under the radar report
SMALL CAPS

ISSUE 617
12 SEPTEMBER 2024

7 STOCKS TO BUY NOW + 13 BEST STOCKS TO BUY

Building a portfolio is partly about achieving a balance of growth and income. You want to be protected from big selloffs, but also be able to take advantage of owning stocks that are leveraged to growth. New Zealand-based media group NZME (NZM) isn't what you would call a growth stock, yet it has been one of our Best Buys for six months now and is also a member of our Small Cap dividend portfolios.

In the past 12 months, NZME has returned over 16% and we think that this momentum will continue. Why? Because the company delivers stable revenue and earnings. NZME's clients are among the biggest advertisers in New Zealand. These types of companies are among the first to experience depressed earnings when economies go into recession (one of the first things cut is ad spend) but they're also a leader out of recession. Their blue chip customer base has 5-10 year development cycles and spends money when they can gain market share by taking on beleaguered competitors.

Buying NZME gives you access to a dividend yield of 8%, plus tax credits, which will grow as the New Zealand economy improves.

Then there are growth options we like in this issue. **Energy One (EOL)** is a great business, which you might not have heard of. It's more expensive than NZME but it's got more growth potential, with FY24 producing organic revenue growth of 17%. The company didn't grow earnings because it reinvested in capability, but the company is in the sweet spot as we transition to low-carbon emission energy sources. There are 250 generators in Australia, up from 150 in 2018. If it were a generator, EOL would be the fourth largest in the National Energy Market, its software managing 13% of the East Coast non-LNG gas volumes, without energy price risk.

There are five other buying opportunities in this report and not all of them will be for you. Only you know your risk tolerance and building a portfolio is about understanding how each stock contributes to growing your wealth within parameters you are comfortable with.

Richard Hemming
Head of Investments

the issue

THE ISSUE

There are 7 stocks in which we have positive recommendations but all have vastly different risk profiles. Work out which ones could fit into your portfolio.

AINSWORTH GAME TECHNOLOGY (AGI)	SPEC BUY
AIRTASKER (ART)	SPEC BUY
BISALLOY STEEL (BIS)	▲ SPEC BUY
CAPRAL (CAA)	HOLD
DIGITALX (DCC)	▼ HOLD
ENERGY ONE (EOL)	SPEC BUY
GR ENGINEERING (GNG)	HOLD
MEDADVISOR (MDR)	▲ SPEC BUY
NZME (NZM)	BUY
SILK LOGISTICS (SLH)	▼ HOLD
XRF SCIENTIFIC (XRF)	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.

MedAdvisor sells software as a subscription in Australia and direct-to-consumer marketing in the US, the latter being a huge opportunity with exposure to 32k pharmacies servicing 230m people (90m via digital reach and growing).

Under the Radar Report

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Website www.undertheradarreport.com.au

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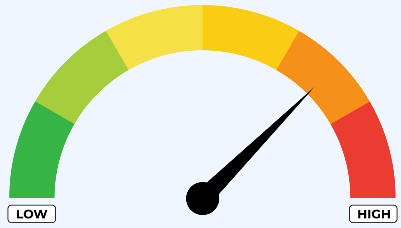
AINSWORTH GAME TECHNOLOGY

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

RADAR RATING: **SPEC BUY**

RISK RATING



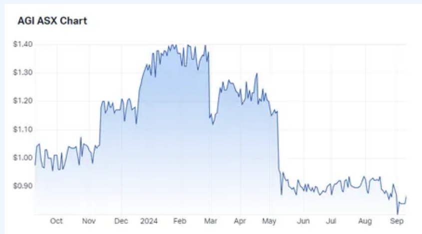
ASX CODE **AGI**

CURRENT PRICE **$0.87**

MARKET CAP $293M

DIVIDEND YIELD 0%*

NET DEBT ($M) -11.1M



DATA AS AT INITIAL COVERAGE:

DATE 15 JUNE 2023

PRICE ($) 1.05

Research Tip Update

What's New?
The result was in line with downgraded expectations from May, with a $14m profit before tax, 40% lower, on revenue of $121m, down 15%. The weakness was principally due to a prior year boost from Argentina, not repeated.

Bull Points
· International growth
· New product potential

Bear Points
· Overseas controlling shareholder
· Gambling regulation

Analysis: The strategic review, which anticipated possible corporate activity, has been put on hold. The stock looks cheap on historical cash flow and has many levers of growth to pull, but minority investors are in the hands of controlling shareholders in the form of an Austrian gaming giant, Novomatic, which owns 52.9%.

Recurring revenue increased 3% to $50m, which includes connection fees for the Historical Horse Racing service. Gambling has historically been recession-resistant, but it is now more competitive, through apps, and in-game wagering etc.

North American revenue of $68m was flat, but the segment profit rose 10% to $33m. The region represents almost two-thirds of international and comes from 3000 machines. New products contributed to sales plus pricing boosted profitability.

In the Latin America/Europe segment profit was $14m. The result included $12.2m of recurring revenue, up 8%, but the impact of import changes in Mexico reduced sales there to nil. Also in Mexico, AGI paid $29m to settle a tax liability.

