under the radar report
SMALL CAPS

ISSUE 585
01 FEBRUARY 2024

NEW STOCKS RETURN 29%

Retail investors have a key advantage over institutions, which is highlighted by the 30% plus gain in Ainsworth Game Technology (AGI) since we recommended it only 6 months ago. Where the amount of tradeable stock is limited by a controlling shareholder, institutions often aren't interested. This is what following Under the Radar Report's Small Cap recommendations is about – investing in stocks before institutions. We have backed stocks like this numerous times, including Macquarie Technology (MAQ) where our return over the years has been well over 800%! Not many, if any, fundies can boast this. As an individual investor you really can be in it for the long-term, which is where the bulk of investment returns are made.

The importance of investing in small caps is evident as stocks spike on good news, because so much bad news is priced in. Online retailer **Kogan (KGN)** climbed 30% in three days on evidence that its turnaround is working with improving profitability.

The stock of the week, **Mach7 Technologies (M7T)** remains relatively early in the business life cycle, which is why it's being ignored. But make no mistake, this business is maturing quickly and we are seeing evidence. Check it out!

We first recommended Mach7 in June 2022 and since then we have placed Spec Buys on 16 NEW Small Caps, which is just under one a month. Our average return has been 28.8% and 10 of the stocks have delivered positive returns. The big winners include **Gentrack (GTK)** and **Articore (ATG)** – called Redbubble (RBL) when we tipped it – which are also technology-related. The average return includes significant falls in **Arafura Rare Earths (ARU)** and nickel developer **Centaurus Metals (CTM)** which have been hit by commodity price weakness.

A big point is that our investment team consistently finds ways to profit from Small Cap stocks; the other big point is that the wins (being unlimited) significantly outweigh the losses (being limited to the amount you invest).

Next week we're introducing another new stock and we anticipate a plethora of buy recommendations coming out of the upcoming reporting season. Our team is excited by the opportunities to grow your portfolio in 2024.

Richard Hemming
Head of Investments

the issue

STOCK OF THE WEEK

MACH7 TECHNOLOGIES (M7T)	SPEC BUY

RESEARCH TIP UPDATES

AGI downgrade from Spec Buy to Hold.

AINSWORTH GAME TECHNOLOGY (AGI)	▼ HOLD
CITY CHIC COLLECTIVE (CCX)	HOLD
DAMSTRA (DTC)	HOLD
KOGAN.COM (KGN)	HOLD
LOTUS RESOURCES (LOT)	SPEC BUY
NORTHERN STAR RESOURCES (NST)	SPEC BUY

SUBSCRIBER PICKS

These are the stocks subscribers ask us about. We run our investment ruler over them and give you our Radar Diagnosis.

BEST STOCKS TO BUY

The stocks on this list are quality companies that we believe offer great return potential for the risk faced.

Ainsworth Game Technology (AGI) remains a big company in a small cap with 85% of revenue from offshore and increasing recurring revenues.

Under the Radar Report

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MACH7 TECHNOLOGIES

SECTOR MEDICAL TECHNOLOGY **INDUSTRY** MEDICAL TECHNOLOGY

Stock of the Week

Mach7's shares have been treading water in the past six months, but the business is building in strength, highlighted by a trading update last week and the second quarter business update yesterday.

The medtech specialises in taking all of a hospital's data – including images – and putting it into one place, for the benefit of all users, at all times and in any location. Its June 2020 acquisition of Canadian group Client Outlook (eUnity product) increased scale and capability in both database technology for large hospitals as well as enterprise image solutions.

The business model is transitioning from one where the customer purchased the capital equipment and software upfront to the software as a service model. This change was highlighted by the update, which showed an acceleration. M7T is increasingly being paid in instalments, which reduces upfront revenues because they amortise over the life of the contract, often over 5 years.

This business model is favoured by most software vendors, in particular, the much bigger **Pro Medicus (PME)** and underpins valuations because the earnings are more reliable.

M7T guided to contracted revenues (CARR) up 30% in the six months to 30 June at $26.8m, while actual billable recurring revenues (ARR) were up 9% at $18.6m. The company is on track to be cashflow positive in FY24. The following year will be boosted by large contracts being billable, which include the US Veterans Affairs contract worth $12m in the short-term by $12m and possibly over the longer term up to $48m. There is also the new contract M7T announced with Sentra Healthcare, worth $10.2m.

