Australian Focus List

October 2019

Australian Equity Research
December Quarter 2019

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FOCUS LIST

Company	Ticker	Price 01-Oct-19 (A$)	Price Target (A$)
CML Group Limited	CGR-ASX	0.47	0.74
Galilee Energy	GLL-ASX	0.90	1.41
Healthia Limited	HLA-ASX	0.88	1.45
Kathmandu Holdings Limited	KMD-ASX	2.64	4.25
MNF Group Limited	MNF-ASX	5.10	5.90
OZ Mineral Limited	OZL-ASX	9.52	11.05
Primero Group Limited	PGX-ASX	0.38	0.66
Redbubble Limited	RBL-ASX	1.49	2.00
Resolute Mining Limited	RSG-ASX	1.41	2.25

Source: Canaccord Genuity Estimates, FactSet

Top Australian Stock Picks

This publication, the *Australian Focus List*, contains our top nine stock picks across a diverse group of sectors including Diversified Financials, Software & Services, Internet, Communications Equipment, Healthcare Services, Industrial Services, Mining Services, Metals & Mining, Oil & Gas and Engineering & Construction. This quarterly report provides a one-page summary of each company, and includes our investment recommendation, potential catalysts and bull/base/bear target price scenarios.

This quarter we include the following companies on the *Australian Focus List*:

CML Group Limited (CGR-ASX): CGR remains on our *Focus List*. The September acquisition of Classic Funding Group now sees the business having A$250m of capital lent out across three business lines.

Galilee Energy (GLL-ASX): GLL's Glenaras gas pilot is reaching a critical point. It recently started to flow small volumes of gas and as de-watering continues, we expect gas rates to increase. If flow rates in the 0.3mnscf/d range are achieved, GLL believes it will be able to book 500PJ of 2P gas reserves. As one of the largest and proximal gas resources to the tight East Coast market, a positive result at the Glenaras pilot will, in our view, result in a material re-rating.

Healthia Limited (HLA-ASX): HLA listed in September 2018 to capitalise on the increasing demand for allied health services in Australia. Subsequent to listing, HLA has expanded its clinic portfolio from 104 allied health clinics to 133 as the business capitalises on being the first mover in consolidating the allied health services industry, which remains highly fragmented.

Kathmandu Holdings Limited (KMD-ASX): KMD enters our *Focus List* for the first time. We see the A$350m acquisition of Rip Curl as transformative in that it reduces the seasonality of earnings, increases KMD's exposure to offshore, and improves the potential of success in building sales traction for the Kathmandu brand offshore.

MNF Group (MNF-ASX): MNF is benefitting from large structural changes sweeping through the telco sector driven by the retirement of traditional networks and migration of communications to internet-based services. Notable tailwinds include the rollout of the NBN and the rise of Unified Communication as a Service (UCaaS) and Communication Platform as a Service (CPaaS). These changes should be manifested in growth in its recurring revenue base accompanied by improvement in its gross margin, delivering operating leverage to the earnings line.

OZ Minerals Limited (OZL-ASX): OZL Minerals is our top copper pick with a pipeline of development projects leading to forecast EPS growth at 5% pa to FY22. OZL trades at a discount to CG mid-cap gold peers (4.0x vs 8x EV/FY20e EBITDA).

Primero Group Limited (PGX-ASX): We maintain PGX on our *Focus List*, given its attractive valuation (~2.8x FY20e EV/EBIT), potential near-term catalysts ($800m of qualified tenders) and strong growth profile.

Redbubble Ltd. (RBL-ASX): We expect RBL to cycle the trough in rev. growth in 1Q20e and see a continual improvement in investor sentiment in FY20 as RBL 1) cycles a relatively weak FY19 result; 2) passes through FCF breakeven milestone enabling the group to invest in accretive growth opportunities; 3) launches a further >5 new products in 1H20; and 4) realises various synergy benefits from the TeePublic acquisition.

Resolute Mining Limited (RSG-ASX): We introduce RSG to the *Focus List*, with our target price of $2.25/share implying a potential return of 60%. Our positive view is underpinned by its recent accretive Mako acquisition lifting group production and dropping costs.

For important information, please see the Important Disclosures beginning on page 14 of this document.

DIVERSIFIED FINANCIALS: CML Group Limited – CGR-AU: A$0.47 | BUY, A$0.74 Target

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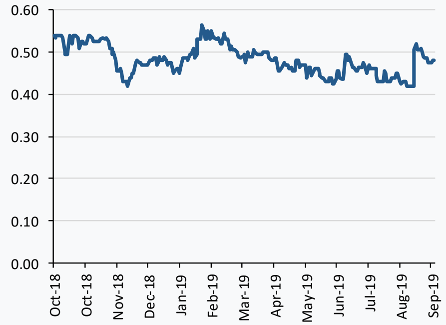
CML Group Limited



Source: FactSet

Company Statistics

Financials current as of 01-Oct-2019	
Price	A$0.47
52-wk High	A$0.60
52-wk Low	A$0.40
Ave. Daily Vol. (M)	0.4
Market Cap (M)	A$96
Shares Out (M)	203.5
Dividend (cps)	3.5
Return to Target %	57%
Yield %	5.9%
Source: FactSet, Canaccord Genuity	

Company Description

CML Group Ltd. Is a diversified SME lender offering debtor finance (invoice discounting and factor) and equipment finance, with a loan book approaching $300m.

