ASX Small to Mid Caps Conference

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Global perspectives: Risks are rising

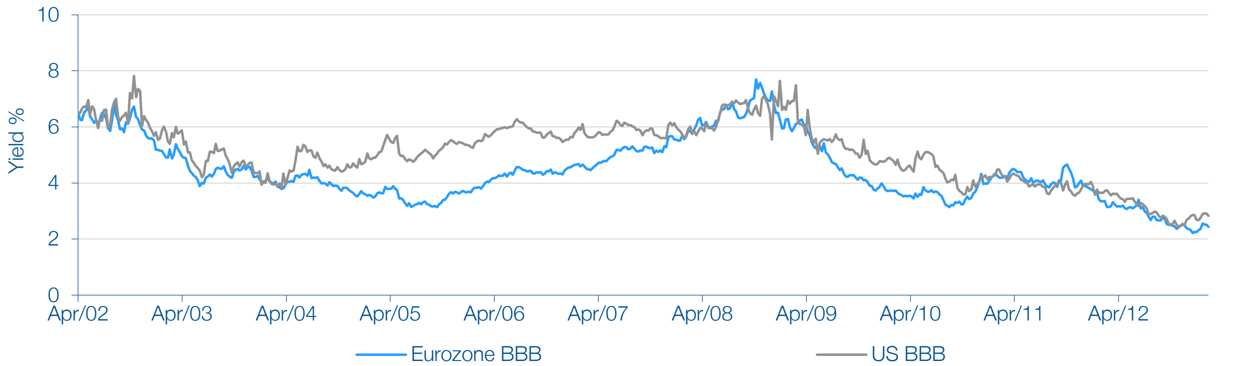
- **It has been relatively difficult to make a losing trade over the past six months.** World equity indices have risen sharply and credit spreads have narrowed for both the corporate sector and the periphery of Europe. This has created a mood of confidence that pervades the financial media. The modest 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

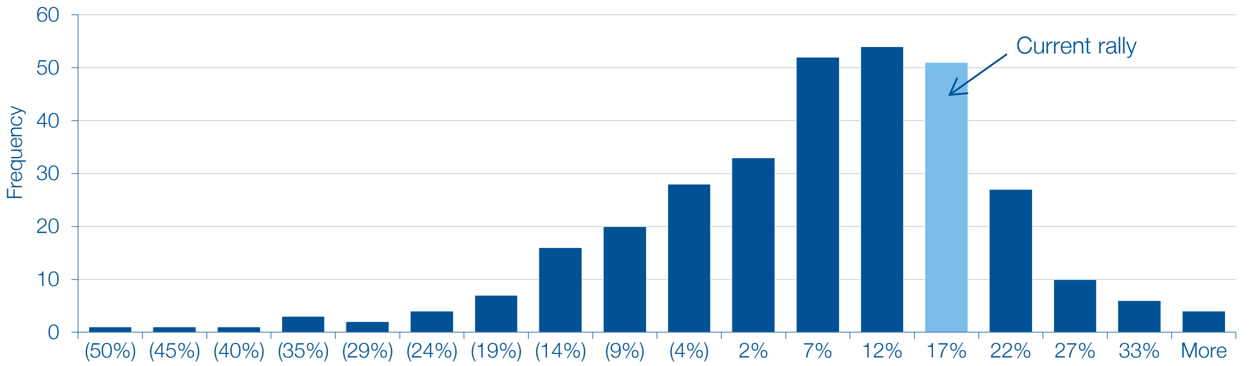


Source: Thomson Reuters Datastream

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.

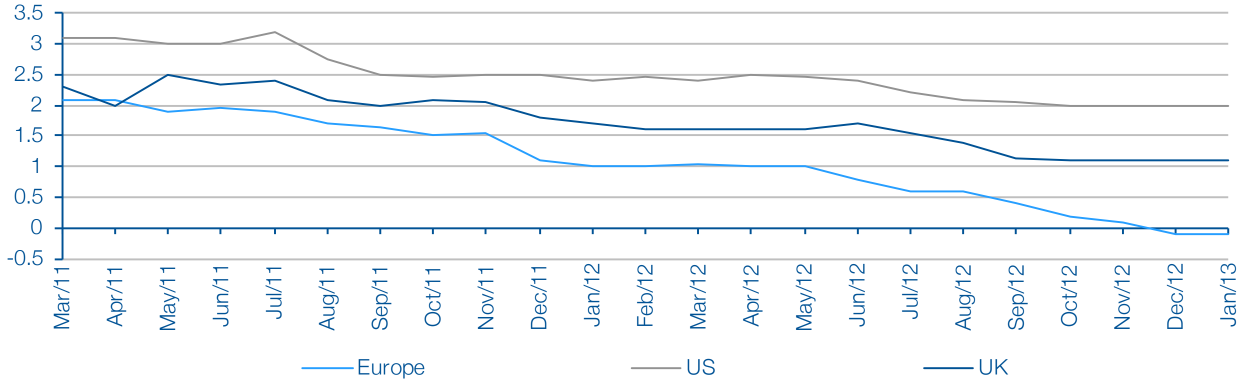
Exhibit 2: Mid-cap rally in context - histogram of 6m returns for FTSE 250



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.

