under the radar report
SMALL CAPS

ISSUE 616
05 SEPTEMBER 2024

FIND THE NEXT AFTERPAY

Analysis on 12 stocks + 11 Best Buys

One stand-out this results season has been AI-Media (AIM), which has almost doubled since we tipped it just over two months (Issue 605) and we saw the driver in the FY24 result: the leverage of technology. This company is seeing the benefits of investment, chiefly of US$40m (A$58m) to buy US group EEG in 2021, which gave it exposure to captioning technology, with its LEXI automatic captions.

This company could be another **Afterpay**, but so could the telco and internet services provider **Superloop (SLC)**. So could the data centre operator **Macquarie Technology (MAQ)**, although it's much closer! So could **PlaySide Studios (PLY)**. So could **Alliance Aviation (AQZ)**. So could **Mach7 Technologies (M7T)**. These are just some of the companies that have been investing big for future profit growth. And they're not asking shareholders for more money! There is risk, which is why you don't pile into them holas bolas.

When you buy quality stocks like these, they then sit within your core portfolio, because guess what? They've turned into blue chips! They sit in the big indices and index-linked EFTs are forced to buy them. That's already happened to a degree with **Macquarie Technology (MAQ)**.

Not all stocks have the same degree of operating leverage, or profit potential (a fixed cost base from which profits can skyrocket). That doesn't mean they're not worth owning. Far from it. What we're looking for are stocks where we're not paying too much for future earnings growth. Stock in the wealth and accounting services company **Count (CUP)** has surged 30% in just over 2-months on improving profitability due principally to the recent acquisition of Diverger. We're swapping it over with **Centrepoint Alliance (CAF)** on our Best Buys list because this stock also benefits from the growing numbers of independent financial planners.

Tailwinds and value are what you're looking for when buying small caps, which can go on and be the new blue chips on the block.

Richard Hemming
Head of Investments

the issue

FY24 REPORTING SEASON

The A's impressed: **ACF**, **AIM**, **AQZ**, **ASB**. **CUP** remains a Spec Buy but out of our Best Buys… replaced by **CAF**…which sits alongside **M7T**, among others. Check them out.

Stock	Rating
ACROW LIMITED (ACF)	BUY
AI-MEDIA (AIM)	▼ HOLD
ALLIANCE AVIATION (AQZ)	SPEC BUY
AUSTAL (ASB)	▼ HOLD
BIG RIVER INDUSTRIES (BRI)	▼ HOLD
COUNT (CUP)	SPEC BUY
GALE PACIFIC (GAP)	HOLD
HELLOWORLD TRAVEL (HLO)	SPEC BUY
MACH7 TECHNOLOGIES (M7T)	SPEC BUY
MACQUARIE TECHNOLOGY (MAQ)	HOLD
OMNI BRIDGEWAY (OBL)	HOLD
TRAJAN GROUP (TRJ)	▼ SELL

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.

Macquarie Technology (MAQ) has grown dramatically, increasing almost 15 times since we repeatedly recommended subscribers Buy less than 10 years ago. The FY24 result is a solid foundation for even more growth. It doesn't stop!

Under the Radar Report

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ACROW LIMITED

SECTOR INDUSTRIAL **INDUSTRY** CONTRACTOR

Research Tip Update

What's new?
The specialist construction group's stock has come off its highs, but remains a very good performer since we first tipped it in late 2022 at below 60 cents. The FY24 result highlighted how the company's quality has improved with operating earnings (EBITDA) up 40%. Operating leverage was impacted by financial-related events, which we discuss. Adjusted net profit after tax was up 8% with EPS down 1% to 11.5 cents. The final dividend increased by 11% to 3.0 cents a share for total dividends of 5.9 cents, up 33%.

Bull Points
· Work pipeline the strongest it has ever been
· Potential for earnings upgrades

Bear Points
· Business environment nationally has areas of weakness
· Start dates for some contract wins unknown

Analysis: ACF has managed to outlast and consolidate and now dominates its construction services fields. Revenue grew 28% to $215m, chiefly organic, with the main Formwork division up 19% and the Industrial Services up 78%.

Acrow has exhausted its tax losses and is expensing tax at the full 30% (8% FY23). Shares increased by 13% due to the $15.5m capital raise to part fund the MI Scaffolding acquisition and the dividend reinvestment plan. The outlook is very positive, however, with guidance for 20% revenue growth with double-digit EBITDA growth, supported by hire contract wins of 78.3m (up 17%) and a $189m pipeline (up 33%).