Source: Canaccord Genuity

FYE JUN	2019A	2020F	2021F	2022F
Revenue (US$m)	47.7	47.9	56.2	58.4
EBITDA (US$m)	20.4	25.8	31.3	32.5
NPAT (US$m)	9.2	11.2	14.7	15.3
EPS (adj. US¢ps)	4.4	5.3	7.0	7.2
P/E (x)	10.7	8.9	6.7	6.5
EV/EBITDA (x)	9.2	7.3	6.0	5.8
Dividend (cps)	2.4	2.8	3.5	3.5
Yield %	5.1%	5.9%	7.4%	7.4%

Source: Company reports, FactSet, Canaccord Genuity Australia estimates

Investment Highlights

The $11m acquisition of Classic Funding Group (CFG) in September is straight out of a playbook that the company has been running since it expanded into invoice financing in 2012 – develop a competency internally and then acquire scale. CML Group has built up a $20m equipment finance book over the last couple of years under ex-CFG exec Sandy Fitzgerald and tapped ex-Bibby Australia MD Mark Cleaver late last year to develop an invoice discounting product. The acquisition of CFG sees the equipment finance book rise to $125m and the invoice discounting book grow from $6m to $30m.

Post-integration CML Group becomes a highly diversified SME lender with over $250m of capital lent out across three business lines. The industry is in a real sweet spot with banks finding it increasingly hard to lend to SMEs, and CML offers exposure to this thematic on a single-digit PER. Corporate activity remains a possibility.

Potential Catalysts

i) **Trading update.** The next potential catalyst is the November AGM where we should receive a trading update and FY20 earnings guidance.

ii) **Corporate activity.** We remain of the view that CGR is significantly undervalued in a sector (SME lending) enjoying structural tailwinds and note private equity has had interest in the space in recent years.

Performance Metrics

CML's share price is down 2% in the calendar year 2019 compared to the S&P/ASX 200 Index, which is up 19%.

Bear↓ – Base – Bull↑ Target Price Scenarios

Bear: *Our target price could be negatively impacted by:*

i) Lower organic growth than expected, noting that this has occasionally taken a backseat to the integration effort once the company digests a material acquisition.

ii) Integration risk on the acquisition of CFG, noting that while the loan book is similar in nature there are several products that are likely to be sold or run off, and a much larger exposure to equipment finance.

iii) Execution risk relating to the company's strategy to build out its invoice discounting product, which involves bigger lends than its traditional factoring business at lower margins.

Base Valuation: *Our A$0.74 target price is primarily derived using a PER valuation methodology (12x FY20e/FY21e EPS).*

Bull: *Our target price could be positively impacted by:*

i) Strong originations growth given underlying structural tailwinds in the sector.

ii) Corporate activity

iii) Further acquisitions

OIL & GAS: Galilee Energy – GLL-AU: A$0.90 | SPEC BUY, A$1.41 Target

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Galilee Energy

Source: FactSet

Company Statistics

Financials current as of 01-Oct-2019	
Price	A$0.90
52-wk High	A$1.40
52-wk Low	A$0.37
Ave. Daily Vol. (M)	0.5
Market Cap (M)	A$224
Shares Out (M)	248.7
Dividend (cps)	2.4
Return to Target %	57%
Yield %	1.7%

Source: FactSet, Canaccord Genuity

Company Description

Galilee Energy Ltd. is engaged in the exploration and development of coal and coal seam gas in the Galilee basin near Longreach in Queensland.

Source: FactSet

FYE JUN	2018A	2019F	2020F	2021F
Revenue (A$m)	0.0	2.0	3.0	11.0
EBITDA (A$m)	-2.0	0.0	1.0	8.0
NPAT (A$m)	-10.0	3.0	5.0	6.0
EPS (cps)	-0.9	1.5	2.4	3.0
PE (x)	-100.0	60.0	37.5	30.0
EV/EBITDA (x)	-102.7	0.0	205.5	25.7
Dividend (cps)	0.0	1.5	2.4	3.0
Yield %	0.0%	1.7%	2.7%	3.3%

Source: Company reports, FactSet, Canaccord Genuity Australia estimates

Investment Highlights

GLL has a 100% interest in over 3,900km^2 of acreage in the highly prospective Galilee basin. Close to $100mn has been spent on this acreage with the majority of this spend conducted under AGL's prior operatorship. While some of this spend was perhaps thoughtless in hindsight, there have been a huge number of lessons learnt which are now being applied to the current Glenaras pilot.

As one of the largest and proximal gas resources to the tight East Coast market, a positive result at the Glenaras pilot will, in our view, result in a material re-rating.

Potential Catalysts

i) **Gas flow at Glenaras** – The expanded pilot has started to produce small volumes of gas as the wells reach critical desorption. As dewatering continues, we expect more coal to drop below critical desorption and gas rates to increase. Given the huge data set and consistent interaction with reserve auditors, GLL is of the view that a 500PJ 2P reserve booking is likely even if only modest gas flow rates (0.25mnscf/d) are sustained.

ii) **Pipeline progression** – Jemena who has a binding MOU with GLL has lodged its Voluntary Environmental Impact Statement and EPBC Act referral.

Performance Metrics

GLL's share price is up 26% in the calendar year 2019 compared to the S&P/ASX 200 Index, which is up 19%.

Bear↓ – Base – Bull↑
Target Price Scenarios

Bear: *Our target price could be negatively impacted by:*
- *i) poor gas flow rates at Glenaras*
- *ii) gas price weakness*
- *iii) negative regulatory changes*

Base Valuation: *Our A$1.41ps target price is primarily derived using a DCF valuation methodology.*

Bull: *Our target price could be positively impacted by:*
- *i) better-than-expected gas flow rates at Glenaras*
- *ii) higher gas prices*
- *iii) M&A*

HEALTHCARE SERVICES: Healthia Limited – HLA-AU: A$0.88 | BUY, A$1.45 Target

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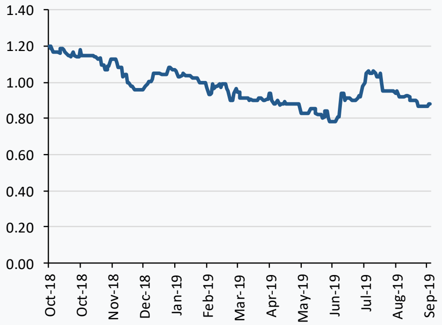
Healthia Limited