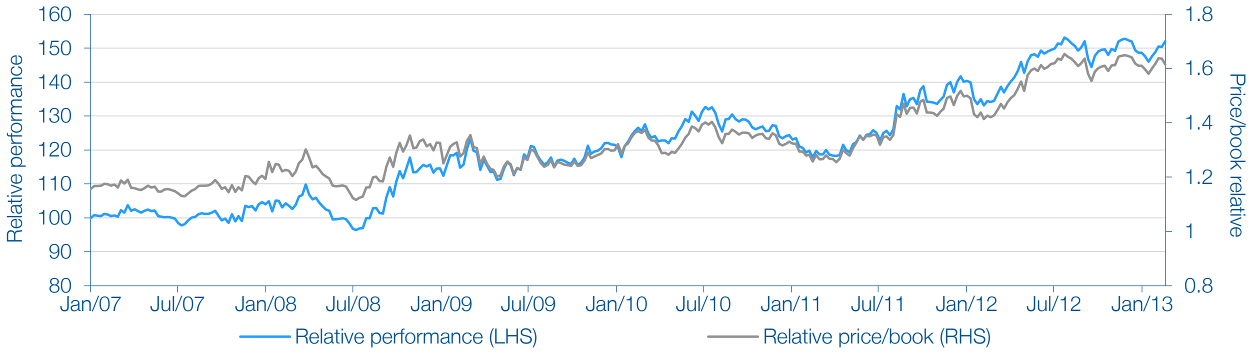
Exhibit 3: Consensus economic forecasts



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

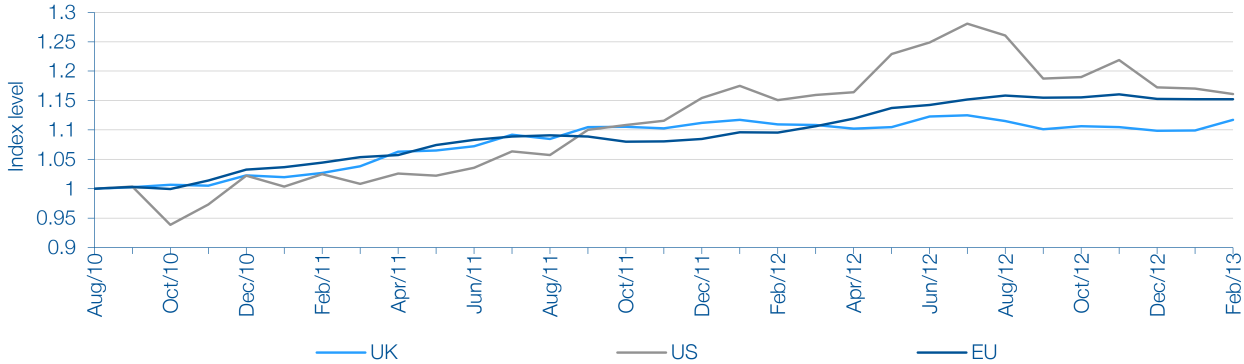


Source: Thomson Reuters Datastream

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.

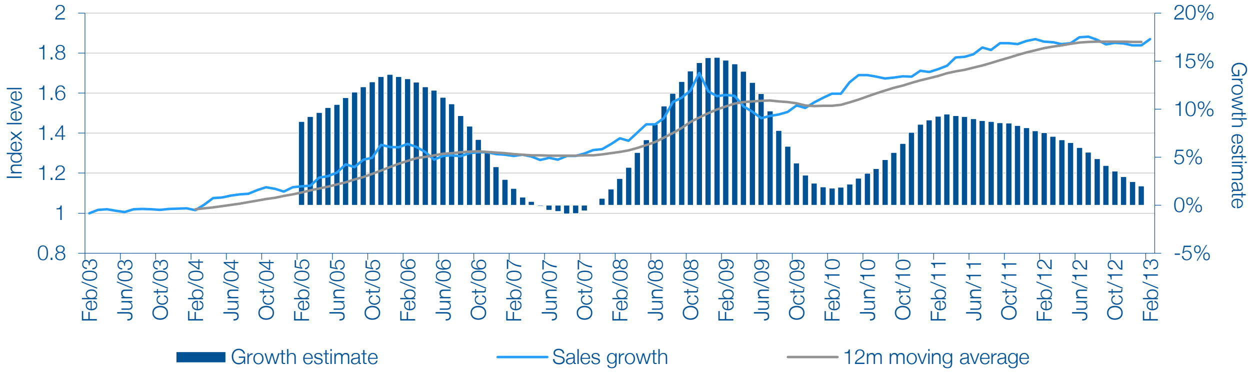
Exhibit 5: 12m forward sales estimates stagnating in developed markets



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.

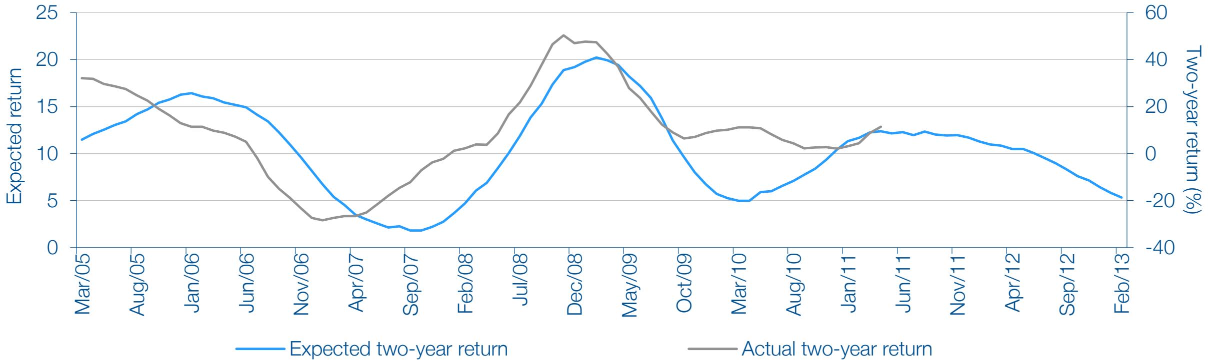
Exhibit 6: A simple moving average model of sales growth for UK non-financials



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



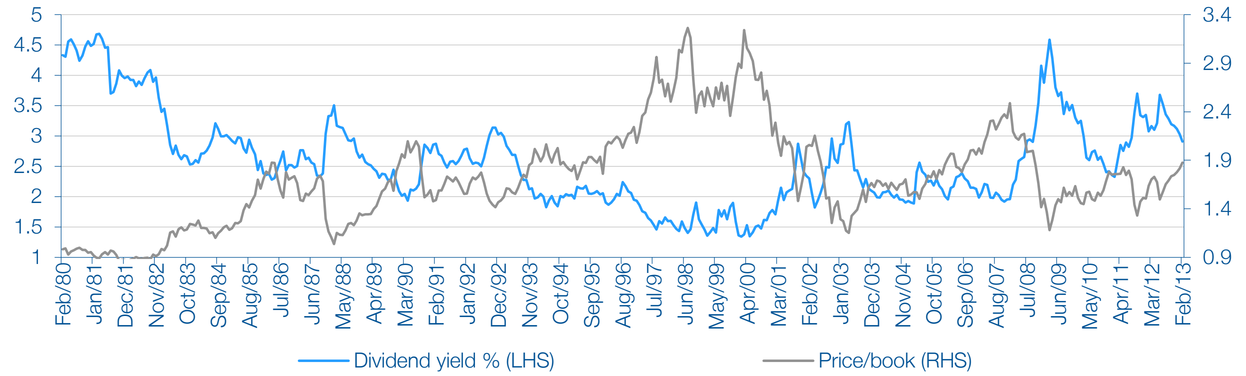
Source: Thomson Reuters Datastream

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

Investment summary: 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.

