ANALYST OUTLOOK FOR 2019.

Our analysts share their outlook and top stock picks for 2019.

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BANKS & GENERAL INSURERS.

TS Lim

Our 2019 top three picks possess strong risk management and execution capabilities in addition to strong balance sheets and the ability to return surplus capital to shareholders.

These companies have also undergone massive transformation since the GFC and are now considered much more resilient as the financial services sector heads into a new and noisy election year. Our X'mas stocking comprises one diversified financial (MQG), one general insurer (IAG) and one major bank (WBC). Despite some negative sector publicity to date, the overall setting remains in good shape for MQG (e.g. strong prospects in the global asset management and infrastructure space), IAG (premium cycle still favourable) and WBC (e.g. resilient domestic economy underpinned by low unemployment and interest rates, least exposure to proposed New Zealand bank capital rules).

Macquarie Group (MQG)

MQG's value lies in its ability to manage risk and adapt to changing market conditions. This has allowed itself to gradually transform and push for higher sustainable risk-adjusted returns. MQG is largely a global asset and risk manager with world-class expertise in infrastructure investment and capabilities in finance and banking. These attributes in addition to predominantly lower-risk annuity-style earnings streams (~70% of Group net profit contribution) and capital management flexibility (~$1.5bn surplus capital based on 10.5% RWA) continue to underpin our bullish view of the stock. As a lower risk, higher return investment proposition, MQG remains our top sector pick.

Buy, price target $135.00

Insurance Australia Group (IAG)

IAG is our preferred stock in the general insurance space given its better risk-adjusted return profile and front/back office capabilities. 2019 guidance (based on further premium increases in short tail personal and commercial lines, modest volume growth and ongoing cost discipline) was reaffirmed at the last AGM but we believe its GWP growth target of 2-4% is conservative given Steadfast Group's recent bullish top line comments. Surplus capital may have declined following its $592m capital return and special dividend but this should start to build up given expectations of strong organic capital generation and ultimate divestment of residual Asian investments.

Buy, price target $8.20

Westpac Banking Corporation (WBC)

WBC has been the most consistent major bank in terms of earnings growth, ROE and clean results. Its strategy is underpinned by a relatively stronger credit risk profile (conservative approach due to retaining sufficient corporate memory over credit losses in the early 1990s) and we see significant ROE and value upside from further productivity and efficiency gains within the retail and business banks – and even more so should they rationalise some of the overlapped St George and Westpac branches in NSW. WBC would also be the least impacted major bank should proposed higher capital requirements in New Zealand be implemented.

Buy, price target $28.00

DIVERSIFIED FINANCIALS.

Lafitani Sotiriou

Leaders

Janus Henderson Group (JHG)

JHG is navigating perhaps the worst quarter in global equity markets since the Global Financial Crisis, with the MSCI Global Index on track for a ~12% decline for the December quarter. Despite the ~12% decline and the well-publicised negative flows the company is experiencing, the total FUM is on track to only fall ~7% this year (despite a share price fall of ~45%). The relatively modest fall in the total FUM highlights the breadth and depth of JHG's funds management business. The global reach of JHG, varying asset classes and positive flows in certain areas (Alternative Assets), provides support to the overall business to navigate the current extreme market conditions.

We believe the main downside has occurred with the sector having de-rated by around 3-4 PE points on the back of primarily macro drivers to do with the Trade War between U.S. and China, possible hard Brexit, and the momentum of passive funds. JHG flows have been poor, but well known and factored into our forecasts. Further, we expect the Buyback to be renewed throughout 2019.

BUY, Price target AU$51.65

Pendal Group (PDL)

We believe PDL is close to a possible low point on many fronts including performance fees, share price, and net-flows. With regards to performance fees, FY19 (end of calendar 2018), is likely to be the low point in the JO Hambro performance fee, which is on track for ~$15m, vs a previous high of $114m. JO Hambro performance fees can't go negative, providing limited downside to future performance fee revenue.

Further, net-flows may be passing the low point, with the MySuper transition and the retiring JO Hambro Portfolio Manager impact absorbed in recent years.

Finally, we may be approaching the share market and sector low, where we believe the main downside has occurred with the sector having de-rated by around 3-4 PE points on the back of primarily macro drivers to do with the Trade War between U.S. and China, possible hard Brexit, and the momentum of passive funds.

BUY, Price target $13.15

Emerging

Afterpay Touch Group (APT)

The Afterpay customer growth rate in the U.S. has jumped in the last month, from an already rapid rate. In November, Afterpay U.S. is set to add ~140,000 new customers, which compares to the ~70,000 added in October in that market. The doubling in the number of new customers added in a single month bodes well for the future outlook of the U.S. business, which now boasts over 450,000 total customers. We have upgraded our overall customer (which includes A&NZ) growth numbers to 210,000 per month in the December quarter, which we believe remains conservative until more detailed information is provided for the wider group and until we have more history of progress.

