under the radar report

SMALL CAPS

ISSUE 488
10 MARCH 2022

NEW LITHIUM STOCK

The world looks like a scary place, with floods, wars and famine. It has always been this way, but one thing for investors hasn't changed: the price you pay is the biggest determinant of return. This gives you a great deal of power. This week we're releasing a Spec Buy on a stock on a lithium stock that we've had our eye on for some time. How do we know? Because we focus on fundamentals and when the price is right, we strike.

We go in depth in the lithium sector. Think about this: the price for lithium carbonate has increased over 400% in the past 12 months as EVs gain a stronger foothold. Well-funded lithium projects are in the box seat because of this and the fact that production is highly technical.

Guess what? We rate the West Australian company's project more highly than the company making Pilgangoora project owned by **Pilbara Minerals (PLS)**, whose stock has returned 795% since we tipped it in October 2020 (01 Oct 2020 / Issue 415). That's an annual return of 360%.

That doesn't mean this stock will do the same, but the fundamentals in the lithium price are there and the stock looks very good value.

We also analyse the oil price, which is literally skyrocketing. Supply constraints emanating from the boycott on Russian product on top of increasing demand means that the oil price is getting squeezed. Under the Radar Report said it would go to US$100 a barrel. Well, it's gone well past that level. Our favoured stock in the sector **Karoon Energy (KAR)** is in the box seat as a low-cost producer with operations in Brazil. KAR has returned 108% since we tipped it just over 12 months ago (21 Jan 2021 / Issue 430).

Nobody knows where commodity prices will go, but like investors, companies can control their costs. The companies that we like in the mining space are at the lower end of the cost curve. They are also beneficiaries of leverage, which means because they have a smaller asset base, they can generate bigger returns on equity.

In fact, this applies to all the Small Caps we cover. The situation in the Ukraine is terrible and worse than this time last week. Costs are rising. But bravery is required to dip your toe in and buy small parcels of quality stocks. ■

Richard Hemming
Editor

the issue

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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LITHIUM ANALYSIS

The price for lithium carbonate has increased over 400% in the past 12 months as EVs gain a stronger foothold. Well funded lithium projects are in the box seat as demand rises and production is highly technical.

TESLA VERSUS GM & VW

It is no accident that that the EV automotive giant Tesla has signed agreements with ASX listed **Liontown Resources (LTR)** and **Core Lithium (CXO)** to secure lithium supply from Australia. These are both hard rock spodumene projects, which is a low risk relatively safe bet to guarantee product.

This contrasts with GM and VW which have both signed deals with emerging producers experimenting with novel extraction techniques, whose projects carry more technical risk, with potential for delays or production shortfalls.

We'll see who wins this strategic bet, but there is no doubting the strength in lithium prices, which is gathering momentum as the take-up of EVs gathers pace.

LITHIUM PRICE ACTION LEADS TO EXPLOSIVE 2021

From mid 2018 to the start of 2021 lithium's price slumped due to China's reduction in subsidies to its battery manufacturers; lithium projects were cut back en masse.

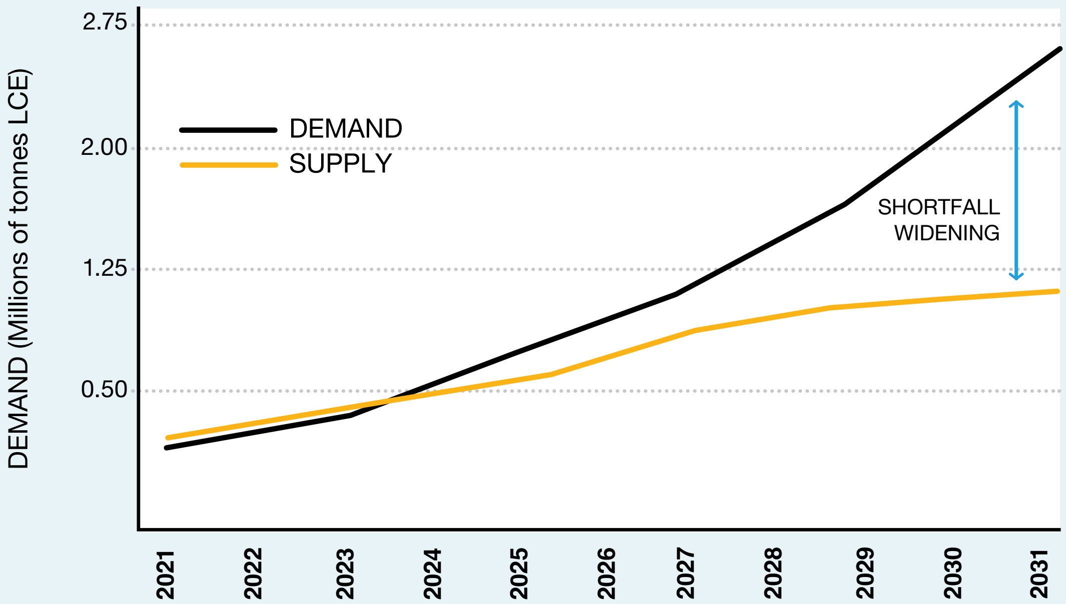
These cutbacks set the stage for a price explosion in 2021. In the past 12 months Lithium Carbonate (LCE) has climbed 402%, while Lithium Hydroxide has risen 297%.

We have covered Orocobre for some time, now renamed **Allkem (AKE)** which operates the Olaroz lithium brine project in Argentina. The lithium producer LCE prices for the current six months to 31 June 2022 of US$25,000 a tonne (Free On Board), an increase of 125% over the prior six months to 31 December and up 25% from previous guidance.