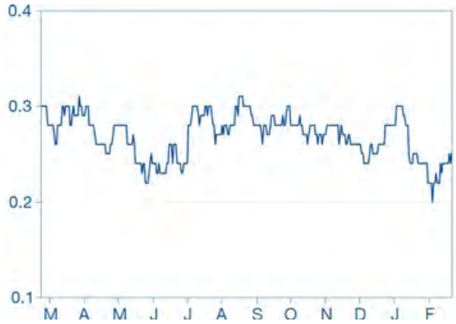
Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
06/11	0.0	(12.4)	(0.04)	0.0	N/A	N/A
06/12	0.0	(23.1)	(0.04)	0.0	N/A	N/A
06/13e	61.9	(2.5)	0.00	0.0	N/A	N/A
06/14e	92.4	(11.1)	(0.01)	0.0	N/A	N/A

Source: Company accounts/Thomson Datastream consensus estimates

Price	**A$0.25***
Market cap	**A$132m**

**as at 21 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.

Analysts

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Armour Energy

Investment summary: Rich neighbourhood, cheap address

At more than 133,000km^2, Armour has one of the largest shale gas positions in Australia. Its acreage comprises a contiguous mosaic of 17 permits spanning the McArthur, Georgina and South Nicholson Basins. In total, Armour's acreage is the size of the Barnett Shale in Texas. Its challenge is squarely one of proving the technical and commercial viability of what for now remains frontier territory.

Northern frontiers

Armour's activities are focused in the onshore McArthur, Georgina and South Nicholson Basins spanning the northern intersection of Queensland (QLD) and the Northern Territory (NT). Its aggregate position totals 133,288km^2, with Armour holding 100% equity in all permits. The portfolio is made up of five granted permits (EP171, EP174, EP176 and EP190 in NT and ATP1087 in QLD) and 12 further contingent permits awaiting final award once native title conditions are met. Independent studies have estimated a contingent resource within EP171 and EP176 alone of 18.8tcf of gas and 2.0bn barrels of associated liquids.

Path to validation

Armour has a three-staged commercialisation strategy that will, if successfully executed, see it producing 10PJ pa and 600kbbl pa within two years. During 2012 it drilled five wells for A$20m in its NT permits. Armour recently announced it had signed its first drilling contractor for 2013 to undertake a 3 vertical + 1 lateral programme. Armour's end-game is to prove-up gas to support a future LNG export facility to be sited on the nearby Gulf of Carpenteria coastline.

Majors like what they see nearby

Armour's McArthur/Georgina/South Nicholson portfolio lies near acreage that in the past one-to-two years has been the target of intense interest by international majors. Companies that have taken positions by farming in to large acreage positions previously held by small explorers include Statoil, Santos, Hess and Total. Peer transaction values have fallen in the A$11-A$38/acre range, compared to Armour's implied current equivalent metric of A$2.2/acre.

Cash-heavy, fully-funded 2013

Armour listed on the ASX in April 2012, raising A$75m at A$0.50/share, with significant institutional support. At the close of 2012, Armour's balance sheet had cash of A$40m, ensuring that the intensive A$34m drilling, surveying and seismic work programme Armour has signalled for 2013 will be fully funded.

Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	0.2	(1.2)	(1.6)	0.0	N/A	N/A
06/12	1.0	(2.2)	(0.9)	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$0.34*
Market cap	A$102m

*as at 21 February 2013

Share price graph

Share details

Code	AJQ
Listing	ASX
Shares in issue	300m

Price

52-week	High	Low
	A$0.46	A$0.17

Cash (as at 31 Dec 2012)	A$40m

Business

Armour Energy is an ASX-listed exploration company with a portfolio of 15 granted and contingent permits totalling more than 133,000km^2 in the Northern Territory and Queensland. It also holds a 18.6% stake in ASX-listed Lakes Oil, which holds acreage in the Gippsland Basin in Victoria.

Bull

- Huge acreage position.
- Outright equity in all permits.
- Low social impact acreage.

Bear

- Early-stage resource.
- Existing infrastructure
- Route to market.

Analysts

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Austal

Investment summary: 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. At the same time, 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	7.4	4.5
06/12	649.2	12.6	5.0	0.0	13.4	N/A
06/13e	754.0	28.1	8.5	1.0	7.9	1.5
06/14e	1,028.5	66.0	11.9	3.0	5.6	4.5

Source: Company accounts/Thomson Datastream consensus estimates

Price	A$0.67*
Market cap	A$241m

*as at 21 February 2013

Share price graph

Share details

Code	ASB
Listing	ASX
Shares in issue	359.8m

Price

	High	Low
52-week	A$1.54	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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Bathurst Resources

Edison investment research

Investment summary: 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 21 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.

Analysts

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Buccaneer Energy

Investment summary: Ahoy Alaska

For a company of its young age and size, Buccaneer presents a highly attractive suite of assets. As well as holding high equity positions in proven Alaskan oil and gas acreage, Buccaneer holds 2P reserves of nearly 33mmboe and a growing production base. The company also holds a position in the Eagle Ford shale in Texas and three offshore Gulf of Mexico projects.

Alaska: Unrivalled fiscal terms

A lack of physical connecting infrastructure means Alaskan energy markets operate independently from the rest of North America. A severe contraction in exploration activity following the departures of most of the global majors from the Alaskan E&P sector during the 1990s has delivered a gas market that presents contract prices above US$6/mscf – nearly double that seen in the lower 48 states. In an effort to re-stimulate exploration activity, in 2007 the Alaskan state government responded introducing direct cash subsidies to explorers. In what must surely be the most attractive fiscal terms on offer anywhere, explorers receive a direct and near-immediate cash rebate of 65% of any seismic and drilling costs incurred as well as a 45% cash rebate on any facilities-related capex. Rebates are not repayable and are not dependent on success.

