under the radar report
SMALL CAPS

ISSUE 600
16 MAY 2024

DIVIDENDS & GROWTH

What more could you want from your investments than tax-effective income and growth? Our Small Cap Dividend Portfolios are a fantastic base for you to start building a portfolio. Thousands of investors have done it and you could too, if you haven't already.

If you have, I like to look at a portfolio as a competition. Those that aren't providing me with what I want in terms of expected return get cut, in favour of those that do. The good thing about dividend stocks is that you're getting paid while you wait for growth.

You didn't have to wait long for our most recent dividend portfolio from early October (Issue 569), what with the contractor **Southern Cross Electrical (SXE)** taking off from data centres and battery-related work and taxi services group **A2B Australia** being taken over. Consequently, in just over eight months, the portfolio has returned 25%, more than double the S&P/ASX All Ords.

I'm not saying this will happen all the time, but the average annual return of 14% for our 14 Dividend Portfolios over seven years is definitely nothing to sneeze at.

More to the point, you can do it too! Caroline Mark had never invested before, starting from scratch five years ago. She has doubled her money after using our research, a bit of courage, and a bit of common sense. You can hear how she did it on the podcast Shares For Beginners, but one of her major investments was in uranium stocks. As it happens, this issue has an update on some major news in the sector, the US banning enriched uranium from Russia, which previously represented 25% of its supply. Find out what this means and how to profit in this, our 600th issue.

Richard Hemming
Head of Investments

the issue

ISSUE 600

THE DIVIDEND PORTFOLIO

Our 12 favourite Small Cap Dividend Payers have an average yield of 5.0%.

URANIUM ANALYSIS

Uranium stocks received a big boost when the US signed a bill this week to ban Russian supply.

BOSS ENERGY (BOE)	SPEC BUY
SILEX SYSTEMS (SLX)	SPEC BUY

RESEARCH TIP UPDATES

AINSWORTH GAME TECHNOLOGY (AGI)	▲ SPEC BUY
BEAMTREE HOLDINGS (BMT)	▼ HOLD
INTEGRATED RESEARCH (IRI)	▼ HOLD
OMNI BRIDGEWAY (OBL)	▼ HOLD

BEST STOCKS TO BUY NOW

These stocks are quality companies that we believe offer great return potential for the risks faced. Check them out online.

Integrated Research was on our Best Buys at below $0.40; a profit upgrade caused the stock to double! This can happen when you invest in a growth stock at value prices.

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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) — BUY

INDUSTRY	CONTRACTOR
MARKET CAP	$348M
DIVIDEND/SHARE	$0.055
DIVIDEND YIELD	4.6%
PRICE@ 15/05/2024	$1.17
NET CASH/DEBT	-$43.8M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Management's target is to lift EBITA by almost 100% over the next two years through scale and efficiency, including $4m annual cost savings, at a cost of up to $10m. Integration risks remain, but management are targeting a run rate EBITA of $22m by the end of FY25. Although net debt introduces a new dynamic, a forward EV/EBITA multiple of 5 times is not demanding.

AUSWIDE BANK (ABA) — HOLD

INDUSTRY	LENDER
MARKET CAP	$191M
DIVIDEND/SHARE	$0.260
DIVIDEND YIELD	6.4%
PRICE@ 15/05/2024	$4.10
NET ASSETS	$290M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Under a new head, which should produce new ideas. In any case, the company's earnings have been re-based down and we expect a mean reversion. For the Queensland lender, this means growing dividends. For a bank stock, this is speculative, but we believe that there is value because the balance sheet (capital or equity represents 15.3% of the total assets sheet; and the core equity or CET1 ratio is 12.8%) is strong and the economy hasn't gone into recession.

COUNT (CUP) — SPEC BUY

INDUSTRY	WEALTH
MARKET CAP	$95M
DIVIDEND/SHARE	$0.038
DIVIDEND YIELD	6.7%
PRICE@ 15/05/2024	$0.56
NET CASH/DEBT	-$18M
RISK RATING	4

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Completed acquisition of Diverger in early March, and will scale dramatically, increasing the number of advisers by about 50% to over 550. HY24 underlying EBITA grew 9% to $5.4m, on revenue growth of 6%. A 1.5 cent interim dividend was paid, and we forecast a flat final dividend of 2.25 cents, at a total annual cost of around $6m.