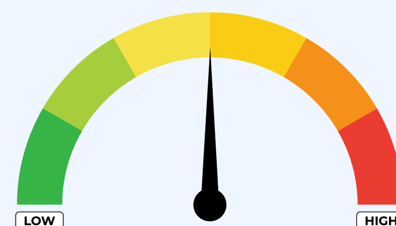
The growth engine is Industrial Services, boosted by acquisitions of MI Scaffold and Benchmark Scaffold in Queensland, which brings new capabilities, particularly in complex scaffolding projects in mining & marine. Relationships with blue chip customers increases recurring income from maintenance contracts. With potential M&A, Acrow anticipates this division will account for 50% of its revenue in the near future.

Portfolio Risk Rating: High rates of return on invested capital and equity compared to its peers and a relatively low cash flow multiple (enterprise value/EBITDA) of below 6 times.

RADAR RATING: Formwork on strong growth path supplemented by internally developed proprietary products. Industrial Services boosting recurring revenue, M&A growth likely.

RADAR RATING: **BUY**

RISK RATING



ASX CODE **ACF**

CURRENT PRICE **$0.945**

MARKET CAP $282M

DIVIDEND YIELD 6.4%*

NET DEBT ($M) -68.6M

DATA AS AT INITIAL COVERAGE:

DATE 08 DECEMBER 2022

PRICE ($) 0.575

Forecast 6 cents

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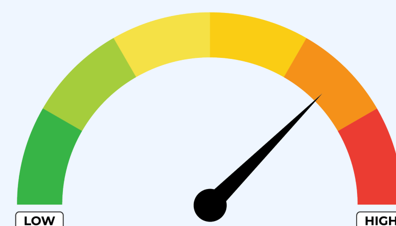
AI-MEDIA

SECTOR TELECOMUMMICATIONS INDUSTRY MEDIA

RADAR RATING: **HOLD**

RISK RATING



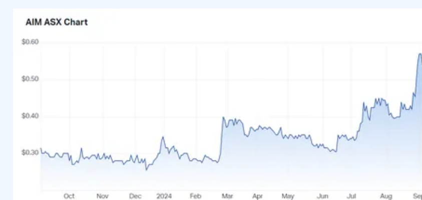
ASX CODE **AIM**

CURRENT PRICE **$0.575**

MARKET CAP $119M

DIVIDEND YIELD 0%*

NET CASH ($M) 10.9M



DATA AS AT INITIAL COVERAGE:

DATE 20 JUNE 2024

PRICE ($) 0.34

Research Tip Update

Downgrade from Spec Buy

What's New?
Stock has almost doubled since we tipped it just over two months (Issue 605). The driver: Increasing earnings coming from LEXI, which utilises AI to generate captioning.

Revenue was up 7% at just over $66m, but gross profits climbed 15% to $42.5m and operating earnings (EBITDA) rose 24% to $4.1m. At the bottom line, a loss of tax of $1.2m was reported. Confidence in the future was evidenced by the 5-year target (FY29) of $150m in revenue and $60m in EBITDA.

Bull Points
· Technology is fast improving
· Operating leverage

Bear Points
· Fragmented market
· Data protection & privacy

Analysis: AI technology risk looks much lower, with top broadcasters in North America buying in. Technology revenue growth was 38%; the region now represents almost three-quarters of the total.

AI-related technology revenue is now almost half the total and is expected to represent 80% in FY25. In FY24 technology represented 68% of the gross profit because it generates a gross profit margin of 84% versus Services (which use humans for captioning) where the margin was just under 44%. The overall margin rose from 60% to 64% and will keep climbing.

A$m	FY24	FY23	Variance	Growth %
Tech revenue	32.9	24.0	9.0	37%
Services revenue	33.3	37.8	(4.5)	(12%)
Total revenue	**66.2**	**61.8**	**4.5**	**7%**
Tech gross profit	28.0	20.2	7.8	39%
Services gross profit	14.5	16.7	(2.2)	(13%)
Gross Profit	**42.5**	**36.9**	**5.6**	**15%**
GP margin %	*64%*	*60%*	-	-

Portfolio Risk Rating: Forecast cash flow multiple (EV/EBITDA) in the mid-single-digits based on FY26 forecasts. A growth stock, not expensive.

RADAR RATING: Growing fast & taking market share. $60m operating earnings in five years is achievable.

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ALLIANCE AVIATION

SECTOR INDUSTRIAL **INDUSTRY** CONTRACTOR

Research Tip Update

What's New?
In recovery mode after the rejection of Qantas's $4.75 a share takeover proposal in April 2023 by competition authorities and high investment in additional aircraft capacity. FY24 record result backed up our expectation cash flow and earnings over the next two years would grow substantially. Revenue increased 25% to $637m with PBT up 65% at $65m. Operating cash flow down 40% at $25m, including acquisition of aircraft.

