Shaw and Partners
Financial Services

The Research Monitor

September Quarter 2021

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Andrew Ye, Investment Analyst

Q2 2021 Performance

The Australian Share Market, as measured by the S&P/ASX 300 Index, rose 8.5% in the June 2021 quarter on the back of another strong reporting season which saw company earnings and dividends upgraded again, and broader macroeconomic indicators such as GDP growth and unemployment rates continued to improve. The quarter began with a strong 3.7% gain in April, followed by a 2.3% gain in May, before finishing with a 2.3% rise in June, marking the third consecutive positive quarter.

Dividends yields reversed their downward trend, as many companies reinstated or increased dividend payments on the back of a rebound in their earnings. The trailing yield on the share market rose from 3.70% at the end of March to 3.78% at the end of June. Dividend income across the market totalled 0.6% for the quarter, with the Banks and Real Estate sectors both posting a 1.5% income return, closely followed by a 1.3% income return by both Utilities and Diversified Financials.

There was significant activity in bond yields over the quarter, with 3-year yields rising sharply from 0.11% to 0.42% following a steep sell-off in June. In contrast, the Australian 10-year government bond yield, which is a more accurate barometer of investor confidence than its shorter-dated cousin, finished the quarter at 1.53%, a sizeable fall from its 1.79% yield at the end of March. The RBA reaffirmed its existing policy settings throughout the quarter, with the June minutes noting that it would need to see higher wage growth to change its policy settings, despite labour shortages in some parts of the economy.

The best performer amongst Australian equity sectors was Commercial & Professional Services, up 14.9% including dividends, with the larger companies in the sector driving these gains and benefitting from broader tailwinds. Recent ASX200 entrant Reece Limited (REH) led the sector with a 37.8% return, as it captured the significant increase in home renovation spending both in the US and ANZ. It was followed by Reliance Worldwide (RWC; up 17.2%), which benefitted from the same home improvement trends in the US as REH, as well as the tailwind of a strengthening US dollar. **Media and Entertainment was the second-best performing sector in the quarter as it rose 13.5% including dividends,** with companies such as Domain Holdings (DHG; +22.9%), REA Group (REA; +19.3%) and Seek Limited (SEK; +16.2%) benefitting from the surge in housing and labour demand respectively.

Gold miner Alkane Resources (ALK; up 66.7%) was the best performing stock in the S&P/ASX 300 index, after it upgraded its FY21 guidance on the back of strong drill results from its Boda discovery. It was followed by lithium miner Galaxy Resources (GXY; up 45.1%), which rose on the back of a strong quarterly result which included an upgrade of its Sal del Vida resource estimate, and importantly the announcement of a merger-of-equals with fellow lithium miner Orocobre.

	Sector	Performance	Market Cap A$m
↗	Commercial & Professional Services	14.9%	37,711
↗	Media & Entertainment	13.5%	35,541
↗	Consumer Services	12.8%	73,805
↗	Insurance	12.7%	60,074
↗	Software & Services	12.0%	90,287
↗	Health Care Equipment & Services	11.1%	79,006
↗	Real Estate	10.7%	139,341
↗	Capital Goods	10.5%	19,911
↗	Retailing	10.3%	96,215
↗	Telecommunication Services	9.7%	52,951
↗	Materials	9.5%	432,153
↗	Banks	8.8%	455,185
↗	Food & Staples Retailing	8.0%	84,366
↗	Pharmaceuticals, Biotech & Life Sciences	7.4%	136,270
↗	Diversified Financials	7.0%	107,118
↗	Transportation	1.8%	84,382
↘	Energy	-2.2%	64,828
↘	Food Beverage & Tobacco	-2.6%	23,203
↘	Utilities	-4.5%	30,761

The best performer amongst Australian equity sectors was Commercial & Professional Services, up 14.9% including dividends.

Miners dominated the list of top performers in the quarter, with Chalice Mining (CHN; +43.0%), Mineral Resources (+41.3%) and Pilbara Minerals (+38.0%) all benefitting from a very strong backdrop in materials.

Utilities was the worst-performing sector during the quarter as it fell 4.5% including dividends. Three of the four companies that comprise the sector finished with negative returns, with APA Group (APA; down 11.2%) and AGL Energy (AGL; down 15%) both experiencing significant headwinds in the form of lower wholesale power prices. AGL struggled to convince investors of the merits of its demerger plan, as investors maintain environmental concerns around the proposed split.

The largest component of the S&P/ASX 300 Index remains the Banks Sector (21.4% index weight), with the Materials sector remaining the second largest (20.3% index weight). **Materials had the stronger quarter of the two sectors, gaining 9.5% including dividends, compared to 8.8% including dividends for the Banks sector.** With the price appreciation across many resources providing a strong tailwind, the Materials sector continues to benefit from demand driven by the continued global economic recovery.

The Software & Services sector, up 12.0% including dividends, experienced a turbulent quarter as higher inflationary expectations from investors led to a large sell-off in May, before the sector rebounded quickly in June. A wave of M&A activity hit the sector during the quarter, with several companies subject to takeover bids from a range of different parties, including larger offshore competitors and private equity firms. With funding remaining cheap and a variety of parties looking to accelerate their post-pandemic strategies, we believe this trend is likely to continue in the near-term and provide an uplift to the sector.

Global equity markets underperformed the Australian market in the June quarter, with the MSCI World Index up 7.3% in US dollar terms. However, the 1.3% depreciation of the Australian dollar versus the US dollar aided these returns for Australian investors, with the MSCI World Index returning 9.5% in Australian dollar terms.

The NASDAQ Composite index was the best performing regional bourse with a 9.5% gain, ahead of the broader S&P 500 index, which rose 8.2%. Consistent with the trend seen in Australia, June saw a significant rebound in the technology sector in the US as inflationary expectations dipped. Both US indices outperformed their regional peers during the quarter as a result of their larger concentration of technology companies.

Bond markets finished higher during a quarter which saw the yield curve reversed course and flattened, with long-term yields dropping in concert with US long-term treasury yields over the quarter. While equity markets saw a significant sell-off in May as a result of larger expectations of inflation, both Australian and US bond markets remained calm, with yields finishing lower in each of the three months in the quarter. The Bloomberg AusBond Composite (0+Y) index rose 1.5% over the quarter and Bank Bills remained steady at 8 basis points. The spread between 90-day bank bills and cash fell slightly to negative 2 basis points at the end of June, due to a slightly fall in the 90-day BBSW over the quarter. The price of the ASX 30 Day Interbank Cash Rate Futures at the end of June indicated an 86% expectation of another rate cut in July.

Market measures of equity risk or volatility finished lower this quarter. However, the concerns about inflation during May resulted in significant volatility, as sectors with long duration, such as Technology, sold off. While the inflationary expectations have dampened **in June, we expect that any higher-than-expected data will lead to a pickup in volatility again. The implied volatility on ASX/S&P 200 index options was slightly lower, finishing at 11.0% at the end of June, versus 11.7% at the end of March.**

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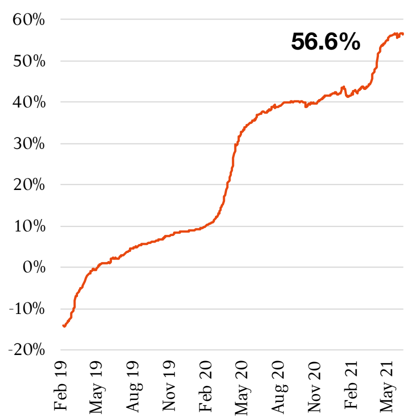
Martin Crabb
Chief Investment Officer

A Super-Bull Market in Earnings

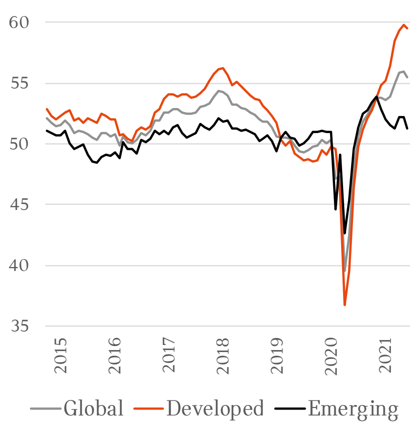
Investment markets in 2021 have so far been characterised by the response to the combination in November last year of the US Presidential Election outcome and the announcement of high efficacy vaccine treatments for COVID-19.

2020-2021 PROFIT GROWTH



WORLD PRICE TO EARNINGS RATIO

WORLD MANUFACTURING PMI



Source: Shaw and Partners & FactSet

Since then, equity markets around the world have posted solid gains, with most global markets up around 10% this year so far, except for Japan which is relatively flat.

We have seen divergence, however, in the trajectory of expected earnings on the one hand, and the price that investors are willing to pay for those earnings on the other.

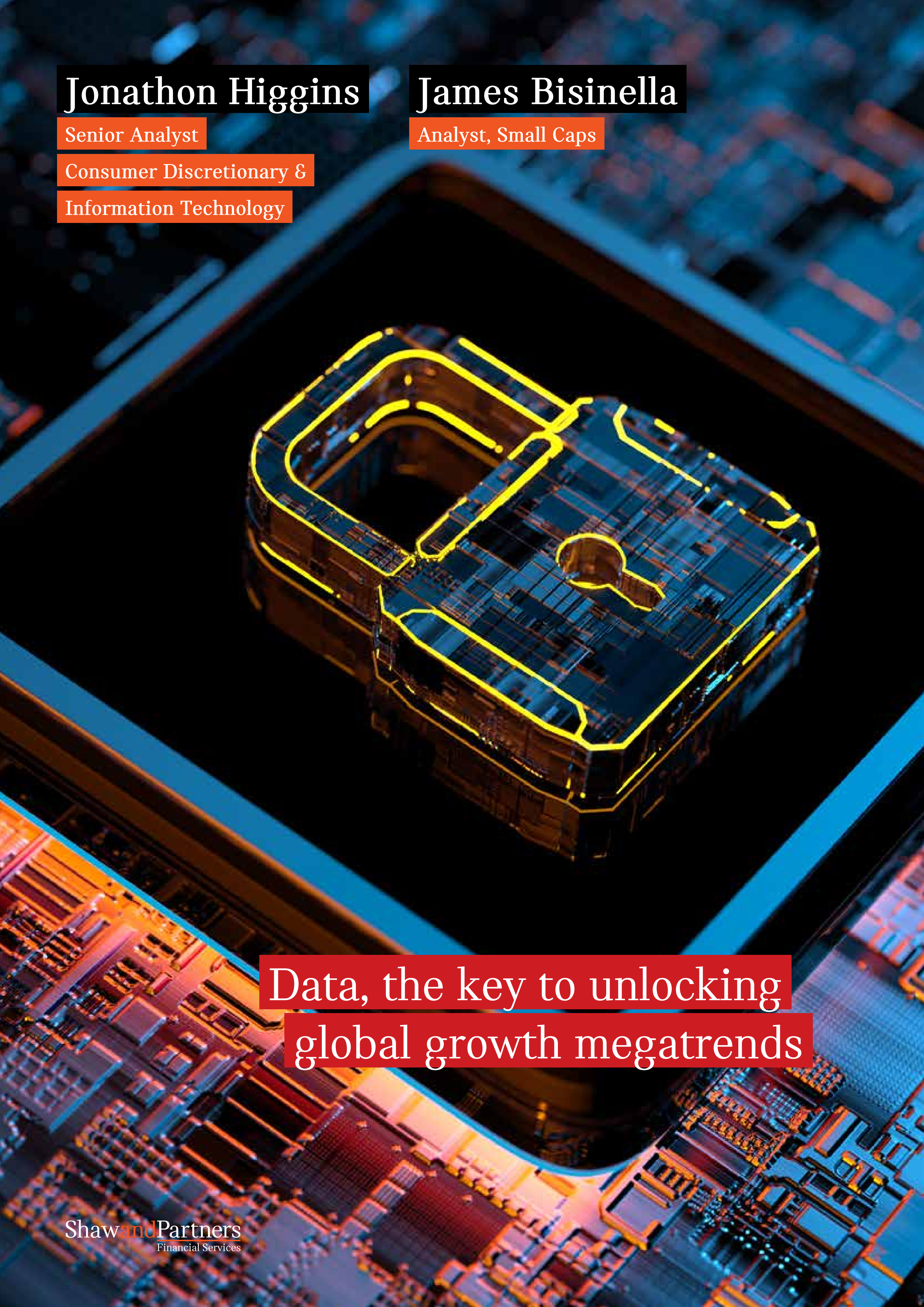
According to the most recent data, analysts expect net income for global listed companies to rise 56.6% from $US3.2 trillion in 2020 to $US5.1 trillion in 2021, following a 22% fall from $US4.2 trillion the prior year. Importantly, the trajectory of this growth estimate seems to be accelerating.

With a backdrop of improving earnings growth, it is not surprising to see share prices move higher, but the price that investors are willing to pay for earnings has been coming down. After remaining stable in the second half of 2020 at 20x, the world PE ratio has fallen to 18.8x and so the pace of share price growth has not maintained pace with earnings. In fact, this calendar year, earnings have been revised up 17.5%, prices are up 11.8% and PE ratios are down 5.9%.

Looking forward to the second half of the year, we must concern ourselves with the likely policy response of central banks to the strongly improving global economy. Whilst labour markets are yet to fully repair in many developed economies and the virus continues to rage seemingly unchecked in many developing countries, it is likely that many central banks will at least stem the tide of quantitative easing in the second half of 2021. This is likely to be led by those countries where vaccination rates are high, the economy is recovering, and the current level of fiscal and monetary stimulus is most elevated. We consider the United States, Canada and the United Kingdom in this group with Australia a potential candidate also to start removing quantitative easing and yield curve control.

Typically coming out of a recession or global slowdown, investors position themselves in Emerging Markets as these economies exhibit high leverage and exposure to improvements in world growth and trade. To highlight the different nature of the current economic climate, emerging markets have actually underperformed developed markets coming out of the lockdown.

Economic activity, as measured by the IHS Markit Purchasing Managers Manufacturing Index, has been much slower to recover in Emerging Markets who have lacked the healthcare resources to tackle the virus.



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Data, the key to unlocking global growth megatrends

Shaw and Partners

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Data is one of the strongest structural dynamics playing out over the long term.

In an increasingly interconnected world, the one constant is the expansion and proliferation of data.

Data usage is being driven by increasing computing demands, Moore's law, cloud, interconnected devices, 5G, AI, autonomous vehicles and the democratisation of technology globally.

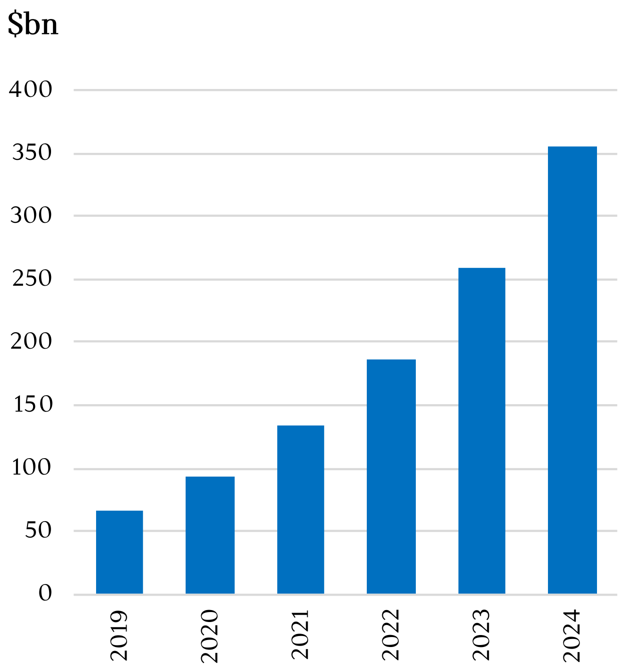
In our view, data, cloud, connectivity (fibre/wireless) and storage is structurally one of the strongest growth thematics in the market.

This thematic has seen the International Telecommunications Union forecasting mobile data usage to grow at a 55% CAGR over the next 10 years to 5k exabytes (10^18). It's not just mobile traffic that's forecast to compound at a massive rate with the global hyperscale cloud market (the likes of Amazon, Microsoft, Google, Alibaba) forecast to exit CY22 with over US$200bn in revenues.

Sectors that are likely to see positive structural dynamics from this data dynamic include:

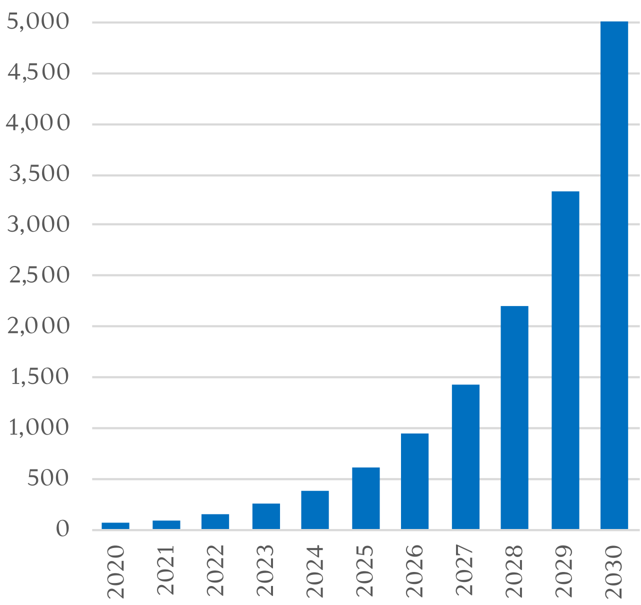
- Data centres
- Infrastructure operators of fibre, wireless and satellite assets
- Cloud companies (particularly public cloud)
- SAAS companies
- Hardware into infrastructure companies.

HYPERSCALE CLOUD MARKET ANNUAL REVENUES



Source: Structure Research, Cisco VNI and Statista

GLOBAL MOBILE DATA TRAFFIC FORECAST. TRAFFIC/MONTH (EXABYTES)



Source: International Telecommunication Union (ITU)

Mobile data is forecast to grow at an astonishing +55% CAGR for the next 10 years

Recently we have initiated on a locally listed, undervalued (our view) and strategically interesting data centre operator in Global Data Centre Group and we see significant long term returns in the space.