Reserves plus production

To date, Buccaneer has logged 32.9mmboe of 2P reserves, 26.5mmboe of which lies in Buccaneer's offshore Cook Inlet acreage with the 6.4mmboe balance in its onshore Kenai Loop permit. Hydrocarbon compositions vary, with significant components of both oil and gas across its portfolio. On 13 February, Buccaneer announced the commencement of continuous production from its second producing well, Kenai Loop-4. With existing production from Buccaneer's Kenai Loop-1 well, which has been in continuous production since February 2012, gas production currently totals 8.5mmscf/d. Gas is sold to large-scale users including an under-utilised ConocoPhillips LNG liquefaction terminal and a local gas utility. Revenue in Q412 totalled US$3m.

Rig upside

A unique feature of Buccaneer's model is ownership interests held in two drilling rigs; one offshore and one onshore. This was a direct response to a shortage in availability of third-party rigs in the region. The offshore rig is a refurbished jackup owned and operated in a 50/50 JV with offshore specialist company, Ezion. The rig mobilised to the Cook Inlet in August and Buccaneer expects to fully utilise it through 2013, commencing with drilling its Cosmopolitan project in April/May.

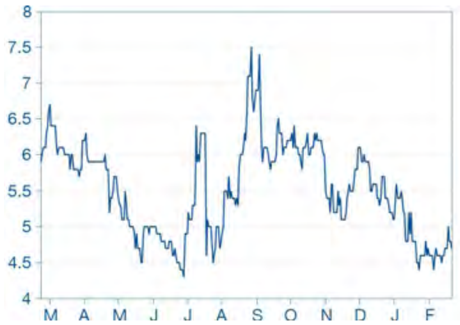
Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	1.9	(14.1)	(2.6)	0.0	N/A	N/A
06/12	3.6	(16.3)	(1.8)	0.0	N/A	N/A
06/13e	21.7	N/A	0.4	0.0	11.8	N/A
06/14e	54.7	N/A	1.9	0.0	2.5	N/A

Source: Company accounts/Thomson Datastream consensus estimates

Price	A$0.05*
Market cap	A$71m

*as at 21 February 2013

Share price graph



Share details

Code	BCC
Listing	ASX
Shares in issue	1,519m

Price

52-week	High	Low
	A$0.08	A$0.04

Cash (as at 31 Dec 2012)	A$16m

Business

Buccaneer Energy was founded in 2006 and is an E&P company with a suite of onshore and offshore acreage centred in the Cook Inlet area of Alaska. It also holds positions in an Eagle Ford shale lease and three Gulf of Mexico properties.

Bull

- Proven acreage, high equity positions.
- Fiscal environment.
- Access to infrastructure.

Bear

- Political risk to favourable fiscal terms.
- Cost pressures.
- Forward programme funding.

Analysts

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Cromwell Property Group

Investment summary: 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 management 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	12.8	7.6
06/12	186.7	23.2	7.5	7.00	12.3	7.6
06/13e	189.8	94.3	7.5	7.25	12.3	7.9
06/14e	197.0	104.0	7.9	7.40	11.6	8.0

Source: Company accounts/Thomson Datastream consensus estimates

Price	A$0.92*
Market cap	A$1.34bn

as at 21 February 2013

Share price graph

Share details

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

Price

52-week	High	Low
	A$0.92	A$0.67

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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Doray Minerals

Investment summary: Mining high-grade gold

Doray Minerals has commenced open-pit operations at its 100% owned, high-grade Andy Well gold deposit in the northern Murchison region of Western Australia. The company completed a A$43m equity raising and secured a A$55m debt security to provide 100% funding for the project. Mine and plant construction are continuing, with management expecting the first gold pour in the quarter ending September. Doray is also focused on exploring several highly prospective targets.

Andy Well project: Fully funded

The Andy Well gold project is located 45km north of Meekatharra within the Murchison region of Western Australia. A BFS was completed in July 2012 followed by a A$55m debt security with Commonwealth Bank of Australia, which will provide funding for 100% of the capital expenditure requirements. The company also completed a A$43m equity raising, which combined with the debt facility should cover all corporate, operational and capital expenditures prior to production.

Mining and development: On track

The company is currently mining the stage one open pit, comprising probable reserves of 32,000t grading at 14.9g/t. The high-grade ore is being stock piled until the ore can be processed. Open-pit mining is expected to continue until June 2013, at which time underground development is scheduled to occur. Plant construction is expected to continue until the end of June 2013. While the BFS has defined a relatively short mine life of 3.7 years, comprising 733,000t grading at 10.6g/t, there is potential to define additional resources with continued exploration.

Exploration: Additional resources at Judy and Wilber

The Wilber lode has been drill tested to a depth of 480m and remains open at depth. A second high-grade lode deposit, referred to as the Judy Zone, has been discovered parallel to the Wilber lode. Management is currently defining a maiden resource estimate for the high-grade Judy Zone and anticipates completion during the first half of 2013. The company also has an extensive tenement portfolio covering c 3,000sqkm in both Western and South Australia and is focused on discovering standalone development opportunities.

Investment case: High-grade but low tonnage

While the Wilber lode deposit does have high-grade ore, resource expansion is required to lengthen the LOM beyond the estimated 3.7 years. However, given Doray's highly prospective tenements we believe the company has potential to identify additional resources.

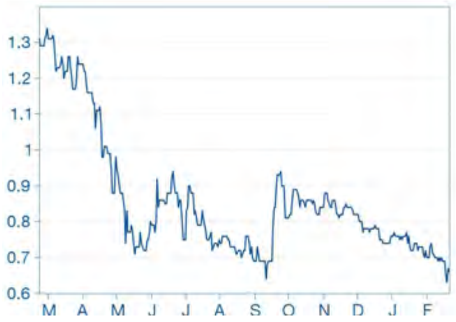
Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
06/11	0.0	(1.9)	(2.90)	0.00	N/A	N/A
06/12	0.0	(4.2)	(0.06)	0.00	N/A	N/A
06/13e	14.2	(8.8)	0.01	0.00	66.0	N/A
06/14e	92.2	41.1	0.14	0.07	4.7	10.6

Source: Company accounts/Bloomberg consensus estimates

Price	A$0.66*
Market cap	A$94m

*as at 21 February 2013

Share price graph



Share details

Code	DRM
Listing	ASX
Shares in issue	141.9m

Price

52-week	High	Low
	A$1.33	A$0.64

Cash (as at 31 Dec 2012)	A$38m

Business

Doray Minerals is an ASX-listed gold miner and producer with assets in Western and Southern Australia. The company is currently mining its 100%-owned Andy Well gold deposit with production expected in the quarter ending September 2013.

