under the radar report
SMALL CAPS

ISSUE 604
13 JUNE 2024

HUNT FOR VALUE (AND DON'T CHASE MOMENTUM)

The market is on a bull run, which means momentum is strong for some stocks i.e. those investors think have strong growth ahead. There will be bumps and there are two keys: hunt for neglected stocks that are good value; and don't chase a stock that's running. This issue highlights both cases.

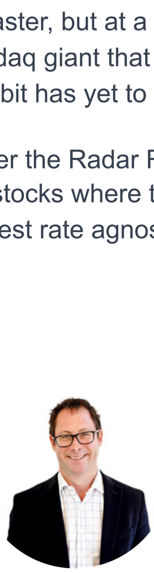
The medical adherence company **MedAdvisor (MDR)** has an interesting business model that takes a bit to understand; In Australia it runs a software-as-a-service model, versus the US where its focus is on being a marketing arm for big pharma. Being comfortable with this strategy has so far generated a 60% return since February this year, when we first covered the stock. When you open your mind, there are profits to be made. We understand that this is a high-risk stock, which is why we downgrade to hold.

Valuation matters when you're investing. Different stocks require differing levels of risk tolerance. **Silk Logistics (SLH)** is somewhat old school, as Australia's third biggest provider of port logistics. Silk has built its business through acquisition and produces positive cash flow. The stock is on a single-digit PE, but is also a low-margin business.

Airtasker (ART) provides a jobs marketplace. It's been successful in Australia, which is easily forgotten as the company goes for growth in Britain and the US. Australian operating earnings margins are an astounding 80%. That buys it a lot of credibility, but the key is success in the UK.

Our subscriber picks is a great place to check out stocks of every type: those that provide genuine investment opportunities as well as those that don't yet make the grade. **Weebit Nano (WBT)** has been around for a while now, but never ceases to amaze me, with a technology that enables semiconductors to be faster, but at a lower cost. Maybe it's being tested by Nvidia. Unlike the Nasdaq giant that generated over US$22bn in revenues in its last quarter, Weebit has yet to make a sale. Weebit is in the S&P/ASX 300 index.

Under the Radar Report exists to hunt for the next MedAdvisor, and to weed out the stocks where the risk is too high. This is how you build a portfolio that is interest rate agnostic, and grows your wealth.



Richard Hemming
Head of Investments

the issue

RESEARCH TIP UPDATES

A mixed bag with some high-risk stocks and an old-school industrial in Silk Logistics.

AIRTASKER (ART)	SPEC BUY
CYCLOPHARM (CYC)	SPEC BUY
MEDADVISOR (MDR)	▼ HOLD
SILK LOGISTICS (SLH)	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 NOW

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

For MedAdvisor, the US has the advantage of an $8.4bn total addressable market, including direct-to-consumer digital marketing.

Under the Radar Report

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SMALL CAPS

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Andy Gracey, Portfolio Manager at Australian Ethical

One of the most experienced biotech investors around, having run the Australian Ethical portfolio for 20 years, says that demand for stocks is rocketing. But he also says that you need to be careful.

AUSTRALIAN ETHICAL EMERGING COMPANIES FUND

Top 10 Holdings	Allocation
ANSARADA GROUP LIMITED	4.1%
NUIX LTD	4.1%
CONTACT ENERGY LTD	4.0%
GENTRACK GROUP LTD	3.4%
DOMAIN HOLDINGS AUSTRALIA LIMITED	3.3%
MACQUARIE TECHNOLOGY GROUP LTD ORD F/PD DS	3.3%
MERIDIAN ENERGY LIMITED -PARTIAL PAID SHARE	3.3%
BRAVURA SOLUTIONS LTD	3.2%
AUSSIE BROADBAND PTY LTD	3.1%
MERCURY NZ LTD	2.8%

As at 31 Mar 2024

Radiopharmaceuticals are now on everyone's lips

Andy Gracey has been investing for a long time and hasn't seen this sort of interest in medical technology, which includes the sub-sector of biotechnology, which can often be a type of "molecular roulette":

> *"The whole biotech market is pretty interesting to invest in… there has been investment successes, you know, companies like Telix, companies like Neuren have made small cap Australian investors, a lot of money. Both these companies are multi-billion dollar companies now."*

Under the Radar Report first recommended brain treatment specialist **Neuren Pharmaceuticals (NEU)** at $2.20 back in 2016, which now trades at $18.87 and has been as high as $25.95.