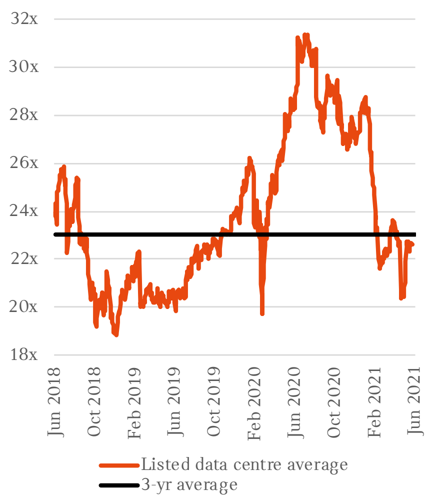
DOWNLOAD GLOBAL DATA CENTRE GROUP

Data centres are some of the most profitable, certain and structurally strong earners in the market. We note the following positive dynamics in data centres:

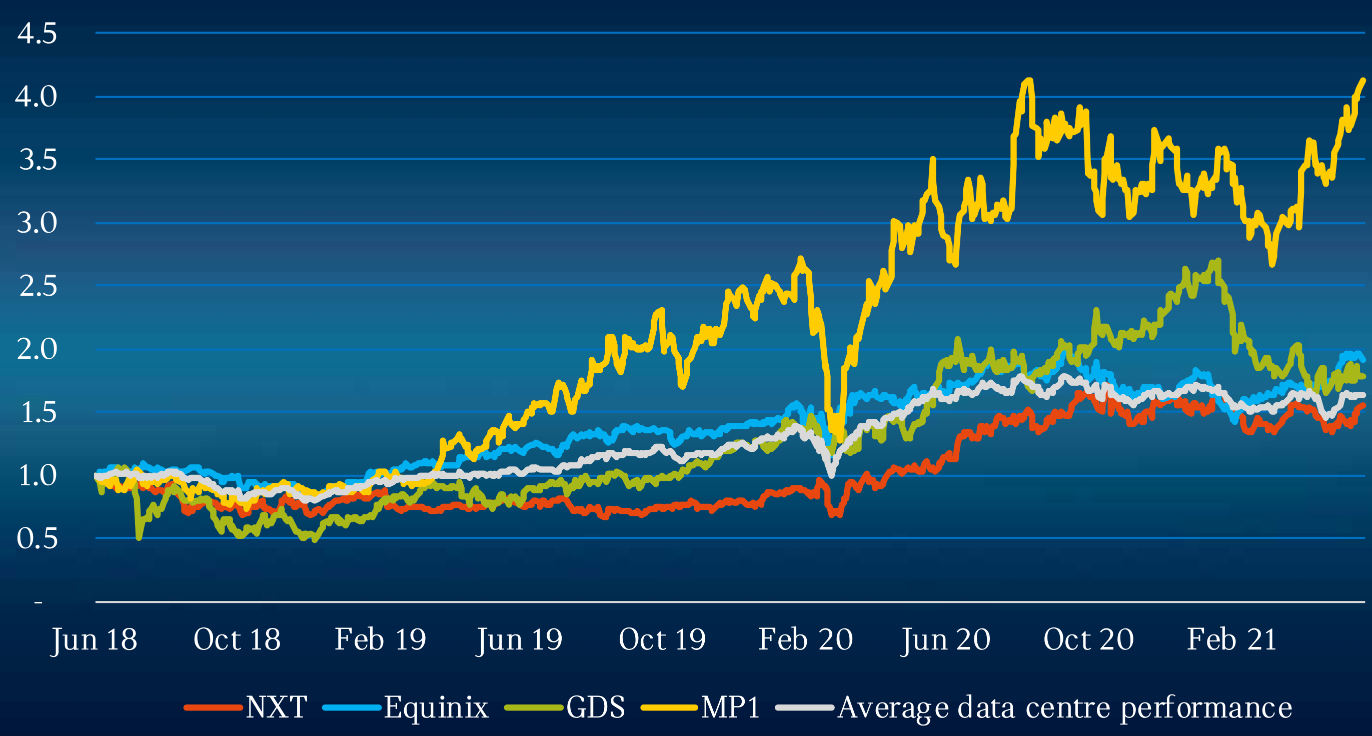
- The global data centre sector has on average returned 70% over the last three years
- Data centres on average are highly profitable with average EBITDA margins of 40%+
- The sector is on average growing +15% p.a.
- Currently the sector sits in line with long term valuation support
- The sector enjoys some of the largest anchor and high-quality tenants in the market. This includes companies such as Microsoft, Apple, Amazon, Google, Alibaba and Equinix.

The data centre sector itself is worth over US$160bn in size across listed data centres globally and we expect this to continue to grow. Recent sector consolidation has been notable with transactions of listed entities at 20x+ sales and PE and Pension funds hungry for assets.

LISTED DATA CENTRE MULTIPLES (FORWARD EV/EBITDA)



DATA COMPANIES PRICE PERFORMANCE INDEXED



Source: Shaw and Partners & FactSet

Global Data Centre Group is one of the most undervalued data centre operators globally, with annual growth of 40%, highly strategic assets and a world class management team.

We expect cloud and infrastructure companies to outperform and we expect leverage across the ASX to come through the following vehicles long term:

- Global Data Centre Group (ASX: GDC)
- Rhipe (ASX: RHP)
- Data#3 (ASX: DTL)
- Dicker Data (ASX: DDR)
- Macquarie Telecom (ASX: MAQ)
- Megaport (ASX: MP1)
- NextDC (ASX: NXT)

Through international companies we see continued upside across large anchor tenants, near term support in growth multiples and cloud continuing to dominate growth. Stick to quality and size globally with the following data centre operators we view favourably:

- Equinix (NASDAQ: EQIX)
- GDS Holdings (NASDAQ: GDS)
- Digital Realty (NASDAQ: DLR)
- Shanghai Athub (SHG: 603881)

In summation, we see continued tailwinds for data centres, cloud, SaaS and infrastructure for many years to come. Compounding is your friend in this game. Speak to your Shaw and Partners adviser for further information on best picks and leverage into the space.

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Aiden Bradley

Senior Analyst

Small-Mid Cap Industrials

Commercial property setting sail

The Australian property sector was initially severely impacted by the Covid-19 lockdowns in early 2020.

However, both the Residential and Commercial sectors have rebounded strongly, driven by a recovery in economic activity and Government backed stimulus.

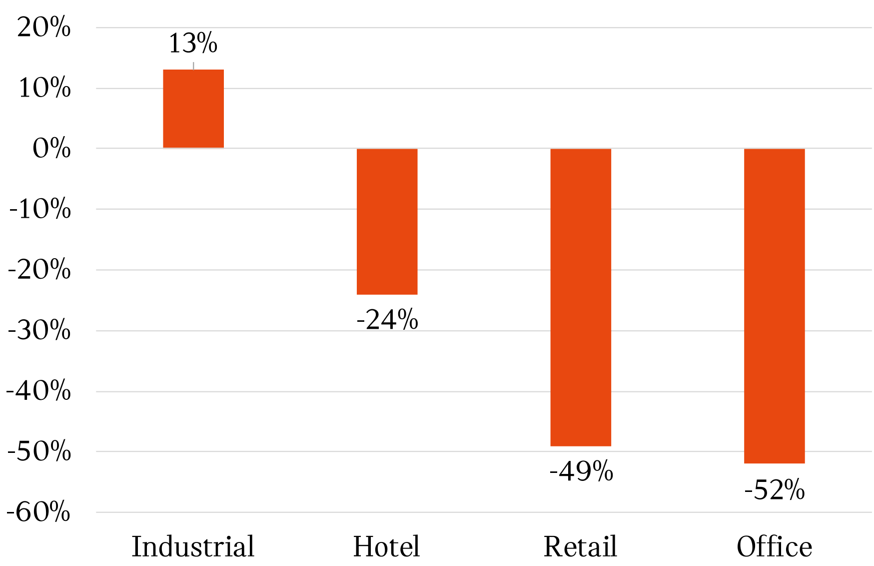
The recovery has however not been uniform, and certain parts of both the Residential and Commercial markets have performed better than others. For example, single dwelling developments have outpaced multi-dwelling in Residential and Industrial asset values have far outpaced Hotel, Tourism and Leisure (HTL) in Commercial. We outline here those sectors in Commercial Real Estate we expect to continue to outperform going forward.

First and foremost, we believe that the Australian Commercial Real Estate market remains attractive, especially in a regional context.

It is underpinned by robust economic growth, low interest rates, infrastructure spend, long term population growth and will remain a liquid, attractively valued (relative to international comparable markets) and lower volatility (relative to other asset classes) sector.

The first half of 2020 was a difficult period for the Commercial property market. According to the CBRE Capital Markets 2020 Review, sales volumes fell sharply across the board in the first half of 2020. Most segments recovered in the second half but remained depressed versus 2019 levels.

CHANGE IN SALES VOLUMES 2020 VERSUS 2019

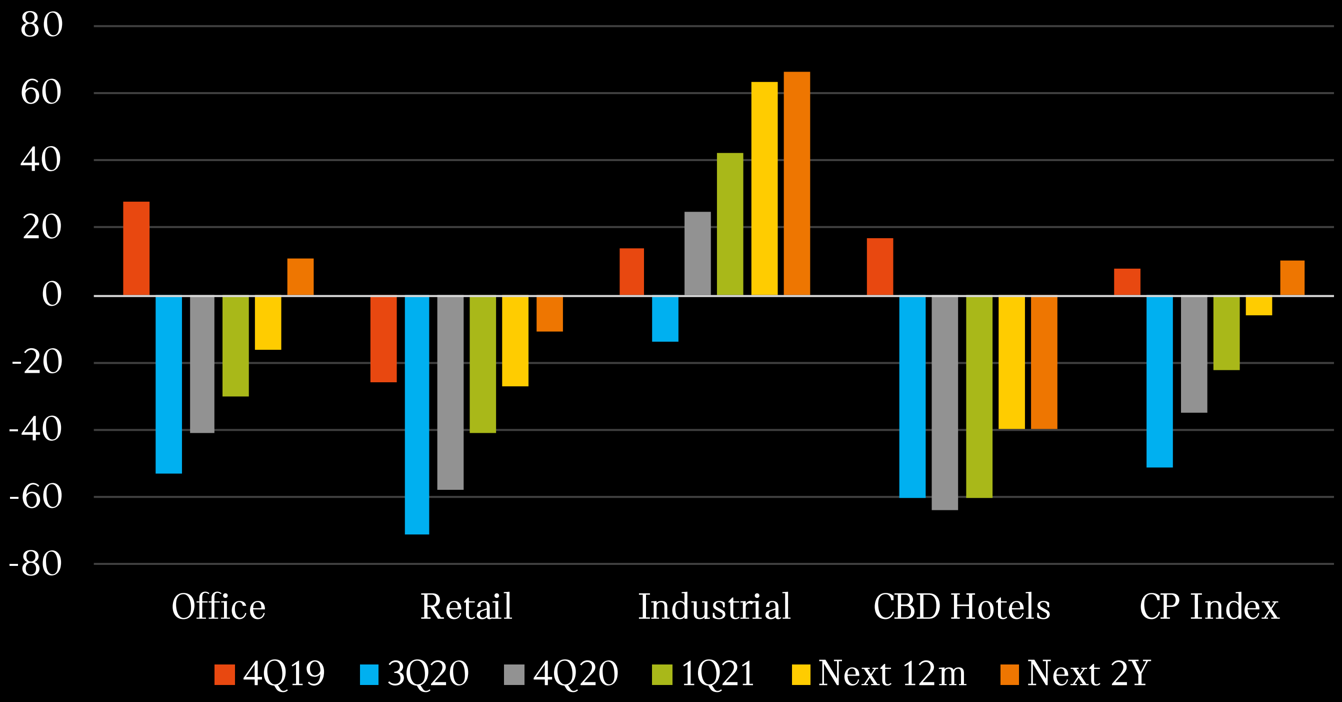


The Industrial segment was the stand out performer, with sales volumes for Industrial assets actually ending the year in positive territory versus 2019.

This investor demand was underpinned by the sharp recovery in retail spending, with particularly strong demand for logistic and warehousing assets exposed to the growth in eCommerce.

Source: CBRE

NAB COMMERCIAL PROPERTY INDEX – NEXT 1-2 YEARS



Source: NAB

Capital values for all segments, according to CBRE, are expected to bottom in 2021, but the recovery will not be uniform. The NAB Commercial Property Index is a key lead indicator of the outlook for Commercial Real Estate in Australia. NAB's Commercial Property Index (which is based on expectations for capital values and rents) continues to rise but remains weak overall (-22 points in 1Q21) and well below the historical average (-1 points).

A negative number indicates those surveyed on average expect market capital values, rents and vacancy rates to deteriorate. The 12-month forward looking measure however lifted to -6 (from -23 points in the prior 4Q20 survey) and the 2-year measure to +10 points (from just +2 points prior), largely supported by the positive outlook for Industrial property.

Optimism and interest in the Industrial sector continue to improve. In the 1Q21 survey, both the 12-month (up 20 points to +63) and 2-year (up 13 pts to +66) confidence measures for Industrial reached all-time highs for this survey. In contrast, this confidence measure remains at contractionary levels for both Retail and CBD Hotels in the next 12-24 months. Confidence remains weak in the near term for the Office segment, but turns positive on a 24-month view, with expectations more employees return to working from the office over that timeframe.

So, while we see improving market conditions for Commercial Real Estate in 2022, investors are still advised to remain selective in the sectors they target.

Our preferred sectors for investment include Neighbourhood Retail, Metro Offices, Domestic Tourism and Healthcare.

PREFERRED COMMERCIAL REAL ESTATE SECTORS

Preferred sector	Cap rate outlook	Comment
Medical	Positive ↓	Macro tail winds, consolidation
Essential retail	Positive ↓	Defensive and redevelopment potential
Agriculture	Positive ↓	Value and increasing insto interest
Industrial	Positive ↓	Value difficult to find. Very selective
Office suburban	Positive ↓	WFH hybrid models. Exit from CBD
Domestic HTL	Positive ↓	International travel bans
Aged Care	Stable →	Regulatory undercertainty
Childcare	Stable →	Small operators. Covid impact
Office CBD	Negative ↑	Vacancies up and supply pressure
Discretionary Retail	Negative ↑	E-Commerce trend, Covid accelerated
International HTL	Negative ↑	International travel bans

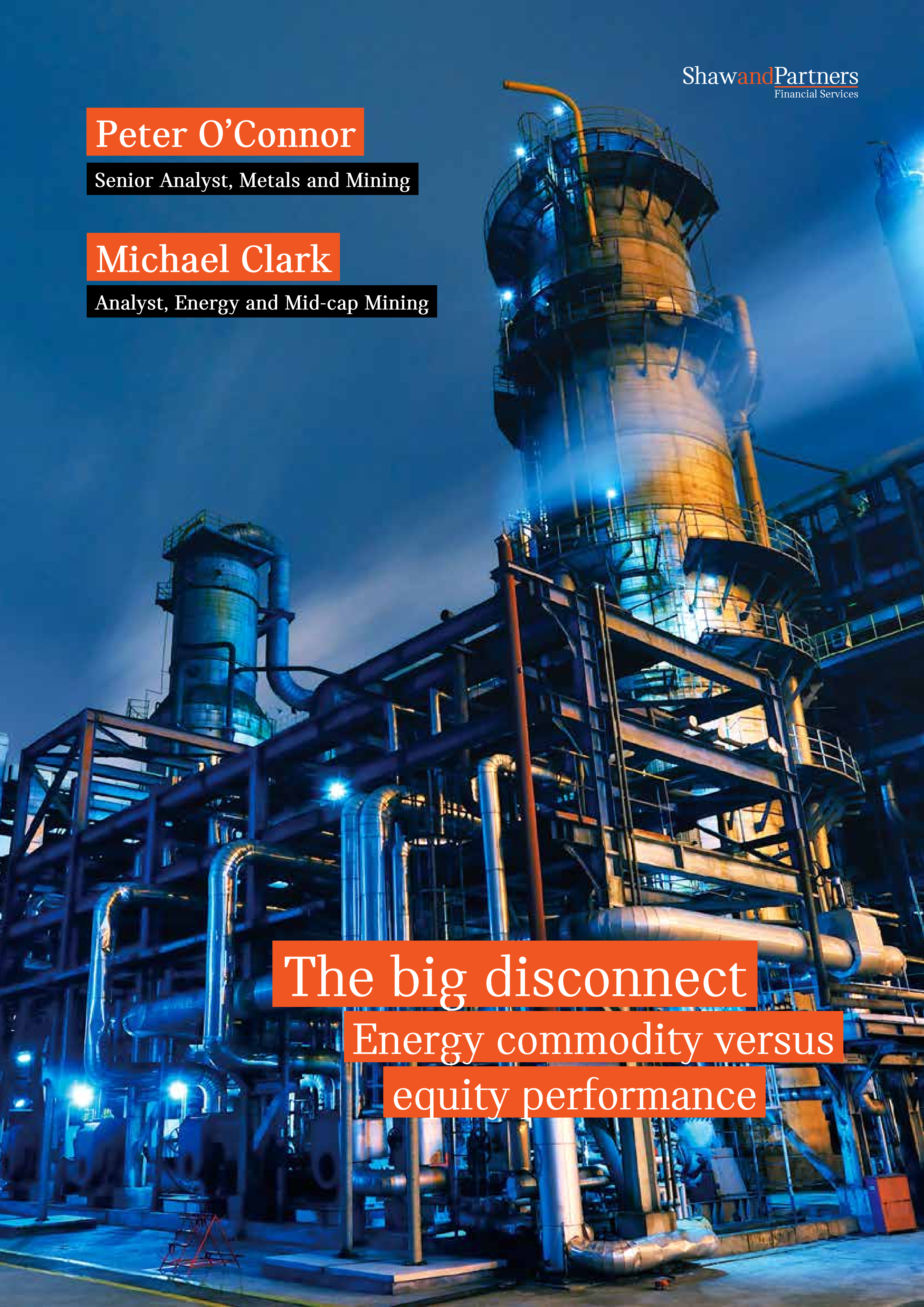
The Industrial sector is likely to continue to perform, but as shown earlier it is also attracting the most investor interest and hence asset prices risk trading above fundamentals.

Neighbourhood Shopping Centres are likely to be the best performing segment within Retail, driven by relatively attractive valuations and underpinned by non-discretionary retailers and essential services. A shift from premium CBD offices could support demand for quality suburban buildings. The demand for medical assets should continue to grow, driven by increasing strong macro tailwinds (aging population and increasing per capita health spend generally). Within the HTL sector, domestically focused assets are likely to outperform assets that relied on International visitors, so long as borders remain closed.

In terms of our least preferred exposures, we expect discretionary retailers and assets exposed to them to continue to be negatively impacted by the rise in online sales, a trend which seems to have been accelerated by Covid-19. Changing work habits, such as spending less time in the office, may continue to put downward pressure on the demand for CBD offices, particularly second tier assets. So long as International borders remain closed, HTL assets that were historically reliant on overseas tourists are likely to remain out of favour.

DOWNLOAD ELANOR COMMERCIAL PROPERTY FUND REPORT

Elanor Investors Group (ASX: ENN) and Elanor Commercial Property Fund (ASX: ECF) are two ways to play the recovery in Commercial Real Estate and provide exposure to our preferred sectors.



ShawandPartners Financial Services

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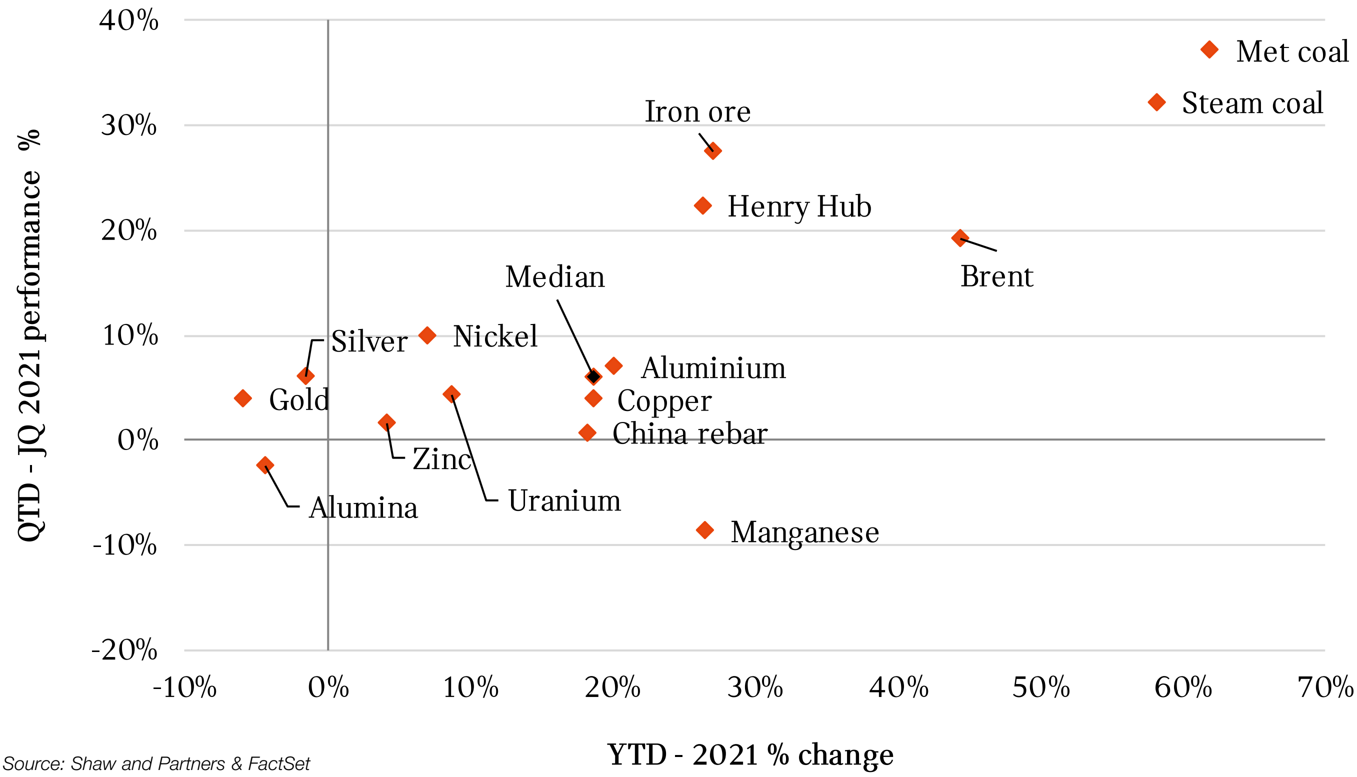
The big disconnect

Energy commodity versus equity performance

Energy prices (oil, gas, coal and uranium) have tracked higher since June quarter 2020, broadly in line with the trajectory of global growth post Covid-19 low point (March 2020).

