under the radar report
SMALL CAPS

ISSUE 606
27 JUNE 2024

27% RETURN IN 12 MONTHS

If you invest in Small Caps, it is highly probable a number will make a positive impact. Such has been the case with our Portfolio, which has returned 27% in 12 months, more than 5 times better than the benchmark S&P/ASX Emerging Companies Index. Leading the way have been Integrated Research (IRI), +145% and PlaySide Studios (PLY), +95%. I'm happy because I follow our Portfolio and own the stocks too.

Not all the stocks you own perform at once, but there is no doubt that this is a stock picker's market. Get more than half right and you'll stand to reap big rewards. Our portfolio manager highlights five strategies to take advantage, reducing your overall risk, while exposing you to outsized returns. Then he details upcoming portfolio transactions.

Stock picking means you are hunting for stocks where you're getting the maximum effect of their fundamentals – their prospective earnings/dividend growth, as well as their cash flow and balance sheet. You are paying sensible prices today for a stream of earnings in the future.

We focus on retailers this week, following the high-profile IPO on the ASX of the Mexican fast food franchisor **Guzman Y Gomez (GYG.ASX)**, which has so far listed at close to a 30% premium to its $22 issue price and is worth almost $3bn.

A couple of points need to be made. The free float, or the stock not owned by insiders is less than 10%. This was a thin float! There is not much stock being traded.

We looked at another franchisor, **Retail Foods (RFG)**, which has had a rocky road since being recapitalised with the Covid lockdowns and class actions. Growth anticipates more stores plus product and service innovations, like Donut King's online delivery and packaging service for larger orders.

RFG's forecast operating earnings (EBITDA) of $30m implies a cash flow (enterprise value/EBITDA) valuation of 7 times. Guzan Y Gomez is trading on a forward cash flow multiple of over 30 times!

Retail is a difficult game where you need to constantly change and reinvent. Investing, on the other hand, is a matter of chasing value, not momentum.

Richard Hemming
Head of Investments

the issue

PORTFOLIO

Five strategies to reduce risk in your portfolio.
Our results this year have been robust, outperforming all three indices we look at, the S&P/ASX All Ords, the S&P/ASX Small Caps and the S&P/ASX Emerging Companies Index. The average cash level was well over 15%, making the stock picking itself even stronger.

RETAIL SPECIAL

CITY CHIC COLLECTIVE (CCX)	HOLD
GALE PACIFIC (GAP)	HOLD
MYER HOLDINGS (MYR)	HOLD
RETAIL FOOD GROUP (RFG)	SPEC BUY

RESEARCH TIP UPDATES

PALADIN ENERGY (PDN)	SPEC BUY
SRG GLOBAL (SRG)	SPEC BUY
STRIKE ENERGY (STX)	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.

> Diversifying across companies involved in different industries, not obviously connected to each other, ensures your portfolio is not overexposed to single event or sector risk.

