

Australian Focus List

Volume 1 Issue 2 – Q2/16

July 14, 2016

Company	Ticker	Price 01-Jul-16	12 mth Target
Consumer			
Yowie Group Ltd.	YOW-ASX	0.93	1.68
Communications			
SpeedCast International Ltd	SDA-ASX	3.57	5.22
Forest Products			
TFS Corporation Ltd	TFC-ASX	1.48	3.23
Gaming Technology			
Ainsworth Game Technology Ltd	AGI-ASX	2.17	2.80
Industrials			
BSA Limited	BSA-ASX	0.25	0.33
Codan Limited	CDA-ASX	1.20	1.51
Internet Software			
Freelancer Ltd.	FLN-ASX	1.61	2.21
Redbubble Ltd.	RBL-ASX	1.03	2.59
Medical Devices			
Impedimed Limited	IPD-ASX	0.99	2.65
AirXpanders Inc	AXP-ASX	0.93	1.50
Oil & Gas			
Cooper Energy Limited	COE-ASX	0.22	0.34
Minerals & Metals			
Orocobre Limited	ORE-ASX	4.74	6.00
Perseus Mining Limited	PRU-ASX	0.56	1.05
Support Services			
G8 Education Limited	GEM-ASX	3.83	4.94
RXP Services Limited	RXP-ASX	0.57	0.85

Source: Canaccord Genuity estimates, FactSet

Canaccord Genuity (Australia) Equity Research Team

Top Australian Stock Picks

With this publication we formally introduce our *Australian Focus List*, which contains our top-15 stock picks across a diverse group of sectors, including Consumer, Forest Products, Gaming, Industrials, Internet Software, Medical Devices, Oil & Gas, Minerals & Metals, and Support Services. This quarterly report provides a one-page summary of each pick, and includes our investment recommendation, potential catalysts and bull/base/bear target price scenarios.

Ainsworth Game Technology (AGI-ASX) – Novomatic’s bid to control 53% of the company, if successful, is expected to add materially to AGI’s earnings growth profile. Novomatic should drive sales into European markets, cost synergies and significant IP through a sharing of its game library. The benefits AGI has outlined would be 28% EPS accretive in FY18.

AirXpanders (AXP-ASX) – AXP has developed a revolutionary tissue expander for use in breast reconstruction surgery. AXP’s AeroForm uses a gas (carbon dioxide) that is released from a small canister inside the expander. This approach results in more rapid, non-painful expansion which is directly controlled by the patient. As a result, this product secured 20% of the Australian expander market within 6 months of launch and this, in our view, provides a compelling lead indicator of the commercial potential for AeroForm in the larger US market.

BSA Group (BSA-ASX) – BSA recently provided a market update that has resulted in the downgrading of our FY16 forecasts, however our FY17 and FY18 forecasts remain largely unchanged given BSA has significant work in hand over the medium term. Having recently been awarded a four-year NBN operations and maintenance contract estimated at A\$240m, BSA now appears well positioned to win additional NBN work.

Codan (CDA-ASX) – CDA’s guidance of \$20m NPAT for FY16 appears conservative and there is risk to the upside in our view. Not only is top-line growth in both divisions driving the increase, but CDA has transitioned through a difficult period, which resulted in the company streamlining its cost base. This should have a positive impact on margins going forward.

Cooper Energy (COE-ASX) – The East Australian gas market is going through an unprecedented level of demand growth following the start-up of three LNG mega projects in QLD. This has resulted in gas spot prices recently exceeding \$20/GJ, more than 3x the price seen last winter... a clear price signal that more supply is required. COE through their 50% interest in the Sole Gas project has the most leverage to this thematic in our coverage universe.

Freelancer (FLN-ASX) – FLN is the world’s largest freelancing outsourced service and crowdsourcing marketplace. The company continues to penetrate this large and deep market with an estimated US\$16b per annum revenue opportunity (FLN FY16E revenue est. A\$60.0m).

G8 Education (GEM-ASX) – GEM is the largest operator of childcare and learning centres in Australia operating over 450 centres. The company trades on attractive metrics despite its strong track record of growth - 5 year (2010-2015) EPS CAGR of 36.7%. We are forecasting EPS growth of 24.2% in FY16 and 10.3% in FY17 driven by a combination of organic and acquisitions growth. With a

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fragmented market offering further acquisition growth and regulatory tailwinds we see further growth ahead.

Impedimed (IPD-ASX) – Under the leadership of ex-Medtronic executive Rick Carreon, IPD has built a strong business opportunity around its proprietary lymphoedema monitoring test, L-Dex. The company commenced full commercial launch of this test in the US in Dec 2015 and has already signed up over 17 leading US cancer centres. Based on feedback the company received from leading US cardiologists, IPD is now using the same technology to develop a device for monitoring heart failure patients. In 12-18mths, IPD potentially will have two unique products backed by Level-1 clinical evidence in market addressing key medical unmet needs. This should support a significant rerating of IPD shares.