BATTERY POWERED LITHIUM MARKET

Global lithium shortfall increasing over the next decade

Global lithium market balance (battery grade), 2021-31, million tonnes Lithium Carbonate Eqivalent)



SOURCE: UBS, ROSKILL, MINESPANS, WOODMAC

LITHIUM ANALYSIS

10 MARCH 2022

Spodumene concentrate, which comes from hard rock lithium mining, increased by 478% over the same period. This is being reflected in the price AKE expects to achieve of US$2,500 per tonne Cost Insurance & Freight at its Mt Cattlin mine in WA for 6% lithium oxide (Li2O) for the three months to 31 March. AKE expects continued price momentum.

Moreover, the shortage of mined lithium supply is expected to triple by 2023, which augers well for continued strong lithium prices (see chart).

The rise and rise of EV is evidenced by exponential increases in global sales, bigger ranges and rising space on the shop floor, particularly in the US. Fourth quarter 2021 Tesla EV global sales were 308,600, up 71%; sales for Xpeng were 41,750, up 222%, LiAuto 35,221, up 144%, and NIO Inc 25,034, up 44.3%.

Legacy automakers are catching up and surpassing in production numbers. Ford, GM, Mercedes and BMW are launching EV models, while Ford targets global production of 600,000 in 2023.

There are also new EV startups appearing every week, such as Arrival, Canoo, Lucid and Rivian.

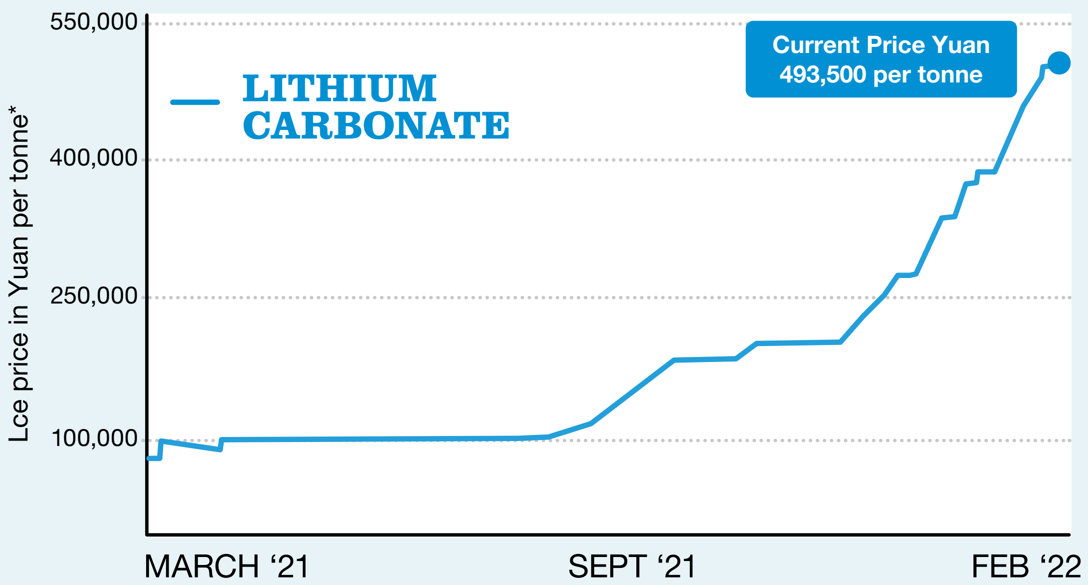
A catalyst for EV growth is becoming cost competitive with petrol. Estimates are for EVs becoming 20-40% cheaper by 2030.

CONCLUSION: RISING DEMAND AND TIGHT SUPPLY TO CONTINUE

A big factor in favour of existing lithium producers is the high barriers to entry. While the strong lithium prices is driving exploration, the sector is highly technical and achieving battery grade product is expensive. We forecast the lithium market to be tighter for longer. Underlining this point, in recent weeks mine permits for the **Rio Tinto (RIO)** undeveloped Jadar project in Serbia were revoked causing the mining giant to abandon work.

LITHIUM ON A TEAR

One-year battery grade lithium carbonate price per tonne traded in China.



SOURCE: Trading Economics
*6.32 Chinese Yuan to US$1

LITHIUM ANALYSIS

10 MARCH 2022

LIONTOWN RESOURCES: ROARING AHEAD

The West Australian lithium project is on track to being low cost and world class, with superioor economics to Pilbara Mineral's famous Pilgangoora project. Liontown has signed two 5 year contracts with Tesla and South Korea's LG to secure half its initial production. The project is set to commencing production in mid-2024. The lithium price is going up, hence the project economics are getting better and better and this stock is looking cheaper and cheaper.

GLOBALLY SIGNIFICANT LITHIUM RESOURCE

Kathleen Valley is a high grade JORC code lithium resource with a measured, indicated and inferred mineral resource estimate of 156mt at 1.4% lithium oxide (Li_2O) with tantalum by-product. This is extremely high grade, exceeding Pilbara Mineral's well known Pilgangoora resource, which is at larger scale. You don't have to mine as much rock at Kathleen Valley to get the same amount of lithium, which improves the economics.

In addition, Liontown has a second lithium project at Buldania, south of Kalgoorlie, which is small but has potential and diversifies its portfolio.

OFFTAKE AGREEMENTS WITH TESLA AND LG

Foundation agreements with Telsa and LG underpin LTR's Kathlene Project, which has contracted over half its expected production for the first five years of operation.

