under the radar report
SMALL CAPS

ISSUE 591
14 MARCH 2024

GOING FOR GROWTH IN THE GOLD SECTOR

It's always handy to have gold in your portfolio. There are no guarantees. Gold is volatile, but the overall trend appears to be up, as global uncertainty ratchets up, which includes inflation. The cost of production keeps rising, and so does the gold price. It's an inflation hedge of sorts.

Mining gold relative to other commodities does look less risky because there is less complexity – there's no smelters and the like and it's easy to sell, being effective cash. This is only the case, however, for those few producers that reach the mid-tier status, which we regard as producing 300k to 500k ounces of gold a year. I always talk about needing scale in mining; the margins of production really do improve when you are producing ounces in this sweet spot. When you get above this, it gets almost impossible to grow because the amount of gold you need to discover gets harder and harder. Exploration is a very tough game.

We've had great success with **Northern Star Resources (NST)** and **Evolution Mining (EVN)** – although recently EVN has struggled – serving to highlight the difficulties of growing so big.

Ramelius Resources (RMS) has thrived on a number of acquisitions in recent years, made by a management that knows what it's doing. The company has an uncanny ability to operate both open pit and underground mines. It reminds of the young Northern Star CEO Bill Beament who came from the contract mining specialist, Barminco.

Back in 2006 Ramelius owned a high-grade operation at Wattle Dam, just south of Kalgoorlie which had a striking similarity to Northern Star's original Paulsen's mine. Both provided crucial cash flow and growth to get that necessary scale. Subsequently, Ramelius impressed on the exploration front, squeezing more ounces out of mines.

The key thing we like is that you're not paying too much for the very real potential of more growth. The biggest factor in your control as an investor is the price you pay. We continue to like gold and we like the Ramelius market valuation.

Richard Hemming
Head of Investments

the issue

STOCK OF THE WEEK

The gold miner confirmed discussions with Canadian-listed **Karora Resources (TSX: KRR)**, which has a market valuation of C$840m (A$943m) and has mines in WA. The combined annual production is close to 500k ounces.

RAMELIUS RESOURCES (RMS) **BUY**

RESEARCH TIP UPDATES

COUNT (CUP)	SPEC BUY
ENERGY ONE (EOL)	▲ SPEC BUY
MACQUARIE TECHNOLOGY (MAQ)	HOLD
MEDICAL DEVELOPMENTS (MVP)	SPEC BUY
PLAYSIDE STUDIOS (PLY)	HOLD
REDFLOW (RFX)	HOLD

BEST STOCKS TO BUY NOW

The stocks on this list are quality companies that we believe offer great return potential for the risk faced. Go online and read all about them.

The corporate activity, while interesting is not the main the story for Ramelius. The big deal with is the 10-year mining plan, revolving around recent acquisitions, especially Cue, which is undeveloped.

Peter Chilton, resources analyst

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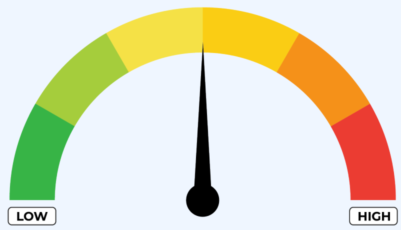
RAMELIUS RESOURCES

SECTOR GOLD MINING **INDUSTRY** GOLD MINING

RADAR RATING: **BUY**

RISK RATING



ASX CODE **RMS**

CURRENT PRICE **$1.557**

MARKET CAP $1.77BN

DIVIDEND YIELD 2.3%*

NET CASH ($M) 351M

DATA AS AT INITIAL COVERAGE:

DATE 01 DECEMBER 2022

PRICE ($) 0.865

**Forecast 3.5 cents*

Research Tip Update

What's new?
A 10-year mine plan for its Mt Magnet, WA, production hub. At A$3000/oz (current $3,300/oz), cash flow generation will be very strong at A$1.7bn over 10 years after capex of $380m.

The gold miner confirmed discussions, which may indicate a merger or a sale of assets with Canadian-listed **Karora Resources (TSX:KRR)**. Karora has a market valuation of C$840m (A$943m) mines in WA, and produces close to 200k ounces versus Ramelius's of just under 300k.

Bull Points
· Production growth
· Open pit and underground

Bear Points
· Smaller deposits with shorter lives
· Development intensive

Analysis: The corporate activity, while interesting is not the main the story because there is little certainty. The big deal with RMS is the 10-year mining plan, which revolves heavily around its two WA acquisitions last year, especially Cue, which is undeveloped.

