2019e	170.5	90.8	(61.6)	1.2	4.2	N/A
2020e	202.5	123.4	(41.0)	2.5	2.0	N/A

ERM Power (EPWX)

Sector: General industrials

Price:	A$1.69
Market cap:	A$430m
Market	ASX

Share price graph (A$)



Company description

ERM Power is a commercial and industrial 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 the sale of its US business.

Price performance

%	1m	3m	12m
Actual	5.3	19.5	31.1
Relative*	9.7	25.7	29.3

* % Relative to local index

Analyst

Dario Carradori

INVESTMENT SUMMARY

ERM Power is refocusing its business on core Australian activities, with the recent announcement of the sale of the US business for A$38m and the completion of the acquisition for up to A$16m of Out Performers, a provider of energy services to large energy customers. We estimate the acquisition of Out Performers implies a P/E multiple (9.9x FY18 or 7.5x excluding earn-out) at a large discount to ERM Power and <5% EPS accretion on a full-year basis.

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 growing Energy Solutions business to take advantage of these changes.

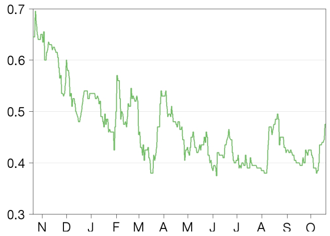
Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2017	3127.0	78.4	51.7	(10.77)	N/A	2.7
2018	2047.0	97.5	43.1	12.37	13.7	N/A
2019e	2068.0	93.4	36.9	10.88	15.5	3.5
2020e	2124.0	103.5	46.4	14.01	12.1	4.3

Fluence (FLC)

Sector: General industrials

Price:	A$0.47
Market cap:	A$208m
Market	ASX

Share price graph (A$)



Company description

Fluence is a global supplier of water and wastewater treatment solutions. Its decentralised products provide municipal customers with 'plug and play' solutions that are both quicker to deploy and substantially cheaper than traditional alternatives.

Price performance

%	1m	3m	12m
Actual	20.3	20.3	(28.0)
Relative*	25.3	26.5	(29.0)

* % Relative to local index

Analyst

Dan Gardiner

INVESTMENT SUMMARY

If Fluence can deliver on its H218e target, its shares could re-rate sharply. Its membrane-aerated biofilm reactor (MABR) technology provides a competitive advantage in the growing market for decentralised water treatment. We see the ramp in sales here transforming its scale, revenue visibility and profitability by FY20e. In October, Fluence secured a deal with ITEST for its Aspiral product in China that should generate at least US$45m in revenue over the next three years. This deal is the first high volume sale of Aspiral.

INDUSTRY OUTLOOK

Fluence's 'plug and play' solutions can cost-effectively boost the performance of existing centralised treatment plants and address unserved, greenfield rural populations. Aspiral and SUBRE are based on a proprietary technology (MABR) that offers both superior treatment and lower energy costs. We see rising government spending on rural wastewater treatment in China as a particularly large opportunity.

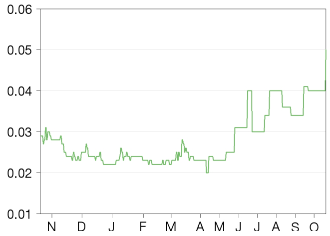
Y/E Dec	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (c)	P/E (x)	P/CF (x)
2016	0.8	(8.8)	(9.1)	(4.27)	N/A	N/A
2017	33.2	(23.6)	(21.7)	(7.00)	N/A	N/A
2018e	107.0	(13.8)	(12.6)	(2.90)	N/A	N/A
2019e	154.0	(2.0)	(4.1)	(0.95)	N/A	N/A

Immutep (IMM)

Sector: Pharma & healthcare

Price:	A$0.05
Market cap:	A$115m
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	20.0	41.2	65.5
Relative*	25.0	48.5	63.2

* % 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 (efti), 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). 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 with LAG525 this year and a third is expected to start this month. Immutep will collaborate with Merck & Co (MSD) in a study of efti plus Keytruda in lung and head and neck cancers in Q418. A trial of efti plus Bavencio in advanced solid tumours in collaboration with Merck KGaA/Pfizer is expected to start in Q418.