In early January 2022, LTR signed a 5 year spodumene concentrate agreement with South Korean based LG Energy Solution, with 100k tonnes (dry) in year 1, and 150k tonnes thereafter.

In mid-February 2022, a similar contract was signed with Tesla, with an initial 5 year term of 100k tonnes in the first year and 150k tonnes in subsequent years, linked to the LHM price. It is conditional on LTR commencing commercial production by 2025.

KATHLEEN VALLEY DEVELOPMENT

The Definitive Feasibility Study for the Kathleen Valley Project has been completed and engineering studies are underway. A final investment decision is expected in coming weeks with early works and design scheduled for next year and completion of construction in mid-2024. Commissioning and production are expected in the weeks following.

At start up, production will be 500k tonnes per year of spodumene concentrate at 6% LIO2, which will be ramped up to 700k tonnes in 2029.

Pre-production capital expenditure for the project is $473m, but working capital and corporate costs are also required. This year the company raised $462.9m in equity at $1.65. LTR is well advanced on funding discussions with banks for the remaining $121m. The company believes forecast cash flows will be sufficient to fund the capital requirement for the future expansion in 2029.

POTENTIAL FOR DOWNSTREAM PROCESSING

Additional growth potential exists via plans to develop a refinery to produce battery grade lithium hydroxide monohydate, with construction slated for 2027 and production from 2029.

Funding would come from existing cash flows and production of 86k tonnes a year would make it one of the largest refineries outside China.

NEW COVERAGE

RADAR RATING **SPEC BUY**

ASX CODE **LTR**

CURRENT PRICE **$1.535**

MARKET CAP **$3.4BN**

DIVIDEND YIELD **0%***

NET CASH **$171.0M**

*FY22 forecast 0 cents

BULL POINTS

- Large production scale
- Low operating costs
- Long life operation
- Lithium price is going up

BEAR POINTS

- Contracts void if project delayed
- Pre-production project risk

WHY WE LIKE IT

Developing the globally significant Kathleen Valley hard rock lithium project 400km north of Kalgoorlie, WA. Projected to be low cost with a long-mine life of 23 years. Planning is very advanced and the project is 80% funded. First production set for mid-2024 and taking advantage of a strengthening lithium price due to increasing demand for batteries from EV. Because of big offtake agreements to supply lithium to multiple, namely Tesla and South Korea's LG, LTR is not dependent on any one customer.

LOW EMISSIONS STRATEGIES DESIGNED IN

Automotive Original Equipment Manufacturers need low carbon batteries for EVs. Lithium supplied to battery factories has to satisfy emissions targets, which are classified into Scopes 1, 2 and 3.

Scope 1 emissions are direct emissions from company owned and controlled resources. Scope 2 emissions are indirect emissions such as from the generation of purchased energy. Scope 3 emissions are indirect emissions, such as emissions from downstream users.

Kathleen Valley is designed to be state of the art with initial 60% renewable power. By 2029, the goal is to have over 75% renewable power, an upgraded mine fleet with electric trucks and 50% biofuel powered road transport. The fact that a significant proportion of ore feed will originate from underground mining provides a significant benefit in terms of reducing the environmental impacts normally associated with open pit mining.

KEY RISKS: DEMAND, SUBSTITUTES, GEOPOLITICAL

Forecasts of supply for lithium based on current and probable sources point to a structural deficit looming as early as 2022 and by 2025 at the latest. Estimates point to demand of 900kt LCE by 2025, 2mt by 2030, 3.5mt in 2035 and over 5mt in 2040.

Expected future supply tightness could lead to lithium substitutes or a delay to EV roll outs. New technologies are always a threat. Geopolitical risks have increased.

INVESTMENT PROPOSITION

Potential for a re-rating of the company as milestones relating to the company's Kathleen Valley project are achieved. With the approach of production and cash flow, valuation growth is expected. Exploration has the potential to increase the mine life at Kathleen Valley or discover additional projects for development.

WHAT'S NEW

2022 has been a big year. In the past two months it has signed contracts with LG and then Tesla to supply lithium spodumene concentrate from LTR's Kathleen Valley Project. These are sizeable contracts. LTR's initial production will be 400k tonnes a year and each contract will be 100k each. LTR has now contracted over half its expected production for the first five years of operation.

