ASX Small to Mid Caps Conference

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Global perspectives: Risks are rising

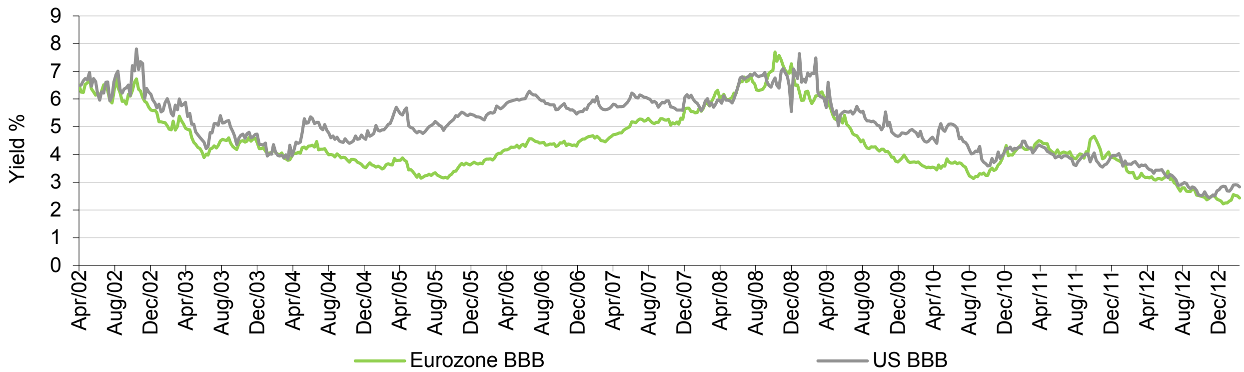
- **It has been relatively difficult to make a losing trade over the past six months.** World equity indices have risen sharply and credit spreads have narrowed for both the corporate sector and the periphery of Europe. This has created a mood of confidence that pervades the financial media. The modest increase in yields (and declines in price) for US, UK and German government bonds does not seem to have caused any significant pain to date.
- **Equity risks increase as profit growth fails to deliver.** It has been over six months since the ECB stepped in to "do whatever it takes" and the US Federal Reserve expanded its money-printing operations to US$85bn per month. The financial sector has benefited enormously from this underwriting of sovereign debt and economic growth risk by the ECB and Fed respectively. By now we would have expected to see the trickle-down effects become evident in both the real economy and in analysts' forecasts. In reality, consensus economic forecasts for 2013 have failed to tick up and sales forecasts for Western markets peaked in Q2 of 2012.
- **Valuations in a different place from last year.** If growth remains weak then the justification for sharply higher valuations is likely to be tested by the market. We believe the current enthusiasm for mid-cap equities in particular may represent a selling opportunity.
- **Investors over reliant on central bank policy.** Judging by recent market events investors may be paying too much attention to the Federal Reserve rather than focusing on corporate fundamentals. Fed-fixation may represent a systemic risk as asset markets re-correlate on down days. The release of the Fed minutes this week revealed dissent in terms of the pace of QE and created a mini panic in both equities and commodity markets. Having lowered returns on every liquid asset class in the interests of creating growth, increased returns (and lower prices) would seem to be the logical consequence of a reduction of policy accommodation.
- **Staying cautiously positioned – short-term pain for long-term capital preservation.** Our investment strategy has been too cautious in recent months as we underestimated the benefits of the most recent round of QE on financial assets. Even so, most portfolios of cash, gold and blue-chip equities would have generated substantial returns over the past six months. We would still be looking to take profits on positions that have outperformed and particularly in mid-caps.

Risks are rising

Capital market signals are at present difficult to read due to the influence of central bank policy. Equities have been rising sharply since the summer but growth indicators are not following with the six month lag that would normally be expected. In a 'normal' world it would also be odd to see ultra-low bond yields and interest rates at the same time as a sharp rally in growth-sensitive assets. Intervention by central banks has broken the usual correlations between growth and bond yields, the latter largely fixed by policy.

In this piece we consider the evidence for the profits growth needed to justify the recent moves in equities. In short, we believe investors are simply accepting lower returns on riskier assets due to the perceived sovereign debt and growth risk insurance provided by the ECB and Fed respectively. In our view, central bank policy has by design compressed returns across asset classes such as corporate credit, Exhibit 1, but has not to date created the growth dynamic needed for a self-sustaining recovery.

Exhibit 1: Corporate credit costs, US and Europe

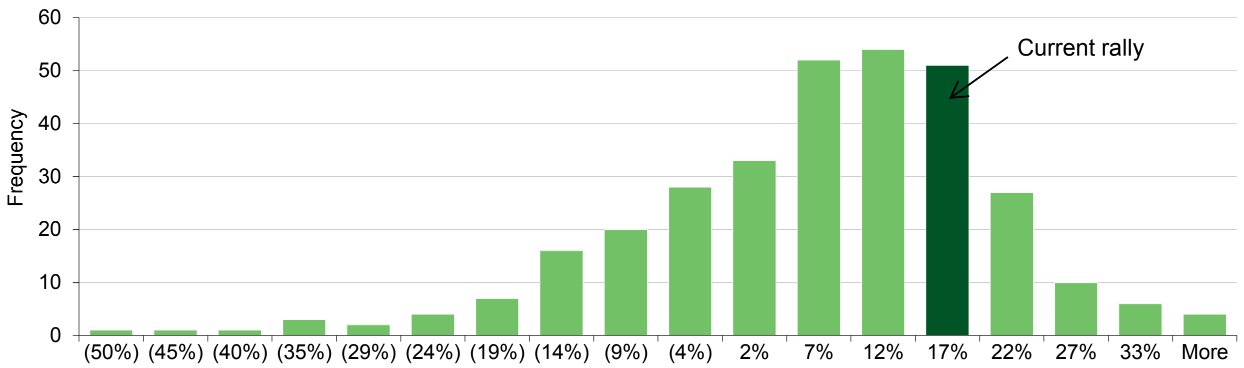


Source: Thomson Reuters Datastream

1. Economic forecasts for 2013 – stubbornly resistant to upgrades

The rally in equities, especially in the mid-cap sector, has been statistically notable over the past six months, Exhibit 2, with only a few time periods offering higher returns over the past 30 years. In the circumstances we should by now be expecting a significant improvement in economic sentiment. This evidence is proving difficult to come by. Economic forecasts for 2013 appear stubbornly resistant to upgrades. The current consensus calls for 2% growth in the US, 1% growth in the UK and recession in Europe, as shown in Exhibit 3.

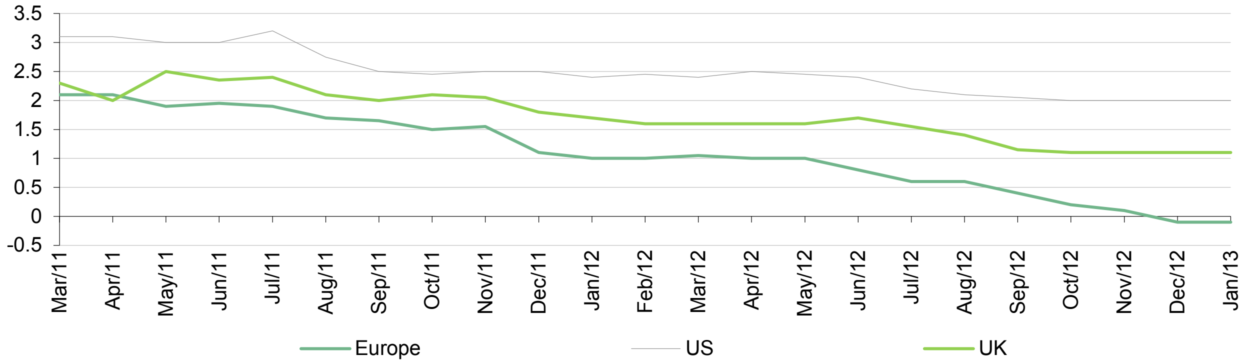
Exhibit 2: Mid-cap rally in context – histogram of 6m returns for FTSE 250



Source: Thomson Reuters Datastream

Purchasing managers' indices continue to indicate contraction or stagnation rather than any strong recovery in Europe. The most recent services and manufacturing survey fell to 47.3 from 48.6 in January, undershooting economists' forecasts of an improvement to 49. Expectations-based surveys such as the German ZEW index have recovered strongly since last year. However, we note this series is highly correlated with the prior six month's performance of the stock market rather than being predictive.

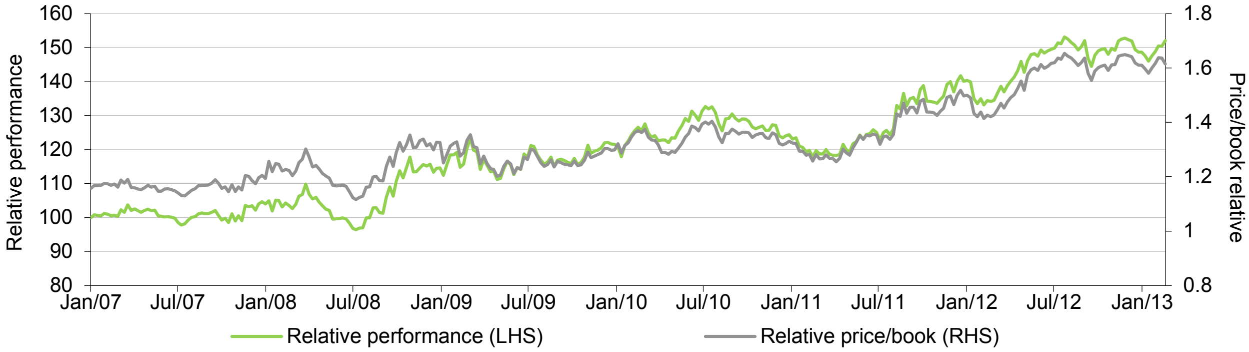
Exhibit 3: Consensus economic forecasts



Source: Bloomberg

A lack of GDP growth is providing further impetus to the debate over the use of monetary policy to stimulate growth in the UK and Japan. This is raising fears that nations will turn to currency devaluation in an attempt to stimulate growth. For investors the salient point is that sequential devaluations of major currencies will amount to currency debasement. The medium-term benefits of owning assets which maintain purchasing power in these circumstances are clear and we remain of the view that gold at current prices remains a good hedge against such a scenario. In our view, inflation fears may also have led to the relatively high rating and outperformance of the consumer staples sector, Exhibit 4.