BUY, Price target $23.63

Netwealth (NWL)

Our view is that the momentum in the independent investment platform space will continue apace, particularly given the significant structural shift occurring in the sector, with a move to greater independence and away from large fully-integrated players. Further, it appears that the fee cuts from Panorama hasn't had the impact some feared in the sector and the Royal Commission is likely to reshape the industry in favour of independent players like NWL.

BUY, Price target $10.50

LISTED INVESTMENT COMPANIES (LICs).

Will Gormly

The LIC sector has grown ~8.1% over the past 12 months to a market capitalisation of $41.3bn, covering 114 securities.

Historically LICs were predominately Australian Equity focused, but in recent times LICs with Long/Short, Global and Alternative focused mandates are rising in popularity. With domestic asset prices expected to continue the volatility into 2019, LICs and Listed Investment Trusts (LITs) can provide cost efficient solutions to gaining access to a diversified portfolio with low correlation to the domestic equity market. Three LIC/ LITs to consider include:

MFF Capital Investments (MFF)

MFF aims to invest in global companies with attractive business characteristics at a discount to their assessed intrinsic values. During a time of increasing volatility in global equity prices we see value in investing with a Manager with a proven and sustained investment history. The portfolio can be reviewed and quickly changed in the event market conditions present more attractive investments, with the potential shift in focus away from predominately large cap securities. MFF's 10yr Pre-Tax NTA (incl. div) has outperformed the MSCI World Acc. Index (A$) by ~6.7% p.a. and it increased its dividend by 1c to 3c (fully franked) in 2018. MFF is trading at a discount to Pre-Tax NTA of ~5.0%.

Global Value Fund (GVF)

GVF invests using a discount capture strategy, owning a diverse range of global assets purchased at a discount to their intrinsic value. The Company aims to provide an alternative source of market outperformance compared to a strategy of global equity selection, utilising listed debt instruments, listed private equity and listed hedge funds in addition to listed equity. GVF is trading on an indicative FY19 yield of ~6% (70% franked), based on a distribution of 6.3c as per the Board's guidance. GVF has a 3yr share price (incl. div) return of ~6.2% p.a. and is trading at approximately par to the Pre-Tax NTA.

MCP Master Income Trust (MXT)

MXT is a fixed income LIT that aims to provide exposure to the Australian corporate loans market with diversification by borrower, industry and credit quality. Metrics Credit Partners (The Manager) is an alternative asset manager with an experienced investment team that have the capability to cover all fundamentals of direct lending and private credit including originating, structuring and distributing private debt. MXT has a target return of the RBA Cash Rate +3.25% (currently 4.75%) net of fees. MXT has a 1yr share price return (incl. div) of ~7.5% and is trading at a premium to NAV of ~4.3%. The Company is actively invested in a well-diversified pool of ~90 individual loan assets.

HYBRID MARKET.

Damien Williamson

The ASX listed hybrid market performance has zig-zagged throughout 2018. We saw strength up to early February, issuance and ALP franking policy related weakness up until late May, a recovery up until early October supported by net redemptions, and now have the current weakness associated with increased equity market volatility, issuance (CBAPH and WBCPI), and rising wholesale funding costs.

With the CBAPH and WBCPI issues closed and settled, we see the potential for a Christmas rally. Since December 2011, the average trading margin on major bank hybrids has firmed 0.37% during the month from the high in mid-December to the low in early January. This is consistent with December historically being the strongest month for performance.

One key factor to drive the market is upcoming redemptions support, where we estimate $0.8-1.1bn for non-reinvested CBAPC redemption on 17 December, and $325m for AMPHA on 18 December. A majority of hybrid securities also pay dividends in December. On 17 December alone, 14 securities are scheduled to pay a total of $150m of cash income, plus an additional $60m of franking credits. We expect hybrid investors will receive ~$1.5bn in cash in the week commencing 17 December.

The outlook for new issuance into 2019 is fairly skinny, with only two projected refinancing transactions. We expect the $1.5bn NABPA will be refinanced ahead of its 20 March 2019 call date, and IAG will refinance the $550m IANG security ahead of its December 2019 call date.

NAB Capital Notes (NABPC)

Investors concerned about the impact of the ALP's policy of scrapping the franking rebate when franking credits exceed tax paid may consider a strategy of buying shorter dated hybrids such as NABPC. As we expect a NABPC refinancing transaction ahead of its 23 March 2020 call date, investors may consider Reinvestment, should the elected Government support the continuation of cash rebates on surplus franking credits. Redemption and reallocation of NABPC funds may be considered under an adverse policy.