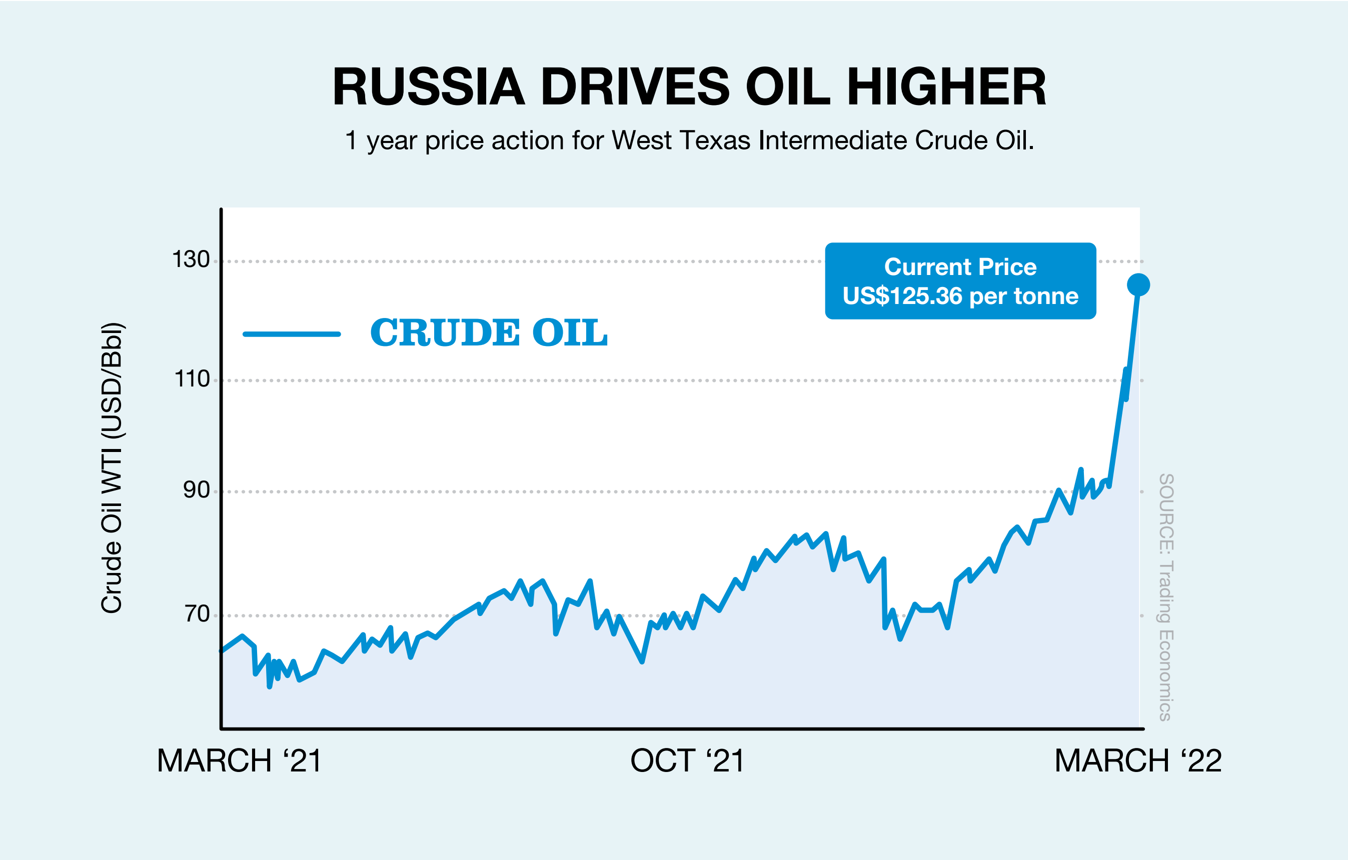
Following the completion of the $463m equity capital raising at $1.65 in mid-February, LTR secured 80% of funding for Kathleen Valley.

Our confidence in the project increased in January with the order of a critical component of the project, the SAG mill, used to crush & grind the rock.

> **FOUNDATION AGREEMENTS WITH TELSA AND LG UNDERPIN LTR'S KATHLENE PROJECT, WHICH HAS CONTRACTED OVER HALF ITS EXPECTED PRODUCTION FOR THE FIRST FIVE YEARS OF OPERATION.**
>
> **IN EARLY JANUARY 2022, LTR SIGNED A 5 YEAR SPODUMENE CONCENTRATE AGREEMENT WITH SOUTH KOREAN BASED LG ENERGY SOLUTION, WITH 100K TONNES (DRY) IN YEAR 1, AND 150K TONNES THEREAFTER.**
>
> **IN MID-FEBRUARY 2022, A SIMILAR CONTRACT WAS SIGNED WITH TESLA, WITH AN INITIAL 5 YEAR TERM OF 100K TONNES IN THE FIRST YEAR AND 150K TONNES IN SUBSEQUENT YEARS, LINKED TO THE LHM PRICE. IT IS CONDITIONAL ON LTR COMMENCING COMMERCIAL PRODUCTION BY 2025.**

OIL ANALYSIS

Supply constraints emanating from the boycott on Russian product on top of increasing demand means that the oil price is getting squeezed. Under the Radar Report said it would go to US$100 a barrel. We now think it will go much higher.



RUSSIA OIL SANCTIONS DRIVE THE OIL PRICE HIGHER

Under the Radar Report has been taking the view for the past six months that the price outlook for oil was positive given declining oil project investment and exploration by the major oil producers in the face of renewable energy trends. At the same time, projections by the International Energy Agency (IEA) were pointing to global oil demand continuing to grow to higher levels until at least 2025. We had postulated that the oil price could rise to around the US$100/barrel level.

The war in Ukraine and bans on oil exports from Russia has added another dimension to oil prices and this has big ramifications for inflation, global growth and international equity markets.

RUSSIA IS A BIG PLAYER

Russia is the world's third largest oil producer behind the US and Saudi Arabia*, with production of 10 million barrels a day. Half of this is exported, 60% to OECD countries in Europe, 20% to China. This is a significant in the context of global oil demand returning to pre-pandemic levels of 99.7 million barrels/day in the current year.*

This week oil futures touched US$139/barrel on the ban on Russian oil exports to the US. At this stage, the ban does not appear to extend to exports of crude oil to Europe. The oil price has since retreated to around US$125/barrel.

LIMITED GLOBAL PRODUCTION CAPACITY

The price rise reflects the difficulty of replacing Russian oil. OPEC produces 30 million barrels a day and have limited spare capacity, due to reduced investment in recent years. While there is spare capacity in the US, particularly in oil shale production, producers have been giving priority to cash flow rather than drilling new wells.

