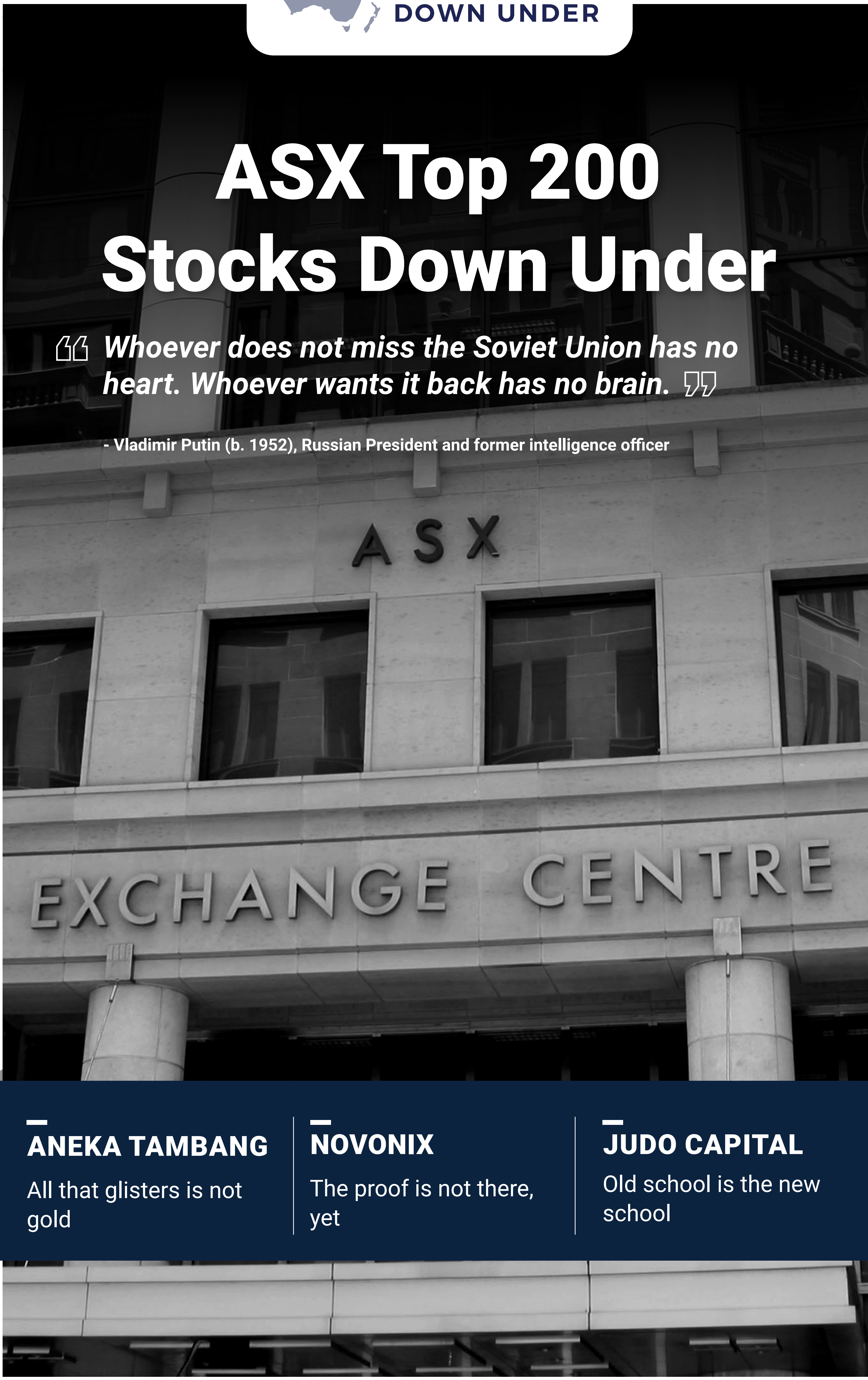
STOCKS DOWN UNDER

24 JANUARY 2022



ASX Top 200 Stocks Down Under

> *"Whoever does not miss the Soviet Union has no heart. Whoever wants it back has no brain."*

- Vladimir Putin (b. 1952), Russian President and former intelligence officer

ANEKA TAMBANG

All that glisters is not gold

NOVONIX

The proof is not there, yet

JUDO CAPITAL

Old school is the new school

ANEKA TAMBANG

All that glisters is not gold

Stocks Down Under rating: ★★★

ASX: ATM
Market cap: A$5.3BN

52-week range: A$0.90 / A$1.15
Share price: A$1.10

Headquartered in Jakarta, Indonesia, dual-listed Aneka Tambang is a diversified Indonesian miner, producing nickel, ferronickel, gold, silver, bauxite and coal through its owned and operated mines. Despite having a market capitalisation of over $5bn, the company's ASX-listing is its secondary one (primary is the Indonesia Stock Exchange), and it has approximately 1m shares currently outstanding in Australia. In other words, the stock could almost be considered illiquid on the ASX. Keeping that in mind, let's consider whether it's worth dealing with the liquidity and currency risk.

