Stock Picks for 2017.

Our analysts share their outlook and their top 3 stock picks for 2017.

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Financials.

TS Lim

The 2016 reporting season suggests underlying fundamentals are becoming positive for the banks. These include slowing margin decline as competition for new customers and the chase for deposits begin to ease, sustained cost discipline, normalising loan losses that would remain manageable, further strengthening in prudential buffers and no reduction in dividends. We can expect these trends to continue into 2017.

Looking ahead, we expect two developments that would build upon these positives.

Firstly, capital requirements will continue to rise but we believe the banks will have time to achieve these through their DRP. The upcoming Basel 4 pronouncements on capital and funding may prove to be restrictive but these would be tempered by ongoing uncertainty in Europe and the need to preserve economic stability at the very least.

Secondly, higher interest rates are inevitable and this will be good for the banks. Loan losses may increase but historical loss rates on mortgages tend to be low (averaging 2-3bp) providing unemployment remains low. The stress points belong in the unsecured personal lending and highly leveraged commercial property space (loss rates around 300bp) but the banks have generally de-risked their exposures since the GFC. It should come as no surprise the major banks would be beneficiaries in a rising rate environment given their lending book composition and scale.

Our pecking order starts with WBC given better margins and scope to further rationalise its branch network, followed by NAB (well positioned to close the ROE gap with its peers), ANZ (capital upside from divesting legacy investments in Asia and Wealth) and CBA (fully valued).

Westpac Group (WBC)

WBC is Australia's oldest bank with a focus in Australia and New Zealand. Following the transformational merger with SGB in December 2008, the bank is now the leading financial services player in the country (with 10m customers, 1,200 branches and 2,700 ATMs) and the largest provider of wealth platforms. Our current rating reflects WBC's relatively lower risk profile and significant ROE and value upside from productivity and efficiency gains within Westpac Retail & Business Banking in the medium term in rationalising the branch network with St George (~100 surplus branches at least). The other key value drivers are scale in banking and wealth management (domestic and overseas) and exposure to fast growing NSW.

National Australia Bank (NAB)

NAB is a well-diversified financial services organisation providing a comprehensive range of retail and wholesale banking and wealth management products and services. The bank largely operates in Australia (under the NAB umbrella brands) and in New Zealand (under the BNZ brand) and remains a leader in SME/business banking. NAB's turnaround and de-risking phase is largely complete following the demerger and IPO of CYB and divestments that included MLC Life, US-based Great Western Bank and non-core UK commercial loans. The bank is now focused on the lower risk, capital efficient domestic financial services market space. Our investment strategy is predicated upon NAB improving its NIM (through repricing and pricing discipline), maintaining tight cost management and lifting its overall ROE to levels that are at the top end of the peer range of 12-15%. It is also our view that NAB's improved risk profile should continue to underpin share price outperformance.

Diversified Financials.

Lafitani Sotiriou

The recent market rally places the sector in a strong position at the start of calendar 2017. We have an net-overweight view in the sector, however remain cautious on some names with a Sell on AMP and CPU.

BT Investment Management (BTT)

We believe BTT's robust growth and continued traction is no accident. The company continues to innovate, and fine tune its distribution model and product offering. We are forecasting double digit EPS growth for the next three financial years, and continue to rate the stock as a top pick in the sector.

Buy, Price Target: $13.30

Challenger (CGF)

We maintain our positive view on CGF and see further catalysts for the company, with the Federal Government progressing the introduction of both Deferred Lifetime Annuities (DLAs), which is due to start 1 July 2017 and Comprehensive Income Products for Retirement (CIPRs), which will now be called MyRetirement. We believe CGF is well placed to benefit from these changes.