Bull Points
· Long-term contracts
· 30 new aircraft

Bear Points
· Debt
· Dependence on Qantas

Analysis: Operationally, the company renewed seven major FIFO contracts, and one new client, 4% growth to $310m. Contracted wet lease operations (with crew) grew revenue by 65% to $265m. **Qantas (QAN)** – 19.9% shareholder – represents a third of total revenues.

Flying hours increased to over 100,000. Utilisation has increased three quarters over two years in line with the growing fleet, which bodes well for the future.

There are now 72 aircraft in service, 3 on dry lease. Underlying operating cash flow, excluding the acquisition of aircraft to be broken up into parts, reached $109m, giving a sense of the underlying cash flow that this business will deliver once the current growth phase flattens out. Capital expenditure was $115m, with $56m on maintenance and existing fleet capital expenditure, and some of this expenditure was a direct consequence of higher productivity.

The focus now is reducing costs utilising the new maintenance facility in Rockhampton, alongside sales growth from deploying 30 aircraft acquired from JetBlue.

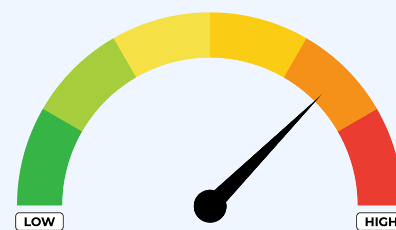
Aircraft investment will increase net debt. If AQZ can work through 2-3 years using the new fleet, operating cash flows can repay debt quickly.

Portfolio Risk Rating: The cash flow multiple highlights value, trading on mid-single digits. However, the increased net debt suggests caution despite the blue-chip revenues contracted for the long term. New debt facilities have been agreed with company's bankers, and current capital expenditure requirements are fully funded.

RADAR RATING: Increasing flying hours and revenue through the debt-funded acquisition of additional aircraft.

RADAR RATING: **SPEC BUY**

RISK RATING



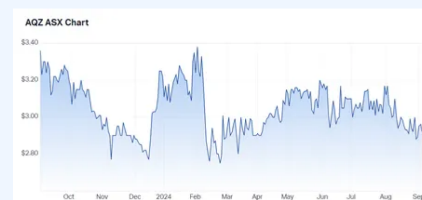
ASX CODE **AQZ**

CURRENT PRICE **$2.95**

MARKET CAP $477M

DIVIDEND YIELD 0%*

NET DEBT ($M) -306M



DATA AS AT INITIAL COVERAGE:

DATE 14 SEPTEMBER 2016

PRICE ($) 0.83

PORTFOLIO
The Under the Radar Report Portfolio holds 1000 AQZ shares, 2% of the portfolio.

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AUSTAL

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

Research Tip Update

Downgrade from Buy

What's New?
Austal has returned almost 20% in the past 12 months and the FY24 result highlighted that the turnaround from the FY23 write-down is in full swing, with operating earnings (EBIT) recovering to $56m on revenue of $1.47bn, down 7%. The service business delivered $467m in revenue, ahead of its growth schedule.

Bull Points
· $12bn+ order book
· Committed government customers

Bear Points
· Significant capital expenditure ahead
· Potential cost overruns

Analysis: ASB has risen 15% since our last Spec Buy recommendation, and has been even higher. We maintain a positive rating. The removal of the regulatory overhang should allow financing arrangements to be finalised for the required capital expenditure.

Austal is now chaired by a former US Secretary of Navy and is embedded in the naval defence power structures. The company's relatively small equity base means that there is takeover potential. South Korean giant Hanwha has reportedly made an approach at $2.825; while private equity has indicated interest as have other US defence companies.

The order book is $12.7bn over 10 years is one measure of strength. Another is operational diversity. The US business is in transition from building solely literal class vessels (LCS and EFP) to other work, including towing (ATS), landing ships (LCU), ocean surveillance (TAGOS), Coast Guard all-purpose cutters (OPC), floating docks (AFDM); smaller nuclear submarine and aircraft carriers.

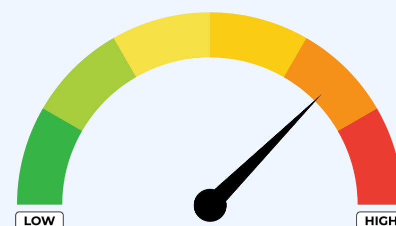
A fine of US$24m to the SEC resolves compliance issues and have not prevented contracts with the US Coast Guard and Navy.

Portfolio Risk Rating: The balance sheet remains just in net cash after a $13m net operating cash outflow, with a substantial capital expenditure programme ahead. Debt funding is preferred because of the low rating of the stock, but an equity issue might get the potential lenders over the line.