RUSSIAN GAS

There are also concerns regarding Russian gas with the potential for reductions in supply into Europe very real, where it is used for heating. Changes in the energy mix could include increased oil consumption, further tightening the oil demand supply balance or LNG imports. LNG supply contracts generally have price mechanisms linked to the oil price.

Under the Radar Report has backed **Karoon Energy (KAR)**, a pure oil play, as the best Australian company in the sector to gain exposure to the oil price. This has more than doubled since we recommended the stock in January 2021 at $1.10. See our note on below.

*According to the International Oil Agency

KAROON ENERGY

Oil production

As we had hoped Karoon is benefiting from the double whammy of a higher oil price and rising production at its Bauna oil field in Brazil.

For 1H22, sales volume increased five-fold to 2.57 million producing US4186.5m in revenues from five cargoes lifted at an oil price of US$72.43/bbl (1H21 US$47.31/bbl). Underlying EBITDA was US$89.5m (1H21 US$4.0m), while underlying NPAT was US$21.1m.

Unit production costs US$23.50/bbl were below expectations and contributed to a very strong operating cash flow of US$83.9m. A highlight for the year was achieving 99% facilities uptime, reflective of maintenance ensuring the reliability of the vessel that handles the oil, the Bauna FPSO.

As a result of heightened oil price expectations, KAR recognised a material increase in the contingent consideration payable to Petrobras under the payment terms agreed in 2020 for the acquisition of the Bauna assets. This has resulted in a statutory net loss after tax of US$97.7m for the half year. The company expects higher oil prices to generate additional cash flow to fund the higher Petrobras payments.

The group is expanding production in April, targeting an increase of 5-10k barrels of oil per day (bopd) at an estimated cost of US$110-130m. After completion, drilling of two new development wells at Patola is scheduled with first production scheduled for early CY23 at an expected peak rate of over 10,000 bopd and estimated cost of US$175-195m.

KAR's production for FY23 is expected to increase to 8-10 million barrels a year, more than double FY22. A material reduction in FY23 unit operating costs to US$12-18/bbl is also expected (FY22 US$28-30/bbl).

RADAR RATING: The best oil leverage on the ASX plus growth. Global events driving oil prices higher amid uncertainty and volatility, hence we think taking some risk of the table is necessary. TAKE PROFITS.

RADAR RATING **TAKE $$$**
(DOWNGRADE FROM SPEC BUY)

ASX CODE **KAR**

CURRENT PRICE **$2.29**

MARKET CAP **$1.28BN**

DIVIDEND YIELD **0%***

NET CASH **US$176M (A$245M)**

Data as at initial coverage

DATE **21 JANUARY 2021**

PRICE **$1.10**

*FY22 forecast 0 cents

DIGITALX

Financials - Blockchain technology

Since we introduced DigitalX with a speculative buy recommendation late last year, Bitcoin has fallen 20%, undermining sentiment towards this crypto specialist. But the appointment of new CEO, Lisa Wade, formerly head of digital innovation and sustainability at NAB, may help realise potential in digital finance.

The fintech remains at an early stage in its life cycle. DCC is on the bleeding-edge of crypto and digital finance and might be more suited to a private market. However, since our subscribers do not usually have access to a private market offering, DCC is one of the most interesting crypto focused stocks that we have looked at.

Product development, including: consulting activities, Drawbridge, and Sell my Shares businesses represents 40% of its revenue base of $1m for the six months to 31 December.

Net assets of $55.8m included $60.4m of digital assets, based on a $63,743 Bitcoin price. The almost 40% fall in Bitcoin since then reminds us that the value of these assets is only as good as the underlying crypto markets from day-to-day.

The Drawbridge business and Sell my Shares are real-world implementations of blockchain technology. The fact that the stock has Bitcoin on the balance sheet is something of a bonus and allows investors to be more generous with a valuation. With partners, the company is exploring early-stage concepts include the tokenisation of real-world assets, and the development of Web3 infrastructure to support emerging internet economies such as distributed autonomous organisations (DAOs).

RADAR RATING: Anything crypto related has to be considered extremely speculative. But DigitalX is a way for subscribers to invest in solid blockchain developments, including Web3 and distributed autonomous ledgers, backed up by some crypto assets which provide the illusion of comfort. SPEC BUY.

RADAR RATING **SPEC BUY**
ASX CODE **DCC**
CURRENT PRICE **$0.073**
MARKET CAP **$51M**
DIVIDEND YIELD **0%***
NET CASH **$7.4M****

Data as at initial coverage
DATE **23 DECEMBER 2021**
PRICE **$0.084**

*FY22 forecast 0 cents
**Including held in FUM

UNDER THE RADAR SMALL CAP PORTFOLIO ALERT
As reported on 25 February, the Under the Radar Report portfolio purchased another 10,000 shares, a commitment of $700 and a total shareholding of 15,000 shares, a toe in the crypto water.

HT&E LIMITED

Media - Radio

When we upgraded at $1.73, the market was 20% higher, and other opportunities were fewer. HT1 has held up well, while the rest of the market has come back. We maintain our Buy rating since we don't see major risks, though radio advertising is highly sensitive to economic conditions.

HT1's full year results to December delivered growth despite Covid impacts. Revenue was up 16% at $225m, underlying EBITDA up 21% at $60m, attributable NPAT of $29m led to underlying EPS of 10.4 cents. A 3.9 cents final dividend (FY21 7.4 cents fully franked).

There has been substantial balance sheet improvement due to HT1's settlement with the ATO, which triggered our upgrade to Buy. The cash from the sale of a minority investment in OOH! Media (OML) was a bonus.