FIGURES 1: COMMODITY GAP



Source: Shaw and Partners & FactSet

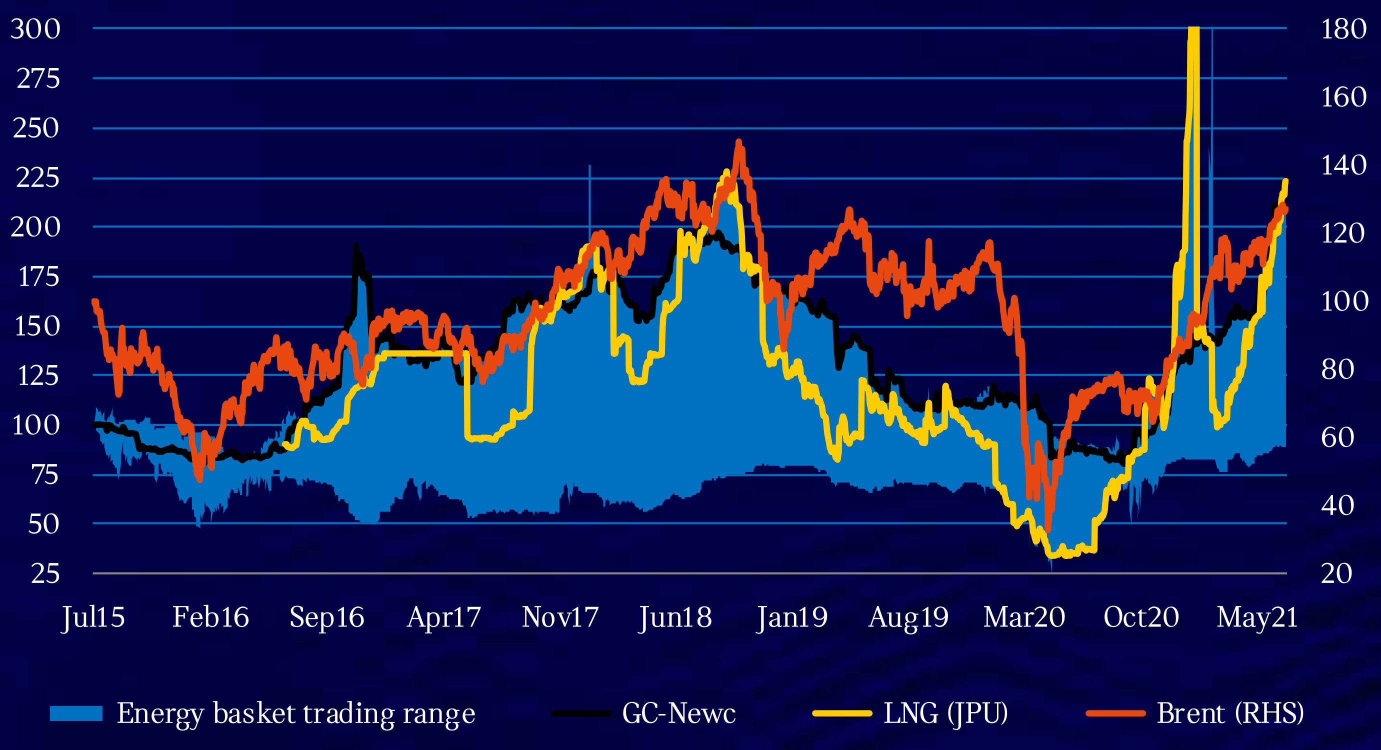
More recently the energy complex has paced ahead of commodity peers, such as iron ore, copper and steel, that made early large gains. So far in 2021 the energy complex is trading around 30-70% higher with coal making a large move over the past quarter.

Importantly, the key commonality across the range of commodities that comprise the energy complex is that each represents "units of energy" – in varying degrees and varying forms.

Ultimately, these individual components will maintain some pricing relatively around the base load energy unit. Importantly, the individual energy prices will typically trade in the same cyclical direction albeit the relative magnitude of moves determined by the individual commodity nuances – LNG is now almost 6x higher than post Covid low, crude oil (Brent) 4 times, energy coal almost 3 times whilst uranium is up ~50%.

Energy commodities have caught a bid in 2021 starting to close the gap to peers such as iron ore, copper, and steel.

FIGURE 2: GOLD EQUITIES DIVERGENCE SINCE NOVEMBER POISED TO REVERT



Source: Shaw and Partners, Company data, FactSet

The share prices of energy companies typically follow trend in underlying commodity price (typical correlation ~90%).

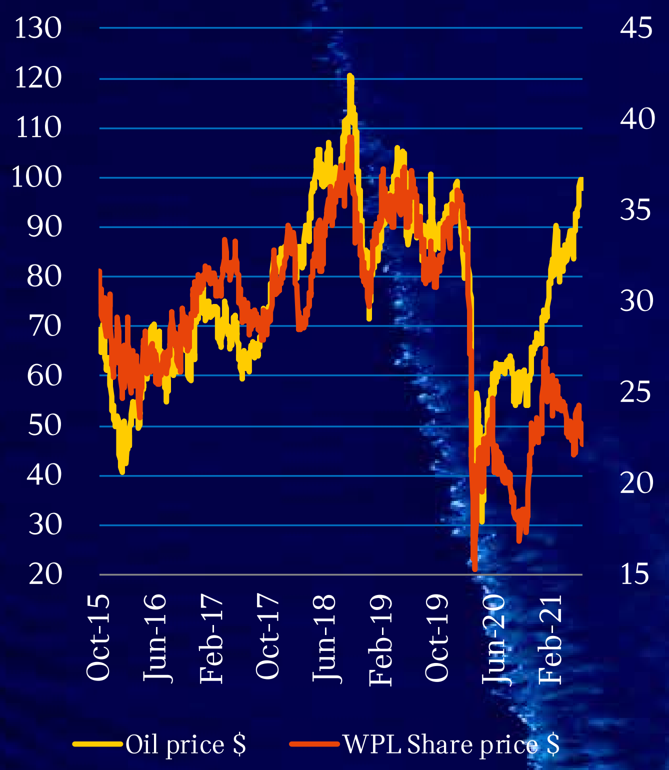
But surprisingly companies related to energy and metallurgical (for steel making) coal – Whitehaven (WHC), Newhope (NHC) and Coronado (CRN) - the respective share price performances have lagged the underlying commodity by almost two thirds i.e. WHC share price is around 50% higher vs energy coal price up almost 3 times.

The resulting "gap" that has opened between the share price and commodity price is highlighted in Figure 3 and suggests the share price should be significantly higher (~100%) than current level. A similar situation is true for peers NHC and CRN, and to a lesser extent for oil and gas company Woodside Petroleum.

Pricing anomalies such as these invariably close over time. We expect these share price gaps to close in coming months and quarters.

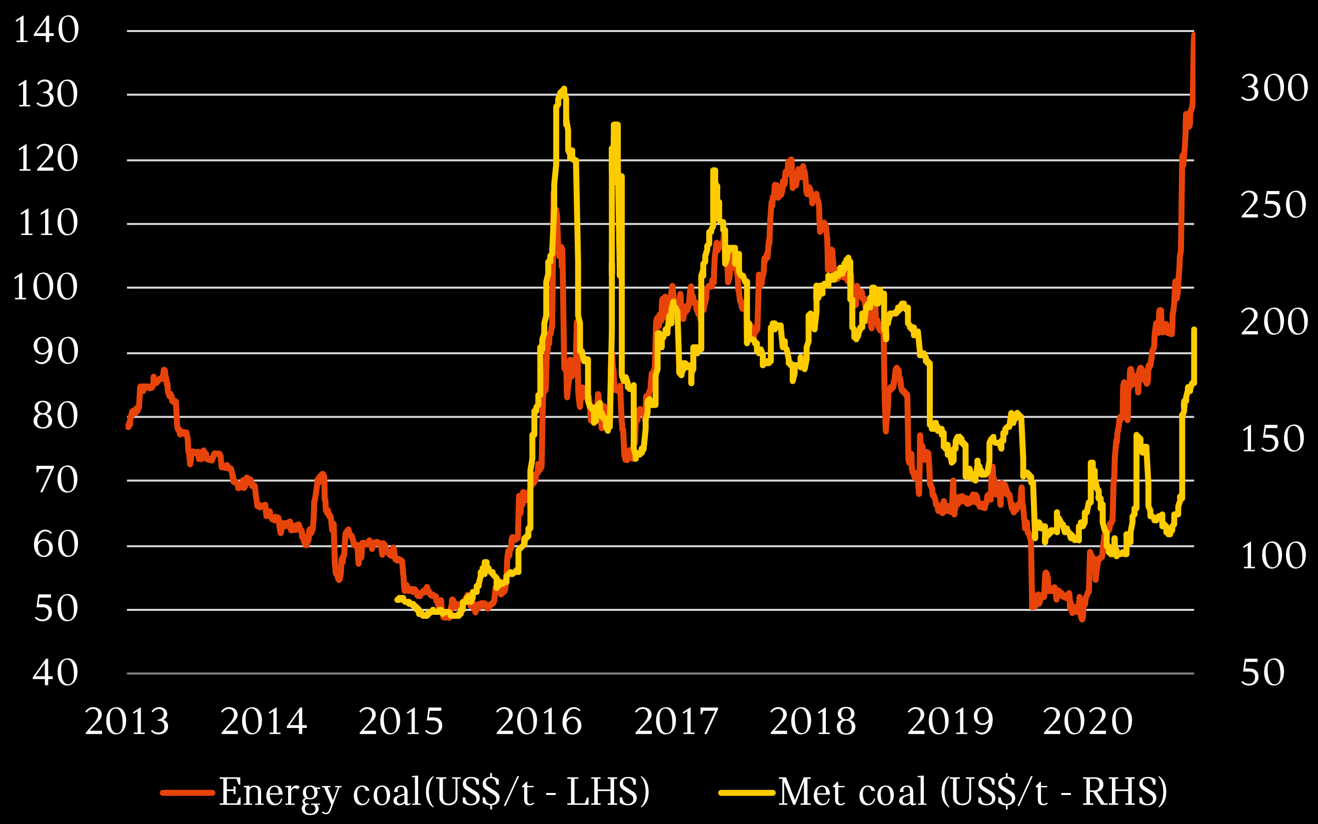
DOWNLOAD WHITEHAVEN COAL REPORT

FIGURES 3: ENERGY PRICING DISCONNECTS



Energy companies Woodside Petroleum and Whitehaven Coal's share prices have not kept pace with the underlying energy price.

Growth pipelines well stocked (Figure 4)



Source: Shaw and Partners, Company data, FactSet

Coal Prices

Global energy demand broadly follows global growth and in the current Covid recovery environment the trajectory has been exacerbated by global stimulus. Hence as the world has recovered, both from an industrial and consumer perspective, demand for energy units has tracked higher. Figure 4 highlights the relative trajectory of the two key coal classifications – energy coal and steel making coal.

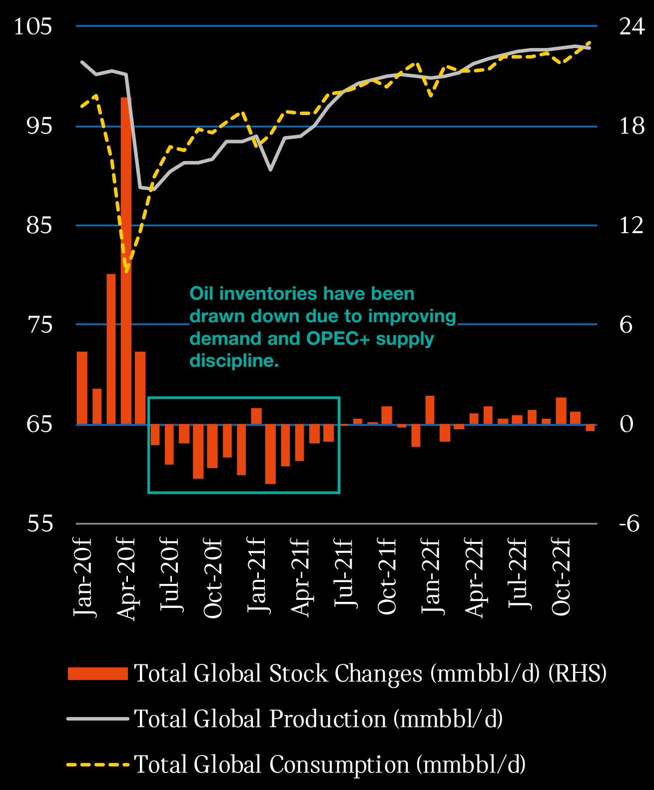
Energy Coal

Global energy consumption has increased materially post a low point in March 2020. As a result, energy demand has increased in parallel and energy prices have move higher. Energy coal price is now trading almost three times higher than June quarter 2020 level, recently breached prior cycle level and is now trading at decade high levels (late 2011), just 9% short of all-time high levels from early 2011. The low point in the recent price cycle, June quarter 2020, was broadly inline with oil and gas.

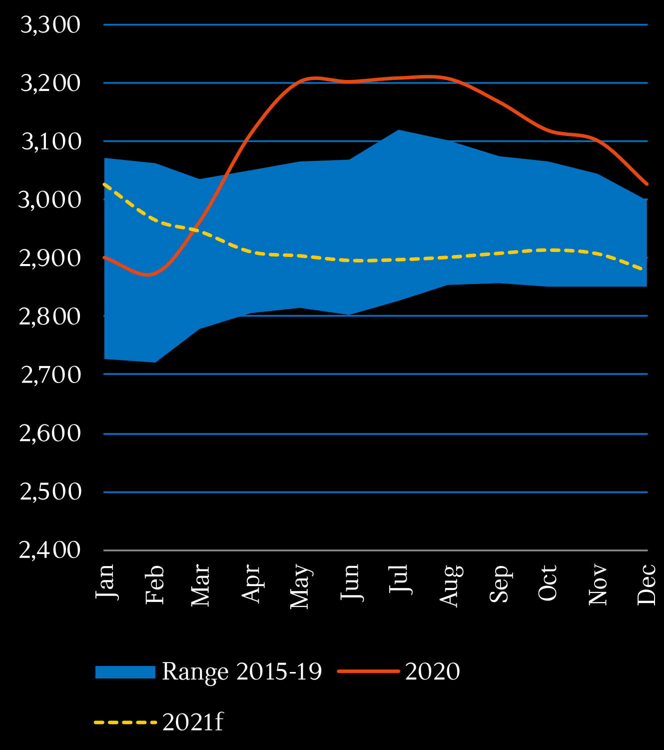
Steel Making Coal

Coal utilized in steel making or metallurgical (met) coal has followed a similar trajectory with prices forming a low in late June quarter 2020. But a significant anomaly has been the price of Australian met coal vs similar products produced/consumed in China, Canada and the US. The price differential is now over around $100/t or 50% of current Australian export price. This pricing anomaly is largely an outcome of China import bans/quotas specifically targeting Australian exports. In recent weeks this anomaly has started to close although figure 5 suggests a further ~50% upside.

GLOBAL LIQUID FUELS PRODUCTION AND CONSUMPTION BALANCE (MONTHLY, MMBBL/D)



OECD COMMERCIAL CRUDE INVENTORIES (MMBBL)



Oil markets are tightening

It is getting harder and harder for companies to invest in new fossil fuel projects. With global oil inventories drawing and demand continuing to increase, we believe it is increasingly likely there will be an oil price spike.

Global oil demand currently sits at ~97mmbl/d, which is the equivalent of an ~85% demand rebound from COVID lows in April 2020 (~80mmbbl/d). Consensus expectations are for demand to reach pre-COVID levels between 2022-2023 (~100mmbbl/d).

On the supply side, we note the following with respect to the globe's swing producers:

US SHALE: US crude production has flatlined for the past 12 months (~11mmbbl/d). We forecast this to continue through 2021 despite the US oil rig count +120% since Aug-20.

OPEC: Consistent with the production targets announced at its early April meeting, we forecast OPEC spare capacity to decrease substantially over the coming months, to ~5.5mmbbl/d in August (from ~8.5mmbbl/d in April). This is not far from the long term average of 2-3mmbbl/d.

With demand improving and supply constrained, OECD and US inventories are being drawn down and well within the 2015-19 range. We are forecasting a global oil inventory draw of 0.8mmbbl/d in 2021.

In our view additional supply will be required to keep pace with recovering demand. The seeds have been sown for a potential oil price spike.

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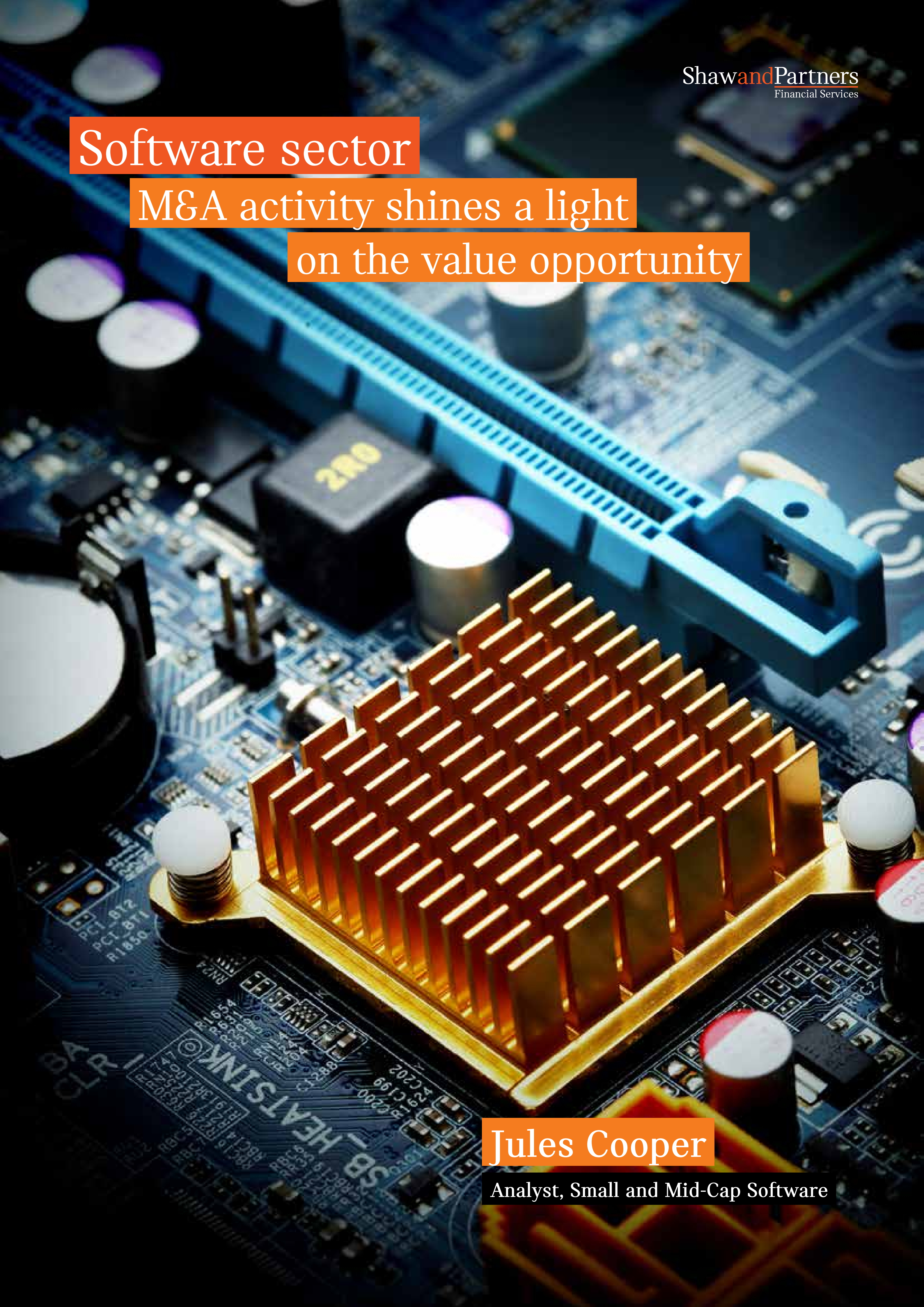
Software sector

M&A activity shines a light on the value opportunity



Jules Cooper

Analyst, Small and Mid-Cap Software

M&A activity has led a rebound in software performance and put the focus back on fundamentals.