INDUSTRY OUTLOOK

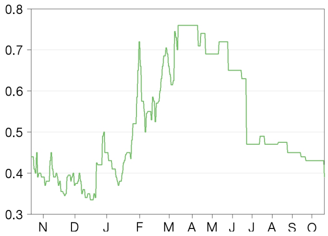
Immunotherapies are among the most promising class of products for cancer and autoimmune diseases. The LAG-3 products are potentially first-in-class, each with distinct mechanisms and applications.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2017	4.1	(7.8)	(8.4)	(0.4)	N/A	N/A
2018	6.9	(11.4)	(10.9)	(0.5)	N/A	N/A
2019e	10.9	(7.6)	(6.9)	(0.2)	N/A	N/A
2020e	2.8	(15.3)	(14.9)	(0.5)	N/A	N/A

Sector: Pharma & healthcare

Price:	A$0.39
Market cap:	A$19m
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	(10.5)	(22.2)	(6.1)
Relative*	(6.7)	(18.2)	(7.4)

* % Relative to local index

Analyst

Dr Dennis Hulme

Kazia Therapeutics (KZA)

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 program for GDC-0084 in March; an initial Phase IIa dose-optimisation study will precede a randomised Phase IIb 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 identified the MTD and is currently recruiting a 12-patient expansion cohort to further explore safety and potential efficacy. While the primary aim of the dose escalation phase was to assess safety and tolerability, we note that 3/5 patients achieved stable disease after 2 cycles, one of whom went on to achieve a partial response when treated with Cantrixil 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)
2017	8.6	(10.2)	(10.9)	(22.81)	N/A	N/A
2018	13.0	(4.9)	(6.3)	(12.48)	N/A	N/A
2019e	3.9	(13.3)	(14.7)	(29.71)	N/A	N/A
2020e	14.0	(7.2)	(8.5)	(16.96)	N/A	N/A

Sector: Oil & gas

Price:	A$0.17
Market cap:	A$83m
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 late 2018.

Price performance

%	1m	3m	12m
Actual	(7.9)	(2.8)	40.0
Relative*	(4.0)	2.2	38.1

* % 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 October 2018, LCK announced first syngas from its pre-commercial demonstration. Successful gas flow provides initial validation of the LCK gasification process and ability to operate in a safe manner. We expect to further de-risk our A$0.34/share on delivery of sustained flow rates over 60- to 90-day.

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)
2017	0.0	(5.7)	(5.8)	(2.1)	N/A	N/A
2018	0.0	(5.9)	(6.0)	(1.5)	N/A	N/A
2019e	2.8	(3.1)	(3.4)	0.8	21.3	N/A
2020e	5.8	(0.7)	(0.7)	(0.1)	N/A	N/A

Sector: Mining

Price:	A$0.02
Market cap:	A$60m
Market	ASX

Share price graph (A$)

Company description

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

Price performance

%	1m	3m	12m
Actual	(5.3)	(45.5)	(41.9)
Relative*	(1.3)	(42.6)	(42.7)

* % Relative to local index

Analyst

Charles Gibson

Lepidico (LPD)

INVESTMENT SUMMARY

Lepidico's L-Max® technology recovers lithium from less contested minerals including lepidolite (a form of mica) and amblygonite (a phosphate). The process has been shown to work in stable and continuous operation in large-scale lab tests and a 2017 PFS estimated C1 cash costs of lithium carbonate production near zero net of by-products for a 3,000tpa operation. Engineered design for a larger 7tph (or 5,000tpa LCE) plant is on schedule for completion in December 2018 as part of a feasibility study, at the same time that a pilot plant is being constructed to reduce scale-up risk and for product development purposes.

INDUSTRY OUTLOOK

Our valuation of Lepidico is substantially based on the unit operating costs of the 3.6t/hour plant and an updated estimate of capex for a 7tph plant. On the basis of these assumptions, we estimate that execution of the 7t/hour Phase 1 plant will result in free cash flow to Lepidico of A$52.0m pa at steady-state, which implies a valuation for LPD of A$0.0398/share after dilution (excluding any potential value for a Phase 2 plant or other development options).