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SMALL CAP DIVIDEND PORTFOLIO

DATA3 (DTL) — HOLD

INDUSTRY	SERVICES
MARKET CAP	$1.2BN
DIVIDEND/SHARE	$0.240
DIVIDEND YIELD	3.1%
PRICE@ 15/05/2024	$7.70
NET CASH/DEBT	$117M
RISK RATING	2

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Interim result disappointed after hype about AI. While revenue increased by 13% to $1.3bn, gross margin increased only 9%, mainly due to sales mix. NPAT increased 25% to $21.4m for EPS of 13.8 cents for a dividend of 12.6 cents (90% payout ratio). DTL offers exposure to corporate IT spending, including a transition to the cloud, cyber security, and AI. Not cheap but has a solid track record.

ELDERS (ELD) — BUY

INDUSTRY	FOOD
MARKET CAP	$1.3BN
DIVIDEND/SHARE	$0.300
DIVIDEND YIELD	3.6%
PRICE@ 15/05/2024	$8.35
NET CASH/DEBT	-$259.7M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

A profit downgrade jolted investors in late March, but no need to panic! FY24 (year-end 30 Sept) earnings (EBIT) is expected to be about $130m, down from $171m in FY23, and $232m in FY22. The cash flow multiple is in the single-digits, a cyclical low. We are forecasting a decline in dividends this year to 30 cents, but if underlying fundamentals are improving, ELD could afford a higher payout. HY24 results will be released on Monday. Hold your fire.

GR ENGINEERING (GNG) — HOLD

INDUSTRY	CONTRACTOR
MARKET CAP	$374M
DIVIDEND/SHARE	$0.190
DIVIDEND YIELD	8.5%
PRICE@ 15/05/2024	$2.24
NET CASH/DEBT	$48.2M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Designs & builds mineral processing plants. GNG is diversified by commodities, which include gold, base metals, lithium, mineral sands, as well as oil & gas. The consulting arm is an incubator for new contracts. GNG has a track record of rising earnings and dividends. The company expects revenue to increase in 2H24 based on the contracted and near-term pipeline of work, which has grown due to two new projects.

SMALL CAP DIVIDEND PORTFOLIO

HELLOWORLD TRAVEL (HLO) — SPEC BUY

INDUSTRY	RETAIL
MARKET CAP	$390M
DIVIDEND/SHARE	$0.110
DIVIDEND YIELD	4.5%
PRICE@ 15/05/2024	$2.43
NET CASH/DEBT	$72.7M
RISK RATING	4

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Third quarter report confirms strong trade and earnings with FY24 EBITDA guidance of $68m (midpoint). Growth is slowing, but profitability is robust. The travelling demographic remains relatively unaffected by higher interest rates. Cash flow multiple in the single digits + strong balance sheet, hence solid value with the expectation of growing dividends.

INFOMEDIA (IFM) — HOLD

INDUSTRY	SERVICES
MARKET CAP	$596M
DIVIDEND/SHARE	$0.045
DIVIDEND YIELD	2.8%
PRICE@ 15/05/2024	$1.59
NET CASH/DEBT	$65M
RISK RATING	2

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Interim earnings rekindled 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 requirements.

NORTHERN STAR RESOURCES (NST) — BUY

INDUSTRY	GOLD
MARKET CAP	$16738M
DIVIDEND/SHARE	$0.320
DIVIDEND YIELD	2.2%
PRICE@ 15/05/2024	$14.57
NET CASH/DEBT	-$232M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

A pipeline of gold projects to grow production, which will be funded internally, allowing more dividends! FY24 production is expected to be 1,675k ounces at relatively low cost; this rises to 2m ounces by FY26. The big driver is the Kalgoorlie Super Pit. There are also planned production increases at its Yandal and Pogo operations. Dividend policy pays 20-30% of cash earnings.

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SMALL CAP DIVIDEND PORTFOLIO

NZME (NZM) — BUY

INDUSTRY	MEDIA/ADVERT
MARKET CAP	$147M
DIVIDEND/SHARE	$0.074
DIVIDEND YIELD	9.4%
PRICE@ 15/05/2024	$0.79
NET CASH/DEBT	-$16.6M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Share price weakness provides opportunity. We expect earnings growth in CY24 with EBITDA of $60m, representing a bounce back from last year. First quarter advertising revenue was up 4%, and OneRoof's profits are growing, alongside digital revenues (27% of total). We are forecasting a NZ1 cent decline in the annual dividend from NZ9 cents in 2023, not quite covered by earnings. A cash flow multiple of 3 times is very cheap based on stable earnings.