With lower capital contributions over FY24, guidance is for a 19% fall in recognised revenue in the first half to $13.3m ($9.9m recurring, $3.4m capital sales). Full-year revenue is expected to be $27-30m, versus previous expectations of over $35m.

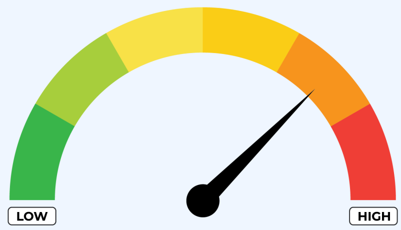
A big positive from the announcement is that the sales order book was almost double last year's level at $49.5, which is the lead indicator of contract growth. FY24 expectations now sits at $60m.

Another boost to our confidence is the company's cash on hand, which has climbed to $22.7m at the end of last year. Momentum is building.

RADAR RATING: Mach7 is growing in maturity as it embraces the subscription business model, delaying the benefits of operating leverage, but increasing them over time. The stock is growing off a very small base and it's easy to generate a cashflow-based valuation of over $1.30.

RADAR RATING: **SPEC BUY**

RISK RATING



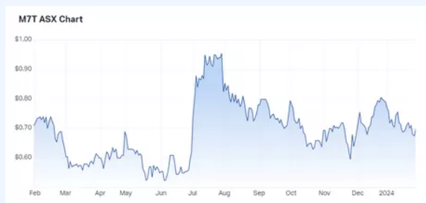
ASX CODE **M7T**

CURRENT PRICE **$0.69**

MARKET CAP $163M

DIVIDEND YIELD 0%*

NET CASH ($M) 22.7M



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PRICE ($) 0.61

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AINSWORTH GAME TECHNOLOGY

SECTOR TECHNOLOGY **INDUSTRY** GAMING

Research Tip Update

Downgrade from Spec Buy

We first recommended Ainsworth Game Technology just over six months ago (Issue 553) shortly before its interim result. We reiterated our spec buy rating a few months late at $1.01, since when the stock has returned well over 30%. The buying started in early November after the appointment of Macquarie to review strategic alternatives and has continued despite no expressions of interest. The 52% Austrian shareholder, Novomatic, is the obvious candidate and could easily fund a take-over with debt.

AGI issued a trading update just before Christmas confirming an adjusted profit before tax of $18m for the second half, delivering $41.3m for FY23 to 31 December. The result will be released on 28 February. Further information about a possible deal will come at that time, which gives subscribers who took advantage of our recommendation something to look forward to.

We have emphasised the gaming group's expenditure on R&D and product development, which is starting to bear fruit. Success in the US with Historical Horse Racing products generates recurring income and has been a key driver. A new gaming cabinet ready for installation in the new year offers further growth potential.

AGI remains a big company in a small cap with 85% of revenue from offshore and increasing recurring revenues.

After a strong performance since the media speculation of a transaction, AGI is now valued on a post-tax price-earnings ratio in the low to mid double-digits, so the deal premium on the current price might be limited. We are forecasting no FY23 dividend. Depending on the size of their stake, subscribers might opt to take some profits around the results as liquidity improves. We have downgraded to Hold after this move, but underlying fundamentals justify our continued interest.

RADAR RATING: We identified that AGI was cheap on its fundamentals despite delivering double-digit earnings growth, and the stock has surged after the board appointed Macquarie to look at strategic options. AGI is 52% controlled by Austrian gaming giant, Novomatic.

RADAR RATING: **HOLD**

RISK RATING

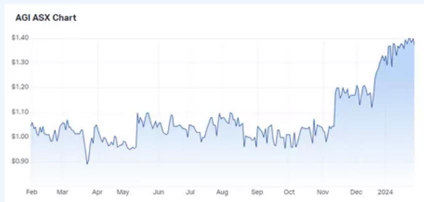
ASX CODE **AGI**

CURRENT PRICE **$1.37**

MARKET CAP $461M

DIVIDEND YIELD 0%*

NET CASH ($M) 24.6M



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CITY CHIC COLLECTIVE

SECTOR RETAIL **INDUSTRY** FASHION RETAILER

Research Tip Update

Last week's note highlighted how City Chic's management is effectively steadying the ship, prioritising profit over volume and has cleared inventory in Australia and this is happening in the US, albeit later due to differing seasonality.