Source: FactSet

FYE JUN	2019A	2020F	2021F	2022F
Revenue (A$m)	65.1	99.9	121.5	142.3
EBITDA (A$m)	9.0	14.5	18.3	22.0
NPAT (A$m)	3.3	6.1	7.8	9.3
EPS (A₵ps)	5.0	10.0	12.0	15.0
PE (x)	17.5	8.8	7.3	5.8
EV/EBITDA (x)	8.1	5.0	4.0	3.3
Dividend (cps)	0.0	4.0	6.0	7.0
Yield %	0.0%	4.6%	6.9%	8.0%

Source: Company reports, FactSet, Canaccord Genuity Australia estimates

Company Statistics

Financials current as of 01-Oct-2019	
Price	A$0.88
52-wk High	A$1.22
52-wk Low	A$0.76
Ave. Daily Vol. (M)	0.0
Market Cap (M)	A$55
Shares Out (M)	63.0
Dividend (cps)	6.0
Return to Target %	66%
Yield %	4.6%

Source: FactSet, Canaccord Genuity

Company Description

Healthia is a holding company engages in the operation and expansion of podiatry and physiotherapy clinics, and Business-to-Business businesses in Australia.

Source: FactSet

Investment Highlights

HLA was established to capitalise on increasing demand for allied health services in Australia and listed in September 2018 having combined two established allied health operations in My FootDr Podiatry and Allsports Physiotherapy.

HLA recently reported its FY19 result, achieving pro forma revenues of $76.6m, against prospectus of $71.8m, and underlying EBITDA of $11.7m, against prospectus of $10.3m. The out-performance to prospectus reflected additional acquisition activity to prospectus forecasts.

With regards to FY20 we are looking for HLA to acquire annualised EBITDA of $4.4m, and as at 31 August 2019 HLA had settled on $2.5m of acquired EBITDA for the period or ~57% of our target for FY20. The current portfolio of allied health clinics now owned by HLA has increased to 133, from 104 on listing, and acquisitions continue to be made on EBITDA multiples of ~4x.

Despite meeting prospectus forecasts and CG upgrading earnings in July '19, HLA continues to trade cheaply on forecast PER multiples for FY20E and FY21E of 8.8x and 7.3x, respectively.

Potential Catalysts

i) Accelerated acquisition growth, which should drive positive earnings revisions

ii) The acquisition of larger networks or individual allied health businesses should help 'step change' earnings growth favorably.

Performance Metrics

HLA's share price is down 11% in the calendar year 2019 compared to the S&P/ASX 200 Index, which is up 19%.

Bear↓ – Base – Bull↑ Target Price Scenarios

Bear: *Our target price could be negatively impacted by:*

i) Timing around acquisitions being completed and integrated into the consolidated group

ii) Valuations for allied health business materially increasing

iii) Reductions in private healthcare insurance coverage and memberships could adversely impact total spending on allied health services

Base Valuation: *Our A$1.45 target price is primarily derived using a DCF valuation methodology.*

Bull: *Our target price could be positively impacted by:*

i) Accelerated acquisition growth

ii) Greater awareness of allied health services and the benefits

iii) Expand on vertically integrated capabilities which currently include an orthotics laboratory and manufacturing operation, iOrthotics, and an allied health supplies business in DBS Medical

RETAIL: Kathmandu Holdings Limited – KMD-AU: A$2.64 | BUY, A$4.25 Target

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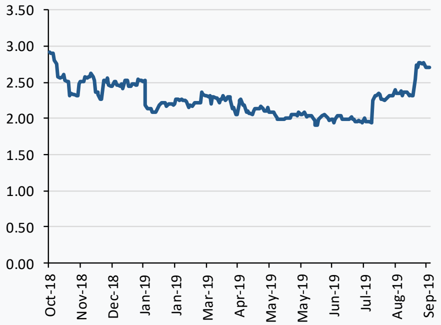
Kathmandu Holdings Limited



Source: FactSet

Company Statistics

Financials current as of 01-Oct-2019	
Price	A$2.64
52-wk High	A$2.95
52-wk Low	A$1.89
Ave. Daily Vol. (M)	0.2
Market Cap (M)	A$765
Shares Out (M)	289.7
Dividend (cps)	14.9
Return to Target %	56%
Yield %	5.7%

Source: FactSet, Canaccord Genuity

Company Description

Kathmandu Holdings Limited engages in the design, market, retail and wholesale of clothing, footwear and equipment for travel and adventure globally. It has recently acquired Oboz and Rip Curl which has diversified its earnings streams.

Source: FactSet, Canaccord Genuity

FYE JUN	2018A	2019A	2020F	2021F
Revenue (A$m)	454.5	504.8	809.3	1020.7
EBITDA (A$m)	83.9	91.1	123.1	154.6
NPAT (A$m)	48.0	52.6	66.3	45.8
EPS (A₵ps)	22.1	22.4	23.3	28.0
PE (x)	11.9	11.8	11.3	9.4
EV/EBITDA (x)	9.3	8.6	6.4	5.1
Dividend (cps)	13.3	14.3	14.9	17.7
Yield %	5.1%	5.4%	5.7%	6.7%

Source: Company reports, FactSet, Canaccord Genuity Australia estimates

Investment Highlights

The A$350m acquisition of action sportswear company Rip Curl suggests to us that Kathmandu is positioning itself to become a house of iconic brands. Success in this strategy requires management and the board to execute on its competencies in 1) protecting/developing the value of these brands and 2) leveraging the cachet of these brands to drive revenue (wholesaling, best practice retailing) and, to a lesser extent, cost (purchasing power) synergies. If this works, we will likely see further acquisitions within a narrow criteria (founder-led businesses, technical/design-driven product, authentic brand message, an element of customer loyalty).

