under the radar report
SMALL CAPS

ISSUE 615
29 AUGUST 2024

REWARDING VALUE:
3 Takeouts From Results

This reporting season has been notable for the amount of analysis required. It hasn't been easy! But it has provided significant insight into whether individual companies can grow and it has been encouraging seeing a high number achieving this through taking market share. These are the disruptors you need to own in your portfolio.

Companies like **Infomedia (IFM)**, **Southern Cross Electrical (SXE)**, **SRG Global (SRG)** and **Superloop (SLC)** are really taking the bull by the horns and producing fantastic growth. While this isn't always the case, others are laying the foundations for future big profits.

TAKEOUT 1: There's value out there and results are giving opportunity for investors to give it recognition. I draw your attention to **Nanosonics (NAN)**, **Praemium (PPS)** and **Kogan (KGN)** which experienced 20%+ spikes.

TAKEOUT 2: Investors are jumping on when they see genuine growth. It's all in the outlook statement. Read all about it in those stocks mentioned above: **IFM, SXE, SRG, SLC**. It's no accident that these have been Best Buys.

TAKEOUT 3. Organic sales growth is hard to come by. Some stocks, particularly in the telecommunications sector are being rewarded through producing growth well above industry averages. **Superloop (SLC)** is a fascinating company whose vision has paid off, playing out in a similar way to **Macquarie Technologies (MAQ)** before it.

To grow, many companies, big and small, have been making acquisitions. For Small Caps, the effects are magnified, hence deep analysis is required when there are inevitable hiccups. **LaserBond (LBL)** is a fantastic company experiencing big demand, but is a higher risk than we had anticipated, hence we're removing it from our Best Buys list. The opportunity is still great.

Owning stocks that have the potential to take off in different industries is what a Portfolio of Small Caps is about. Invariably some of these stocks will make a big difference to your portfolio's performance, and to your life.

Richard Hemming
Head of Investments

the issue

FY24 REPORTING SEASON

We've taken LBL off our Best Buys list, which you can see online. Stand-out results include CAF, NAN, PPS, SXE, SLC & SRG. KGN was encouraging and we're looking for more of the same.

ARN MEDIA (A1N)	HOLD
CENTREPOINT ALLIANCE (CAF)	SPEC BUY
INFOMEDIA (IFM)	HOLD
KOGAN.COM (KGN)	SPEC BUY
LASERBOND (LBL)	SPEC BUY
NANOSONICS (NAN)	▲ SPEC BUY
PLAYSIDE STUDIOS (PLY)	▲ SPEC BUY
PRAEMIUM (PPS)	HOLD
SOLVAR (SVR)	▼ HOLD
SOUTHERN CROSS ELECTRICAL (SXE)	▲ HOLD
SUPERLOOP (SLC)	HOLD
SRG GLOBAL (SRG)	BUY

BEST STOCKS TO BUY NOW

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

We took profits on 50% of the Superloop position in the Under the Radar Report portfolio and continue to hold the balance for what is a strong longer-term growth story, with significant cash generation.

UTRR Portfolio Manager

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ARN MEDIA

SECTOR TELECOMUMMICATIONS **INDUSTRY** MEDIA

Research Tip Update

What's New?
The FY24 interim underwhelmed with a lower dividend and higher working capital investment. A1N fell 10% on the day, near its 2024 lows. Revenue was up 4% proforma, but operating expenses rose almost 5%, for a 19% decline in the bottom line (underlying NPAT) to $10.4m.

Bull Points
· Valuation
· Revenue recovery potential

Bear Points
· Uncertainty over the proposed SXL acquisition
· Advertising revenue weakness

Analysis: A messy interim result. Net earnings were down, while cash flow and operating earnings (EBITDA) were flat (the latter at $35m). There were a number of one-off costs.

The big positive is the balance sheet, with a $17m surplus of current assets over current liabilities, and a current ratio of 1.2x, supporting long-term debt of $98m. Another asset is the 14.9% stake in ASX-listed **Southern Cross Media (SXL)** worth $22m. SXL has rejected A1N's most recent proposal to merge and swap radio assets.

The focus is on cost containment in a weak revenue environment with operating costs increasing at low single-digit rates. Metro radio (down 2.5%, slightly better than the prior half) is almost 60% of revenue, while Regional revenue grew 15%. This relationship will ebb and flow, with the regional radio revenue cycle usually lagging the Metro cycle. Digital Audio delivered its first positive cash flow in June, and is forecast to be cash flow positive in the fourth quarter.

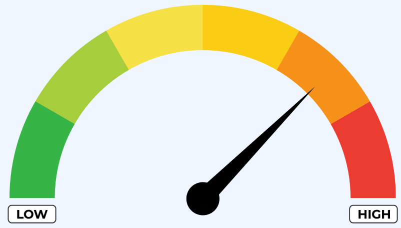
The radio market has shown a much smaller decline than the TV advertising market. We were disappointed that a new advertising contracts for Cody in Hong Kong will require $15m working capital before advertising revenue arrives. The two new transit contracts should eventually deliver annual revenues of $65m (FY23-$16m).

