under the radar report
SMALL CAPS

ISSUE 407
06 AUGUST 2020

HOW WE ANALYSE SMALL CAPS

This week we give you our seven criteria for analysing Small Caps. With the heightened volatility in the market and the vast majority of companies updating their financials in coming weeks in the form of audited accounts, it's never been more important for investors to get their bearings to make considered decisions.

After all, making money over the long-term is being able to take advantage of short-term share price gyrations and since late February haven't we seen some of them! We will see buying opportunities come up in the next four to six weeks as most companies open their books for the first time since the COVID-19 pandemic kicked off.

We also provide our thoughts on Small Caps, which includes a number of recommendation changes and 10 spec buys. Yes, 10 spec buys. These are companies that are truly Under the Radar and they all have ticks in our seven investment boxes.

It is pleasing that the med-tech Small Cap ImpediMed (IPD) has been coming out with positive news since we re-booted our coverage early last month. This company has seen some real highs and lows and it's finally bouncing back. Whether the bounce back continues is the big question, but most important, the company has solid IP. This has to be the starting point for any technology based company. If a company has this and it's cheap, we're more than likely interested.

Importantly too, they are in a wide variety of industries. Diversification is the big learning in making money over the past 50 years and only when you look outside the ASX200 herd can you ensure that your portfolio is balanced.

Richard Hemming
Editor

the issue

Small Talk

"The big effect that COVID-19 has had is to expose the vulnerability of companies' balance sheets. Put another way, they didn't have enough cash and debt facilities to weather bad conditions."
Under the Radar Report

99% of all financial news relates to the 40 to 50 biggest companies. So what about the rest? They're Under the Radar.

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Under the Radar Report

HOW WE ANALYSE STOCKS

Making money over the long-term is being able to take advantage of short-term share price gyrations and since late February haven't we seen some of them! We will see buying opportunities come up in the next four to six weeks as most companies report audited accounts for the first time since the COVID-19 pandemic kicked off.

THE CHECKLIST

What Under the Radar Report looks for in a company's profit result:

1. Cash is King

- How much cash/debt compared to last year?
- Changes to working capital?
- Net investment expenditure?
- What is the company doing with its excess cash?

The big effect that COVID-19 has had is to expose the vulnerability of companies' balance sheets. Put another way, they didn't have enough cash and debt facilities to weather bad conditions. A virus that was unknown at this time last year has produced really, really bad conditions. Consequently, many were forced to raise equity to compensate for the cash burn they've experienced, or simply opportunistically raised. On the other hand, some of our favourite companies have taken the opportunity to grow their businesses organically, raising debt through existing facilities.

In the coming weeks we'll be able to see whether individual companies have more, or less, cash or net debt than the previous year and half year. While this is a simple question to answer, the reasons behind changes in the cash position can be extremely complicated and relate to the aforementioned capital raisings.

What has been the impact of COVID-19 on cash flow and has management successfully constrained capital expenditure? What does this mean for the sustainability of growth?

At the big end of town, the bigger a company's debt the bigger the problem for the banks. This isn't the case for Small Caps where the bank's profitability isn't much affected. But it is important when there is debt to understand its terms and when it needs to be renewed. If free cash flow is not going towards debt reduction, something will have to give. Whether a request for more funds from shareholders is done on good terms or bad will largely depend on the reason given for those funds, which in turn relies on underlying fundamentals – the interaction between the profit and loss; the cash flow statement and the balance sheet.

2. Sales Growth

- Is the company growing sales?
- Why are those sales growing – volume or price rises?
- If it isn't, what is driving earnings growth?

Sales growth will be more interesting because of the COVID-19 related disruption. What we want to see is a resumption of sales growth. If a company doesn't have a prospect of growing its top line year on year, the key is identifying how it can grow. If it is growing sales, the key is to quantify the factors behind this. In a service business, this may be achieved through more efficient operation, or by an increase in staff or infrastructure. In a manufacturing business revenue increases should be achieved from either increased volumes or higher selling prices. Management's commentary on the sources of growth should be clear and unambiguous.

3. Margins Matter

The higher the gross margin, the bigger the impact from lower sales.

- What are the company's input costs?
- What is the proportion of fixed costs to overall costs?
- What is the level of government support and how long can this last?