Buy, Price Target: $12.50

Praemium (PPS)

Separately Managed Accounts (SMAs) are a tax-efficient and easy way for investors to manage their monies. SMAs are nothing new, and in fact have been in Australia for over a decade. What has changed is the regulation and awareness surrounding such products. Of note, the FOFA reforms in Australia helped accelerate the shift to SMAs. We see PPS as a major beneficiary of this thematic, both in Australia and abroad. In addition to offering SMAs, PPS provides other technology, and is one of our preferred fintech companies.

Buy, Price Target: $0.75

Discretionary Retail.

Sam Haddad

We have a positive outlook for discretionary retail sales over near-term, albeit cognisant of the strong sales comparatives.

The key positive factors underpinning our view include: 1) the conducive consumer spending environment stemming from low interest rates and low petrol prices; 2) housing plus share market wealth effect; 3) stable political leadership tailwinds (e.g. to business confidence); 4) the increase in job ads, 5) lower $A economic benefits, and 6) the favourable outlook to employment growth (stemming from factors 3 to 5).

We believe the key risks to our view include rising interest rates and a notable deterioration in employment security, although consider these risks as low over the next 12 months.

Super Retail Group (SUL)

Super Retail Group Limited (SUL) is a specialty retailer operating in the automotive parts and accessories market along with the leisure and recreational goods market. Following a period of important business investment/ restructure, we believe SUL has emerged as a stronger and more competitive business that is backed with a more integrated and scalable platform. We believe the combination of increased scale/efficiency in logistics (with an upgraded DC platform), restructure benefits in Rays and Infinite Retail, an anticipated gross margin recovery in BCF, plus the natural growth in the group (i.e. new store openings and like-for-like sales growth), will underpin strong EPS growth over FY17-FY19 (we forecast EPS CAGR of ~16%). SUL's valuation is undemanding with FY17 PE <15x and FY18 PE<13x and offers an attractive FY17 fully franked yield of ~4.5% (as measured at a share price of $9.45).

QANTM Intellectual Property Ltd (QIP)

QANTM Intellectual Property Limited (QIP) is the owner of Davies Collison Cave (DCC) and FPA Patent Attorneys (FPA), two professional Intellectual Property (IP) services firms which have significant market share positions in Australia. We believe QIP has a number of attractive operating attributes including: a diverse group of long-lasting blue-chip clients; revenue that is well diversified with high visibility; frequent invoicing that ensures work-in-progress is minimal and cash conversion is high; and exposure to a structurally growing industry. We believe there are attractive margin upside prospects for QIP through productivity improvements and synergies between the two firms. Also, QIP has an early stage office presence in Singapore that we believe lays the foundations of a significant new growth frontier in Asia. Based on these factors we believe QIP's valuation is undemanding with FY17 PE <16x (as measured at a share price of $2.20). QIP's annualised yield is also attractive at ~5% fully franked.

RCG Group (RCG)

RCG Group (RCG) is an investment holding company which owns and operates a number of footwear businesses in the performance and active lifestyle sectors. This includes ownership of three leading multi-branded retail platforms (The Athlete's Foot, Platypus and Hype) that we believe complement one another. We like RCG's vertical strategy (i.e. wholesale and retail arms) which we believe provides the key advantage of brand control. We believe RCG's retail platforms are supported by structural tailwinds (such as healthy lifestyle trends and rising women's participation), which opens significant store network growth prospects particularly in Skechers, Platypus and Hype. The combination of significant store network expansion and the gross margin accretive benefits this delivers, underpins our strong FY18-FY21 EBITDA CAGR of ~17%. Based on these factors we believe RCG's valuation is undemanding with FY17 PE ~16x and FY18 PE<13x (as measured at a share price of $1.40). RCG also offers an attractive FY17 fully franked yield of ~5%.

Travel & Tourism.

John O'Shea

The Travel & Tourism sector is likely to be dominated by a number of key themes including:

- continued strength in Inbound Tourism into Australia
- a continuation of the structural shift to Outbound Holiday Travel at the expense of Domestic, downward pressure on International Airfares particularly within Asia/Pacific and Europe, and
- a general lack of new hotel supply in the key cities of Sydney/Melbourne.