Cue has an open pit resource of 2.65m tonnes at a solid 2.9g/t gold; underground has a resource of just under half a million tonnes at 4.8g/t. Mining is expected in the coming months and assumes of a life of 5 years.

FY25 and FY26, will be strong years with ore from Mt Magnet, the high-grade Penny mine (remaining life 2.5 years) and Cue.

Costs are very low for the next two years at A$1,300 an ounce (AISC). The second hub at Edna May means total peak output could be 330k ounces (FY25) versus about 280k ounces this year (FY24).

With the expected depletion of Penny from FY27 and possible declining production from Edna May, gold output is expected to be maintained by Rebecca/Roe gold project.

Portfolio risk rating: Moderate given expected cash and gold of well over $400m. Priced towards the lower end of the range for Australian gold stocks, trading on a cash flow multiple (EV/EBITDA) of around 5.0 times.

We like the stock, but caution is required due to uncertainty around the Karora transaction.

RADAR RATING: Delivery of key 10 year plan milestone and the potential for a third production hub. M&A growth investigations continuing.

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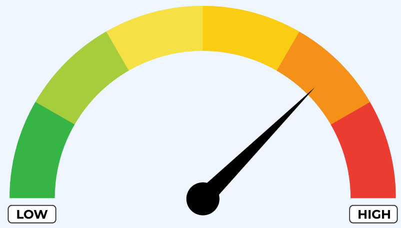
COUNT

SECTOR FINANCIAL SERVICES

INDUSTRY ACCOUNTING AND FINANCIAL ADVISORY NETWORK

RADAR RATING: **SPEC BUY**

RISK RATING



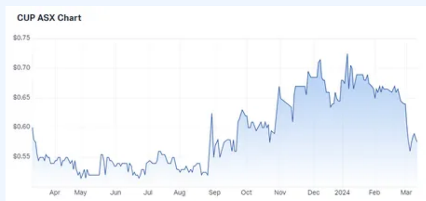
ASX CODE **CUP**

CURRENT PRICE **$0.56**

MARKET CAP $97M

DIVIDEND YIELD 5.6%*

NET DEBT ($M) -18M



DATA AS AT INITIAL COVERAGE:

DATE 10 JULY 2019

PRICE ($) 0.90

**Forecast: 3.75 cents*

Research Tip Update

What's new?
Completed its acquisition of ASX-listed Diverger in early March after reporting steady interim (1h24) profits in late February. The acquisition cost $16m cash, and 57m shares, increasing the share count by half. A further $10m is expected to be spent.

Bull Points
· Diverger acquisition synergies
· Building scale in a fragmented industry

Bear Points
· Acquisition integration risk
· Net debt from acquisition

Analysis: Interim operating earnings (EBITA) grew 9% to $5.4m, on 6% revenue growth. The gains fueled by acquisitions and were after increased corporate costs. A 1.5 cent interim dividend was paid and we are forecasting a flat final dividend of 2.25 cents.

Count will scale dramatically through Diverger, increasing the number of advisers to over 550. The acquisition adds $12bn funds under management and administration on top of $17bn from Count, gives a new baseline FUMA of $30bn.

The aim is to double EBITA over the next two years, which supports an expanded tax knowledge hub and improved paraplanning services.

Diverger increases the contribution of services, already about half of revenue. Last year, on a pro forma basis, 55% of revenue comes from accounting (75% prior to the transaction) and half of EBITA. Services is a fifth of revenue, while Wealth represents a quarter.

Portfolio risk rating: Integration risks remain to the target operating earnings run rate of $22m by the end of FY25. Debt also increases risk, although a forward cash flow (EV/EBITA) multiple of 6 times is not demanding.

The CUP stock price has come back slightly since the announcement of the merger, which we think still represents good value for a company which has delivered consistent earnings. The acquisition of Diverger has created a larger platform which could support earnings growth from a higher level.

RADAR RATING: We suggest accumulating small positions for yield and potential growth due to Diverger.

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ENERGY ONE

SECTOR TECHNOLOGY **INDUSTRY** ENERGY RESOURCES

Research Tip Update

Upgrade from Hold

What's new?
Interim revenue climbed 22% to $25.1m, which included a 23% lift in Annual Recurring Revenue to $46.4m. However, the half was affected by costs associated with restructuring. Operating earnings (EBITDA) fell 35% to $3.3m but only 7% to $5m omitting one-off costs. At the bottom line, NPAT was a $0.5m loss.

The company expects a return to profitability in the current half (2h24) and for the following year to benefit from savings and rising sales.