This is a period in which losses may have blown out. How much have these costs been contained by government handouts such as JobKeeper, is one key. For Small Caps we suspect it won't be as big an issue as for the big end of town and at the other end of the spectrum, small business. The question is the extent to which the company is reverting to profitability, if at all. This comes back to sales: the factors behind it and the cost structures associated with it should be reflected in both gross profit margins and net profit margins. Gross margins should expand when prices are rising faster than the input costs that go into creating the products and services.

Underpinning this is our eternal search for operating leverage, as a company's sales and margins should be growing, and the fixed operating costs of the infrastructure and corporate assets necessary to deliver the outcomes should reduce as a proportion of sales over time, increasing net margins. Margins matter. The goal should be to understand what are the factors behind changes in margins and whether these are likely to be sustained or increased.

4. Be wary of what's "Underlying"

- Headline profits versus the so-called underlying?
- What has the company declared to be exceptional or one off in prior periods versus in the current period?
- What are the effect of accounting changes?

These results are going to require some creativity and then some from investors trying to work out maintainable profits. We are always trying to work out what the real business is doing, but companies make life very difficult and some are definitely worse than others. Expenses companies put above the line (costs incurred in making the product/providing the service i.e. cost of goods sold (COGS)) versus those below (relating to operating the business) will need to be scrutinised carefully. The company will claim that some above and below the line costs are exceptional items.

Red flags are often hidden in the exceptional items, which the company considers not part of its normal operations, or one-off in nature. Examples include gains and losses on asset sales, restructuring costs, as well as write-offs of intangible items when a board has reviewed the cash flows from those assets and decided that they are insufficient to support the assets' carrying values in the accounts. This will be a particularly important factor in the coming results season.

Companies exclude these items to come up with their "underlying earnings", which is meant to reflect the performance of their ongoing operations. This is an issue when these one offs recur from one result to the next. Outside of us ignoring management's definition, this becomes an issue of its credibility.

5. Outlook Comments

- What is the tone of the outlook comments?
- Is the company looking to make acquisitions?
- Does the company have a track record of underestimating or overestimating future profit growth?

The outlook comment has never been more important because the numbers will be so hard to read. What we'll be looking for, which will be in short supply, are specific numbers that the company is expecting to deliver or report, but also the tone and information about investment plans and

A QUICK OVERVIEW OF THE FINANCIAL STATEMENTS

A company's accounts consist of the holy trinity of the profit & loss (P&L); balance sheet; and cash flow statements.

The P&L is a summary of the revenues and expenses over the period, which culminates in the bottom line profit or loss after tax. The balance sheet is a snapshot (at the balance date) of the assets the company owns and the liabilities and equity used to fund them. Finally, the cash flow statement is the actual money received and paid by the company and is sort of like truth serum.

We look for mis-matches, which can highlight fundamental differences between the story a company is selling to investors, versus what is actually happening. We will also look for internal anomalies like increasing inventories or debtors.

strategic direction which the outlook should deliver. Beyond this, how well has the company adapted to the COVID-19 world and can this continue if no vaccine is found.

Company reports need to be read with a healthy dose of scepticism. The annual report should be read. This can be somewhat tedious, but as an audited document, this is an important constraint on management's ability to delude itself and investors.

6. Share price reactions

- Has the share price been trending up or down prior to the announcement?
- Was there a sharp reaction on the day of the announcement?

The market has been on a wild ride during the pandemic but each stock price chart tells a different story. Subscribers are sometimes surprised by the reaction of share prices to market moving news like results and prospects. This is a variation of the old adage to buy the rumour and sell the news, which has worked very well through this crisis. The stock market is always looking for growth, and accelerating growth at that. Decelerating growth will often cause a big problem for growth stocks, because valuations are based on higher growth for longer. The bottom line is to avoid owning too many stocks that are so expensive that they are vulnerable to any disappointment of other investors' expectations.

7. Dividends

- Is the company changing its dividend policy?

Ultimately, management's confidence is reflected in the dividend declared. If a dividend was declared and not paid, that used to be an absolutely terminal act. Think of the Queensland based financial services company MFS. Its stock was going gangbusters until early in 2008 when it fell 70% in one day after it announced that a previously declared dividend would not be paid and that an enormous rights issue was coming. MFS went into administration within weeks. But no more. Almost every company in that 3 to 4 week period from the beginning of March had to pull their payments at the last minute. Now that the uncertainty has lifted, some businesses are doing better than expected, and especially where management has a large shareholding, there has been a natural tendency to resume dividend pay-outs sooner rather than later. Some have paid in late FY20, some in early FY21.