Telix Pharmaceuticals (TLX) and **Clarity Pharmaceuticals (CU6)** both have nuclear medicine-based treatments, and are classified as radiopharmaceuticals. Both target prostate cancer or PSMA proteins where a radioactive substance attaches to an antibody, which first provides imaging and if positive, the tumour gets a targeted payload with the drug. The treatment prolongs survival in a predominantly elderly population. Both are shooting the lights out with TLX having returned 56% in the past 12 months.

Of Telix, Gracey makes the point having missed the initial gains, he isn't going to chase the stock, whose valuation is $6bn. He also makes the point that when you're running a diversified portfolio, you don't buy heavily into stocks where probabilities of success are relatively low.

Continued on next page...

Andy Gracey, Portfolio Manager at Australian Ethical Cont.

> *"We've got a small holding in Clarity. We've got a small holding in [eye disease specialist]* ***Opthea (OPT)****. We've got a small holding in* ***Immutep (IMM)****. These are mid to late-stage developers with very interesting technologies. But you know, the positions are sized for the fact that these are playing in binary fields."*

Why radiopharmaceuticals are running hot

> *"There have been four global deals and the science progresses quickly from early to mid-clinical stages, so there is great potential. The treatment is accompanied by diagnostic capability, so it affects the cancer cells straight away, because it's linked to radiology."*

But there is no doubt that across the board biotechnology stocks are having a resurgence. For those who doubt, check out the 160% rise in the past two and a bit months of long-time biotech operator **Mesoblast (MSB),** benefiting from news in April that the US Food and Drug Administration had allowed the company to resubmit a drug application for its Revascor cell therapy used to treat congenital heart conditions in newborn babies.

Check out Immutep

The stock Gracey is most excited about right now is the immunotherapy drug developer **Immutep (IMM)** – previously known as Prima Biomed – which raised just over $100m in equity at 38 cents to fund a late clinical trial. We understand that the demand was high. The stock now trades at 42.5 cents. The company has a close relationship with the US-based pharma giant Merck. The Keytruda lung cancer treatment contributed 42% of Merck's 2023 revenue but is running into a patent cliff. Immutep is working with Merck in a late-stage clinical trial for its Efti treatment to work in combination with Keytruda, which could extend the life of Merck's treatment. It's high risk, but high reward.

> *"It's obviously a pretty close relationship, when the leading immunotherapy drug developer, Merck is actually throwing $100m worth of drug into your clinical trial."*

Medical technology is lower-risk

While biotechs are doing well, Australian Ethical's portfolio is more heavily weighted to the lower-risk medical technology stocks. Stocks his fund owns include sleep apnoea and hospitals operator **Fisher & Paykel Healthcare (FPH)**, as well as more specialised businesses such as **SomnoMed (SOM)**, the imaging company e-health company **Mach7 Technologies (M7T)** and the lymphodema diagnosis company **ImpediMed (IPD)**.

> *"Medical devices is probably our preferred space with lower investment and lower risk. We've seen successes like* ***Cochlear (COH)****. Unlike the classical pharmaceutical drug developers, there is a lot more protection. (In biotechs) your whole franchise can disappear in a click of a finger."*

He mentions Fisher & Paykel among the large caps that have high-quality business models:

> *"They make good (gross profit) margin on both the hardware and the mask. Fisher & Paykel historically they've been able to double their business every five or six years. This is a Rolls Royce level of business quality."*

Other med-techs haven't performed so well, but Gracey says that they continue to improve their businesses and the prospect of being taken over by private equity means that they are worth holding on to.

Continued on next page...

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Andy Gracey, Portfolio Manager at Australian Ethical Cont.

What it means to be ethical

Clearly the Environmental Social & Governance (ESG) niche that has been championed by Australian Ethical has been adopted by the mainstream. What stands out, however, is the fund manager's unbending approach, which is highlighted by its used of an independent committee to determine which companies pass muster when it comes to being investable. The criteria eliminates half the S&P/ASX 300 Index members, as well as sectors like contracting due to the mining-related customer base.

