under the radar report
SMALL CAPS

ISSUE 594
04 APRIL 2024

THE SMALL CAP BIDDING FRENZY

We are seeing a constant stream of Small Caps recommended by Under the Radar Report made takeover offers. This week we cover bids or "indicative interest" for medical device wholesaler Paragon Care (PGC) and ship builder Austal (ASB). Both have been down on their luck, which is why we had buys on them. Paragon has almost doubled in the past four weeks, while Austal is up 40% in the past 3 months and we think the starting gun has been fired on an auction.

Many ASX listed Small Caps remain attractive to larger companies because it is a cheap way of purchasing growth, on the one hand, on the other, they're attractive businesses that are at a good price, which feeds private equity's voracious appetite. Certainly, in the case of Austal, the interest is from both trade in the form of a large Korean corporate as well as private equity.

Under the Radar Report exists to find these types of stocks at prices where they're irresistible to the people with the money to take out the whole operation. In this issue we include our Best Stocks To Buy Now, which represents stocks that are worth considering for your portfolio. The fact that some are takeover candidates, but not priced as such is one of their attractions.

After all, we've seen takeover and corporate interest happen time and again, with more than one in five of the stocks we tip getting bid for. In recent months there have been bids in various forms for **Pacific Current (PAC)**, **City Chic Collective (CCX)**, **A2B Australia (A2B) Southern Cross Media (SXL)**, **Probiotec (PBP)**, **Symbio (SYM), Volpara Health (VHT)**, **Superloop (SLC)**, **Ansarada (AND)**.

Which brings me to our stock of the month, **Evolution Mining (EVN)**. Following the acquisition of Oz Minerals by BHP last year, there is a shortage of ASX listed mining companies offering exposure to the copper price. Evolution Mining fills the gap.

Richard Hemming
Head of Investments

the issue

COPPER ANALYSIS: THE REAL CRITICAL METAL DEAL

Sentiment is improving for copper because there simply is no substitute. We go through the fundamentals and then the stocks that give you good exposure.

STOCK OF THE MONTH

We have been right doubling down on our Buy recommendation in the wake of weakness earlier this year (Issue 584) and we think that copper puts the stock in a good position to deliver more growth.

EVOLUTION MINING (EVN) — BUY

RESEARCH TIP UPDATES

MYER HOLDINGS (MYR) ▼ TAKE PROFITS
PARAGON CARE (PGC) ▼ HOLD

BEST STOCKS TO BUY

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

Following the acquisition of Oz Minerals by BHP last year, there is a shortage of ASX listed copper miners. Evolution Mining fills the gap!

Richard, UTRR Portfolio Manager

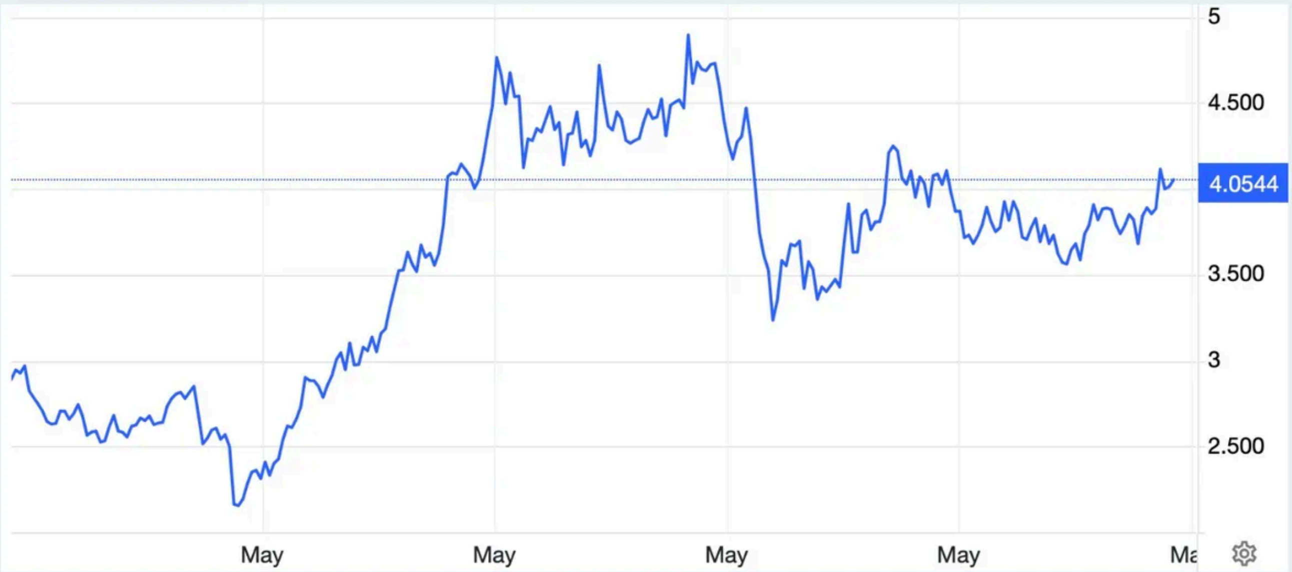
Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au
Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