But dividend payment behaviour in this environment may be different. If management want a free pass on paying a relatively high dividend, and to go for growth by increasing investment from earnings, now would be a good time. We'll explore dividends further as companies report.

HOW IS "SELL" DIFFERENT FROM "TAKE PROFITS"?

Interpreting our "Take Profits" rating will depend on how much stock you own of the Small Cap in question. If you don't own much it might mean selling the whole lot to bank profits; while if you own more, it might be a question of just selling a few because the market isn't liquid in that stock (not many buyers and sellers reflected in a big bid/offer spread). Sometimes you can be lucky enough to take your costs out and let the rest of your holding run for free. Your personal tax situation will also dictate your actions.

WHAT HAS BEEN THE IMPACT OF COVID-19 ON CASH FLOW AND HAS MANAGEMENT SUCCESSFULLY CONSTRAINED CAPITAL EXPENDITURE? WHAT DOES THIS MEAN FOR THE SUSTAINABILITY OF GROWTH?

RESEARCH TIP UPDATES

06 AUGUST 2020

CAPRAL

Aluminium producer

The aluminium fabricator is proving its resilience to difficult times due to a combination of high levels of cash, cost cutting, government support and improved industry fundamentals, underpinning our investment thesis of dividend support. In our most recent note in late June we were confident of a 0.5 cent final dividend for FY20 (31 December year-end) and the announcement this week strengthens that proposition.

Import competition (dumping) is an ongoing issue, but as we had anticipated, supply disruptions have allowed Capral to increase market share against offshore competitors. If the buy local sentiment persists longer, it would be a positive for Capral.

The group indicated its 1H20 result for the six months to 30 June is above its guidance prior to the COVID-19 pandemic. Its guidance prior to its AGM in April was for the 12 months to 31 December (FY20) to produce a Trading EBITDA of $14-16m. This week it said that for the first half (1H20) Trading EBITDA will be about $10.2m (1H19 $2.4m) indicating FY20 EBITDA should be well over $16m. This puts it in the black for an NPAT during the period of $4.8m, which compares to loss in 1H19 of $8.4m.

Specifically, the company has benefited from cost savings implemented in April, restructuring of Bremer Park manufacturing facility completed in the 2H19 and receipt of $4.4m of JobKeeper payments for May and June. ■

RADAR RATING: The company isn't out of the woods, as we all know, JobKeeper is already tapering off. The company is benefiting from a number of tail winds, which aren't going away, however. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **CAA**

CURRENT PRICE **$0.125**

MARKET CAP **$62M**

DIVIDEND YIELD **4.0%***

NET CASH **$18M**

Data as at initial coverage

DATE **10 AUG 2016**

PRICE **$0.17**

*12m forecast

ECOFIBRE

Hemp products

Ecofibre has entered into a conditional agreement to acquire five manufacturing businesses and their operating assets, including real estate. The assets are being acquired from its key manufacturing partner TexInnovate in North Carolina, USA. The intention is that these assets will work as an integrated manufacturing platform for the company's Hemp Black subsidiary. The company's goal is to become a global leader in high tech hemp applications.

Consideration for the businesses and operating assets is US$42m. Consideration for the real estate will be determined by independent market appraisal and is estimated at US$7m. Completion, subject to due diligence, is scheduled for 1 September 2020 when the company will pay US$21m comprising 50% cash and 50% in Ecofibre shares with the balance payable in cash and shares over five years under an earn out agreement. The earnout is subject to the acquired businesses delivering EBIT of US$6m for two consecutive annual periods.

Ecofibre raised $29.5m in a private placement at $2.50 a share to provide funds required at completion. Additionally, the company had $18.3m cash at 30 June.