Call Date 23 March 2020

Fair Value $100.89

Macquarie Group Capital Notes 2 (MQGPB)

As a security paying income that is currently 45% franked, MQGPB provides an option to address the ALP's election policy of scrapping the cash rebate when franking credits exceed tax paid. We currently forecast MQGPB will pay $7.29 of grossed up income over the next 12 months. If MQGPB was 100% franked, cash income would be $5.10, with $2.19 of franking. The cash top up required for 45% partial franking increases cash income to $6.11, while franking reduces to $1.18.

Call Date 17 March 2021

Fair Value $106.17

Crown Subordinated Notes II (CWNHB)

Since being priced at a margin of 4.00% in March 2015, Crown has significantly de-risked, focusing operations on its casino monopoly in Melbourne and Perth, and its Barangaroo development in Sydney. Net debt has reduced from $2.4bn (Dec 2014) to the group sitting on $221m of net cash at June 2018 following several divestments. These included realising A$4.3bn from its 34.3% stake in Melco, US$264m from the sale of the Alon Las Vegas site and A$150m (including advanced loans) for the sale of its 62% stake in CrownBet.

Call Date 23 July 2021

AGRICULTURAL FMCG.

Jonathan Snape

Investments in the Agricultural & FMCG sector should be considered high risk and come with volatility. For this reason we tend to focus on stocks where we see either: a structural uplift in ROIC through the cycle (SM1), cyclical growth stories (SHV), or counter-seasonal crop exposures (NUF).

Synlait Milk (SM1)

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

The key driver of SM1's recent earnings growth acceleration has been the transition of its revenue streams from bulk commodities to higher value consumer packaged and IMF products, with this process largely driven by the success of A2M branded products in Australia and China. Looking into FY19e we continue to view the growth trajectory of A2M IMF products in China as a key driver of earnings for SM1, but also expect the company to increasingly benefit from a more diversified portfolio of customers (particularly in FY20-21e when ~NZ$400m of capital deployment begins to contribute) as supply agreements with New Hope Nutritionals, Bright Dairy, Munchkin and Foodstuffs commence. If SM1 is successful in gaining required regulatory approvals for these brands and in developing its asset base, then we estimate SM1 has the scope to double its EBITDA by FY21-22e, which would put it on a pace to generate earnings growth in excess of A2M, something not reflected in its relative valuation.

Select Harvests (SHV)

Select Harvests (SHV) is an integrated grower, processor and marketer of almonds owning and operating farming and processing assets in Australia. SHV offers a vertically integrated model with core capabilities in farming, processing and marketing. SHV operates a diversified portfolio of almond orchards as well as state of the art processing facility in Carina VIC and value added processing in Thomastown VIC.

Long-run almond price cycles historically have run 9-10 years with a bottoming in prices emerging in year 3-4. We are now ~3 years removed from the previous peak suggesting we are now at or approaching the bottom of the current long-run pricing cycle. Given its maturing orchard asset base, we see SHV as having greater operating leverage to elevated almond prices in this cycle than the last, with production at its peak (FY24-26e) forecast to exceed FY15 levels (the previous peak when SHV generated EBITDA of $100m) by ~50%. In the short term a weaker than expected Californian crop (~80%) of global supply) could also prove a tailwind for almond prices as we enter FY19e.

Nufarm (NUF)

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

The share price of NUF has fallen materially from its 2018 highs as the impact of less than ideal seasonal conditions in Australia and Europe, increased competition in Australia, unfavourable US rulings around glyphosate and a capital raising to deleverage the balance sheet impacted the share price. While we acknowledge the heightened ESG overlay owing to the potential risk around glyphosate liabilities and the potential impact of a weaker selling window in Europe, we see the current ~20% discount to its global peer group, which carry a similar risk profile, as excessive. We see the likely share price catalyst as being a return to more normal seasonal conditions in both Australia and Europe, the latter now representing ~50% of earnings.

TECHNOLOGY.

Chris Savage

We continue to be positive on the technology sector in Australia as, in an environment of low interest rates and low growth, we believe there are a number of good quality stocks in the sector with reasonable to strong growth outlooks.

We acknowledge that many stocks in the sector have had a strong re-rating over the past couple of years but believe there is still some value in the sector with a number of good quality stocks on reasonable forward PE ratios. Our goal is to find good quality tech stocks with strong growth outlooks that are currently trading on forward PE ratios of around 25x or less and that, over time, can re-rate up to over 30x as has happened with stocks like WiseTech Global (WTC) and Altium (ALU).