COPPER ANALYSIS: THE REAL CRITICAL METAL DEAL

Sentiment is improving for copper because there simply is no substitute for the same value or cost. There has also been supply issues, which means that less is available. We go through the fundamentals and then the stocks that give you good exposure, focusing in on Evolution Mining (EVN).

ENTERING CRITICAL TERRITORY

5-year copper price in US$ per pound.



Last month, copper breached the much watched US$4/lb level, which can act as resistance and support. Sentiment is improving. We know the demand is there because there are no substitutes that do the same job, at the price, copper does. The rally does coincide with seasonal strength, with copper often experiencing higher prices from February into March, but as we discuss, there are bigger forces in copper's favour.

SOURCE: Trading Economics

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au

Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

under the radar report
SMALL CAPS

ISSUE 594
04 APRIL 2024

COPPER ANALYSIS: THE REAL CRITICAL METAL DEAL CONT.

Supply is tightening

The big news on the supply side is that a number of big producers are falling short of production guidance, as pressure mounts to deliver copper to big customers in China and the US where demand is growing. When there is a fine balance between supply and demand, hits like those listed below become meaningful, especially when added together.

A big hit to supply was from the Canadian copper giant **Teck Resources (TECK.NYSE)** which for the 12 months to 31 December (FY23) reported lower than expected production due to ramp-up challenges at one mine and a geotechnical fault at another. Then there was the suspension of production by **First Quantum Minerals (IZ1.SG)** at its Cobre mine in Panama, which produces 350k tonnes a year. Copper also production guidance was cut by **Anglo American (AAL.LSE), Vale S.A. (VALE.NSE)** and **Southern Copper Corporation (0L8B.LSE)**.

Underpinning this supply tightness is that copper deposits are not abundant and there is no technology that can currently change the supply dynamics. This is in contrast to the supply characteristics of lithium and nickel.

Demand is increasing

The energy transition involves heavy use of copper, especially in applications such as wind turbines, solar panels, grid infrastructure and electric vehicles. The incremental additional demand for copper related to the energy transition out to 2030 has been estimated at 4m tonnes or an additional 16% over current annual global demand of 25m tonnes a year.

A large, well-established market

We're talking in the region of 25 million tonnes a year, second behind aluminium, which is almost double. Moreover, there is no B-grade metal, as there is in the case of nickel. From an investment angle, the copper market is already large and well established. Consumption is diversified among many end users and demand is strong. While the energy transition is important for copper demand, copper's fortunes are not as dependent on new emerging technologies and sources of demand as is the case for lithium and nickel.

INVESTMENT CONCLUSION: Copper is attractive

As a commodity, copper has relatively low price volatility and risk, but with supply and demand characteristics that are attractive. With the copper price strengthening, and the potential for higher prices, we believe investors should consider obtaining copper exposure.

At the big end there is the Oz Minerals acquirer **BHP Group (BHP)** as well as **Rio Tinto (RIO)**. Their valuations remain dominated by iron ore. We cover these stocks in Blue Chip Value. We also cover **South32 (S32)** which has copper exposure, but it's relatively low.

The most pure exposure on the ASX is **Sandfire Resources (ASX: SFR)** but we believe this stock is fully valued. There are a number of small, emerging copper producers, but none that we regard as attractive. There are also a lot of copper explorers, but few will make to production.