Ecofibre's industrial applications division Hemp Black is still at the early stages of commercialisation, which commenced in Q420 with revenue of $2.4m for a breakeven result. The business is currently manufacturing face masks. While this division has potential, it hasn't been a part of our investment thesis. We are

RADAR RATING **HOLD** ▼
(DOWNGRADE FROM SPEC BUY)

ASX CODE **EOF**

CURRENT PRICE **$2.43**

MARKET CAP **$810M**

DIVIDEND YIELD **0%***

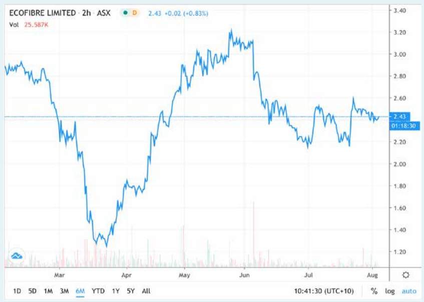
NET CASH **$8M**

*12m forecast

disappointed about the lack of detail provided by the company in relation to this sizeable acquisition.

The main aspect we like about Ecofibre is its healthcare business, which has been delivering strong growth and might have been stronger had it not been for COVID-19 effects in the past quarter. The company has wide distribution through pharmacies for its range of hemp-derived nutraceutical products. ■

RADAR RATING: It is also early days at its Ananda Food business with its path to scale and higher margins being interrupted by COVID-19. The industry is growing quickly and Ecofibre is well positioned. The Hemp Black business also has undoubted potential with a very broad range of advanced products, but remains at the starting point where the risk is high. Downgrade to HOLD.



Data as at initial coverage

DATE **17 JUL 2019**

PRICE **$2.93**

HAZER GROUP

Hydrogen energy technology

As anticipated, Hazer raised $8.4m from an institutional placement at 42 cents and has a loan facility of $6m. This is based on meeting the milestones for the funding agreement from the Australian Renewable Energy Agency, ARENA, to build its commercial demonstration plant at Woodman's Point, WA.

This was followed by final investment decision approval by the Board at the end of July with a budget of just under $17m. The company expects to begin pre-commissioning this calendar year and achieve practical completion mid-2021.

The ARENA grant is up to $9.4m, for a total of $24m, which should be enough to meet the requirements of this project and keep the company going. Its operating cash burn increased to $1m in 4Q20 to make $1.2m for 2H20 and $3.5m in total for FY20.

The company had already agreed to purchase biogas from the WA Water Corporation. The pilot plant will produce annually around 100 tonnes of hydrogen and 400 tonnes of synthetic graphite. Hazer has term sheets for hydrogen offtake agreements with a leading UK industrial player, BOC, and is working with Mineral Resources (MIN) to develop the graphite process.

The company remains highly speculative but is adequately financed if all goes well. Its technology offers the prospect of a genuine technological breakthrough in renewable energy with global potential, but future capital raisings are an inevitability. The pilot plant will cost almost $20m, but nobody has yet put a number on how much a it would cost to roll the technology out on a more widespread basis, or on a larger scale. ■

RADAR RATING: A small position will allow you to add to your holdings in such capital raisings if the company's delivery justifies it. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **HZR**

CURRENT PRICE **$0.38**

MARKET CAP **$52M**

DIVIDEND YIELD **0%***

NET CASH **$17M**

Data as at initial coverage

DATE **10 OCT 2019**

PRICE **$0.41**

*12m forecast

RESEARCH TIP UPDATES

06 AUGUST 2020

IMPEDIMED

Bioimpedance devices

Since we re-booted our coverage of ImpediMed early last month, the diagnostics specialist has showed evidence that it has been chipping away at its ambition to grow sales of its Sozo product, which detects post cancer treatment conditions including lymphedema. Progress is also being made in obtaining private payer re-imbursement and a positive decision by the National Comprehensive Cancer Network to include IPD's technology in its cancer treatment guidelines. We hasten to add that there is a long way to go, but that equally, we are encouraged by the progress.

Last week the company announced new data from its six year long PREVENT trial that provided evidence that IPD's bioimpedance spectroscopy analysis based technology is effective for diagnosing lymphedema in contrast to the tape measure, which fails to differentiate between post-treatment swelling and late-presenting lymphodema. The publication did not include specific clinical outcomes data and PREVENT can only be assessed properly after the three year endpoint of all 1,200 patients, which is due to be completed this year.

The company also released its fourth quarter data, which highlighted its cashed up state, with net cash of $19.7m and growing SOZO sales, despite hiccups relating to COVID-19. Most important, its contract renewals remain very strong at 100%, indicating that its software as a service (SaaS) model will produce big windfalls when volumes cover costs. Total revenue for the quarter was $1.2m, $0.9m of which was SaaS; while the company burned through $3.7m and expects to burn through another $4m to the end of CY2020.