Portfolio Risk Rating: ARN's sector-leading business looked like a cheap company, but efforts to finesse its position left the stock vulnerable. We have downgraded FY24 dividend expectations and now expect a total 3 cents after 1.2 cents in the first half.

RADAR RATING: Traditional media stocks like A1N have suffered in 2024, and the advertising business has been weak. The potential for a substantial recovery in radio advertising revenue should eventually deliver an earnings recovery, but A1N's industry consolidation ambitions complicate the story.

RADAR RATING: **HOLD**

RISK RATING



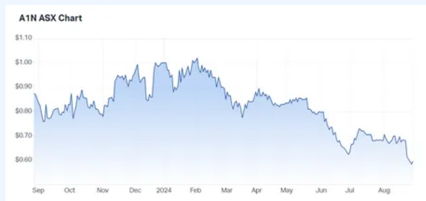
ASX CODE **A1N**

CURRENT PRICE **$0.58**

MARKET CAP $183M

DIVIDEND YIELD 5.0%*

NET DEBT ($M) -87M



DATA AS AT INITIAL COVERAGE:

DATE 10 JULY 2013

PRICE ($) 1.12

**Forecast 3 cents*
PORTFOLIO
The Under the Radar Report Portfolio holds 8000 shares, about 3% of the portfolio.

under the radar report
SMALL CAPS

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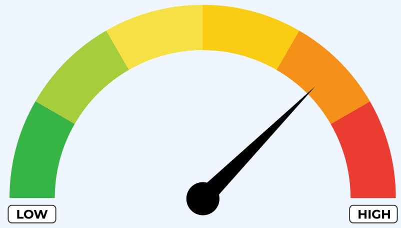
CENTREPOINT ALLIANCE

SECTOR FINANCIALS **INDUSTRY** WEALTH

RADAR RATING: **SPEC BUY**

RISK RATING



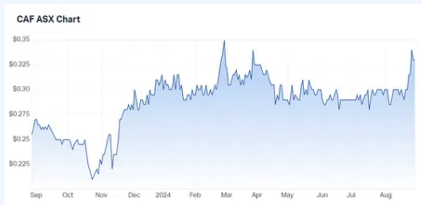
ASX CODE **CAF**

CURRENT PRICE **$0.33**

MARKET CAP $66M

DIVIDEND YIELD 6.7%*

NET CASH ($M) 9M



DATA AS AT INITIAL COVERAGE:

DATE 16 MAY 2018

PRICE ($) 0.39

**Forecast 2 cents*

Research Tip Update

What's New?
FY24 operating earnings (EBITDA) increased 20% at $9.1m. Profit before tax, excluding a one-off asset sales grew $0.7m to $5.6m. The final dividend will be 1.75 cents (FY24 2.75 cents v FY 2.5 cents, plus special 0.5 cents). Net cash is $9m ($12.2m cash, 3.2m bank debt).

Bull Points
· Growing financial advisers
· Reliable profitability and dividend

Bear Points
· Competitive marketplace
· Regulatory costs

Analysis: CAF generates earnings from advisors, about half tied under its own licence. The company has a strong balance sheet and is delivering steady profit growth through taking advantage of changing market conditions as financial advice transitions away from tied commissions, which benefited big providers. The industry is now based on independent advisers remunerated through fees for service. CAF is now the fourth largest servicer of advisers in Australia, one place behind our other favourite in the wealth sector, **Count (CUP)**.

FY24 benefited from the acquisition of Financial Advice Matters (seven months). Excluding this, and earnings (EBITDA) rose 6.6%. Advisers are moving around and we believe that CAF will increase the number it services.

CAF now has economies of scale, through the purchase of ClearView & LaVista in early FY22, which increased total advisor numbers (authorised reps & self-licenced it services) from just over 1,000 to over 1,300.

Portfolio Risk Rating: A solid balance sheet and steady earnings growth. Risk is reducing on the financial and operational front and there is value, trading on a single-digit PE and paying dividends.

RADAR RATING: Servicing financial planners is not a sexy business, but there are earnings tailwinds and M&A opportunities due to its strong balance sheet.

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INFOMEDIA

SECTOR INFORMATION TECH | **INDUSTRY** SECURITY DATA SERVICES

Research Tip Update

What's New?
The stock has climbed close to 15% since we upgraded to hold in February (Issue 588) having taken profits just below current levels. The FY24 result impressed, with revenue up 8% at $141m, and annual recurring revenues increased by 9% at $144m, boosting cash operating earnings (EBITDA) by 20% to $33.4m. At the bottom line, net profit after tax rose 32% to $14m, while the full-year dividend will be 4.2 cents (FY24 total 6.4 cents).