RADAR RATING: US contracts will deliver substantial activity and revenue growth, but capital expenditure requirements have increased to enable production lines to operate concurrently.

RADAR RATING: **HOLD**

RISK RATING



ASX CODE **ASB**

CURRENT PRICE **$2.17**

MARKET CAP $812M

DIVIDEND YIELD 0%*

NET CASH ($M) 3.9M

DATA AS AT INITIAL COVERAGE:

DATE 14 OCTOBER 2014

PRICE ($) 0.55

PORTFOLIO
The Under the Radar Report Portfolio has 5000 shares in ASB, 6% of the portfolio
The Idle Speculator retains a holding in ASB in his SMSF.

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BIG RIVER INDUSTRIES

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

Research Tip Update

Downgrade from Spec Buy

What's new?
Big River Industries has been disappointed with the shares coming off about $1 in the past 12 months on weak residential housing. This will change, partly due to government support and operating leverage will lift earnings, not overly encumbered by debt, big revenues and paying dividends through the cyclical low. Hold firm!

Overall, Big River's total revenue for FY24 revenue declined by 7.7% to $414.7m with operating earnings (EBITDA) falling by 36% to $32.6m. Net profit after tax was down 63% at $8.4m with EPS of 9.6 cents. A final dividend of 2.0 cents was declared for total FY24 dividends of 7.50 cents (FY23 17.1 cents).

Bull Points
· Large sales line
· Numerous products

Bear Points
· Residential housing
· Greater scale

Analysis: Weak residential demand, which had first impacted the frame and truss operations, spread to the rest of the residential build cycle this year, heavily impacting construction earnings, which fell 38%, while Panels (wooden walls) fell 19%. On the other hand, the commercial pipeline continues to be buoyant.

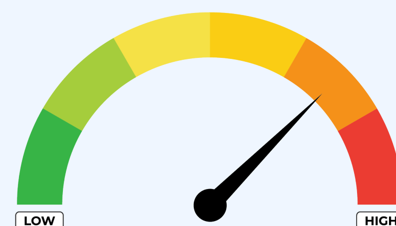
In the face of difficult markets, BRI is responding through consolidating operations to reduce costs; the two Brendale (Queensland) are now one larger site; while the Sydney sites have been merged into an improved facility at Smeaton Grange (Campbeltown). Suppliers have been reduced in number; as have employee numbers.

Portfolio Risk Rating: Earnings are matched by cash flow. There is debt but it's not onerous at 1 times earnings (EBITDA). Trades on low earnings multiples (EV/EBITDA) of 6 times and PE of 13 times; pays dividends.

RADAR RATING: Operating leverage high with any recovery in residential construction.

RADAR RATING: **HOLD**

RISK RATING



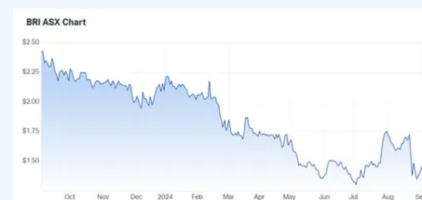
ASX CODE **BRI**

CURRENT PRICE **$1.465**

MARKET CAP $125M

DIVIDEND YIELD 5.1%*

NET DEBT ($M) -27.6M



DATA AS AT INITIAL COVERAGE:

DATE 23 MARCH 2023

PRICE ($) 2.58

**Forecast 7.5 cents*

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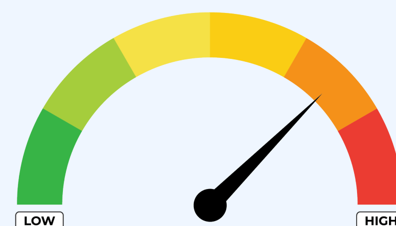
COUNT

SECTOR FINANCIALS **INDUSTRY** WEALTH

RADAR RATING: **SPEC BUY**

RISK RATING



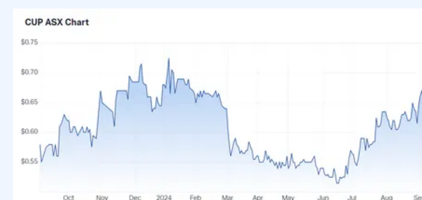
ASX CODE **CUP**

CURRENT PRICE **$0.66**

MARKET CAP $97M

DIVIDEND YIELD 6.1%*

NET DEBT ($M) -23M



DATA AS AT INITIAL COVERAGE:

DATE 10 JULY 2019

PRICE ($) 0.90

**Forecast: 4 cents*

Research Tip Update

What's New?
The stock has surged 30% in just over two months on improving profitability. The $45m acquisition of Diverger boosts CUP's financial advisers by almost 40% to well over 500. Diverger was included in four months of the FY24 result, and cost savings are expected to be $4m a year, up from $3m.