What it also does, however, is bias the fund towards small caps and technology:

> *"Certain sectors become more attractive targets for us. Healthcare, information technologies (are sectors) where we're considerably overweight. We tend to be overweight small companies over large companies. Because small companies are often more focused in terms of very specific industries and products."*

The definitions of ethical and ESG are not static. Gas was once viewed as ethical, being a transitionary fuel to renewables, which is no longer the case. Meanwhile, the fund has invested in what it views as critical minerals, such as copper and lithium, which are both essential to the low-carbon emitting future. The large-cap Australian Ethical fund owns lithium producer **Pilbara Minerals (PLS)**. There is no exposure to nuclear technology or uranium.

A money manager first and foremost

While data centres and AI in general do require great amounts of power, the fund continues to own **Macquarie Technology Group (MAQ)** but not **NextDC (NXT)** which did not stack up on valuation grounds. Elsewhere, the fund has been a big holder of the utilities software company **Gentrack (GTK)** which has had a terrific run and from which Gracey's team are now taking profits, but remains a substantial shareholder (owning more than 5% of the company).

Gracey is a successful fund manager, after all. He clearly adhere's to Under the Radar Report's philosophy for when stocks do well: "Take your costs out and let your profits run".

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ISSUE 604
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AIRTASKER

SECTOR INFORMATION TECH **INDUSTRY** SOFTWARE

Research Tip Update

What's New?
The third quarter results showed continued progress towards self-funded growth, with strong free cash flow, positive for a second consecutive quarter.

Bull Points
· International potential
· Domestic cash flow

Bear Points
· Australia ex growth
· Slow growth business model

Analysis: The positive free cash flow, for the quarter of $2.5m reassures that the core Australian business remains stable, while international growth prospects are still intact.

Marketplace revenue rose 11.5% to $10.1m, as part of group revenue of $12.2m. A reduction in operating cost payments for timing reasons (software costs are paid annually) meant this was an unusually strong result. The Oneflare business acquired in 2022 has not provided much additional value.

Third quarter operating earnings (EBITDA) was $0.6m, from Australian earnings of $3.9m, after accounting for global head office expenditure of $3.3m. Costs were down a substantial $2m on the same period a year ago. The company invested $1.3m in the international businesses.

Airtasker is using domestic cash to double down via marketing initiatives in the northern hemisphere, hence there should be cash outflow over the full year.

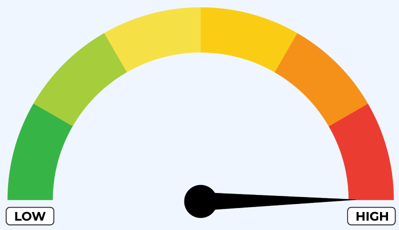
The key is the UK, where Airtasker has a five-year media partnership with Channel 4. The company is investing in its UK marketplace through initiatives to increase posted tasks, and the northern hemisphere spring and summer should provide a seasonal boost.

Portfolio Risk Rating: On Australian earnings alone, the stock seems reasonably priced, and at the moment the Australian earnings can support the international investment. The international growth possibilities are substantial, but involve additional investment risks.

RADAR RATING: Airtasker is now funding its own growth from earnings. Robust domestic earnings with eye-catching 80% EBITDA margins deliver a runway to deliver a much bigger international business over time.

RADAR RATING: **SPEC BUY**

RISK RATING



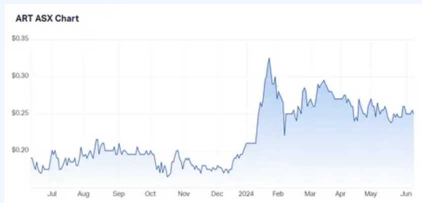
ASX CODE **ART**

CURRENT PRICE **$0.255**

MARKET CAP $453M

DIVIDEND YIELD 0%*

NET CASH ($M) 19.7M



DATA AS AT INITIAL COVERAGE:

DATE 08 FEBRUARY 2024

PRICE ($) 0.22

PORTFOLIO
The Under the Radar Report portfolio has 20000 ART shares, around 4% of the portfolio.
The Idle Speculator holds ART in his SMSF.