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2017	0.1	(0.8)	(5.4)	0.0	N/A	N/A
2018	0.2	(5.1)	(7.2)	0.0	N/A	N/A
2019e	0.0	(1.0)	(3.7)	0.0	N/A	N/A
2020e	16.7	2.2	(4.3)	0.0	N/A	136.8

Sector: Oil & gas

Price:	A$0.57
Market cap:	A$325m
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	(9.5)	(6.6)	37.3
Relative*	(5.7)	(1.7)	35.5

* % 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. We expect LNGL to sign tolling agreements and move towards FID in 2018, with first gas in 2023. In June, LNGL 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

Mesoblast (MSB)

INVESTMENT SUMMARY

The potentially pivotal 55 pediatric patient acute graft vs host disease (GvHD) study met its primary endpoint, with a 69% overall response rate vs 45% for historical controls (p=0.0003). Survival at Day 180 was 69% compared to historical rates of 10-30% in Grade C/D disease patients. Based on these results, the company is working towards a pre-BLA meeting in the next few months. Importantly, the Phase IIb data in 159 end-stage CHF patients with an LVAD will be presented at a late-breaking session at the American Heart Association (AHA), a premier cardiovascular conference, on November 11.

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; FY18 royalties were US$3.6m plus a US$1.5m milestone.

Price:	A$1.99
Market cap:	A$987m
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	17.5	13.1	13.1
Relative*	22.4	18.9	11.6

* % Relative to local index

Analyst

Maxim Jacobs

Y/E Jun	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2017	1.9	(82.2)	(83.3)	(17.69)	N/A	N/A
2018	17.0	(66.2)	(68.6)	(8.35)	N/A	N/A
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

Pacific Edge (PEB)

INVESTMENT SUMMARY

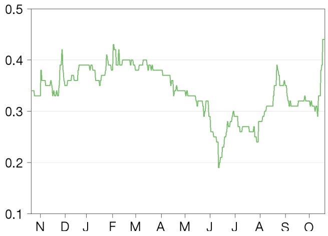
Pacific Edge develops and sells a portfolio of molecular diagnostic tests based on biomarkers for the early detection and management of cancer. Tests using its Cxbladder technology for detecting and monitoring bladder cancer are sold in the US, New Zealand and Australia. The company recently announced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

Price:	NZ$0.44
Market cap:	NZ$207m
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	35.9	64.2	27.9
Relative*	45.3	68.4	22.2

* % Relative to local index

Analyst

Maxim Jacobs

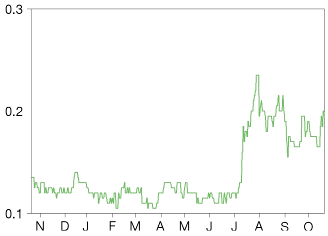
Y/E Mar	Revenue (NZ$m)	EBITDA (NZ$m)	PBT (NZ$m)	EPS (c)	P/E (x)	P/CF (x)
2017	4.4	(22.3)	(22.4)	(5.9)	N/A	N/A
2018	4.8	(19.4)	(19.5)	(4.4)	N/A	N/A
2019e	7.8	(17.9)	(17.7)	(3.7)	N/A	N/A
2020e	12.7	(14.1)	(14.2)	(2.8)	N/A	N/A

Regeneus (RGS)

Sector: Pharma & healthcare

Price:	A$0.20
Market cap:	A$41m
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	14.7	5.4	56.0
Relative*	19.5	10.9	53.9

* % Relative to local index

Analyst

Dr Dennis Hulme

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 deal is expected by Q418. 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.