Webjet (WEB)

Over recent months there have been a number of developments which have important implications for our WEB investment thesis. The key takeaways from our perspective are as follows: 1. The sale of Zuji (proceeds $56m and gain on sale $26m) represents a major positive from both a strategic and financial perspective; 2. The Mainstream Flight business in Australia still appears to be winning share and we expect this trend to continue particularly when one considers WEB's small share of the Domestic and Outbound Flights segments in Australia; 3. The FY17 earnings guidance provided at the recent AGM ($60m EBITDAexcluding Zuji gain) suggests the other continuing businesses are performing strongly; and 4. The recently launched FIT Ruums B2B business in Asia has significant upside potential yet it represents a relatively low risk approach given the key initial personnel are largely ex GTA Travel employees (same model adopted as the successful Lots of Hotels Middle East start up). We business now appears to have a number of appealing growth options and assuming successful execution, we see material share price upside.

Mantra (MTR)

We have recently reviewed our investment thesis for MTR with the key takeaways from our perspective are as follows: 1. The market is fixated on 3-6% organic EBITDA growth but this range will vary given the different cost structures of the CBD and Resorts Divisions; 2. RevPAR growth for the CBD Division to trend higher over the medium term driven by gradual improvement in the previously weak mining cities (albeit still negative growth rates) and supply/demand imbalance in the key Sydney/Melbourne markets; 3. The Resorts Division is having its time in the sun with RevPAR growth to moderate over the medium term; 4. Despite the expected slowing in Resorts RevPAR growth, the improvement in the CBD segment is expected to drive double digit EBITDA growth at a group level in FY18 and FY19; and Market concerns around Airbnb, senior management changes and the Hawaii acquisition appear overplayed. We expect organic earnings growth to accelerate post FY17 driven by improving conditions in the CBD segment.

SeaLink (SLK)

Our positive investment thesis surrounding the Company is based on the following key factors: 1. The Company is now a diversified tourism and transport business which adds to the investment appeal; 2. The earnings have a distinctly annuity feel to them underpinned by the Company's competitive position across key markets; 3. The TSM acquisition is delivering and we expect this trend to continue; 4. The Sydney business is yet to "hit its straps" but the Inbound themes underpinning it remain strong; 5. Organic growth catalysts exist in a number of markets including Sydney, Darwin and Perth; 6. Significant acquisition opportunities exist both domestically and internationally; and 7. Fuel is not a material driver of earnings.

Technology.

Chris Savage

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

We also believe there is reasonable value in the sector and, while some of the larger and higher profile stocks now have forward PE ratios >30x, there are some smaller and lower profile stocks – but still of good quality and with good growth outlooks – with forward PE ratios of around 20x or less.

Our goal is to find good quality tech stocks with strong growth outlooks and preferably a global presence that are currently trading on forward PE ratios of around 20x or less and that, over time, can re-rate up to around 30x or more as has happened with stocks like Technology One (TNE) and Altium (ALU).

Integrated Research (IRI)

Integrated Research (IR) is a software company that has one key product – called Prognosis – which monitors the performance of a customer's computer network. The company has many of the attributes we look for in a tech company: global presence, leading market position, high quality customers, large recurring revenue, long history, barriers to entry, strong balance sheet and good management. The stock is currently trading on an FY17 PE ratio of c.25x which we believe is reasonable given we forecast average EPS growth of approximately 20% over the next three years (FY17-FY19). We believe IR has as good an outlook as Technology One and Altium and so believe the stock deserves to trade on a forward PE ratio of around 30x or more.

BUY, PT $3.50

Appen (APX)

Appen is a services company that provides language data and services to enterprise and government customers. The company has many of the attributes we look for in a tech company – global presence, leading market position, high quality customers, long history, barriers to entry, strong balance sheet and good management – and also provides exposure to the key thematic of speech being increasingly used as an interface. The stock is currently trading on a CY17 PE ratio of c.20x which we believe is reasonable given we forecast average EPS growth of approximately 15% over the next three years (CY17-CY19). We believe Appen deserves to trade on a forward PE ratio of between 25-30x given its key exposure to the speech thematic and leading global market position.