Orocobre (ORE-ASX) – After a prolonged plant commissioning, production at Olaroz is now meeting ramp-up targets following the completion of plant rectification works in early 2016. Production for the JunQ has been guided to 3,000t Li₂CO₃, comparing to CGAu estimates of 3,050t. ORE has guided to achieving nameplate production (17.5ktpa) in SepQ'16 (CGe Dec 16). We have recently upgraded our target price to \$6.00 per share, which implies potential upside of 27%.

Perseus Mining (PRU-ASX) – PRU offers the best valuation upside in our gold sector coverage (P/NAV 0.6x vs sector average of 1.2-1.4x), the best leverage to gold prices (implied gold price of US\$1,229/oz), as well as providing sector leading production growth potential at +230% to +500kozpa within 4 years.

Redbubble (RBL-ASX) – Redbubble is an inherently global and scalable marketplace attacking a large target audience (US\$22b). RBL is one of the fastest growing stocks listed on the ASX with a +50% revenue CAGR expected over the next four years (+91% CAGR since FY11).

RXP Services (RXP-ASX) – RXP is emerging as a serious player in the IT Services sector with its headcount likely to surpass >700 FTE in 2H16 (653 at Dec-15, 470 at Dec-14). Our revenue and EBITDA forecasts have been consistently upgraded over the previous 12 months and with continued momentum across the business during 2H16 we see earnings risk to the upside.

SpeedCast International (SDA-ASX) – SDA has experienced rapid growth over recent years and has established itself as a global, top-tier satellite communications provider servicing a broad range of Industries. The share price has declined in recent months leading to its CY17 EV/EBITDA falling to just 8.1x. With a CY17 PE of just 12.8x, we view the stock as very cheap given its growth prospects and possible positive catalysts.

TFS Corporation (TFC-ASX) – TFC controls the world's largest source of sustainable Indian Sandalwood supply and is effectively a price maker in this highly lucrative and opaque market. TFC's business model is incrementally de-risking, as it establishes end markets at prices (US\$4,500/kg) that exceed initial expectation.

Yowie Group (YOW-ASX) – Yowie has successfully penetrated the USA confectionary market, with the a national roll-out and proven sales traction in a number of major retail accounts, including Walmart, Safeway and Walgreens. Recent Nielsen retail sales data reported Yowie as the number 1 selling Novelty Confectionary item in the US market on a dollars per store, per weeks basis. Potential upside based on our price target is +93%.

– Aaron Muller | Head of Research | Canaccord Genuity (Australia) | +613 8688 9103 | aaron.muller@canaccord.com.au

Canaccord Genuity Australian Focus List Price Performance Review for the Period Ended JuneQ/16

Company Name	Analyst	Ticker	FYE	\$	Price 30-Jun- 16	Price 30-Mar- 16	Price 31-Dec- 15	Q/Q % Price Change	YTD % Price Change	CG Target Price	Dividen d Yield	Implied Return to Target Price
Consumer												
Yowie Group Ltd.	Chris Northwood	YOW-ASX	Jun	AUD	\$0.93	\$0.65	\$1.13	44.2%	(17.7%)	\$1.68	0.0%	80.6%
Communications												
SpeedCast International Ltd	Cameron Bell	SDA-ASX	Dec	AUD	\$3.57	\$4.67	\$4.15	(23.6%)	(14.0%)	\$5.22	2.7%	48.9%
Forest Products												
TFS Corporation Ltd	Owen Humphries	TFC-ASX	Jun	AUD	\$1.41	\$1.69	\$1.58	(16.3%)	(10.8%)	\$3.23	2.1%	131.2%
Gaming Technology												
Ainsworth Game Technology Limited	Aaron Muller	AGI-ASX	Jun	AUD	\$2.17	\$2.31	\$2.29	(6.1%)	(5.2%)	\$2.80	4.6%	33.6%
Industrials												
BSA Limited	Warren Jeffries	BSA-ASX	Jun	AUD	\$0.25	\$0.19	\$0.19	28.9%	32.4%	\$0.33	3.3%	38.0%
Internet Software												
Freelancer Ltd.	Owen Humphries	FLN-ASX	Dec	AUD	\$1.60	\$1.21	\$1.80	32.2%	(11.1%)	\$2.21	0.0%	38.1%
Redbubble Ltd.	Owen Humphries	RBL-ASX	Jun	AUD	\$1.07	N/A	N/A	N/A	N/A	\$2.59	0.0%	142.1%
Medical Devices												
Impedimed Limited	Matthijs Smith	IPD-ASX	Jun	AUD	\$0.95	\$0.89	\$1.18	6.8%	(19.9%)	\$2.65	0.0%	180.4%
AirXpanders Inc	Matthijs Smith	AXP-ASX	Dec	AUD	\$0.93	\$1.11	\$1.05	(16.2%)	(11.0%)	\$1.50	0.0%	61.3%
Oil & Gas												
Cooper Energy Limited	James Bullen	COE-ASX	Jun	AUD	\$0.22	\$0.24	\$0.16	(10.4%)	34.4%	\$0.34	0.0%	58.1%
Specialty Minerals & Metals												
Orocobre Limited	Reg Spencer	ORE-ASX	Jun	AUD	\$4.79	\$2.88	\$2.30	66.3%	108.3%	\$6.00	0.0%	25.3%
Perseus Mining Limited	Reg Spencer	PRU-ASX	Jun	AUD	\$0.56	\$0.40	\$0.32	39.7%	74.1%	\$1.05	0.0%	87.5%
Support Services												
G8 Education Limited	Aaron Muller	GEM-ASX	Dec	AUD	\$3.79	\$3.70	\$3.57	2.4%	6.2%	\$4.94	6.3%	36.7%
RXP Services Limited	Owen Humphries	RXP-ASX	Jun	AUD	\$0.59	\$0.58	\$0.64	0.9%	(7.9%)	\$0.85	4.3%	49.6%
Technology Hardware & Equipment												
Codan Limited	Aaron Muller	CDA-ASX	Jun	AUD	\$1.18	\$0.78	\$0.68	51.3%	73.5%	\$1.51	4.2%	32.2%