SILK LOGISTICS (SLH) — SPEC BUY

INDUSTRY	SERVICES
MARKET CAP	$121M
DIVIDEND/SHARE	$0.050
DIVIDEND YIELD	3.4%
PRICE@ 15/05/2024	$1.49
NET CASH/DEBT	-$26M
RISK RATING	4

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Experiencing challenging conditions due to sluggish economic growth, but profitability is holding up. Interim dividend was 2.82 cents (fully franked) and we are expecting another 1.18 cents in the final (5 cents for the year). Dividend yield is not high but we believe that the founder-led port logistics company has the incentive to grow income to shareholders as synergies from acquisitions are realised.

SRG GLOBAL (SRG) — BUY

INDUSTRY	CONTRACTOR
MARKET CAP	$443M
DIVIDEND/SHARE	$0.044
DIVIDEND YIELD	5.2%
PRICE@ 15/05/2024	$0.85
NET CASH/DEBT	$6.4M
RISK RATING	3

WHY ITS GOOD FOR DIVIDENDS AND GROWTH:

Has transformed into a diversified industrial company with an 'engineering mindset'. Three divisions: Asset Maintenance, Engineering and Construction, and Mining Services, with similar profitability and a focus on recurring earnings, where there has been a step change. Work in hand is healthy at $1.9bn. We have confidence in dividend growth due to recent acquisitions and a track record of winning contracts.

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URANIUM ANALYSIS

Uranium stocks received a big boost when the US Congress signed a bill this week to ban Russian supply, which has previously represented a quarter of its needs. This news is particularly positive for the stocks we favour, which are at the quality end, but it's particular good news for those in production, namely Palandin Energy (PDN) and Boss Energy (BOE) as well Silex Systems (SLX).

A URANIUM SQUEEZE?

Uranium Oxide (U308) spot price over five years in US$ per pound.

The uranium price climbed quickly in late 2023 into 2024, due to a combination of rising demand from nuclear plants and no new supply coming on. Stocks of uranium fuel have diminished markedly over the past few years. Now the emphasis is on uranium mine supply and the US ban on Russian supply puts high pressure on the rest of the world, with Russia previously representing a quarter of its needs.

SOURCE: Trading Economics

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URANIUM ANALYSIS CONT.

US bans imports of enriched uranium from Russia

This week the US Congress signed a bill to ban the import of enriched uranium from Russia. As almost 25% of nuclear fuel used by US nuclear power plants comes from Russia, this is a brave move. There are 93 nuclear reactors in the US.

The ban on Russian imports starts in about 90 days. However, there is a ‘get out’ clause which allows the US Department of Energy to issue waivers in case of supply concerns, up until 2028.

What could go wrong?

The risk here is that Russian President Vladimir Putin could just ban uranium exports anyway and suddenly the US has just shot itself in the foot. Further, the waiver process is complex, which increases the risk to supply.

Silex Systems in the box seat

The US ban increases the risk of nuclear fuel supply issues, creating further uncertainty and potential for higher uranium prices.

The signing of the bill unlocks US$2.7 billion in US Federal funding for its domestic uranium fuel cycle. This funding could benefit the existing uranium conversion services provided by ConverDyn, a joint venture between Honeywell International Inc. and General Atomics.

It could also benefit Global Laser Enrichment (GLE), owned jointly by Australian-listed **Silex Systems (SLX)** and the Canadian uranium-producing giant **Cameco Corp (NYSE:CCJ)**. GLE is developing its new laser enrichment technology which could become the benchmark for future new uranium conversion plants.

CONCLUSION: Uranium contract prices climbing is good for uranium producers

Spot uranium prices are currently around US$91/lb, which is below the recent peak of US$106/lb. The uranium spot market is thin and lightly traded and not necessarily representative of uranium term contracts being currently signed by utilities. We understand term contract prices have increased significantly. Term contract prices are the prices the uranium mining companies receive under the contracts they negotiate with power utilities.