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CYCLOPHARM

SECTOR HEALTHCARE **INDUSTRY** EHEALTH MED TECH

Research Tip Update

What's new?
Late last month the med-tech announced that it is raising $22m at $1.42 a share, $20m from institutions and $2m via a retail share purchase plan (SPP). This increases the shares on issue by about 15% and the money will be used to finance the US rollout the company's Technegas nuclear medicine solution for identifying pulmonary embolism.

The SPP opened on Friday 31 May and will close on Friday 21 June, which shares allotted on Friday 28 June.

Last week Cyclopharm also announced it has received Pass-Through status from the US regulators Medicare & Medicaide for reimbursement from 1 July 2024, which was previously expected to be in the next six months.

Bull Points
· Niche medical technology
· US rollout

Bear Points
· Question over funding
· Risk of competing technology

Analysis: The stock remains well above the issue price, hence you take up the SPP issue if you are a shareholder. The raising is for growth, which is a positive.

This raising follows the product's US approval in late September 2023, after which the stock has fallen heavily, partly on the expectation of this capital raising, which we had indicated was a probability.

The quicker-than-anticipated reimbursement is a big positive and should accelerate the rollout as it provides a financial incentive.

This is good news, but the shares have been weighed down by the capital raise and rollout delays. Remember, this stock is already profitable when you strip out the costs of gaining FDA approval.

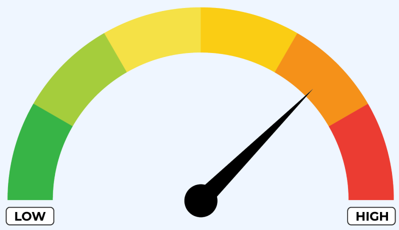
The rollout has been slow. As at the most recent market update in early May, five instals had been completed, with a further seven taking place. The 12 sites equates to a further 48 systems; plus another 10 contracts are under negotiation.

Portfolio Risk Rating: The company is on track to be cash flow positive and profitable in FY25. This announcement boosts our forecast profits and the stock now trades on a forecast PE of 20 times, which is impressive when you consider that it is a start-up in the giant US market. Remains high risk because of the long lead times for sales to hospitals.

RADAR RATING: Good value but high risk. The company's technology is in demand and the business model will generate profit growth with sales of the Technegas nuclear medicine-based system.

RADAR RATING: **SPEC BUY**

RISK RATING



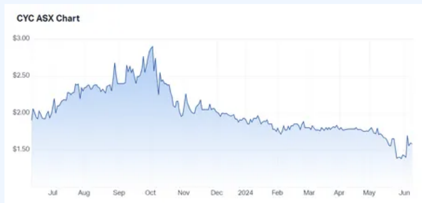
ASX CODE **CYC**

CURRENT PRICE **$1.557**

MARKET CAP $170M

DIVIDEND YIELD 0%*

NET CASH ($M) 38M



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MEDADVISOR

SECTOR HEALTHCARE **INDUSTRY** EHEALTH MED TECH

Research Tip Update

Downgrade from Spec Buy

What's new?
MedAdvisor has been a great performer in the short time since we first recommended it in late February, following up with another positive recommendation in early March, both below 30 cents. Recent news that the company would achieve record FY24 performance, well ahead of our forecast, sent the stock soaring and is now up over 60% on where we first tipped it.

Bull Points
· Upgrading earnings
· Growth in the US & Australia

Bear Points
· Regulatory risks
· Management of rapid US growth

Analysis: FY24 revenue is now expected to increase by 21% to over $120m, producing earnings (EBITDA) of $6.8m, from a $3m loss in FY23, for net profit after tax of $0.5m. The upgrade has been driven by buoyant trading conditions in the US, with the group's digital business ThriV improving profitability. Australian transaction fees contribute from 1 March.

The markets seem ripe for MDR's adherence services in Australia and digital campaign management in the US.

In Australia, 95% of pharmacies use MedAdvisor's software, providing a small but robust source of revenue, and gross margins of 89%. It is in the US where the excitement resides, although progress is not linear.