Technology One (TNE)

Technology One is an end-to-end provider of enterprise software in Australia, New Zealand, Malaysia and the UK. In our view the company is in the strongest position it has ever been in with its Cloud business now starting to take off, the Consulting business turning around and the UK business nearing profitability. We believe these factors will enable the company to increase its annual NPAT growth target from 10-15% to 15-20% and this will occur either this year or next (i.e. FY19 or FY20). The stock is not cheap – the FY19 PE ratio is >30x – but with this positive outlook we believe the PE ratio can re-rate up to around that of Altium which trades on an FY19 PE ratio of >40x.

BUY, PT $7.50

Citadel Group (CGL)

Citadel is a software and services company that specialises in managing information in complex environments. The company is currently transitioning from being more of a services company to more of a software company as Citadel provides more solutions through the use of its own software. Our key investment thesis is that, over time, the PE ratio will re-rate from that of a managed services company (i.e. c.15-20x) to more of a software company (i.e. 25-30x) and this indeed started to occur in 2018. The stock is now trading on an FY19 PE ratio of >20x and on the back of both good earnings growth and further contract wins with its own software we believe the re-rating will continue in 2019.

BUY, PT $10.00

Integrated Research (IRI)

Integrated Research is a software company that has one key product – called Prognosis – which monitors the performance of a customer's communications, infrastructure and/or payments system. The company has many of the attributes we look for in a tech company: global presence, leading market position, high quality customers, large recurring revenue, long history, barriers to entry, strong balance sheet and good management. The share price fell in 2018 due to a relatively flat FY18 result and also the resignation of both the Chairman and the CEO. We believe the company will return to growth in FY19 and combined with some continuity in management we expect a rebound in the share price.

BUY, PT $3.50

DISCRETIONARY RETAIL & PROFESSIONAL SERVICES.

Sam Haddad

Temple & Webster (TPW)

TPW is Australia's largest online only furniture and homewares retailer with over 130,000 products on sale from over 700 suppliers. The TPW e-commerce platform includes the integration of ZIZO (formerly Wayfair Australia) and Milan Direct, all now trading under the Temple & Webster brand. TPW targets the 'impulse' buyer looking for a discovery experience as well as the 'intent' buyer seeking a planned purchase. TPW is well positioned to benefit from a number of structural trends, including: the migration to online (only 4% of Australia's furniture and homewares sales is online, vs 14% in the US and UK); online savvy millennials now entering TPW's core demographic; and faster internet/mobile speeds. With a stabilised platform and strong balance sheet in place (net cash of $10.5m at 30 Sept 2018), management can now focus more attention to accelerate top-line growth. Early benefits are evident with the acceleration in sales growth from 22% in 3Q-FY18 to 28% in 4Q-FY18 to 39% in 1Q-FY19. There are several initiatives underway to accelerate sales growth including: adding depth and breadth to the company's core offer; investing more in the trade and commercial segment; adding new adjacent categories; and expansion into new geographies.

IPH (IPH)

IPH wholly owns Spruson & Ferguson (which now includes former FAKC and Cullens), Pizzeys and AJ Park. IPH is the leading Intellectual Property (IP) services group in the Asia-Pacific region, with specialist services spanning the protection, commercialisation, enforcement and management of IP. The group comprises a team of ~630 staff that services a diverse client base of Fortune Global 500 companies and other multinationals, public sector research organisations, foreign associates and local clients. The key positive factors we see for IPH include: 1) improved underlying market conditions with impacts of the America Invests Act (AIA) now behind; 2) which in turn should support solid organic growth, especially in Asia where growth is two-fold including growth of the market itself and market share gains; 3) the recent expansion into China, opening significant long-term growth prospects; 4) the realisation of FAKC - Cullens merger efficiency benefits; 5) material efficiency opportunities in AJ Park; 7) neutralising losses in the Data Services business; 8) potential FX tailwinds on the back of weakness in the $A/$US FX rate; and 9) potential earnings accretive acquisitions that provide cost and revenue synergy benefits.

Propel Funeral Partners (PFP)

PFP is the second largest provider of death care services in Australia and Zealand. PFP's portfolio footprint comprises 109 locations including 25 crematoria and 8 cemeteries. We believe PFP's location footprint is difficult to replicate as many of its funeral homes have been operating since the late 1800s and early 1900s. Management have significant experience investing in the death care industry spanning over 10 years and is strongly aligned through significant equity ownership, the majority of which is escrowed for 10 years. Based on a proven growth strategy, the leadership of an experienced management team and the backing of a strong balance sheet, we believe PFP is well positioned to drive further industry consolidation. Both markets in Australia and New Zealand are ripe for consolidation with a long tail of independently owned operators. PFP also stands to benefit from the compelling fundamentals of the death care industry, including the positive long term trend in the number of deaths underpinned by an increasing and ageing population, the industry's highly defensive attributes and the relatively high barriers to entry. We believe PFP's current share price levels presents an attractive entry ahead of death volumes normalising back to growth (off soft market death volumes in 2018) and with an active acquisition pipeline at hand.