READ MORE

NOVONIX

The proof is not there, yet

Stocks Down Under rating: ★★★

ASX: NVX
Market cap: A$4.4BN

52-week range: A$1.87 / A$12.47
Share price: A$8.83

We last reported on Brisbane-based Novonix on 18 June 2020. We rated the company two stars based on the stock rallying off what we viewed as a non-story. While the market did sell off the stock for about a week, the price proceeded to bounce between $1 and $2 for approximately the next six months. In hindsight, we were too harsh, and a three-star rating was more warranted. A lot has changed for Novonix since our first report, but the company is still generating a loss of over $18m a year. And yet, it ended FY21 with a whopping $136.7m in cash, up from $38.8m a year ago, and the stock has rallied hard in 2021 to its current price of $8.83. So, what's different compared to mid-2020?

READ MORE

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Old school is the new school

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ASX: JDO
Market cap: A$2.3BN

52-week range: A$2.01 / A$2.55
Share price: A$2.07

Headquartered in Southbank, Victoria, is one of the newest editions to the ASX-banking legions, Judo Capital, having listed on the ASX at $2.10 per share on 1 November 2021. We covered this company in our News section on 23 November 2021. If you are not familiar with our News section, before you continue with this report, be sure to check out Judo Bank wrestles its way onto the ASX. The stock struggled to stay above its IPO price for the first the last few months, but in the middle of January 2022, the stock fell below $2.10. The question is, where does it go from here?

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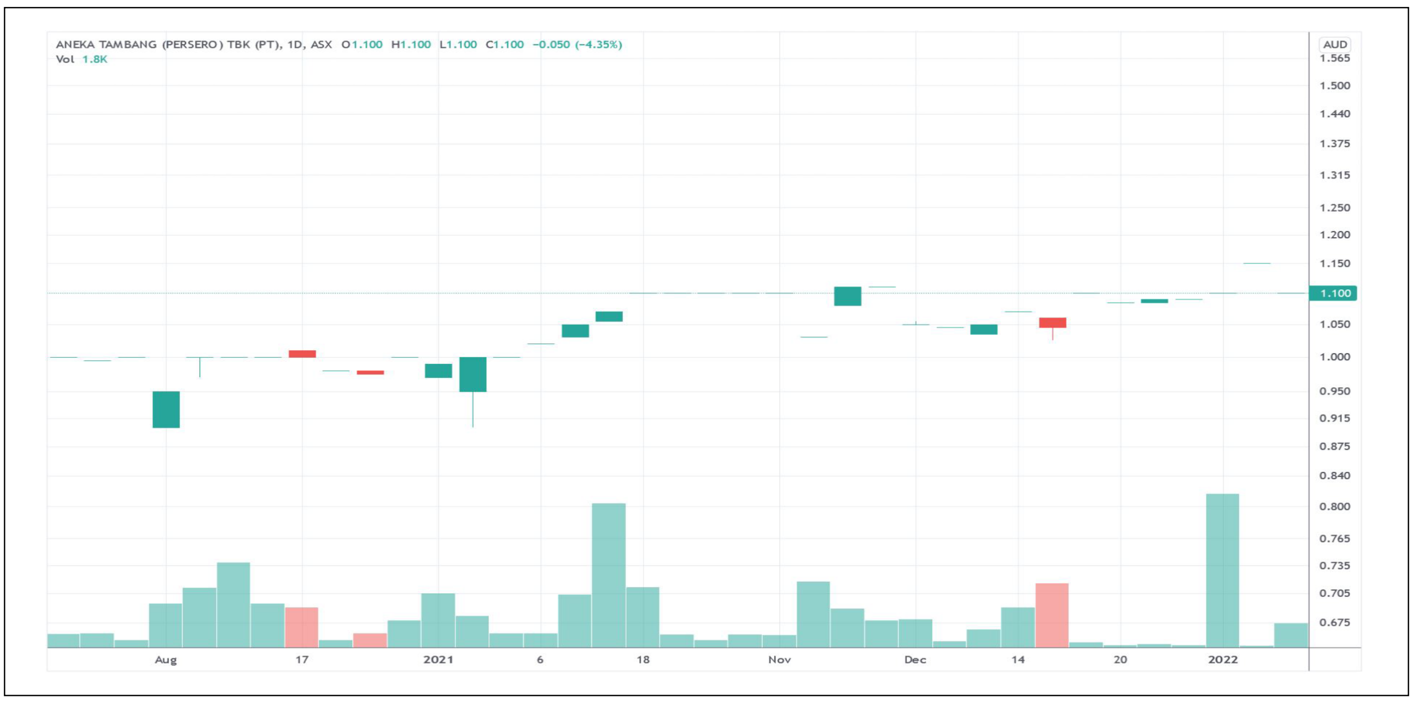
Share price chart



Source: Tradingview

It's all about the gold

Aneka Tambang's business is one of the oldest in the world and no, we're not talking about prostitution. We're talking about producing nickel, ferronickel, gold, silver, bauxite and coal, and lots of it. The company's operations are based across six sites in Indonesia. Four of the six mining sites focus on extracting nickel, with the remaining two specialising in bauxite and gold.