Management is presenting the merits of the transaction on a few fronts – product diversity (26% of combined revenues are now summer apparel), geographic diversity (42% of revenues derived offshore vs 13% at present), and less reliance on physical store retailing (25% wholesale, a growing online channel). Of these, we think the reduced seasonality of the business is a positive, and the significant exposure to offshore markets should warrant a progressive re-rate in the stock – particularly as debt levels wind back.

Potential Catalysts

i) **Deal accretion.** The acquisition of Rip Curl is likely to be at least 10% EPS accretive (pre-synergies) in FY21. As the market gets comfortable with the opportunities to drive revenue synergies across the combined group, we see scope for a significant re-rating.

ii) **Trading update.** Seven-week comps were positive (AU +4%, NZ +12%), and we should get a further update on trading around the AGM in late November.

Performance Metrics

KMD's share price is up 8% in the calendar year 2019 compared to the S&P/ASX 200 Index, which is up 19%.

Bear↓ – Base – Bull↑ Target Price Scenarios

Bear: *Our target price could be negatively impacted by:*

i) General retail conditions, noting that KMD operates in the highly competitive outdoor apparel industry.

ii) Execution risk on the acquisition of Rip Curl, noting that this purchase adds a significant retail and wholesale footprint globally and will be accompanied by a temporary increase in debt levels.

Base Valuation: *Our A$4.25 target price is primarily derived using a PER methodology (15x FY21e EPS).*

Bull: *Our target price could be positively impacted by:*

i) Continued positive trading conditions, noting that YTD comps were strong.

ii) Realisation of synergies relating to the acquisition of Rip Curl that see 1) EPS accretion beyond 10% in FY21, and 2) sales traction for the Kathmandu brand in overseas markets.

SERVICES: MNF Group Limited – MNF-AU: A$5.10 | BUY, A$5.90 Target

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MNF Group Limited

Source: FactSet

Company Statistics

Financials current as of 1-Oct-2019	
Price	A$5.10
52-wk High	A$5.48
52-wk Low	A$3.25
Ave. Daily Vol. (M)	0.1
Market Cap (M)	A$390
Shares Out (M)	76.4
Dividend (cps)	12.9
Return to Target %	11%
Yield %	2.0%

Source: FactSet, Canaccord Genuity

Company Description

MNF Group Ltd. Engages in the provision of voice, data, and cloud-based communication and communication enablement services.

Source: FactSet

FYE JUN	2019A	2020F	2021F	2022F
Revenue (A$m)	215.6	251.9	277.1	300.5
EBITDA (A$m)	25.9	35.1	40.8	47.7
NPAT (A$m)	14.3	17.4	21.6	45.8
EPS (A₵ps)	19.5	23.7	29.5	36.5
PE (x)	26.2	21.5	17.3	14.0
EV/EBITDA (x)	16.6	12.2	10.5	9.0
Dividend (cps)	6.1	10.0	12.9	16.5
Yield %	1.2%	2.0%	2.5%	3.2%

Source: Company reports, FactSet, Canaccord Genuity Australia estimates

Investment Highlights

Recent presentations revealed several new important metrics in the business. Most notably, MNF exited FY19 with $100m of recurring revenue at a 69% gross margin, bolstered by several solid industry tailwinds, especially the domestic transition to NBN offering opportunities for voice service provision and the growth of UCaaS and CPaaS products at the expense of traditional telco products and methods of delivery.

Phone numbers in circulation, a key forward indicator of MNF's revenues, grew 18% yoy in FY19.

The shares trade on an FY20F PER of 22x, which is below the rating the business achieved regularly in the middle of this decade and, we would argue, its growth prospects have scarcely looked better.

Potential Catalysts

i) The upcoming AGM on 22 October provides an opportunity to update on progress in the recurring parts of the business.

ii) Whilst not likely to be a near-term contributor to earnings, MNF has been working to complete its network in Singapore, which represents the next step in its geographical expansion and its first foray into Asian markets.

iii) FY20 EBITDA guidance of $33-36m looks well-underpinned with MNF having reported, we estimate, $16.3m of underlying EBITDA in 2H19. The $69m of recurring gross profit exiting FY19 also provides reassurance over the FY20 outturn, more so given the growth potential in that part of the group.

Performance Metrics

MNF's share price is up 38% in the calendar year 2019 compared to the S&P/ASX 200 Index, which is up 19%.

Bear↓ – Base – Bull↑ Target Price Scenarios

Bear: *Our target price could be negatively impacted by:*

i) the transactional business is volatile, which can see revenues and earnings move around. A poor year in this trading part of the business could impact overall group performance.

ii) US peers have recently endured downwards share-price corrections and, if sustained, could impact our valuation.

iii) A slowing of growth could reduce revenue and earnings forecasts, thereby reducing valuation and target price.

Base Valuation: *Our A$5.90 target price is primarily derived using a sum-of-the-parts methodology based on the valuation of relevant comparators.*

Bull: *Our target price could be positively impacted by:*

i) earnings upgrades: FY190 closed strongly for MNF and carrying that momentum into FY20 could see an uplift in earnings guidance.

ii) as the business delivers an increasing proportion of recurring revenue and earnings in the mix, it should, in our view, warrant a higher multiple of its earnings.

iii) Success in overseas markets, starting with New Zealand and Singapore, could make a material impact on revenue and earnings, thereby increasing the valuation of MNF's shares.