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

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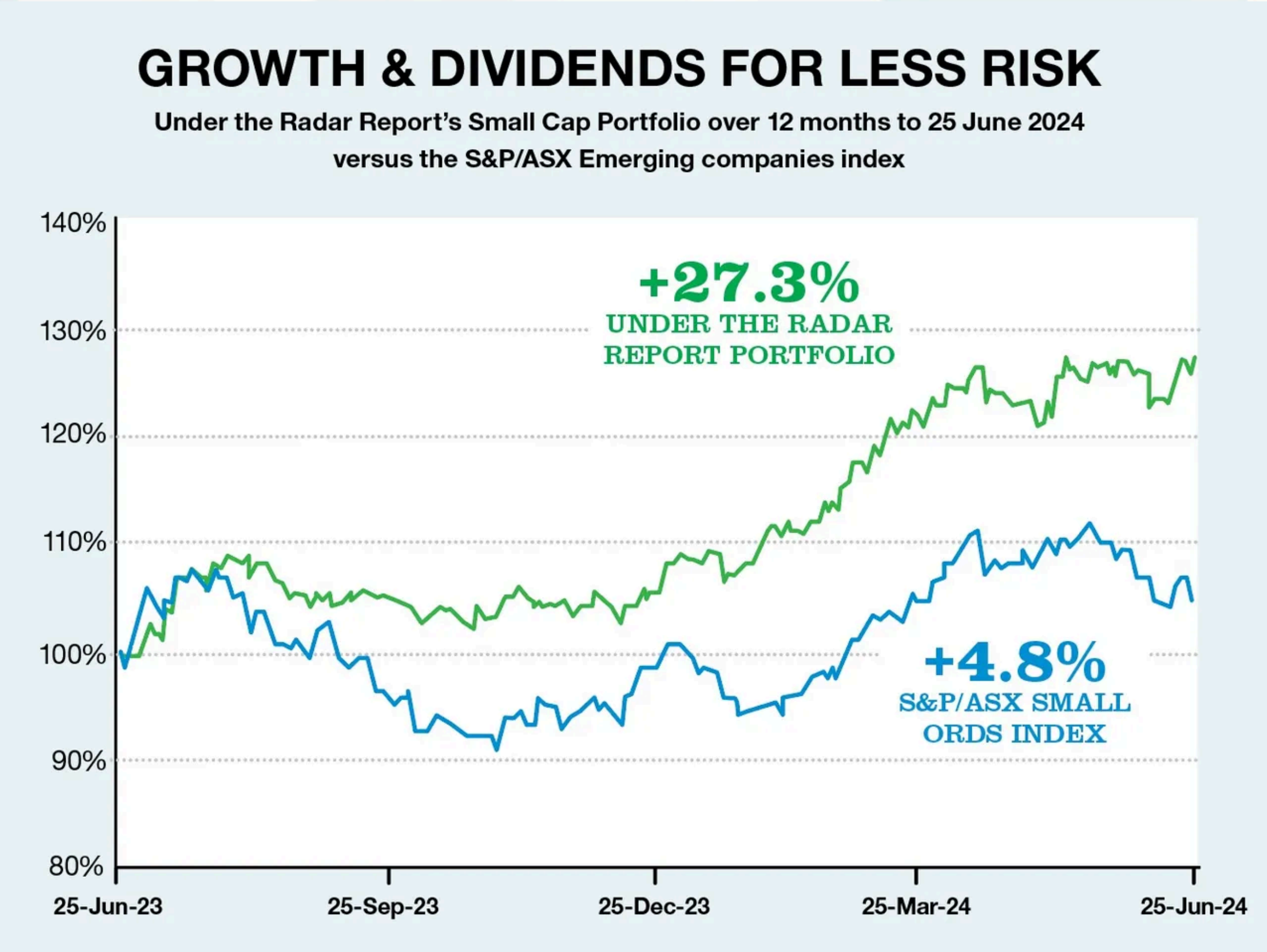
5 Strategies to Reduce Risk in Your Portfolio

If you invest in Small Caps, it is highly probably that a number will make a positive impact. Such has been the case with our Small Cap Portfolio, with Integrated Research (IRI), +145%, and Playside Studios (PLY), +95%. This is a stock pickers market and give you strategies to reduce your overall risk, while exposing you to outsized returns.



Our results this year have been robust, outperforming all three indices we look at, the S&P/ASX All Ords, the S&P/ASX Small Caps and the S&P/ASX Emerging Companies Index. The average cash level was well over 15%, making the stock picking itself even stronger. Big contributors include Southern Cross Electrical (SXE) and Capral (CAA) where we have been taking profits.The portfolio's dividends are reducing as financial conditions tighten.

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5 Strategies to Reduce Risk in Your Portfolio

1. Diversify, Diversify, Diversify

Diversifying your investments across companies which are involved in different industries, not obviously connected to each other, is one of the tools that ensure a portfolio is not overexposed to single event or sector risk. The key is to avoid irreparable damage to the portfolio.

While it is not possible to ensure that the portfolio is exposed to all kinds of revenue growth in the broader economy, we look at where companies get their revenue from. Is it the government, large companies, SMEs or retail. Within retail, are customers high, middle or low-income?

2. Focus on the balance sheet.

We have always taken some care to think about the balance sheets of the companies whose stocks we own. Using criteria included in our risk ratings, we make sure that we have not exposed too heavily to financial leverage. One or two speculative stocks with too much debt are suitable only for experienced investors.

The benefits of a strong balance sheet are numerous, including giving investors the peace of mind to sleep at night. A strong balance sheet provides optionality that if business conditions change, which can happen to small companies quite quickly, steps can be taken to offset the unexpected factors.

Even if the immediate solution to a business challenge is not obvious, a strong balance sheet gives management time and space free from the demands of financial creditors to determine a solution, or find a potential buyer whose existing operations change the economics, and allow shareholders a financially advantageous exit.

3. Hold cash

STRATEGY THREE: Hold cash.

Cash is a traditional hedge, and serves two key purposes, the first is to limit the exposure to a down market. This also limits the upside versus an index, especially in strong bull markets, but ensures that some of the sharp edges are avoided.