BUY, PT $3.80

Adacel Technologies (ADA)

Adacel is a software company that has two key products – air traffic control (ATC) simulation systems and air traffic management (ATM) automation systems. The company is by far the leading global provider of the former and more of a niche provider of the latter. The demand outlook for both products is positive given there is a global shortage of air traffic controllers (and hence need for more ATC simulation systems) and there are various modernisation programs to improve ATM systems globally. The stock is currently trading on an FY17 PE ratio of c.17x which we believe is cheap given we forecast average EPS growth of approximately 15% over the next three years (FY17-FY19). We believe Adacel deserves to trade on a forward PE ratio of between 25-30x given it is a software company with a leading global market position and a high level of recurring revenue.

BUY, PT $3.50

Resources.

David Coates

In an environment where economic growth in China is being sustained and the US may embark on a program of significant infrastructure expenditure we are positive on a range of opportunities in the resources sector in our outlook for CY17.

We have a focus on base metals, mineral sands and selective names in the gold sector. Growth in GDP and Industrial Production will help support base metal prices and, in our view, add momentum to recent improvements in mineral sands prices. While there is potential for some supply responses across some commodities (including nickel), we look to company specific factors to offset these, should they emerge.

Although the immediate outlook for the gold price is bearish, we see potential for negative real interest rates and political uncertainty in CY17 to emerge as positive drivers and, as such, believe it prudent to maintain some gold exposure.

Independence Group (IGO)

While we currently rate IGO a Hold at $3.95/sh, (+12 month basis) our valuation model will soon roll forward to our next price target of $5.19/sh (+24 month basis). This, combined with the recent, ahead-of-schedule completion of the A$440m Nova Nickel Mine in WA, the strong balance sheet position (net debt of just A$22m) and what we anticipate to be a material increase in free cash flow over the course of CY17 cause us to include IGO as one of our top picks for CY17. In this period IGO will also transition from generating revenues predominantly from gold to nickel, which we see as advantageous in the near-term. Add to this a management team that has built a strong track record in both construction and operation of IGO's assets and the company, in our view, justifies a spot in our top-3 picks for CY17.

Hold, TP $3.95

MZI Resources (MZI)

MZI is an Australian-based mineral sands producer which commenced production in 2016 from its 100% owned Keysbrook Project 70km south of Perth. The Keysbrook Project is a long-life, low-risk asset that generates high margins even at the current low point in the commodity cycle. It offers exposure to products that typically reflect GDP growth in both developing and advanced economies. Recent increases in the Reserve base for a 15 year life-of-mine, ramp-up to design performance levels and positive signals on mineral sands pricing lead us to the view that CY17 will see material growth in operational cash flow and earnings. We see potential for a re-rating in CY17 and a current value opportunity, with our most recent P/E estimates of 4.6x and 3.3x for FY17 and FY18 respectively.

Buy (Speculative), Valuation $0.56/sh

Pantoro Limited (PNR)

PNR is a growing gold production company, operating its flagship, 100% owned, Halls Creek Project (including the Nicolsons Gold Mine) in the Kimberley Region of Western Australia. Extremely competitive capital efficiency combined with high grades at Nicolsons delivered positive operational cash flows in FY16, despite the project being in production for just 10 months and being in ramp-up phase. In CY17 we see a number of company-specific growth opportunities to drive relative outperformance by PNR's. These include ramp-up to full production levels by the June quarter 2017, increases in head grade to reduce costs and exploration success to increase the Resource base and extend mine life. Combined with PNR's growth catalysts, it makes our top-3 for CY17.

Buy, TP $0.24/sh

Resources.