METALS & MINING: OZ Minerals Limited – OZL-AU: A$9.52 | BUY, A$11.05 Target

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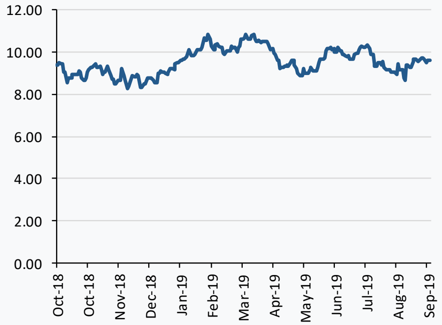
OZ Minerals Limited



Source: FactSet

Company Statistics

Financials current as of 01-Oct-2019	
Price	A$9.52
52-wk High	A$11.04
52-wk Low	A$8.22
Ave. Daily Vol. (M)	1.8
Market Cap (M)	A$3,112
Shares Out (M)	326.9
Dividend (cps)	28.0
Return to Target %	16%
Yield %	2.5%

Source: FactSet, Canaccord Genuity

Company Description

OZ Minerals is an Australian based S&P/ASX200 copper-gold producer which produces circa 110kt Cu and 120koz Au in concentrate from its 100% owned Prominent Hill mine in South Australia. OZL is also developing the Carrapateena Iron-oxide copper gold project which is 250km south east of Prominent Hill.

Source: FactSet

FYE JUN	2018A	2019F	2020F	2021F
Revenue (A$m)	1117.0	1075.4	1400.0	1689.9
EBITDA (A$m)	540.4	522.1	668.9	792.2
NPAT (A$m)	222.4	202.0	358.6	45.8
EPS (A₵ps)	72.0	62.0	111.0	133.0
PE (x)	13.2	15.4	8.6	7.2
EV/EBITDA (x)	5.7	5.8	4.6	3.9
Dividend (cps)	23.0	24.0	28.0	37.0
Yield %	2.4%	2.5%	2.9%	3.9%

Source: Company reports, FactSet, Canaccord Genuity Australia estimates

Investment Highlights

Well-articulated growth strategy: OZL is actively progressing studies at seven projects with clear investment hurdles to advance to the next stage of development. The Brazilian assets acquired by OZL over 2018 in our view (initially at Pedra Branca) can be prioritized over 2020 as Carrapateena (CP) comes online. Importantly, these greenfield projects in the Carajas are of notable scale (+30ktpa Cu) and leverage OZL's expertise in Iron Oxide Copper Gold (IOGC) style deposits.

Bottom cost quartile producer globally: Due to its falling cost profile, OZL provides improved operating leverage along with optionality to increase production from the CP block cave subject study outcomes due over H1'20. Importantly, CP remains on track for first production by Nov'19 with surface infrastructure now 90% complete.

We estimate OZL has a material step change in earnings near term: OZL has good potential to extend mine life at CP and Prominent Hill, which we expect will translate to improved earnings from FY22. As production ramps up at CP we expect OZL to deliver earnings growth of 50% over FY20-22.

Potential Catalysts

i) First production at CP – DecQ'19
ii) Prominent Hill Haulage study – Dec'19
iii) Pedra Branca project update/decision to mine – Dec'19
iv) West Musgrave PFS and maiden ore reserve – Early 2020

Performance Metrics

OZL's share price is up 10% in the calendar year 2019 compared to the S&P/ASX 200 Index, which is up 19%.

Bear↓ – Base – Bull↑ Target Price Scenarios

Bear: *Our target price could be negatively impacted by:*

i) An escalation in the US-China trade dispute that would have a negative impact on the copper price
ii) Prolonged ramp-up or further capital cost increase at Carrapateena
iii) Unit cost increases at Prominent Hill

Base Valuation: *Our A$11.05 target price is based on DCF valuation methodology (forward curve NPV$_{5\%/10\%}$).*

Bull: *Our target price could be positively impacted by:*

i) Incremental resource updates at OZL's Brazilian projects
ii) Permitting progress at Centro Gold
iii) Copper price tailwinds

ENGINEERING & CONSTRUCTION: Primero Group Limited – PGX-AU: A$0.38 | BUY, A$0.66 Target

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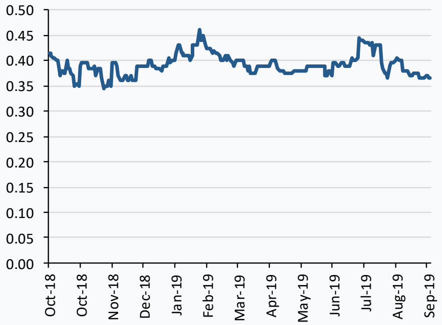
Primero Group Limited



Source: FactSet

FYE JUN	2018A	2019A	2020F	2021F
Revenue (A$m)	85.2	151.4	151.7	170.9
EBITDA (A$m)	8.9	11.0	11.6	13.1
NPAT (A$m)	5.6	6.6	6.8	7.5
EPS (A₵ps)	5.9	4.9	4.5	5.1
PE (x)	6.4	7.8	8.4	7.5
EV/EBITDA (x)	4.1	3.3	2.8	2.1
Dividend (cps)	0.0	0.0	1.0	2.0
Yield %	0.0%	0.0%	2.6%	5.3%

Source: Company reports, FactSet, Canaccord Genuity Australia estimates

Company Statistics

Financials current as of 01-Oct-2019	
Price	A$0.38
52-wk High	A$0.48
52-wk Low	A$0.33
Ave. Daily Vol. (M)	0.1
Market Cap (M)	A$55
Shares Out (M)	145.7
Dividend (cps)	1.0
Return to Target %	74%
Yield %	0.0%

Source: FactSet, Canaccord Genuity

Company Description

Primero Group Ltd. Is a multi-disciplinary engineering company, which engages in the design, construction and commissioning of projects.

Source: FactSet

Investment Highlights

PGX's FY19 results reflected its recent rapid growth, with revenue >$150m compared to the $52m it generated just two years ago in FY17. EBITDA of $11.7m was in line with expectations, while the tender pipeline of future opportunities and potential positive catalysts continue to increase. In addition, the company should see a material working capital unwind in 1H20, which should drive a very strong cash performance. We see WIP unwinding by ~$10m-$20m in the half, compared to the company's market cap of just ~$55m.