Exhibit 4: Outperformance and re-rating of UK consumer staples sector

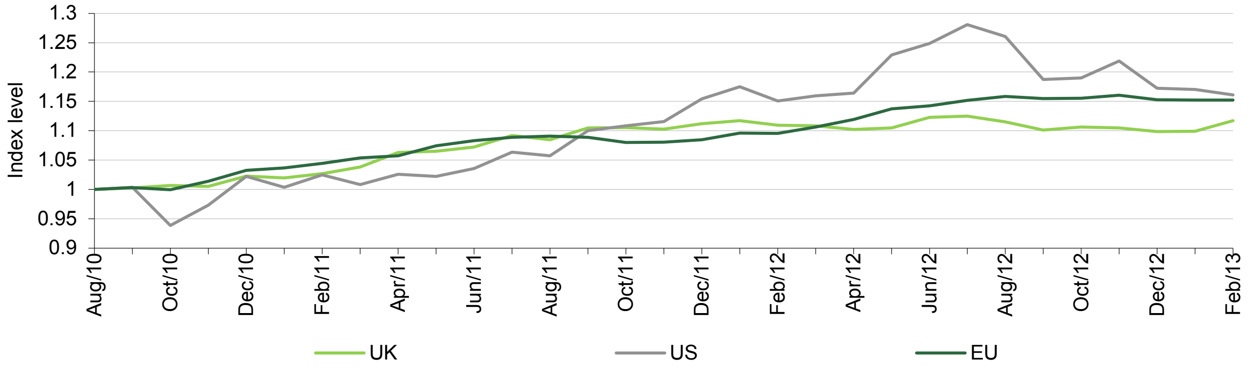


Source: Thomson Reuters Datastream

2. Consensus earnings forecasts have stalled

Without strong economic growth companies have been struggling to grow revenues. Exhibit 5 shows a peak in forward sales forecasts in Q212 for the largest non-financials in the US and a flattening for European markets. The stagnation in sales forecasts has also pushed corporate profit margins down from historical highs. While loose monetary and fiscal policy has sustained activity and corporate profits since 2008 the growth factor remains elusive. Formulaically, equity returns are the sum of the dividend yield and the growth rate. We believe investors looking at relatively high dividend yields for equities (at least in the context of the past 20 years rather than 50 years) should carefully consider the impact of weak economic growth on company valuation.

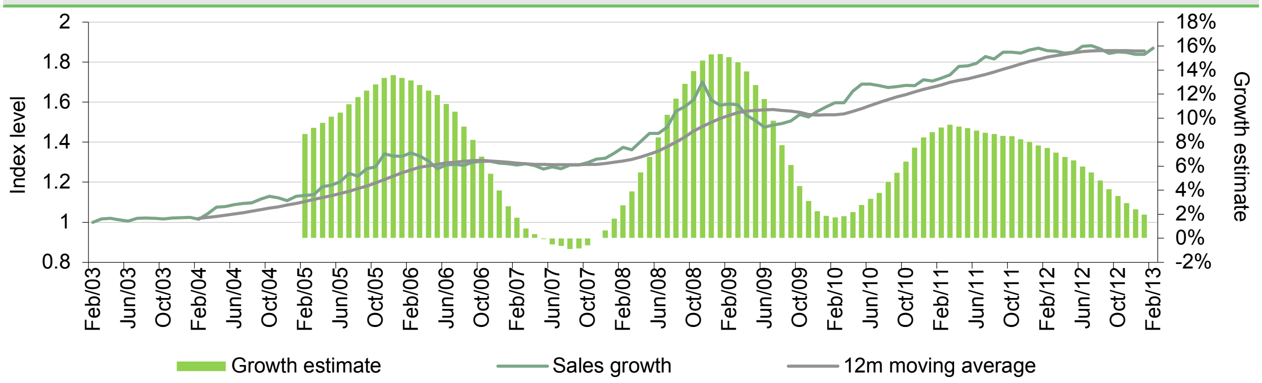
Exhibit 5: 12m forward sales estimates stagnating in developed markets



Source: Thomson Reuters Datastream, I/B/E/S, Edison calculations

Though in theory any short-run acceleration and deceleration in sales growth should have relatively little impact on equity valuations, we have found empirically this has been far from the case over the past 10 years. In reality, a modest slowdown in sales growth has a disproportionate effect on returns due to multiple compression on a smaller than expected level of profits. This is an example of how markets can efficiently discount 'small' news but can suffer large mis-pricings during long recessions.

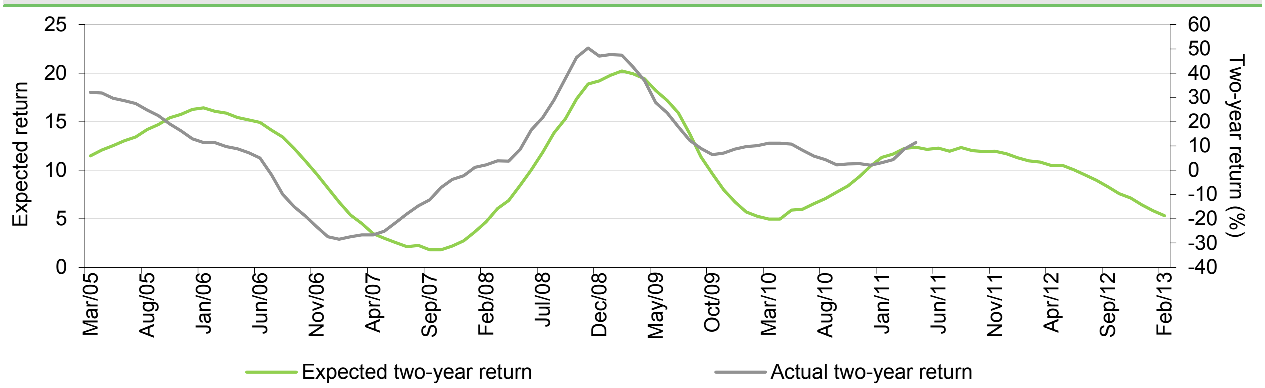
Exhibit 6: A simple moving average model of sales growth for UK non-financials



Source: Thomson Reuters Datastream, I/B/E/S, Edison calculations

In Exhibit 6 we have created a simple sales growth model based on the moving average of 12m forward analyst sales forecasts for UK non-financials. This (very) naive growth projection is then used to forecast the expected return on equities (taken as growth rate plus dividend yield) over the following two-year period. Rather alarmingly this very simple formula has over the past 10 years explained over 50% of the variation in two-year returns! In short, if purchases are made when sales growth forecasts are weak returns are often poor, as shown in Exhibit 7. Right now, the absence of sales growth is an amber signal for investors at least. The tailing-off of sales growth forecasts over the last six months is in stark contrast to strength of the market rally.

Exhibit 7: Forecast returns and actual for UK non-financials



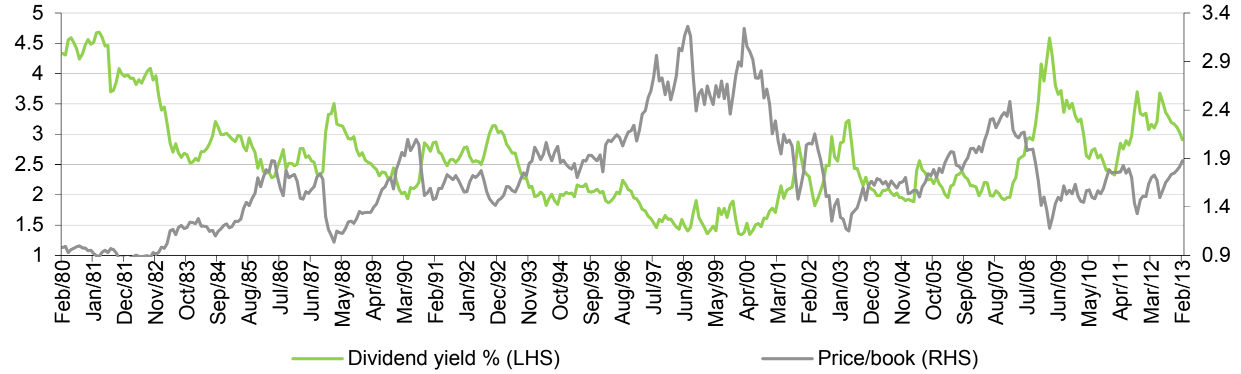
Source: Thomson Reuters Datastream

3. Valuations no longer at extreme levels

A year ago the DAX was trading at dividend yields seen only during the 1970s and briefly during the credit crisis. Since then yields have declined to under 3% and price/book multiples have expanded by 40%, Exhibit 8. Valuations, while some way from expensive, are clearly no longer in dirt-cheap territory.

Therefore at present valuations require investors to believe that profit growth near historical levels is the base case. We are more cautious as we see little evidence for this; although margins have fallen from peak levels they are still above average and economic growth in Europe continues to disappoint. The probability of another opportunity to buy shares at distressed levels over the next 18 months is too high to justify being fully invested, in our view.

Exhibit 8: German non-financials – valuations no longer extreme



Source: Thomson Reuters Datastream

4. Surprise dissent at the Fed and monetary tightening in China

The market response to the Fed meeting minutes of 29-30 January was telling. The minutes reveal that several committee participants have raised very legitimate questions over the costs and benefits of asset purchases. Potential costs included future inflation, threats to financial stability from speculative activity and capital losses incurred by the Fed as asset holdings are unwound. These potential costs are well known and have been widely discussed in the press. However, just the *possibility* of an early exit or variation in the size of the current QE programme was enough to generate the largest daily stock market losses this year. This clearly points to a market that has lost its reference to value and is instead overly-dependent on central bank policy.

We absolutely share the view that QE and volatility suppression has significant and under-appreciated costs. The elimination of income on savings for a cohort of cautious savers and retirees will have had an impact on spending. The limited level of financial sector restructuring in Europe has prevented entrepreneurs from generating the kind of profits which give rise to the animal spirits from which strong recoveries are made. Furthermore, without the discipline of market interest rates governments have been able to incur much larger levels of indebtedness and at lower costs than otherwise.

Separately, China appears to have become significantly more hawkish on credit expansion in recent weeks. The central bank has been draining record amounts of liquidity from the banking system and real-estate credit controls have been introduced in a number of regions. While early in the process, policymakers would appear to have decided that activity in the world's second largest economy needs to slow to prevent overheating.