Peter Arden

My view of the outlook for resources is for continued interest in base and precious metals notwithstanding the effects of the recent rise in official interest rates in the USA and perennial concerns that China's growth will slow significantly.

This interest is expected to be reflected in the continued and potentially intensified corporate interest (particularly by the majors, many of whom have totally disbanded their exploration capabilities in recent years so they don't have a project generation capacity) as they recognise they recognise the lack of new mineral discoveries over recent years and that they are not well positioned to take advantage of looming supply deficits for some of the major base metals (copper, nickel and zinc in particular).

Westgold Resources Ltd (WGX)

WGX has just been demerged from diversified midcap, MLX, and as such, WGX is a new, substantial gold producer with strong growth. We believe WGX has an attractive mix of producing, development and pre-feasibility assets located in Western Australian and the Northern Territory. Current annualised equity gold production is around 250koz from three operations - the Higginsville Gold Operation, the South Kalgoorlie Operation, and the Central Murchison Gold Project, which puts WGX well into the top 10 ASX-listed gold producers and we forecast that with planned expansions, it's production could rise to over 450koz by FY20 with average all in sustaining costs of around A$1,250/oz.

S2 Resources Ltd (S2R)

With arguably one of the best mineral exploration teams around, S2R is doing exactly what it was formed to do when it was demerged from IGO just over a year ago. The company has had some early but admittedly variable success discovering significant gold mineralisation at the Polar Bear Project in the Norseman district of the Western Australian goldfields and it is continuing to evaluate and explore for additional gold mineralisation there. S2R has also just begun a major, 5-month long drilling program in Sweden on 10 priority targets identified from its ground-breaking electromagnetic surveying of its areas in an historically important and highly endowed VMS belt.

Buy (Speculative)

Xanadu Mines Ltd (XAM)

XAM is lifting activity levels on its two most advanced projects in prime areas in the highly endowed South Gobi Porphyry Belt in mining friendly Mongolia – the Kharmagtai Project, where recent work has included evaluation of extensive and very near surface epithermal gold mineralisation, confirmation of very favourable metallurgical recoveries for copper and gold, and extension drilling of the new copper-gold mineralisation in tourmaline breccia; and the Oyut Ulaan Project, where several significant types of mineralisation have been discovered including shallow epithermal gold and new stockwork targets for copper mineralisation. Recently increased interest by majors in new copper-gold projects means XAM's projects are likely to come under greater notice.

Healthcare & Biotech.

Tanushree Jain

We believe that the fundamentals and demographic trends for the healthcare and biotech sector are strong going into 2017. We also believe that some of the other factors especially on the political front in US which caused a lot of volatility and pressure on the sector in 2016 have somewhat abated.

Amidst the US election year in 2016, investors were worried about the potential of regulatory policy changes which could affect drug pricing especially under a potential Clinton administration. Now that Donald Trump is the President elect we believe government price controls are going to be less likely, however we do believe the scrutiny on drug pricing will not go away as evidenced by a quote the president elect recently gave saying 'I am going to bring down drug prices'.

Some companies in the US have already gone on the front foot to voluntarily limit their annual price increases for drugs to 10% and we believe that moving forward in the US we are looking at an environment where companies are allowed moderate price increases (up to 10% a year) and not higher.

Most recently in the US the 21st Century Cures Act was signed by president Obama into law. This legislation aims to increase funding for medical research, speed the development and approval of innovative treatments including regenerative medicines, cancer, mental health and fight opioid abuse.

Amidst this backdrop we believe that it will no longer be possible for companies to rely on exorbitant price increases to bolster their revenues. Large pharmas continue to be struggling with dwindling pipelines and revenue erosion from expiry of patents on their blockbuster products resulting in competition from low priced generics. There is also talks about the president elect allowing US companies to repatriate their overseas cash at a lower tax rate which if eventuates may provide these companies with a much larger war chest to be able to aggressively go after the most promising innovation.