Our choice is **Evolution Mining (EVN)**. Although primarily a gold producer, it is now a significant copper producer as well following the acquisition of 80% of the Northparkes copper mine in December 2023.

under the radar report
SMALL CAPS

ISSUE 594
04 APRIL 2024

EVOLUTION MINING

SECTOR GOLD MINING **INDUSTRY** AUSTRALIAN GOLD PRODUCER

STOCK OF THE MONTH

What's New?
Acquired an 80% interest in the long life Northparkes mine in Central West NSW, in December, Copper is now a core commodity for the company, in addition to gold.

Bull points
· Leveraged to rising copper prices
· Long life, low cost.

Bear points
· Not a pure copper play
· Copper production uncertainty

Analysis: Following the acquisition of Oz Minerals by BHP last year, there is a shortage of ASX listed mining companies offering exposure to the copper price. Evolution provides a, long life copper and gold exposure.

EVN is recovering from an 18% hit to its valuation earlier this year (see Issue 584) from production issues at its Red Lake mine in Ontario, Canada. However, production guidance remains robust, implying that elsewhere in production is up on expectations. The key is the cashflow, which even after the stock's partial recovery, does not seem to be fully appreciated.

FY24 production guidance for gold remains at 789k ounces of gold and 62.5k tonnes of copper at a cost (AISC) of A$1,340/oz, more than double the gold price of over A$3,000. Second quarter cash flow was almost $80m and we expect to climb in the current half (2H24).

Northparkes changes the game for EVN, which could easily double its copper production, adding to existing annual production of 50k tonnes from Ernest Henry in Queensland, to 75k tonnes(30% of revenue).

Copper exploration and production potential is significant. Northparkes tenements occur over 1,100 sq km in the highly prospective Lachlan Fold copper/gold belts, in addition to a 7.6m tonnes a year processing plant.

A 10% increase in the copper price boost EVN's revenue by over $85m, equivalent to $60m in NPAT or 3 cents a share.

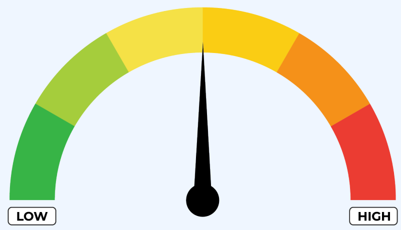
On a valuation front, the value is much higher. Based on estimated FY25 earnings of 35 cents a share, this is equivalent to an increase in earnings of almost 9% assuming gold prices are unchanged.

Portfolio risk rating: Evolution has moderate. Stronger cash flow is coming through as part of its debt reduction (deleveraging) strategy.

RADAR RATING: Copper earnings leverage plus gold is going strong, with production guidance maintained.

RADAR RATING: **BUY**

RISK RATING



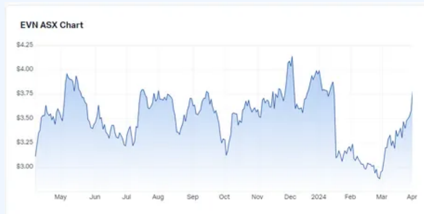
ASX CODE **EVN**

CURRENT PRICE **$3.81**

MARKET CAP $7.0BN

DIVIDEND YIELD 1.7%*

NET DEBT ($M) -2.0BN



DATA AS AT INITIAL COVERAGE:

DATE 18 MARCH 2015

PRICE ($) 0.72

**Forecast 5.6 cents*

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au

Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

under the radar report
SMALL CAPS

ISSUE 594
04 APRIL 2024

MYER HOLDINGS

SECTOR RETAIL **INDUSTRY** DEPARTMENT STORE

Research Tip Update

Downgrade from Hold.

What's New?
The stock is looking expensive, having delivered 60% from our Spec Buy recommendation in November.

In early February we covered MYR's trading update for the 6 months to 31 January (Issue 586) and the retailer's interim result was overshadowed by the appointment of new CEO, Olivia Wirth, previously Qantas head of loyalty, and in the running for CEO there.

BULL POINTS
- New CEO
- Loyalty program

BEAR POINTS
- Heavy store footprint
- Competitive market

Analysis: The forward P/E ratio may be up to 20x, which highlights the optimism investors have about the incoming CEO and signs of sales momentum.

Olivia Wirth's appointment illustrates the importance of Myer's loyalty program, which has already impressed, attracting over three quarter of sales in the first half.

The consumer is bifurcated, as a wealthier, older demographic may not face the same rent pressures, or mortgage interest as a proportion of their income as younger consumers. MYR has exposure to multiple mid-market demographics, and will struggle to avoid the consumer spending downturn.