RESOURCES: BASE & PRECIOUS METALS.

David Coates

After carrying some strong momentum into 2018 the Resource equities overall have been fairly rangebound through the course of the year. We are however seeing some divergence into the end of 2018, with the gold producers trading at the top of their ranges and the base metal and diversified miners trading at the bottom of their ranges.

This has been driven by a shift in sentiment as concerns about slowing growth and elevated equity market valuations have seen increased interest in counter-cyclical and safe-haven investments – a function which gold and gold equities have traditionally fulfilled. In contrast, exposure to "Dr Copper", the rest of the base metals complex and iron ore – driven by various forms of industrial demand and construction growth – has lost its appeal.

In the base metals, however, fundamental indicators remain encouraging with all markets facing supply deficits and stockpile drawdowns over 2018-2019. Copper and nickel remain favoured exposures as the EV / lithium ion battery / renewable energy thematic remains a key factor in demand growth and a catalyst for higher prices to incentivise a required supply response.

The gold price has remained resilient in the face of a strong US dollar and steadily rising real interest rates. With the combination of its counter-cyclical role and the potential for real interest rates to stabilise or drop on lower inflation expectations, we may see some of the headwinds to the gold price removed. We also point out that the Australian dollar gold price remains very strong and local producers are making excellent margins.

Overall, while the demand outlook is clouded by the US-China trade dispute, key fundamental indicators remain supportive and value is starting to emerge across the sector.

Regis Resources (RRL)

RRL is an established, low-cost Australian gold producer with an excellent track record of production and cost performance as well as delivering sector-leading shareholder returns. It also has one of the strongest organic growth pipelines among the multi-mine gold producers and the capability to fund that growth itself, thanks to a strong, debt-free balance sheet. With interest in the gold equities increasing for safe-haven/defensive positioning and the gold price, particularly in Australian dollar terms, holding up well we rate RRL as one of our top picks.

Buy, Target price $4.90/sh

Pantoro (PNR)

PNR is a growing gold production company, operating its flagship, 100% owned, Halls Creek Project (including the Nicolsons Gold Mine) in the Kimberley Region of Western Australia. PNR is now debt free and has just completed a major capital investment program which is planned to lift production from ~50kozpa to 80-100kozpa and lower All-In-Sustaining Costs (AISC) to A$1,000/oz. While delays to achieving this have been reflected in the recent share price decline, it is our view that PNR is well placed to meet this target. The mill has been upgraded, the Wagtail underground is commencing production and the balance sheet has been strengthened. We expect production growth, Resource growth and increasing free cash flow to drive a share price re-rating in CY19

Buy, TP $0.31/sh

Nickel Mines (NIC)

We see several important company-specific catalysts for NIC in 1HCY19 which, combined with a compelling value proposition from the current share price, make it one of our top picks. Construction of the four Rotary Kiln Electric Furnace (RKEF) lines in which it has an interest with Tsingshan Group, the world's largest stainless steel producer, is well advanced. Commissioning is scheduled for the end of the June 2019 quarter but we see the potential for this to come in ahead of schedule and for NIC to make the transition from developer to Nickel Pig Iron (NPI) producer by early 2HCY19. The recent announcements of qualification for material tax relief benefits over the first nine years of production and the securing of fixed price production growth (the third and fourth RKEF lines) we believe are yet to be factored in by the market. As production approaches we think these will be incorporated into NIC's valuation and drive a material share price re-rating.

Speculative Buy, TP $0.65/sh

RESOURCES: OIL, GAS & LITHIUM.

Peter Arden

In the energy sector, the oil price has retraced by 35% from recent four-year highs under the combination of relative oversupply that has caused a significant build in oil stockpiles and forecasts of lower growth in 2019.

OPEC and other producers led by Russia have agreed to total cutbacks of 1.2 million barrels of oil per day, so prices are expected to stabilise and should then head higher as economic conditions improve again. Gas prices in Eastern Australia have also retraced from their peaks after guarantees of greater supply availability but they are set to at least remain around current levels because of their close relationship to the LNG netback price and they are set to potentially move higher in coming years as the global LNG market is undergoing strong demand growth. The continued increase in battery density and expansion of electric vehicle models by the major car makers, (assisted by a range of government measures that includes quite generous subsidies in some major countries) along with strong storage battery growth points to continued strong demand growth for lithium and associated battery components (nickel, cobalt and copper). The lack of meaningful lithium pricing information and the largely extraneous influence of non-demand factors on the Chinese spot lithium carbonate price has contributed to what we believe is a false perception of lithium demand weakness in 2018. There is growing evidence that underlying demand for higher quality lithium products has actually been quite firm in 2018 and so with very limited new supply coming on, this points to a growing likelihood of firmer lithium prices in 2019.