Cash also provides the fuel to be able to take advantage of specific opportunities, and the Covid crash is a strong example of this, with opportunities to invest in stocks which have performed extremely well as they recovered from that event, for instance, **Southern Cross Electrical (SXE)**, purchased below 40 cents in May 2020, now about to take profits at a 350% gain, with income from dividends along the way.

Cash also provides the opportunity to top up existing holdings when the market has discounted their prospects, and having a reliable source of cash allows an investor to tuck away a stock which seems undervalued, while following our principles to buy slowly and often.

The need to maintain cash also instils a discipline to take profits. While markets are hot, it is always tempting to see cash as trash, but while remaining invested, we see cash as an opportunity waiting for the market to come to your party.

Continued on next page...

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5 Strategies cont…

4. Have gold exposure.

Owning gold stocks gives exposure to the gold price and rising production. But these stocks need to be at the bigger end because of significant mine risk.

Evolution Mining (EVN) has been a strong performer. The stock has rebounded from weakness in 2022 when rising interest rates and a static gold price created headwinds. More recently, the gold price has advanced 20% earlier this year.

We took some profits on EVN in 2020, and have reinvested below $3 in 2022, so we feel that our position has been well played, and we are comfortable with the current exposure partly because of the copper content, which should remain a long-term growth story.

Early on, we took the view that a gold **ETF (GOLD)** would provide a useful counterbalance to the manias and depressive phases of the stock market, which can impact smaller stocks more significantly.

5. Index funds

Index funds are another technique we have used for risk reduction, which we utilised in our Building Wealth From Scratch programme, utilising our $500 Strategy.

While we were building the portfolio's small cap investments, we used a 75/25 strategy of investing between 50% and 75% of portfolio in index funds, with up to 25% in small caps, and the balance represented by gold and cash.

This diversification strategy is still appropriate. The portfolio is now managed on an exclusively small caps (and Gold) basis, to better illustrate the potential gains across a broad portfolio, and the potential risk minimisation that can be achieved through stock selection.

And this year's performance has delivered the former.

> ***If there is any debt at all, companies are starting to withhold dividends, which is a trend worth noting as the results season approaches.***

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Under the Radar's Small Cap Portfolio Holdings

Small Cap Portfolio Performance: as at 25 June 2024

CODE	SECURITY	LAST TRANSACTION	NUMBER HELD	TOTAL COST	Price @ 15/04/2024	CURRENT VALUE	
A1N	ARN Media Limited	20/05/2023	8000	($10,860)	$0.65	**$5,200**	3.50%
ART	Airtasker Limited	2/9/2024	20000	($9,225)	$0.25	**$5,000**	3.40%
ASB	Austal Limited	4/1/2022	5000	($9,427)	$2.44	**$12,200**	8.30%
BOL	Boom Logistics Limited	26/06/2020	50000	($6,180)	$0.15	**$7,250**	4.90%
CAA	Capral	24/06/2022	1500	($7,208)	$8.91	**$13,365**	9.10%
CLV	Clover Corporation Limited	12/1/2023	5000	($5,075)	$0.46	**$2,275**	1.50%
COE	Cooper Energy Limited	30/07/2022	35000	($11,188)	$0.23	**$8,050**	5.50%
DCC	DigitalX Limited	25/02/2022	15000	($1,255)	$0.04	**$660**	0.40%
EVN	Evolution Limited	30/07/2022	3500	($9,808)	$3.50	**$12,250**	8.30%
GAP	Gale Pacific Limited	5/4/2019	30000	($10,885)	$0.12	**$3,450**	2.30%
IRI	Integrated Research	3/1/2024	12000	($4,165)	$0.85	**$10,200**	6.90%
KGN	Kogan Limited	27/05/2022	1000	($5,656)	$4.20	**$4,200**	2.90%
MVP	Medical Developments	15/3/2024	5000	($12,248)	$0.40	**$2,000**	1.40%
OBL	Omni Bridgeway Limited	17/05/2024	5000	($6,373)	$1.04	**$5,200**	3.50%
PAC	Pacific Group Limited	3/9/2018	1000	($5,397)	$10.50	**$10,500**	7.10%
PLY	Playside Limited	9/1/2023	3000	($1,318)	$0.86	**$2,565**	1.70%
SHV	Select Harvests Limited	27/05/2022	1500	($7,751)	$3.87	**$5,805**	3.90%
SLC	Superloop Limited	29/03/2024	6000	($5,558)	$1.54	**$9,240**	6.30%
SXE	SCEE Limited	8/7/2020	10000	($3,978)	$1.80	**$17,950**	12.20%
GOLD	ETFS Physical Gold	20/06/2022	300	($3,868)	$32.18	**$9,654**	6.60%
Shares	**83%**					**$147,014**	
Cash	**17%**					**$29,999**	
TOTAL						**$177,013**	

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Portfolio Transactions

Our Portfolio Manager's June comment

As the financial year-end approaches, we are adjusting some of our holdings to take profits, double down on a couple of positions, and buy two new stocks, though we expect to remain invested to the same net extent.