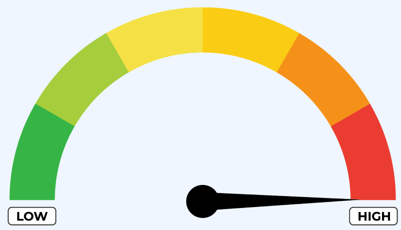
The US has the advantage of an $8.4bn total addressable market, including direct-to-consumer digital marketing. Growth is via increasing adoption of the THRiV omni-channel solutions alongside new services. Third quarter revenue grew 57% to $19m (75% of total). The digital solution has shown rapid growth, and will account for 18% of FY24 US sales, against only 3% in FY23.

Portfolio Risk Rating: Strong momentum across its key markets, and a valuation of around 2 to 3 times sales is fair for a software business. The US business is a specialised marketing platform, versus the stickier Australian business linking pharmacies to patients to prescriptions. A substantial investment is planned to unify the platforms.

RADAR RATING: A quick winner for subscribers since we recommended it in February. Too soon to take profits, and a long-term growth story may be emerging.

RADAR RATING: **HOLD**

RISK RATING



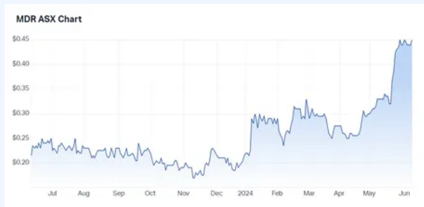
ASX CODE **MDR**

CURRENT PRICE **$0.45**

MARKET CAP $239M

DIVIDEND YIELD 0%*

NET CASH ($M) 7.5M



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SILK LOGISTICS

SECTOR INDUSTRIAL **INDUSTRY** CONTRACTOR

Research Tip Update

What's new?
Silk announced a CEO change, but the replacement will be the current COO and co-founder John Sood. Previous CEO, Brendan Boyd, also co-founder, is retiring for medical reasons, but will remain a non-executive director.

Bull Points
· Acquisitions will support top-line growth
· Cashflow positive

Bear Points
· FY24 low growth
· Highly cyclical business

Analysis: This is an unusual situation, but the board will continue to benefit from Boyd's ongoing presence as a source of industry and operational knowledge. This accelerates an existing succession plan, and the new CEO has been closely involved in setting and implementing the logistics company's existing strategy.

The logistics provider slightly underperformed at the interim in late February, when stocks more broadly were being punished. The price has stabilised and we maintain a positive stance. Silk's scale in a strategically vital industry is a significant competitive advantage.

There is a high level of certainty in forecast sales. Although contracted recurring revenue fell slightly to $368m in the six months to 31 December, less than 30% came from customers not on long-term contracts.

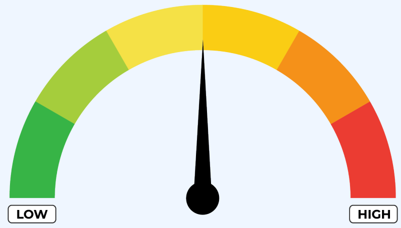
Trading conditions are challenging, however. Silk is facing a contraction in the goods supply chain from just-in-case to just-in-time, reducing marginal demand. And for a lower-margin business, small changes in the top line make a big difference at the bottom line.

Portfolio Risk Rating: We forecast operating earnings (EBIT) for FY24 of $36m delivering an enterprise value multiple of 4-5 times; good value for a stock with revenue growth and a strong market position. Cyclical forces and debt are factors, but cash flow is robust. Acquisitions will deliver some growth, and SLH pays dividends.

RADAR RATING: Direct exposure to the critical import sectors of the economy. While the Silk's businesses can be low margin, the majority of revenue is under contract. SLH has the scale and scope to maintain pricing power.