While Aneka Tambang has not yet released 2021's annual report, the company has released some information on its nickel and gold mining operations. On 13 January 2022, Aneka Tambang released its gold production numbers for 2021 and results were flat with gold production increasing just 1% year-over-year to 1.7 tonnes.

Aneka Tambang released its nickel production performance on 20 January 2022. The announcement outlined 25,818 tonnes of nickel production in ferronickel (TNi). The company also announced 11m wet metrics tonnes (wmt) of nickel ore, an increase of 131% year-over-year as COVID-19 has become relatively more manageable over the last year. Aneka Tambang has not yet released its bauxite 2021 results.

The company is clearly focused on nickel mining and that's not the worst thing in the world for investors, as nickel is currently trading at over US$22,000 per tonne in January 2022, the highest price since August 2011. Supply chain shortages are expected to continue for at least the next 12-months and nickel has been repeatedly named as one of the main benefactors of the once-in-a-generation energy transition. For these reasons, we believe the price of nickel still has a way to go. Despite the continuing troubles in Indonesia, the situation is slowly but surely improving. But, as William Shakespeare once said, “all that glisters is not gold”.

Virtually illiquid, as far as the ASX is concerned

We believe the ASX is a fairly transparent exchange when compared to other exchanges around the world. If you take the time to look, the ASX puts out a lot of detailed information fairly regularly. One of these reports is the Foreign Entity Report, a monthly report that lists both the number of securities quoted on the ASX at the end of the month and how many were held in Australia. A company might seem liquid, but if it has almost no shares held in Australia, the prospect of liquidity can easily be seen as a mirage.

At the end of November 2021, the ASX reported that Ankea Tambang had 1m shares both quoted on the ASX and held in Australia. As of Friday’s close, the stock closed at $1.10 per share on the ASX, which means there is approximately $1.1m worth of stock held in Australia, out of a total market capitalisation of $5.3bn. Unfortunately, that means that Aneka Tambang is completely illiquid from an ASX trading perspective.

Not worth the liquidity and currency risk

Aneka Tambang has strong reserves and is a heavily diversified operation, but it would take a serious discount for us to believe that investing in the stock could overcome the considerable liquidity risk. The fact that there are virtually no shares traded on the ASX, means that the ASX-listed entity is very illiquid.

Additionally, the ASX-listed stock follows the Indonesian listed entity (IDX: ANTM), listed in Indonesian Rupiah, which is an extremely volatile currency. Currently, $1 is worth 10,200.62 Indonesian Rupiah. Therefore, we believe investors of the ASX-listed entity face the risk that the stock will follow the Australian Dollar’s trajectory versus the Indonesian Rupiah rather than the actual stock. We don’t see it as worth the risk, so it’s a three-star stock for us. Avoid and look elsewhere for more liquid and less risky opportunities.

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Share price chart

Source: Tradingview

The only word is diversified

When it comes to new battery technology developers, the last thing that usually comes to mind is diversification, but that's really what Novonix is. The company's main operation is, what it calls, rapid battery development solutions. Basically, Novonix provides battery testing services and equipment that allow everything from a commercialised battery to a prototype to be performance tested. Novonix also produces synthetic anode materials, called PUREgraphite. This low cost, high-quality synthetic graphite is produced in the United States, a rare point of supply in an industry heavily dependent on Chinese production.

August 2021 was the month everything changed

The listed battery technology development industry is nothing if not volatile. Sure, Novonix began trending upwards on 12 July 2021, but this was nothing out of the ordinary as over the last two years the stock had a history of suddenly jumping for a while, before eventually trending back downwards. But what started out as just another breakout, not backed by any specific market announcement as a catalyst, had the equivalent of rocket fuel lit under its share price after United States-based diversified energy manufacturing and logistics giant Philips 66 (NYSE: PSX) announced it had agreed to acquire a 16% stake in Novonix in order to improve the United States' battery supply chain.

Basically, the Philips 66 investment was a precursor to a partnership where Novonix will use the investment to expand its high-quality synthetic graphite facility in Chattanooga, Tennessee, from its expected 10,000 metric tonnes per year by 2023 to 30,000 metric tonnes per year by 2025. To be clear, Philips did not buy 77,962,578 shares on-market, although that would help explain the massive share price rally. This was in fact a rather significant dilution (19.3% dilution) to existing shareholders. But the combination of massive capital influx (remember Novonix has no revenue), confirmation from a major company like Philips 66 and drastic expansion of its synthetic graphite facility development plan made shareholders smile and jump up and down at the same time.