PGX has a strong growth profile driven by its strong reputation and improving industry dynamics in iron ore and variable power generation, Its FY19 balance sheet showed net cash of $19m, its cash generation in FY20 should be very strong due to a working capital unwind, it has material potential contract wins in the short term with $800m on tender opportunities, and the stock is currently very cheap on just 2.8x FY20E EV/EBITDA.

Potential Catalysts

i) Contract wins: We expect PGX to win multiple contracts in the near term, largely iron ore related. In the medium term, we anticipate additional power contracts related to the work it is currently doing with Wartsila

ii) Cash generation: We expect 1H20 to show very strong cash flow due to the unwind of work in progress. We estimate ~$20m of WIP on the Wartsila contract along.

iii) Earnings quality improvement: We see PGX increasing its work in operating and maintaining which can drive a multiple rerate.

Performance Metrics

PGX's share price is down 3% in the calendar year 2019 compared to the S&P/ASX 200 Index, which is up 19%.

Bear↓ – Base – Bull↑ Target Price Scenarios

Bear: *Our target price could be negatively impacted by:*

i) Timing issues around contract award. PGX needs to replace some work that is concluding in the near term.

ii) Client risk. As recently reflected by a client entering voluntary administration, PGX can run the risk of not being paid by some customers.

iii) Contract execution. Margin variability is constant in contracting and can impact returns.

Base Valuation: *Our A$0.66 target price is primarily derived using a DCF valuation methodology.*

Bull: *Our target price could be positively impacted by:*

i) Contract wins: We believe PGX is well positioned to win a larger amount of new work over the coming year.

ii) Recurring revenue: We believe PGX will amount of recurring revenue work in the future, which may support a higher multiple and lower earnings volatility.

SOFTWARE AND SERVICES: Redbubble Ltd. – RBL-AU: A$1.49 | BUY, A$2.00 Target

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Redbubble Ltd.

Source: FactSet

FYE JUN	2018A	2019F	2020F	2021F
Revenue (A$m)	182.8	256.9	331.2	404.4
EBITDA (A$m)	-3.7	3.8	10.5	20.8
NPAT (A$m)	-8.0	-2.9	1.5	9.2
EPS (A₵ps)	-3.5	-1.1	0.5	3.3
PE (x)	-42.9	-135.5	298.0	45.2
EV/EBITDA (x)	-95.1	92.6	33.5	16.9
Dividend (cps)	0.0	0.0	0.0	0.0
Yield %	0.0%	0.0%	0.0%	0.0%

Source: Company reports, FactSet, Canaccord Genuity Australia estimates

Company Statistics

Financials current as of 01-Oct-2019	
Price	A$1.49
52-wk High	A$1.76
52-wk Low	A$0.82
Ave. Daily Vol. (M)	0.4
Market Cap (M)	A$381
Shares Out (M)	255.9
Dividend (cps)	0.0
Return to Target %	34%
Yield %	0.0%

Source: FactSet, Canaccord Genuity

Company Description

Redbubble Limited (RBL) operates a global online marketplace connecting independent artists with customers and a global network of third-party fulfillers utilizing print on demand technology to fulfil customer orders

Source: FactSet

Investment Highlights

RBL's share price has historically been correlated to an accelerating/decelerating revenue growth profile. We expect RBL to cycle trough in rev. growth in 1Q20e, and we envisage a continual improvement in investor sentiment throughout FY20 as RBL 1) cycles a relatively weak FY19 result, (5-year rev CAGR 42%); 2) passes through the critical FCF breakeven milestone enabling the group to invest in accretive growth opportunities; 3) launches a further >5 new products in 1H20 (5x in 4Q19), historically a driver of incremental revenue growth); and 4) realizes various synergy benefits from the TeePublic acquisition.

RBL's FY20 earnings performance is likely to be aided by what we consider triple leverage, driven by (1) accelerating earnings growth into 2Q20/2H20; 2) expanding gross margins as it realises scale and pricing benefits; and (3) materially slows its opex growth.

RBL holds ambition to reach A$1b in sales in the medium-term (CGe FY25) remaining profitable (<1x EV/gp). As the company scales through FCF/EBITDA breakeven in 2H20 we expect management to accelerate its growth investment, with RBL highlighting artist services, wholesale-on-demand, Asian expansion, retail footprint and selective white labelling as potential adjacent growth verticals.

Potential Catalysts

i) While its 1Q20 will likely indicate the trough in top-line growth, anecdotes on an improving revenue growth/margin/opex profile, as it trends towards FCF breakeven in 2Q20/2H20, should act as a positive share price catalyst.

ii) Positive Thanksgiving trading update (Nov) as RBL cycles relatively weaker comps aided by currency benefits (94% rev. sourced offshore).

Performance Metrics

RBL's valuation metrics (FY20e EV/gp 2.5x) remain undemanding relative to domestic and international peers (>6x), and we envisage a continued multiple re-rating as growth accelerates throughout FY20. The stock is up 66% in CY19 versus the S&P/ASX 200 Index, which is up 19%.

Bear↓ – Base – Bull↑ Target Price Scenarios

Bear: *Our target price could be negatively impacted by:*

i) RBL's inability to reaccelerate revenue growth during its peak sales period;

ii) CAC continues to increase at a rate higher than expected impacting its unit economics;

iii) Stronger AUD negatively impacting revenue growth.