TAKING PROFITS & MANAGING CURRENT LOSSES

Under the Radar Report recommendations on both **Southern Cross Electrical (SXE)** and **Capral (CAA)** have been downgraded to Take Profits, and the Under the Radar Report portfolio has done well from both stocks.

We will sell half the SXE position.

We have previously taken profits at higher levels in mid-2022 on Capral, and we will sell a further 500 shares to reduce our position to 1000.

There are three stocks, **Medical Developments (MVP)**, **ARN Media (A1N)**, and **Gale Pacific (GAP)** where the losses have been significant.

The portfolio would be 6% higher were it not for the MVP losses. Unfortunately, this experience goes with the territory of small cap investing.

Losses on **Cooper Energy (COE)** were once almost as big, but have almost all been recovered now.

We will put just over 1% of the portfolio into doubling the MVP position to make sure that we get some benefit if there is some recovery. The product remains sound, even if the US market entry was a complete bust.

The valuation is cheap, but this is a very high-risk approach, and we do not recommend all subscribers take this view for what is a highly speculative position.

We will also add 20000 GAP, for a similar amount, covered in this Issue 606, where the valuation at 20% of sales seems too low.

We have cashed in our shares in **Damstra** through the takeover, which left us around breakeven after doubling down.

BEST STOCKS TO BUY NOW

We are also looking at the best stocks to buy, we had some previous success in **Alliance Aviation (AQZ)**, and we will buy 1000 shares. We are also interested in **Hansen Technologies (HSN)** and will buy 1000 shares. All transactions to be completed at Friday's closing prices.

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CITY CHIC COLLECTIVE

SECTOR CONSUMER DISCRETIONARY **INDUSTRY** RETAIL

Retail Special

What's new?
A lot! A heavily dilutive $23m equity capital raise @ 15 cents a share to stay in business; sale of US-based Avenue for $14.5m (acquired in October 2019 for $24m); trading update which undershot expectations.

Bull Points
• Leading presence in ANZ
• Emerging sales in North America

Bear Points
• Aggressive competition
• Difficult market conditions

Analysis: Consumer sentiment is down and competitors are aggressively pursuing market share. CCX has limited weapons to fight with. On the other hand, if it can survive, there is big leverage in profitability.

City Chic has had the appearance of value but stepping away has been the right call, as evidenced by the recent $23m capital raise done at a deep 50% discount to the price prior to the raising, at 15 cents a share. The raising was used to enable the women's plus size fashion retailer to stay in business, paying down debt and providing working capital, and was in addition to the sale of its US business Avenue for $14.5m. The share is a fraction of its 50-cent price at the start of the year when we last covered it (Issue 585).

The company is going back to old suppliers and streamlining procurement, which should reduce fulfilment costs (getting orders from your warehouse into customer's hands).

Even including this action the company is a marginal proposition, making operating losses unless sales improve. The Avenue sale reduces sales by 40% at the top line, which are forecast to be $133m in FY24 (excluding Avenue).

Profitability is heavily dependent on a recovery in sales in the next few months. This is premised on gross profit margin recovering and an improvement in the cost of doing business margin, which includes employee and rental costs. Gross profit was 60% of sales in FY22, declined to 42% of sales in FY23 and needs to recover to about 61% of sales to break even, which happens if sales get to around $150m in FY25, a 13% increase.

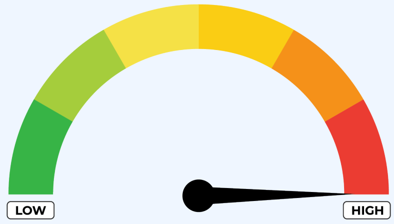
The capital raising is heavily dilutive, increasing the shares on issue by 153m shares or almost two-thirds.

Portfolio Risk Rating: The stock is highly speculative, making net losses, and facing further restructuring. The next few months are critical.

RADAR RATING: This is extremely high risk. Holding on is probably the right option but the headwinds the retailer faces are big.