Conclusion

Our primary concern is that investors have become too complacent about the risks to growth. Large gains across multiple asset classes mean that most market participants have not felt the pain of losses for several quarters. Yet the risks to profit growth is clear – earnings forecasts have been ebbing since Q112 and the trend has not shown any recent improvement in response to monetary policy as would be expected by now.

With a muted growth environment and evidence of an over-reliance on central banks to drive asset prices, we believe investors should stay cautiously positioned in both equities and credit. To be clear, our cautious investment strategy would have underperformed in recent months and we certainly underestimated the benefit of the most recent round of QE on the financial sector. Even so, a portfolio of cash, gold and blue-chip equities would have generated substantial returns over the past six months. We would still be looking to take profits on positions that have outperformed.

Altona Mining

Strategic options

The Roseby Copper Project in Queensland is now fully permitted and Altona Mining is seeking a strategic transaction to enable development, following confirmation that Xstrata is not exercising its option to acquire the RFP sale interest. The full mining cycle is now well established at the Outokumpu Project in Finland, with record production of 2.0kt copper and 2.3koz gold in the December quarter and cash costs of US$1.61/lb copper. Production guidance has been increased to 6.5-7.0kt copper and 6.5-7.0koz gold for FY13. Operating cash flows offset investment during Q213 and Altona's cash position remained stable at A$19m.

Record production; increased guidance

Outokumpu Project copper in concentrate production increased 28% q-o-q in Q2 2013 to 2.0kt with gold in concentrate production increasing 55% q-o-q to 2.3koz. Mine production was 140kt at 1.62% copper and 0.68g/t gold. C1 cash costs were stable and in line with guidance at US$1.61/lb of payable copper. The full mining cycle is now well established and the mill performing at or above design. Production guidance has been increased to 6.5-7.0kt copper and 6.5-7.0koz gold for FY13. The potential to expand production at Outokumpu by 30-50% is being investigated and the results of this study are due in mid-2013.

Potential strategic transaction to develop Roseby

The lapse in January of Xstrata Copper's option to purchase the RFP sale interest, comprising 51% of the majority of the Roseby tenements near Mt Isa, has freed Altona to explore other potential corporate transactions. Expressions of interest have been received from a number of parties. Three mining licence applications were granted at Roseby during Q213 and the project is now fully permitted. Altona will undertake an optimisation exercise on the Little Eva Project definitive feasibility study and investigate options for a staged development. Little Eva represents the first stage of development of the total measured, indicated and inferred Roseby resource containing 1.5Mt copper and 384koz gold.

Strong cash balance

Altona's cash position declined only marginally from A$19.7m to A$18.8m during Q213 as positive cash flow from Outokumpu was applied to capex and Roseby development. Capex at Outokumpu was US$3.9m in Q213 and is expected to remain at US$3-4m for continued decline and level development for the mine. Principal repayments of the outstanding US$20.4m debt commence in March 2014. Hedging is in place through to 2016. The hedge position at 30 December 2012 was 9.6kt copper at €5,656/t, 16.7koz gold at €1,191/oz and 2.8kt zinc at €1,479/t.

Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
06/11	0.0	(12.4)	(0.04)	0.0	N/A	N/A
06/12	0.0	(23.1)	(0.04)	0.0	N/A	N/A
06/13e	61.9	(2.5)	0.00	0.0	N/A	N/A
06/14e	92.4	(11.1)	(0.01)	0.0	N/A	N/A

Source: Company accounts, Thomson Datastream consensus estimates

Price A$0.24*
Market cap A$127m

**as at 26 February 2013*

Share price graph

Share details

Code	AOH
Listing	ASX
Shares in issue	527.3m

Price

52-week	High	Low
	A$0.3	A$0.2

Cash (as at 31 Dec 2012)	A$18.8m

Business

Altona Mining is an ASX-listed base metals producer with a focus on copper. In 2012, production commenced at its Outokumpu Project copper, gold and zinc underground mine in SE Finland. Altona is planning to develop its Roseby Copper Project near Mt. Isa in Queensland, Australia.

Bull

- Roseby Project strategic options.
- Outokumpu expansion potential.
- Strong cash position.

Bear

- Xstrata option over RFP lapsed.
- Production hedged to 2016.
- Debt repayments start March 2014.

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EDISON

Austal

Pivot to Pacific (via US)

Austal has seen a period of rapid change over the past two years, repositioning its business to benefit from the US defence strategy of pivoting to the Asia-Pacific region, while also wrestling with a challenging macro-environment in commercial vessels. This has seen additional investment in US facilities to produce the Joint High Speed Vessel (JHSV) and Littoral Combat Ship (LCS), both innovative new platforms designed for near-shore (Littoral) operations. The group's Henderson, Australia operations have refocused on defence contracts and a new facility in the Philippines has been opened to provide a commercially competitive offering. With a A$2.3bn order backlog providing visibility to 2016, the key is to improve operational performance, ramp-up the Philippines operation and capture a greater proportion of aftermarket support services.

Strategy aligned with US defence priorities

Despite the current uncertainty in the US defence budget, Austal's business is clearly aligned with US policy, with the shift in focus to the Asia-Pacific region and a recognition that brown water operations (ie in the Littoral environment) will become increasingly important. With Austal having achieved significant wins on two key programmes to support this (JHSV and LCS), the group has invested in building its presence to deliver and has doubled its manufacturing footprint in the US in 2012. Although some performance issues on the First-in-class JHSV hampered progress, the lessons learned are being used to ensure margin improvement is achieved.

Commercial operations refocused to the Philippines

With an increasingly challenging commercial environment making cost-competitiveness a key factor, Austal opened a new manufacturing facility in the Philippines and focused its Henderson, Australia operations on defence contracts and marine support. With a workforce of 200 comprising <10% expats and a full order book to Q3 CY13, the facility now enables Austal to compete on an even keel in the global commercial market (eg ferries and wind farm support vessels).

Strengthened balance sheet to support strategy

Austal underwent a capital increase via a nine for 10 entitlement offer on 23 November 2012, raising A$86m in new ordinary shares at A$0.50 per share to strengthen the balance sheet following a period of heavy capex. Pro-forma predicted net debt:EBITDA was down to 1.9x and Austal also agreed a longer-term three-year debt facility to capitalise on the opportunities ahead. This includes delivering the build programme in the US, expanding commercial construction in the Philippines and building a broader support service offering internationally.

Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	500.7	19.8	9.0	3.0	7.0	4.8
06/12	649.2	12.6	5.0	0.0	12.6	N/A
06/13e	754.0	28.1	8.5	1.0	7.4	1.6
06/14e	1,028.5	66.0	11.9	3.0	5.3	4.8

Source: Company accounts/Thomson Datastream consensus estimates

Price A$0.63*
Market cap A$227m
*as at 26 February 2013

Share price graph

Share details

Code	ASB
Listing	ASX
Shares in issue	359.8m

Price

52-week	High	Low
	A$1.49	A$0.50

Net debt (as at 30 Jun 2012) A$213.6m

Business

Austal is a global prime contractor in the design, construction and maintenance of specialist naval platforms and high performance aluminium vessels for the commercial high speed ferry market. It has facilities in Henderson, Western Australia; Mobile, Alabama (defence); and Balamban, Philippines (commercial) as well as support service facilities in Australia, US, Asia, Europe, the Caribbean, and Middle East.

Bull

- Increasing US business aligned with defence strategy.
- Newly established Philippines operations increasing commercial competitiveness.
- Developing aftermarket offering.

Bear

- First-in-class issues on JHSV.
- US defence budget uncertainties.
- Challenging commercial environment.
- Strength of Australian dollar.

Analyst

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Bandanna Energy

Strategic coal projects

Bandanna Energy holds 16 exploration permits for coal (EPCs) in the Bowen and Galilee basins in Queensland, Australia, with coal inventory comprising 1,703Mt and 306Mt of JORC-compliant net coal resource and reserves respectively. The company's three key projects are Springsure Creek and Dingo West, both in the Bowen Basin, Queensland's principal coal producing basin, and South Galilee, which is in the emerging coal province of the Galilee Basin further to the east. Bandanna is also a 14% shareholder in Wiggins Island Coal Export Terminal (WICET), now under construction at Gladstone, with port allocation of 4Mtpa for Spingsure Creek combined with access agreements with QR National and a rail haulage agreement with Pacific National in place.

Springsure Creek (100%): Targeting production by 2015

Springsure Creek is an underground thermal coal project, located in the Bowen Basin 47km south-east of Emerald and Bandanna's most advanced development project. The project covers 462km^2 and contains a total JORC-compliant resource of 543.7Mt and marketable reserves of 154Mt. A DFS was completed in January 2013 with a life of mine estimated at 40 years, producing at peak 11Mtpa of thermal coal. Bandanna aims to enter production in the first half of 2015, to meet the commencement of shipping from WICET Stage 1.

Dingo West (100%): Potential for coking coal

Dingo West is an open cut thermal/PCI project located to the west of the township of Dingo. The main Blackwater-Gladstone rail line and Capricorn Highway cross through the northern part of the lease and provide access to a key rail corridor to the port facility at Gladstone 250km to the east. The project has a JORC-compliant inferred resource of 91 Mt, with data indicating PCI/high-quality thermal coal with potential for coking coal. A DFS is currently underway and the mine plan is due for completion in June 2013, involving mine design of up to three or more satellite open-cut pits with total production capacity of up to 1.4Mtpa of ROM coal.

South Galilee: Env'ntal impact statement pending

The South Galilee thermal coal project (SGCP) is located to 12km south-west of the township of Alpha covering an area of 2,698km^2 in the undeveloped eastern Galilee Basin. SGCP is a 50-50 JV between AMCI (Alpha) Pty Ltd and Bandanna Energy's wholly owned subsidiary Alpha Coal Pty Ltd. A total JORC-compliant resource is estimated at 1,178Mt, which a PFS completed in 2011 deemed supports a 15Mtpa open-cut and underground coal mining operation with mine life of about 35 years. An environmental impact statement is currently pending on the project.

Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	0.0	(4.3)	(1.1)	0.0	N/A	N/A
06/12	0.0	2.2	0.4	0.0	60.0	N/A
06/13e	0.0	(7.0)	(2.0)	0.0	N/A	N/A
06/14e	15.2	(13.5)	(2.0)	0.0	N/A	N/A

Source: Bloomberg

Price A$0.24*
Market cap A$127m
**as at 26 February 2013*

Share price graph

Share details

Code	BND
Listing	ASX
Shares in issue	528m

Price

52-week	High	Low
	A$0.80	A$0.23

Net cash (at 31 Dec 2012)	A$90m

Business

Bandanna Energy is an ASX-listed coal exploration company with a strategic coal tenement holding in Queensland's Bowen and Galilee Basins. It also holds mineral rights for both oil shale and bentonite located in Queensland.

Bull

- Strong cash position.
- Large coal inventory.
- Access to infrastructure.

Bear

- Commodity price risk.
- Development risk.
- Operational risk.

Analysts

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Base Resources

Mineral sands of Kenya

Base Resources (BSE), the ASX-listed Kenyan-based mineral sands developer and explorer, recently reached the 50% completion milestone on the Kwale Mineral Sands project in Kenya, Africa, and is on schedule for practical completion in Q313 and first shipment in Q413. With the establishment of long-term debt facilities and equity capital raisings in October and November 2012, the company is now fully funded to complete the Kwale project at a capital cost estimate of US$298m. If the Kwale project moves into production as forecast, it will become Kenya's first large-scale mine with output set to contribute close to 1% of Kenya's GDP and will represent a catalyst for the developing Kenyan mining industry.

Kwale – the foundation for Base

BSE is the 100% owner of the Kwale mineral sands project in Kenya. The definitive feasibility study (DFS) of the project, based on the November 2012 TZMI price outlook, estimates a 13 year life-of-mine (LOM) operation, post-tax NPV of US$485m and an IRR of 36% with LOM operating costs of US$4.99/t ore. BSE expects to process 140.6Mt of ore, producing 4.7Mt of rutile, ilmenite and zircon products for sale. At full production, the project should supply 14% of global rutile production. Rutile is a titanium dioxide ore used in the pigments industry.

Emerging market drivers

The construction and building industries are the predominant drivers of the heavy minerals market, with rutile and ilmenite (titanium dioxide minerals) essential for use in paints, pigments, plastics and inks, while zircon is heavily used in porcelain and ceramics. Ultimately, demand for these minerals is tied to the urbanisation of China, India and other emerging markets. Demand for these mineral sands should increase and then stabilise as the global economic recovery gathers steam and the supply-side gap closes. BSE reports continuing strong market interest in its products.

Kenyan government legislation a drawback

BSE's shares rose c 40% on notification by the Kenyan Attorney General that the recent 35% Local Equity Participation Regulation cannot be applied retrospectively to Special Mining Lease No. 23 covering the Kwale project. Management continues to work with the government to facilitate greater Kenyan participation in both BSE and the Kenyan mining industry. Most recently the Kenyan Minister of Environment & Mineral Resources purported to cancel BSE's exploration licenses at Kilifi, Mambrui and Vipingu. BSE has taken out an injunction preventing further action on the cancellation and expects to have them reinstated post the Kenyan general election to be held 4 March 2013.

Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
06/11	0.0	(3.3)	(0.02)	0.0	N/A	N/A
06/12	0.0	0.0	0.00	0.0	N/A	N/A
06/13e	2.0	(7.6)	(0.01)	0.0	N/A	N/A
06/14e	135.3	30.7	0.10	0.0	3.7	N/A

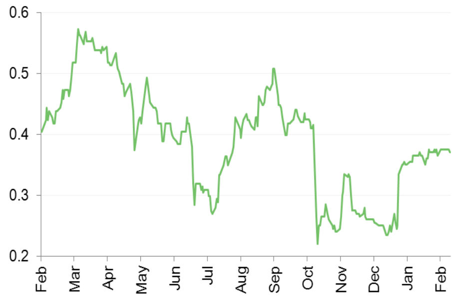
Source: Company accounts/Thomson Datastream consensus estimates

Price A$0.37*

Market cap A$207m

**As at 26 February 2013*

Share price graph



Share details

Code	BSE
Listing	ASX & AIM
Shares in issue	560.44m

Price

52-week	High	Low
	A$0.57	A$0.22

Cash (as at 30 June 2012) A$105.9m

Business

Base Resources is an ASX-listed mineral sands developer and explorer with a portfolio of assets in Africa. The flagship deposit is the Kwale Mineral Sands project in Kenya, East Africa. Production of an assemblage of rutile, ilmenite and zircon minerals is projected for Q413.

Bull

- Project fully financed.
- Technically simple mining and logistics.
- Off-take sales established for 70% of project revenues over first five years.

Bear

- Mineral sands supply/demand – commodity price risk.
- Sovereign risk – Kenyan government.
- Construction and operational risk.

Analysts

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Bathurst Resources

Development in sight?

Bathurst Resources (BTU) is a dual-listed New Zealand-based coal company. Its main asset is its Buller project on the west coast of the South Island, near Westport. Development of the Buller project, which will produce high-quality, high-value export coking coal, has been severely delayed by objections and court hearings. The Buller project will ultimately comprise a number of open-pit mines that will be developed sequentially. BTU hopes it will be able to bring its Escarpment mine into production during 2013. By 2018, BTU is targeting an increase in production to 4Mtpa.

December quarter activities report

After further drilling BTU increased its coal resources to 94.5Mt, mainly within the Buller project. From exploration and acquisitions, BTU has grown resources from a JORC resource of 7.3Mt in May 2010. Total December quarter coal sales were 19,774 tonnes (semi-soft coking coal) from the small Cascade mine (an acquisition), currently the only producing mine within the Buller project, and 58,257 tonnes (thermal) from the Takitimu mine, north of Invercargill. Stage 1, mainly a A$3.9m storage shed of the Westport Harbour port upgrade was completed. The remaining appeal at the Environment Court hearing, on environmental grounds against the Escarpment mine consent, concluded on 18 December with a decision pending. In the climate change court case, the original decision found in BTU's favour was upheld again after an appeal in the High Court. This decision was appealed and has escalated to the Supreme Court with the hearing set for 12 and 13 March 2013.

Mine development schedule

The Buller project consists of South Buller and North Buller. South Buller will be developed first at a small scale for a relatively low capital cost of NZ$31m while infrastructure is installed (aerial conveyor etc). By year five, total run of mine (ROM) production is planned to be 2.35Mtpa (1.65Mt saleable coal at 70% yield) for cumulative capital expenditure of NZ$161-201m. Installed infrastructure will also be used by North Buller, so the latter will be brought on line for a low incremental cost of around NZ$30m, increasing ROM production to 4Mtpa (2.8Mtpa saleable). Most of the coal is low ash and will not require washing.

Financial situation

BTU had net cash at the end of the December quarter of A$30.53m. It has MOUs in place for off-take financing arrangements, which total US$90m. Vendor finance or debt is being considered for financing the aerial conveyor.

Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
06/11	3.9	(10.0)	(0.02)	0.0	N/A	N/A
06/12	16.8	(17.1)	(0.02)	0.0	N/A	N/A
06/13e	20.9	(6.2)	(0.01)	0.0	N/A	N/A
06/14e	67.8	7.0	0.01	0.0	35.0	N/A

Source: Company accounts, Thomson Datastream consensus estimates

Price A$0.35*
Market cap A$244m

*as at 26 February 2013

Share price graph

Share details

Code	BTU
Listing	ASX, NZX
Shares in issue	697.3m

Price

52-week	High	Low
	A$0.85	A$0.28

Cash (as at 31 Dec 2012)	A$35.5m

Business

Bathurst Resources' (BTU) main asset is the Buller export coking coal project on the west coast of New Zealand. The start of production has been delayed by objections and court hearings, but BTU is hopeful of opening its first new mine in 2013. Output is planned to grow to 4Mtpa (ROM basis) by 2018.

Bull

- Strong production growth anticipated.
- High value product, niche quality.
- Coking coal prices recovering.

Bear

- No certainty for court settlements.
- Multi-mine operation increases costs.
- Growth timeline could be optimistic.

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Carbon Energy

UCG technology partner

Carbon Energy is an end-to-end underground coal gasification (UCG) company with resources in Australia, Chile and the US. With a strategy based upon several business development streams, the company is utilising its proprietary keystream technology to transform stranded coal resources into high-value syngas fuels. This has been developed over 10 years of research and development, five years of field trials and >A$100m investment. The group also wholly-owns assets available for development for which it is seeking international partners to monitise the resource base. There have been several developments in the final quarter of CY12 positioning the company with positive opportunities and a more stable financial position as well as highlighting potential commercialisation through several routes.

History

Carbon Energy was Formed in 1996 following a joint venture between Metex and the CSIRO (Commonwealth Scientific and Industrial Research Organisation) to develop and commercialise underground coal gasification (UCG) technology. In 2008 it committed to its first pilot scale, oxygen injected-UCG trial and subsequently turned this into reality with the first generation of electricity from syngas in Australia.

Three-pronged growth strategy

Carbon Energy has three key growth strategies: 1) Licensing Technology and Technical Services – where the group seeks to partner with coal companies, earning an upfront licence fee and ongoing royalty stream with services provided on a schedule of rates. The focus is on international opportunities in China, India, South East Asia, North and South America; 2) Surat Basin Coal Commercialisation – seeking to partner with international coal companies to monitise the Surat Basin coal asset. This currently has 1.4bn tonnes of coal resource inferred, with concept study completed; and 3) Development of Bloodwood Creek gas resource – entering final phase for the remediation and rehabilitation of the UCG panels at Bloodwood Creek which is essential to prove full life cycle of a UCG panel. With 2P reserves of 743 PJ and proof-of-concept verified by a third party, potential partners are awaiting the finalisation of the Queensland government's regulatory regime.

Current financials/performance

Having achieved several commercial agreements, Carbon Energy has started 2013 in a position to accelerate commercialisation. This includes a first commercial scale technology licence agreement (with Shanxi Coal) and a technology service agreement from which the company will earn its first revenue from services related to its keystream technology. Key now will be to capitalise on this progress.