RADAR RATING: **BUY**

RISK RATING



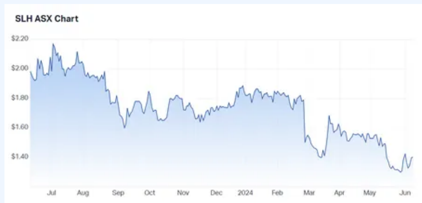
ASX CODE **SLH**

CURRENT PRICE **$1.385**

MARKET CAP $110M

DIVIDEND YIELD 3.7%*

NET DEBT ($M) -34.8M



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Forecast 5 cents

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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
AI-MEDIA	AIM	AI transcription & translation	63.7	11.7	52	0.31	0.43	IPO 2020. TV captions, subtitles, translations for broadcasters, government, education. Half revenues from technology; pivoting towards AI delivered services. In interim result, sales for LEXI toolkit grew 54%. Non-human solutions carry higher margins.	Early stage but encouraging. WATCHLIST.
COVENTRY GROUP	CYG	Specialised industrial products & services	153.5	-51.5	205	1.39	1.68	Fluids business offers industrial hydraulics and lubrication services, while trade distribution offers industrial products from up to 80 locations across ANZ. The $42m acquisition of Steelmasters will provide a source of growth, with proforma FY24 revenues of $400m, and $27m EBITDA. forecast FY24 sales of $357m, and EBITDA of $19m+, and NPAT of $9.2m.	Fundamentals boosted by acquisition. Worth more analysis on organic growth prospects. HOLD.
HORIZON OIL	HZN	Oil producer	275.1	67.7	207.4	0.17	0.19	A profitable, dividend paying, small scale oil and gas producer in China, New Zealand & Australia. FY24 production target is 1.4-1.5m barrels (v Karoon 14m). FY24 revenue expectation: US$110-120m at US$/80/bbl for operating earnings (EBITDAX) of US$62.5-72.5m. An unfranked 1H24 (interim) dividend of 1.5 cents was paid (1H23 1.5 cents). The final FY23 dividend 2.0 cents.	Expects to continue and potentially enhance distributions. Share price can be volatile. WATCHLIST.
LIFE SCIENCES	EZZ	Health suplements	51.1	14.5	36.6	1.15	1.15	Catchting up to its bouyant entry on the ASX, having than doubled its issue price to $1.16. The health supplements distributor in ANZ has grown the bottom line from low levels and does pay dividends (1.5 cent interim, 1 cent final in FY23).	Finally getting noticed for cash and dividends. Not priced for growth. WATCHLIST.
METALS ACQUISITION	MAC	Copper producer	688.9	151.7	537.2	20.8	22.5	Listed on ASX in late February having raised $325m via the issue of 119.118 CDIs at $17 per CDI; also listed NYSE. Owns CSA copper mine, Cobar, NSW, and has increased ore reserves, mine life 11 years. Copper in concentrate production is expected 38-43k tonnes in 2024, 43-48k tonnes in 2025 and 48-53k tonnes in 2026. The top 850m of the CSA mine has been targetted for further exploration.	We like the concept but high risk on costs. WATCHLIST.
OPTHEA	OPT	Biotechnology - eye disease	321.5	-103	424.5	0.49	0.82	Pre-revenue company, running two late stage clinical programs for treatment of eye diseases - age related macular degeneration; diabetic macular edema. @30/9/24 US$101.6m cash, but has debt of US$170m - only payable upon regulatory approval via a 7% royalty on net sales + milestone payments. Raised $90m Aug 2023; US$85 non-equity funding received in December. Spent US$51.6m in quarter ending 31 March 2024.	High risk and will be raising more capital. WATCHLIST

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SKS TECHNOLOGIES	SKS	Electrical & communication contractor	79.1	0.9	78.2	0.72	0.83	Data centres and defence work, while maintaining exposure to large scale projects for blue chip customers like shopping centres and stadiums; Work on hand increased to $110m by May, more than double 2021 levels. One large data centre contract that indicates concentrated customer risk	Positioned for growth but has customer risk. WATCHLIST.
WEEBIT NANO	WBT	Wide bandwidth RAM storage technology	430.5	72	358.5	2.28	7.77	Embedded Resistive Random-Access Memory technology delivers longer battery life, uses lower power, and enables semiconductors to be faster and lower cost. Production testing by foundries is progressing, and commercialisation is ongoing. Business model is based on licence fees from chip companies and foundries.	In the S&P ASX-200, even with no revenue. AVOID.
ZIP CO	ZIP	Buy Now Pay Later fintech	1266.3	419	991.6	1.28	1.6	An impressive recovery. A loan book of around $2.5bn brings in around $70m/month revenue, and costs ZIP around $20m/month interest, while other operating costs of $30m leave a positive margin for advertising and investment in growth.	Financial risks as a small fish in a very big pond, but out of triage. WATCHLIST

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99% of all financial news relates to the 40 to 50 biggest companies.
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