Revenue rose 22% to $111.8m; 5% excluding Diverger. Operating earnings (EBITA) was $16.6m, up 61% excluding one-offs. Reported profit before tax declined 55% at $3.4m, which includes non-controlling interests ($2.3m). The final dividend 2.25 cents, fully franked, for a total of 3.75 cents.

Bull Points
· Diverger acquisition synergies
· Building scale in a fragmented industry

Bear Points
· Acquisition integration risk
· Debt from acquisitions

Analysis: Scaled up and with exposure to increasing independent advisors. CUP's niche is owning and providing services to a network of accounting and financial advisory firms, which now number over 500. The group is the second largest licence provider (AFSL); the 18th largest accounting firm; $3.2bn in funds under management and over $34bn under advice.

Due to this expansion, net profit after tax should move up significantly from mid-single digits (FY24 $4.2m). We expect dividends to climb to over 4 cents. If the company achieves this, the share price will climb.

The three divisions are: equity partnerships, where it owns stakes in 20 financial advisors/accountants – 60% of revenue; Wealth, where it clips the ticket on funds under advice & under management – 27%; and Services, where it generates fees on accounting/actuarial/paraplanning advice – 13%.

Limited scope to keep growing by acquisition with gross debt (not including cash) of $42.5m, up from $16.7m due to the purchase of Diverger. Capacity is now at $16.5m (undrawn debt facilities and available overdraft).

FY25's focus is bedding down 14 transactions in the past 16 months and expanding through cross-selling.

Portfolio Risk Rating: Integration risks and debt, although a forward cash flow (EV/EBITDA) multiple of 6 times is not demanding.

RADAR RATING: We suggest accumulating small positions for yield and potential growth due to Diverger.

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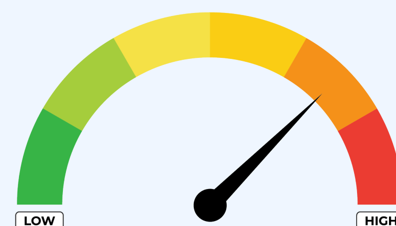
GALE PACIFIC

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

RADAR RATING: **HOLD**

RISK RATING



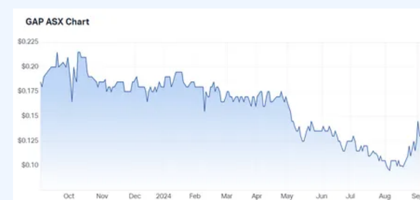
ASX CODE **GAP**

CURRENT PRICE **$0.133**

MARKET CAP $37M

DIVIDEND YIELD 0%*

NET DEBT ($M) -0.7M



DATA AS AT INITIAL COVERAGE:

DATE 02 SEPTEMBER 2015

PRICE ($) 0.22

Research Tip Update

What's New?
Gale Pacific's stock has bounced over 20% off lows since early August due to improving cash flow. But as the FY24 result shows, the shade cloth provider continues to struggle to grow sales and indeed, the bottom-line profit. FY24 revenue was down 7% at $174m producing a 31% fall in operating earnings (EBITDA) at $14.2m and a loss after tax of $0.3m. No dividend was announced.

Bull Points
· Distribution in major Australian & US retailers
· Strong cash flow

Bear Points
· Subdued sales
· Retail demand weakness

Analysis: There is a new face at the top of the company, but the same problems persist. Revenue declines and loss-making. The company perennially looks to be on the cusp of positive change, but never delivers, even with a highly paid US executive who has now left.

The potential is clearly there with Coolaroo dominating its space in Bunnings, but store positions in North American retail giants Costco, Walmart, Lowes, The Home Depot and Amazon has not translated into the success investors have been hoping for.

Cash flow from operations of $26.7m & cash on hand at 30 June of $29m were the highlights, enabling the company to pay down $30m in debt due this year, but beyond a focus on cost-cutting there was not much in the way of encouragement for investors. GAP says it will return to profitability this year (FY25) but with about $175m in sales, this is not an achievement worth trumpeting.

Portfolio Risk Rating: At an enterprise valuation of well under 2 times peak operating earnings (EBITDA) the stock is cheap and any initiatives that show promise should be rewarded.

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.

HELLOWORLD TRAVEL

SECTOR CONSUMER DISCRETIONARY **INDUSTRY** RETAIL

Research Tip Update

What's New?
Stock in the travel group has been a good trading stock, but over time has disappointed. FY24 revenue growth of 7% to $228m and a 53% growth in underlying EBITDA to $67m, were towards the lower end of forecasts. NPAT was up 60% to $31m, for EPS of 19.2 cents, from which a final dividend of 6 cents (FY24 11 cents).