Bull Points
· Software and services
· Growth from energy transition

Bear Points
· Sub-scale
· Restructuring risks

Analysis: Energy One is a provider of wholesale energy services, having evolved from software only to a solutions provider in an increasingly complex energy landscape, providing operational and trading services 24/7 for customers. If you own a solar power facility, EOL can operate your systems remotely using its own software.

EOL has become a 'one-stop-shop' with cross-selling of contracts management, scheduling and trading software. Europe is the growth driver, having increased 39% in the half to 31 December (1h24) for a total revenue growth of 22%.

The software company's solutions are across all energy assets, not just renewables, with regional and global customers. In an increasingly fragmented energy market, EOL performs tasks for clients who do not have the expertise or scale to do it themselves.

Guidance is for FY24 revenue of $51m, of which recurring revenue would be around $45m.

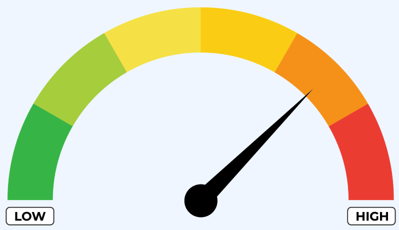
Portfolio risk rating: Moderate to high-risk rating because of its small size. But almost all revenue is recurring, customer retention rates are high.

We like the stock's potential but would like to see higher revenue before buying.

RADAR RATING: Good runway for growth in Australia, Europe and the UK. Well placed to service the growing number of energy intermediaries and decarbonisation.

RADAR RATING: **SPEC BUY**

RISK RATING



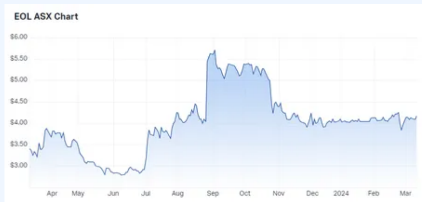
ASX CODE **EOL**

CURRENT PRICE **$4.20**

MARKET CAP $126.3M

DIVIDEND YIELD 1.9%*

NET CASH ($M) 21.1M



DATA AS AT INITIAL COVERAGE:

DATE 15 OCTOBER 2020

PRICE ($) 4.11

**Forecast 8.0 cents*

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MACQUARIE TECHNOLOGY

SECTOR INFORMATION TECH | **INDUSTRY** DATACENTRE OPERATOR

Research Tip Update

What's New?
The shares have rocketed 15% on an interim result highlighting exposure to the megatrends of cloud and cyber-security, combined with AI. The catalyst was the development application approval for the construction of its AI-focused data centre IC3 Super West, due to commence in the third quarter of calendar 2026. The company said that two of the hyperscalers such as Microsoft Azure and Amazon Web Services, are customers.

The result was in-line with expectations, revenue up 5% to $172.5m producing a 3% increase in operating earnings at $53m; FY24 guidance being $108-111m, which implies mid-single-digit growth. At the bottom line (NPAT) the company made $14.8m and is forecast to make just over $32m in FY24, or $1.50 a share in EPS. The company has not paid dividends for some time.

Bull Points
· Consistent earnings
· Megatrends including AI

Bear Points
· Low growth in medium term
· Big partner risk

Analysis: When you look at the metrics MAQ produces, it's really steady as she goes. The big advantage this company has is consistency. This consistency has been supercharged by those megatrends of cloud, cyber-security and now the megatrend of the technology age, Artificial Intelligence.

MAQ is supporting large customers committed to artificial intelligence, which the market is anticipating will be a significant source of future growth. In the meantime, the company is delivering consistent revenue from cloud & cyber security services & government (just under half of earnings), the provision of data centres (a third of earnings) and telecoms (the remaining fifth).

The business is evolving to a managed services connectivity and network security business via SDWAN (software-defined wide area networks). These are less commoditised segments of the telecoms market, and telecom customers offer opportunities for sales of cloud services.

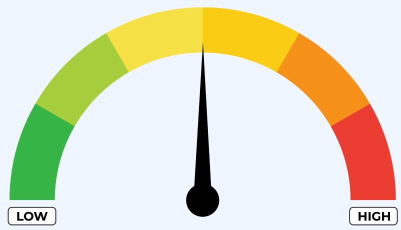
Portfolio Analysis: We took profits at current levels late 2021 (Issue 462)! Trading on a sales multiple of over 5 times and an earnings multiple (EBITDA) of 17 times, this stock does look expensive.

Having taken profits we are happy to stay exposed to the megatrends listed above, driven sentiment-wise by AI. The company has funding flexibility and a blue chip customer base, which includes the Australian government.

RADAR RATING: A blue chip customer base and exposure to mega-trends, including AI means we are happy holders.