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BOSS ENERGY

SECTOR METALS_MINING **INDUSTRY** URANIUM NUCLEAR

Uranium Update

What's New?
News on the operations front continues to be positive, with Boss reporting this month that early production at its Honeymoon uranium project in South Australia provides confidence in ramp-up targets being met. The focus is now on optimisation of the ion exchange, elution, and precipitation processes to achieve continuous operations. The planned production rate is 2.45mlbs of uranium oxide (U308) a year and the first sales are in the next two months.

Bull Points
· Production ramping up
· First cash flow this year

Bear Points
· Uranium spot price uncertainty
· Exploration risk

Analysis: Boss has been a big winner, but the news the company produces remains positive, with production ramping up and cash soon to come into the company's coffers. The South Australian company has export permission for 3.3mlbs of uranium oxide (U3O8) a year.

Following strong infill drilling at potential satellite deposits in the Honeymoon region at Gould's Dam, Jasons, Billeroo, and Sunset, BOE is preparing for the development of additional production of 36mlbs U3O8 of indicated and inferred resource.

Expansion is a probability, not just a possibility. In addition to the existing total JORC resource of 71.6m lbs U3O8, Honeymoon has a substantial exploration target of 58-190mlbs at good grades of up to 1,080ppm. The company has also been awarded more exploration tenements.

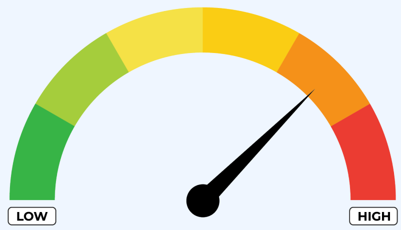
BOE also has a 30% interest in the Alta Mesa uranium project in Texas where first production is imminent. At steady state operation, BOE's share will be 0.5mlbs U3O8 a year.

Portfolio risk rating: Commissioning risks abating with key performance metrics ahead of the feasibility study. High net cash of $100m plus strategic uranium inventory of $170m.

RADAR RATING: Has started production providing exposure to strong uranium prices. Organic growth now being considered through an expansion. High exploration potential.

RADAR RATING: **SPEC BUY**

RISK RATING



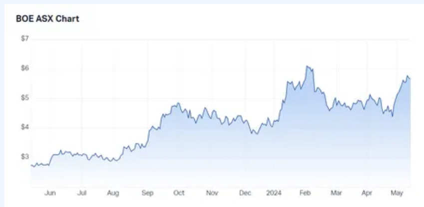
ASX CODE **BOE**

CURRENT PRICE **$5.78**

MARKET CAP $2.3BN

DIVIDEND YIELD 0%*

NET CASH ($M) 99.5M



DATA AS AT INITIAL COVERAGE:

DATE 16 JUNE 2021

PRICE ($) 1.40

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SILEX SYSTEMS

SECTOR METALS_MINING **INDUSTRY** URANIUM NUCLEAR

Uranium Update

What's New?
The enrichment test is commencing at the pilot plant in Wilmington, North Carolina. The company joint owned by Silex and the Canadian uranium giant **Cameco (CCJ.NYSE)** "GLE" is the exclusive licensee of the third generation laser-based SILEX uranium enrichment technology, invented and developed in Sydney, Australia.

Bull Points
· Innovative nuclear enrichment technology
· Cameco backing

Bear Points
· Technology risk
· Not in commercial production

Analysis: The laser-based enrichment technology has been proven at a small scale, but now the stakes are getting higher as the production increased to just below commercial level at the pilot plant in Wilmington, Carolina.

There is no doubt that the US Government wants the enrichment technology to happen onshore, but there are certain regulatory hurdles. The US Nuclear Regulatory Commission provided approval for the joint venture company GLE to load uranium hexafluoride (UF6) feed material for enrichment testing.

GLE anticipates completing the demonstration project this year, which seems ambitious and includes an independent assessment of the technology.

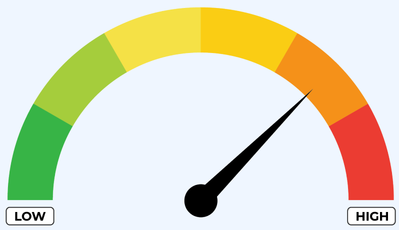
Commercial production of the Paducah laser enrichment plant in Kentucky is on track to commence in early 2028 and is partly dependent on the successful completion of the demonstration project, as well as industry and government support.