FAR Limited (FAR)

FAR has a 15% interest in several major oil discoveries in offshore Senegal that are economically attractive at current oil prices and now about to enter the development phase. With 2C Resources of 641 million barrels (Mbbls) (recoverable), the SNE field is still one of the largest oil discoveries in the last four years and along with the nearby FAN discovery (with 2C Resources of 198Mbbls) is nearing a development decision in early 2019. FAR has also been very active in the adjoining areas, where it is Operator with a 40% interest in Blocks A2 and A5 in The Gambia, close to and in a similar geological setting as the SNE field. While the recent well drilled into the Samo Prospect in these blocks by FAR and its joint venture partner, the global oil major, PETRONAS, did not encounter economic oil, it provided valuable data that enhances the value of nearby prospects and targets.

Speculative Buy, Valuation $0.22/sh

Gold Road Resources (GOR)

GOR is a gold development and exploration company. Through its fully funded 50% ownership of the Gruyere Gold Project in WA, the build of which is being managed by JV partner Goldfields and is nearing completion, first gold production from the world class Gruyere open pit mine is scheduled in Q2 of 2019 and to average 300kozpa for 12 years. GOR's average annual share of gold from Gruyere of 150koz is expected to generate very strong cash flows averaging around $100m at current gold prices through low forecast all in sustaining costs averaging A$1,025 per ounce. There is scope to expand and enhance Gruyere's production by exploiting shallow deposits around Gruyere. Exploration success in GOR's 100% owned regional areas surrounding Gruyere points to the potential for significant additional standalone gold production from prospects such as Smokebush, Wanderrie, Toppin Hill, Tamerlane, and Corkwood/Ibanez.

Speculative Buy, Valuation $1.04/sh

Metals X (MLX)

MLX is a copper and tin producer. Its 100% owned Nifty mine in WA is undergoing a renewed transition to produce about 35ktpa of copper in concentrate after having experienced delays and production issues related to the rundown nature of the historic mining areas. Nifty's future production is based on a new Resource containing predominantly recently discovered ore outside the historic mining area. MLX also has a 50% interest in and is Operator of the world scale Renison tin mine joint venture (JV) in Tasmania where it is currently increasing high margin tin output by about 15% using ore sorting technology and the JV partners are considering a further 55% increase in tin output to about 13ktpa (100% basis) from the Rentails fuming project. MLX is also investigating high grade cobalt deposits in its 100% owned huge Wingellina nickel-cobalt limonite project in Central Australia.

Buy, Target Price $0.85/sh

RESOURCES: COAL.

Stuart Howe

The key themes for coal markets are persistent but steady levels of demand, increasing barriers to new supply and the likelihood of market consensus coal price outlook upgrades all increasing the value of installed coal production capacity.

Metallurgical and thermal coal prices have remained strong to the end of 2018 and are comfortably above consensus estimates for 2019. A high level of demand across the Asia-region for coal products has persisted. The supply-side response to the high coal prices over 2016-18, from easily accessible projects in established producing regions, has been exhausted. Therefore future supply growth will mostly be dependent on the development of new projects which are facing ever increasing environmental permitting and debt financing barriers.

Coronado Global Resources (CRN)

CRN is the largest dedicated supplier to the global metallurgical coal trade, and the fifth largest among its commodity diversified peers. The company's majority and founding shareholder (PE group EMG at 80%) has committed to paying 100% of free cash flow to the end of 2019 as dividends. With a portfolio of mature assets and stable capex, CRN will have strong earnings to free cash flow realisation and therefore a very high dividend yield is likely. Its assets are diversified across key global metallurgical coal producing regions; the Bowen Basin (Queensland) and the Central Appalachian Basin (US).

Whitehaven Coal (WHC)

WHC expect coal production of 22.0-23.0Mt (100% basis) in FY19, with the majority being thermal coal (around 80%) and sourced from its two flagship mines; Narrabri and Maules Creek. Company management have established an enviable track record developing and operating coal assets, and managing WHC's balance sheet through the commodity cycle. Its growth projects could see production lift to over 25Mtpa by 2023 and potentially to over 30Mtpa in the longer term. WHC has a strong balance sheet and is positioned to generate sufficient cash flow to maintain a dividend and develop its growth projects.

HEALTHCARE & BIOTECH.

Tanushree Jain

The fundamentals and demographic trends for the healthcare and biotech sector remained strong in 2018.