RADAR RATING: **HOLD**

RISK RATING



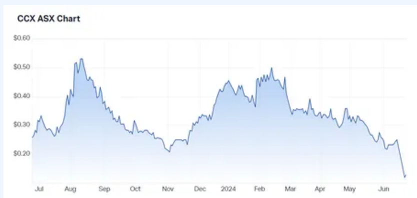
ASX CODE **CCX**

CURRENT PRICE **$0.135**

MARKET CAP $106M

DIVIDEND YIELD 0%*

NET CASH ($M) 10.9M



DATA AS AT INITIAL COVERAGE:

DATE 24 FEBRUARY 2022

PRICE ($) 0.60

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
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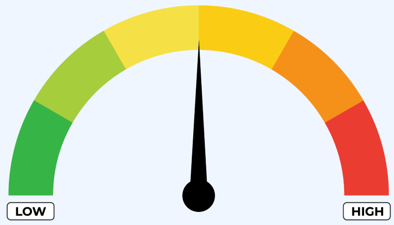
GALE PACIFIC

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

RADAR RATING: **HOLD**

RISK RATING



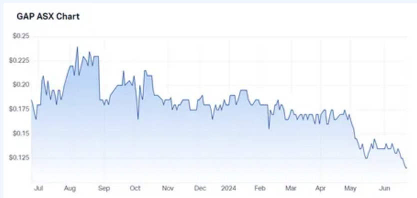
ASX CODE **GAP**

CURRENT PRICE **$0.12**

MARKET CAP $284.0M

DIVIDEND YIELD 0%*

NET DEBT ($M) -2.4M



DATA AS AT INITIAL COVERAGE:

DATE 02 SEPTEMBER 2015

PRICE ($) 0.22

***PORTFOLIO**
The Under the Radar Report portfolio holds 30000 GAP, about 4% of the total portfolio.*

Retail Special

What's New?
Gale Pacific's profitability continues to be under pressure, last week guiding FY24 revenue at $172-174m implying a pretax loss over $1m; previous guidance was for revenues over $187m and pretax profit higher than FY23's $5m.

Bull Points
• New products and distribution
• Cheap valuation

Bear Points
• Subdued sales
• Retail demand weakness

Analysis: GAP fell only slightly on this news, indicating expectations are very low. The revenue shortfall came despite increased distribution and new product launches in the US this year, as well as better revenue in developing markets and better gross margins.

We expect further cost-cutting to improve earnings in FY25 & FY26 so long as sales are stabilised. Net profit after tax is highly geared to changes in operating earnings (EBITDA) currently in a negative way. We are reluctant to upgrade after the poor performance since we recommended Take Profits at 49 cents in 2021, but will review the balance sheet at the results on August 19.

The valuation is in free fall, but is supported by current profitability. GAP made a profit before tax in the second half of up to $5m, after a $6m loss in the first.

The group's US business is under pressure. There are three factors: weakening retail customer demand; the inventory destocking was greater than anticipated; additional implementation costs of a new IT (enterprise resource planning) system are higher than expected, although they are not recurring.

Earnings downgrades this week by others in the US home improvement value chain suggest this demand weakness is not confined to GAP. Second-half sales fell from a forecast $105m, to $95m-$97m; a dramatic change in expectations in only 8 weeks.

Portfolio Risk Rating: At an enterprise valuation of well under 2 times peak operating earnings (EBITDA) the stock is too cheap to sell. The Under the Radar Report portfolio is averaging down (see this Issue's Portfolio Report).

RADAR RATING: A solid balance sheet supports the business, although cyclicality has taken a lump out of revenues as we had feared. Needs to show a stabilisation in revenues before upgrading, since operating leverage is significant.

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MYER HOLDINGS

SECTOR CONSUMER DISCRETIONARY **INDUSTRY** RETAIL

Retail Special

What's new?
Myer proposes to purchase via MYR scrip the Apparel Brands (previously Just Group) business of **Premier Investments (PMV:ASX)**, which includes brands Just Jeans, Jay Jays, Portmans, Jacqui E and Dotti. Apparel Brands has been tentatively valued at $1.2bn and MYR rose about 20% on the announcement.

Myer has decided not to sell its Marcs, David Lawrence and Sass & Bide brands.

PMV is controlled by Solomon Lew and owns 31% of MYR. Olivia Wirth was appointed executive chair of MYR late last year.

Bull Points
• New CEO
• Loyalty program

Bear Points
• Heavy store footprint
• Competitive market

Analysis: We did well to take profits at above 80 cents, making 60% on our buy recommendation in November. The stock slipped to as low as 60 cents prior to this deal being announced, which has been greeted by long-suffering shareholders, boosting the stock back up to those rarefied 80-cent levels, where the fundamentals don't mean much.