Portfolio risk rating: The risk is relatively high, despite the backing of an industry giant in Cameco. Commercialisation of the technology has not been reached and risks include funding, technology, and delays to enrichment testing. Still, there are big players (like the US government) that have a stake in ensuring that the project is a success.

RADAR RATING: Strong appetite for new uranium enrichment technology for use in the US given the proposed ban on Russia uranium fuel imports and nuclear energy push.

RADAR RATING: **SPEC BUY**

RISK RATING



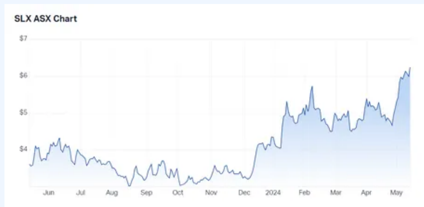
ASX CODE **SLX**

CURRENT PRICE **$6.38**

MARKET CAP $1.5BN

DIVIDEND YIELD 0%*

NET CASH ($M) 127M



DATA AS AT INITIAL COVERAGE:

DATE 08 SEPTEMBER 2022

PRICE ($) 3.98

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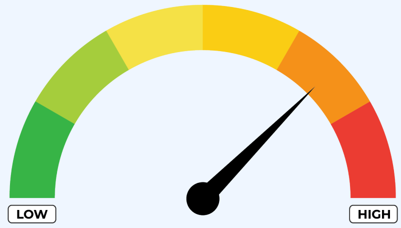
AINSWORTH GAME TECHNOLOGY

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

RADAR RATING: **SPEC BUY**

RISK RATING



ASX CODE **AGI**

CURRENT PRICE **$0.92**

MARKET CAP $310M

DIVIDEND YIELD 0%*

NET CASH ($M) 19.5M

DATA AS AT INITIAL COVERAGE:

DATE 15 JUNE 2023

PRICE ($) 1.05

Research Tip Update

Upgrade from Hold

What's New?
AGI downgraded profit before tax guidance by over 20% for the six months to 30 June (first half of CY24). The group now expects $14m (midpoint) versus $18m due to reduced earnings from South America (Argentina and Mexico) reflecting currency weakness and political instability.

The company has also put on hold the strategic review by Macquarie Group, which investors anticipated related to a takeover by the majority shareholder, the Austrian gaming giant Novomatic (52.9% stake in AGI).

Bull Points
· International growth
· Net cash

Bear Points
· Takeover on the backburner
· Gambling regulation

Analysis: The poker machine manufacturer has a broad distribution platform, which is a good thing overall, but has its risks. Those risks came into play with the downgrade to expected profits due to difficulties in South America. Despite this, International revenues remains the growth engine of the group.

A bigger deal in the short term is that the potential takeover by Novomatic is off the cards for the time being (adduced by Macquarie's abandoned review). However, this was possibly caused by the South American difficulties. The company has now reversed its gains from the anticipation of a deal and now sits close to where we originally recommended the stock.

Latin America and Europe represents about 20% of earnings most years, while North America is the key to group profitability, being over 60%.

Moreover, profitability has not fallen into a heap and the balance sheet remains strong, with net cash of almost $20m. The fundamentals remain positive.

The key is R&D spending, which has been increasing markedly, going from 17% of revenue in 2022 to 24%. Why is this important? Because the group generates strong recurring revenue, which is relatively consistent. Profitability gets boosted if the company can come out with a hit game. This is why you invest in the stock.

Portfolio risk rating: the risk in this stock is moderate due to strong cash flow and dividends, which we expect to recommence next year.

RADAR RATING: The stock now looks good value, trading on a single-digit PE, with solid cash flow and the potential for a hit game not priced in.

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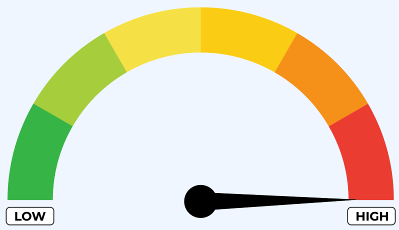
BEAMTREE HOLDINGS

