Small Cap
Dividend Portfolio

January 2025

5% average dividend yield

under the radar
REPORT

Small Cap Dividend Portfolio

We release 2 new dividend Portfolios each year. They are designed by our team to give you income and growth through carefully selected Quality Small Companies. The average dividend yield of these stocks is 5%.

3 takeouts to get your portfolio firing in 2025 and beyond!

1. The big advantage individual investors have is patience.
We don't have to report to unit holders every three months and we can hold onto stocks for as long as we like. We like to let our winners run, yes, but we also like to hold onto under performers.

This is one reason our Small Cap Dividend Portfolios have done so well, delivering annual returns of 20% plus over the past few years, more than double the market, which for us is the S&P/ASX All Ords Index.

There are so many stocks that have become giants in our portfolios that were minnows for lengthy periods. For a number of years **Superloop (SLC)** wasn't delivering, then last year the telco network specialist climbed three-fold in the past 12 months.

There have been many more examples of this, Under theRadar. Think **Codan (CDA)**, think **Avita Medical (AVH)**, think **MacquarieTechnologies (MAQ)**, **Austal (ASB)**, **Neuren Pharma (NEU)**… I could go on.

2. The second point is that you cannot go broke taking a profit.
This sage advice came from my Poppa and has held me in good stead. When a stock does really well, it's a good idea to take your costs out and let your profits run. This frees up your mind and your capital! You can look for more growth stocks.

3. Use 2025 to keep building up your portfolio's quality.
A good indicator of value is profitability. Dividends indicate that a company is making profits, because you can't pay them otherwise. You don't invest on the basis of dividends, but they do generate confidence, which is what you need to combat uncertainty.

Richard Hemming
Founder and Head of Investments

A bonus piece of advice is to invest in what you know and understand. If it seems too much of a leap of faith when coming to terms with a business model, then leave it. There are so many Small Cap fish in Under the Radar's sea and our team is always available to answer your questions. From all our team at Under the Radar, have a happy and prosperous 2025.

Please note: All prices & recommendations as @1.1.2025

SMALL CAP DIVIDEND PORTFOLIO

Find out about 12 of our favourite Small Cap Dividend Payers, with an average yield of 5.0%

ACROW FORMWORK (ACF) — SPEC BUY

INDUSTRY	CONTRACTOR
MARKET CAP	$334M
DIVIDEND/SHARE	$0.060
DIVIDEND YIELD	5.5%
PRICE@ 01/01/2025	$1.10
NET CASH/DEBT	$68.9M
RISK RATING	4

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Provider of formwork, industrial access and commercial scaffolding. In mid November reported a pipeline of $198m, 5% in 3.5 months. FY25 revenue is forecast at $273m and operating earnings (EBITDA) of $85m, up 14%. Tailwinds from infrastructure construction and competitive edge its engineering team. The shares continue to be attractively priced relative to its peers, trading on a forward PE of around 8 and an EV/EBITDA ratio of 6.

AUSWIDE BANK (ABA) — SPEC BUY

INDUSTRY	LENDER
MARKET CAP	$250M
DIVIDEND/SHARE	$0.260
DIVIDEND YIELD	5.4%
PRICE@ 01/01/2025	$4.85
NET ASSETS	$290M
RISK RATING	4

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Has returned 22% since our upgrade to spec buy in September but we still like this Queensland-based bank, about to merge with Tasmania's MyState (MYS). The merger gives ABA shareholders just over a third of the new company, whose creation has been delayed by APRA until early next year. We see significant growth from the merger, which benefits ABA more, being the junior partner. This means dividend growth.

CENTREPOINT ALLIANCE (CAF) — SPEC BUY

INDUSTRY	WEALTH
MARKET CAP	$67M
DIVIDEND/SHARE	$0.020
DIVIDEND YIELD	6.0%
PRICE@ 01/01/2025	$0.34
NET CASH/DEBT	$9M
RISK RATING	4

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Already the fourth largest domestic adviser business and is expanding through a new superannuation platform, IconiQ, which allows CAF to push its managed portfolios. The group has a track record of paying dividends. FY25 EBITDA guidance of $10m implies dividends will continue. The acquisition by COG Financial (COG) of 19.9% offers takeover potential. Financial risks contained by a steady business and a strong balance sheet.

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DATA3 (DTL) — HOLD

INDUSTRY	SERVICES
MARKET CAP	$990M
DIVIDEND/SHARE	$0.260
DIVIDEND YIELD	4.1%
PRICE@ 01/01/2025	$6.39
NET CASH/DEBT	$276.4M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Share price weakness provides an opportunity to buy this dividend delivering IT services heavyweight. The growth might be slowing, but it's still growth and is underpinned by big spending from its corporate customer base, as they beef up cyber security and AI functionality. A substantial component of its business is relatively low-margin software sales, but 67% of revenue comes from recurring contracted payments. We think DTL is a core portfolio holding.

ELDERS (ELD) — BUY

INDUSTRY	FOOD
MARKET CAP	$1262M
DIVIDEND/SHARE	$0.360
DIVIDEND YIELD	5.0%
PRICE@ 01/01/2025	$7.16
NET CASH/DEBT	-$437M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Operating earnings in FY24 (y/e 30 Sep) down 43% due to livestock prices, despite improving lamb price plus market share gains in fertiliser. Dividends were down 10 cents at 36 cents on prior year. Overshadowing this was the $475m acquisition of Delta Agribusiness. Elders is exposed to a broad and diverse range of agricultural inputs, and a cyclically depressed share price offers an opportunity to buy at a higher potential yield. The stock is trading below the price of the $7.85 equity raise for Delta. The yield of 5% based on a flat FY25 dividend (not fully franked) is good value if the company can return to growth.