Bull Points
· Travel demand
· Dividends

Bear Points
· Slowing growth
· Spending pressure

Analysis: HLO has made many acquisitions, which takes time to integrate and haven't yet delivered. There has also been a squeeze on profit margins over time as carriers like Qantas reduce fees and rebates. The stock now looks very good value considering prospective earnings growth amid consistently strong demand.

Strong growth from Australia and New Zealand reflected a very healthy travel market which has maintained its post Covid strength. Profit margins bounced due to technology and network expansion and was also evidenced by operating cash flow of $63m.

Total transaction value was up 62% at $4.2bn, benefiting from the acquisition of Express Travel Group in FY23. Travel advisory remains a growth industry servicing increased complexity and insurance requirements.

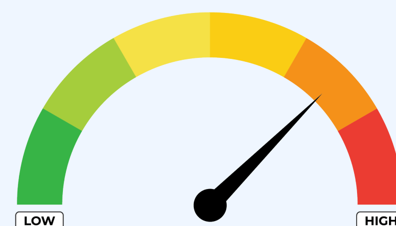
There is significant potential value in the technology solution, as well as in growth from diverse business lines e.g. domestic and overseas packages, cruises and packaged ski holidays etc.

Portfolio Risk Rating: A price/earnings valuation of around 10x, with net cash and investments, is cheap if HLO can show continued growth, although consumer discretionary spending pressures will begin to impact revenue growth and earnings.

RADAR RATING: A strong balance sheet on top of growth from acquisition. Travel demand is high and the stock is good value.

RADAR RATING: **SPEC BUY**

RISK RATING



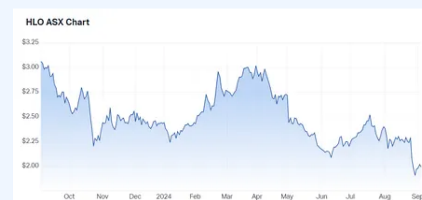
ASX CODE **HLO**

CURRENT PRICE **$1.975**

MARKET CAP $325M

DIVIDEND YIELD 5.5%*

NET CASH ($M) 113M



DATA AS AT INITIAL COVERAGE:

DATE 09 SEPTEMBER 2021

PRICE ($) 2.15

**Forecast 11 cents*

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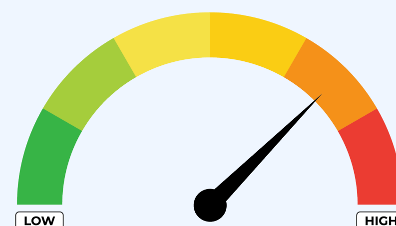
MACH7 TECHNOLOGIES

SECTOR HEALTHCARE | INDUSTRY EHEALTH MED TECH

RADAR RATING: **SPEC BUY**

RISK RATING



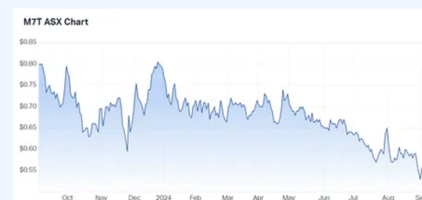
ASX CODE **M7T**

CURRENT PRICE **$0.55**

MARKET CAP $135M

DIVIDEND YIELD 0%*

NET CASH ($M) 26M



DATA AS AT INITIAL COVERAGE:

DATE 02 JUNE 2022

PRICE ($) 0.61

Research Tip Update

What's New?
FY24 result showcased the improving quality of the provider of imaging solutions to hospitals with $26m cash and growing recurring revenues. But the stock weakened on the FY24 outlook for $2-3m spending on people, pushing back guidance for annual recurring revenue (ARR) to exceed operating expenditure from FY26 to FY27.

FY24 revenue was slightly down at $29.1m (pre-released) from recurring revenues of $21.1m, up 29% and capital revenue of $8m. Total sales orders were $61.3m, up 52%; from contracted annual revenues (CARR) of $27.9m. Operating cash flow positive but loss after tax at -$9.1m as the company transitions to subscription revenues.

Bull Points
· Subscription business model
· Strong growth rate

Bear Points
· Costs growing at the same rate as income
· Contract sales volatile quarter to quarter

Analysis: FY24 transformed M7T from upfront purchases of software and capital equipment to the software as a service model. The company is generating predictable positive cash flow, which translates to a bigger cash balance and is now investing in people & products.

M7T services hospitals with its software that can be used across enterprise resource planning platforms enables images to be shared. Notably this doesn't just include radiology like **Pro Medicus (PME)**.