We expect this momentum to continue into 2019, based on the following 3 key themes:

1. Friendly regulatory environment - the US FDA not only approving more drugs, but also making efforts to expedite the approval of much needed innovative drugs.
2. Increased activity in licensing and M&A - driven by large pharma and biotech's need to replenish pipelines following the expiry of patents on their legacy blockbuster products and US tax reforms. We have already seen an uptick in licensing and M&A activity in 2018 in both US and Australia.
3. Companies approaching maturity phase - several of the ASX listed biotech and healthcare stocks we cover will reach maturity, with sentiment overall likely to be driven by late stage trial read outs, regulatory approvals and launches, increased commercial momentum and partnering activity.

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

Pharmaxis (PXS)

Pharmaxis is a biopharmaceutical company focused on the development of drugs for inflammatory and fibrotic diseases. Its lead assets Phase 2 SSAO/VAP-1 inhibitor BI_1467335 partnered in a multi-million dollar deal with Boehringer Ingelheim (BI) and currently unpartnered Phase 1 LOXL-2 inhibitors are targeting Non-alcoholic Steatohepatitis (NASH), a multibillion dollar market with currently no approved treatments. PXS' LOXL-2 assets have successfully cleared Phase 1 trials which has increased their probability to partner significantly. The results indicated no safety or tolerability issues and have demonstrated dose dependent, significant and long lasting inhibition of LOXL-2 highlighting its best-in-class profile. PXS is already engaged with multiple companies in discussions around partnering this asset. Data on long term tox studies to make the LOXL-2 assets Phase 2 ready are imminent. These tox data would complete the data package and enable the company to move into serious partnering negotiations. PXS has a strong cash position with A$47m providing at least 2 years runway and several upcoming value inflexion points which include: Tox studies results from LOXL-2 assets, with a partnership deal expected to follow in 1HCY19 and results from Phase 2A trials in NASH for partnered asset with BI expected in mid CY19.

Buy, speculative, Valuation $0.52/sh

Mesoblast (MSB)

Mesoblast is the leading allogeneic regenerative medicine player with one of the most diversified pipelines and several products in late stage. We view the positive results to date from its paediatric GvHD (Graft vs. Host Disease) Phase 3 trial as an important de-risking milestone for it which not only validates its technology platform, but also takes it closer to having its first product approved in the US market. Positive meetings with the FDA recently keep MSB on track to file for approval in 1Q19, with approval expected by end CY19. Other Key catalysts: a) completion of enrolment in Phase 3 trial with advanced CHF in 1QCY19 and b) FDA BLA meeting to discuss regulatory filing under RMAT designation for MPC-150-IM in end stage CHF patients requiring LVAD in 1HCY19. We continue to believe that the selloff following the results from the NIH run Phase 2b LVAD trial in end stage CHF patients is overdone. While the trial missed on the overall primary endpoint, significant results on it were observed in a large subgroup of patients and statistically significant benefit on GI bleeding and related hospitalisations was reported, which have been advised by FDA to be an approvable and clinically meaningful endpoint. The selloff therefore has created a buying opportunity.

Buy, speculative, Valuation $4.03/sh

Starpharma (SPL)

Starpharma is a Melbourne-based platform company commercialising the science of nanoscale polymers called dendrimers. Its proprietary dendrimer technology is versatile with wide applicability across the pharmaceuticals sector. In drug delivery the company is focused on oncology (cancer) with platform validated by partner AstraZeneca. In 2018, SPL licensed its VivaGel BV (bacterial vaginosis) product for most of Ex-US markets to Mundipharma with launch expected in 1HCY19 and to ITF Pharma for the US market. We expect the company will move from an R&D stage company to a commercial stage company with recurrent revenues from VivaGel BV starting in 2019 from Ex-US markets. US launch of the product is potentially delayed following FDA asking for additional confirmatory clinical data. Cash of A$49.5m provides more than 2 years runway. Key upcoming catalysts include a) initiation of Phase 1 trial with SPL/AZN's AZD0466 asset which triggers a US$3m milestone to SPL, b) launch of VivaGel BV by Aspen in Australia and Mundipharma in Europe and other licensed markets from 2019, c) Initial data from ongoing Phase 2 DEP docetaxel trial and Phase 1 cabazitaxel trial and d) Clarity on US approval and launch timelines for VivaGel BV following meeting with the FDA later in 1QCY19.

(Buy, speculative, Valuation $1.88/sh).

HEALTHCARE.

John Hester

Avita Medical (AVH) (Speculative)

Avita Medical remains on the key picks list from mid year 2018. AVH is a medical device company specialising in the treatment of 2nd and 3rd degree burns requiring hospitalisation. Recell was approved for use by the US FDA in September 2018. The next major catalyst will be the US product launch and the reporting of first commercial sales in the US.