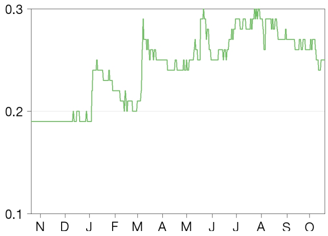
Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2017	10.0	4.9	3.3	1.57	12.7	11.6
2018	0.6	(4.8)	(5.2)	(2.48)	N/A	N/A
2019e	7.8	2.3	2.2	1.04	19.2	18.2
2020e	1.6	(4.0)	(4.2)	(2.00)	N/A	N/A

Rubicon (RBC)

Sector: General industrials

Price:	NZ$0.25
Market cap:	NZ$120m
Market	NZSX

Share price graph (NZ$)



Company description

Rubicon is an NZX-listed investment company whose ArborGen subsidiary is the world's largest integrated developer, manufacturer and commercial supplier of advanced forestry seedlings with operations in the US, Brazil and Australasia.

Price performance

%	1m	3m	12m
Actual	(5.8)	(12.5)	25.6
Relative*	0.7	(10.2)	20.0

* % Relative to local index

Analyst

Toby Thorrington

INVESTMENT SUMMARY

The simplified corporate structure presents investors in Rubicon (RBC) with a pure-play, advanced forestry genetics business with leading positions in large international markets for its seedlings. The conversion of these positions into profitable growth through customer migration to more advanced seedlings is the likely driver of further share price outperformance, in our view. Our own DCF analysis - implicitly more conservative than the company's - yields a NZ$0.74 per share valuation. At the company's ASM, management noted that it is pursuing another opportunity similar to the Taylor nursery agreement and also a new seedling supply contract in New Zealand. The company notes some storm damage at one of its US nurseries but has maintained current year guidance.

INDUSTRY OUTLOOK

The economic growth outlook in each of its core countries being the USA, Brazil, New Zealand and Australia is either good or improving, according to OECD data. Consequently, the primary end-markets served by its plantation forestry customer base (being construction, and the pulp and paper industries) are in a positive cyclical phase.

Y/E Mar	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (c)	P/E (x)	P/CF (x)
2017	N/A	N/A	N/A	N/A	N/A	20.0
2018	35.0	6.0	4.0	1.2	13.6	11.4
2019e	51.0	5.0	5.0	1.1	14.9	8.0
2020e	59.0	9.0	10.0	2.0	8.2	N/A

Sector: Pharma & healthcare

Price:	¥238.00
Market cap:	¥18536m
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	91.9	79.0	3.5
Relative*	102.5	85.0	5.8

* % 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). SymBio has initiated a Phase III trial in Japan of Treakisym in r/r diffuse large B-cell lymphoma, and has in-licensed liquid formulations for injection that will provide Treakisym with patent protection to 2031. A Phase I trial of oral Treakisym commenced in January. SymBio has filed for approval of Treakisym as a CAR-T pre-treatment. Rigosertib i.v. is in development for r/r higher-risk myelodysplastic syndromes (HR-MDS) and is in a pivotal Phase III global study in 360 patients; 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	616.0
2017	3444.0	(3917.0)	(3977.0)	(79.8)	N/A	969.0
2018e	4203.0	(3004.0)	(3030.0)	(54.2)	N/A	324.0
2019e	4325.0	(3591.0)	(3636.0)	(62.9)	N/A	786.7

Sector: Pharma & healthcare

Price:	A$0.97
Market cap:	A$141m
Market	ASX

Share price graph (A$)

Company description

Telix Pharmaceuticals is a Melbourne-headquartered global biopharmaceutical company focused on the development of diagnostic and therapeutic products based on targeted radiopharmaceuticals or molecularly targeted radiation.

Price performance

%	1m	3m	12m
Actual	14.1	49.2	N/A
Relative*	18.9	56.9	N/A

* % Relative to local index

Analyst

Dr Dennis Hulme

Telix Pharmaceuticals (TLX)

INVESTMENT SUMMARY

Telix has assembled a portfolio of promising molecularly targeted radiation therapeutic and imaging products for kidney, prostate and brain cancers; it strengthened its position in prostate cancer in September through the acquisition of Atlab. Each product has been validated by clinical studies or compassionate use, reducing development risk. The ZIRCON confirmatory Phase III for kidney cancer imaging agent TLX250-CDx is due to commence in Q418 at the completion of a bridging study, and report in H219. The IPAX-1 Phase I/II study of TLX101 therapy in GBM (brain cancer) is due to commence shortly and read out in H219. Preparations for multiple Phase I/II studies of other agents are also underway. It is commercialising an investigational prostate cancer imaging kit in the US, including through Cardinal Health, and is developing plans for a pivotal study to allow full approval.