Base Valuation: *Our A$2.00 target price is primarily derived using a DCF valuation methodology.*

Bull: *Our target price could be positively impacted by:*

i) Reacceleration in revenue growth riving upgrades to our and consensus estimates

ii) Weaker AUD positively impacting revenue growth

METALS & MINING: Resolute Mining Limited – RSG-AU: A$1.41 | BUY, A$2.25 Target

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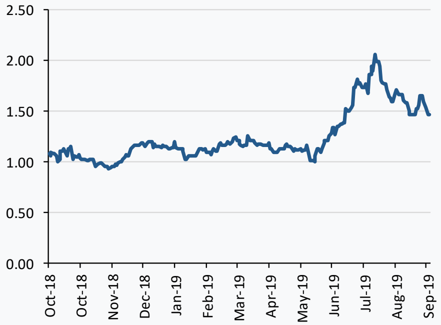
Resolute Mining Limited



Source: FactSet

Company Statistics

Financials current as of 01-Oct-2019	
Price	A$1.41
52-wk High	A$2.12
52-wk Low	A$0.91
Ave. Daily Vol. (M)	7.7
Market Cap (M)	A$1,282
Shares Out (M)	912.8
Dividend (cps)	2.0
Return to Target %	60%
Yield %	1.4%

Source: FactSet, Canaccord Genuity

Company Description

Resolute Mining Ltd. Is a gold mining company whose primary assets are the Syama gold mine in Mali, the Ravenswood mine in Queensland, Australia, and the Bibiani Gold project in Ghana.

Source: FactSet

FYE JUN	2018A	2019F	2020F	2021F
Revenue (A$m)	448.1	732.6	1022.9	968.9
EBITDA (A$m)	53.6	189.6	422.9	424.3
NPAT (A$m)	35.3	96.1	224.4	12.4
EPS (A₵ps)	9.0	10.0	20.0	19.0
PE (x)	15.6	14.1	7.0	7.4
EV/EBITDA (x)	27.9	7.9	3.5	3.5
Dividend (cps)	2.0	2.0	2.0	2.0
Yield %	1.4%	1.4%	1.4%	1.4%

Source: Company reports, FactSet, Canaccord Genuity Australia estimates

Investment Highlights

Accretive Mako acquisition lifts Group production and drops costs: As outlined in *Mako-ing a move into Senegal*, the Mako acquisition provides operational/country diversification, increases gold production and lowers group AISC. Our 2019 production forecast increased 22% to 390koz (AISC flat) post transaction, and our average 2020-2021 production estimates increased by ~45% to 478koz and AISC dropped by ~12% to US$914/oz.

Syama UG ramp-up on track: Syama underground achieved commercial production rates in June'19, and we forecast the asset to achieve consistent steady state-run rates by the MarQ'20. We forecast unit costs to decline on improved fleet efficiencies, reducing LT AISC at the asset to US$790/oz.

Ravenswood REP due late CY19: As outlined in *H1'19 results*, Stage 1 of the REP has commenced targeting an initial 80kozpa at A$1,600/oz AISC. In parallel, the strategic review is ongoing which is looking to expand production to 200kozpa at A$1,490/oz AISC. A final investment or divestment decision is expected in late 2019, potentially providing investors with elevated levels of comfort around growth aspirations and capital allocation.

Strong FCF expected: We forecast RSG to significantly outperform its peers (small-cap producers) with +A$740m FCF from 2020-2022 (CGe price deck). RSG is on a 2020e FCF Yield of 16.5% vs peers at 8.0%.

Potential Catalysts

i) Syama ramp-up – ongoing.

ii) Updated Ravenswood REP, development/divestment decision – DecQ'19.

Performance Metrics

RSG's share price is up 22% in the calendar year 2019 compared to the S&P/ASX 200 Index, which is up 19%.

Bear↓ – Base – Bull↑ Target Price Scenarios

Bear: *Our target price could be negatively impacted by:*

i) A decline in the gold price.
ii) Delay in ramp up at Syama underground.
iii) Inability to refinance Mako bridging facility.

Base Valuation: *Our A$2.25 target price is primarily derived using a DCF valuation methodology.*

Bull: *Our target price could be positively impacted by:*

i) Better-than-expected outcomes from updated Ravenswood REP.
ii) Gold price tailwinds

The Australian Equities Research Team

Canaccord's team of 13 research analysts in Australia is one of the largest small cap teams in the country and maintains a focus on growth stocks.

Aaron Muller Head of Research | Phone +61 3 8688 9103 Email aaron.muller@canaccord.com.au

Aaron Muller has over 20 years of experience in financial markets, including more than 15 years in stockbroking and corporate finance.

Prior to joining Canaccord Genuity, Aaron worked as a small cap industrials analyst at a number of firms including D&D Tolhurst and Patersons Securities. Most recently, he was with boutique institutional stockbroker, Balnave Capital, which he founded in 2005, a firm that specialised on small cap research.

He holds a Bachelor of Business (Accountancy) degree from Queensland University of Technology and a Graduate Diploma in Applied Finance and Investment from FINSIA.

Benn Skender Senior Industrials Analyst | Phone +61 3 8688 9105 Email benn.skender@canaccord.com.au

Benn Skender joined Canaccord in May 2016, with over ten years' experience in financial markets. Benn commenced equities research coverage of the Australian small/midcap industrials sector at Patersons Securities in 2003, and subsequently joined the Emerging Companies team at Macquarie Group in 2006. Previously, he worked in Corporate Finance at KPMG.

Benn holds a Bachelor of Commerce (Accounting & Information Systems), a Graduate Diploma in Chartered Accounting from the ICAA, and a Graduate Diploma in Applied Finance & Investment from FINSIA.

Cameron Bell Senior Industrials Analyst | Phone +61 3 8688 9152 Email cameron.bell@canaccord.com.au

Cameron Bell joined Canaccord Genuity in October 2013, with over eight years' experience in equities. Since beginning his career with Austock in 2007, he has worked in equities research, institutional broking and corporate advisory. Prior to joining Canaccord Genuity he was an Analyst with Phillip Capital.

His qualifications include a Bachelor of Commerce and Bachelor of Economics and he is currently working towards a CFA designation. At Canaccord Genuity, Cameron focuses on property and emerging industrial companies.