IPD is cashed up having raised $18.2m before costs during the quarter; and as at 30 June 2020 has a further $1.1m from the exercise of options.

RADAR RATING: Data is due to come in relating to various studies in the coming months and we remain comfortable in the company's underlying IP. This is a high risk proposition, however, with cash burn still an issue. SPEC BUY.

RADAR RATING **SPEC BUY**

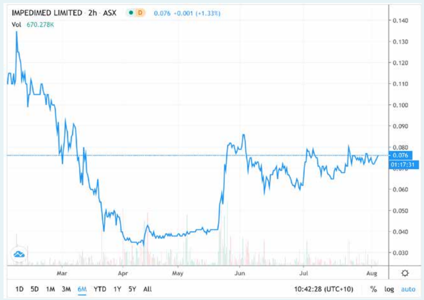
ASX CODE **IPD**

CURRENT PRICE **$0.075**

MARKET CAP **$77M**

DIVIDEND YIELD **0%***

NET CASH **$20M**



Data as at initial coverage

DATE **2 JULY 2020**

PRICE **$0.062**

*12m forecast

PANORAMIC RESOURCES

Nickel miner

We were right to first take profits in the nickel miner at over 40 cents after Independence Group (IGO)'s bid last year and then to Sell the stock in early February at 22 cents. But at current levels the stock is worth looking at after its $90m equity raise in May, allowing it to be debt free. The X factor is the nickel price and we look at how well the company is positioned for a sustained rebound.

The nickel price is interesting because nickel is a key input to batteries. As a source of nickel sulphide deposits, Panoramic is a reborn nickel investment. Savanna is a project which is almost ready to go. Attributes include the significant unmined Savanna North nickel sulphide deposit, a long mine life, proximity to existing infrastructure, a refurbished treatment plant and proven metallurgy. Additionally the company is under new management (new CEO/MD) and has the established nickel producer Western Areas (WSA) as a 19.9% shareholder.

Last week the company produced the long awaited updated Savannah ore reserve and mine plan, which highlighted the potential for a 13 year mine life,

RADAR RATING **HOLD**

ASX CODE **PAN**

CURRENT PRICE **$0.068**

MARKET CAP **$139M**

DIVIDEND YIELD **0%***

NET CASH **$31M**

*12m forecast

which is double what it previously was. Even after the raise, additional capital may be required for further underground development.

The mine plan envisages average annual production of 8,810t nickel, 4,579t copper and 659t cobalt in concentrate. Average corresponding average all-in site costs are projected at A$7.54/lb payable nickel, which means it's marginally profitable at the current nickel price of around US$6.25/lb (A$8.72) if it was in production.

Mining contractor Barminco has mobilised a full crew and equipment to the Savannah site for pre-production development works. A potential restart of operations is slated for the first half of 2021.

The Savannah North orebody remains open along strike and at depth providing significant potential for the discovery of additional ore reserves. Exploration is to commence in September 2020.

RADAR RATING: Panoramic is a nickel sulphide turnaround story with a long life project ready to go, additional exploration potential and corporate appeal. The medium term outlook for nickel is extremely positive, given expected battery demand for electric vehicles and other applications. Nickel production could restart in the first half of 2021 but may depend on the need for additional capital to restart, the prevailing nickel price at the time and the status of the COVID-19 pandemic. Maintain HOLD for the moment but at some point this stock has the potential to be seriously re-rated.

Data as at initial coverage

DATE **13 JULY 2016**

PRICE **$0.24**

*12m forecast

SEVEN WEST MEDIA

Television and Newspapers

RADAR RATING **HOLD**
(DOWNGRADE FROM SPEC BUY)

ASX CODE **SWM**

CURRENT PRICE **$0.105**

MARKET CAP **$161M**

DIVIDEND YIELD **0%***

NET DEBT **$541M**

Data as at initial coverage

DATE **02 APR 2020**

PRICE **$0.078**

*12m forecast

News that SWM has amended its $750m banking facilities was greeted with equanimity by the equity market but marks an important milestone for the debt laden media company. The debt was not due for more than a year, but covenant breaches due to Covid-19 would have been triggered in any event, therefore it was sensible to put in place new facilities as soon as possible. Existing covenants have been replaced until December 2021, $450m of the $750m has been extended to 2H22 and there has been an increase in the interest margin payable. One of our original reasons for looking at a speculation in SWM was that it would not face an onerous debt restructuring. This is a good outcome but there is no guarantee there will not be a capital raising.