ASX software stocks rallied +11% in June, outperforming both the ASX200 by nearly +8% and their US peers by around +6%.

M&A led the rebound in performance, with two proposed offers, including Altium (ALU) and Hansen Technologies (HSN), and plenty of press speculation circling around Iress (IRE).

Altium announced that Autodesk (ADSK-US), a US-listed multi-national software company, had proposed a $38.50/sh offer for the company, implying a 41% premium to the last close. The Board swiftly rejected the proposal but stated that it would continue to engage with interested parties, in the context of an appropriate valuation.

Hansen announced that BGH Capital, an Australian private equity firm, had proposed a $6.50/sh offer for the company, implying a 25% premium to the last close. The Board intends to unanimously recommend the offer and has granted BGH an exclusive due-diligence period.

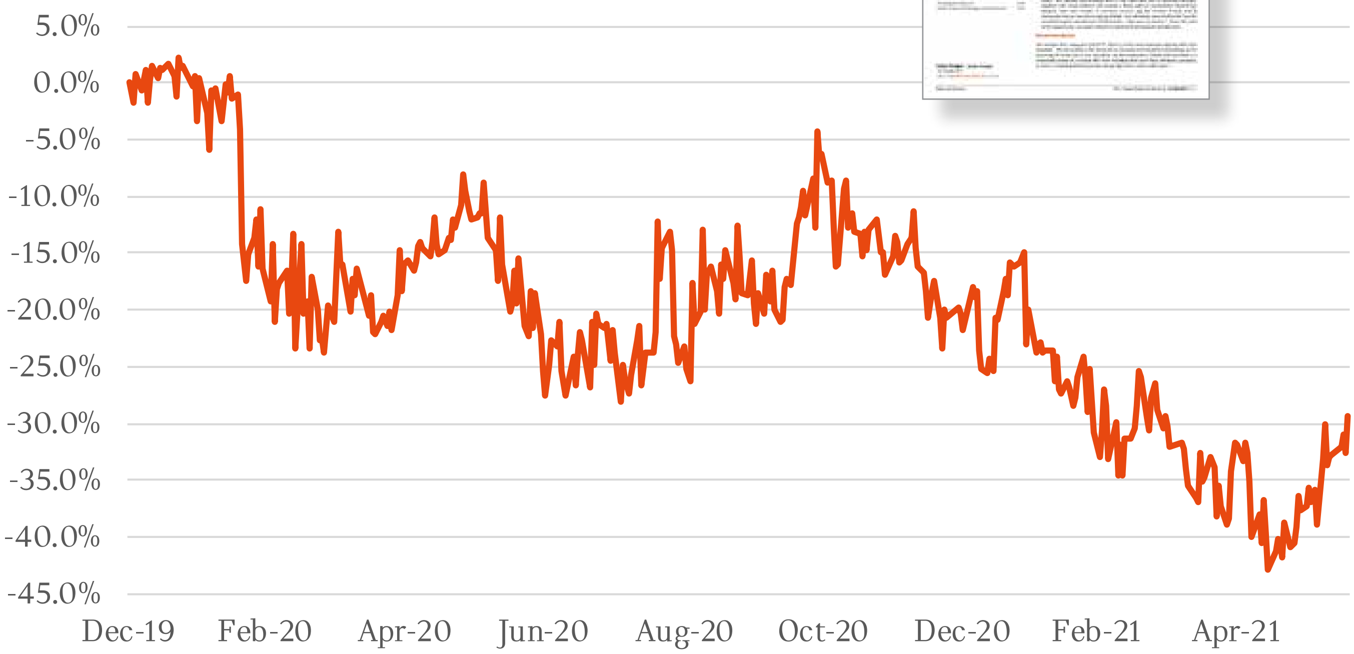
Lastly, for Iress, while no official approach has been made, rumours and press speculation have driven its share price up by over 23% this month.

We believe this activity has highlighted the value opportunity across ASX Software stocks and put the focus back on fundamentals, rather than bond yield speculation and rotation trades.

Since October last year, ASX software stocks had materially underperformed their US counterparts, reaching a low of around 40% in May, albeit recovering some ground more recently. While the ASX has less exposure to the fastest-growing Enterprise software stocks (ZOOM for example) this level of underperformance suggests an undershoot, that has subsequently sparked M&A activity.

DOWNLOAD ALTIUM (ALU) REPORT

PERFORMANCE OF ASX SMALL & MID-CAP SOFTWARE VS US PEERS



Source: Shaw and Partners & FactSet

ASX SMALL-MID CAP SOFTWARE (EV/REVENUE MULTIPLE)

M&A activity shines a light on the value opportunity

Source: Shaw and Partners & FactSet

Interestingly, the valuations being applied to ASX software stocks, dipped below their pre-COVID levels during May, despite fundamentals that remain strong and have rarely looked better. COVID has put digital transformation firmly on the agenda for most organisations, which should benefit revenue growth for software companies over the next few years.

It has also tested the resilience of new subscription-based business models – and they passed. Software emerges from COVID with both more growth and proven defensiveness. M&A activity supports this thesis.

We think there are still good value opportunities, particularly at the smaller end.

Readytech (RDY) successfully navigated through COVID last year, highlighting both the quality of its revenues and sustainability of its growth runway. Further, we have been impressed by recent contract wins that highlight RDY is successfully selling into larger customers. With the stock trading on an FY22 cash EBITDA multiple of 17.5x, we believe it is still undervalued for its attractive fundamentals.

Class Limited (CL1) also successfully navigated through COVID, while continuing to successfully execute on its ‘Reimagination’ strategy. Its recent investor day highlighted that its acquisitions are performing well, new products are meeting expectations and that operating leverage should start to follow as the revenue scales. With the stock trading on an FY22 cash EBITDA multiple of 22x, we believe it is undervalued for its cash flows, customer base and market leading products.

Software is not a fad, and it is rapidly eating the world.

There are still opportunities to buy quality software businesses at attractive prices. But don’t wait too long, or the next trade buyer or private equity firm may get there first.

DOWNLOAD CLASS (CL1) REPORT

19
K
Potassium
39.098

Potash
A future facing commodity helping to feed the world

Michael Clark
Analyst, Energy and Mid-cap Mining

ShawandPartners
Financial Services

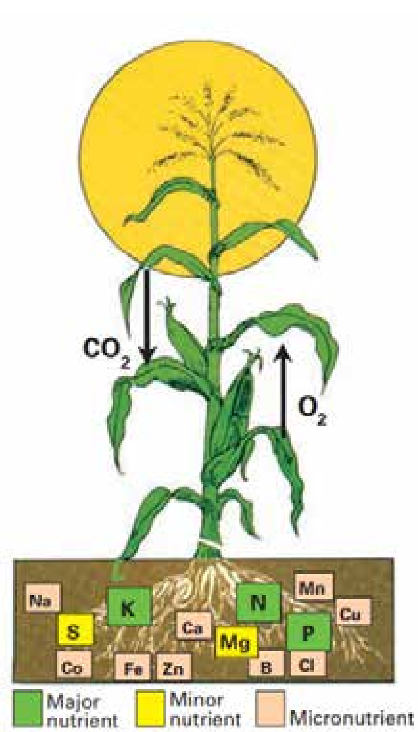
The United Nations estimates that the world population will reach 9.7 billion in 2050 and could peak at nearly 11 billion around 2100. That's an increase of 23% by 2050 from today's 7.9 billion.

Although demand for food will increase as population increases, the area of cultivated land will not increase significantly. Arable land per capita is reducing over time.

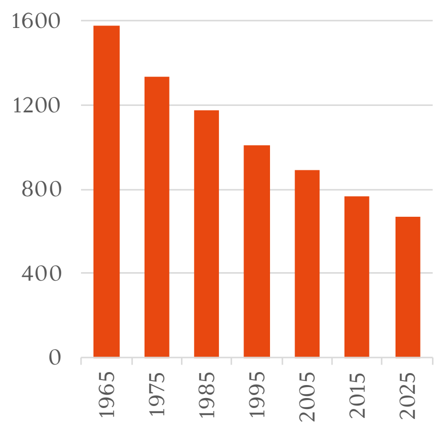
In addition - through agriculture - soils become depleted of key nutrients required for crop growth i.e. macro nutrients nitrogen (N), phosphorus (P), potassium (K) and secondary macro nutrients sulphur (S) and magnesium (Mg).

For this reason, methods for improving crop production must be found to satisfy the nutritional requirements of the expanding population. The use of fertilisers – natural or manufactured chemicals to improve yields and crop nutrition - is one way to increase food supplies.

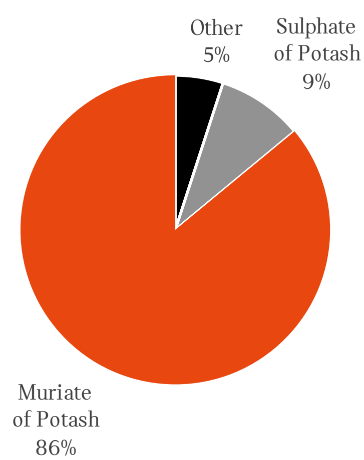
Plant nutrition for optimum growth



Arable land per capita (m2)



2020 potash sales by type



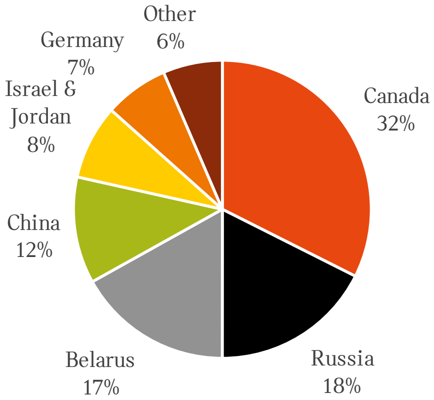
Source: APC & BHP company presentations, Shaw and Partners analysis

Fertilisers are required to help increase food supplies

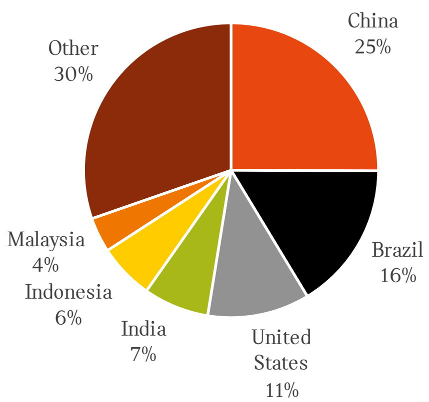
	Muriate of Potash (MOP)	Sulphate of Potash (SOP)
Molecular formula	KCl (potassium chloride)	K2SO4 (potassium sulphate)
Nutrient content (w/w)%	~60% K_2O	~50% K_2O + 17% S
Application	Basic and most economic fertiliser. Cannot be used on chloride-sensitive crops or where soil salt levels are high or increasing.	Premium fertiliser: it can be used in every application for which MOP is used as well as high saline environments. More effective than MOP in enhancing yield and quality. It is chloride free, important for chloride intolerant crops and contains the secondary nutrient sulphur.
Global annual supply / demand	~66Mt 2020s consensus demand CAGR 1-3%. Window for new supply open from the late 2020s or early 2030s.	~7Mt 2020s consensus demand CAGR 3-6% due to its flexibility in end use.

Source: USGS, APC company reports, Shaw analysis

Potash mine production (2020)



Potash demand (2020)



Source: Shaw and Partners & FactSet

POTASH – A POTASSIUM CARRIER MOSTLY USED AS A FERTILISER

Potash is a potassium fertiliser with no substitutes and is one of the key nutrients required for crop growth.

There are two main forms of potash; Sulphate of Potash (SOP, K_2SO_4), and Muriate of Potash (MOP, KCl). Sulphate of Potash (SOP) is the premium form of potash and is used for crops which do not tolerate chlorine.

GEOGRAPHIC SUPPLY AND DEMAND IMBALANCE

While the earth contains enough potash to meet the increased global demand for crop production, some regions lack potash deposits needed to satisfy local demand.

There is a geographic imbalance between potash supply and demand centres. The top four potash consumers – China, Brazil, The United States and India - account for 60% of consumption but only 13% of global potash production.

The geographic imbalance has created fragmented potash markets, with transportation costs and product quality causing pricing differences across the world.

In our view Australian potash developers may be able to capitalise on the imbalance given Australia is proximate to emerging Asian markets, the globe's growth centre.

CLEAN, GREEN, PREMIUM POTASH

Shaw and Partners covers Australian Potash (APC). The company intends to produce premium quality SOP from brine at its flagship 100%-owned Lake Wells Sulphate of Potash Project (LSOP) in Western Australia.

Recently, APC announced: (1) Full environmental approval. (2) 90% of offtake secured. (3) $140m Northern Australia Infrastructure Facility (NAIF) funding approved and $45m funding from Export Finance Australia.

We believe APC can proceed to gain the licences and permits required to commence the development of the project and look to secure the balance of project financing. The company expects realised product prices to include a ~10% quality premium vs benchmark SOP prices. A Final Investment Decision is pending.

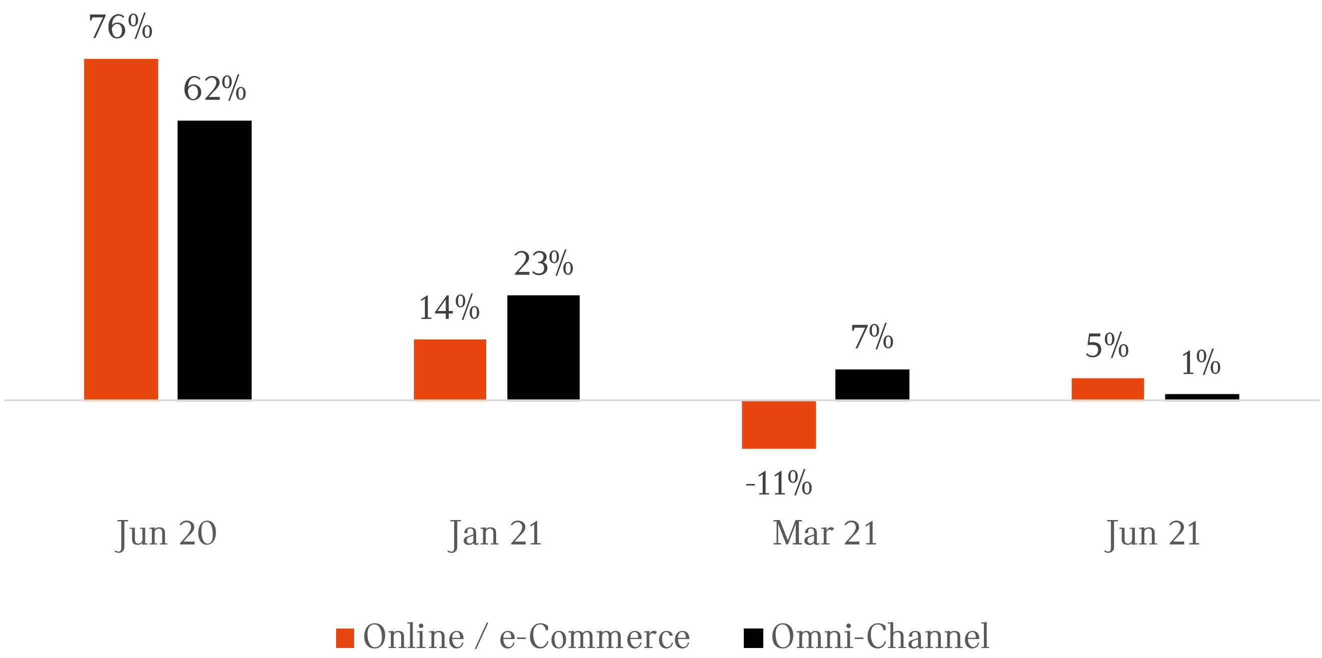
Shaw and Partners
Financial Services

Clash of the Titans
Retail e-Commerce versus Omni-channel

Danny Younis
Senior Analyst
Retailers, Technology

Over the last 6 months, it has clearly been a bumpier ride for the e-Commerce and 100% online players versus the omni-channel (bricks 'n' mortar physical stores plus online presence).

SHARE PRICE PERFORMANCE



The principal reason is that we are now in the nebulous post COVID-19 hit as we now cycle last year's 4Q20 (April-May-June) peak that benefited significantly from COVID-19 as Australia went into shutdown/ restrictions and consumers gravitated en masse to online purchases.

This moderation in sales has also been exacerbated by the Government job stimulus packages coming to an end (JobSeeker and JobKeeper) which fuelled the consumer fire and drove surging online penetration in Australia.

Furthermore, the recent spate of downgrades from 100% online retailers has dampened enthusiasm for the sector (notably from KGN, TPW and RBL).

As a result of these factors, the market moved from an overweight or sanguine view of the e-Commerce / online players to a more neutral-to-negative view.