SECTOR HEALTHCARE **INDUSTRY** EHEALTH MED TECH

RADAR RATING: **HOLD**

RISK RATING



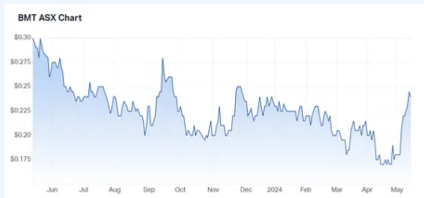
ASX CODE **BMT**

CURRENT PRICE **$0.235**

MARKET CAP $69M

DIVIDEND YIELD 0%*

NET CASH ($M) 4.3M



DATA AS AT INITIAL COVERAGE:

DATE 31 DECEMBER 2020

PRICE ($) 0.35

Research Tip Update

Downgrade from Spec Buy

What's New?
This month shares in Beamtree spiked 33% on a trading update indicating annual recurring revenue (ARR) for the three months to 31 March was up 18% at $25m, while revenues grew 21% on high subscription renewal rates. The company is focused on closing several large and significant contracts before 30 June, driven by partnerships with Lean (Saudi Arabia) and Abbott Laboratories Inc.

Bull Points
· High recurring revenue
· Global reach

Bear Points
· Earnings fragmented
· Low revenues

Analysis: The spike is a welcome injection, but this time last year the stock was trading higher at above 30 cents. Beamtree comes up with a great deal of news about annual recurring revenue, but sales remain thin on the ground and profitability has not been achieved.

The company has built up an array of products and services for hospitals and does business around the world, but we are not confident that it will meet its own $60m ARR target by FY26, which is more than double its current run rate.

The largest division Analytics and Knowledge uses data to benchmark quality and financial efficiency and actually has a lower growth rate than its other businesses. The company projects this business to be a quarter of ARR by FY26.

Diagnostic Technology uses the company's Rippledown software to automate decision-making for medical centres and this is where the company anticipates growth. BMT forecasts this to be worth 35% of ARR by FY26.

Coding Assistance and Data Quality automates clinical records using the company's propriety technology (PICQ) and is forecast to be 30% of ARR.

Clinical Decision Support is the smallest division (projected to be 20% ARR) and utilises machine learning to enhance patient safety.

Portfolio risk rating: The company expects FY24 revenue growth of over 20% and a move from losses to a positive operating profit. This is coming from a low base and this is one of the higher risk stocks we cover.

RADAR RATING: Ambitious targets for growth over the next two years. Momentum on its side (finally) but very high risk.

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INTEGRATED RESEARCH

SECTOR INFORMATION TECH **INDUSTRY** SECURITY DATA SERVICES

Research Tip Update

Downgrade from Spec Buy

What's New?
Integrated Research was on our best stocks to buy list for months at below $0.40. Last week, a trading update with positive FY24 guidance confirmed our thinking, and the stock almost doubled in a week. The market was discounting an excessively pessimistic outcome for IRI, and subscribers have quickly benefitted.

Bull Points
· Boosting margins
· Robust balance sheet

Bear Points
· Competitive environment
· Slow turnaround

Analysis: The company delivered an impressive profit upgrade. But even after the sharp rise this week, IRI is still only selling at a cash flow (enterprise value/EBITDA) multiple of mid-single digits and is a prime example of the benefits of looking for and buying a value situation, but finding a hidden growth stock.

For the 10 months to 30 April, revenue was up 11% delivering a sharp increase in profitability with operating earnings (EBITDA) up an astonishing 93%. Management expects further contracts before the year end.

FY24 guidance is for revenue growth of 9-22%, and EBITDA growth of 49%-107% to a range of $18m-$25m. This wide range illustrates the potential impact of the revenue accounting policies.

Much of IRI's revenue and earnings have to be booked upfront in the form of licence fees, although the cash amounts themselves may be payable over the course of the contract, which often lasts for 3 to 5 years.

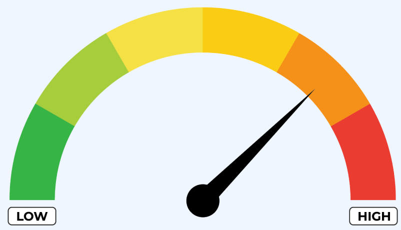
Increased revenues have been magnified at the bottom line due to aggressive cost-cutting. In the past two months, $8.4m in new business has come in, which includes six new customers, predominately in the Americas in the under-pressure Collaborate division, which could mean a recovery in demand.

Portfolio risk rating: While IRI's earnings can be hard to understand, our positive conclusion from the analysis of cash flow was supported by a strong balance sheet. There may be some share price consolidation, but market sentiment about the decline of the underlying business has dramatically improved.