RADAR RATING **BUY**
ASX CODE **HT1**
CURRENT PRICE **$1.90**
MARKET CAP **$583M**
DIVIDEND YIELD **4.8%****
NET DEBT **$91M***

*Pro forma for acquisition of Grants Broadcasters
**FY22 forecast 9 cents

HT1 used its cash & scrip to acquire Grants Broadcasters, a Sydney regional radio network, which will be combined with ARN. The company targets revenue gains of over $6m in FY22, and up to $20m over 3 years.

The balance sheet remains under geared at 1 times pro forma EBITDA, and we would not be surprised to see further corporate activity.

RADAR RATING: HT1 has reinforced its market leading Australian radio network by buying Grants Broadcasters, the largest regional radio network. FY21 earnings growth from the core ARN radio business should continue, though radio advertising is an economically sensitive source of revenue. BUY.

UNDER THE RADAR SMALL CAP PORTFOLIO
The Under the Radar Report Portfolio holds 3000 shares.

Data as at initial coverage

DATE **10 JULY 2013**

PRICE **$1.12*****

***Net of NZM demerger shares

INFOMEDIA

Car parts catalogue

Infomedia's stock is advancing on the road to recovery after the surprise resignation of Jonathon Rubinsztein in October, who has ended up at embattled ASX listed data specialist Nuix (NXL). At its interim result, the car parts catalogue specialist upgraded its FY22 revenue guidance slightly to $119-123m and delivered a better than expected interim dividend of 2.25 cents (70% franked). Then last week it announced a CEO, Jens Monsees, who has impressive credentials, having been BMW's chief digital officer and Automotive Industry leader at Google. Most recently, he was CEO of the Australia & New Zealand branch of advertising group WPP. He commences on 23 May 2022.

We downgraded our buy recommendation to hold and took the stock off our Best Buys in our Research Rundown last year (Issue 464, 16 Sep 2021) at $1.65, which was just prior to the selling in the stock in October. Not taking profits isn't a bad thing because IFM is a quality company and share price weakness we regard as a buying opportunity.

Infomedia is a niche business and it generates subscription or recurring revenues. The company provides software for auto parts, spares and data analytics for dealer networks across the world to access car parts catalogues (EPCs). Earnings are set to grow through acquisitions, which include the mid-2021 A$58m purchase of SimplePart, and the transition to a one stop shop Software as a Service (SaaS) delivery platform called Next Gen.

Interim revenue was up 24% to $59m producing adjusted EBITDA of $25.9m, up 15%. Cash flow impressed, at the operating level up 19% to $20.3m, free cash flow (op cash flow minus capex) up 150% to $8.9m. The company has no debt and cash of $66.2m at 31 Dec. Revenue guidance at the upper limit implies growth, while margins are coming off slightly.

RADAR RATING: The company's dividend yield is stable because it is backed by long-term contracts and highly recurrent subscriptions. While there is some risk in re-renewals, there is a great deal of potential as quality gets rewarded. SPEC BUY.

RADAR RATING **SPEC BUY ▲**
(UPGRADE FROM HOLD)

ASX CODE **IFM**

CURRENT PRICE **$1.39**

MARKET CAP **$522M**

DIVIDEND YIELD **3.7%***

NET CASH **$97M**

Data as at initial coverage

DATE **13 JUNE 2013**

PRICE **$0.47**

*FY22 forecast 5.2 cents

INGENIA COMMUNITIES

Manufactured home community operator

We were cautious on Ingenia on valuation grounds in our last note, and the stock has now fallen 25% from its October peak, sufficient to pique our interest again. The interim result gave an opportunity to check the fundamentals after a big capital raise in November to fund acquisitions.

On revenue up 8%, EBIT was down 16% at $34m, for underlying EPS down 20% to 8.1 cents. A 5.2 cent interim dividend was up 4%.

Operating cash flow was down 35% at $38.9m, while investing cash flow was an enormous $571m. This included $263m for Seachange, a portfolio of six lifestyle communities acquired in late November, and the acquisition of Caravan Holidays, a portfolio of seven. These new assets, mainly funded by a $475m equity issue at $6.12, will contribute significantly to the second half result.

Construction risks and industrywide supply chain challenges persist, although strong second half home settlements are mainly locked in. INA settled 139 new home sales in the first half and expect to sell 335 more in the second, delivering full year growth of 20% towards targeted growth of up to 50% in annual home sales by FY24.

The company has $378m in credit facilities, of which it is spending $87m via the acquisition of 504 fully occupied homes in three villages in Victoria. There are a total of more than 100 villages in the portfolio, across different lifestyle and holiday segments, and about 15 projects in development.

FY22 guidance is for EBIT growth of 20-25% from $94m in FY21, and underlying EPS growth in the low to mid-single digits to near 25 cents, for a Price/Earnings multiple near 20 times. INA faces interest rate headwinds but is on our watchlist if there is another market fall. ■

RADAR RATING: The company's stable residential rental income, often supported by government pension payments, and strong latent post pandemic demand for domestic holiday accommodation makes INA our preferred stock in the sector, and the valuation is now more reasonable. HOLD.

RADAR RATING **HOLD**

ASX CODE **INA**

CURRENT PRICE **$5.19**

MARKET CAP **$2.1BN**

DIVIDEND YIELD **2.1%***

NET DEBT **$373M**

Data as at initial coverage

DATE **21 JANUARY 2013**

PRICE **$1.62**

*FY22 forecast 11 cents

MACQUARIE TELECOM

Data centre operator

MAQ has been a great stock for long-term subscribers, rising from around $5 after we first covered the stock in 2013 to current levels of $60, having reached $80 briefly at its high in September, when many thought the company could do no wrong. In the months since, while the company has continued to deliver against its plan, we were taking profits as the stock came back as expectations declined amid market uncertainty.