Bull Points
· Global operations
· Subscription income

Bear Points
· Thin customer base
· Low organic growth

Analysis: FY24 impressed because it's easy to see sustainable profit growth, based on Infomedia's strategy of rolling out different car part catalogue products to automotive markets around the world amid increasing pressure for customer dealers (higher interest rates, staff shortages, EV oversupply) to make money out of aftersales. Plus, the company has built up a war chest of $70m in cash (versus $65m at 31 December), no debt and consistently increases dividends. What's not to like?

The question is always how much you pay for this. FY25 guidance is for revenue of $144-154m; up 2-9%; with stable profit margins. This implies profit growth will be maintained, based on cash EBITDA margins at around 23%.

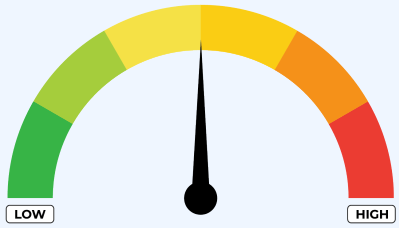
The company is led by Jens Monsees (ex Google, BMW) who came in late FY22 and is doing a good job focussing his team on the "change, strengthen, scale" 3-phase strategy – IFM is in the strengthening phase, where operating margins and ARR are building off a higher base. The company is also moving in the light commercial vehicle market, with new contracts with Isuzu and Hino. First revenue is expected in the second half (2h25).

Portfolio Risk Rating: IFM is a niche business with consistent earnings from subscriptions, which is valuable. Big cash holdings and contract risk, but strong management team. The stock pays dividends and suits a portfolio that is willing to embrace small cap risk.

RADAR RATING: The stock has fallen and its earnings quality is improving. On the high side trading on a forecast FY25 PE of over 22 times.

RADAR RATING: **HOLD**

RISK RATING



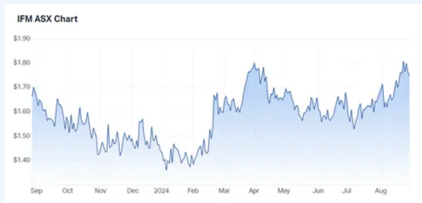
ASX CODE **IFM**

CURRENT PRICE **$1.76**

MARKET CAP $618M

DIVIDEND YIELD 3.7%*

NET CASH ($M) 70M



DATA AS AT INITIAL COVERAGE:

DATE 13 JUNE 2013

PRICE ($) 0.47

**Forecast 4.5 cents*

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ISSUE 615
29 AUGUST 2024

KOGAN.COM

SECTOR CONSUMER DISCRETIONARY **INDUSTRY** RETAIL

Research Tip Update

What's New?
The FY24 result demonstrated a return to operating leverage with $28m of operating cash flow. Operating earnings (EBITDA) was $40m, up from $6.8m in the prior period. At the bottom line, adjusted NPAT was $21m (FY23 loss of $4.3m). A fully franked final dividend of 7.5 cents (FY24 15 cents).

Bull Points
· Capital light business
· Recurring revenue rising

Bear Points
· Sales growth stagnation
· Consumer demand pressures

Analysis: A strong FY24 with bottom line profitability approaching historical highs, reflecting a transition to higher margin revenue and a reduction of inventories built up during Covid. The company should continue to dominate online retail in Australia.

Almost two-thirds of gross profit was generated from platform-based sales, which are higher margin, capital light and scalable. Platform sales include Kogan Marketplace, Kogan First, Kogan Verticals and advertising and other income. The balance of sales were derived from the Products division which sells exclusive and third-party brands.

The Kogan First loyalty benefit programme grew by 25% to more than half a million subscribers, representing 26% of active customers and driving over 61% of Kogan.com gross sales. In addition to paying a membership fee, similar to the Costco model, subscribers increase recurring revenue at a lower marketing spend.

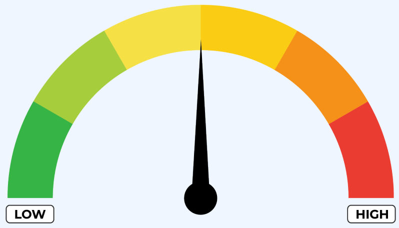
For FY25, the company expects improving operating leverage and a higher gross margin, continued improvement in its Products division and strong growth in its Verticals.

Portfolio Risk Rating: High cash balance, no debt. Cash generative and capital-light business model. Scalable with potential for new verticals. Continuing share buybacks.

RADAR RATING: Online retailer with record 2.6m active customers and post-Covid recovery complete. Platform and Products sales growth to continue.