RADAR RATING: May trading update turned the market on its head, and sent the stock soaring 100% in a week. We remain positive since the valuation is still not demanding if growth can be maintained, and the solid balance sheet helps.

RADAR RATING: **HOLD**

RISK RATING



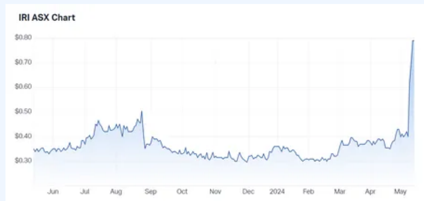
ASX CODE **IRI**

CURRENT PRICE **$0.79**

MARKET CAP $138M

DIVIDEND YIELD 0%*

NET CASH ($M) 21.5M



DATA AS AT INITIAL COVERAGE:

DATE 10 NOVEMBER 2022

PRICE ($) 0.32

***PORTFOLIO**
The Under the Radar Report Portfolio has 12000 shares in IRI, now 5% of the portfolio.*

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under the radar report
SMALL CAPS

ISSUE 600
16 MAY 2024

OMNI BRIDGEWAY

SECTOR FINANCIALS **INDUSTRY** WEALTH

Research Tip Update

Downgrade from Buy

What's new?
The litigation funder's third quarter update triggered debt concern because Omni Bridgeway drew down a $60m debt facility in the past month. The loss of a class action against CBA last week was a hammer blow to the stock.

Bull Points
· Embedded value
· Global investment platform

Bear Points
· Confidence has evaporated
· Liquidity could become pressing

Analysis: We underestimated how far investors would lose faith based on a small number of poor legal outcomes, most recently CBA (see what's new). OBL's resulting loss was only $2m cash, across 2 managed funds, with insurance covering the bulk. The business model is too opaque.

The swift decline in OBL from $1.50 at the beginning of April suggests that there is something fundamentally wrong. But the actual fundamentals look stable. The company reports cash and receivables of $63m plus $60m in available debt, which was drawn after the end of the quarter. It was probably drawing down that debt that gave investors a fright.

The balance sheet at 31 December showed long-term borrowings of $192m (not repayable until 2027, unless covenants are at risk, paying 7%+ the bank rate!). On the face of it, liquidity looks fine. The current ratio (short-term assets/short-term liabilities) is over 2x with $100m current liabilities outweighed by total current assets of $249m. BUT the liabilities are more concentrated at OBL, whereas the assets in terms of receivables are held by funds.

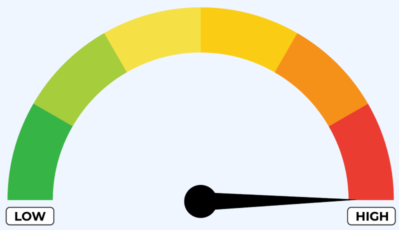
OBL needs to do a better job of communicating the performance of the portfolio, and differentiating funds from assets directly controlled by the parent. OBL will also need to realise further cash from the portfolio through partial sales, and give investors comfort that values ascribed in the balance sheet (where net asset value is $2+) are realistic.

Portfolio risk rating: The stock is still worth a small position in our opinion, but we can understand why investors would be reluctant to double down after such poor share price action.

RADAR RATING: There is a high risk, but platform value is discounted excessively in the current share price. We remain positive, but will pull back our Buy recommendation to allow the dust to settle.

RADAR RATING: **HOLD**

RISK RATING



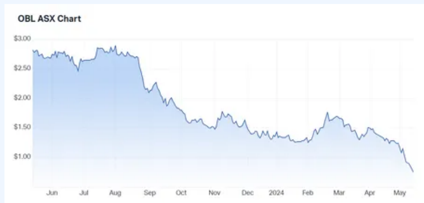
ASX CODE **OBL**

CURRENT PRICE **$0.75**

MARKET CAP $212M

DIVIDEND YIELD 0%*

NET DEBT ($M) -127M



DATA AS AT INITIAL COVERAGE:

DATE 14 NOVEMBER 2013

PRICE ($) 1.71

****PORTFOLIO ACTION***
The Under the Radar Report Portfolio holds 3000 OBL shares, 2% of the portfolio. The Under the Radar Report portfolio is adding 2000 at Friday's close, but only invest money you can afford to lose.

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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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