In the first half, revenue rose 4%, with Cloud Services up 18%, and Data Centre up 8% once again offsetting the continued decline in Telecom (down 7%). Data centres form the backbone of operating earnings with EBITDA rising 11% to $40.5m, delivering $38m operating cash flow. An increase in depreciation and amortisation led to a 48% fall in NPAT to $3.7m. Capital expenditure of $69m was down slightly but is still elevated. The investment has been mainly in Intellicentre 3 East (IC3E) at Macquarie Park, and a key customer's invoicing triggered by this investment will increase rapidly over the rest of FY22. IC3E is now fully committed,

RADAR RATING **HOLD** ▲
(UPGRADE FROM TAKE $$$)

ASX CODE **MAQ**

CURRENT PRICE **$61.82**

MARKET CAP **$1.3BN**

DIVIDEND YIELD **0%***

NET DEBT **$129M**

*FY22 forecast 0 cents

but IC3 Super West will provide substantial additional new capacity if approved, with construction and fit out expenditure to match over the next 2-3 years.

FY22 EBITDA is forecast to be a minimum of $85m, implying growth of 15%, while capital expenditure should moderate to just over $120m, two thirds of which is for growth.

On the valuation front, the cash flow multiple (EV/EBITDA) has come down to the mid-teens, still expensive by traditional measures, but EBITDA has shown seven years of consecutive growth, entirely from internal reinvestment, and growth is likely to accelerate. IC3 Super West will provide substantial additional new capacity and is forecast to come online over the next 2-3 years.

RADAR RATING: Macquarie Telecom is investing heavily in new data centre capacity for enterprise cloud computing. The quality of management and operating cashflow are both attractive, but the stock rose dramatically from pre Covid levels, so caution is recommended. HOLD.

Data as at initial coverage

DATE **12 AUGUST 2015**

PRICE **$6.51**

UNDER THE RADAR SMALL CAP PORTFOLIO UPDATE

Our main concern recently has been valuation. Based on the premium for management, we would love to upgrade. Given how febrile this war affected market is, our portfolio strategy might be to buy a few at $60, buy more if it hits $50, and go all in for a full sized position at $40.

MEDICAL DEVELOPMENTS INTERNATIONAL

Medical technology

The excitement of the news that MVP had finally cracked the US market, propelling its shares up $1 or 32% dissipated along with its share price once reality set in relating to the difficulties the company will face in its road to taking on that giant market.

The rise highlighted how important the lucrative market is and the FDA unconditionally lifting the agency's clinical hold and allowing Penthrox aka the green whistle to be tested in final stage trials. It is a positive that only 200 patients need to be trialled, the 2 year study duration on top of another 2 years spent registering means launch is not anticipated for another four years, in FY26.

The initial market MVP pointed to, based on narrow parameters, is for 4-5m patients and there is potential for an expanded label. This is a long way from previous estimates of a $1bn plus opportunity, which is a result of over 60m visits to ER for analgesia in any one year. Penthrox is in the position to save the US health system a great deal of money, considering the cost of a bed versus the cost in Australia of A$25m per use and Europe of slightly more than that at A$30.

RADAR RATING: You can easily get a valuation north of $7 for this stock but its business has received a big setback from Covid with much outdoor sporting activity ceasing during lockdown. The initial hype following the FDA decision underscores the potential in the stock. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **MVP**

CURRENT PRICE **$3.67**

MARKET CAP **$262M**

DIVIDEND YIELD **0%***

NET CASH **$28.3M**

Data as at initial coverage

DATE **14 MAY 2014**

PRICE **$1.18**

*FY22 forecast 0 cents

RESEARCH TIP UPDATES

10 MARCH 2022

LASERBOND

Surface engineering

Prior to the pandemic, LaserBond was poised to enter the high value markets of US, Europe and Asia with its proprietary products and technologies. With the lifting of international travel bans, the surface engineering specialist's expansion strategy is resuming.

LaserBond's end FY22 revenue target was cut to $35m from $40m due to Covid. It has now extended its strategic plan to 2025 year end, with a revenue target of greater than $60m, based on both acquisitive and organic growth, depending on normal conditions returning.

The company's most recent result was driven by products such as steel mill rolls and rotary feeders, which augurs well for the transformation. Services reported a small drop in earnings due to lockdowns and travel restrictions, although the outlook is positive for the remainder of FY22. For the six months to 31 December the company generated revenue of $13.4m, up 13.4% to produce operating earnings (EBITDA) of $3.4m, up 8.8% and NPAT of $2.5m, up 28%.

Future growth should also be boosted by its $9m acquisition of QSP Engineering, effective 31 January 2022. A fellow specialist in surface engineering but is instead focused on Queensland and northern NSW with over 40 years' experience.

RADAR RATING: Engineering technology group driven by strong R&D. High growth post Covid expected, with renewed access to international and local customers. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **LBL**

CURRENT PRICE **$0.87**

MARKET CAP **$95M**

DIVIDEND YIELD **1.5%***

NET CASH **$14.7M**

Data as at initial coverage

DATE **09 JULY 2020**

PRICE **$0.45**

*FY22 forecast 1.3 cents

PARAGON CARE

Medical equipment distributor

Paragon Care's interim result highlighted a turnaround in progress after the substantial hiatus on elective surgery due to Covid. But the numbers were secondary because the company changes significantly, being merged with fellow ASX listed med tech distributor Quantum Health from last month.