RADAR RATING: **SPEC BUY**

RISK RATING



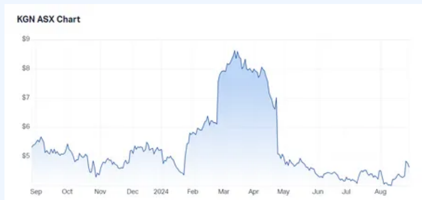
ASX CODE **KGN**

CURRENT PRICE **$4.68**

MARKET CAP $482M

DIVIDEND YIELD 4.1%*

NET CASH ($M) 41.2M



DATA AS AT INITIAL COVERAGE:

DATE 24 AUGUST 2017

PRICE ($) 3.15

**Forecast 20 cents*

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ISSUE 615
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LASERBOND

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

Research Tip Update

What's New?
The stock has declined 18% this month on operating earnings (EBITDA) disappointment arising out of supplier problems in the Product division, which are being rectified (see analysis below).

FY24 revenue rose 8.7% to just under $42m, producing EBITDA down 7.3% at $9.45m and net profit before tax of $5.2m. Final dividend 0.8 cents fully franked (FY24 1.6 cents).

Bull Points
· Strong underlying business
· New market potential

Bear Points
· Requires acquisitions to meet long-term revenue forecasts
· High fixed costs

Analysis: LaserBond is an FY25 story. FY24 saw the company experiencing difficulties due to a confluence of events: a supplier going out of business; delays obtaining offshore labour and consequently not meeting demand during the last half. At the same time, the group has purchased 40% of a WA business, Gateway, which can transform LBL's capacity and market share over time.

The FY24 decline in operating earnings was due to increasing costs, in preparation for meeting future growth. LBL won't meet FY25 revenue expectations of $60m, but would do so if you included 40% of sales from Gateway, which are equity accounted. We still expect revenue growth of close to 20% a year over the next few years, leading to operating earnings growth of 50%.

On top of Gateway, sales opportunities are in the US market, from existing customers with operations there. LBL technology increases the life of manufacturing parts by five-fold, reducing the need for new parts. The business is defensive because it saves customers money.

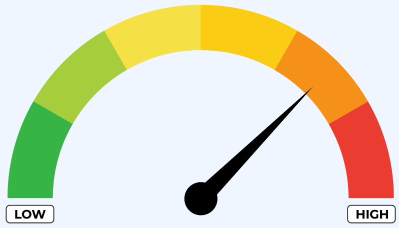
Three divisions: Services (56% revenue) repairs and refurbishes worn or damaged parts. Products (40%) manufactures specialised surface-engineered components for OEM partners. Technology (4%) in the design & production of engineering systems.

Portfolio Risk Rating: Unique technological product offering with a strong use case but customer concentration and long sales lead time.

RADAR RATING: The stock looks compelling value, trading on a single-digit forecast PE and pays dividends but is high risk due to customer concentration and difficulty in scaling up.

RADAR RATING: **SPEC BUY**

RISK RATING



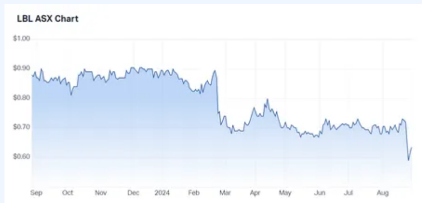
ASX CODE **LBL**

CURRENT PRICE **$0.60**

MARKET CAP $74M

DIVIDEND YIELD 2.5%*

NET DEBT ($M) -7.7M



DATA AS AT INITIAL COVERAGE:

DATE 14 OCTOBER 2014

PRICE ($) 0.55

Forecast 1.6 cents

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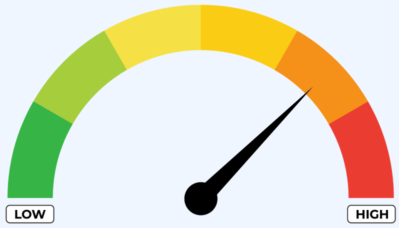
NANOSONICS

SECTOR HEALTHCARE **INDUSTRY** EHEALTH MED TECH

RADAR RATING: **SPEC BUY**

RISK RATING



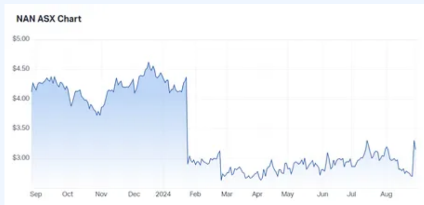
ASX CODE **NAN**

CURRENT PRICE **$3.21**

MARKET CAP $1.0BN

DIVIDEND YIELD 0%*

NET CASH ($M) 130M



DATA AS AT INITIAL COVERAGE:

DATE 27 JULY 2017

PRICE ($) 2.41

Research Tip Update

Upgrade from Hold

What's New?
The stock rebounded 23% on Tuesday following FY24 profit and cash flow data, highlighting an improving sales and profit outlook versus prior expectations. Pre-tax profit for FY24 was $13m (FY23 $21.6m). Free cash flow was $20.4m, with cash equivalents of $129.6m at 30 June 2024 with no debt.