RADAR RATING: **HOLD**

RISK RATING



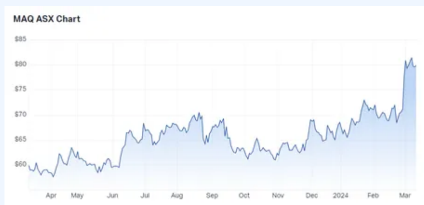
ASX CODE **MAQ**

CURRENT PRICE **$79.20**

MARKET CAP $1.99BN

DIVIDEND YIELD 0%*

NET CASH ($M) 9.8M



DATA AS AT INITIAL COVERAGE:

DATE 12 AUGUST 2015

PRICE ($) 6.51

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MEDICAL DEVELOPMENTS

SECTOR PHARMACEUTICALS **INDUSTRY** SPECIALITY PHARMACEUTICAL

Research Tip Update

What's new?
At the interim (1h24) revenue climbed 9% producing an operating loss (EBITDA) of $7.8m. We have concern further capital will be required, even after MVP raised $30m at $2 in 2022. Current operating losses are unsustainable.

Bull Points
· Global potential
· Growing revenue

Bear Points
· Heavily loss-making
· Potential capital requirements

Analysis: The interim loss was difficult to stomach. Positive news in Australia and in respiratory were overwhelmed by the costs of building the business in Europe, as well as a US market strategy.

Management's reputation (originally from CSL) provides comfort, as does its $6m annual efficiency gains, with a further $3m expected for FY25. Net operating cash outflows were $6.7m and investing cashflows were $1.4m.

Net cash was down $8m in only six months to $16m. Current assets remain almost 3 times current liabilities, hence we do not see an immediate cash concern.

For the flagship analgesic product, Penthrox, volume in Australia was marginally positive despite hefty price increases. European demand was ahead of the same period a year ago. Distribution arrangements in France and Switzerland are being renegotiated, and previous decisions to sell direct rather than through partners are now likely to be reversed.

In the US, planning is underway for Phase 3 trials, likely to include partnerships. The US FDA requires the inclusion of women of childbearing potential.

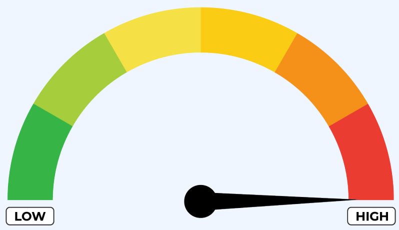
Portfolio risk rating: The valuation is less than two times revenues is good for a medical devices company if ongoing losses are staunched.

On track to be operating cash flow positive by the end of FY25. But it will be touch-and-go whether the company needs fresh funds. Financial risks remain high.

RADAR RATING: Has taken control of its distribution in key European markets, which has disrupted its sales progress, although FY23 revenue growth of over 40% is encouraging. Developing a strategy to enter the critically important US market.

RADAR RATING: **SPEC BUY**

RISK RATING



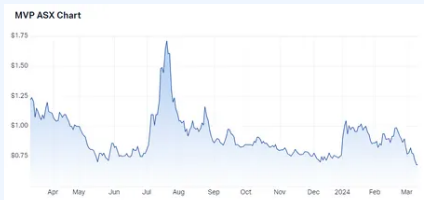
ASX CODE **MVP**

CURRENT PRICE **$0.685**

MARKET CAP $69M

DIVIDEND YIELD 0%*

NET CASH ($M) 15.7M



DATA AS AT INITIAL COVERAGE:

DATE 14 MAY 2014

PRICE ($) 1.18

PORTFOLIO ACTION
The Under the Radar Report portfolio has 3500 shares, around 3%. We will add 1500 shares at up to 80 cents.

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SMALL CAPS

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PLAYSIDE STUDIOS

SECTOR INFORMATION TECH **INDUSTRY** GAMING

Research Tip Update

What's new?
The interim (1h24) result fleshed out details of its quarterly update at the end of January (Issue 586). Plus, three founders have sold $40m of stock, causing a brief swoon, but the market was reassured that together they still control 49%.

Bull Points
• Sustained revenue growth
• Blue chip partners

Bear Points
• Heavy investment in new games
• Management share sales

Analysis: The financials were spectacular, reinforcing the high growth rate. FY24 revenue rose 56% to $60m, driven by intellectual property.

First-half sales were $36m, half work for hire, half original IP, which was double on the prior half (2h23). Operating earnings (EBITDA) was $12m, with similar operating cash flow, offset by $6m in capitalised development expenses (costs put onto the balance sheet as an asset).