This week it appears that investors are taking note, with discussions taking place around the purchase of its North American business – the revelation has sent CCX over 26% higher. Around half the company's revenues come from this business.

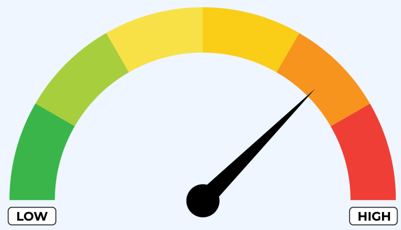
The obvious party of interest is the US plus-sized fashion competitor Torrid, which is owned by the private equity company Sycamore Partners. Another is Australia's retail pac-man Brett Blundy, who owns a 9.9% stake.

A trading update accompanied CCX's confirmation of corporate interest and highlighted that the turnaround is indeed on track, with first-half (1H24) sales down 29% to just under $106m, while profitability is improving with gross profit margin up 10 percentage points in the most recent quarter to 31 December against the prior. CCX is forecast to be profitable at the operating level (EBITDA) in the current half (2H24), but loss-making for the year overall.

RADAR RATING: The fashion retailer's stock is approaching fair value, based on its one year ahead P/E ratio of close to 20 times. The stock has come from such depths that we think it reasonable to hold on.

RADAR RATING: **HOLD**

RISK RATING



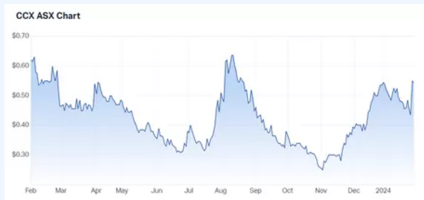
ASX CODE **CCX**

CURRENT PRICE **$0.562**

MARKET CAP $106M

DIVIDEND YIELD 0%*

NET CASH ($M) 10.9M



DATA AS AT INITIAL COVERAGE:

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PRICE ($) 0.60

Forecast 0 cents

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DAMSTRA

SECTOR SERVICES **INDUSTRY** WORKPLACE

Research Tip Update

Damstra finally secured the deal that has been in the works for the past five months. The takeover price has been reduced to 24 cents from the 27c proposed at the beginning of due diligence. But it still delivers a 140% premium over the price prior to the approach.

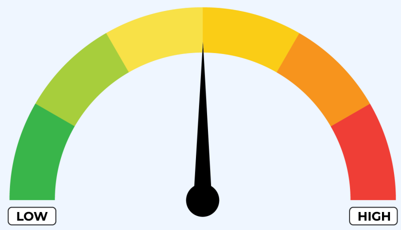
Under the Radar's small cap portfolio made several investments and will show a small loss overall, but we are particularly pleased that we continued to invest to bring the average price down, and that we were sufficiently exposed if and when a recovery came. Recovery in the form of a takeover can happen overnight.

While the takeover price is only a fraction of the DTC price at the top of the software as a service boom, the business itself had returned to growth, reduced costs dramatically, and reported positive operating earnings (EBITDA) and free cash flow. A hurdle may have been Damstra's $19m in corporate debt.

RADAR RATING: DTC has agreed to a takeover at a discounted 24 cents. Profitability had dramatically improved through cost cuts and a resumption in revenue growth, but the takeover price reduced from the first offer reflects a weak balance sheet.