Source: Canaccord Genuity estimates, FactSet

TECHNOLOGY HARDWARE & EQUIPMENT: Codan Ltd. – CDA-AU: A\$1.20 | BUY, A\$1.51 Target

Aaron Muller | Analyst | Canaccord Genuity (Australia) | +613 8688 9103 | aaron.muller@canaccord.com.au

Codan Ltd



Source: FactSet

Company Statistics

Financials current as of 1-July-2016

Price	A\$1.20
52-wk High	A\$1.29
52-wk Low	A\$0.53
Ave. Daily Vol. (M)	0.3
Market Cap (M)	A\$212.6
Shares Out (M)	177.1
Dividend	A\$0.05
Return to Target %	26.0
Yield %	4.2%

Source: FactSet, Canaccord Genuity

Company Description

Codan designs and manufactures a range of electronic products including radio communication products, metal detection products and technology for the mining sector.

Source: FactSet

Earnings Summary

FYE JUN	2015A	2016F	2017F	2018F
Revenue (A\$m)	143.9	159.4	163.2	168.4
EBITDA (A\$m)	29.9	39.7	42.8	45.9
NPAT (A\$m)	12.7	20.0	23.2	26.0
EPS (A¢ps)	7.2	11.3	13.1	14.7
PE (x)	16.7	10.6	9.1	8.2
EV/EBITDA (x)	8.3	5.9	5.1	4.4
Dividend	3.5	5.0	6.0	7.0
Yield %	2.9%	4.2%	5.0%	5.8%

Source: Company reports, Canaccord Genuity Australia estimates

Investment Highlights

- i) Metal Detection – CDA's Metal Detection division, Minelab, is a leading manufacturer and distributor of metal detection products. Sales for the 9 months to 31 March 2016, are up 47% on the pcp and 3Q16 revenue is up 84% on the pcp suggesting strong momentum in demand. The growth has been driven by demand for its products in a number of African markets.
- ii) Radio Communications – CDA's Communications division manufactures radio and other communication products for the security, military and peacekeeping organisations globally. Sales for the 9 months to 31 March were broadly in line with the pcp, however 3Q16 revenue was \$21m, up 57% on the pcp. The 4Q16 performance is also expected to be strong with the part delivery of a US government contract expected.
- iii) Guidance points to strong momentum – Guidance of \$20m NPAT for FY16 appears conservative and there is risk to the upside. Not only is top-line growth in both divisions driving the increase, but CDA has transitioned through a difficult period, which resulted in the company streamlining its cost base. This should have a positive impact on margins going forward.

Potential Catalysts

- i) Upgrades – earnings are highly leveraged to the metal detection division which commands high gross margins.
- ii) Result – a strong result should support share price momentum.
- iii) Contract wins – in Communications and Mine Technology.

Performance Metrics

CDA's share price has increased by 76.5% this year (since 01 January 2016), which compares to the S&P/ASX 200 Index, which is down -0.50%.

Bear↓ – Base – Bull↑
Target Price Scenarios

Bear: Our target price could be negatively impacted should:

- i) Gold detector sales be impacted as a result of a fall in the gold price or conflict in key markets in Africa;
- ii) Government spending tighten which can impact expenditure on radio communications equipment.

Base Valuation: Our A\$1.51 PER based valuation is derived by applying an 11.5x PER to our FY17 EPS estimate. This is set at a 20% discount to the Small Industrials average. Our EPS estimate implies a 16% increase on FY16 guidance.

Bull: Our target price could be positively impacted should:

- i) Sales of CDA's gold detector sales continue to rise;
- ii) Additional contracts in Communications be won;
- iii) CDA's Mine Technology division begin to gain traction.