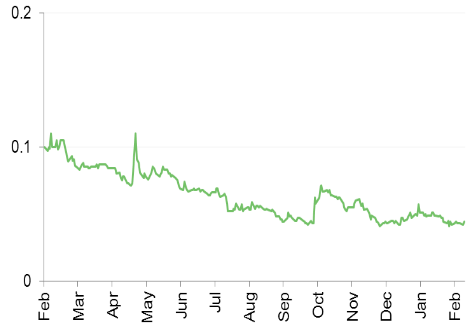
Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	0.0	(15.1)	(2.0)	0.0	N/A	N/A
06/12	0.0	(18.6)	(3.0)	0.0	N/A	N/A
12/13e	14.6	2.28	0.2	0.0	20.0	N/A
12/14e	17.2	N/A	(0.4)	0.0	N/A	N/A

Source: Bloomberg

Price A$0.04*
Market cap A$31m

as at 26 February 2013

Share price graph



Share details

Code	CNX
Listing	ASX
Shares in issue	779.8m

Price

52-week	High	Low
	A$0.11	A$0.04

Net debt (as at 30 Jun 2012) A$6.3m

Business

Carbon Energy specialises in underground coal gasification (ucg) utilising its proprietary keystream technology to transform stranded, deep coal resources into high-value fuels. It provides end-to-end ucg services from initial project assessment through to commercial project development, operations, site decommissioning and rehabilitation. Carbon Energy also has two wholly-owned assets in Surat Basin, South-East Queensland.

Bull

- Significant technology investment already undertaken and proven.
- Initial commercialisation achieved.
- Move towards a sustainable cash flow position with recent deals.

Bear

- Timescale to commercialisation.
- Permanent CEO handover awaited.
- Uncertain regulatory regime.

Analyst

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Centaurus Metals

Nearing production

Centaurus Metals is an established iron ore developer with a portfolio of early stage and advanced assets in Brazil. The company's flagship development, the Jambreiro iron ore project, has recently been advanced through the BFS stage and is slated for commissioning in late 2013. While Centaurus is yet to raise project finance and sign an off-take, the project's strong economics suggest that it has a high chance of success. Jambreiro is expected to provide early cash flow to expand it beyond the nine-year mine life as well as advancing Centaurus's other exploration projects.

Jambreiro delivers

The BFS (November 2012) estimates that the Jambreiro project will deliver 2Mtpa of high-quality hematite sinter blends grading at least 65% Fe for the nine years mine life. The product is expected to be sold on the domestic market, with an estimated ex-works price of A$47.0/t. This compares to the competitive average C1 unit cash cost plus royalties of only A$17.0/t. Low cash cost is a function of high friability of the ore, which in turn points to an easy iron liberation, low strip ratio as well as the free-digging nature of the deposit. Jambreiro's product is expected to yield low impurities, with silica in the order of 3%, alumina below 1% and low phosphorus of 0.01%. The pre-production capital cost is estimated at A$136m, implying very low capital intensity of A$65/t. The company looks to sign an off-take and raise project financing in Q113, with the project's commissioning slated for late-2013.

Further production and exploration upside

Jambreiro has a global JORC-compliant resource of 125Mt grading 26.7% Fe. The BFS is only based on the friable reserve of 48.5Mt (28% Fe), which represents c 40% of the overall tonnage. As such, the project's LoM could be extended beyond the initial nine years by mining more competent ore. On top of this, Centaurus owns a number of the early stage exploration/development projects, each of which could potentially become a small-scale domestic-focused iron ore producer.

Stock looks attractive

Following the A$26m equity offering in September 2012 Centaurus appears to be well capitalised, with US$23m in cash on its balance sheet as of the end of December 2012. At the current share price, this translates into EV of A$43m, putting the stock on an EV/Resource multiple of $0.9/t and forward looking consensus EV/EBITDA of just 1.7x. The BFS values Jambreiro at A$140m based on NPV_8, which, given the project's robust economics, looks as a reasonable estimate to us. We expect the stock to rerate further as the company continues to de-risk the project through off-take and funding.

Year End	Revenue (A$m)	EBITDA (A$m)	PBT (A$)	DPS (A$)	P/E (x)	Yield (%)
12/11	0.0	(16.8)	(12.7)	0.0	N/A	N/A
12/12	0.0	(18.3)	(20.8)	0.0	N/A	N/A
12/13e	0.0	(14.5)	(15.5)	0.0	N/A	N/A
12/14e	47.6	25.4	13.7	0.0	N/A	N/A

Source: Bloomberg

Price A$0.28*
Market cap A$55m

*as at 26 February 2013

Share price graph

Share details

Code	CTM
Primary listing	ASX
Shares in issue	196m

Price

52-week	High	Low
	A$0.67	A$0.26

Net cash (as at 31 Dec 2012)	A$23m

Business

Centaurus is an established iron ore explorer and developer with a number of early stage and advanced projects in Brazil. The company looks to commission its flagship, the Jambreiro project in late 2013.

Bull

- Near-term producer.
- Robust project economics.
- Strong balance sheet.
- Low capex (and capital intensity).
- Proximity to established market.

Bear

- Lack of project financing and off-take.
- Relatively small resource base.
- Domestic project positioning.
- Volatile iron ore pricing.

Analyst

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Cromwell Property Group

Property performer

Cromwell is an internally managed A-REIT. Its business combines an Australian portfolio, comprising 26 properties valued at over A$1.9bn, with management of unlisted property investment funds. Group income is derived from property rents, 91% from offices where it sees the strongest potential returns over three to five years; 39% of rent is paid by government tenants and 45% by listed companies. Its investment strategy targets 4% pa growth in like-for-like property revenues.

H113: Record operating earnings, portfolio strength

Record underlying earnings in H113 were driven by portfolio improvements and growth in fund management operations. A 24% increase in operating earnings to A$45.9m was backed by a sustainable 22% rise in net income from property to A$85.1m, with contributions from fully refurbished 321 Exhibition Street office tower (Melbourne) and income from recent acquisitions HQ North Tower (Brisbane) and Bundall Corporate Centre (Gold Coast). Excluding these, like-for-like net property earnings were 3.8% ahead y-o-y. As at end-December 2012 the portfolio was 94.8% let (FY12:96.4%) with a 6.0 year weighted average lease term.

Active mg'ment and capital recycling driving returns

Cromwell pursues an active asset recycling strategy designed to deliver medium-term property and investment performance. It aims to outperform the S&P/ASX A-REIT 300 Accumulation Index, a broad measure of total return of major A-REITs over rolling three- and five-year periods. It has outperformed the index by 6.6% pa over three years and 14.8% pa over five years. It continually seeks to upgrade its portfolio, dispose of smaller non-core assets and reinvest capital. Over the last four financial years it has acquired five properties at average A$132m values, 8.2% net initial yields and an 8.7-year weighted average unexpired lease term. That contrasts with six assets sold at average A$9m values, 9.1% yields and 3.4 year WAULT. In January it sold 101 Grenfell Street, Adelaide for A$43m.

Financials: 44% geared, 93% of debt hedged for FY13

Gearing is 44% post an A$163m rights issue (at 78.5c/share) in December 2012, within the group's preferred 35-55% range. There are no material debt maturities before May 2014 and c 93% of group debt is hedged for FY13 at an average 6.4% all-in cost. Cromwell also raised A$131m in new equity in FY12 to fund the acquisition of HQ North and provide working capital. Last year saw it merge with unlisted Cromwell Property Fund, which gave it 100% ownership of five assets valued at c A$168m with minimal transaction costs. FY13 guidance is operating earnings of at least 7.5c/share, and distributions of 7.25c/share.

Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	147.7	88.2	7.1	7.00	13.1	7.5
06/12	186.7	23.2	7.5	7.00	12.4	7.5
06/13e	189.8	94.3	7.5	7.25	12.4	7.8
06/14e	197.0	104.0	7.9	7.40	11.8	8.0

Source: Company accounts/Thomson Datastream consensus estimates

Price A$0.93*
Market cap A$1.36bn

*as at 26 February 2013

Share price graph

Share details

Code	CMW
Listing	ASX, A-REIT
Shares in issue	1.46bn

Price

52-week	High	Low
	A$0.93	A$0.68

Net debt (30 June 2012)	A$905m

Business

Cromwell Property Group comprises of an Australian property portfolio valued at over A$1.9bn with asset management of unlisted property investment funds. Approximately 98% of income is derived from properties geographically diversified across Australia's major business centres.

Bull

- Track record and potential returns.
- Attractive covered dividend yield.
- Contribution from development.

Bear

- Concentration on office sector.
- Areas of oversupply in Australian real estate market.
- Non-prime focus.

Analyst

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EDISON

Dart Energy

Unconventional purist

Dart Energy is a pure-play unconventional E&P player with assets spread across Europe, Asia and Australia. It owns one of the largest UK unconventional portfolios, which Dart states could hold 10.4tcf of 3C gas. Its UK and Chinese assets are well progressed and should begin commercial gas sales in the next 12 months. The $100m debt facility, intended AIM listing and/or investment from potential strategic partners should aid further development.

One of the largest UK unconventional gas portfolios

Following the acquisition of Composite, Greenpark Energy and licence acquisition from BG, Dart, along with IGas and Cuadrilla, has become one of the pre-eminent unconventional players in the UK sector. Dart has 32 UK licences (all operated), of which 30 are 100% owned. NSAI estimates that the 3C recoverable CBM resource is 10.4tcf with a further 76tcf in shale gas potential. To put this in context, the UK consumes c 3tcf of gas per year. In November 2012, Dart commenced a process to farm out all or part of its 32 licences. Given positive changes in UK shale gas regulation (lifting the fracking ban/establishment of a specific unconventional government department), this could be the time to monetise its asset portfolio.

Geographically diversified

Dart's portfolio spans the UK, Europe, Indonesia, China, India and Australia. Its flagship project, the CBM project in Scotland, is in its first phase of development, having completed a three-month production test at rates in excess of 500mscf/d. A gas sales agreement (GSA) has been signed with SSE Energy for up to 60bcf over eight years. Subject to all approvals being received, commercial gas sales could begin from Airth in 2013/early-2014, building to 11mmscf/d. Dart believes the development could generate future revenues in excess of $500m at current gas prices. Dart also has a GSA for its CBM Liulin project in China, with commercial gas sales expected to commence in the next 12 months. Its Tanjung Enim/Muralim and Sangatta West projects in Indonesia are well progressed, with the company looking at monetisation options. In East Australia, Dart recently acquired a 7,000km^2 block in the Clarence Moreton Basin. The east coast of Australia is expected to be short of gas from 2015 as domestic gas contracts unwind and LNG projects ramp up. The outlook for higher LNG netback pricing is growing.