RADAR RATING: **HOLD**

RISK RATING



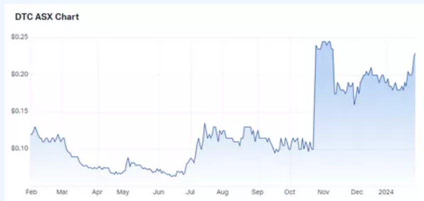
ASX CODE **DTC**

CURRENT PRICE **$0.23**

MARKET CAP $59M

DIVIDEND YIELD 0%*

NET DEBT ($M) -10.1M



DATA AS AT INITIAL COVERAGE:

DATE 31 DECEMBER 2020

PRICE ($) 1.35

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KOGAN.COM

SECTOR RETAIL **INDUSTRY** ONLINE RETAILER

Research Tip Update

Kogan released a trading update, confirming its return to profitability and tight working capital management, although growth was patchy and prompting a 30% spike in the stock. KGN's earnings compare favourably with competitors, including Wesfarmers-owned Catch and Woolworths-owned MyDeal.

KGN has transformed its business with a skew towards platform sales and the consequent reduced working capital. Kogan Marketplace enables third parties to sell through its platform. The contribution of platform sales of the total has climbed from 38% in FY21 to 63% in the most recent half (1H24). The company is now generating positive operating earnings, which was not the case a year ago.

Even so, Marketplace gross sales declined 9% in the first half (1H24). Elsewhere exclusive and third-party brands both fell more than 20% over the 1H23. The NZ business Mighty Ape was flat.

Gross profit in 1H24 increased 42% to $92m, which is very impressive, given the sales declines (which occurred in the wake of inflation). It must be noted that 1H23 was the period of maximum discounted sales to reduce inventory, so gross profit margins were always going to rebound.

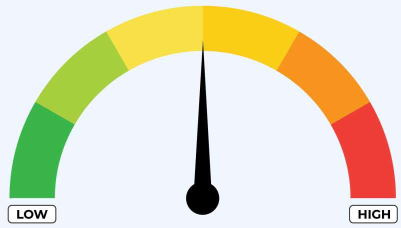
Kogan Mobile and Kogan First more than doubled revenue. Advertising revenue of $1.3m was highlighted, coming from an extremely low base and can be expected to grow half on half for the next 3-4 years. Reliance on a smaller number of more active customers is more profitable, but ultimately a business needs new customers to grow.

The balance sheet remains strong, with $83m cash, after a $17m share buyback and a final $10m payment for Mighty Ape. Inventory was reduced to $68m, down 30% on December 2022. Based on operating earnings, KGN's valuation reduced to a single-digit enterprise value to EBITDA ratio before the sharp rise on this news. We remain positive.

RADAR RATING: Kogan is turning around its business and is much more efficient. But macro headwinds will dampen prospects and the stock has spiked 30% in a few days.

RADAR RATING: **HOLD**

RISK RATING



ASX CODE **KGN**

CURRENT PRICE **$5.79**

MARKET CAP $587M

DIVIDEND YIELD 0%*

NET CASH ($M) 83M

DATA AS AT INITIAL COVERAGE:

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LOTUS RESOURCES

SECTOR MINING **INDUSTRY** URANIUM MINING

Research Tip Update

Lotus has been a bit of a roller coaster since we first recommended it due, principally to difficulties in getting to production in the South East African country Malawi. We are happy to say that momentum is now well and truly in its favour.

The company is now the third largest uranium company by resource on the ASX with two uranium projects following the October acquisition of Acap. LOT's flagship Kayelekera operation in Malawi is on target to restart in late 2025, while the Acap Letlhakane project in Botswana (Southern Africa) is at an earlier stage, a scoping study due later this year.

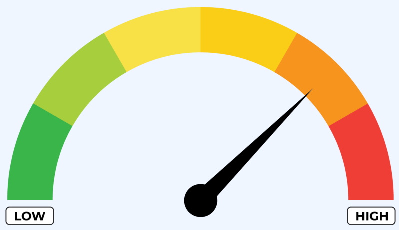
For Kayelekera, LOT is in the process of finalising the project costs with respect to financing and offtake, power supply and tariffs and engineering design (FEED). LOT says it has received an increased volume of enquiries from North American utilities in order to meet future demand.

Based on mine planning, beneficiation test results and selected processing route, the company preparing a scoping study or a Preliminary Economic Assessment for Letlhakane, targeted for completion in late 2024.

RADAR RATING: Production starts at Kayelekera (Malawi, Africa) in late 2025, taking advantage of stronger uranium prices Second project at Letlhakane (Botswana) increases critical mass and long-term production continuity with utility customers.