While there has been other good news since then, the stock has so far rallied 152.3% since the Philips 66 investment was announced and has shown no signs of slowing down. But now we have to put our feet flat on the ground and take a look at the valuation. Is all this hype truly worth it?

Yeah, we missed it

Honestly, we do understand why everybody is so excited about Novonix, but there's a large difference between excitement and euphoria, especially in the market. The company has a lot of potential to generate big profits going forward, but we are concerned that the market has priced the stock for perfection without leaving any room for errors, because profits are still a few years away. It's very well possible, and a solid argument can be made that it's even likely, that things will go 'perfectly' over the next few years, making the valuation reasonable. However, this is the stock market and things go wrong all the time. A tiny misstep can quickly turn into a full market rout when a stock is priced for perfection.

However, we are not comfortable rating Novonix two stars anymore as the company has a lot of additional projects in the works and it's entirely possible another major announcement could be released, changing the situation. Therefore, we are rating Novonix three stars at this moment in time.

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Share price chart

Source: Tradingview

A new bank, with an old school touch

As banks go, Judo Bank is still in its early stages, as it was founded only in September 2016 by Joseph Healy and David Hornery. Both Mr Healy and Mr Hornery were banking insiders when they founded Judo Bank and cut their teeth as employees of National Australia Bank (ASX: NAB | see 12 April 2021 report).

Their experience seems to have exposed a hole in modern banking offerings, Small and Medium-sized Enterprise (SME) 'relationship banking'. This is an old school term and one you may not be familiar with. In relationship banking, client companies expect a personal touch, where a relationship manager will take the time to get to know the operations in order to provide a form of customised banking. One of the other benefits of relationship banking is that there is usually a better chance of working with the bank if issues arise, like a global pandemic. Judo was created based on the belief that the big banks were leaving a gap in the market and we believe the pandemic proved them correct.

Despite being founded in 2016, it took the founders until March 2018 to launch the bank and April 2019 to be granted a full banking licence. This shouldn't be surprising as a banking licence is easily one of the most capital heavy and intensive regulatory endeavours in Australia. There are not many other industries you can attempt to break into that would be harder, besides maybe setting up your own securities exchange.

Still, Judo was quick to prove its worth and by June 2021, its gross loans and advances (GLAs) passed $3.5bn, achieving approximately 100% growth in FY21 alone. By 30 November 2021, GLAs grew another 37.8% to $4.6bn compared to 30 June 2021. GLAs saw growth decline to 5% ($4.9bn) between the end of November and December due to the holiday season generally seeing less business conducted. Management remains confident that it will grow its GLAs to $6bn by the end of FY22, indicating a growth rate of 71.4% year-over-year. Sure, not as impressive as the 100% in FY21, but this still makes Judo the envy of most of its competitors.

People love old school banking

It should come as no surprise that Judo's clients love the bank. Judo's Net Promoter Score (NPS) sits at +85, an unheard-of number in an industry that gets between 0 and +10 on a good day. It does seem that the unusually high NPS might have something to do with Judo's founders' pedigree as NAB's Corporate & Institutional Bank reported the highest NPS of any major bank in 2021 at +35. Don't get us wrong, though, the fact that +37 placed NAB at the highest of any major bank in Australia further highlights how impressive Judo's score really is.

An NPS score measures customer loyalty and likelihood to recommend the bank for those not aware of it. A score as high as Judo's means its customers are likely doing a decent amount of the bank's marketing for it. And as we all know, we are far more likely to trust a mate than we are a billboard.

High valuation, but worth it

Judo has found a gap in the market and got started before the need for relationship banking went through the roof with COVID-19. Now that businesses have got a taste for it, we don't expect to see a reversal, quite the contrary. With an NPS of +85 it seems that Judo has proven that during the most difficult time most of its clients have ever experienced, the one thing they did not hate was their bank.

From a Price/Earnings (P/E) perspective, Judo is trading at a rather considerable multiple, 56.4x for FY23. However, forecasted profit growth is over 100% between FY23 and FY24 and by FY25, the P/E multiple is down to a much more reasonable 16x. In our view this means Judo is currently valued properly. What propels our rating to four stars, however, is the company's Price/Book (P/B) value. As of 30 June 2021, both Judo and NAB are trading at a P/B multiple of 1.6x. With Judo growing at a much faster rate, we would rather pay 1.6x for Judo's book than NAB's if we had to pick between the two, despite Judo's higher risk profile being a very new kid on the block. Everything considered, we believe Judo deserves a four star rating.

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