As a consequence we continue to expect cash rich companies to keep looking for promising, innovative products outside their company and predict that companies will be engaged in increased licensing and M&A activity in 2017 which bodes well for the outlook for the ASX listed biotechs and healthcare stocks we cover.

Companies likely to attract suitors will be those that are truly innovative, target diseases that are particularly likely to increase in incidence with rising ageing population and areas with unmet need with relatively limited competition and those that have the ability to cut down on healthcare costs and offer an expedited path to regulatory approval.

Healthcare & Biotech.

Tanushree Jain

Three ASX listed biotech stocks stand out as potential winners and are our top picks for 2017.

Medical Developments International (MVP)

We have a Buy recommendation with a Price Target of $7.72/sh. MVP is a specialist health care company with pain relief and respiratory device products. Its flagship product Penthrox (a self-inhaled, fast acting, non-narcotic analgesic for emergency trauma pain treatment) has been used for several years in Australia and is in the initial stages of global expansion. Emergency trauma pain is a growing and underserved market with emergency departments across the globe seeing increased utilisation, which is putting pressure on these departments, decreasing their efficiency and adversely affecting quality of care provided to patients. There is also increased focus in the US around curbing the epidemic of opioid drug abuse and finding non-narcotic alternatives such as Penthrox to treat pain. We believe Penthrox can help doctors to treat patients more efficiently and provide a much needed non-narcotic effective option with relatively less risks to patients. We do not see any significant competition for Penthrox in this setting.

The company has a market cap of $259m. The stock has had a good run in 2016 and we continue to see a lot more upside to the stock. The reason for this is that Penthrox's expansion into global markets is at its initial stages. In the near term we expect the European market to be a huge revenue growth driver for the company. In FY16 Penthrox was approved for marketing in 4 European markets, following 2 significant distribution deals for Europe. In UK and Ireland Penthrox was launched in 1HCY16. We expect launch in France and Belgium in early 2017 to be the next catalyst for the stock. We are expecting further approval and launches in Europe in 2HCY17. Looking further we see Penthrox's entry into the much larger US market in FY20 representing further long term growth and upside. We are forecasting double digit revenue and earnings growth from FY17 and increasing dividends. Our numbers provides a conservative approach to the US launch of the product. We include only half of the expected revenue from US in our numbers and do not include any upfront, milestone payments from a deal in US, which is likely to be multi-million dollars.

Potential also exists to expand the use of Penthrox beyond trauma treatment. MVP's strong balance sheet, relatively low capital expenditure, growing earnings and strong operating cash flow supports continuing dividend payout and we believe MVP is well positioned for a long period of growth, backed by the continued expansion of Penthrox into global markets with growth in sales in Europe over the near term and in the US over the longer term.

Healthcare & Biotech.

Tanushree Jain

Opthea Ltd. (OPT)

We have a Buy, speculative recommendation with a Valuation of $0.95/sh. Opthea, is a biopharmaceutical company (market cap ~$110m) focused on the development of therapies for the treatment of eye diseases. It's lead asset OPT-302 is currently in a Phase 2A trial under an FDA approved IND with patients with wet age-related macular degeneration or wet AMD, the leading cause of blindness in the elderly. Wet AMD is a multi-billion dollar market (>US$7.5bn), relatively untapped and underserved, with only 2 drugs approved by the FDA to treat wet AMD which work suboptimally. OPT-302 which blocks VEGF-C and VEGF-D is being positioned to be used in combination with existing VEGF-A drugs for wet AMD to improve visual outcomes for patients.

Phase 1 trial data provides evidence that the drug has a clean safety profile and has also provided early but strong signals of biological activity. The stock has had a good run generating more than 80% returns since the beginning of the year. However, we still believe the stock has a lot of upside potential. We expect significant uplift in value on clinical success.