The data from the US clinical trials demonstrates ReCell has an excellent safety profile with comparable healing rates in burns patients. The major benefits of the device are the up to ~30% reduction in the size of the donor site for grafting, improved aesthetic outcomes and shortened length of stay for hospitalisation. The shortened length of stay is equally as important as the clinical outcomes for commercial adoption. The device is predominantly for hospital use and the hospital must be able to justify the use of new technology by either cost savings or additional revenue generation. ReCell can potentially achieve both criteria.

In addition the company expects the first large procurement order from the Biomedical Advanced Research and Development Authority (BARDA) in CY2019. This is part of a long term contract expected to generate tens of millions in revenues over the next three to five years.

Following a recent capital raise of $40m, the company has plans to accelerate its clinical program in the treatment of Vitaligo and for aesthetic use in the minimally invasive cosmetic market.

Elixinol (EXL) (Speculative)

Elixinol is a leading brand in the emerging US market for hemp based nutraceutical products. The category has continued to experience explosive revenue growth which we now believe will further accelerate with the imminent passing of the 2018 Farm Bill in the US. The Bill will reclassify industrial hemp off the controlled substances act and the growing of hemp will now be regulated by the US Department of Agriculture. In our view this is another important step toward industrial hemp products becoming mainstream in the United States.

Recently the FDA approved the first medicinal cannabis product in the US for the treatment of Epilepsy in children. In our view this event is likely to have a flow on effect for other market participants including for the over the counter hemp CBD products marketed by Elixinol US.

The Australian operations of the group include Hemp Foods Australia (HFA) being a company focussed on the development of the market for Hemp Foods. This category is also expected to grow rapidly from a zero base. The catalyst for the sector was the inclusion of hemp foods on the Foods Standards Code.

The Group is led by Chief Executive Paul Benhaim who is the co-founder of both Elixinol US and Health Foods Australia. Following the most recent capital raise he retains 62% of the listed entity and is the largest shareholder by a considerable margin. Mr Benhaim is considered an expert in the field of industrial hemp and medicinal cannabis following more than two decades of experience in the sector in Australia, the US and Europe.

The company has not provided earnings guidance for CY18, however, quarter on quarter revenue growth has exceed 24% this year and annual revenues are on track to increase by ~140% to ~$40m.

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T S Lim holds long positions in MQG and and MQGPC.

Bell Potter acted as Co-manager in the following transactions and received fees for the services: WBC Capital Notes 5 & 6 offers (Feb & Nov 2018).

Bell Potter Securities acted as Co-Manager in MQG's May 2018 Capital Notes 3 (MQGPC) offer and received fees for that service.

Lafitani Sotiriou, authoring analyst, holds a long position in JHG, PDL and APT.

Bell Potter Securities acted as co-manager of the $117m August 2018 placement for APT and received fees for that service.

Bell Potter Securities acted as a manager of the November 2017 IPO of NWL and received fees for that service.

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

GVF paid a service fee equal to 2.50% (excluding GST) of the Application Monies provided with valid Application Forms bearing a Licensee's stamp to the extent Shares were allotted. Bell Potter Securities and its Advisers shared in this Fee.

Bell Potter Securities was a Co-Manager for the MXT Entitlement Offer in March 2018 and received a fee for the service.

Jonathan Snape owns 7,000 shares in SM1 and 5,000 shares in SHV.

Bell Potter Securities Limited has acted as Co-manager to the following issues: AMPHA, ANZPD, ANZPE, CBAPC, CBAPD, CBAPE, CBAPF, IANG, MXUPA, MQGPB, MQGPC, NABPA, NABPB, NABPD, NFNG, TSHA, WBCPF, WBCPG, and WBCPH. Bell Potter Securities Limited received fees for these services.

Bell Potter Securities Limited is acting as Co-manager to the CBAPH and WBCPI issues and will receive fees for this service.

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

David Coates owns 1,400 shares in RRL.

Bell Potter Securities acted as Lead Manager to the $13.7m equity raise of PNR in September 2018 and received fees for that service.

Bell Potter Securities acted as Lead Manager to the $27m pre-IPO funding round in January 2018 and Lead Manager to the $200m August 2018 IPO for NIC and received fees for that service.

Peter Arden owns 850,000 shares in FAR Ltd (FAR); 100,000 shares in Gold Road Resources (GOR); and 200,000 shares in Metals X Ltd (MLX).

Bell Potter Securities acted as lead manager and underwriter in the March and September 2017 placements of MSB and received fees for those services.

Bell Potter Securities acted as joint lead manager in the August 2018 placement of PXS and received fees for that service.

Bell Potter Securities acted as Lead manager of AVH's capital raisings in October 2017 and June 2018 and received fees for that service.

Bell Potter Securities acted as Lead manager of the EXL's 2017 IPO and lead manager of the 2018 $40m placement and received fees for that service.

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

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