Potential AIM listing and strategic partner

In 2012, Dart finalised a $100m reserves based loan (RBL) from HSBC, for use on the development of three projects: Airth, Luilin and Sangatta West. Dart has also initiated a process to list its international portfolio on AIM, and we understand, it is in talks with a number of strategic partners that have shown interest in farming into Dart's portfolio and/or participating in the intended IPO.

Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	2.6	(1.7)	0.5	N/A	26.0	N/A
06/12	5.3	(143.2)	(18.8)	N/A	N/A	N/A

Source: Company accounts

Price A$0.13*
Market cap A$114m
*as at 26 February 2013

Share price graph

Share details

Code	DTE
Listing	ASX
Shares in issue	878m

Price

52-week	High	Low
	A$0.40	A$0.12

Cash (as at 31 Dec 2012)	A$37m

Business

Dart Energy is an Australian-listed company focused on the development of unconventional gas, both CBM and shale, in Australia, China, India, Indonesia, the UK and Europe.

Bull

- UK investor appetite for unconventionals.
- Commercial sales in the UK/China begin.
- Industry buy-in of UK unconventional assets.

Bear

- Drawn-out IPO process.
- Delay in commercial gas sales.
- Cumbersome regulatory environments.

Analysts

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Forge Group

Integrated solutions

With a new management team and group structure Forge is well positioned to build on existing strengths in the natural resources and power sectors to grow in the large-scale project arena. Recent H1 results and contract wins so far this year have been positive, especially in power infrastructure, and this is supportive of another significant step forward in profit and earnings, consistent with group guidance.

Organisational change in FY12

During FY12 Forge Group undertook a group reorganisation, bringing together three operating companies (Cimeco, Abesque Engineering and Webb Construction West Africa) and the newly acquired CTEC Pty Ltd under a single umbrella to provide a 'whole of lifecycle' project solution approach. This incorporates engineering design, procurement, construction and operational management of the completed asset. Alongside this, a new management team (including CEO, COO and CFO) has been appointed to take Forge onto its next stage of development under the new structure. There is clear potential to successfully tender for larger project sizes and integrated work packages now with an ongoing requirement for tight operational and financial control.

Project wins in FY13

Forge ended FY12 with a A$900m order book (not all for FY13). Having won a number of sizeable new contracts, this had increased to A$1,038m by 23 January. The wins include A$350m with Rio Tinto (a CCGT power station at Cape Lambert and fuel infrastructure at two iron ore mines), A$100m with BHP Billiton (power station blocks at Yarnima) and A$125m for Horizon Power (a dual-fuel open-cycle power station) all in Western Australia. Rapid progress in the power sector follows the acquisition of CTEC in January 2012. The Horizon contract showcases Forge's ability to provide an integrated solution encapsulating, in this case, EPC and subsequent operation, bringing together capabilities in power, construction and asset management.

Another year of progress anticipated

In December, management updated FY13 guidance, with revenue expected to be in the A$950m-1bn range, with NPBT between A$90-100m, reiterating this post the H1 results (revenue of A$503m, PBT A$49m). We note that market estimates have been at the lower end of this guidance which, if delivered, would represent the company's sixth consecutive year of growth.

Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	424.7	56.5	45.2	11.5	14.0	1.8
06/12	780.6	70.1	57.3	14.0	11.1	2.2
06/13e	970.7	92.5	78.4	17.0	8.1	2.7
06/14e	962.0	94.4	78.8	18.0	8.1	2.8

Source: Company accounts/Bloomberg consensus estimates

Price A$6.35*
Market cap A$547m

*as at 26 February 2013

Share price graph

Share details

Code	FGE
Listing	ASX
Shares in issue	86.2m

Price

52-week	High	Low
	A$6.77	A$3.29

Cash (as at 31 Dec 2012)	A$162m

Business

Forge is a multidisciplinary engineering, procurement and construction (EPC), and operations and maintenance (O&M) service provider delivering end-to-end EPC turnkey solutions to the power and infrastructure, minerals and resources and oil and gas sectors in Australasia and Africa.

Bull

- Opportunities from FY12 integration.
- Good momentum from project wins.
- Range of resource exposures.

Bear

- Short tenure of new team.
- Top customer concentration.
- Predominantly single country exposure.

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EDISON

Icon Energy

Cooper/Surat gas play

Icon's most promising near-term prospect lies in ATP 855P in the Cooper Basin where it holds a 40% stake in what is shaping to be a potentially major gas resource. Validation work currently underway should see a resource estimate lodged in Q213, with significant further potential upside from its 2013-14 drilling programme.

Cooper Basin: ATP 855P

Icon's focus during H212 was on completing a deep well within the ATP 855P permit where it holds a 40% stake with JV partner, operator and major Australian player Beach Energy (60%) in the Cooper Basin. This culminated in December when the JV commenced a 14-stage hydraulic stimulation on the Halifax-1 well it completed during October. Halifax-1 encountered what Icon understands to be the largest gas interval uncovered to date in Australia. Beach's success in logging 2tcf of contingent resource from two similar wells in adjoining permit PEL218 infers a strong likelihood of a similarly significant gas resource in ATP 855P. Being within 2km of an existing pipeline also reduces the lead-time to commercialisation.

Surat Basin: ATP 626P

Icon holds a 50% interest in the Surat Basin in ATP 626P with partner Goondi Energy, a wholly-owned subsidiary of Queensland Government-owned power generator Stanwell Corporation. During H212 the JV completed a reservoir feasibility study to assess the conventional and unconventional (CSG and shale) gas potential of the permit from subsurface data collected from the 25 wells previously drilled in the permit together with the results of 2D seismic.

Other basins

In addition to its ATP 855P and ATP 626P Icon holds interests in a further nine permits spanning the Gippsland, Cooper, Eromanga and Surat Basins with stakes of between 33.3% and 100%. Of these permits, Icon operates six. Icon expects an interim fracking ban imposed by the Victorian state government to be lifted during Q113. Until it is lifted, Icon has suspended its Victorian work programme in each of the three affected Gippsland Basin permits.

Finances topped-up

During Q412 Icon completed two significant capital raisings. As well as closing a placement of 45.5m new shares in November for A$10m, a share purchase plan subsequently completed in December provided a further A$4.1m. At the close of 2012, Icon had cash on hand of A$21m.

Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	0.0	(6.7)	(1.3)	0.0	N/A	N/A
06/12	0.0	(5.3)	(1.0)	0.0	N/A	N/A
06/13e	N/A	N/A	N/A	N/A	N/A	N/A
06/14e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Company accounts

Price A$0.21*
Market cap A$112m

*as at 26 February 2013

Share price graph

Share details

Code	ICN
Listing	ASX
Shares in issue	533.4m

Price

	High	Low
52-week	A$0.30	A$0.15

Cash (as at 31 Dec 2012)	A$21m

Business

Icon is an ASX-listed E&P company that holds a string of stakes in permits totalling 5.5m acres spanning the Cooper, Surat, Gippsland and Eromanga Basins.

Bull

- ATP 626P scale and near-term commercialisation potential.
- Successful fundraising to fund work programme.
- Strong permit equity positions.

Bear

- Currently non-producing.
- Commodity risk and exposure to Australian gas prices.
- Political risk – Victorian government and fracking moratorium.

Analysts

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EDISON

Jumbo Interactive

Leading interactive lottery

Jumbo Interactive is benefiting from strong growth in online lottery games, as broadband penetration increases and more players migrate online. It has proprietary web-based and smartphone technology and agency agreement with major lotteries including Tatts Group. Expansion into the US and Latin America (Mexico) in late-2012 diversifies the group and opens up significant new market opportunities. The shares have performed well, reflecting Jumbo's good growth prospects.

Technology is changing the global lottery industry

The internet has opened up new sales avenues for lotteries (and also boosted government revenues for social needs). Jumbo's lottery platform now encompasses smartphones, loyalty features, social media and partner e-retailers. Ozlotteries.com was launched in Australia in 2004 and its ticket sales (total ticket value or TTV) exceeded A$100m in FY12. Jumbo's relationship with Tatts Group dates back to 1984 and it has supply agreements with it in Victoria and New South Wales (both up for renewal in 2013) and in the Northern Territories (five years from September 2012). It also has a five-year agreement with SA Lotteries from December 2011 and launched its new website in September 2012.

New international opportunities

International lottery markets are key targets for Jumbo, in particular the US$60bn North American market and $110bn European market. In November 2012, Jumbo set up a new joint venture with Retail Gaming Solutions in New York, called Lotto Points Plus, initially to provide a system to help traditional lottery providers increase sales, but eventually to tap into US online lottery opportunities when these become licensed. Also in November 2012, Jumbo signed an exclusive long-term agreement with US-based Sorteo Games to market the two largest lotteries in Mexico, Lotería Nacional and Pronósticos, online and via mobile (as part of Sorteo's contract to modernise the lotteries). In addition, Jumbo has consultants in Asia and Europe evaluating opportunities in those markets.

Strong financials despite international investment

FY12 net revenue increased by 33% to A$24.1m and net profit by 39% to A$6.7m. H1 results are due at the end of February, with guidance that TTV will be A$58-62m (up 21-29%) and EBITDA A$4.8-5.4m. A more cautious accounting policy for customer acquisition costs will reduce reported profits (but also reduce the variance between NPAT and operating cash flow). Under the old accounting policy, H1FY13 EBITDA is forecast at A$6.0-6.6m versus A$5.2m in H1FY12. H1 profits will include A$0.8m of international expansion expense (H1FY12: A$0.1m); international costs are expected to weight on short-term profits but with medium-term gains.

Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
06/11	18.1	5.9	0.08	0.010	29.8	0.4
06/12	24.1	9.1	0.16	0.030	14.9	1.3
06/13e	28.8	9.5	0.15	0.034	15.9	1.4
06/14e	31.1	10.7	0.17	0.039	14.0	1.6

Source: Company accounts, Bloomberg consensus estimates

Price A$2.38*
Market cap A$101m

*as at 26 February 2013

Share price graph

Share details

Code	JIN
Primary listing	ASX
Secondary listings	Berlin, Stuttgart, Frankfurt
Shares in issue	42.4m

Price

	High	Low
52-week	A$3.23	A$0.75

Net cash (as at 31 October) A$18.8m

Business

Jumbo Interactive is a leading Australian online lottery operator through its website ozlotteries.com. In late-2012, it expanded into the Mexican and US lottery markets.

Bull

- Shift to online lottery play.
- Proprietary technology.
- International opportunities.

Bear

- Risk of non-renewal of agency agreements.
- Short-term international expansion costs.
- Earnings may fluctuate with jackpots.