Bull

- High grade and near surface.
- Potential for additional resources.
- Adjacent to major highway.

Bear

- Tight deadlines to meet targets.
- Reserve expansion required to lengthen the LOM beyond 3.7 years.

Analyst

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Forge Group

Investment summary: 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.

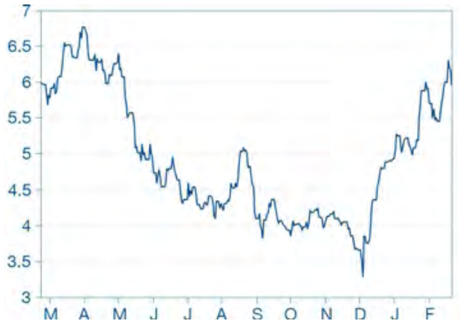
Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	424.7	56.5	45.2	11.5	13.2	1.9
06/12	780.6	70.1	57.3	14.0	10.4	2.3
06/13e	970.7	92.5	78.4	17.0	7.6	2.9
06/14e	962.0	94.4	78.8	18.0	7.6	3.0

Source: Company accounts/Bloomberg consensus estimates

Price	**A$5.96***
Market cap	**A$514m**

**as at 21 February 2013*

Share price graph



Share details

Code	FGE
Listing	ASX
Shares in issue	86.2m

Price

52-week	High	Low
	A$6.86	A$3.22

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.

Analysts

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Ivanhoe Australia

Investment summary: Exploration continues

Ivanhoe Australia (IVA) operates the Osborne copper gold operation in the Cloncurry region, north-western Queensland, located within the Eastern Succession of the Mount Isa Inlier. The Mount Isa Inlier hosts many significant mines including Mount Isa, Ernest Henry and Cannington. IVA currently has one operating project at Osborne, which is sourcing ore from three mines and producing approximately 22,000tpa copper and 25,000oz pa gold. It also has two significant projects close-by, Merlin (molybdenum and rhenium) and Mount Elliott (copper and gold). It has a total of 5,700 sq km of exploration tenements, with a goal of the active exploration programme to provide additional ore for its Osborne plant, while its major objective is the discovery of a new large scale, low cost, copper project.

Corporate update

In January 2012 Rio Tinto (RIO) won control of Ivanhoe Mining (now renamed Turquoise Hill), IVA's parent, by increasing its interest to 50.9%. In November 2012 Turquoise Hill announced it has a 57.7% interest in IVA following a A$76m three for 10 entitlement issue. RIO's resulting significant 29% influence has had various impacts, including Board changes. A new MD and CEO was appointed in January 2013, Mr Bob Vassie replaced the interim CEO. Mr Vassie is a mining engineer and has spent 18 years at RIO mostly in global roles. A Strategic Plan was announced in August 2012, including reductions in capital expenditure of A$69-74m and operating expenditure of A$44-46m. IVA's Q412 activities report confirmed it was on track to deliver these savings during 2013.

Operations and project update

In the December quarter ore to the Osborne plant was supplied from the Osborne mine and the Kulthor mine, which is ramping up. The Starra 276 mine will commence production in February 2013. At the Merlin Project, metallurgical test work and a mining review are being used to assess means of reducing capital and operating costs. At Mount Elliott, exploration continues with an objective to firm up mining options, which include bulk and selective underground operations. IVA has 49 granted Exploration Permits (EPMs) with a total area of 5,787 km² including JVs and 4 EPM applications with a total area of 833k km².

Financial update

IVA had cash of A$45.6m at the end of the December quarter. The funds from the recent entitlement issue allowed IVA to repay the Turquoise Hill loan. Forthcoming use of funds are the Starra 276 mine ramp up and exploration.

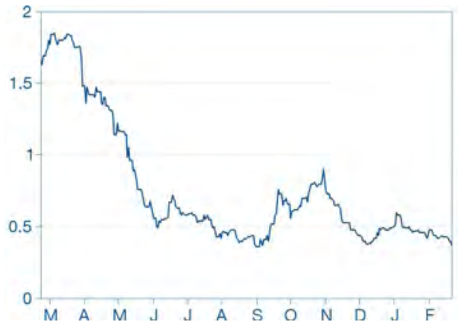
Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
12/10	0.0	(77.8)	(0.21)	0.0	N/A	N/A
12/11	0.0	(126.9)	(0.28)	0.0	N/A	N/A
12/12e	93.4	(95.3)	(0.16)	0.0	N/A	N/A
12/13e	188.3	(5.1)	0.04	0.0	9.3	N/A

Source: Company accounts/Bloomberg consensus estimates

Price	A$0.37*
Market cap	A$268m

**as at 21 February 2013*

Share price graph



Share details

Code	IVA
Listing	ASX, TSX
Shares in issue	724.3m

Price

52-week	High	Low
	A$1.85	A$0.36

Cash (at 31 Dec 2012) A$45.6m

Business

Ivanhoe Australia (IVA) is an explorer and mine developer with extensive exploration permits in the prospective Mount Isa Inlier, NW Queensland. It has one operation, producing copper and gold, at Osborne and two advanced projects, Merlin and Mount Elliott. Its major goal is to discover a major greenfield copper project.

Bull

- Extensive exploration potential.
- Existing copper production.
- Two significant projects in pipeline.

Bear

- Project funding - debt/equity/JVs?
- Copper resources mostly low grade.
- RIO influence issues, share overhang.

Analysts

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Jumbo Interactive

Investment summary: 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.