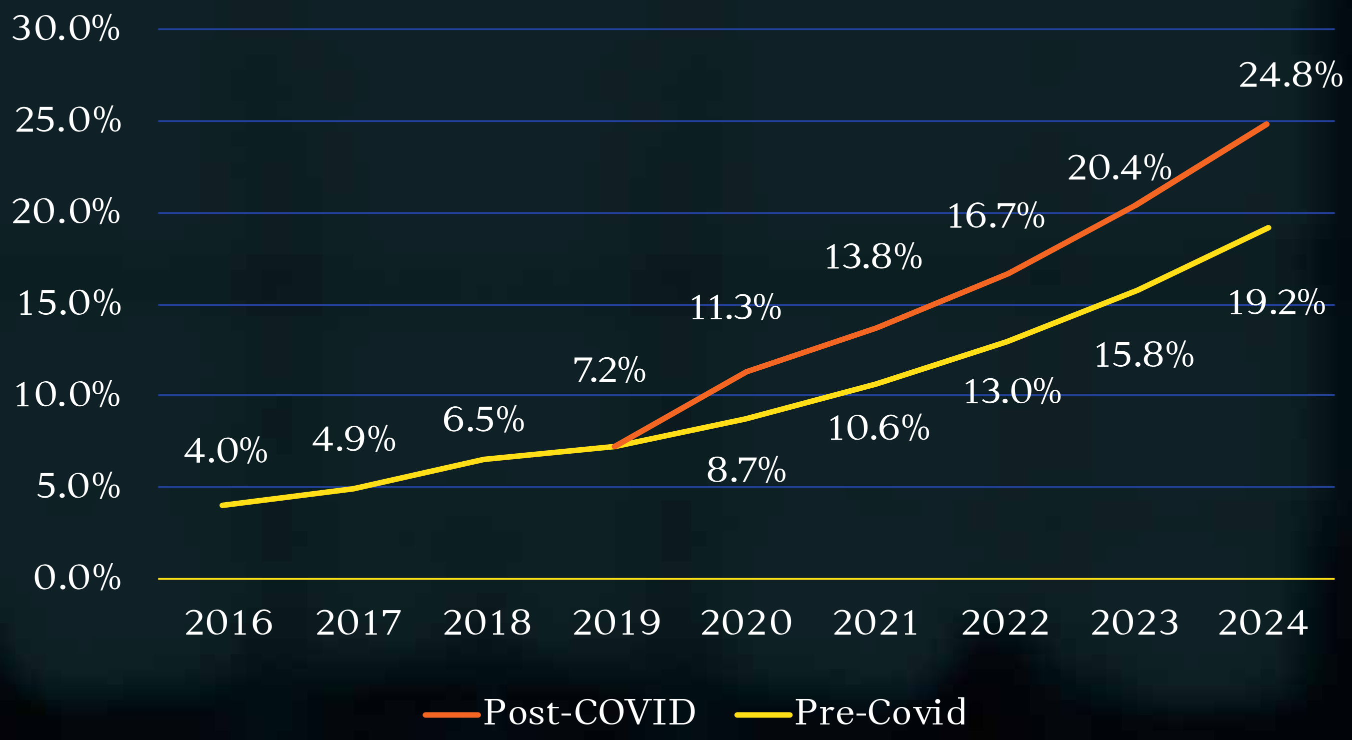
This has been reflected in the price performance of both retailer segments, with the online average share price performance over the last 3 months down 11% (or -18% if we exclude the stunning outperformance of luxury goods retailer Cettire) vs. +7% for the omni-channel.

Shaw and Partners' view is that now is not the time to throw out the proverbial 'baby with the bathwater' – none of this should have been considered new news nor even surprising. Companies have been talking to a post-COVID-slowdown for months, the market has expected this and all independent research bodies (and, indeed, the media) for some time now have also forecasted a slowdown once COVID restrictions eased in Australia and the rollout of the vaccine gains pace.

Moreover, pre-COVID-19, industry research house Frost & Sullivan had estimated that online penetration rates would increase from 4.0% in 2016 to 9% in 2020.

However, with the advent of COVID-19, it is now expected that a forecast acceleration of this trend is likely given the shift from physical bricks 'n' mortar (shutdowns/ closures/restricted trading hours) to 11% by 2020 – and then to 25% post-COVID in 2024.

Online Penetration Pre vs. Post COVID-19



Source: Frost & Sullivan

Positive macro drivers remain intact, as evidence before COVID accelerated these trends:

- Structural shifts to online expected to endure, given how far behind the US and UK Australia is in terms of online penetration
- High consumer confidence still abounds, augmented by low RBA interest rates
- Relatively low unemployment levels
- Expansion of network / technology infrastructure to 5G and NBN expediting the transition to online, especially mobile apps
- Rise of social media platforms allowing additional marketing channels to the consumer
- Broader payment options e.g. digital wallets, contactless payments and BNPL products
- Growth of 'digital natives' (e.g. Millennials and Gen Z) with growing disposable incomes.

COVID-19 has also expedited some rapid shifts in consumer behaviour that are also very beneficial to retailers:

- More flexible working arrangements, especially working from home
- Increased preference for local neighbourhood shopping vs. CBDs and large malls
- Shift from city to regional areas (living, shopping, recreation, etc.)
- Home consumption substituting on-premise consumption
- Less overseas travel and duty free shopping
- Consumers now preferencing services (customised experiences, health and beauty treatments, travel, VR demonstrations, gaming and entertainment arcades, etc.) over physical goods.

Likewise, quality names should continue to eke out improving top-line growth and healthier earnings via the following key drivers:

- NPD (new product development) and innovation;
- Improving supply chain and logistics;
- Prudent cost management (e.g. rental concessions);
- Further acceleration in online investment;
- Private label penetration;
- Geographic expansion (e.g. NZ); and
- CRM implementation to drive loyalty schemes (which entrench the customer into the retailer ecosystem, making them 'stickier' and increasing their engagement).

The global retail market has evolved significantly over recent years, driven by digital innovation, changing consumer expectations and the ease of internet access. COVID accelerated the online penetration story for retailers, including the omni-channel retailers.

The longer term question is what a post COVID landscape looks like. We expect growth for the e-Commerce and omni-channel players to remain strong as the transition from physical to online was already rising pre-COVID and most of the listed retailers took the downtime in COVID to invest in their store networks and footprints (new stores, refurbs, refits, etc.), improve the unit economics of the retail offerings, and become more effective at attracting customers (loyalty schemes, tiered discounting, bespoke advertising, etc.).

Online key picks

Adore Beauty (ABY) – BUY, PT $6.00
(Analyst: Danny Younis). Adore Beauty was co-founded in 2000 as Australia's first beauty focused e-commerce website. Since then, it has become Australia's number one pureplay online beauty retailer.

Booktopia (BKG) – BUY, PT $4.05
(Analyst: Jonathan Higgins). Booktopia operates a leading online book retailing business across the Australian market and includes the Angus & Robertson and the Co-Op.

Zebit (ZBT) – BUY, PT $2.00
(Analyst: Danny Younis). Zebit, Inc. operates as an e-commerce merchant based in the US. It also provides credit services that allows underserved customers to make purchases of consumer goods in the form of retail instalment transactions.

Omni-channel key picks

Dusk (DSK) – BUY, PT $3.60
(Analyst: Danny Younis). Dusk provides home fragrance products (including candles, ultrasonic diffusers, reed diffusers, essential oils and fragrance-related homewares) through physical stores and online.

Shaver Shop (SSG) – BUY, PT $1.50
(Analyst: Danny Younis). Shaver Shop is the market leader in the sale of personal grooming products, electric shavers, clippers, and trimmers. The company was founded in 1986.

ShawandPartners
Financial Services

Shopping centres still the centre of shopping

David McFadyen

Analyst, Small Caps

In broad terms, COVID-19 has likely had a two-step impact on physical retailing, with government restrictions on movement and health concerns reducing foot traffic in shopping centres throughout 2020, while subsequently elevated online shopping rates are likely to remain high as consumers become accustomed to purchasing goods entirely online.

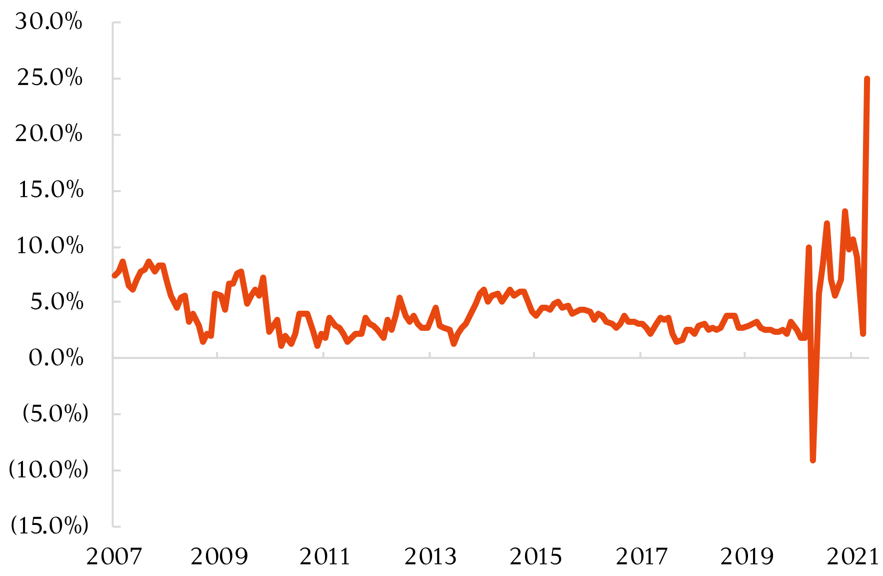
Despite these changes, online remains a clear minority of total retail spend in Australia, with the rise of the omni-channel highlighting the continued value of a physical presence for retailers, even those with an online focus.

Café, restaurant & takeaway food spend has effectively returned to pre-COVID-19 levels despite sporadic lockdowns.

Alongside this rebound, recent results from a number of listed shopping centre companies indicate that foot-traffic has consistently bounced back following COVID-19 lockdowns seen throughout 2020, albeit with Victoria and major city CBDs affected much more (and continuing to lag).

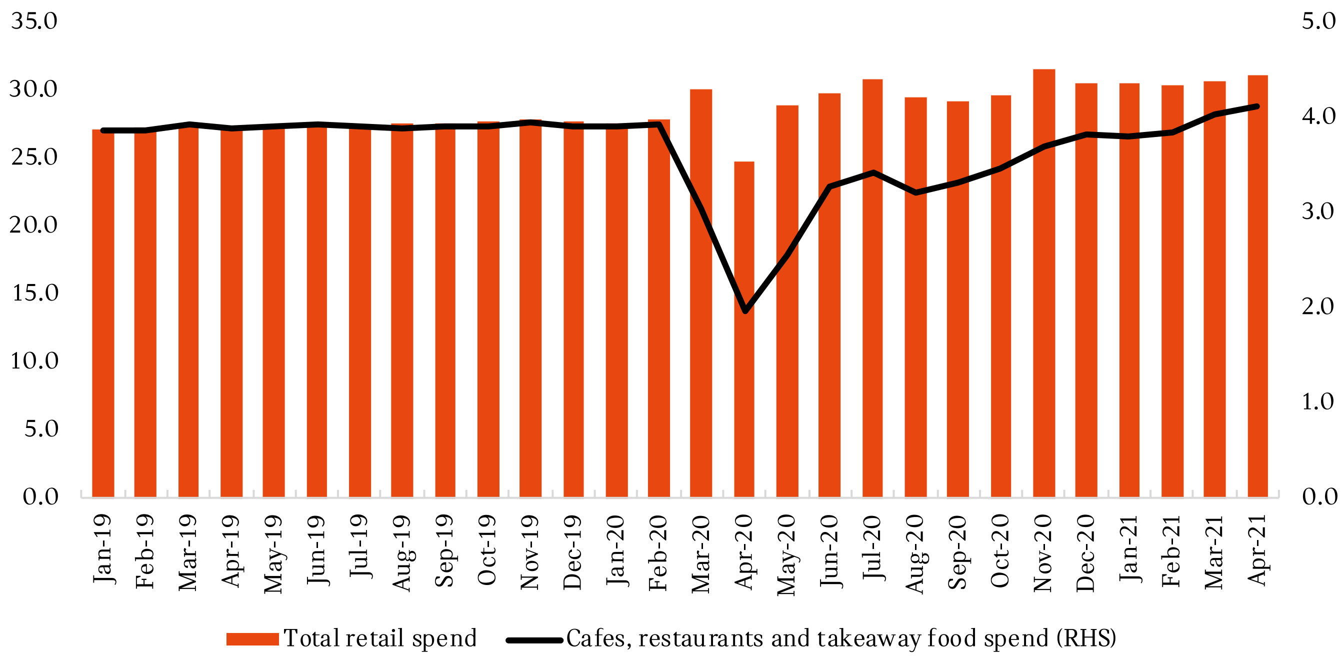
We believe the impact of online shopping has been less pronounced in regional areas where shopping centres typically remain the 'lifeblood of the town'.

CAFES, RESTAURANTS AND TAKEWAY FOOD SPEND IN AUSTRALIA



Source: Shaw and Partners, ABS Retail Trade (Australia)

RETAIL SPENDING IN AUSTRALIA (A$BN)



Source: Shaw and Partners, ABS Retail Trade (Australia)

Over 15 months into the pandemic, government restrictions seeking to limit the spread of COVID-19 remain highly variable across Australia as each of the state governments apply differing approaches.

The most notable difference has been the general reticence by the NSW government to enter lockdowns relative to other state governments, with the NSW government also typically introducing less onerous restrictions during these periods, including a looser definition of 'essential retail' and no (or minimal) limits on resident travel within locked-down areas. The introduction of hard borders between states has also become a recurring issue.

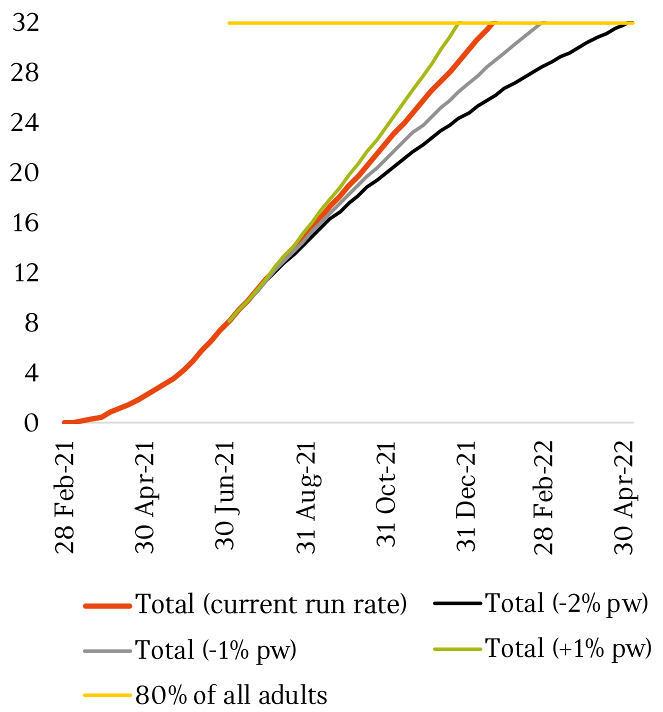
While operating conditions for retailers could therefore continue to see significant variation, our channel checks indicate that, broadly speaking, most retailers are bouncing back from more punitive lockdown measures relatively quickly, with the key exception being major-city CBDs (in particular Melbourne).

At the start of July 2021, Prime Minister Scott Morrison announced National Cabinet's Four-Stage Plan, which sets out a broad path for Australia to work through and eventually exit COVID-related restrictions. Crucially, movement between the phases will be triggered by the achievement of 'key vaccination thresholds' – while these have not yet been set this should provide much-needed clarity around when more regular operating conditions for Australians (and retailers) can resume.

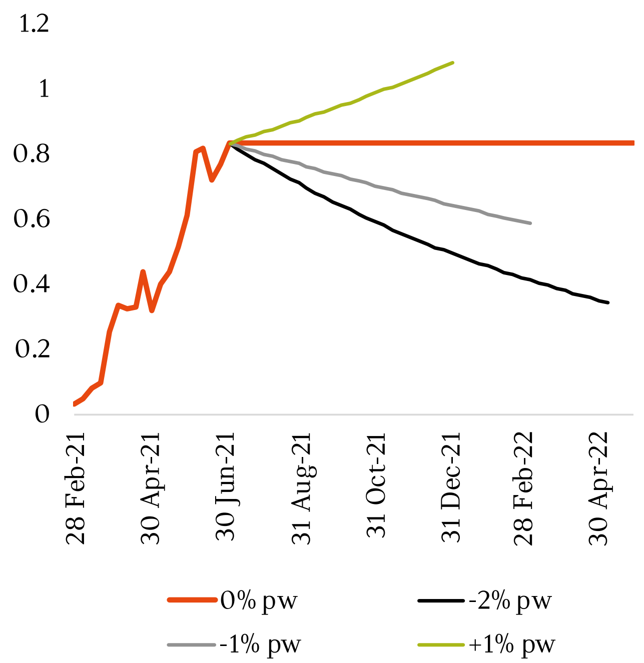
Australian vaccination rates have been steadily increasing since the rollout began in late February 2021, and are currently running at ~900k doses per week (as of 6 July 2021). At this rate the equivalent of 80% of the Australian adult population would be fully vaccinated by early January 2022. Note this is a very simplistic (and linear) calculation that assumes away logistical complexities, political machinations, vaccine hesitancy, supply constraints, and the time between individuals receiving their first and second dose. Assuming weekly dosage rates were to improve at 1% per week from the current level, this date moves forward to late December 2021, while a hypothetical weekly 1% decline pushes the date to February 2022 (and a 2% weekly decline to April 2022). Noting again the simplicity of this calculation, these figures highlight the sensitivity of vaccination rate targets to relatively small variations in weekly dosage levels, with rates of vaccination also likely to slow appreciably around the 50-60% mark. Given the positive initial data out of the highly-vaccinated UK (~64% fully vaccinated), where COVID-19 cases have been rising in recent weeks but related hospitalisations have been broadly flat, the focus in Australian is likely to shift in the coming months to the level of community transmission of COVID-19 that is acceptable to the public (i.e. voters). Further clarity on this front will be crucial to the outlook for Australian retailers.

In the interim, rising vaccination rates and a halving of international arrival caps from June 2021 levels until the end of the year should also reduce the number of serious COVID-19 leaks from hotel quarantine, providing further optimism around the path out of COVID-19.

TOTAL VACCINE DOSES (MILLION)



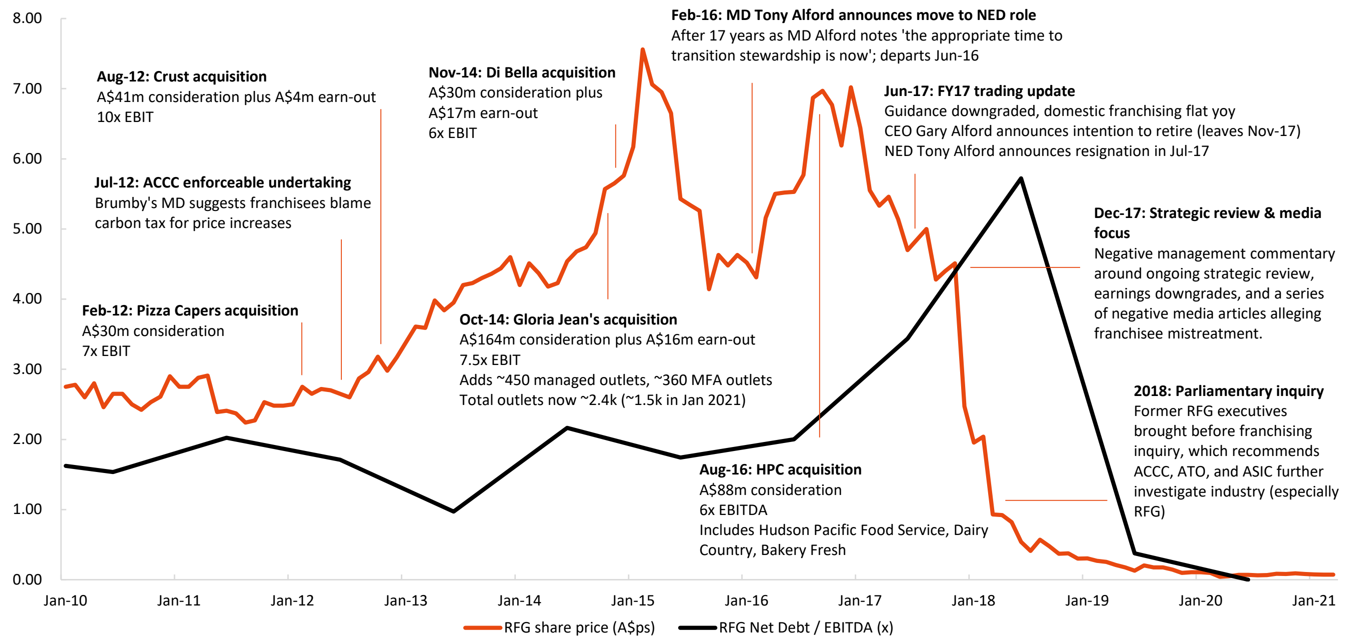
WEEKLY ADDITIONAL VACCINE DOSES (MILLION)



Source: Australian Government Department of Health, Shaw and Partners forecasts

At 900k doses per week, the equivalent of 80% of the Australian adult population would be fully vaccinated by late January 2022

RFG SHARE PRICE (2010 – PRESENT)



Keep your eye upon the doughnut, and not upon the hole.