Analyst

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Linc Energy

Endless scale

Linc Energy owns and operates significant production (Gulf Coast) and exploration (Alaska) assets in the US as well as a substantial and diverse portfolio of other energy assets and interests. Among these is outright title to a very large footprint of Arckaringa Basin acreage that has recently been assessed as holding a potential unconventional prospective resource of more than 100bnboe.

US production base in strong ascent

Heading Linc's portfolio is a suite of sizeable exploration and production interests in the US. With its onshore Gulf Coast assets, Linc achieved an exit production rate of 6,000 bopd for 2012, up from 2,000 bopd in 2011. Linc has issued updated exit guidance of 9,000bopd for 2013. It also produces 200bopd from acreage it holds in Wyoming, with plans to increase that to 10,000bopd. Longer term, Linc is progressing an onshore North Alaskan oil project in the Umiat region, where a 2P reserve base of 155mmbo has been assessed. First production is planned for 2017.

Arckaringa Basin: Concept and scale affirmed

Complementing Linc's US E&P assets is an acreage portfolio totalling 65,000km^2 in the Arckaringa Basin in central South Australia. Linc recently released the findings of two separate independent expert reports on the technical and commercial potential of its Arckaringa acreage, which separately concluded unrisked prospective unconventional (shale) resource estimates of 103bn boe and 230bnboe. The reports confirmed the likelihood of a liquids-rich shale play from multiple formations, with geological characteristics analogous to the prolific Eagle Ford and Bakken regions in the US. One of the reports concluded a further conventional resource of 125bnboe. Linc is actively discussing JV options with potential farm-in partners. Given the scale of the potential resource (Linc's Arckaringa acreage approximates each of the Eagle Ford and Bakken regions) and a history of similar deals in other Australian early-stage basins, a major farm-in deal with a large international oil company is likely.

Underground coal gasification (UCG) and more

Linc also owns and operates UCG plants in Uzbekistan (the world's only commercial UCG facility, operating since 1961) and Queensland (the world's only UCG demonstration plant) and is working towards commercialising UCG projects in South Africa and Ukraine. Linc also holds a number of other mining assets and interests, among the most valuable of which is a A$2/t royalty on a new-build, world-scale Galilee Basin coal project being advanced by Indian conglomerate Adani Group. Production is planned to start in 2014 and rise to 22Mtpa by 2022.

Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	3.2	432.3	59.3	10.0	3.8	4.4
06/12	57.1	(89.6)	(12.2)	0.0	N/A	N/A
06/13e	153.8	(13.4)	(3.7)	0.0	N/A	N/A
06/14e	237.5	52.5	7.8	0.0	29.1	N/A

Source: Company accounts, Thomson Datastream consensus estimates

Price A$2.27*
Market cap A$1,175m

*as at 26 February 2013

Share price graph

Share details

Code	LNC
Listing	ASX
Shares in issue	517.7m

Price

52-week	High	Low
	A$2.67	A$0.48

Net debt (as at 31 Dec 2012) A$5m

Business

Linc Energy operates a series of producing assets in the US and is progressing a series of early-stage but potentially very large conventional and unconventional oil and gas projects in Australia, the US, South Africa and Ukraine.

Bull

- Significant US producing base, on strong growth path.
- Deeply impressive development pipeline.
- Massive Arckaringa scale.

Bear

- Partnership and execution risk on Arckaringa development.
- Alaskan development, regulatory risk.
- Environmental UCG concerns.

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EDISON

NewSat

Orbital growth story

NewSat's strategy is to capitalise upon the global satellite supply chain. It has an established and growing teleport (telecommunications port) business, which generates monthly recurring revenues from sales of satellite bandwidth to high value customers and growth markets. Its intention is to leverage this to build a platform of future customers for Jabiru, its satellite operations, with the first of multiple satellites due to launch in early 2014 and eight geostationary orbital slots secured.

First satellite on track for launch in 2014

The group's existing business provides it with the ability to provide managed satellite communications and broadband services offering 75% global coverage. The next step in its growth strategy is its first satellite, Jabiru-1, which is on track for launch from French Guiana with Arianespace next year. The satellite's construction, by Lockheed Martin, commenced at the beginning of 2012 and the Preliminary Design Review, a significant construction milestone was completed in June. NewSat has also finalised the next Jabiru-2 satellite venture with MEASAT and acquired the rights to an additional premium orbital slot, increasing its slot assets to eight. It is progressing satellite projects beyond the two already underway and sees potential to capture growing demand for satellite capacity from high value and emerging markets worldwide, at significantly higher margins than current group activity.

Jabiru-1: US$3bn revenues over its 15 year life

The Jabiru-1 project has so far secured US$601m of binding pre-launch customer contracts, including a US$180m contract with leading Asian satellite operator, MEASAT. NewSat expects the satellite to generate over US$3bn of revenues at an 80% gross margin during its 15-year life. The project has received commitments for US$382m of senior secured debt from export credit agencies, US Ex-Im Bank and COFACE. At the end of 2012 NewSat reported that it was well advanced in securing required final subordinated debt and equity funding. It has received commitments for launch insurance.

Shares suspended pending completion of funding

NewSat was granted a voluntary suspension of its shares on 3 December 2012, pending an announcement relating to funding for the Jabiru-1 satellite project. That reflected the complex nature of the project's funding – involving government agencies, debt and equity investors – which required additional time to reach financial close. The suspension remains in place and NewSat will update the market on a fortnightly basis.

Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (c)	P/E (x)	Yield (%)
06/11	28.7	0.3	0.17	0.0	2.6	N/A
06/12	37.2	2.3	0.01	0.0	45.0	N/A
06/13e	41.2	2.4	0.00	0.0	N/A	N/A
06/14e	56.0	8.4	0.06	0.0	7.5	N/A

Source: Company accounts/Thomson Datastream consensus estimates

Price A$0.45*
Market cap A$105m
*as at 26 February 2013

Share price graph

Share details

Code	NWT
Listing	ASX
Shares in issue	233.05m

Price

	High	Low
52-week	A$0.86	A$0.45

Net debt (as at 30 Jun 2012) A$5.8m

Business

NewSat is Australia's largest pure-play satellite communications company. It provides a full range of managed satellite communications services, covering internet, voice, data and video communications. It has rights to eight geostationary orbital slots and plans to launch its first satellite, Jabiru-1, in 2014.

Bull

- Established core recurring revenues.
- Imminent launch of first satellite, contracts already in place.
- Access to high growth, emerging markets.

Bear

- Uncertainty over funding.
- Need for significant ongoing capex.
- Potential obsolescence.

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EDISON

Prairie Downs Metals

Focus moves to coal

Prairie Downs Metals recently secured 100% ownership of the Lublin Coal Project, comprising four coal licences covering 182km^2 of the Lublin Coal Basin, located in south-east Poland. The project has just had its maiden resource published at 1,576Mt coal. The company also owns 100% of the Prairie Downs Base Metal Project in the Pilbara region of Western Australia, comprising two tenements covering an area of 550km^2 highly prospective for zinc, lead and silver; and the Perenjori project in the Gullewa Greenstone Belt, which covers a 2km long gossan anomalous in base metals and gold located north-east of Perth.

Lublin Coal: Maiden resource of 1,576Mt of coal

The Lublin Coal Project is a thermal coal deposit located in the Lublin Coal Basin, an established coal province in south-east Poland with established infrastructure including power and rail. Mining activity in the Lublin Basin dates back to the 1970s and it remains relatively underexplored compared to the Upper and Lower Silesian Basins in the north of the country. The project is adjacent to the Bogdanka coal mine, which is owned and operated by Lubelski Węgiel Bogdanka (WSE: LWB), the only coal producer in the Lublin Basin with an annual production of 8Mt thermal coal. In August 2012, Prairie was granted four exploration licences, which are valid for three years with the right to obtain further extensions subject to implementation of a planned exploration programme by the company, as outlined by the Polish Ministry of Environment, with drilling expected to commence mid-CY13. Prairie published its maiden JORC-compliant inferred resource of 1,576Mt coal in February 2013, as prepared by consultants Wardell Armstrong International, following a review of 200 boreholes in and around the company's four coal exploration concessions. The review indicated a deposit with an average calorific value of 6,484cal/kg and 12.2% Ash (Gross Air Dried Basis), with c 679Mt of the inferred coal resource contained within three coal seams.

Other exploration projects: Prairie Downs and Perenjori

Prairie's two other exploration projects are situated in Western Australia. The Prairie Downs Base Metals Project (PDBMP) consists of two tenements covering an area of 550km^2, located south-west of Newman, adjacent to the Prairie Downs regional fault and prospective for zinc, lead and silver. The PDBMP hosts a total global resource of 4.7Mt at 6.3% Zn, 18g/t Ag and 1.8% Pb at a cut-off grade of 1% Zn, and remains open at depth and along strike. The Perenjori Project covers a 2km long gossan anomalous in base metals and gold, located north-east of Perth.

Year end	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	0.0	1.1	1.5	0.0	42.7	N/A
06/12	0.0	(0.1)	1.6	0.0	40.0	N/A
06/13e	N/A	N/A	N/A	N/A	N/A	N/A
06/14e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Company accounts

Price A$0.64*
Market cap A$67m
*as at 26 February 2013

Share price graph

Share details

Code	PDZ
Listing	ASX
Shares in issue	104m

Price

52-week	High	Low
	A$0.77	A$0.11
Cash (as at 31 Dec 2012)		A$2.4m

Business

Prairie Downs Metals is an exploration and development company with four coal concessions spanning 182km^2 in the Lublin Coal Basin, Poland, and the Prairie Downs Base Metal and Perenjori projects in Western Australia.

Bull

- Maiden inferred coal resource.
- Access to major European markets.
- Strong domestic demand for coal.

Bear

- Regulatory risk.
- Development risk.
- Commodity price risk.

Analysts

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EDISON

QRxPharma

Targeting pain

QRxPharma is moving steadily towards the commercial phase for its lead product MoxDuo IR, an immediate-release fixed-ratio 3:2 combination of morphine and oxycodone. QRx will submit its revised MoxDuo NDA in the first quarter of CY13 following a request by the FDA for the inclusion of additional oxygen desaturation data (study 022) with a PDUFA date most likely now in Q3. Strategic partners Actavis and Paladin will be responsible for commercialisation pending approval in the US and Canada respectively. QRx has three MoxDuo formulations (IR, CR and IV) in various stages of clinical development.