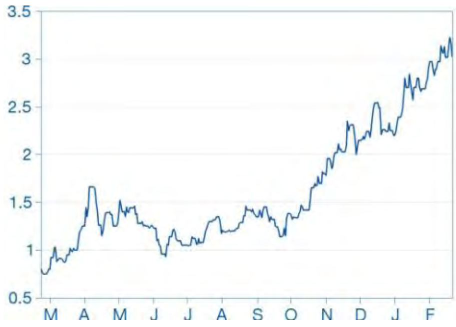
Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
06/11	18.1	5.9	0.08	0.010	37.9	0.3
06/12	24.1	9.1	0.16	0.030	18.9	1.0
06/13e	28.8	9.5	0.15	0.034	20.2	1.1
06/14e	31.1	10.7	0.17	0.039	17.8	1.2

Source: Company accounts/Bloomberg consensus estimates

Price	A$3.03*
Market cap	A$128m

*as at 21 February 2013

Share price graph



Share details

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

Price

52-week	High	Low
	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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Kingsgate Consolidated

Investment summary: Gaining traction

Kingsgate's Q213 gold production of 46,149oz remained below capacity, but marginally ahead of Q1. Weakness was expected and reflects temporary issues including forced downtime at the Thai Chatree plant while awaiting a metallurgical licence, and an emphasis on development at Challenger mine in South Australia. A much stronger second half is expected and by Q413, a sustainable run rate for its two mines combined of 240,000-250,000oz per annum, a big improvement. In addition to announcing positive future developments at its current mines, progress has been made in advancing silver projects at Nueva Esperanza, Chile and Bowdens, NSW.

Further production increases, lower costs

With the Chatree plant now operating at 6.2m tonnes per annum, feasibility work is underway to expand the combined capacity of its plants to 7m tonnes per annum at minimum capital expenditure. Investigation of the deeper high-grade potential of A pit is also continuing, which could increase resources and mined grades. At Challenger, tenders have been invited for a replacement mining contract from 1 August 2013, potentially lowering costs and increasing efficiencies.

Projects providing longer-term growth

At KCN's Nueva Esperanza silver/gold project in Chile, the feasibility study is now incorporating onsite power generation and a less power hungry heap leach route to mitigate current power supply issues. It will consider conventional milling for non-leachable ore at a later stage when cheaper power becomes available. It is possible production could start before the end of 2014 at a 120,000oz gold equivalent per annum rate. At its Bowdens silver project in NSW, resources have increased by 40% to 182Moz silver equivalent following the 2012 drilling programme. Measured, indicated and inferred resources now comprise 88m tonnes at an average grade of 64.4g/t silver equivalent. Significant high-grade mineralisation occurs near surface. Subject to approvals, Bowdens could be producing over 8Moz silver equivalent per annum in 2016.

Valuation: Re-rating likely as milestones are delivered

On a gold equivalent basis, for operating and non operating assets, Kingsgate has an enterprise value (EV)/resource ounce of c A$60/oz, compared with an average of just over A$100/oz. Even allowing for the imperfections of this measure, this seems low. A re-rating is likely as production and project milestones are delivered.

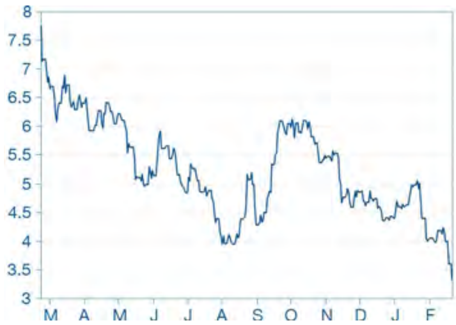
Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	172.4	17.8	31.3	15.0	10.6	4.5
06/12	357.3	91.3	52.1	20.0	6.4	6.0
06/13e	367.0	77.3	68.0	19.0	4.9	5.7
06/14e	447.1	127.6	100.0	27.0	3.3	8.1

Source: Company accounts/Bloomberg consensus estimates

Price	A$3.32*
Market cap	A$504m

**as at 21 February 2013*

Share price graph



Share details

Code	KCN
Listing	ASX
Shares in issue	151.8m

Price

52-week	High	Low
	A$7.83	A$3.32

Cash (as at 31 Dec 2012)	A$52.8m

Business

Kingsgate Consolidated is an ASX-listed gold producer with two operating gold mines in Thailand and Australia. As part of a growth and diversification programme, the company also has silver projects in Chile and NSW, Australia.

Bull

- Medium size gold producer with total capacity of 250,000oz pa.
- Exploration upside in Thailand.
- Dividend paying, low net debt.

Bear

- No near-term output from new mines.
- Country risk in Thailand.
- New projects will need financing.

Analysts

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Linc Energy

Investment summary: 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.

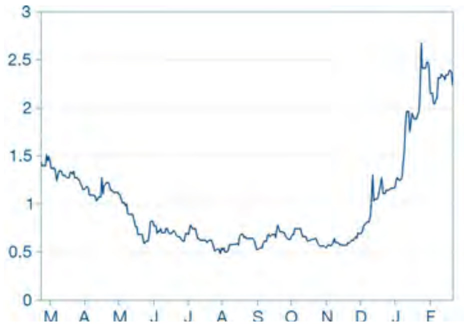
Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/11	3.2	432.3	59.3	10.0	3.8	4.5
06/12	57.1	(89.6)	(12.2)	0.0	N/A	N/A
06/13e	153.8	(13.4)	(3.7)	0.0	N/A	N/A
06/14e	237.5	52.5	7.8	0.0	28.7	N/A

Source: Company accounts/Thomson Datastream consensus estimates

Price	A$2.24*
Market cap	A$1,160m

**as at 21 February 2013*

Share price graph



Share details

Code	LNC
Listing	ASX
Shares in issue	517.7m

Price

	High	Low
52-week	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.

Analysts

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NewSat

Investment summary: 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.

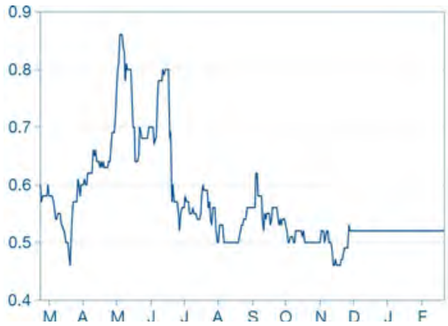
Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (c)	P/E (x)	Yield (%)
06/11	28.7	0.3	0.17	0.0	3.1	N/A
06/12	37.2	2.3	0.01	0.0	52.0	N/A
06/13e	41.2	2.4	0.00	0.0	N/A	N/A
06/14e	56.0	8.4	0.06	0.0	8.6	N/A

Source: Company accounts/Thomson Datastream consensus estimates

Price A$0.52
Market cap A$121m

**as at 21 February 2013*

Share price graph



Share details

Code	NWT
Listing	ASX
Shares in issue	233.05m

Price

52-week	High	Low
	A$0.52	A$0.6

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.