A sales trading update last month for the two recent halves (1h & 2h in FY24) and an expectation for total revenue of $170m, up 2%, highlighting a second-half recovery boosted by new & upgraded trophon units sold.

Bull Points
· Consistent sales growth
· Expansion outside the US

Bear Points
· Stretched hospital budgets
· No certainty Coris will be commercialised

Analysis: Technology companies invest in research and development, often unrelated to the core business. NAN has been investing in development for its new endoscope cleaning platform, Coris, the costs of which have been expensed, reducing reported profit.

Removing this effect highlights improving returns from the core trophon product, which sterilises ultrasound probes. The unaudited P&L for trophon ultrasound reprocessing only, provided by the company, illustrates that it has strong profitability with a pre-tax profit of $44m in FY23 and $40.4m in FY24 with average pre-tax margins of around 24%.

Outlook indicates revenue growth of 8-12% and a gross margin of 77-79%, the range achieved in FY24. Operating expenses should grow at high single-digits, which includes investment. Beyond FY25, material contributions are expected from trophon outside the US and international commercialisation of the Coris platform.

Portfolio Risk Rating: High cash and no debt, but remains priced like a growth stock, trading on a cash flow (EV/EBITDA) multiple of 22 times. Free cash flow. Research and development costs are expensed which is conservative. Profitable even after R&D deductions.

RADAR RATING: Operations leverage with R&D costs inflating the cost base. Long term growth through both sales expansion in new geographies and new products.

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PLAYSIDE STUDIOS

SECTOR INFORMATION TECH **INDUSTRY** SOFTWARE

Research Tip Update

Upgrade from Hold

What's New?
The stock has slipped a third, after our downgrade to Hold in late May (Issue 602) as investors get impatient awaiting the next big thing. But the fundamentals look good.

FY24 revenue was $64.8m, in line with guidance, produced operating earnings (EBITDA) of $17.5m, which included grant income of almost $2m. Cash now stands at over $37m and there is no debt.

Just over half of the income came from work-for-hire contracts; the remainder from intellectual property.

Bull Points
· Sustained revenue growth
· Blue chip partners

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

Analysis: PlaySide's business strength is improving amid investor impatience, which presents an opportunity to buy. The company has built up its cash reserve and now earnings from IP is growing at the doubled the rate of work for hire and in FY24 delivered almost half the earnings.

FY25 profit guidance is due at the AGM in October, but in the meantime, life at the gamer is never boring with new games being launched, including Kill Knight, as well as updates on recently released PC/Console titles Game of Thrones (Warner Bros), Mouse (Fumi Games) and Dumb Ways To Die (Netflix platform).

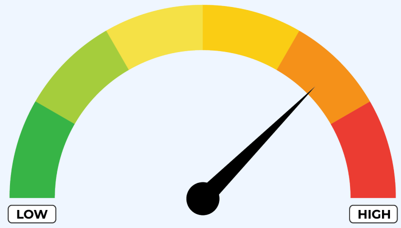
This company is now self-sustaining, with a net cash balance of over $37m, which was boosted by $5.5m over FY24. Kill Knight is a PLY-produced game.

Portfolio Risk Rating: Cash flow is encouraging, as is the cash at the bank, but the company now employs close to 360 people, which increases business risk.

RADAR RATING: Growth is balanced between work for hire for major clients and the development of original and third-party acquired IP. New PC and console games developments will increase risks, for larger potential rewards.

RADAR RATING: **SPEC BUY**

RISK RATING



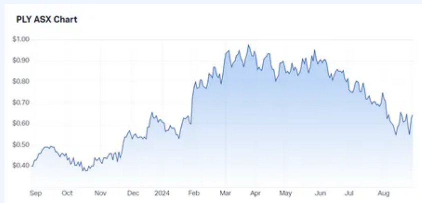
ASX CODE **PLY**

CURRENT PRICE **$0.675**

MARKET CAP $260M

DIVIDEND YIELD 0%*

NET CASH ($M) 37.1



DATA AS AT INITIAL COVERAGE:

DATE 16 DECEMBER 2021

PRICE ($) 0.86

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PRAEMIUM

SECTOR INFORMATION TECH | **INDUSTRY** SOFTWARE

Research Tip Update

What's New?
The stock spiked 25% on the FY24 result and we ask whether it's time to take profits, in the wake of our spec buy recommendation at 37 cents last December (Issue 578).

FY24 net profit declined 42% to $8.8m driven by higher acquisition/restructuring costs. A 1 cent fully franked dividend will be paid on 19 Sep. The second half saw operating earnings (EBITDA) climb 19%, half on half. The driver was a price hike in SMA products, which leveraged positive market conditions.