Comparable sales growth of 4.6% in the first 6 weeks of the second half is a reason for optimism, however.

Our optimism on the loyalty program front is not matched by the group's achievement online, which experienced 2% sales growth. The scale up of its new national distribution centre will be a major initiative in the current period.

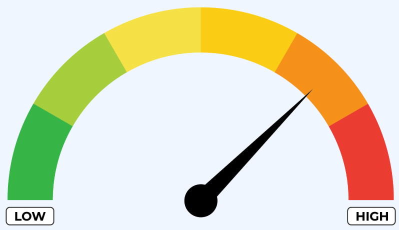
MYR also announced a strategic review of its sass & bide, Marcs and David Lawrence brands, which indicates that these are not core. Separately, the Solomon Lew controlled Premier Investments (PMV) which owns 29% of Myer, has announced the demerger of its Smiggles and Peter Alexander businesses.

Portfolio Risk Rating: We are downgrading to Take Profits to reflect the challenges for new leadership in a business which may face revenue headwinds from a constrained consumer over the next year.

RADAR RATING: Myer has paid dividends since 2022, and is bringing repeat customers to trusted brands, managing marketing through one of Australia's largest loyalty schemes. The share price reflects improving sentiment, but growth will be hard to achieve. TAKE PROFITS

RADAR RATING: **TAKE PROFITS**

RISK RATING



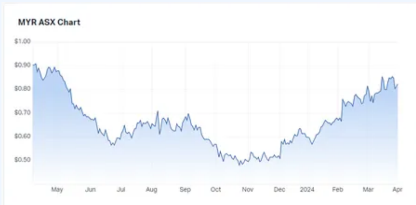
ASX CODE **MYR**

CURRENT PRICE **$0.81**

MARKET CAP $674M

DIVIDEND YIELD 4.9%*

NET DEBT ($M) -212M



DATA AS AT INITIAL COVERAGE:

DATE 24 OCTOBER 2018

PRICE ($) 0.52

***Forecast 4 cents**

Publis… Investments Richard Hemming, Publisher Caroline Mark
655A … ABN: 65147404662. AFSL: 409518.
Teleph… Website www.undertheradarreport.com.au

under the radar report
SMALL CAPS

ISSUE 594
04 APRIL 2024

PARAGON CARE

SECTOR MEDICAL TECHNOLOGY **INDUSTRY** HEALTH CARE

Research Tip Update

Downgrade from Spec buy to Hold.

What's new?
PGC soared 40% on news of an all-stock merger with privately owned Australian medical supplies company CH2 Holdings Pty Ltd (CH2).

Bull points
- Management own over 60%
- Merger synergies

Bear points
- Merger implementation risk
- Low margin distribution

Analysis: In upgrading PGC again in October, we were not expecting such a transformational deal, having almost doubled from our purchase price of 17.5 cents (Issue 571). This is the advantage of buying on the cheap!

The issue of 943m shares (57% of the enlarged capital) suggests that this is almost a reverse takeover, with the new company remaining listed.

CH2 has a leading position in pharmaceuticals, nutrition and medical consumables, offering distribution in eight countries in Asia.

The companies combine well with $5m annual cost synergies and annual turnover of $3.3bn (85% from CH2). Operating earnings (EBITDA) are forecast at $93m (58% from CH2) proforma NPAT is $30m.

David Collins, one of 2 equal vendors of CH2, will be new CEO, but existing CEO, John Walstab, will stay on the board. The transaction will not complete until the end of May, and stock issued to CH2's vendors will be held in voluntary escrow for two years. Together with the Walstab's 19% holding, up to 66% of outstanding shares will be excluded from the free float of the enlarged company.

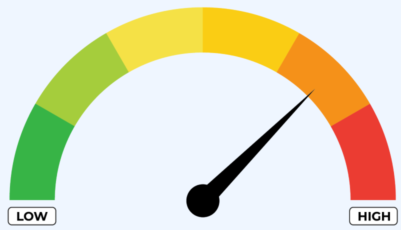
This transformation of PGC will make the stock larger and more complicated for a while. But based on the headline numbers, we estimate the combined EV/EBITDA multiple is still only 7 times, with synergies to come.