Analyst

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Northern Star Resources

Investment summary: Gold oz up, costs down

Northern Star Resources (NST) looks to break the 100kozpa production barrier during 2013 at its Paulsens Gold Mine and in doing so potentially generate A$65m to A$85m in surplus cash per annum. Commensurate with this in H113 there was a c 15% increase in processed grade to 7.3g/t Au and appreciation of associated economies of scale, resulting in C1 cash costs of A$640/oz (including a c A$40/oz royalty). NST is also continually releasing high-grade drill results from its well-funded (A$20m) exploration programme across its 1,400km^2 of tenements predominantly along the prospective Nanjilgardy Fault in the Pilbara. With its expansion project at Paulsens complete and continued exploration success regionally, NST will investigate the potential for operating multiple mines along a 25km trend called the Paulsens Mine Corridor Section and also starting a second 100kozpa mine at its Ashburton project located along the same Nanjilgardy Fault as Paulsens.

Increased production at Paulsens in full swing

Northern Star in H113 (year-end June) mined 50,252oz Au, recovered 39,230oz Au of which 43,267oz Au was sold at an average realised gold price of A$1,619/oz, and produced at total cash costs of A$899/oz. Further, A$1.9m in savings were made in Q213 (Sept-Dec) via its own Mining Services Division, delivering a y-o-y ore tonnage increase of 78% (cf contractor performance a year earlier).

Exploration: Cementing Paulsen’s future

NST has established three code-compliant resources from north to south along the 25km-long Paulsens Mine Corridor: Merlin North (0.5Mt @1.4g/t for 24koz Au), Paulsens (1.5Mt @ 7g/t for 348koz Au) and the Belvedere Prospect c 25km to the south (0.2Mt @ 3.3g/t 18koz Au). In between these are numerous deposits with rock chip assays ranging 1.08g/t (Airbase) Au to 22g/t Au (Oceania). In addition, NST looks to increase its resources at Paulsens by drilling its Voyager 1 lode.

Ashburton – potential second 100kozpa mine

The Ashburton Project, with a resource totalling c 1.0Moz Au, hosts the old Mt Olympus mine, which operated from 1998 to 2004 producing 340koz Au at 3.3g/t Au head grade. It closed due to the gold price dropping below A$500/oz. NST aims to delineate a resource capable of sustaining a 100kozpa standalone operation.

NST can now explore 400km of prospective FMG ground

NST has signed a non-iron ore JV with Fortescue Metals Group (FMG) to earn up to a 60% interest in the non iron ore rights to key FMG tenements around and between its Paulsens and Ashburton Projects with a US$2m payment for an initial 25% interest, with the right to earn another 35% by spending $4m within two years.

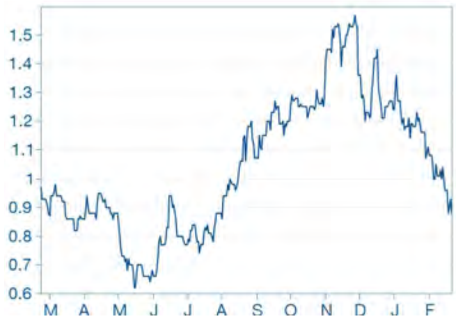
Year end	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
06/11	114.9	20.0	0.06	0.0	14.6	N/A
06/12	99.5	31.4	0.06	0.0	14.6	N/A
06/13e	164.4	72.3	0.12	0.0	7.3	N/A
06/14e	220.6	102.1	0.17	0.0	5.2	N/A

Source: Company accounts/Bloomberg consensus estimates

Price	A$0.88*
Market cap	A$373m

**as at 21 February 2013*

Share price graph



Share details

Code	NST
Listing	ASX
Shares in issue	424m

Price

52-week	High	Low
	A$1.57	A$0.63

Cash (as at 30 Jun 2012)* A$65.0

**including cash at bank and on deposit*

Business

Northern Star Resources produces gold at its owner-operated Paulsens Gold Mine in the Pilbara, Western Australia. In addition to its Pilbara operations, which include 1,400km^2 of exploration tenements, the company also explores for gold in the prospective Murchison and Kimberley regions of Western Australia.

Bull

- Successful mining operation.
- Regular positive exploration news.
- Potential second mine to re-open.

Bear

- High Australian operating cost environment.
- Execution risk at Ashburton.
- Moderate reserve base.

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Saracen Mineral Holdings

Investment summary: Gold resource growth

Management has re-commissioned and expanded the Carosue Dam project (acquired in 2006) and acquired leases within trucking distance. An exploration campaign has resulted in a 1.1Moz reserve and a 4.1Moz resource supporting a +125,000oz pa production rate at C1 costs of c A$1,000/oz. Management now expects to achieve a 190,000oz pa production rate by 2014/15.

Rapid resource growth and commercial production

The project is located in the North Eastern Kalgoorlie Goldfields, Western Australia, in four districts: Porphyry (Wallbrook deposit), Carosue Dam (Whirling Dervish and Karari deposits), Red October (Butcher Well deposit), and Safari Bore (Deep South Deposit). The 2.4Mtpa Carosue plant was reinstated in late-2009 ahead of schedule and under budget. Saracen reported production of over 360,000oz Au to end-December 2012. For FY12 116,122oz Au was recovered with revenue of A$184m at a 43% gross operating profit margin. The A$98m capital expenditure programme for that year included continuing successful reserve and resource development, establishment of the new Red October underground mine and increased potential for the Whirling Dervish open pit.

Targeting for further growth

Current production is sourced mostly from the Karari and Deep South open pits and Saracen now targets to move to larger-scale bulk open-pit mining from Whirling Dervish, Wallbrook and other future pits, coupled with the A$25m expansion of the plant capacity to 3.2Mtpa (c 190,000oz Au production).The Whirling Dervish pit expansion (A$30m) will subsequently be the main open-pit source backed up by the Red October underground operations. A feasibility study for an underground mine at Deep South is also underway.

Future plans and funding

Management states that organic growth of the Carosue Dam project is the core priority and expects that investment in exploration will provide additional production opportunities limited by trucking distance economics to the current plant site. To date, financing has been provided by equity funding of A$65m in September 2011 and A$35m in June 2010. There is also a debt facility of A$50m, gold hedging (currently 200,000oz at A$1,695/oz weighted average over three years) and a A$15m mezzanine facility, as well as a A$20m environmental bonding facility. As at 31 December 2012, in addition to A$7.2m cash, Saracen held some A$8.3m gold in transit, A$14m as cash-backed environmental bonds, and has drawn down A$10m of its debt facility.