No FY25 guidance and the result included two months of the OneVue acquisition, purchased from IRESS for $1m and adds $4.1bn to funds under administration.

Bull Points
· Benefits from OneVue acquisition
· Niche positioning

Bear Points
· Powerwrap net fund flows vulnerable
· Large competitors

Analysis: The second half showed strong growth due to a repricing of the Separately Managed Account (SMA) product as the company focuses in on high-net-worth customers, where it believes it has a point of difference. The metric the market focused on was average revenue margins for SMAs, which increased by 6 basis points to 39bp (0.39%). PPS will also life prices for Virtual Managed Accounts (VMA) and is a complementary Administration Service (VMAAS) in FY25, the full benefits for FY26.

Funds under administration are $48.3bn, up 12% even after losing Powerwrap advisers. PPS is soft launching Powerwrap's high net worth-focused portfolio services (IDPS) next month.

Having sold its international business, PPS benefits from a very strong balance sheet, with cash of $44.3m (FY23 $46.3m) and no debt. The company has been buying back shares, repurchasing $21.4m to the end of FY24.

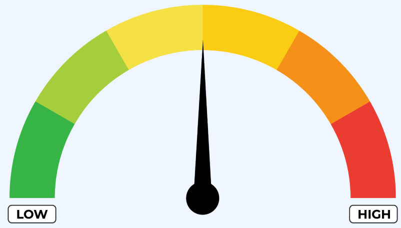
Financial planning is changing fast following the removal of trailing commissions in 2018, the sector moving away from large one-stop shops towards independent operators. PPS operates in a highly competitive space.

Portfolio Risk Rating: The forecast cash flow multiple (EV/EBITDA) looks good at 7 times, although FUA needs to stay at current levels.

RADAR RATING: Looks fairly valued; benefiting from trends such as market-led growth and growing independent financial planners.

RADAR RATING: **HOLD**

RISK RATING



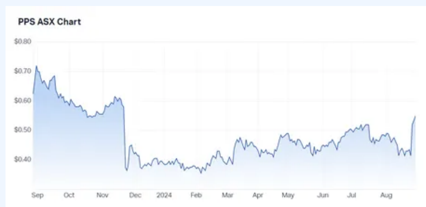
ASX CODE **PPS**

CURRENT PRICE **$0.55**

MARKET CAP $258M

DIVIDEND YIELD 0%*

NET CASH ($M) 41.0M



DATA AS AT INITIAL COVERAGE:

DATE 05 JUNE 2019

PRICE ($) 0.33

Forecast 1 cent

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.
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SMALL CAPS

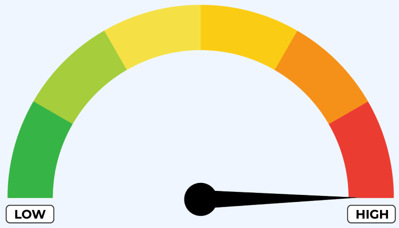
ISSUE 615
29 AUGUST 2024

SOLVAR

SECTOR FINANCIALS **INDUSTRY** LENDERS

RADAR RATING: **HOLD**

RISK RATING



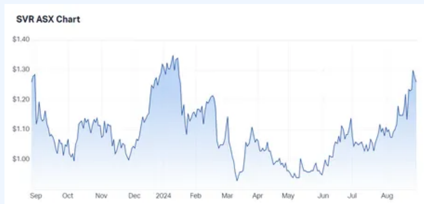
ASX CODE **SVR**

CURRENT PRICE **$1.26**

MARKET CAP $266M

DIVIDEND YIELD 8.8%*

NET CASH ($M) NET ASSETS: $365.7M



DATA AS AT INITIAL COVERAGE:

DATE 04 MAY 2017

PRICE ($) 1.44

Forecast 11 cents

Research Tip Update

Downgrade from Spec Buy

What's New?
The stock has grown almost 25% since our spec buy recommendation in April (Issue 595) but is vulnerable to deteriorating economic conditions.

FY24 saw the send hand car lender increase its Australian book by just over 11% to $791m delivering an 11% increase in revenue to $174m. New Zealand's book is $930m with revenue of $216m (where lending has been halted).

Normalised net profit after tax was $29m, from which SVR is paying a 5 cents fully franked final dividend (FY24 dividends 10 cents).

Bull Points
· Profitable growth
· High dividend yield

Bear Points
· Affected by consumer confidence
· Impacted by interest rate increase

Analysis: The company described the macroeconomic backdrop to the FY24 result as challenging and is shifting towards what it calls "higher quality borrowers". Bad debts of 4.4% were within the expected range 3.5-4.5% range, but above the 3.7% FY23 level.