RADAR RATING: **SPEC BUY**

RISK RATING



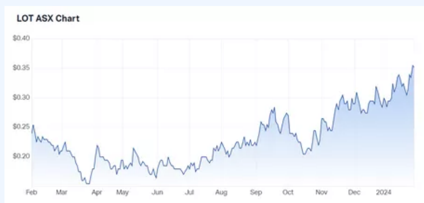
ASX CODE **LOT**

CURRENT PRICE **$0.355**

MARKET CAP $584.1M

DIVIDEND YIELD 0%*

NET CASH ($M) 13.5M



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PRICE ($) 0.32

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NORTHERN STAR RESOURCES

SECTOR GOLD MINING **INDUSTRY** DIVERSIFIED GOLD MINER

Research Tip Update

Northern Star has been a favourite of ours for many years now because the company can internally fund its growth through a pipeline of gold projects. Right now that is principally the Kalgoorlie Super Pit-based KCGM in WA. NST's ownership of 100% of KCGM is the big driver of growth.

The ownership of KCGM allows the flexibility that is almost unparalleled in the sector and is the result of the merger with Saracen back in 2021. FY24 production guidance is for 1,675k ounces (mid-point) at a cost (AISC) of $1,824/oz, which compares to the current price of gold of over A$3,000/oz. Annual production of 2m ounces is anticipated by FY26, increasing to 2.25m ounces by FY29.

In the current March quarter (3Q24) operational momentum accelerated at KCGM with partial access successfully re-established to the high-grade Golden Pike North area which increased the overall headgrade to the mill by 17%. Full access is scheduled by FY25.

The optimisation of mining at KCGM involves a substantial increase to the capacity of its processing circuit, centred on the Fimiston Processing Plant which will increase from 13m tonnes a year to 27m tonnes a year. Production at KCGM is expected to increase from a recent run rate of 450k ounces a year to 650k ounces a year by FY26 and doubling to 900k ounces a year from FY29 following a 2-year ramp-up (FY27-FY28) after completion of the mill expansion.

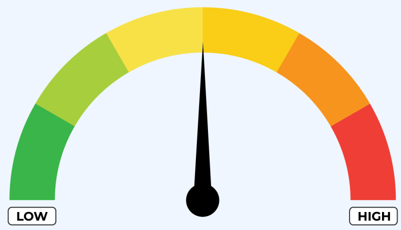
At the company's Yandal production centre, north of Kalgoorlie, milling throughput at the Jundee mill was at a 3.2m tonnes a year rate in December 2023, which was above its nameplate capacity of 3.0m tonnes a year. At the Thunderbox mill, work associated with increasing availability is expected to continue in 2H24 and deliver enhanced long-term performance. The establishment of the Wonder underground mine will provide high-grade feed to the expanded Thunderbox mill. Production at Yandal is planned to increase by 20% to 600k ounces a year.

At the Pogo mine in Canada, a record annualised nameplate capacity of 1.4m tonnes a year was achieved in 3Q24. The focus remains on delivering higher grade to the mill. Exploration at Pogo extended the mineralised footprint of the Star discovery, which is just 1.3km south of the mine. Gold production is trending to a 300k ounce a year rate, up 15%.

RADAR RATING: Focussed primarily on the Kalgoorlie gold region, WA, with prospective assets that include 100% of the globally significant KCGM operation. Pipeline of funded projects driving strong organic growth from existing owned assets.

RADAR RATING: **SPEC BUY**

RISK RATING



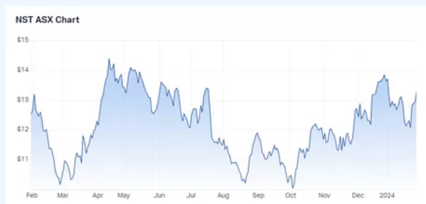
ASX CODE **NST**

CURRENT PRICE **$13.16**

MARKET CAP $14.81BN

DIVIDEND YIELD 2.5%*

NET CASH ($M) 238M



DATA AS AT INITIAL COVERAGE:

DATE 14 JUNE 2012

PRICE ($) 0.83

**Forecast 32 cents*

Subscriber Picks

These are the stocks subscribers ask us about. We run our investment ruler over them and give you our Radar Diagnosis.