Conor O'Prey Senior Industrials Analyst | Phone +61 2 9263 2716 Email conor.oprey@canaccord.com.au

Conor O'Prey has 12 years' experience in financial markets, across Commodities and Equities. Conor spent four years at ABN AMRO/RBS in London before moving to Australia where he continued his career at PhillipCapital and Patersons Securities. After spending two years widening his experience in the private wealth sector, Conor joined Canaccord in May 2016.

Originally a Chemical Engineer, Conor spent nearly nine years in Product Development at Procter & Gamble before studying for an MBA at the University of Oxford and starting his career in Finance, covering a wide range of industrial sectors.

Henry Renshaw Associate Mining Analyst | Phone +61 2 9263 2798 Email henry.renshaw@canaccord.com.au

Henry Renshaw joined Canaccord in August 2018 as an Associate Mining Analyst, with over five years' experience within the Mining Industry across base and precious metals.

Henry is a mining engineer and has worked in various technical roles for Sandfire Resources and Barrick Gold in Western Australia. More recently he was involved with a start-up of a greenfield underground copper mine in a mine managers capacity aiding with feasibility studies, mine design, scheduling, budgeting, contract management and cost control.

Henry holds a Bachelor of Engineering – Mining from the University of New South Wales and a Master of Applied Finance from Kaplan

The Australian Equities Research Team

James Bullen Senior Energy Analyst | Phone +61 2 9263 2728 Email james.bullen@canaccord.com.au

James Bullen has nine years' experience in equity research, starting initially at Citi before joining BAML in 2009, where he was part of the highly regarded Energy team for 5 years, including Lead analyst for two of those years. While there, he received a series of awards including Starmine #1 Stock Picker in 2013 and was involved in a number of capital raisings and IPO's in the energy sector. Most recently, James was the Lead Energy Analyst at Taylor Collinson.

James is an engineer by training and worked with ExxonMobil for five years prior to his move into equities. He has a Bachelor of Engineering (Chemical and Materials) from the University of Auckland and has a raft of other training under his belt.

Larry Hill Mining Analyst | Phone +61 2 9263 2745 Email larry.hill@canaccord.com.au

Larry Hill joined Canaccord in March 2015 as an Associate Mining Analyst, with seven years' experience within the Mining Industry across a broad commodity base.

Commencing his career as a Metallurgist with Rio Tinto, Larry worked in technical and operational roles within the Iron Ore, Copper, Industrial Minerals and Uranium Business Units. More recently he spent three years at Teranga Gold Corporation in Senegal, West Africa focusing on the successful expansion of the Sabodala Gold Operations.

Larry holds a Bachelor of Engineering (Honours) – Chemical from the University of Melbourne, MBA from Curtin University and a Master of Applied Finance from FINSIA.

Matthijs Smith Senior Lifesciences Analyst | Phone +61 3 8688 9107 Email matthijs.smith@canaccord.com.au

Matthijs Smith joined Canaccord Genuity in September 2012. Matthijs has over eight years' experience as an Equities Analyst at Shaw Stockbroking, Lodge Partners and Patersons where he focused on emerging companies. Prior to moving into the capital markets, he held senior executive roles in the biotech industry as well as worked at the Boston Consulting Group.

Matthijs has several years of experience in medical research including a PhD from University of London, postdoctoral research at the University of Melbourne and worked as an assistant editor at the journal Nature. He also holds an MBA from Melbourne Business School in Australia.

Owen Humphries Senior Industrials Analyst | Phone +61 2 9263 2702 Email owen.humphries@canaccord.com.au

Owen Humphries joined Canaccord Genuity in August 2013 having five years' experience in investment markets.

Prior to joining Canaccord Genuity, Owen worked as an Investment Analyst at Adam Smith Asset Management with a particular focus on emerging industrial companies. After starting his career as an Equity Strategist at Macquarie Group, Owen's passion for emerging companies was enhanced as a lead analyst with ANZ Equities/LINWAR.

Owen holds a Bachelor in Actuarial Studies and a Bachelor of Finance.

Reg Spencer Senior Mining Analyst | Phone +61 2 9263 2701 Email reg.spencer@canaccord.com.au

Reg Spencer joined Canaccord Genuity in 2009 as a Mining Analyst, and has 15 years' experience in the resources and finance sectors. This includes previous roles with several Australian and UK based corporate finance houses/stockbrokers, as well as a number of corporate development and managerial positions with several listed and unlisted mining and exploration companies.

His current research coverage focuses primarily on precious metals companies, including mid-cap production companies through to earlier stage exploration companies.

Reg holds a Bachelor of Business degree and holds post graduate qualifications in Applied Finance.

The Australian Equities Research Team

Tim McCormack Mining Analyst | Phone +61 8 6216 2088 Email tim.mccormack@canaccord.com.au

Tim McCormack joined Canaccord Genuity in February 2015 as a Mining Analyst.

Tim has previously held similar roles at Patersons Securities and Euroz Limited. Prior to this Tim spent three years in the mining industry as a geologist.

As one of Canaccord Genuity's first Perth-based employees, Tim is delivering on the ground perspectives across a broad range of mining equities and commodities.

Tim holds a Bachelor of Commerce and a Bachelor of Science (Geology).

Warren Jeffries Senior Industrials Analyst | Phone +61 3 8688 9108 Email warren.jeffries@canaccord.com.au

Warren Jeffries has over 15 years' experience in small cap research. Warren left a management accounting role at Coles Myer in 2000 to join D&D Tolhurst as an equities analyst specialising in the retail sector and emerging companies.

In 2004 Warren moved to Austock Group as an emerging companies analyst before joining Balnave Capital in May 2008. Warren joined Canaccord Genuity in December 2010 after Balnave was acquired by (then named) BGF Equities.

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Investment Recommendation

Date and time of first dissemination: October 03, 2019, 16:29 ET

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