Increasing market share through a reduction in competitor numbers continues to be the focus, but this can lead to a reduction in customer quality. The improving supply of used cars should improve affordability and demand for loans. Commercial lending is an avenue Solvar continues to believe will also drive growth.

FY25 loan book expectations are for $930-970m, implying a 7.5% increase in Australia.

Portfolio Risk Rating: A relatively dangerous stock to own long-term. Low quality, looks cheap, trading on a prospective PE of 9, a yield of 9% and a 20% discount to its book value of $1.58. Buy-back for up to $15m ongoing.

RADAR RATING: Established and growing auto lending with a significant runway for growth by growing the commercial book and leveraging the existing distribution network. Hold for dividends while the going is good.

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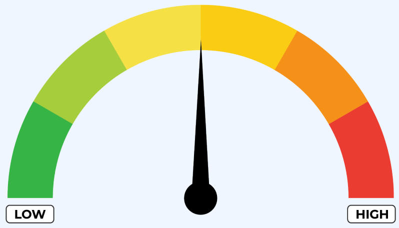
SOUTHERN CROSS ELECTRICAL

SECTOR INDUSTRIAL **INDUSTRY** CONTRACTOR

RADAR RATING: HOLD

RISK RATING



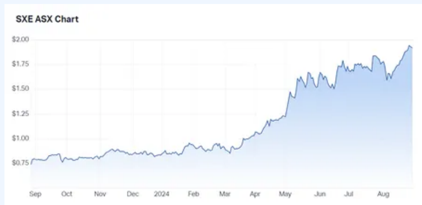
ASX CODE **SXE**

CURRENT PRICE **$1.895**

MARKET CAP $498M

DIVIDEND YIELD 3.7%*

NET CASH ($M) 84M



DATA AS AT INITIAL COVERAGE:

DATE 30 DECEMBER 2020

PRICE ($) 0.365

**Forecast 7.0 cents*

Research Tip Update

Upgrade from Take Profits

What's new?
SXE keeps delivering at the bottom line and positive outlook statements. This is the secret to successfully investing in a contractor. FY24 operating earnings at EBIT rose just over 10% to $32.7, producing a bottom line profit (NPAT) up 9% at $21.9m. A final fully franked dividend of 5.0 cents was declared, up 25%; FY24 total of 6.0 cents.

At year-end, the order book was $720m, up 18%. Over $150m of this is data centre related with forecast revenue of $100m in FY25 and beyond. SXE is tendering for $500m+ of work.

Bull Points
· Growing order book
· Data centres

Bear Points
· Costs rising
· Contract uncertainty

Analysis: Infrastructure provides significant opportunities, with three structural tailwinds - data centres, renewables (electrification and decarbonisation) and general infrastructure.

FY24 revenue was $552m, up 19%, led by Infrastructure's $233.7m (42% to total). Commercial and Resources provide the remainder.

Data centres are electrically dense, with electrical work being the largest component of construction cost and typically requiring triple power supplies to safeguard availability.

Renewables are another demand driver with huge investments in solar and wind, supported by battery storage and grid configuration.

Infrastructure also includes federal, state and private investment in road, rail, airports and ports, healthcare and defence.

SXE's guidance is for FY25 operating earnings (EBITDA) of over $53m, up 32%, with further growth expected in FY26 onwards.

Portfolio Risk Rating: High cash level, no debt. Recurring revenue now a third of the total. Has defensive infrastructure revenue. Financial multiples in the mid-range of peer companies.

RADAR RATING: Strong growth outlook with Infrastructure tailwinds such as data centres and renewables. Diversity of Infrastructure provides many avenues for growth.

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SRG GLOBAL

SECTOR INDUSTRIAL **INDUSTRY** CONTRACTOR

Research Tip Update

What's New?
One of our long-term favourites and Best Buys has delivered almost 30% a year over the past 3 years; the stock spiked this week on a strong profit uplift & acquisition.

FY24's net profit after tax before amortisation increased 27% delivering EPS of 7.7 cents, up 15%. A final fully franked dividend of 2.5 cents, up 25% (FY24 total 4.5 cents). The contractor also delivered a 16% earnings upgrade for FY25 (see below).

SRG is paying $111m for Diona, a service provider in water security & energy transition, funded partly via a $60m placement at 83 cents a share, which increases shares on the issue by almost 15%; plus a retail SPP for up to $6m.

Bull Points
· Big pipeline of work
· Diversified business

Bear Points
· Low-margin business
· Contract expiry

Analysis: SRG is highly profitable and Dion adds to that, being capital-light, with capex running at less than 1% of revenue. Earnings are underpinned by long-term programme and asset management agreements with typical duration (2-4 years) and 85% under cost plus/schedule of rates.

The purchase is good value, based on an operating earnings (EBIT) multiple of 6 times, having delivered EBIT last year of $18.5m.

Dion has $1bn of work in hand, which boosts SRG's total to $3bn. SRG's opportunity pipeline increases from $6.5bn to $8.5bn.