Retail Food Group is highly exposed to the above thematics (shopping centre visitations and COVID restrictions).

While the company and its franchisees were significantly impacted by COVID-19 restrictions in the early months of the pandemic, the franchisees were shielded somewhat by rental assistance (i.e. rents were flexed in line with revenue declines), JobKeeper, which significantly reduced labour expenses, and various bank supports.

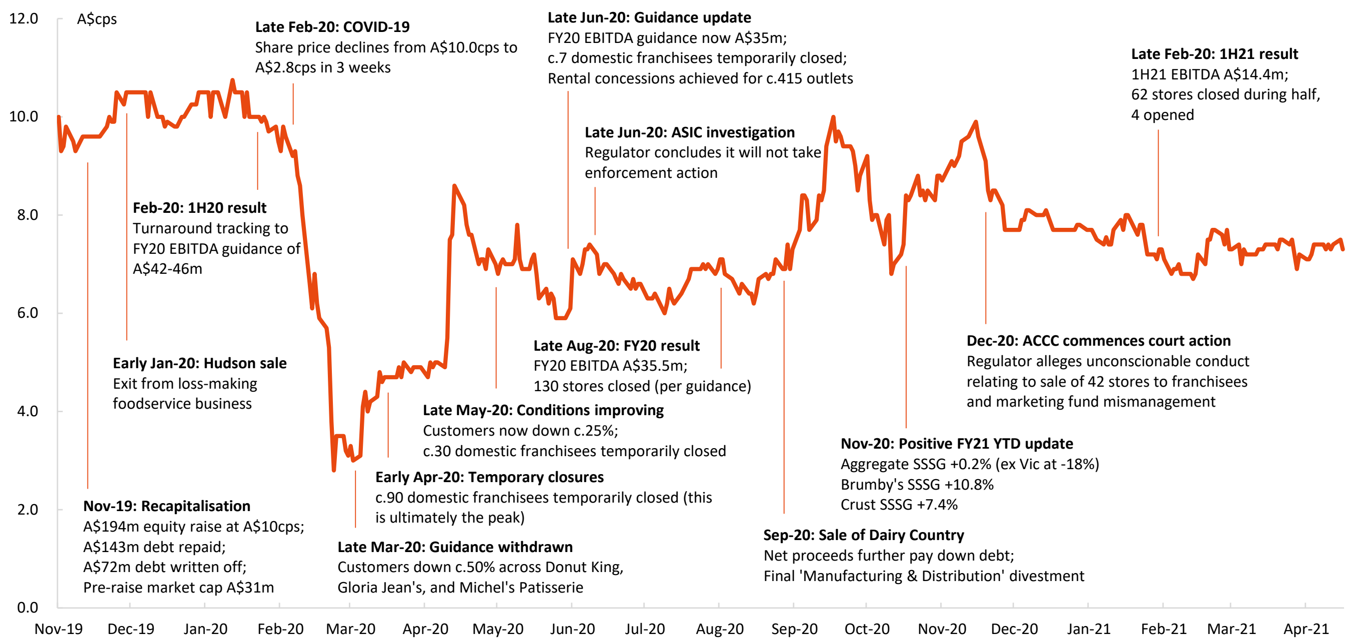
Elements of the business respond favourable to COVID-19 restrictions, including Brumby's Bakery, Crust Pizza, and Pizza Capers.

We see the company's geographic diversification, with a weighting towards NSW, as very positive given the relatively short period of time NSW has spent in lockdown (and the relatively moderate lockdowns enforced).

The major issue currently weighing on the business (and share price) is a multi-year investigation by the ACCC into historical matters, which recently escalated to legal action.

We believe RFG has a case to argue along with a capital buffer (unrestricted cash of A$36.1m), and note that despite significant media coverage the company today is comprised of three groups of people who remain committed to improving the state of the business for mutual benefit: the current management team; the current shareholders; and – crucially – RFG franchisees, who we believe wear the greatest relative financial cost of ongoing regulatory uncertainty.

RFG SHARE PRICE (LATE 2019 – PRESENT)



Retail Food Group (RFG)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$0.07
Target Price	$0.14
Analyst	David McFadyen

Share Performance Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-2.8%	-2.8%	-5.4%

* Relative Performance is compared to the S&P/ASX 200 Index

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	1.1	1.0	1.3
Dividends (AUD) cps	0.0	0.0	0.3
PE x	6.6	7.1	5.6
Yield %	0.0%	0.0%	4.2%
Franking %	100%	100%	100%

RFG is a major Australian franchisor with 847 stores across 6 key brands: Donut King; Brumby's Bakery; Michel's Patisserie; Gloria Jean's; Crust; and Pizza Capers.

Regulatory overhang the final piece of the turnaround puzzle

- This is not the company you've read about – Following RFG's fall from grace during 2017-19, a period marked by a major deterioration in franchisee relations, widespread store closures, and a crushing debt burden, the company's new management team have cleaned up the balance sheet and executed on a turnaround strategy built around improving franchisee (and in turn head office) profitability.
- Management have put franchisees first – This has involved an additional ~A$30m in annual gross margin at the franchisee level, funded by a combination of efficiency gains at head office, improved rental terms, and targeted marketing campaigns.
- The brand networks remain highly valuable – The issues faced by the company have diverted attention from the underlying quality of a number of its brands (Donut King, Crust, Gloria Jean's), which have solid customer propositions, broad geographic diversification, and offshore expansion potential.
- Regulatory overhang remains – With respect to recent legal action initiated by the ACCC, which is focused on historical issues, we believe RFG has a case to argue along with a sufficient capital buffer for most likely outcomes. Any settlement would likely be share price positive, noting this is the key issue preventing RFG from returning to net store adds.
- RFG's 50-70% discount to peers is excessive – Notwithstanding risks around the ACCC issue, we see the turnaround continuing to play out and reiterate our Buy rating on the stock.

Andrew Ye, Investment Analyst

Shaw and Partners Australian Large Cap Model Portfolio

Our Large Cap Model Portfolio produced steady returns in June. The portfolio returned 1.93%, 0.21% below its S&P/ASX 100 Accumulation index benchmark. We made one change in June following a tweak to our portfolio positioning in May to capture the upside of broader structural themes, by increasing our Energy exposure to overweight and Software sector exposure to neutral weight.

The Australian share market, as measured by the ASX100 index, rose 2.14% in June, led by Altium (ALU; up 29.8%), which rebounded after it received a takeover bid from US company, Autodesk, and Afterpay (APT; up 27.4%), which rose on the back of a new product launch in the US as well as broader strength in technology companies. The sector that detracted most from index returns in June was Banks, with the major banks relinquishing some of their recent strong gains. We made one change to the portfolio in June, switching from Newcrest (NCM) to Woodside (WPL). This is in addition to the changes made in May; adding ALU and Santos (STO), reducing Commonwealth Bank (CBA) and exiting Aurizon Holdings (AZJ).

SECTOR HIGHLIGHTS

Software Soars. Software was the standout sector in June, achieving a double digit return during the month. The top two performers within the ASX100 index were in software, with our holding in the sector, electronics design software company ALU, being the best performer, closely followed by APT. Following a turbulent sell-off in May, in which many software companies fell to recent lows, the sector rebounded strongly in June, benefitting from M&A-related activity, with companies like ALU and Iress being subject to takeover interest, as well as reduced concern about near-term inflation amongst global equity markets. Following its significant appreciation in the past month, we are comfortable with our positioning in the Software sector but remain alert to future opportunities.

CHANGES

Turning Gold into Oil. With the Federal Reserve's tone on inflation suggesting that it will bring tapering forward, as a result of a strong recovery in demand growth, we add to our recent new position in the Energy Sector by adding WPL to the portfolio. This is facilitated by exiting NCM, with the portfolio maintaining an exposure to gold through NST. We see the risk/return trade-off for energy as more attractive than gold and hence adjust the positioning slightly.

In addition to the change made in June, we discuss the changes made in May below.

Moving up the value chain. We exited our position in AZJ, Australia's largest rail freight operator, following its recent disappointing performance, as we look to shift to a more risk-on portfolio positioning. We used the funds to enter a position in STO, our preferred exposure in the Energy sector, as it continues to develop growth projects while supporting its capital demands through targeted equity sell-downs in several projects. We believe the company will also benefit from the tightening in global oil markets, as global supply side issues persist despite the increase in global demand.

Tech is Healthy. While RMD is a strong business longer-term, our evaluation in May was that the business lacked cyclical upside, and faced potential currency headwinds, as the strong Australian dollar persisted. While the timing of the sale was unfortunate, with RMD being one of the best performers in the healthcare sector in June, we saw a significant opportunity to enter our position in ALU, following the sell-off in the Software sector. With leverage to the broader economic recovery, and a strong management plan to transition into term-based licensing, we added ALU at an attractive valuation relative to its peers and its own history. Tracking ALU's revenue growth through the GFC suggests FY21 will mark the inflection, with FY22 and FY23 likely to see continued recovery. Following a takeover offer from Autodesk at a significant premium, ALU was one of our strongest performers in June. Elsewhere in the portfolio, we trimmed our holding in CBA to market weight due to valuation concerns.

Additions		Reductions	
ALU	4.0%	AZJ	(3.2%)
STO	4.0%	CBA	(0.9%)
WPL	4.9%	RMD	(3.9%)
		NCM	(4.9%)
	12.9%		**(12.9%)**

RECOMMENDATION

While the Model Portfolio remains well-positioned to capitalise on Australia's ongoing economic recovery, the changes we made in May allow the portfolio to also benefit from broader structural themes. Global PMI data continues to be strong, although more recent data has seen a slowdown in the magnitude of increases. In Australia, both unemployment and underemployment rates continue to improve, while the GDP is now above pre-COVID levels. Given the ongoing discussion around the permanence of inflation, we have used the recent changes to the portfolio to manage risk by going overweight in Energy and neutral in the Software sector.

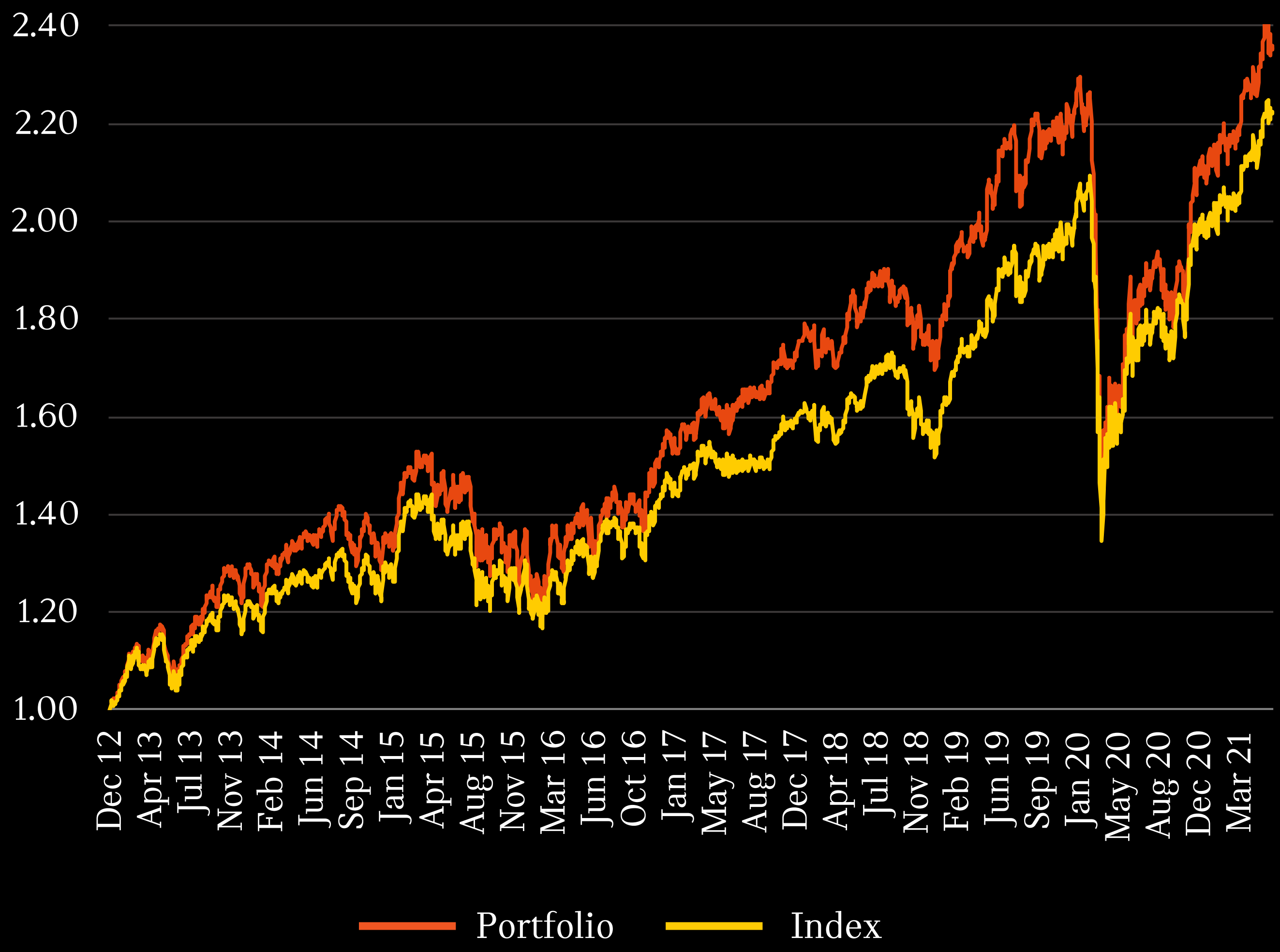
MARKET PERFORMANCE

June saw a third consecutive monthly fall in US 10-year bond yields, which peaked near the end of the previous quarter. US 10-year bonds were yielding 1.74% at the end of March and fell to 1.45% at the end of June. Similarly, Australian 10-year bond yields moved lower over the course of the quarter, falling from 1.79% at the end of March, to 1.53% at the end of June. Consequently, the sectors with longer duration companies, such as the Software sector, performed strongly over the June month and quarter as they benefitted from the decline in bond yields.

PORTFOLIO PERFORMANCE

The portfolio achieved steady gains in June, returning + 1.93%, albeit 0.21% below the benchmark. Sector allocations had a neutral impact, as the portfolio benefitted from the overweight in Retailing and underweight Pharmaceuticals, but suffered from the underweight in Health Care, while stock selection detracted from returns for the month.

Portfolio Performance (Accumulation Basis)



Model portfolio at June 2021

CBA	Commonwealth Bank	7.5%	REA	Rea Group	4.3%
BHP	BHP Billiton	7.0%	SUN	Suncorp Group	4.1%
NAB	National Aust. Bank	6.8%	STO	Santos Limited	3.9%
WBC	Westpac Banking	6.0%	S32	South32 Limited	3.6%
ALU	Altium	5.7%	DOW	Downer EDI	3.6%
WES	Wesfarmers	5.4%	NST	Northern Star Resources	3.5%
TLS	Telstra Corporation	5.1%	JBH	JB Hi-Fi	3.4%
WOW	Woolworths	5.1%	SGP	Stockland	3.0%
ANZ	ANZ Bank	5.1%	MQG	Macquarie Group	3.0%
WPL	Woodside Petroleum	4.6%	IPL	Incitec Pivot Limited	2.4%
GMG	Goodman Group	4.4%	EDV	Endeavour Deferred	0.8%

Shaw Managed Accounts

Portfolio Performances – May 2021

Portfolio		3 Mth	6 Mth	1yr	2yr	Inception
Shaw Income Goal Portfolio	**Total Portfolio Return**	**5.2%**	6.8%	14.5%	6.7%	7.2%
Objective: RBA Cash +3%	Portfolio Objective	0.8%	1.5%	3.2%	3.5%	4.0%
Inception: Sep-17	Excess v Objective	4.4%	5.3%	11.4%	3.2%	3.2%
Shaw Balanced Goal Portfolio	**Total Portfolio Return**	6.6%	8.9%	20.1%	7.9%	8.5%
Objective: RBA Cash +4%	Portfolio Objective	1.0%	2.0%	4.2%	4.5%	5.0%
Inception: Sep-17	Excess v Objective	5.5%	6.8%	15.9%	3.4%	3.5%
Shaw Growth Goal Portfolio	**Total Portfolio Return**	7.4%	6.2%	19.9%	11.9%	12.0%
Objective: RBA Cash +5%	Portfolio Objective	1.3%	2.5%	5.2%	5.5%	6.0%
Inception: Sep-17	Excess v Objective	6.2%	3.6%	14.8%	6.4%	6.0%
Debt Securities Income Portfolio	Total Portfolio Return	1.1%	-0.5%	2.4%	2.5%	3.4%
	Inception: Sep-17					
Hybrid Income Portfolio	Total Portfolio Return	1.0%	3.5%	7.8%	4.5%	6.2%
	Inception: Sep-16					
Australian Equity (Large Cap) - Income	Total Portfolio Return	8.8%	11.1%	24.2%	7.1%	9.2%
	Inception: Sep-17					
Australian Equity (Large Cap) - Core	Total Portfolio Return	10.3%	13.6%	33.3%	6.4%	10.9%
	Inception: May-16					
Australian Equity (Large Cap) - Growth	Total Portfolio Return	7.8%	1.8%	16.8%	11.3%	13.5%
	Inception: Sep-17					
Australian Equity - Small and Mid Cap	Total Portfolio Return	8.4%	14.2%	44.1%	19.7%	14.6%
	Inception: Sep-17					
Shaw Liquid Alternatives Portfolio	Total Portfolio Return	4.4%	6.4%	7.6%	4.4%	2.7%
	Inception: Aug-18					
AB Concentrated Global Growth	Total Portfolio Return	8.6%	10.2%	22.0%	20.0%	17.7%
	Inception: Jan-15					
EFG US Future Leaders Portfolio	Total Portfolio Return	-4.0%	-0.8%	16.6%	n/a	17.4%
	Inception: Jul-19					

Shaw Managed Accounts

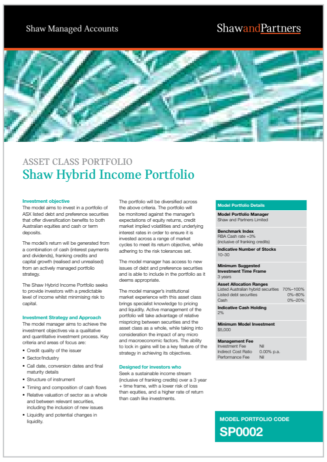
Click on the images below to download the marketing brochure and SMA Portfolio Factsheets. [Download the marketing brochure here.]