Management is looking to outsource prime time productions like Big Brother to reduce costs. The broadcast video on demand platform 7plus is performing well, as has been the morning content and the lead into the evening news. SWM should get its share of whatever television advertising revenue is around.

The company is aggressively cutting costs, with temporary cost savings of $50m in FY20 offset the immediate impact of the advertising downturn. A welcome boost is the revised AFL contract, which has saved $87m over the existing term and delivers $128m savings against the previous contract run rate over 5 years. Including this, $170m of permanent cost cuts have been implemented with an annual reduction of 20%.

Despite this, it's still a struggle to achieve profitability with revenues falling. Broadcast television advertising revenues fell by up to 50% year on year in the first months of the pandemic, but now might be down closer to around 20%. The current Victoria shutdown may turn advertising down again. No information was given about 2H20 operating losses; we estimate SWM might lose $50m-$100m on an operating basis for that period.

We had erroneously identified a potential range for the stock with a bottom end of 12 cents, but as soon as we did that it was inevitable that we would look foolish. The stock eventually found something of a base at around 9 cents. We had recommended the stock as a Speculative Buy at around 7-8 cents, and there were substantial trading profits available briefly at up to 18 cents, but these have mostly evaporated.

RADAR RATING: Those subscribers who bought at lower prices on our recommendation should hold for speculative upside, but we would not recommend establishing new positions this close to the results, when the market will have a chance to evaluate ongoing earnings potential. HOLD.

SOMNOMED

Medical device specialist

SomnoMed's fourth quarter showed it finishing the FY20 year in a stronger position that it had expected, with sales rebounding. Having taken profits late last year at close to $3 the stock is also bouncing from having traded under $1 March-May. We look at whether it can keep going.

To remind, the company's sleep apnoea product is a type of mouthguard, which plays second fiddle to the CPAP ventilator system produced by the likes of ResMed. Having said that, recovery signs are emerging:

First, sales are rebounding. Group sales were down almost 75% during the worst of the COVID shutdown in April but by June recovered to 14% behind the sales level of that month last year, indicating in SomnoMed's words: "a progressive return to business across the globe". But it's also clear that it is far from out of the woods, being particularly vulnerable to COVID-19 impacts because dentists are needed to fit the oral appliances.

Second, it was welcome that SomnoMed was operating cash flow positive during Q420; generating operating cash of $700,000. This was based on current revenue levels and without any government support mechanisms. It finished the year at 30 June 2020 with a cash balance of $30m.

Third, it's important to remember how global this small cap is. SomnoMed operates in 28 countries. In Europe, SomnoMed's largest market, revenues have returned fairly quickly in the countries where there has been a lifting of lockdown restrictions. The North American business has shown stronger signs of recovery into June. APAC has returned to stronger volumes and within Australia the opening up of dental practises has made a significant difference.

Fourth, SomnoMed will be launching a new product for North America in the current quarter. It will introduce its second digitally made, PDAC approved (Medicare insurance approval) oral appliance.

The big risk of course is its vulnerability to dental disruption due to the coronavirus.

RADAR RATING: SomnoMed's recovery may lag the broader sleep industry which primarily uses the CPAP ventilator that do not have to be fitted by a dentist. The company is growing revenues but it has a long way to go to get to the level that was expected pre-COVID-19. There is big risk that the company's green shoot recovery dies. HOLD.

RADAR RATING **HOLD**

ASX CODE **SOM**

CURRENT PRICE **$1.315**

MARKET CAP **$109M**

DIVIDEND YIELD **0%***

NET CASH **$30M**

Data as at initial coverage

DATE **2 OCT 2014**

PRICE **$2.04**

*12m forecast

SPLITIT PAYMENTS

Information Tech

Following an equity placement of A$16m in April and record growth in the second quarter (2Q20) Splitit is raising another A$90m from global institutions at $1.30 a share. For retail shareholders, the company is proposing an SPP to raise up to A$10m, also at $1.30. The combined effect will be dilutive, increasing shares on issue by about 22%. Exisiting shareholders will be able to participate in the SPP.