COMPANY	ASX CODE	DESCRIPTION	MARKET CAP ($M)	NET CASH / DEBT($M)	ENTERPRISE VALUE ($M)	LATEST PRICE ($)*	12-MNTH HIGH ($)	NOTES	RADAR DIAGNOSIS
AERIS RESOURCES	AIS	Copper miner	101.6	10.5	91.1	0.11	0.75	Originally focussed on the difficult Tritton copper mine, NSW and now has 5 projects. In FY23, generated EBITDA of $32.0m but reported a net loss of $139.8m due to depreciation and finance expenses. The Tritton mine forecasts FY24 production of 19-24k tonnes copper but costs were a high. Cracow (Queensland) is a small gold mine, as is Mt Colin (Queensland) but in copper. Recent $30m equity raisings to bolster options, but may need more funds for reopening of Jaguar.	Has net cash but no pathway to consistent profitability that is evident. AVOID.
DEEP YELLOW	DYL	Uranium developer	1108.4	25.2	1083.2	1.45	1.59	Two advanced, long life uranium projects. Tumas in Namibia; Final Investment Decision expected by June; target production 3.6m lbs/year, which is in line with second tier producers; first production in 2026. Mulga Rock (WA) has target production of 3.5m lbs/year from 2028. Less advanced projects at Alligator River (NT) and Omahola Basement, Namibia.	CEO John Borshoff was the founder of Paladin Energy but first production still over 2 years away. WATCHLIST.
PENINSULAR ENERGY	PEN	Uranium producer	235.1	12.5	222.6	0.12	0.2	Has developed Lance uranium project, Wyoming, US, previously operated 2016-2019. Production targeted for later this year, though small at 2.0m lbs a year over 10 years. Costs are relatively high and company is raising US$60m equity to fund development.	Shareholders have approved a $50m placement and $10m SPP. WATCHLIST.
WILDCAT RESOURCES	WC8	Lithium developer	484.3	94.2	390.2	0.41	1.01	The Tabba Tabba lithium project in WA was acquired from private US owner Global Advanced Metals, the world's largest tantalum supplier. Wildcat has maintained an agressive drilling programme and announced a major discovery in September. Ongoing drilling has returned many significant intersections. Wildcat recently completed a $100m placement. The acquisition of a 19.8% stake by Mineral Resources (MIN).	Cashed up for drill programme at Tabba Tabba, which has Tier 1 lithium resource potential. Investor sentiment down due to recent low lithium prices. WATCHLIST.

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BEST STOCKS TO BUY

The stocks on this list are quality companies that we believe offer great return potential for the risk faced.

ACROW FORMWORK (ACF) — SPEC BUY

INDUSTRY	**CONSTRUCTION SERVICES, MAINTENANCE AND INSTALLATION CONTRACTOR**	Diversified industrial scaffold and formwork group with engineering design capability to win higher value add jobs. Earnings upgrades have been a recent feature. Strong exposure to strength in infrastructure projects. High yield.
MARKET CAP	**$286M**	
DIVIDEND YIELD	**4.8%**	
12 MONTH HIGH	**$1.11**	
PRICE @ 2024-01-31	**$1.05**	

ALLIANCE AVIATION (AQZ) — SPEC BUY

INDUSTRY	**CONTRACT AVIATION SERVICES**	Alliance has increased its flying hours and contracted revenue dramatically through the deployment of acquired aircraft. Growth in revenue from wet leases (with crew) to Qantas, and existing FIFO contracts, should deliver substantial FY24 and FY25 earnings growth.
MARKET CAP	**$529M**	
DIVIDEND YIELD		
12 MONTH HIGH	**$3.65**	
PRICE @ 2024-01-31	**$3.29**	

BOSS ENERGY (BOE) — SPEC BUY

INDUSTRY	**URANIUM MINING, MINING SERVICES**	First uranium production from Honeymoon imminent, providing exposure to rising uranium prices. Acquisition of Alta Mesa stake means Boss will become a multi-mine uranium producer with a foothold in the US uranium industry.
MARKET CAP	**$2268M**	
DIVIDEND YIELD		
12 MONTH HIGH	**$5.67**	
PRICE @ 2024-01-31	**$5.55**	