Diona has a high annuity-style revenue and earnings profile, which will lift SRG's overall profile to a post-acquisition ~80% annuity/recurring earnings from 70%.

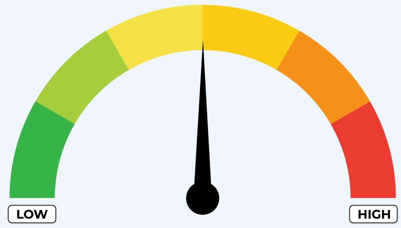
SRG has increased its FY25 EBITDA guidance from $108m to $125m.

Portfolio Risk Rating: Still good value, trading on a prospective rolling PE of around 13 and EV/EBITDA of around 6.0, which are at the low end of multiples among most contractors.

RADAR RATING: Strength and diversity of business model, operating in many sectors and geographies, provides protection and opportunities. Focus is on Tier 1 clients.

RADAR RATING: **BUY**

RISK RATING



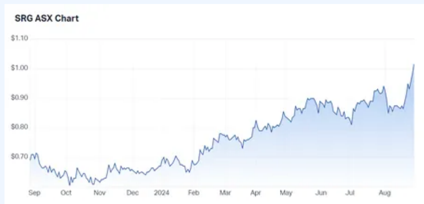
ASX CODE **SRG**

CURRENT PRICE **$1.03**

MARKET CAP $615M

DIVIDEND YIELD 4.8%*

NET CASH ($M) 78M



DATA AS AT INITIAL COVERAGE:

DATE 17 JUNE 2015

PRICE ($) 0.52

**Forecast 5.0 cents*

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SUPERLOOP

SECTOR TELECOMUMMICATIONS **INDUSTRY** TELCO

Research Tip Update

What's New?
FY24 revenue increased 30% to $421m, 23% organic, driven by consumer segment revenue up 47% to $265m. Operating earnings (EBITDA) was $54, up 45%, delivering $29m free cash flow, and NPATA (net profit after tax but before amortisation) of $23m pre-amortisation. Superloop will deliver strong FY25 growth from major reseller contracts won in FY24.

Bull Points
· Earnings growth momentum
· Wholesale contract wins

Bear Points
· Competition increasing
· Execution risks

Analysis: The stock has continued to appreciate in the wake of its failure in the second half to win the takeover battle for fellow telco Symbio, a company covered by Under the Radar Report. The winner was ASX-listed **Aussie Broadband (ABB)**, which immediately followed up by acquiring a 19.9% stake in SLC, reduced to 12% by legal action (see previous coverage).

SLC also surged when it announced its coup of winning (from ABB) the huge **Origin Energy (ORG)** white label contract, which should ultimately deliver incremental $19m EBITDA, and ORG received just over 10% of SLC's equity to be issued as customers are migrated across.

Underlying performance has improved as the benefits of incremental revenue on a substantial fixed cost base increase operating profit margins. The telco competes with larger broadband providers like **Telstra** and **TPG** through low-cost positioning, and net additions of 87k new subscribers to 455k over 12 months to 30 June is SLC's strongest growth yet, but includes acquisitions.

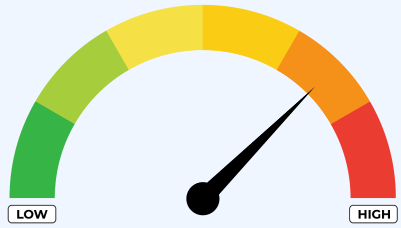
Growth in FY25 & FY26 is anticipated, boosted by ORG, while implementation risks are now limited. Origin has ambitious growth plans for its internet service, and SLC would issue up to a further $30m shares if targets are met.

Portfolio Risk Rating: We took profits on 50% of the SLC position in the Under the Radar Report portfolio, but we continue to hold the balance for what is a strong longer-term growth story, with significant cash generation ahead, from a robust balance sheet.

RADAR RATING: Growth supported by a low-cost positioning delivering a high-quality product and ability to exceed market expectations.

RADAR RATING: **HOLD**

RISK RATING



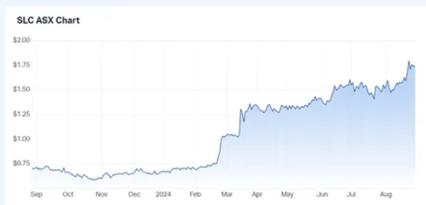
ASX CODE **SLC**

CURRENT PRICE **$1.71**

MARKET CAP $872M

DIVIDEND YIELD 0%*

NET DEBT ($M) -8.6M



DATA AS AT INITIAL COVERAGE:

DATE 25 FEBRUARY 2021

PRICE ($) 0.93

PORTFOLIO
The Under the Radar Report portfolio has 6,000 shares, now around 5% of the portfolio.

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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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