INDUSTRY OUTLOOK

Big pharma has shown keen interest in MTR products. In 2017 Novartis acquired Advanced Accelerator Applications, the developer of the MTR therapeutic Lutathera, for US$3.9bn. In 2014 Bayer acquired Algeta for ~US$2.6bn, Algeta had developed Xofigo, a therapeutic radiopharmaceutical for prostate cancer. Endocyte is using Telix's prostate cancer imaging kit to screen patients for its VISION Phase III trial.

Y/E Dec	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2016	N/A	N/A	N/A	N/A	N/A	N/A
2017	0.4	(6.4)	(6.4)	(4.98)	N/A	N/A
2018e	5.0	(13.0)	(12.7)	(6.12)	N/A	N/A
2019e	8.4	(17.9)	(17.7)	(8.13)	N/A	N/A

NXT company spotlights

EDISON NXT Company Spotlight

Marlborough Wine Estates

FY19 KOMs and FY18 preliminary results

Marlborough Wine Estates Group (MWE) is developing its brands and seeking to expand into international markets. The international wine market is strong and New Zealand (NZ) product has a reputation for quality. In the face of slowdown in the Chinese market, MWE continues to explore US, Japanese, Australian, UK and other markets. In this context, early inroads into the US and Japan are encouraging. In new KOMs, MWE is raising its targets for international and domestic wine sales.

FY18 preliminary results

MWE reported a reduced loss after tax of NZ$1.7m for FY18, against NZ$4.4m in FY17. As adjusted, the net loss was NZ$0.3m against NZ$0.7m in FY17. Sales of NZ$4.0m grew 4%, although that masked a 49% decrease in bottled wine sales largely compensated for by increases in bulk wine and bulk grape sales. As restated, gross margin was up 140bp year-on-year at 38.7%, and operating costs were down 4% driven by a reduction in wages and salaries. Net debt (including finance leases) decreased marginally from NZ$5.7m to NZ$5.6m year-on-year.

Sales and market developments

MWE has made good progress in developing products, launching a Pinot Noir and Pinot Gris. With investment in irrigation complete, it is developing new blocks and planting new varietals. US market development is continuing to grow with bulk shipments of 10 containers of the 2017 vintage. Prospects for growth in exports to Japan are bright after a significant wine award, while MWE also shipped first orders to significant markets in the UK and Australia and to Taiwan and Finland.

New key operating milestones

MWE has set new FY19 key operating milestones (KOMs) with a slight increase in gross harvest to 1,800 tonnes, but an 8% fall in bulk grape sales to 1,200 tonnes, as it strategically allocates more grapes to its own production. Correspondingly, it targets a 15% increase in its international bottled wine sales to NZ$1.5m, and a 79% increase in NZ bottled wine sales to NZ$610,000.

Valuation: Sales multiple reflects market ambition

MWE trades on a 19.0x FY18 EV/revenue multiple. This is substantially higher than the 2.5x average FY18e EV/revenue peer multiple, although its peers are larger and more established entities, whereas MWE is aiming to generate higher sales and profits from increased production and new target markets.

Historical performance

Year end	Revenue (NZ$000s)	NPAT (NZ$000s)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
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
06/18	3,985	(316)	(0.1)	0.0	N/A	N/A

Source: MWE. Note:*March to June 2015; FY15 NPAT includes fair value adjustment of +NZ$1.1m.** FY16 NPAT excludes capital raising costs. FY17 and FY18 are normalised

Food & beverages

5 September 2018

Price	**NZ$0.24**
Market cap	**NZ$70m**

Share price performance

Share details

Code	MWE
Listing	NXT
Shares in issue	290.9m

Business description

Marlborough Wine Estates Group 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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Marlborough Wine Estates coverage is provided through the NXT Research Scheme

QEX Logistics

Continued business acceleration

QEX's revised sales turnover target indicates a robust business uptake and confirms the strong start in Q119 (despite weaker sales in Australia), with sales at NZ$15.4m (up 35% vs Q418) driven by dairy products and NZ's international postage revenue. Importantly, management highlighted that the solid trend continued over the past two months. QEX's ability to secure funding through its listing in February coupled with the recent NZ$2.5m placement, supports the company's solid growth prospects.