EMBARK EARLY EDUCATION (EVO) — SPEC BUY

INDUSTRY	RETAIL
MARKET CAP	$141M
DIVIDEND/SHARE	$0.060
DIVIDEND YIELD	7.8%
PRICE@ 01/01/2025	$0.77
NET CASH/DEBT	$16M
RISK RATING	4

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Operates childcare centres, having acquired seven more in August for $20m; now has 36 centres. Demand is high and earnings are improving, despite difficulties obtaining staff. Acquisitions are the growth strategy. Shareholders receive 1.5 cent dividends every quarter. The company trades on low PE of 9.

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EVOLUTION MINING (EVN) — BUY

INDUSTRY	GOLD
MARKET CAP	$9552M
DIVIDEND/SHARE	$0.150
DIVIDEND YIELD	3.1%
PRICE@ 01/01/2025	$4.81
NET CASH/DEBT	-$1520M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

A large domestic gold miner and a low cost producer with a portfolio of long life assets. Also a copper producer, a third of revenue. FY25 gold production forecast at 745k ounces at a cost of $1,525/ounce. Copper production guidance is 75k tonnes. Track record of paying dividends. Attractively priced on a forward PE of 14.5 times.

HANSEN TECHNOLOGIES (HSN) — BUY

INDUSTRY	SOFTWARE
MARKET CAP	$1089M
DIVIDEND/SHARE	$0.100
DIVIDEND YIELD	1.9%
PRICE@ 01/01/2025	$5.35
NET CASH/DEBT	-$24.5M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Yield should increase steadily led the Powercloud acquisition. The challenge will be to deliver reliable earnings growth through contract success. HSN is forecasting FY25 EBITDA of close to $100m. Customers are large utilities but single customer represents more than 8% of revenue, and the business is diversified by industry exposure and by geography, with 11 new contracts in FY24. A 10% increased full year 11 cents dividend would cost about $22m.

HELLOWORLD TRAVEL (HLO) — SPEC BUY

INDUSTRY	RETAIL
MARKET CAP	$315M
DIVIDEND/SHARE	$0.110
DIVIDEND YIELD	5.6%
PRICE@ 01/01/2025	$1.96
NET CASH/DEBT	$113M
RISK RATING	4

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Reliable earnings, even though demand is cyclical. Over 10,000 advisors catering for travel demand, which has not abated. A track record of dividends; the FY24 payout ratio from net earnings was 60%. A historic price/earnings valuation of around 10x, with net cash and other investments, is cheap, even if HLO's growth stalls as consumer discretionary spending pressures impacted revenue growth and may herald an earnings plateau after both underlying EBITDA and EPS growth of 50% in FY24.

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INFOMEDIA (IFM) — HOLD

INDUSTRY	SERVICES
MARKET CAP	$579M
DIVIDEND/SHARE	$0.050
DIVIDEND YIELD	3.2%
PRICE@ 01/01/2025	$1.54
NET CASH/DEBT	$70M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

We backed off our buy recommendation at higher levels but the stock has come back and it looks very good value. Recent earnings have our faith in the car parts catalogue specialist. The yield isn't big but the earnings certainty is high, the major component coming from subscriptions. The company also has net cash and produces large amounts of cash with relatively low investment requirement.

NZME (NZM) — BUY

INDUSTRY	MEDIA/ADVERT
MARKET CAP	$185M
DIVIDEND/SHARE	$0.074
DIVIDEND YIELD	7.5%
PRICE@ 01/01/2025	$0.99
NET CASH/DEBT	-$27.7M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

A market leader in radio, newspapers and digital property which earns reliable revenues from major advertisers as well as subscription and other digital income. Earnings have been flat for some years, but ample cash flow has repaid substantial debt means NZM pays healthy dividends. In early December, a trading update reported revenue growth of 5% for the quarter. Cost reductions have been implemented and second half operating earnings (EBITDA) are forecast at $57m, minimal growth over FY23. A payout ratio of 65% of free cash flow should deliver shareholders a NZ9 cent dividend (A8 cents).

XRF SCIENTIFIC (XRF) — SPEC BUY

INDUSTRY	CONTRACTOR
MARKET CAP	$274M
DIVIDEND/SHARE	$0.044
DIVIDEND YIELD	2.3%
PRICE@ 01/01/2025	$1.95
NET CASH/DEBT	$10.4M
RISK RATING	4

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

The mining services group provides mineral testing services and produces consistent earnings per share and dividend growth. This is driven both internally and by acquistion. In November the group acquired Labfit, a manufacturer of carbon sulphur and pH analysers. Trades on a reasonable cash flow valuation multiple and has an outstanding return on capital employed at over 23%.

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

WARNING: This publication is general information only, which means it does not take into account your investment objectives, financial situation or needs. You should therefore consider whether a particular recommendation is appropriate for your needs before acting on it, and we recommend seeking advice from a financial adviser or stockbroker before making a decision.

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