Year End	Revenue (A$m)	PBT (A$m)	EPS (A$)	DPS (A$)	P/E (x)	Yield (%)
06/11	156	51.7	0.10	0.00	3.4	N/A
06/12	184	26.7	0.03	0.00	11.3	N/A
06/13e	221	65.7	0.06	0.00	5.7	N/A
06/14e	257	96.2	0.09	0.00	3.8	N/A

Source: Company accounts/ Bloomberg consensus estimates

Price A$0.34*
Market cap A$202m
**as at 21 February 2013*

Share price graph

Share details

Code	SAR
Listing	ASX
Shares in issue	595m

Price

52-week	High	Low
	A$0.76	A$0.34

Cash (as at 31 Dec 2012) A$7.2m

Business

Saracen Mineral Holdings is an ASX-listed gold production, exploration and development company located 120km north-east of Kalgoorlie in the South Laverton region, WA, which hosts the Sunrise Dam, Granny Smith and Wallaby mines.

Bull

- Continued exploration success.
- Good track record.
- High profit margins.

Bear

- Equity and gold market weakness.
- Exploration risk.
- Financing risk.

Analysts

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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	23.1	N/A
06/12	135.3	44.6	0.15	0.00	13.9	N/A
06/13e	316.6	106.9	0.27	0.00	7.7	N/A
06/14e	634.0	299.2	0.61	0.07	3.4	3.4

Source: Company accounts/ Bloomberg consensus estimates

Price A$2.08*

Market cap A$788m

**as at 21 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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Sirius Resources NL

Investment summary: Super-Nova discovery

Sirius Resources NL (SIR), the ASX-listed base and precious metals explorer, is expected to delineate its maiden JORC resource at the Nova nickel-copper deposit in the Fraser Range of Western Australia by the end of March 2013. The results from the initial discovery of Nova in July 2012 and the ongoing drill programme to confirm continuity and grade of the deposit suggest it may be a major nickel discovery. SIR is fully funded to drill Nova to JORC status as well as to test three additional geophysical anomalies near Nova at the Eye prospect and other targets at the Fraser Range joint venture (JV).

Nova – future nickel giant?

SIR is focusing its endeavours on the Nova nickel-copper deposit at the Eye prospect in the Fraser Range JV (SIR: 70%; Mark Creasy: 30%). After drilling of the first anomaly intersected the discovery hole of 4m at 4.02% Ni, 1.41% Cu, further drill hole results returned thick zones intersected by massive and breccia textured sulphides including 36m at 3.47% Ni, 1.44% Cu and thick massive, matrix and disseminated sulphides of 62m at 3.4% Ni, 1.27% Cu. The Fraser Range JV covers approximately 150km strike length of the Albany-Fraser belt comprising mafic and ultramafic intrusive rocks. The area is considered prospective for the rare but potentially world-class intrusive-style Ni-Cu-PGM deposits that are found in circum-cratonic mobile belts worldwide and appears most similar to the giant Canadian nickel deposits of Thompson, Raglan and Voiseys Bay.

Metallurgical benefits

Preliminary metallurgical flotation testing of two samples of massive sulphide and breccia mineralisation from the Nova deposit has provided encouraging results for SIR. Recoveries of over 95% were achieved for both nickel and copper with low gangue, arsenic and magnesium levels and a high iron to magnesium ratio (Fe/Mg) exceeding the minimum required by smelter.

Management's history of exploratory success

SIR is managed by successful mining explorers. The managing director and CEO, Mark Bennett, is a geologist. He discovered the Thunderbox Gold and Waterloo nickel mines and was the Association of Mining and Exploration Companies (AMEC) 2003 Prospector of the Year. The SIR board also boasts the company's major shareholder and fellow partner of the Fraser Range JV, Mark Creasy, who was the inaugural Prospector of the Year for the Bronzewing Gold discovery in the 1990s.

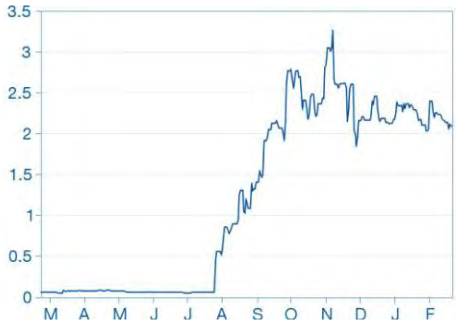
Year End	Revenue (A$m)	PBT (A$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/10	0.0	(1.9)	(0.03)	0.0	N/A	N/A
06/11	0.0	(9.3)	(0.08)	0.0	N/A	N/A
06/12	0.0	(6.7)	(0.02)	0.0	N/A	N/A
06/13e	0.0	(13.6)	(0.04)	0.0	N/A	N/A

Source: Company accounts/Thomson Datastream consensus estimates

Price	A$2.09*
Market cap	A$469m

as at 21 February 2013

Share price graph



Share details

Code	SIR
Listing	ASX
Shares in issue	224.44m

Price

	High	Low
52-week	A$3.27	A$0.05

Cash (as at 31 Dec 2012)	A$63.4m

Business

Sirius Resources NL is an ASX-listed base and precious metals explorer with a suite of exploration projects in world-class nickel districts and emerging gold, nickel and base metal provinces of Western Australia (WA) and British Columbia (BC), Canada. The Nova nickel-copper deposit in the Fraser Range of WA is the main exploration target to date.

Bull

- Possible major nickel discovery.
- Highly prospective suite of exploration projects in stable jurisdictions.
- Managed by highly successful explorers.

Bear

- Nickel price – commodity price risk.
- Exploration and resource conversion risk.
- Project development risk.

Analysts

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Thorn Group

Investment summary: 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	12.1	4.2
03/12	188.4	40.2	0.190	0.095	10.6	4.7
03/13e	198.0	40.1	0.194	0.103	10.4	5.1
03/14e	209.7	42.9	0.207	0.110	9.8	5.4

Source: Company accounts/Thomson Datastream consensus estimates

Price A$2.02
Market cap A$296m
as at 21 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.

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