According to the company, it's been a good crisis, so far. Despite the COVID environment in North America and Europe, the BNPL junior has not seen a decline in spend due to customer adaption to conditions. Spending on dining and entertainment has been replaced with homeware, health and fitness. Splitit has been able to maintain its gross margins at around 70% and says its partnership with Mastercard is working.

Splitit believe its unique selling proposition, where consumers are able to adjust payment periods for credit on their existing credit cards, helps merchants increase their sales conversion rates. The company's strategy is to partner with juggernauts and grow the number of brands and verticals. Its business model is to market directly to merchants rather than to consumers. Unlike Afterpay it won't be a household name.

The company is early in its life cycle and the support of its raising is based on belief that it's achieving sufficient scale to be profitable in the next 12 months.

RADAR RATING: Following the $90m equity raising, the company is well resourced to achieve sufficient scale for profitability and the company is growing at a much faster pace than we had previously envisaged. We are upgrading the recommendation from Take Profits to SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **SPT**

CURRENT PRICE **$1.50**

MARKET CAP **$422.8M**

DIVIDEND YIELD **0%***

NET CASH **US$85M****

Data as at initial coverage

DATE **4 APR 2019**

PRICE **$1.23**

*12m forecast

**Estimate including equity raising proceeds

SUPERLOOP

Telecommunications infrastructure

Superloop has achieved FY20 EBITDA of $13.5m, which was at the midpoint of its guidance. For the June half, EBITDA was $9.4m implying an annual run rate of approximately $19m reflecting the strong growth underway.

Capital expenditure dropped by $50m year on year (~70%) due to the completion of major network infrastructure. With rising earnings and lower capital expenditure, the company is positioned for a substantial lift in free cash flow. Superloop has a growing customer base with consumer, business and wholesale portfolios. The company is signing strong multi-year, annuity style contracts.

Results will be released during the week of 24 August.

RADAR RATING: Investors that followed our BUY recommendation in April have been rewarded with a strong rally in the share price. Although we expect the growth to continue, we are pulling back our recommendation to HOLD at this higher price level.

RADAR RATING **HOLD**

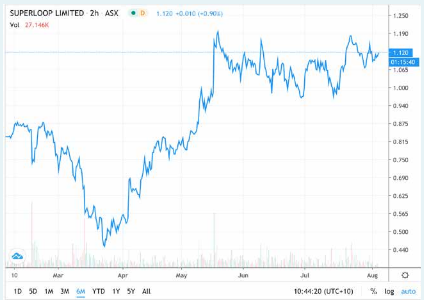
ASX CODE **SLC**

CURRENT PRICE **$1.12**

MARKET CAP **$401M**

DIVIDEND YIELD **0%***

NET DEBT **$35M**



Data as at initial coverage

DATE **21 DEC 2017**

PRICE **$2.33**

*12m forecast

RESEARCH TIP UPDATES

06 AUGUST 2020

VMOTO

China based electric scooter manufacturer

Vmoto has been a straight up winner for subscribers who jumped on this flier in late May, when we revisited a stock we have kept our eye on for years and which suddenly hit the sweet spot. Subscribers have doubled their money and some in just over 2 months. Is it time to Take Profits on this dynamo?

Another strong quarter delivered positive operating cash flow of around $1.5m leaving the company with $7.3m cash offset by $1.5m of Renminbi denominated debt. This is after paying its RMB30m ($6m) contribution towards its manufacturing joint venture with Super Soco. Judging by the remarks of Super Soco (a much larger company) in relation to the JV, the relationship may get closer over time.

Unit growth is strong but needs to be closely watched. The company has a 31 December year end and 2Q20 unit sales were 6389, double the same period last year and up 55% on the prior quarter. Before you get carried away, orders received at 30 June (2Q20) were slightly down on the prior quarter. Caution is warranted before assuming runaway growth.

VMT is benefiting from the impact of Covid-19. The company has continued to put distribution agreements in place around the world and has received additional volume from sharing operators, which is very encouraging, supplying seven operators globally and is in advanced conversations with a further 12. Vmoto is also in discussions with an additional 10 potential B2B customers in food and parcel delivery.

Its potential is limited only by product performance and price. Vmoto has had a long time to build its product and supply chain and demand is increasing.