Shaw Income Goal

Shaw Balanced Goal

Shaw Growth Goal

Shaw Debt Securities Income



Shaw Hybrid Income

Shaw Australian Equity (Large Cap) Income

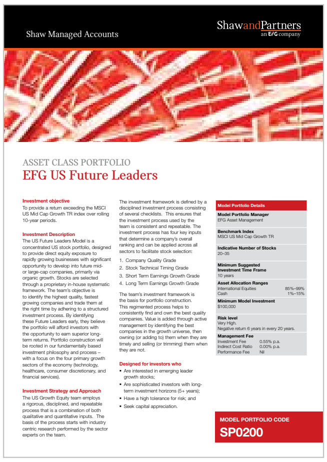
Shaw Australian Equity (Large Cap) Core

Shaw Australian Equity (Large Cap) Growth

Shaw Australian Equity (Small and Mid-Cap) Growth

Shaw Liquid Alternatives

AllianceBernstein Concentrated Global Growth



EFG US Future Leaders

Shaw and Partners
Financial Services

Our stock recommendations

BHP (BHP) engages in the exploration, development, production and processing of minerals, gas and oil.

South32 (S32) is a globally diversified metals and mining company with a portfolio of high quality, well maintained, cash generative assets producing bauxite, alumina, aluminium, energy and metallurgical coal, manganese, nickel, silver, lead and zinc.

Audinate (AD8) is the leading provider of professional audio networking technologies globally. Its technology solutions are designed to bring the benefits of IT networking to the professional AV industry.

Openpay (OPY), which is headquartered in Melbourne, Australia, is a fintech company that partners with merchants to provide Buy Now, Pay Later (BNPL) repayment plans to customers in-store, in-app and online.

Jervois Mining (JRV) is developing the Idaho Cobalt Operation (ICO) in Idaho, USA. The company is also in the process of acquiring the São Miguel Paulista (SMP) nickel/cobalt refinery in Brazil

Strandline (STA) engages in the exploration and development of mineral properties. The company is developing the Coburn mineral sands project in Western Australia and has mineral sands interests in Tanzania at Fungoni, Tajiri and exploration assets.

Dubber (DUB) is globally recognised as the Cloud Call Recording and Data Capture platform for Communications Service & Solution Providers and as integral to their Unified Communications offering.

Zip Co (Z1P) provides integrated solutions to small, medium and enterprise merchants across numerous industries, both online and in-store. It offers point-of-sale credit and digital payment services to consumers and merchants.

Australian Potash (APC) is preparing for start-up of its flagship 100%-owned Lake Wells Sulphate of Potash Project (LSOP) in Western Australia.

Paladin Energy (PDN) engages in the development and operation of uranium mines. Its flagship asset is the Langer Heinrich mine in Namibia.

Class (CL1) engages in the development and provision of cloud-based software for the administration of self managed super funds (SMSFs) and other investment entities (discretionary trusts etc) in Australia.

Readytech (RDY) is a leading provider of mission-critical, software-as-a-service (SaaS) solutions, to the education, workforce solutions, local and state government and justice verticals, in ANZ and the UK.

Elanor Commercial Property Fund (ECF) is a real estate investment trust investing in commercial office assets. Its objective is to provide above average risk adjusted returns through a combination of regular distributions and capital growth.

Elanor Investors Group (ENN) is engaged in providing investment and funds management services. It operates through the following business segments: Hotels, Tourism & Leisure, Real Estate and Special Situation Investments.

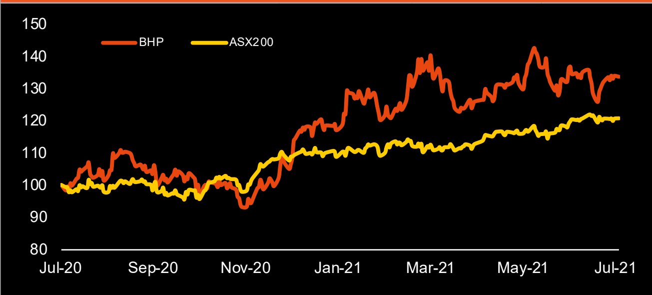
Atomos (AMS) is a video technology company, which enhances video content creation by producing products that connect the imaging and computer worlds.

Plenti Group (PLT) provides consumer lending and an investing platform. It focuses on lending to creditworthy borrowers in the following segments: secured automotive loans, renewable energy loans and personal loans.

BHP (BHP)

Recommendation	Buy
Risk	Medium
Share Price (as at 6 July 2021)	$49.21
Target Price	$56.00
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-0.6%	6.1%	33.6%

* Relative Performance is compared to the S&P/ASX 200 Index

A well oiled, future facing company - current & future portfolio

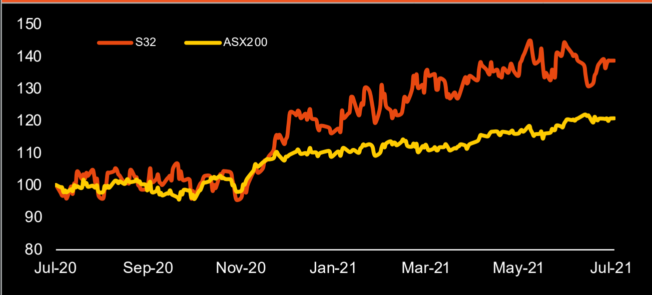
- BHP has a "spring in its step" of late, coincident with the first 18 months of CEO Mike Henry's tenure. The iron ore unit is now the lowest cost major globally, major projects are being delivered on time and budget, operations are running well - the two largest assets, Iron Ore and copper, continue to set production records and excellent cost performance and the portfolio is titling more to future facing commodities.
- Well oiled in the near term. In addition to the above operational gains BHP's current portfolio affords a higher degree of diversification than its major peers, not least a lesser exposure to iron ore (~60% of portfolio vs RIO's ~85-90%). Moreover, BHP energy unit (oil and gas) is expected to deliver a larger share of near term earnings as energy prices track the pathway towards US$100/barrel (current ~$70).
- Future facing portfolio. Around one quarter of the portfolio is currently in 'future facing commodities', including are copper, nickel and potash, and this is expected to grow over the coming years. This includes an increase in average copper production over the next five years by around 20% (+300ktpa). BHP is a major player in the nickel market and now sells 100% of product into the battery precursor market. A decision to enter the potash space is expected in SQ 2020 with sequential options expected to see BHP's initial position quadruple in line with medium/long term global population growth.
- Big dividends ahead. Near term dividends are expected to be very large, not surprising given cycle high iron ore and copper price: June HY21 expect around US$1.50/sh ($3/sh annualised

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	179.1	313.5	302.3
Dividends (AUD) cps	178.8	335.7	312.3
PE x	13.8	11.8	12.3
Yield %	4.9%	6.8%	6.3%
Franking %	100%	100%	100%

South32 (S32)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$2.95
Target Price	$3.30
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-3.0%	3.5%	38.5%

* Relative Performance is compared to the S&P/ASX 200 Index

Portfolio transformed, future pivot in progress, buy-back upped

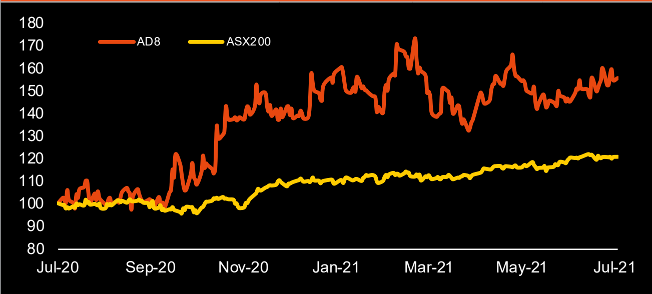
- We like S32: (i) S32 is the cheapest major miner (P/NPV basis), (ii) active capital management program (buy back), (iii) energy coal divestment reflects a transformative step and (iv) recent tailwinds in key commodities – aluminium, met coal, nickel.
- Portfolio transformation completed following the recent successful divestment of energy coal, after an almost 2-year sales process. In the first instance capital freed up has been redeployed to top up the current buy back program.
- Energy coal divestment completed. The divestment substantially reduces capital intensity and improves overall return on invested capital and underlying operating margin. The coal unit had consumed nearly a-quarter of average capital expenditure over the past 5 years for almost no return.
- Capital management top up. S32 rolled out a US$200m update to the current buy-back program taking amount outstanding to just over $300m. This represents the second top up in just 4 months for a combined US$450m. At completion, expected by early September 2021, S32 will have acquired ~US$1.59bn of shares outstanding or well over 10%.
- Future portfolio pivot pending. The transformation to a base metals bias steps up in 2H CY21 with several key project milestones: (i) Cannington (Ag/Pb/Zn) – PFS to unlock high grade ore; (ii) Hermosa (Ag/Pb/Zn) – PFS for this major S32 project is due in early July , (iii) Followed by a scoping study on the adjacent Clark deposit – expect the Clark and Taylor Studies to be aligned in one FS. But the real prize is the companies stake in the Artic/Bornite projects in Alaska – medium to long term but a tier one opportunity.

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	4.0	9.5	18.2
Dividends (AUD) cps	4.8	5.1	9.7
PE x	35.3	23.3	12.2
Yield %	2.3%	1.7%	3.3%
Franking %	100%	100%	100%

Audinate (AD8)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$8.04
Target Price	$10.00
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	7.0%	13.4%	55.4%

* Relative Performance is compared to the S&P/ASX 200 Index

Default Global Tech and Global Pro AV Market Recovering

- Channel checks highlight the increasingly positive commentary emanating from: (1) recent Shaw and Partners meeting with a major system integrator; (2) globally-listed AV cohort (Yamaha, VTech, Focusrite, AVID); (3) independent research into the pro AV market (Futuresource, Commercial Integrator); and (4) industry body surveys (AVIXA). These all point to improving sentiment and confidence in the global AV space with a mooted recovery in 2022, and, most notably, the beginning of the turnaround in the Live Sound / Events arena.
- Long term we believe AD8 is a ripper of a story with compelling attractions and clear earnings runaway – we acknowledge the valuation is a concern for some investors (EV/sales+1 of ~12x), especially against its similar high growth, high multiple tech peers (SaaS, BNPL, wealth platforms and fintechs) but:

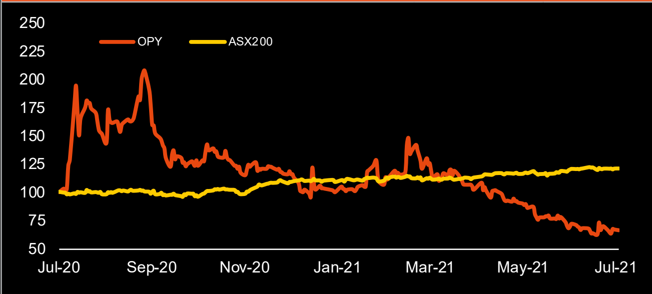
1. AD8's technology is the default global standard;
2. Its peerless market position where AD8 is now 17x ahead of its competitive peers (and increasing from 3x at IPO);
3. Large >$1b TAM which it should in theory completely dominate in time with its holistic offering (audio, software, video) with market share ~7% at the moment;
4. $66m cash in hand and well capitalised post the 2020 mid-year cap raise – with gross margins of 77%; and
5. Founder CEO (interest aligned with shareholders).

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	-5.7	-3.5	0.8
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-94.9	nm	nm
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Openpay (OPY)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$1.50
Target Price	$4.00
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-8.0%	-35.3%	-33.8%

* Relative Performance is compared to the S&P/ASX 200 Index

Far too cheap at these levels and grossly oversold

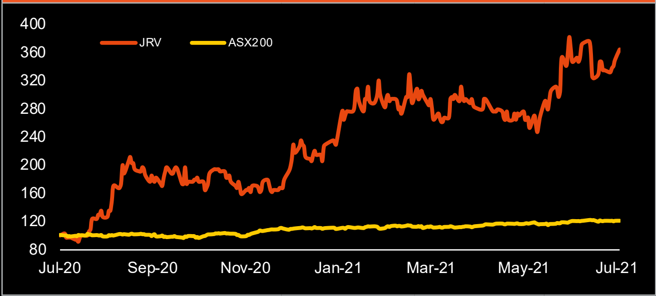
- Acquisition of the UK's Payment Assist is a transformational one in one of the world's largest markets, given it accelerates its opportunity in this market – effectively triples its UK TTV, increases customer numbers by >64%, accelerates the path to profitability and generates high returns and yields), and indeed secures its position as a major BNPL player in the UK, with the leading Auto BNPL provider.
- US penetration has also begun post the recent Worldpay win – in advanced discussions re: potential funding partners, payments processors and foundational merchants in core verticals plus a differentiated offering to homogenous peers with longer tenures (>3 months), differing verticals (Auto, Healthcare, Home Improvement and Education) and additional service capability (e.g. B2B services to the likes of WOW).
- 3Q21 metrics all very strong (customer and merchant numbers, bad debts, active plans, TTV and revenue) given a seasonally weaker quarter than 2Q21 (Black Friday/Xmas trading)– with 4Q seasonally stronger given 'OpenMay', OPY's flagship month of special promotions with merchant partners.
- In addition to its strong $31m cash position, OPY has $160m available in undrawn funding – translating into a total funding runway of $233m if you include the $43m from recent cap raise to support further expected portfolio growth.
- OPY trades at a significant – and attractive – 41% discount to BNPL peers on an FY22 EV/Sales multiple of 5.0x vs. combined 8.6x (consensus) for APT, EPY, HUM, LBY, SPT, SZL, Z1P.

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	-33.1	-40.9	-34.7
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-6.3	-3.7	-4.3
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Jervois Mining (JRV)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$0.61
Target Price	$0.78
Analyst	Andrew Hines

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	5.1%	29.2%	264.7%

* Relative Performance is compared to the S&P/ASX 200 Index

Jervois is a battery metals development company

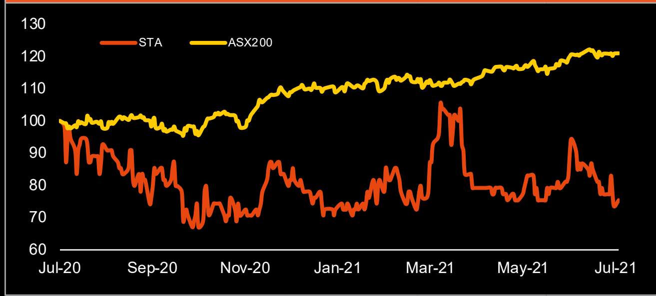
- Jervois is developing the Idaho Cobalt Operation (ICO) in Idaho, US, and is acquiring the SMP nickel/cobalt refinery in Brazil. The battery metal thematic coupled with a high quality management team is attractive.
- Cobalt is a key material in the production of lithium ion batteries. Cobalt provides thermal stability to the cathode and its high energy density provides performance benefits (reducing charging cycle times). Demand for cobalt is expected to increase from ~140kt in 2019 to ~250-300kt by the late 2020s.
- Jervois is developing the Idaho Cobalt Operation (ICO) in Idaho USA, which is a strategically important asset. ICO has a JORC compliant measured and indicated resource of 5.24Mt @ 0.44% Co, 0.69% Cu and 0.53g/t Au. ICO will produce around 2.3ktpa of cobalt over a 13 year mine-life. We value ICO at A$272m (post-tax DCF at 10%), which equates to A$0.38cps.
- Jervois is acquiring the SMP nickel/cobalt refinery in Sao Paulo, Brazil. This will provide Jervois with products that can be directly marketed to battery and electric vehicle manufacturers. We value this asset at A$0.34ps (A$301m).
- Jervois has a highly experienced board and senior management team. Both the Chairman Peter Johnston and CEO Bryce Crocker are ex-Glencore, and Jervois has assembled a highly experienced technical and trading team.

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	-1.9	-1.3	-2.1
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-8.3	-46.6	-28.5
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Strandline (STA)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$0.19
Target Price	$0.58
Analyst	Andrew Hines

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-20.4%	-4.9%	-24.9%

* Relative Performance is compared to the S&P/ASX 200 Index

Strandline developing the Coburn Mineral Sands Project in WA

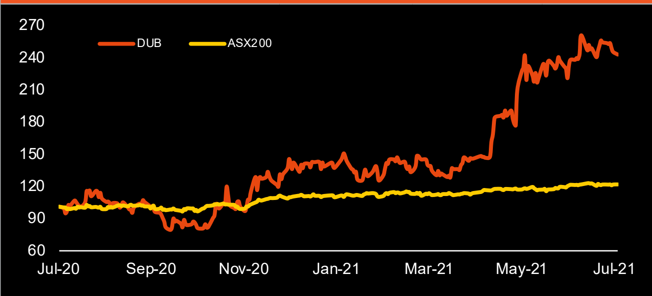
- Strandline Resources is a mineral sands development company with projects in Western Australia and Tanzania. The large Coburn project in WA is a world class resource which has all necessary permits and approvals. It will produce approximately 230kt of Heavy Mineral Concentrate (HMC) per annum with a mine life of 22.5 years. Coburn will supply about 5% of world zircon demand.
- Strandline has binding take-or-pay offtake agreements covering >90% of revenue for the first 5-7 years of production from Coburn with Chemours (ilmenite), Bitossi (premium zircon), Venator (Rutile) and Sanxiang-Nanjing (zircon concentrate and HMC).
- The project is fully financed post a $120m equity raise. Shaw and Partners acted as Joint Lead Manager for the equity raise and received a fee. The Northern Australia Infrastructure Facility (NAIF) is providing a $130m funding facility, and the company recently issued a US$60m corporate bond.
- Strandline has already commenced early works construction and has a number of contracts in place including; a $23m bulk earthworks construction contract with Macmahon, a $21m mining equipment contract with Piacentini, a $150m process plant design and construct contract with Primero Group, two contracts associated with the facility's power requirements and a Port Access and Services Agreement with the Mid West Port Authority at Geraldton.

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	-2.1	-1.5	-1.3
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-12.7	-12.8	-14.8
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Dubber (DUB)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$2.86
Target Price	$3.23
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	2.1%	67.2%	142.6%

* Relative Performance is compared to the S&P/ASX 200 Index

ARR is accelerating as DUB gets bigger (rare dynamic)

- Dubber (DUB) is the worlds leading public cloud recording platform across a range of blue-chip telecommunications and carriers globally. These include well-known names such as Cisco, Verizon, Optus, O2, AT&T and others. This sees the group as having integrated with ~200 carriers and having built infrastructure to see the spoken word monetised in coming years.
- With one of the fastest organic growth trajectories on the ASX (we estimate ~100% when excluding acquisition) the group has the potential to deliver $50m in ARR within the next 2 years and become a globally relevant player in the public cloud SAAS space.
- With $30m+ in ARR and the fastest growing ARR trajectory DUB has the potential to add $400-$600m in market cap a year and be one of the most popular SAAS stocks on the ASX.
- We expect 2H21 to be productive for the group in a seasonally stronger period. Catalysts could include: 1) Further large platforms signing; 2) Uptick in user/ARR growth; 3) Potential further acquisitions; 4) Launch of new monetisation strategies; and 5) Potential inbound corporate interest.
- DUB is one of the most exciting and fast-growing companies under Shaw coverage and the group should continue to deliver strong share price performance both short and long term. There are few globally relevant SAAS and infrastructure plays on the ASX and DUB is one of these.

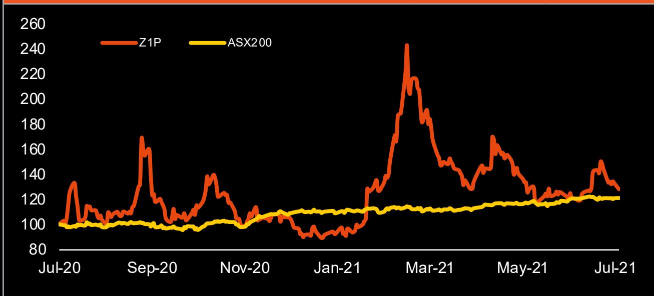
Forecasts

YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	-7.0	-4.5	-3.9
Dividends (AUD) cps	0.0	0.0	0.0
PE x	nm	nm	nm
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Zip Co (Z1P)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$7.37
Target Price	$16.00
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	5.3%	-4.9%	27.9%

* Relative Performance is compared to the S&P/ASX 200 Index

International is day 2 in instalment payments globally

- Z1P is one of the fastest growing fin-tech, instalment and finance businesses within APAC. The group has consistently grown revenues by ~100% a year and is a leading BNPL.
- We expect Quadpay to be the fastest growing US BNPL company in the next 12 months and for the group to be targeting significant global merchants. We expect Q4-21 to be above market expectations and see the backdrop of positive performance in growth against a heavily short stock as positive tactically.
- Recent announcements of competitors entering the space and new products cause us to remain watchful. However, we expect the sector to continue to be a blue ocean for the next few years before margin and checkout battles are fought. We expect there to be over 80m Americans with active BNPL accounts within 3 years and over US$100Bn in volumes.
- Versus other peers Zip is trading at a greater than 60% discount and as pay in 4 volumes and QuadPay progressively dominate the ROE and multiples at scale should grow. We see Zip re-rating over the next 6 months.
- Catalysts include: Quarterly results, merchant launches, strategic partnerships, launch into the UK and AMZN potential. Management is delivering strongly and recent launches into the UK and Canada soft launch underwrite an increasingly bullish growth profile.