The new Myer chief is there to get deals done and they don't come more interesting than taking Myer from having 56 outlets or stores to close to 800. This is a deal Premier Investments has been wanting to do for some time, and it's been proposed by Myer.

The initial reaction, the buying of both stocks, reflects the need for increasing scale in a difficult market – more stores mean more dollars and lower unit costs; plus an anticipation that the deal will be done.

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

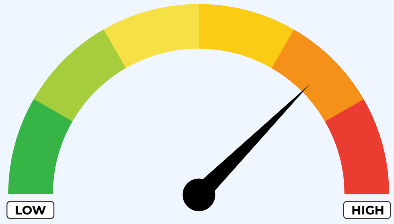
The consumer is bifurcated, as a wealthier, older demographic may not face the same rent pressures, or mortgage interest as a proportion of their income as younger consumers. MYR has exposure to multiple mid-market demographics, and will struggle to avoid the consumer spending downturn.

Portfolio Risk Rating: The forward P/E ratio may be up to 20x, which highlights investor optimism. The difference is that there is substance in the Apparel Brands business.

RADAR RATING: Myer has a strong balance sheet and this does not change. It is highly dilutive, however. The business is bigger and the unit costs are lower. Hold if you own MYR.

RADAR RATING: **HOLD**

RISK RATING



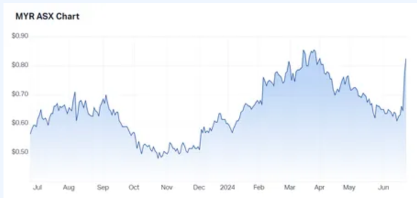
ASX CODE **MYR**

CURRENT PRICE **$0.84**

MARKET CAP $674M

DIVIDEND YIELD 4.9%*

NET CASH ($M) 212M



DATA AS AT INITIAL COVERAGE:

DATE 24 OCTOBER 2018

PRICE ($) 0.52

Forecast 4 cents

Publish ... of Investments Richard Hemming, Publisher Caroline Mark
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RETAIL FOOD GROUP

SECTOR CONSUMER DISCRETIONARY **INDUSTRY** RETAIL

Retail Special

What's new?
The publicity given to last week's **Guzman y Gomez (GYG.ASX)** float on the ASX, with a valuation way outside Under the Radar Report's usual range of up to $600m market capitalisation, gives us an excuse to look again at RFG, in the light of information provided in the GYG prospectus.

Bull Points
• Returning to growth
• Low capital requirements

Bear Points
• Retail slowdown
• 2.5bn shares on issue

Analysis: After falling into the doldrums RFG has spiked about 20% this month, awoken by GYG. The company has had a rocky road since being recapitalised with the Covid lockdowns and class actions. RFG growth anticipates more stores plus product and service innovations, like Donut King's online delivery and packaging service for larger orders.

A FY24 operating earnings (EBITDA) forecast of $30m gives a cashflow (enterprise value/EBITDA) valuation of 7x, not expensive if growth continues. GYG trades on a forward cashflow multiple of over 30 times!

Both operate a franchise model and both are in the Quick Service Restaurant. But there are important differences.

GYG has a current Aussie restaurant count of 185, of which 123 are franchised. Drive-thru is an important component of its business, available at 47% of outlets, and 24% of revenues. FY24 network sales are about $1bn, at an average transaction value of $21. Growth anticipates 30-40 new outlets a year.

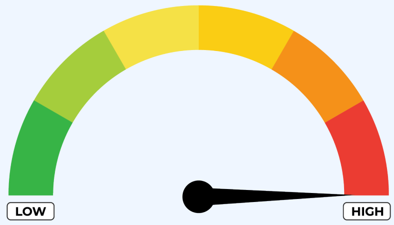
RFG operates almost exclusively through franchises and has an average transaction value of under $10. We're factoring in low single-digit sales growth, but growth in the bigger Cafe business has been offset by a reduction in sales in Crust Pizza.

Portfolio Risk Rating: High but underpinned by value, both in the price of the stock and in the business. The café businesses with less than $10 ticket prices are arguably affordable treats.

RADAR RATING: Stabilised earnings and balance sheet. Interim results show that earnings growth can be achieved through increased outlet numbers with stronger metrics, as well as through acquisitions and product extensions.