RADAR RATING: VMT still seems an inexpensive way to play the electric vehicle revolution that has been transfixing the US stock market through Tesla and to a lesser extent Nikola. Subscribers smart enough to have jumped on board when we talked this one up again only a few months ago should hang tight. But since the price has moved so far so fast we are downgrading. HOLD.

RADAR RATING **HOLD**
(DOWNGRADE FROM SPEC BUY)

ASX CODE **VMT**

CURRENT PRICE **$0.505**

MARKET CAP **$128M**

DIVIDEND YIELD **0%***

NET CASH **$5.8M**

Data as at initial coverage

DATE **28 MAY 2020**

PRICE **$0.215**

*12m forecast

BUY WHEN THE PRICE IS RIGHT

Below are 7 stocks that we would be looking closely at in this period of volatility where share prices have experienced big dislocations from fundamental value due to fears about the effect of the coronavirus.

This list is in alpha order. Please go online to check our full company research.

BSA (BSA) — SPEC BUY

INDUSTRY	**CONTRACTOR**
MARKET CAP	**$143M**
DIVIDEND YIELD	**3.0%**
12 MONTH HIGH	**$0.46**
PRICE @ 04/08/2020	**$0.33**

WHY WE LIKE IT: BSA looks good value trading on a one year forward dividend yield of 7%. Moreover, management has de-risked the business. There is some uncertainty regarding the upcoming result but the recent trading update does give confidence.

CATAPULT (CAT) — SPEC BUY

INDUSTRY	**TECHNOLOGY**
MARKET CAP	**$360.8M**
DIVIDEND YIELD	**-**
12 MONTH HIGH	**$2.25**
PRICE @ 04/08/2020	**$1.89**

WHY WE LIKE IT: Catapult has proven to be relatively resistant through the worst of the COVID-19 period. With the sports environment improving, a strong sales pipeline and its global credentials, the outlook is for continuing growth.

COUNTPLUS (CUP) — SPEC BUY

INDUSTRY	**FINANCIAL SERVICES**
MARKET CAP	**$99M**
DIVIDEND YIELD	**1.4%**
12 MONTH HIGH	**$1.34**
PRICE @ 04/08/2020	**$0.87**

WHY WE LIKE IT: We like the business and our investment thesis is playing out. The integration of Count Financial is on track, but it's still early days. We initiated coverage at $0.90 in July 2019 and started taking some profits in early February at $1.195. Having taken some risk off the table, we are buyers following price weakening.

STOCKS TO BUY

06 AUGUST 2020

HANSEN TECHNOLOGIES (HSN) — BUY

INDUSTRY	**TECHNOLOGY**
MARKET CAP	**$591M**
DIVIDEND YIELD	**2.0%**
12 MONTH HIGH	**$4.29**
PRICE @ 04/08/2020	**$2.98**

WHY WE LIKE IT: This company won't be the most sexy stock in your Small Cap portfolio, but it does have earnings reliability, which translates to bankable dividends. Trading on a forecast PE of 20 times and dividend yield of 2%, we think it is worth the premium. Cost out initiatives give Hansen the ability to surprise on the upside.

PRAEMIUM (PPS) — SPEC BUY

INDUSTRY	**FINANCIAL SERVICES**
MARKET CAP	**$173.7M**
DIVIDEND YIELD	**-**
12 MONTH HIGH	**$0.69**
PRICE @ 04/08/2020	**$0.43**

WHY WE LIKE IT: PPS has been a great trading stock, which is now probably near the bottom of a trading range unless the markets take another nose dive. The underlying business has good momentum, and the Powerwrap acquisition should accelerate growth and improve margins. Being linked to investment market performance makes the stock speculative. SPEC BUY up to 45 cents.

QUICKSTEP (QHL) — SPEC BUY

INDUSTRY	**MANUFACTURING**
MARKET CAP	**$61M**
DIVIDEND YIELD	**0%**
12 MONTH HIGH	**$0.165**
PRICE @ 04/08/2020	**$0.086**

WHY WE LIKE IT: The manufacturer of carbon components for the Joint-Strike Fighter (F-35) and C-130J Super Hercules military aircraft is turning its business around, having reached profitability and positioned for more long-term contract wins. This company is high risk but has big potential for any share portfolio.

99% of all financial news relates to the 40 to 50 biggest companies. So what about the rest? They're Under the Radar.

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