CLOVER CORP (CLV) — SPEC BUY

INDUSTRY	**MANUFACTURING, MEDICAL TECHNOLOGY, DRUG DEVELOPER**	Clover has disappointed more recently, as growth in demand for their key infant formula ingredient DHA, has been lumpy despite regulatory tailwinds internationally. Long-term contracts support revenues, delivering consistent profitability from long term cyclical revenue growth.
MARKET CAP	**$134M**	
DIVIDEND YIELD	**1.9%**	
12 MONTH HIGH	**$1.47**	
PRICE @ 2024-01-31	**$0.8**	

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BEST STOCKS TO BUY

INTEGRATED RESEARCH (IRI) — SPEC BUY

INDUSTRY	**IT SERVICES, CLOUD**
MARKET CAP	**$54M**
DIVIDEND YIELD	
12 MONTH HIGH	**$0.67**
PRICE @ 2024-01-31	**$0.31**

Integrated Research is combatting competitive threats from cloud services to its on-premise solutions. The market has ongoing doubts, but we think IRI products remain valued by blue chip customers.

LASERBOND (LBL) — SPEC BUY

INDUSTRY	**MANUFACTURING, SURFACE ENGINEERING**
MARKET CAP	**$92M**
DIVIDEND YIELD	**2.0%**
12 MONTH HIGH	**$0.94**
PRICE @ 2024-01-31	**$0.84**

Laserbond's technology, R&D support and the benefits to its customers are driving growth. Defensive characteristics as its products save customers money. The company has a target to double revenue from the FY22 level over 3 years.

MACH7 TECHNOLOGIES (M7T) — SPEC BUY

INDUSTRY	**HEALTH CARE, MEDICAL TECHNOLOGY**
MARKET CAP	**$170M**
DIVIDEND YIELD	
12 MONTH HIGH	**$0.99**
PRICE @ 2024-01-31	**$0.71**

Mach7 is growing in maturity as it embraces the subscription business model, delaying the benefits of operating leverage, but increasing them over time. The stock is growing off a very small base and it's easy to generate a cashflow based valuation of over $1.30.

NZME (NZM) — SPEC BUY

INDUSTRY	**MEDIA, NEW ZEALAND NEWSPAPERS AND RADIO**
MARKET CAP	**$172M**
DIVIDEND YIELD	**8.0%**
12 MONTH HIGH	**$1.12**
PRICE @ 2024-01-31	**$0.94**

An FY23 (y/e Dec) forecast cash flow multiple (EV/EBITDA) in the low single digits is still cheap, on relatively stable earnings which should be protected through the current downturn in the NZ economy by a leading advertising market share.

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BEST STOCKS TO BUY

RAMELIUS RESOURCES (RMS) — SPEC BUY

INDUSTRY	**MINING SERVICES, GOLD MINING**	Well priced, well managed mid-tier gold producer with multiple growth options and high net cash.
MARKET CAP	**$1801M**	
DIVIDEND YIELD	**2.2%**	
12 MONTH HIGH	**$1.79**	
PRICE @ 2024-01-31	**$1.59**	

SILK LOGISTICS (SLH) — SPEC BUY

INDUSTRY		Trading on a single-digit PE and a dividend yield of 5%, which is forecast to grow, this stock could find a position in many portfolios.
MARKET CAP	**$149M**	
DIVIDEND YIELD	**4.7%**	
12 MONTH HIGH	**$2.62**	
PRICE @ 2024-01-31	**$1.83**	

SOUTHERN CROSS ELECTRICAL (SXE) — SPEC BUY

INDUSTRY	**ELECTRICAL AND COMMUNICATIONS CONTRACTOR**	Electrification and decarbonisation a tailwind for earnings growth. Blue chip client base and high level of recurring earnings. High dividend yield.
MARKET CAP	**$246M**	
DIVIDEND YIELD	**5.9%**	
12 MONTH HIGH	**$0.94**	
PRICE @ 2024-01-31	**$0.94**	

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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.

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