RADAR RATING: **SPEC BUY**

RISK RATING



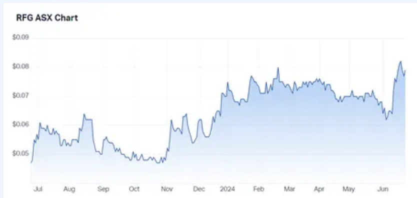
ASX CODE **RFG**

CURRENT PRICE **$0.077**

MARKET CAP $202M

DIVIDEND YIELD 0%*

NET DEBT ($M) -3.0M



DATA AS AT INITIAL COVERAGE:

DATE 17 DECEMBER 2020

PRICE ($) 0.085

Published by Under the Radar Report Ltd
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PALADIN ENERGY

SECTOR METALS_MINING **INDUSTRY** URANIUM NUCLEAR

Research Tip Update

What's new?
This week Paladin made an all scrip bid to acquire a uranium developer, the Canadian-listed Fission Uranium (TSX:FCU). The offer equates to an A$1,253m acquisition cost (C$1,140m) and implied value of C$1.30 per Fission share at the Paladin closing price of A$13.24 on 21 June 24.

Bull Points
• Production ramping up
• Project pipeline

Bear Points
• Acquisition risk
• Project risk

Analysis: The market has been muted on the deal because of the early stage and long time to production (estimated 2029) on top of which there is significant dilution, increasing PDN shares on issue by almost a third.

Paladin is a leveraged play on uranium but this deal dilutes that leverage for existing shareholders. It's a strategic play that doesn't benefit investors today.

Fission is developing the Patterson Lake South, one of the only undeveloped high-grade projects in Canada's premier Athabasca Basin, Canada.

The acquisition will see Paladin increasing production from 6 million pounds to 15 million pounds, but this is more than 5 years away! The Patterson project is early stage, with the first uranium not until 2029.

The Patterson project has reserves of 3.0m tonnes at 1.41% U3O8 with 93.7m tonnes contained uranium. The combined resources of Paladin and Fission propel the expanded entity to third position in terms of total contained uranium in resources, across all projects, with 544 mlbs of attributable uranium, behind Cameco (1,047 mlbs) and Kazatomprom (1,323 mlbs).

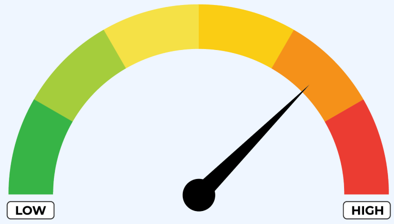
There are synergies with Paladin's existing Michelin uranium project, located in the Central Mineral Belt, Labrador, NE Canada, with a pre-feasibility study due in 2026.

Portfolio Risk Rating: A cashflow generator with commercial production from last month. Paladin is estimated to have a US$132m pro-forma net cash position.

RADAR RATING: Now a uranium producer, with leverage to an expected strengthening in global demand and prices arising from worldwide growth in nuclear power generation.

RADAR RATING: **SPEC BUY**

RISK RATING



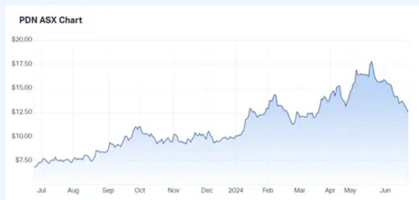
ASX CODE **PDN**

CURRENT PRICE **$12.40**

MARKET CAP $3.7BN

DIVIDEND YIELD 0%*

NET CASH ($M) 25M



DATA AS AT INITIAL COVERAGE:

DATE 08 APRIL 2021

PRICE ($) 4.30

**1 for 10 share consolidation April 2024*

under the radar report
SMALL CAPS

ISSUE 606
27 JUNE 2024

SRG GLOBAL

SECTOR INDUSTRIAL **INDUSTRY** CONTRACTOR

Research Tip Update

What's new?
Since March, over $300m in new work has been won in areas that include the energy sector including renewable energy, resources, infrastructure, marine and transport.

Recurring earnings approaching 80%, up from 66% at the beginning of 2023, reducing earnings uncertainty. This has been underpinned by earnings improvement from the Asset Care business, acquired early in 2023 and Asset Maintenance work.

Bull Points
• Diversified earnings
• Dividend growth

Bear Points
• Small contracts
• Low returns on capital

Analysis: The quality of SRG's business has been consistently improving because of strategies around business mix and recurring earnings. Following the merger of SRG and Global Construction Services in 2018, there was a period of indigestion. However, from 2021 onwards, clear positive trends emerged.