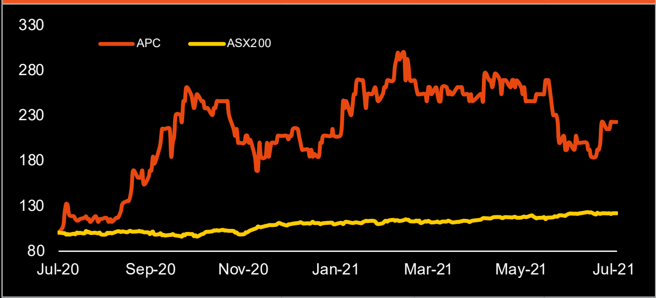
Forecasts

YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	-0.1	-0.1	-0.1
Dividends (AUD) cps	0.0	0.0	0.0
PE x	nm	nm	nm
Yield %	0.0%	0.0%	0.0%
Franking %	0.0%	0.0%	0.0%

Australian Potash (APC)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$0.14
Target Price	$0.32
Analyst	Michael Clark

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	11.5%	-9.4%	123.1%

* Relative Performance is compared to the S&P/ASX 200 Index

Looking to develop the Lake Wells Potash Project

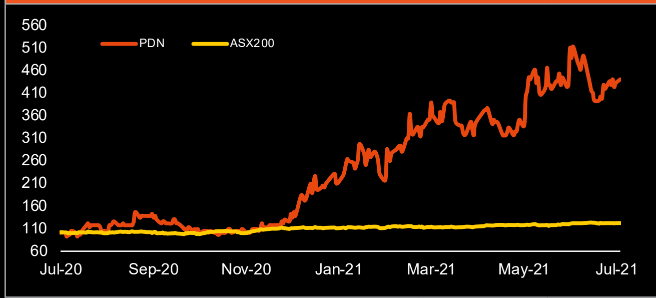
- APC holds a 100% interest in the Lake Wells Sulphate of Potash Project (LSOP), located approximately 500kms northeast of Kalgoorlie, in Western Australia's Eastern Goldfields. The LSOP project is a brine, solar salt project. The brine contains the potassium and sulphate bearing minerals from which SOP is refined.
- We believe the LSOP project is NPV positive at realised SOP prices of US$380/t. Using our base case SOP price deck of US$550/t (2021 Real) the project has a post-tax NPV of A$251m and IRR of 17%. Key components of our model include (1) 170ktpa SOP operation over 35 years. (2) Total capital expenditure of A$292m and competitive capital intensity of A$1,720/t. (3) Opex of US$251/t over LOM, which is first quartile.
- The LSOP project is progressing and derisking. Recently, APC announced: (1) Full environmental approval. (2) 90% of offtake secured. (3) $140m Northern Australia Infrastructure Facility (NAIF) funding approved and $45m funding from Export Finance Australia. We believe APC can proceed to gain the licences and permits required to commence the development of the project and look to secure the balance of project financing. A Final Investment Decision is pending.
- We are positive Sulphate of Potash (SOP) markets. SOP is a premium type of potassium carrying fertiliser with no substitutes. Arable land per capita is reducing over time, and industry consensus SOP demand forecasts are for low-mid-single digit growth over the coming decades.

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	-0.2	-0.4	-0.7
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-29.9	-29.9	-29.9
Yield %	0.0%	0.0%	0.0%
Franking %	0.0%	0.0%	0.0%

Paladin Energy (PDN)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$0.52
Target Price	$0.56
Analyst	Michael Clark

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-14.2%	28.7%	338.6%

* Relative Performance is compared to the S&P/ASX 200 Index

Preparing for a Langer-Heinrich restart

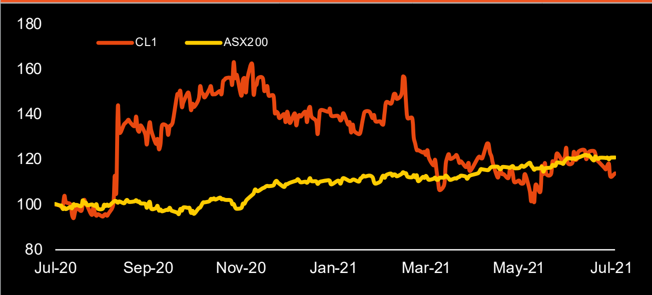
- Paladin is preparing for a restart of the Langer Heinrich (PDN 75%) uranium mine in Namibia. PDN has all of the necessary permits and licences to restart. The restart is estimated to cost US$81m; we assume a restart in FY23.
- Langer Heinrich is expected to operate at an all-in sustaining cost of about US$32/lb, which places the operation at the low end of the second quartile of uranium producers. The combination of low capital intensity to restart with low operating costs means that Langer Heinrich should be one of the first restarts when market conditions allow.
- On our forecasts Langer-Heinrich has a 1-year payback, an IRR of 340% and an NPV @10% of US$1,171m (100%). We assume a multi-year uranium price spike at US$80/lb, before settling to our long-term realised price assumption of ~US$52/lb (2021 Real) in 2028.
- The company recently completed an A$219M equity raise to reset the capital structure. Shaw and Partners was joint lead manager and received a fee for this transaction.
- We forecast a pro forma net cash position of ~US$30m post the equity raise and redemption of the senior secured notes in the Jun21q. In our view this provides enhanced financial flexibility and is a sufficient cash reserve to fund the company through to a Langer Heinrich mine restart. In our view Paladin is unlikely to require additional equity to restart the operation which is likely to be funded by a project finance facility.
- The company has an interesting high-grade exploration portfolio, with assets in Australia and Canada.

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	-1.8	-0.8	-0.3
Dividends (AUD) cps	0.0	0.0	0.0
PE x	nm	nm	nm
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Class (CL1)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$1.60
Target Price	$2.48
Analyst	Jules Cooper

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-3.9%	-0.9%	13.8%

* Relative Performance is compared to the S&P/ASX 200 Index

A successful strategy execution scorecard

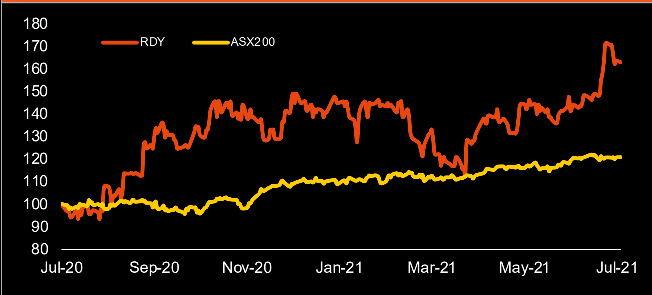
- Strong operating leverage story – CL1 is a leading vendor of cloud-based software for the administration of self-managed super funds (SMSFs), discretionary trusts, document provision and corporate compliance. For the last coupe of years, CL1 has been investing in new products and markets, which has added cost to the business ahead of revenue. As the revenue from that investment starts to scale, we expect strong operating leverage and cash margin improvement to follow.
- Well placed to deliver on guidance – Our FY21 revenue and EBITDA forecasts are in-line with guidance ($54m revenue and an underlying EBITDA margin of 40%). Looking at FY22, we forecast mid-high single digit organic growth and flat EBITDA margins. This 'reported' margin view, masks a 450-500 basis point improvement in cash EBITDA margins, which we believe is the real story. We believe CL1 is well placed to deliver vs our expectations and may exceed them over the medium term.
- Operating leverage a catalyst – CL1's cash EBITDA margins have declined from the mid-30s through FY16-18 to likely around 13% in FY21. Guidance that suggests this trend may reverse is likely to be well received by the market and provide a positive catalyst.
- Valuation discount to peers – CL1 is currently trading on an FY22 EV/Adj EBITDA multiple of 22.6x, versus our PT that implies 32x can be achieved. Recent M&A in the accounting software vertical (eg. KKR/MYOB) has transacted at around 5x revenue, versus our PT which implies 5.5x.

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	6.4	5.7	5.5
Dividends (AUD) cps	5.0	5.0	5.0
PE x	20.8	28.0	28.9
Yield %	3.7%	3.1%	3.1%
Franking %	100%	100%	100%

Readytech (RDY)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$2.35
Target Price	$3.00
Analyst	Jules Cooper

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	13.0%	24.0%	62.6%

* Relative Performance is compared to the S&P/ASX 200 Index

Too cheap for its attractive fundamentals

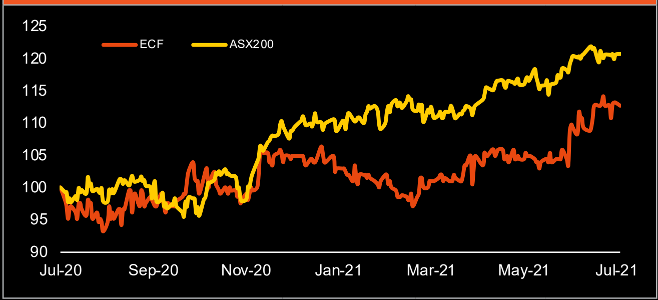
- A fundamentally attractive software business – RDY is a leading provider of mission critical, software-as-a-service (SaaS) solutions, to the education, workforce solutions, local and state government and justice verticals, in ANZ and the UK. We believe its attractive fundamentals, including mid-teens organic growth, >85% of revenue recurring, and an all-in cash EBITDA margin of around 25% are not being fully valued by the market.
- Well placed to deliver vs expectations – Our FY21 revenue and EBITDA forecasts are in-line with guidance (mid-teens organic revenue growth and an underlying EBITDA margin between 37-39% ex Open Office). Looking at FY22, we forecast +14% organic revenue growth vs a consistent company target of mid-teens growth. We believe RDY is well placed to deliver vs our expectations and may exceed them over the medium-term.
- Further deal validation a catalyst – We have been impressed with recent contract wins that highlight RDY is successfully selling into larger customers. The state government licensing opportunity (currently pending) may further reinforce that.
- Valuation discount to peers - RDY is currently trading on an FY22 EV/Adj EBITDA multiple of 17.4x. In contrast, TechnologyOne (TNE), which has similar end market exposures, growth and return metrics, trades on 32x. Our $3.00 PT implies a multiple of 21x can be achieved.

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	6.9	8.2	11.4
Dividends (AUD) cps	0.0	0.0	0.0
PE x	20.2	28.8	20.5
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Elanor Com. Property Fund (ECF)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$1.15
Target Price	$1.35
Analyst	Aiden Bradley

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	3.1%	7.4%	12.6%

* Relative Performance is compared to the S&P/ASX 200 Index

Well Positioned (Office focused) Real Estate Investment Fund

- ECF is an office focused, externally managed, real estate investment fund. Targeting value-add assets in metropolitan regions, underpinned by strong potential cash generation. The current portfolio has proven to be very resilient during the COVID induced uncertainty of 2020, reflecting the modest cap rates and tenant mix.
- The core strategy is to target assets that can generate long-term stable cash flows from low-risk tenants in already established precincts that offer value-add opportunities. The properties are generally in established metropolitan areas, although select CBD assets will be considered opportunistically. The fund's stated objective is to provide investors with above average risk adjusted returns through a combination of distributions and capital growth.
- ECF's experienced management and advisory team have delivered a strong track record and have a pipeline of growth opportunities identified. Elanor Investors Group ('ENN') is ultimately the Fund and Property Manager and Responsible Entity, with aligned interests through a 15% shareholding in ECF.
- ECF's strong performance provides a segment leading distribution yield, while still offering current assets with value-add potential and a pipeline of similar growth opportunities.
- ECF provides exposure to a portion of the Office market we view favourably and offers an attractive yield, while offering more than average potential for material capital growth over time from the active management of their portfolio.

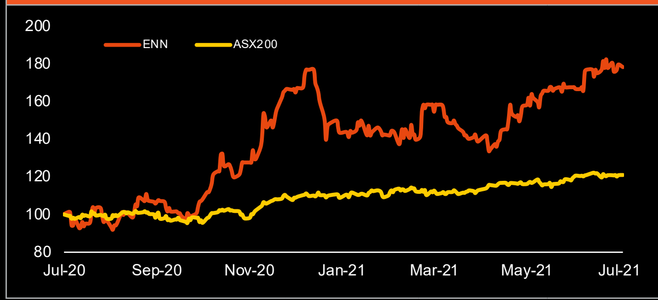
Forecasts

YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	10.7	12.6	12.8
Dividends (AUD) cps	8.6	10.1	10.2
PE x	9.5	9.1	9.0
Yield %	8.4%	8.8%	8.9%
Franking %	0%	0%	0%

Elanor Investors Group (ENN)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$1.92
Target Price	$2.60
Analyst	Aiden Bradley

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	7.0%	28.5%	78.1%

* Relative Performance is compared to the S&P/ASX 200 Index

Commercial Property Fund Manager Exposed to the Right Sectors

- ENN is a 'pure play' 'active' real estate fund manager. They are focused on real estate sectors where they can maintain a competitive advantage – metro offices, select retail and accommodation hotels, leisure and healthcare. An experienced management team has delivered a strong track record. A scalable platform, excellent property and capital market relationships and strong balance sheet, should underpin another material increase in FUM.
- Funds under management are already in excess of $2bn, we expect this to double over the next 3-5 years. Funds Management income was circa $15mn in 1HFY21, a 79% increase on 1HFY20. ENN have shown a strong track record, with an average realised IRR of 20% p.a. from Management Funds and Investments since listing in 2014.
- They operate a capital lite model but with growth capital in excess of $100mn and have access to low cost capital (debt and equity) and a broad range of funding sources. They have built a highly scalable platform as evidenced by limited growth in corporate costs over the past 12 months.
- The Australian commercial real estate market remains attractive, especially in a regional context. ENN is an established Fund Manager, with a proven ability to originate deals and add value and execute full or partial sell downs. This should drive a strong growth in FUM over the next few years. It remains focused on sectors and regions where they can display a competitive edge, that generally match with our preferred Commercial Real Estate sectors.

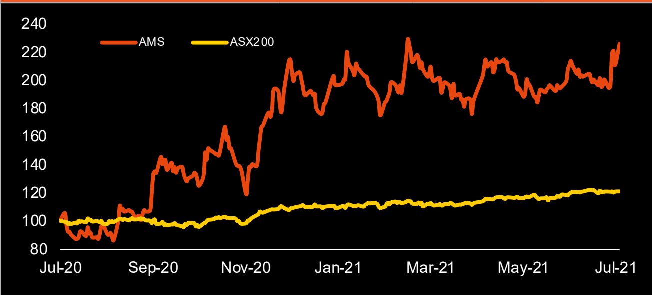
Forecasts

YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	12.9	11.0	15.8
Dividends (AUD) cps	9.5	8.8	13.4
PE x	8.6	17.5	12.2
Yield %	8.5%	4.6%	7.0%
Franking %	0%	11%	0%

Atomos Ltd (AMS)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$1.21
Target Price	$1.58
Analyst	James Bisinella

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	7.3%	20.1%	125.5%

* Relative Performance is compared to the S&P/ASX 200 Index

Capturing 8K performance at 1080p prices

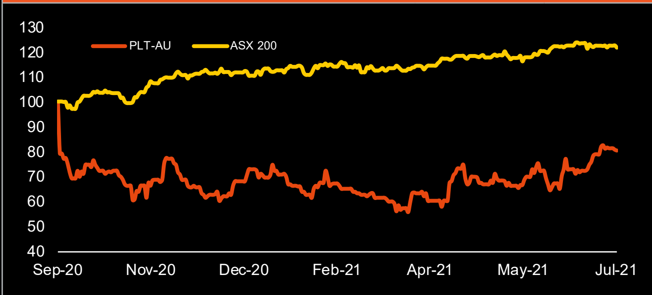
- Atomos designs, manufactures and distributes market leading monitor-recorders globally which RRP from US$299 - US$6,499 with gross margins of ~45%. Atomos gives video professionals a faster, superior quality and more affordable output which is highly sought after in the digital age driven by hypergrowth across streaming (Netflix with >200m subscribers), social media (Instagram and Facebook with 2.8bn and 1.3bn users respectively) and gaming (Twitch with ~10m streamers and growing ~150% month-on-month).
- The importance of video communication emerged pre-Covid and accelerated during the work-from-home phenomenon. Internet-based video is forecast to reach 82% of internet traffic in 2022 (source: Cisco). With users and penetration rising in Atomos' key segments, we see social media, gaming and video streaming continuing to drive adoption.
- With revenue of $44.7m in FY20 and $77.0m in FY21e, we expect Atomos to deliver significant growth and revenue of $88.5m in FY22e (+15%) and EBITDA of $10.2m (11.5% margin). We expect continued build-out of strategy ahead of an Investor Day at the start of August alongside strong growth driven by new product launches, core video thematic tailwinds, market leadership and accelerating performance across the newly launched product set.
- Over and above growth in the existing product base, Atomos is planning new product launches over the next 6 - 18 months including new categories (gaming), further ProRes RAW integrations and Series 2 product range releases which we expect to turbocharge revenue growth with operating leverage emerging to deliver a highly profitable business.

Forecasts			
YE 30-Jun	FY20	FY21E	FY22E
Earnings cps	1.2	2.4	5.7
Dividends (AUD) cps	0.0	0.0	0.0
PE x	35.3	49.9	21.2
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Plenti Group (PLT)

Recommendation	Buy
Risk	High
Share Price (as at 6 July 2021)	$1.33
Target Price	$1.74
Analyst	James Bisinella

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	20.2%	34.0%	nm

* Relative Performance is compared to the S&P/ASX 200 Index

Plentiful returns on offer

- Plenti (PLT) is an innovative, technology-led and high growth consumer lender across Automotive, Renewable and Personal lending. Plenti's loan book reached $614m at 4Q21 (+62% YoY). Shaw forecasts growth to a ~$1.0bn loan book by the end of FY22e underwritten by significant growth across all verticals, combined with robust loss adjusted net interest margins.
- Shaw sees highly supportive macro thematics for Plenti. Australian credit balances have fallen from their peak in 2018 (down 26% through to 2021), whilst alt-fi loan books have proliferated (+253% across the same period). Our view is that banks will continue to allocate capital away from Personal and Automotive loans and instead focus on their bread and butter which has typically been mortgage lending.
- Shaw sees the jaws to operating leverage opening and profits emerging from 1H23e as a result of an accelerating loan book (cash NPAT of $17.6m in FY24e). Our analysis of the current book ex-growth produces a valuation of $1.80, which highlights the highly favourable unit economics inherent in Plenti's business model.
- Plenti trades at a significant discount of up to 50% versus its closest fintech peers based on market cap multiples to Net Lending Margins and Loan Book size. Plenti has greater scale, more favourable accretion from financing and screens at a significantly discounted multiple across several metrics to its peers and therefore presents a compelling investment opportunity in our view.

Forecasts			
YE 31-Mar	FY21	FY22E	FY23E
Earnings cps	-7.1	-6.3	-1.0
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-14.9	-21.3	nm
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

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Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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