The failure of competing drug Fovista from US based company Ophthotech has moved Opthea's OPT-302 up the pecking order and given the scarcity of novel targets around, has also served to increase its appeal to potential partners. We expect increased interest in the asset from the key players in the wet AMD market. All the existing VEGF-A therapies are facing competition from biosimilars (low priced generics) with patent expiries looming ahead and are likely to be on the lookout for strategies which could protect their ophthalmology franchises. We believe that all the key players will be keenly watching OPT-302's progress. Phase 2A results from OPT-302's wet AMD trial is due in March 2017 and is likely to be a key inflexion point for the stock.

Mesoblast (MSB)

We have a Buy, speculative recommendation with a Valuation of $3.01/sh. Mesoblast is a biotechnology company commercialising the therapeutic use of mesenchymal lineage cells (MPCs and MSCs) – a kind of adult stem cell. It is the leading allogeneic regenerative medicine player with one of the most diversified pipelines, with 4 products in late stage. The first commercial product from its pipeline for GvHD launched in Japan in 1QCY16.

We expect progress of the Tier 1 products towards commercial launch to be the key value driver for MSB. We expect several key catalysts for the company in 2017 with key near term events being interim analysis from 2 phase 3 trials namely congestive heart failure (CHF) and back pain in 1QCY17. We expect positive results to be the trigger for partnering deals. The company is already in ongoing partnering discussions and a deal could lead to substantial cash injection and trigger a re-rating. We also expect completion of Phase 3 trial for GvHD (Graft vs. host disease) in children by mid CY17 and based on a recent futility analysis at interim point believe likelihood of success is high with potential launch expected in US in CY18.

We note that the recent signing of the 21st Century Cures Act by the US president singles out regenerative medicine and provides a distinct expedited pathway to approval for these medicines in the largest market i.e. US. It signifies a degree of flexibility from the FDA in terms of usage of surrogate end points as well as allowing the usage of patient registry data along with other clinical data to satisfy requirements for post approval data and also potentially make the therapies eligible for priority review which should further speed their time to market.

At the back of this law, we expect increased interest and investment in the regenerative medicine space in 2017 and given that MSB is the most advanced with several key drugs in Phase 3 trials, it is likely to be an attractive bet for larger companies looking to enter the market and take advantage of the provisions under the Act.

Both GvHD and CHF are likely to be awarded the designation of 'regenerative advanced therapy' given that they are serious and life threatening indications. We also believe that under the accelerated approval pathway under the 21st century cures act, there is potential for the CHF program timeline to be cut in terms of a second Phase 3 confirmatory trial only being required post approval. This in our view would increase the appeal of this program to a partner and increases the likelihood of a deal materialising for this asset significantly should the data read out in 1QCY17 be positive.

Healthcare & Biotech.

John Hester

Viralytics (VLA)

VLA has an exciting year ahead with results from numerous clinical trials due to report in 2017. Pending the outcomes of these trials, there is the possibility that a bid for the company may emerge from one of the larger multinationals involved in immunotherapy . Alternatively, the company will consider the next phases of its clinical development program for CVA21. In our view this could consist of one or more approval studies targeting either melanoma or solid cancer tumours using CVA21 in combination with either Yervoy or a separate study in combination with Keytruda.

The short term catalyst for the company will be the release of results from the STORM study which we expect mid year. The company is well funded with cash reserves exceeding $40m.

Buy (Speculative)

Paragon Care (PGC)

PGC is in the midst of a long term industry roll up of the medical supplies industry which we believe has several years to run. The company last raised money from shareholders in October 2015 and has since consolidated the three businesses acquired at that time and has shown material organic growth in addition to the acquisition driven growth.

PGC is an alternative path to investing in healthcare compared to traditional hospitals and other health care operators. It is valued at a significant discount to other investments in the sectors with the added advantage that none of its income is sourced directly from the Federal Government.

In our view the company will continue to make highly EPS accretive acquisitions, which together with the strong organic growth make this a standout for 2017.