Partnership with Actavis to fund US launch

Strategic partner Actavis will assume all launch and associated costs for MoxDuo IR in the US and pay a 10-30% step-up royalty on sales for the initial three months, moving to 50% on subsequent cumulative sales of up to US$150m before reverting back to the tiered royalty rate, pending approval. Under the alliance, QRx retains ownership of manufacturing and the NDA, as well as all rights outside the US.

Paladin Labs to fund Canadian launch

Canadian strategic partner Paladin Labs will assume all launch costs as well as marketing and sales efforts for MoxDuo IR in Canada pending approval. QRx in turn receives tiered double-digit royalties and up to US$25m in milestone payments, while retaining the Canadian rights to IV and CR formulations. An NDS application to Health Canada is set for H1 CY13.

MoxDuo: Effective at lower opioid doses

QRx has shown that MoxDuo IR can provide equal or better analgesic effectiveness at equivalent doses of its individual component drugs, with reduced frequency and severity of the opioid-related side effects, notably respiratory depression. Opioids currently dominate a global pain market worth some US$14bn a year, particularly in moderate to severe acute and chronic pain, despite well-known side effects (nausea, constipation, respiratory depression) that limit long-term use. Hence there should be a significant market opportunity for safer alternatives.

Regulatory changes present opportunity in US

QRx is targeting the US$2.5bn US prescription opioid market for moderate to severe acute pain management. The withdrawal of combination pain management products containing more than 325mg of paracetamol (acetaminophen) by 2014, due to concerns over liver toxicity (including the possible rescheduling of Vicodin, which accounts for c 65% of all pain management prescriptions written per annum), present a significant near-term opportunity for MoxDuo.

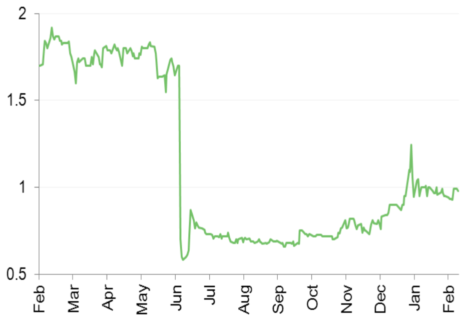
Year end	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	0.2	(25.6)	(21.7)	0.0	N/A	N/A
06/12	1.8	(16.0)	(11.2)	0.0	N/A	N/A
06/13e	6.2	(18.8)	(8.1)	N/A	N/A	N/A
06/14e	49.6	(8.8)	(1.6)	N/A	N/A	N/A

Source: Bloomberg

Price	**A$0.98***
Market cap	**A$142m**

**as at 26 February 2013*

Share price graph



Share details

Code	QRX
Listing	ASX
Shares in issue	145m

Price

52-week	High	Low
	A$1.92	A$0.59

Net cash (at 31 Dec 2012) A$16.6m

Business

QRxPharma is an ASX–listed specialty pharmaceutical company focused on developing proprietary formulations of morphine and oxycodone for the treatment of moderate to severe pain.

Bull

- Near-term product approval potential.
- Attractive market fundamentals.
- Cash position.

Bear

- Clinical and regulatory risk.
- IP risk.
- Licensing risk.

Analysts

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EDISON

Silver Lake Resources

Investment summary: Production growth

Silver Lake Resources (SLR) is a gold producer-explorer with a total contained resource of 6.6Moz Au in Western Australia. Its assets include the Mount Monger and Murchison goldfields and Great Southern projects, among others. The company plans significant growth of the production profile to c 400koz Au in 2014.

Company strategy – FY13 and beyond

Silver Lake looks to develop production centres in multi-mine fields to create production flexibility and reduce operational risk. The focus for 2013 is to complete its integration with Integra's (IGR) assets following the December 2012 merger and to optimise the Mount Monger assets. The company also plans to finalise plant commissioning and ramp production to 1.2Mtpa at Murchison, while simultaneously continuing with its near-mine exploration programme. In the long term, SLR targets an additional production centre at the Great Southern project (2016-17).

Mount Monger: Integrating Integra's assets

Mount Monger is approximately 60km south-east of Kalgoorlie. Following SLR's merger with Integra, the company's operations grew significantly, with the deal contributing 2.1Moz of resource, 1.2Mtpa mill capacity and 100kozpa production (FY13). With this, plant capacity now totals 2.2Mtpa fed by four underground mines and two open pits. FY13 production is expected to be 140-150koz (including IGR H213 production). The combined resource totals 3.8Moz with reserves of 0.9Moz.

Murchison: Plant commissioning 2013

Murchison lies 600km north of Perth and is currently being commissioned. First gold is expected in the March 2013 quarter, with planned feed through the life of mine from 14 open pits and four underground mines. Resources total 1.9Moz with reserves of 0.45Moz that supports a LOM of 8-10 years. The plant will have a capacity of 1.2Mtpa and is expected to produce towards the lower end of a 35-45koz range in FY13, ramping up to 100kozpa in 2014.

Investment case: Cash flow funds growth

The investment case centres on the production profile growth to 400koz in 2014 from the current pro-forma FY13 base case target of 211koz (inclusive of 36koz produced by IGR in H113). This target excludes possible expansion at Randalls Mill and future production from Great Southern and Hollandaire. Growth is expected to be funded by cash flows, thus limiting future dilution. Crucially, throughout this growth period, SLR will continue to invest in exploration aimed at near-mine resource growth and the potential for additional multi-mine production centres.

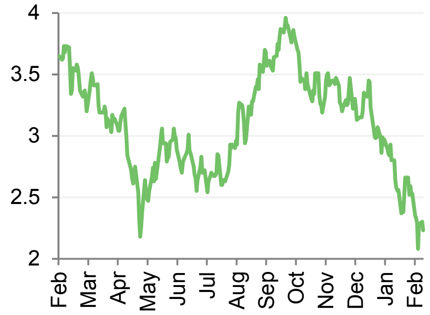
Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
06/11	89.9	22.8	0.09	0.00	24.8	N/A
06/12	135.3	44.6	0.15	0.00	14.8	N/A
06/13e	316.6	106.9	0.27	0.00	8.3	N/A
06/14e	634.0	299.2	0.61	0.07	3.7	3.1

Source: Company accounts, Bloomberg consensus estimates

Price A$2.23*
Market cap A$845m

**as at 26 February 2013*

Share price graph



Share details

Code	SLR
Listing	ASX
Shares in issue	379m

Price

52-week	High	Low
	A$3.96	A$2.08

Cash (as at 30 Jun 2012)	A$68.25m

Business

Silver Lake Resources is an ASX-listed gold producer with assets in Western Australia. The company plans rapid growth of the production profile to c 400koz in 2014.

Bull

- Production growth to 400koz.
- Resource upside – targeting 10Moz.
- Multi-mine approach diversifies some operational risk.

Bear

- Commissioning and ramp-up risk at Murchison in FY13-14.
- Reserve expansion required to lengthen the LOM beyond 10 years.
- It will take time to consolidate and optimise the assets following the merger with Integra.

Analyst

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EDISON

Thorn Group

Evolving business mix

Thorn Group is a long-standing leading player in the Australian consumer equipment rental market, notably through Radio Rentals. That business continues to generate substantial recurring revenue streams and strong cash flows, despite the tough economy. Thorn is capitalising on its consumer credit expertise to grow new business streams, with the goal of becoming a more broadly based financial services group. This may impact short-term results and will certainly produce a substantial shift in the balance sheet profile, but a solid share price performance over the past year reflects Thorn's track record of growth and delivery.

Core rentals business delivers solid growth

Radio Rentals/Rentlo rent and sell brown goods, white goods, PCs and furniture products (with the strap-line 'Rent, Try, $1 Buy!'). It contributed A$85m or 85% of H112 revenue and EBITDA of A$24.6m (93% of the total), up 9%. Thorn is highly experienced in managing its consumer lease book and the business tends to remain very resilient in a tough economic climate as cash-strapped consumers continue to demand items such as large TVs and, particularly in H112, furniture.

Expanding in financial services

Thorn is expanding in financial services with businesses that aim to cater for underserviced alternative market areas. They comprise a debt recovery business, NCML, acquired in 2011; Cashfirst, launched in 2010, which provides unsecured personal loans up to $5,000; and Thorn Equipment Finance (TEF), equipment leasing for SMEs. NCML had a tough H112, losing a major customer, but has been restructured and has won a number of new contracts. Cashfirst and TEF are still growing towards critical mass, with Cashfirst's loan book at A$20m at 30 September and TEF's having built to A$28m (with the first milestone at A$50m).

Solid capital base for expansion

Gearing was only 14% at 30 September, with balance sheet net assets of A$146.2m underpinned by A$52.7m of rental assets (up 9%). However, the shape of the balance sheet will change significantly over the next two years as the group shifts towards financial services. During H112, the commercial lease book more than doubled to A$36.2m gross, and consumer loans grew by 15% to A$20.3m. Overall H112 revenue increased by 4% to a record A$100.5m, with cash NPAT flat at A$14.9m and reported NPAT down 2% to A$14.0m (affected by goodwill and tax adjustments). After strong growth in recent years, management has indicated that the combination of development and expansion activities, plus challenging market conditions, will impact the FY13 full-year growth, as it did in H1. However, it expects to deliver the benefits in subsequent years. FY13 results are due in May.

Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
03/11	157.9	32.3	0.167	0.085	12.0	4.3
03/12	188.4	40.2	0.190	0.095	10.5	4.8
03/13e	198.0	40.1	0.194	0.103	10.3	5.2
03/14e	209.7	42.9	0.207	0.110	9.7	5.5

Source: Company accounts, Thomson Datastream consensus estimates

Price A$2.00*
Market cap A$293m

*as at 26 February 2013

Share price graph

Share details

Code	TGA
Primary listing	ASX
Shares in issue	146.4m

Price

52-week	High	Low
	A$2.22	A$1.39

Net debt (as at Sep 2012)	A$19.8m

Business

Thorn Group has a long history of electrical appliance rental and has become one of Australia's leading providers of retail and financial services to niche consumer and commercial markets.

Bull

- Long-established rental business.
- Recurring revenues and strong operating cash flows.
- Developing into a more diversified financial services group.

Bear

- Tough economic conditions.
- Financial services businesses need to reach critical mass.
- Balance sheet gearing will increase significantly.

Analyst

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