Growth is a hard slog, but M7T has the benefit of a big cash balance of $26m and positive cash flow, built subsequent to its June 2020 acquisition of Canadian group Client Outlook (eUnity diagnostic viewer product).

The rollout of phase 1 of the Veterans Health Administration program has finally commenced and should be worth $3.5m a year when it gets into full swing. Phase 2 will be a big deal (worth $48m over 5 years).

Portfolio Risk Rating: Encouraging guidance of 15-25% revenue growth and 15-25% CARR growth. Increased expenditure on people/products delays profitability, but indicates confidence and is backed up by a strong balance sheet.

RADAR RATING: Our message is to hang in there, with Phase 2 of the Veteran's contract a big catalyst. The company has a super strong balance sheet and is making sales inroads every half.

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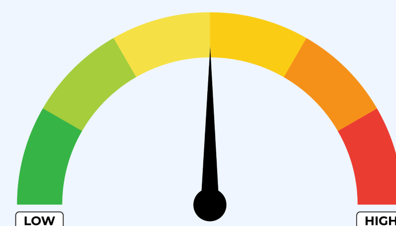
MACQUARIE TECHNOLOGY

SECTOR INFORMATION TECH **INDUSTRY** SECURITY DATA SERVICES

RADAR RATING: **HOLD**

RISK RATING



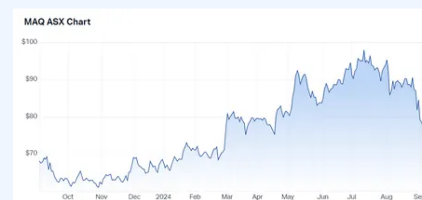
ASX CODE **MAQ**

CURRENT PRICE **$76.41**

MARKET CAP $2.0BN

DIVIDEND YIELD 0%*

NET CASH ($M) 25M



DATA AS AT INITIAL COVERAGE:

DATE 12 AUGUST 2015

PRICE ($) 6.51

Research Tip Update

What's New?
MAQ has grown dramatically, increasing almost 15 times since we repeatedly recommended subscribers Buy less than 10 years ago. FY24 operating earnings (EBITDA) grew 6% to $109m, on top of double-digit FY23 growth, with 100% cash conversion. This is a solid foundation for a business with huge and expensive potential growth opportunities.

Bull Points
· Unlimited data centre growth potential
· Founder led

Bear Points
· Undiversified asset base
· Capital expenditure

Analysis: With MAQ, you know what you are getting. While taking on substantial debt for growth plans, the commitment of its two founder brothers, the Tudehopes, should ensure that the money is spent carefully.

In April, MAQ purchased the property in Macquarie Park where its Sydney the data centre is located, for $174m, funded partly by an equity issue which raised $100m, partly by a vendor loan. That was MAQ's first capital raise since the company floated in the late 90s.

The challenge is the enormous data centre expansion, IC3 Super West, adjacent to 18MW IC3East. The first phase over two years costs $350m and delivers the shell and core for the entire site with a capacity of 45MW, but only 6MW will be fully fitted out initially. Energy needs for the full 63MW campus load have been secured.

IC3SW is a substantial undertaking. But the existing business is solid and high quality, and a new debt facility will be agreed to enable the project to be delivered.

FY25 will show slower growth than historically and includes $110m-$130m IC3SW investment, with up to $40m in capex.

Portfolio Risk Rating: The valuation at 20x EV/EBITDA is approximately in line with the reported valuation of the recently announced $23bn sale of AirTrunk to Blackstone.

RADAR RATING: Substantial operating cash flow supports expansion, and the company is undertaking major capital expenditure to increase capacity more than threefold. Slower growth in FY25 may give an opportunity to acquire stock at lower prices.

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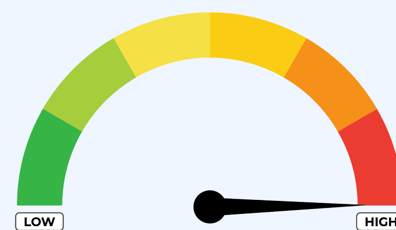
OMNI BRIDGEWAY

SECTOR FINANCIALS **INDUSTRY** WEALTH

RADAR RATING: **HOLD**

RISK RATING



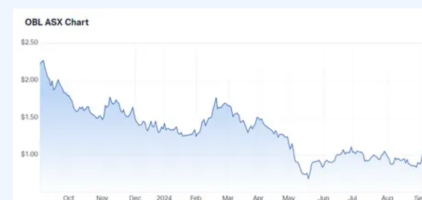
ASX CODE **OBL**

CURRENT PRICE **$1.04**

MARKET CAP $282M

DIVIDEND YIELD 0%*

NET DEBT ($M) -226M



DATA AS AT INITIAL COVERAGE:

DATE 14 NOVEMBER 2013

PRICE ($) 1.71

Research Tip Update

What's New?
A very complex stock. While its business has grown by a multiple of probably 10 times, the share price has disappointed on credibility issues. The price has now stabilised.