New FY19 sales target implies 90% y-o-y growth

QEX has made an upward revision of its FY19 sales turnover KOM target to NZ$60m, which is now 46% higher than the prior figure of NZ$41m (already revised from NZ$28m in May this year). FY19 growth should be mostly driven by the New Zealand operations, as sales in Australia are limited by the strong pricing response of competitors (Q119 sales down to NZ$0.4m from NZ$2.0m in Q418).

Other KOM targets remain unchanged

The remaining top-line targets were so far kept in line with prior levels, with monthly volume of dairy products exported still expected at 182 tonnes (vs 241 in Q119) and the number of cleared parcels at 80,800 per month (Q119: 76,516 due to a reduction in logistics sales in Australia). Moreover, gross margin target was also reaffirmed at 14% (despite Q119 number at 12.3%), as QEX expects margin pressures to ease in Q219 thanks to a seasonal reduction in milk powder supply.

NZ$2.5m placement successfully completed

QEX recently raised NZ$2.5m through a placement of 2.2m shares (ie 4.14% of post-issue share count) at a price of NZ$1.15 per share. According to the company, the placement was heavily oversubscribed and supported by a number of wholesale and retail investors. Management highlights that becoming a listed company in February also allowed QEX to increase its banking facilities.

Valuation: Peer comparison

QEX is priced at (end-March 2018) EV/EBITDA and P/E at 30.2x and 51.6x, respectively, with logistics companies trading on c 10.0x EV/EBITDA and 19.4x P/E on a trailing 12-months basis. However, QEX's ratio may decline further if the company meets its KOM targets for FY19.

Company financials

Year end	Sales turnover (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*	60.0	N/A	N/A	N/A

Source: QEX accounts. Note: *QEX's KOM target.

General industrials

5 September 2018

Price	**NZ$1.17**
Market cap	**NZ$61m**

Share price graph

Share details

Code	QEX
Listing	NXT
Shares in issue	52.5m
Last reported net debt at 31 March 2018	NZ$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

Snakk Media

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

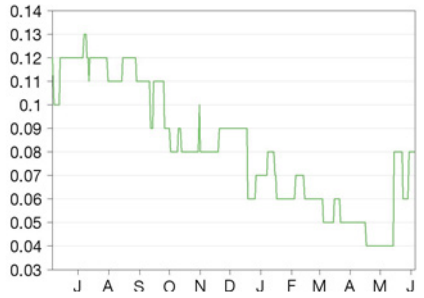
Source: Company accounts

Media

7 June 2018

Price	**NZ$0.08**
Market cap	**NZ$1.3m**

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$56m**

*As at 25 October 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$15m**

*As at 25 October 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$79bn**

*As at 25 October 2018

Share details	
Code	CSL
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$2,213m**

*As at 25 October 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$72m**

*As at 25 October 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$65m**

*As at 25 October 2018

Share details

Code	MXC
Exchange	ASX

New Energy Minerals

Mining

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/

Market cap* **A$9m**

*As at 25 October 2018

Share details	
Code	NXE
Exchange	ASX

Race Oncology

Pharma & biotech

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/

Market cap* **A$8m**

*As at 25 October 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.

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

Market cap* **A$354m**

*As at 25 October 2018

Share details	
Code	RBL
Exchange	ASX

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.

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

Market cap*	**NZ$120m**

*As at 25 October 2018

Share details	
Code	RBC
Exchange	NZX

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.

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

Market cap*	**A$581m**

*As at 25 October 2018

Share details	
Code	SXY
Exchange	ASX

Telix Pharmaceuticals

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/

Market cap*	**A$184m**

*As at 25 October 2018

Share details	
Code	TLX
Exchange	ASX

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