Revenue and earnings per share have increased every year, enhanced by a rise in operating margins every year as well. Concurrently, SRG has been disciplined and strategic, achieving higher rates of return on capital employed and return on equity year by year.

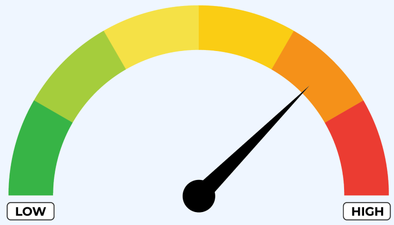
Portfolio Risk Rating: Good value, trading on a prospective rolling PE of around 11 and EV/EBITDA of around 5.7, which are at the low end of multiples among most contractors.

We like the stock; would buy more if already owned due to its growth prospects.

RADAR RATING: Very diversified and specialist skill base creates 'stickiness' for contract renewals among Tier 1 client base.

RADAR RATING: **SPEC BUY**

RISK RATING



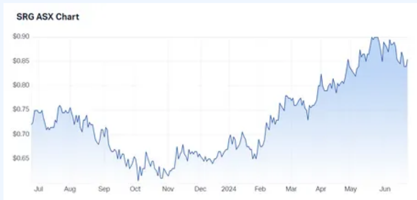
ASX CODE **SRG**

CURRENT PRICE **$0.83**

MARKET CAP $439M

DIVIDEND YIELD 5.3%*

NET CASH ($M) 6.4M



DATA AS AT INITIAL COVERAGE:

DATE 17 JUNE 2015

PRICE ($) 0.52

**At 31 December 2023*
***FY24 forecast 4.5 cents*

under the radar report
SMALL CAPS

ISSUE 606
27 JUNE 2024

STRIKE ENERGY

SECTOR ENERGY **INDUSTRY** OIL AND GAS

Research Tip Update

What's new?
Strike intends to build an 85MW peaking gas power plant in the Perth Basin, subject to approval from the regulator (AEMO). The power plant is intended to act when other power fails, hence would operate when electricity prices are high.

The gas to provide the feed will come from South Erregulla, where there was a downgrade to the gas reserve.

A funding package has been lined by from Macquarie for $153m in secured debt, which will be in addition to the cash flow from the Walyering gas resource well.

Bull Points
• Existing Walyering cash flow underwrites the funding package
• Strong WA gas market

Bear Points
• Reserve downgrade
• Approvals still required

Analysis: The share price hasn't moved much but there is no doubt that the news is positive, albeit with some risk in the form of two projects that remain to be developed, South & West Erregulla. The company has credentials, having made a success of Walyering.

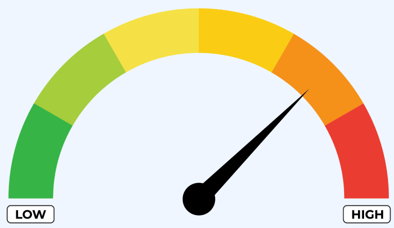
The peaking gas power plant provides firming power to supplement intermittent renewable solar and wind power, displacing coal-fired generation. The power commands a significant premium to the underlying gas value of $8 per gigajoule, with capacity payments of $30-40/GJ. The plant project is modelled to use 1.3 PJ gas a year to generate of $40-50m revenue a year for the first five years. A final investment decision is expected in November 2024. Close proximity to transmission lines minimises the capital expenditure. Estimated capital costs are $120-160m with funding specifically from the $53m Macquarie package and cash flow. Operations are expected to commence by October 2026.

Portfolio Risk Rating: Recent Walyering start and solid gas market provides valuable cash flow and assists debt funding of projects. Project execution and exploration are the main risks.

RADAR RATING: Largest holder of Perth Basin gas Reserves and Resources. Renewables driving gas demand for firming. Strong medium-term outlook for earnings.

RADAR RATING: **HOLD**

RISK RATING



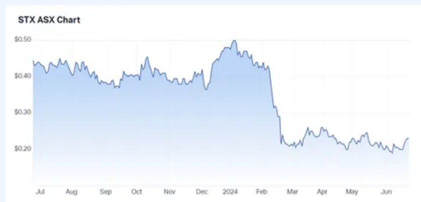
ASX CODE **STX**

CURRENT PRICE **$0.235**

MARKET CAP $636.5M

DIVIDEND YIELD 0%*

NET DEBT ($M) -22.4M



DATA AS AT INITIAL COVERAGE:

DATE 28 APRIL 2022

PRICE ($) 0.325

Published by Under the Radar Report Ltd
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ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

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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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Published by Under the Radar Report Ltd
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ABN: 65147404662. AFSL: 409518.
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