In the interim result, PGC improved underlying EBITDA by 20%, which excludes $3m from JobKeeper and was on a revenue decline of 3%. Profitability is improving, with gross profit margins at 42% (38.7% 1H21). A fully franked interim dividend of 0.6 cents was declared and in early April, ex Sigma Health CEO Mark Hooper will put his feet under the desk to head up the merged group.

Importantly, debt is not as big an issue as it has been for PGC in the past. The combined group has net debt of $60m, which is less than 2 times EBITDA, hence comfortably serviceable under normal conditions.

The group's margins instantly improve with the addition of Quantum and as we discussed in early February in our upgrade to spec buy, 03 Feb 2022 / Issue 483, there is now growth potential from cross selling and growth in Asia. On the valuation front the company looks good, even after the share price bump, trading on a forecast PE of sub-15 times and a dividend yield of 4%.

RADAR RATING **SPEC BUY**

ASX CODE **PGC**

CURRENT PRICE **$0.42**

MARKET CAP **$266M**

DIVIDEND YIELD **4%***

NET DEBT **$69M**

*FY22 forecast 1.7 cents

RESEARCH TIP UPDATES

XX 2021

RADAR RATING: This stock does have implementation risks with the merger between Paragon and Quantum, but it's not a complicated business. There is also extra growth potential from the manufacture of blood reagent products. SPEC BUY.

Data as at initial coverage

DATE **27 MAY 2021**

PRICE **$0.23**

SEVEN WEST MEDIA

Television and newspapers

When we first covered SWM in early in 2020 (02 Apr 2020 / Issue 389), the onetime commercial television market leader appeared to be facing an existential moment. We covered the stock three times in short succession when prices were 7-9 cents, with two specific positive recommendations, the second at 7.1c, when SWM was selling at less than one times historic underlying earnings. We started taking profits in November at $0.21, for a quick three bagger, and continued taking profits throughout the middle of last year.

The interim results now show a business on a far more stable footing, with earnings (EBIT) of $204m from continuing revenues of $820m (up 27%). Net debt reduced to pro forma $295m after the acquisition of Prime Television (PRT). Prime also delivered very nice returns for subscribers out of Covid, as the power of the traditional television business asserted itself for at least one last time despite the competition from digital advertising. SWM Management forecast FY22 EBITDA of $315-$325m including a first-time contribution from Prime. So not only was the stock selling at one times historic earnings, it was also selling at one times two year forecast earnings! Only in small caps!

Now that SWM has recovered its large company standing, we will cease coverage to concentrate resources on smaller companies that subscribers are more interested in. We still think the television business has more life left in it than had previously been estimated, but cost pressures will continue to increase. With the operating leverage inherent in a fixed cost business, some profitability hiccups are inevitable.

RADAR RATING: We recommended SWM twice as an accidental small cap tourist below 10c in April and May 2020. Since SWM is now a large company again, we are searching for other tourists who accidentally wander into our small cap universe. HOLD & CEASE COVERAGE.

RADAR RATING **HOLD** ▲
(UPGRADE FROM TAKE $$$)

ASX CODE **SWM**

CURRENT PRICE **$0.64**

MARKET CAP **$1.0BN**

DIVIDEND YIELD **0%***

NET DEBT **$117M**

Data as at initial coverage

DATE **02 APRIL 2020**

PRICE **$0.078**

*FY22 forecast 0 cents

RESEARCH TIP UPDATES

10 MARCH 2022

SPLITIT

Buy Now Pay Later provider

We returned to Splitit recently after the big decline in the stock in the past year, part of the BNPL meltdown. We were more cautious on Z1P, which has just announced its own acquisition of Sezzle (SZL) sending Z1P shares down hard even further. With a new CEO SPT is being given a makeover.

Active merchants increased 60% over last year to 1250. SPT gives merchants a way to improve conversion and Average Order Value. Merchants seem to like having multiple BNPL options. Larger retailers take time to onboard, so progress is slow. SPT's AOV remains above US$1000, and the number of active shoppers increased 43% to 330k. Management's focus is on the North American and UK markets. But Google Japan offered an opportunity for their white label service, delivering instalment payment functionality for the Google Pixel smart phone, which apparently went well.

Splitit is subscale, its Q4 cash burn was $3.6m ex an increase in merchant receivables, but it has built up a set of interesting partnerships with major brand names in a number of geographies, which together add up to something. The valuation is currently less than A$100m for a potential global business. And the customer base and transaction relationships should have a decent residual value if management do not accelerate growth.

The growth potential sits on the balance sheet. The company has net cash of US$43m net cash, defined as actual cash (US$29m) plus merchants receivables (US$81m) less debt payable ($66m). Debt facilities currently support up to US$650m total MSV. Since the run rate is already over US$500m, additional facilities will be required to sustain growth.

RADAR RATING: : Splitit is an interesting speculative stock in the BNPL sector with a differentiated strategy that has some appeal, but the business is subscale. Keep positions small, since cash outflows remain too high for comfort. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **SPT**

CURRENT PRICE **$0.17**

MARKET CAP **$470M**

DIVIDEND YIELD **0.0%***

NET DEBT **US$37M (A$50.9M)**

Data as at initial coverage

DATE **14 APRIL 2019**

PRICE **$1.23**

*FY22 forecast $1.23

UNDER THE RADAR SMALL CAP PORTFOLIO UPDATE

As reported, the Under the Radar Report Portfolio added a further 6000 SPT shares at 18 cents on February 25. It is still a small position (10,000 total).

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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