Original IP growth came mainly from the Dumb Ways To Die franchise, which has seen 500m downloads and 1.3m subscribers on YouTube, with 2bn views and 7.6m followers on TikTok, and 0.5m Facebook followers. The IP has been licensed for a card game, and a premium mobile title by Netflix, a virtual reality title licensed to Meta (who own Facebook), but it is not clear how much DWTD revenue will be recurring.

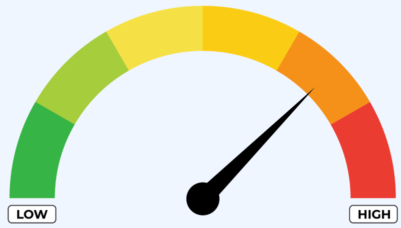
Development is starting on two PC/console games for Warner Brothers, but these will not contribute to revenue until at least FY25. PLY will make interim development payments to Warner, as well as investing a PC/console version of a game called MOUSE. The company has a number of small projects in also in development, which take less time and involve less committed expenditure, intending to diversify its sources of revenue.

Portfolio risk rating: PLY has been rewarded for growth and the Under the Radar Report portfolio is well ahead of its investment in September after the full-year FY23 results. We think earnings could be lumpy, and the market may be disappointed by any interruption to growth, even if temporary.

RADAR RATING: Upgraded forecast FY24 revenue growth, with growth balanced between work for hire for major clients, and development of original and third party acquired IP. New PC and console games developments will increase risks, for larger potential rewards.

RADAR RATING: **HOLD**

RISK RATING



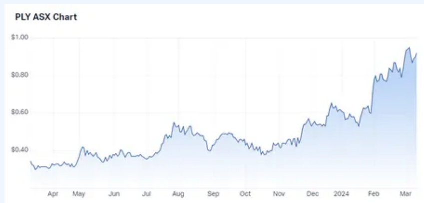
ASX CODE **PLY**

CURRENT PRICE **$0.93**

MARKET CAP $377M

DIVIDEND YIELD 0%*

NET CASH ($M) 38.3M



DATA AS AT INITIAL COVERAGE:

DATE 16 DECEMBER 2021

PRICE ($) 0.86

PORTFOLIO
The Under the Radar Report Portfolio holds 3000 shares, around 2% of the portfolio.

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REDFLOW

SECTOR SERVICES **INDUSTRY** BATTERY TECHNOLOGY

Research Tip Update

What's new?
First half after-tax loss of $12.9m, which included non-cash costs of battery warranty provision ($3.4m) and an inventory impairment ($1.7m). Net operating outflow was $6.3m. During the half, RFX raised $11.6m and finished with cash of almost $10m. Production was significantly interrupted, delaying and restarted last month.

Bull Points
· Energy storage
· Set and forget battery characteristics

Bear Points
· For fixed locations only
· Low battery efficiency

Analysis: The battery producer has a niche technology for today, but is dependent on equity capital raising to fund development because it's yet to transition to positive cash flow. The independent auditor said conditions "indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern."

Anticipated revenues remain low: $250k in FY24, $2.5m in FY24/FY25, $14.2m in FY25 and $25m in FY26. Production of the zinc-bromine flow batteries is yet to be funded.

The Redflow flow battery is a type of electrochemical storage, which also includes thermal, mechanical and chemical

These batteries are long-duration, capable of delivering electricity for 10 or more hours, much longer than the maximum of 6-8 hours for lithium-ion batteries. However, the long-duration space is very competitive.

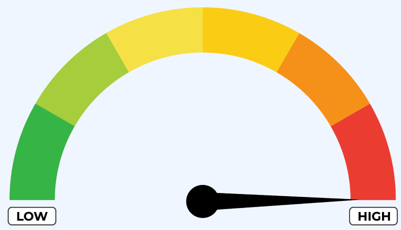
Portfolio risk rating: Very high! Revenue generation has been weak, although its prospects appear to be improving.

The stock is speculative. Production of Redflow batteries would need to achieve sufficient scale to reduce production costs.

RADAR RATING: For the braver investor who understands the company's energy storage technology may not prove to be commercially successful.

RADAR RATING: **HOLD**

RISK RATING



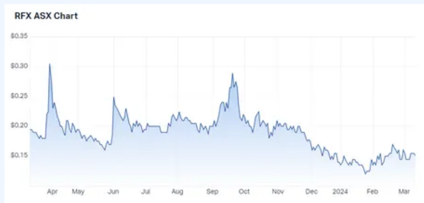
ASX CODE **RFX**

CURRENT PRICE **$0.15**

MARKET CAP $36M

DIVIDEND YIELD 0%*

NET CASH ($M) 9.7M



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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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