Portfolio risk rating: A 60% short-term increase in the share price is welcome, and taking some profits would be sensible. After our two Spec Buy recommendations in October/November at 17.5c-18.5c, we are downgrading, but think that PGC can be held for further organic growth from what is now a much larger company.

RADAR RATING: The proposed acquisition of privately owned CH2 will transform PGC, and deliver a much larger combined business to the market. Management will own 66% of the enlarged entity. This deal creates potential for further growth which justifies the stock's sharp rise.

RADAR RATING: **HOLD**

RISK RATING



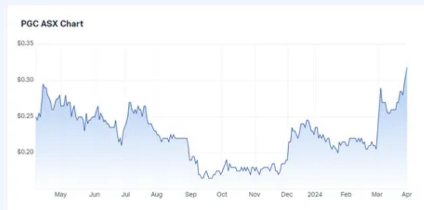
ASX CODE **PGC**

CURRENT PRICE **$0.32**

MARKET CAP $214M

DIVIDEND YIELD 3.8%*

NET DEBT ($M) -86.1M



DATA AS AT INITIAL COVERAGE:

DATE 27 MAY 2021

PRICE ($) 0.23

Forecast 1.2 cent

BUY WHEN THE PRICE IS RIGHT

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

ACROW FORMWORK (ACF) — BUY

INDUSTRY	**CONSTRUCTION SERVICES, MAINTENANCE AND INSTALLATION CONTRACTOR**	Growth oriented core formwork and industrial scaffolding business with an engineering team to create value adding solutions in construction, particularly infrastructure work. Acrow targets a minimum 40% return on its investments.
MARKET CAP	**$344.56M**	
DIVIDEND YIELD	**4.7%**	
12 MONTH HIGH	**$1.35**	
PRICE @ 2024-04-03	**$1.18**	

ALLIANCE AVIATION (AQZ) — BUY

INDUSTRY	**CONTRACT AVIATION SERVICES**	Alliance has increased its flying hours and revenue potential dramatically through the debt funded acquisition of additional 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	**$466M**	
DIVIDEND YIELD		
12 MONTH HIGH	**$3.65**	
PRICE @ 2024-04-03	**$2.90**	

BOSS ENERGY (BOE) — SPEC BUY

INDUSTRY	**URANIUM MINING**	First uranium production at 2.45m lbs a year 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	**$2.04B**	
DIVIDEND YIELD		
12 MONTH HIGH	**$6.12**	
PRICE @ 2024-04-03	**$5.00**	

INTEGRATED RESEARCH (IRI) — SPEC BUY

INDUSTRY	**TRAFFIC INFORMATION NETWORKS**	Transforming its business to repel competitive threats from cloud services to its on-premise solutions. A solid balance sheet underpins the value
MARKET CAP	**$65M**	
DIVIDEND YIELD		
12 MONTH HIGH	**$0.52**	
PRICE @ 2024-04-03	**$0.37**	

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au

Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

BUY WHEN THE PRICE IS RIGHT

LASERBOND (LBL) — SPEC BUY

INDUSTRY	**MANUFACTURING**
MARKET CAP	**$87M**
DIVIDEND YIELD	**2.3%**
12 MONTH HIGH	**$0.92**
PRICE @ 2024-04-03	**$0.75**

Business development focus with increased capacity and capabilities being added. Global opportunities. LaserBond technologies cut client costs.

MACH7 TECHNOLOGIES (M7T) — SPEC BUY

INDUSTRY	**MEDICAL TECHNOLOGY**
MARKET CAP	**$166M**
DIVIDEND YIELD	
12 MONTH HIGH	**$0.99**
PRICE @ 2024-04-03	**$0.69**

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) — BUY

INDUSTRY	**MEDIA**
MARKET CAP	**$152M**
DIVIDEND YIELD	**9.1%**
12 MONTH HIGH	**$1.02**
PRICE @ 2024-04-03	**$0.83**

An FY23 (y/e Dec) 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.

SILK LOGISTICS (SLH) — SPEC BUY

INDUSTRY	
MARKET CAP	**$122M**
DIVIDEND YIELD	**3.3%**
12 MONTH HIGH	**$2.47**
PRICE @ 2024-04-03	**$1.50**

Dividends is keeping up our spirits and we continue to like this stock's potential, despite its cyclicality.

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au

Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

under the radar report
SMALL CAPS

ISSUE 594
04 APRIL 2024

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.

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com

Editor Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au