FY24 investment income and fee revenue of $277m, cash operating expenses was $90m, and NPAT (before third-party interests) was $30m. More relevant, OBL's share of the cash on its balance sheet is $29m, and the 77 full and partial case completions in the year delivered an IRR of 53% for 36 fully completed cases and a 2.7x multiple of invested capital overall. The company provided a normalised cash profit of $5m, down 70%, after secondary market transactions fell more than 80%.

Bull Points
· Substantial potential embedded value
· Global legal investment platform market leader

Bear Points
· Investor confidence missing
· Liquidity is challenging

Analysis: The business model utilises external capital through a series of investment funds to invest in legal cases that OBL manages. The ability to attract capital for its funds is an important indicator of success and is aided by market leadership in the esoteric field of legal investments. Reinvestment by existing investors is a sign that institutional investors value the legal investment product for diversification and uncorrelated absolute returns and are happy with the way their money is managed. Their newest fund is targeted at US$500m, with an average expected life of 9 years.

OBL has attempted to provide more transparency about its investment positions, by transitioning to a fair value basis of disclosure. The fair value completions in the next 12 months are expected around $800m, and it will be illuminating to see whether the fair value model is more helpful in the inherently uncertain process of valuing legal claims.

Portfolio Risk Rating: OBL seems a bit like **Pacific Current (PAC)** some years ago, a lack of transparency can create opportunities for retail investors who have the patience to wait while management build a successful long-term operating model. With global leadership in a large industry, OBL's strong risk-adjusted returns attract large investors.

RADAR RATING: The next 12 months will be crucial in determining OBL's ability to deliver its promise.

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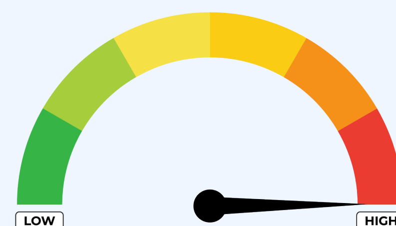
TRAJAN GROUP

SECTOR HEALTHCARE **INDUSTRY** EHEALTH MED TECH

RADAR RATING: **SELL**

RISK RATING



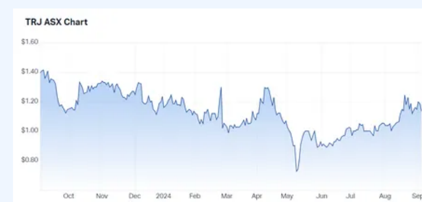
ASX CODE **TRJ**

CURRENT PRICE **$1.145**

MARKET CAP $182.7M

DIVIDEND YIELD 0%*

NET DEBT ($M) -32.9M



DATA AS AT INITIAL COVERAGE:

DATE 10 OCTOBER 2021

PRICE ($) 2.96

Research Tip Update

Downgrade from Hold

What's New?
The price has consolidated on anticipated earnings recovery. FY24 revenue was slightly lower at $155m, delivering operating earnings (EBITDA) of $17.2m (FY23 $23.9m) at a gross margin of 41.1%. Not included was a loss of almost $5m from the startup Disruptive Technologies division. At the bottom line, net profit after tax before amortisation was $0.6m (FY23 $5.8m).

Bull Points
· Unique laboratory product range
· Global sales potential

Bear Points
· Broad product range, needs greater scale
· Cost base is too high

Analysis: The FY24 year was a year of two halves, the first impacted by Covid related destocking in Components and Consumables; the second returning to growth, which should continue.

The company primarily manufactures laboratory equipment related to food, medicine & the environment. There is growing demand, but TRJ has had difficulty integrating a series of acquisitions. The group has many stock-keeping units and overheads have been too high to produce a decent profit.

Demand for Capital Equipment from the pharmaceutical sector is forecast to improve next year; while Microsampling products are forecast to break even after a loss in FY24.

Guidance is for FY25 net revenue of $160-165m and total normalised EBITDA (all divisions) of $17-19m, up 46% (midpoint), with the gross margin returning to its growth trend.

Portfolio Risk Rating: Cheap on a price to sales of just over 1 times but expensive on an EV/EBITDA cash flow of 19 times. Good cash conversion is one thing, but profitable growth is of more importance and we are yet to see signs of that. Debt is not an issue now but will be if growth doesn't resume.

RADAR RATING: Revenue from relatively defensive medical, environmental and food areas but employment and admin/marketing costs too high, constraining profit potential.

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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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