Osprey (OSP)

OSP is a US based medical device company listed on the ASX. Over the last 18 months the company has quietly gone about the commercialisation of its Dyvert technology and we believe it is now on the cusp of a rapid acceleration of unit sale to compliment the 8 sequential quarters of units sale growth.

In its first market (San Antonio), Dyvert is now used in 70% of the hospitals in the city. The product is now being rolled out in 15 additional sales territories and this is likely to continue to drive revenues and earnings growth. The company is well funded following a capital raise earlier this year.

The Dyvert system is the only FDA approved device to reduce the use of contrast in percutaneous coronary injection procedures, while preserving image quality. In clinical trials, the device showed some reduction in contrast induced kidney injury and for this reason it continues to gain rapid acceptance in US hospitals.

Buy (Speculative)

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Disclosures

Lafitani Sotiriou owns 5,800 shares in BTT.

Lafitani Sotiriou owns 5,000 shares in CGF.

Sam Haddad owns 5,000 shares in SUL.

Bell Potter Securities acted as joint lead manager, sole underwriter and bookrunner to QIP's IPO in August 2016 and received fees for that service.

Bell Potter Securities acted as lead manager and underwriter for RCG's $50m placement and to the board and management sell down conducted in February 2016 and received fees for that service.

Bell Potter Securities acted as Co-Lead Manager to SLK's $40m placement in September 2015 and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager for the MZI $45m share placement and SPP of November 2015 and received fees for that service.

Bell Potter Securities acted as Co-Manager for the S2R $9.1m placement in July 2016 and received fees for that service.

Peter Arden owns 180946 shares in S2R.

Bell Potter Securities acted as lead manager for the XAM $8.3m placement in November 2015 and received fees for that service.

Bell Potter Securities acted as lead manager for Opthea's $14m capital raising and as an underwriter for a $3.4m rights issue in November 2014 and received fees for that service. Bell Potter Securities holds 1 million Opthea options exercisable at 26.25 cents by 13th January 2018.

Bell Potter Securities acted as lead manager in a Mesoblast capital raising in May 2010 and in March 2013 and in a selldown of stock in December 2010 and received fees for that service.

Bell Potter Securities acted as Lead manager of Viralytics' 2015 Capital Raising and received fees for that service.

Bell Potter Securities acted as Lead manager in PGC's 2015 capital raise and received fees for that service.

Bell Potter Securities acted as Joint Lead Manager in the OSP's July 2016 capital raising and received fees for that service.

Speculative Risk Warning:

The stocks of companies without revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. Stocks with 'Speculative' designation are prone to high volatility in share price movements. In the case of 'Speculative' Resource companies, the additional risks include but are not limited to Government approvals and permitting, mine and infrastructure development, commodity price and exchange rate fluctuations, resource growth and mine life extensions and regulatory and sovereign risks. Investors are advised to be cognisant of these risks before buying such a stock.

Biotechnology Risk Warning:

The stocks of biotechnology companies without strong revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. Since most biotechnology companies fit this description, the speculative designation also applies to the entire sector. The fact that the intellectual property base of a typical biotechnology company lies in science not generally regarded as accessible to the layman adds further to the riskiness with which biotechnology investments ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Clinical and regulatory risks are inherent in biotechnology stocks.

Biotechnology developers usually seek US FDA approval for their technology which is a long and arduous three phase process to prove the safety, effectiveness and appropriate application or use of the developed drug and even after approval a drug can be the subject of an FDA investigation of subsequently discovered possible links between the drug and other diseases not previously diagnosed. Furthermore, the Australian exchange listed biotechnology sector is subject to influence by the global biotechnology sector, particularly that in the USA. Consequently, Australian exchange listed biotechnology stocks can experience sharp movements, both upwards and downwards, in both valuations and share prices, as a result of a re-rating of the sector both globally and in the USA, in particular. Investors are advised to be cognisant of these risks before buying such a stock including Mesoblast and Opthea.

ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to Bell Potter, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.