In Australia & NZ, revenue was down 10% at $19m (14% of the total) while online revenue was down due to one-off revenue in the prior period. R&D expenditure increased by 18%, to $26m, 21% of total revenue, increasing the potential to develop a new hit game.

Portfolio Risk Rating: The financial risk is low due to strong cash flow, but the presence of a controlling shareholder increases risks. Positions should be kept small.

RADAR RATING: The poker machine manufacturer has broad distribution and growth opportunities. The stock trades on a single-digit PE; the potential for a hit game is not priced in, but risk from the controlling shareholder.

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AIRTASKER

SECTOR INFORMATION TECH **INDUSTRY** SOFTWARE

Research Tip Update

What's New?
The FY24 result was encouraging because the value proposition remains in a stock with huge potential. Group revenue rose 5.6% to $46.6m, which delivered a loss after tax of $4.4m (FY23 loss $12.9m). The company is generating cash and increasing cash on hand to $17.8m (FY23 $17.1m).

Bull Points
· International potential
· Domestic cash flow

Bear Points
· Australia ex-growth
· Slow growth business model

Analysis: Airtasker is proving to be a slow burn, utilising its positive Australian cash flow (FY24 $12.8m) to reinvest in growth markets, which right now is the UK. The company's playbook of spending heavily on local media, which involves equity participation by the media owner, continues in Australia via ASX-listed groups **Ooh Media (OML)** & **ARN Media (A1N)** and is being deployed in the UK via Channel 4.

The prize is gross margins of over 95% from Airtasker's take-rate of 20% of the work done by Taskers. When there is the much-fabled network effect i.e. a feedback loop between customers and Taskers making them reliant on each other (think Seek.com or realestate.com.au) the profit growth can be great, because the fixed costs are low.

Getting there is not easy, as attested by losses in the past four years totalling over $45m. Hence the positive free cash flow in FY24 is a big deal. The performance during the year highlighted resilience with volumes actually declining (gross marketplace revenue down 3.5%) but revenues growing.

What happened? product investment to improve marketplace reliability saw cancellations decline 26.3% last year, delivering a record number of completed tasks and a 13.7% improvement in the full-year monetisation rate to 20.0%. The monetisation rate is Airtasker's revenue as a percentage of GMV.

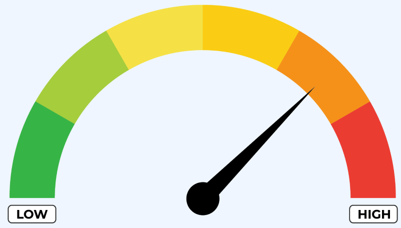
The UK is the key, with brand campaigns through Channel 4 ramping up. CEO & Founder Tim Fung signaled optimism.

Portfolio Risk Rating: ART generated free cash flow in FY24 of $1.2m and has been guided to being positive in FY25. The company has substantial funds for marketing with over $17m in cash, but sales growth overseas is coming from very low levels.

RADAR RATING: Self-funded through domestic earnings, driven by 80% local earnings (EBITDA) margins. The prize is international potential, and all eyes are focused on the UK.

RADAR RATING: **SPEC BUY**

RISK RATING



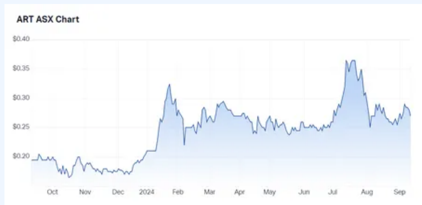
ASX CODE **ART**

CURRENT PRICE **$0.27**

MARKET CAP $127M

DIVIDEND YIELD 0%*

NET CASH ($M) 17.2M



DATA AS AT INITIAL COVERAGE:

DATE 14 OCTOBER 2014

PRICE ($) 0.22

PORTFOLIO
The Under the Radar Report portfolio has 20,000 ART shares, around 4% of the portfolio.

Publis Investments Richard Hemming, Publisher Caroline Mark
655A Darling St, Rozelle, NSW 2039 ABN: 65147404662. AFSL: 409518.
Telephone 1300 100 343 Email radar@undertheradarreport.com.au Website www.undertheradarreport.com.au

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SMALL CAPS

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BISALLOY STEEL

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

Research Tip Update

Upgrade from Hold

What's New?
A strong long-term performer for UTRR but the price has come back, providing a buying opportunity, underlined by FY24's net profit up 23% to $15.7m. A final fully franked dividend of 11.5 cents (FY24 19.5 cents v FY23 9.5 cents).

Bull Points
- Longer term AUKUS and US growth runways
- Strong recurring mining industry demand

Bear Points
- Steel dumping
- Govt policy risk

Analysis: Financial performance has been underpinned by strong demand from industry (iron ore & gold mining) and defence for Bisalloy wear plate plus improving profit margins. In FY25, benefits from IT investment are expected to flow through with better scheduling and tracking of production and reduced working capital.

Reasons for the earnings increase included improved input costs (power and shipping) and product mix on flat revenues. The result included an after-tax contribution of $2.4m from its 50% share in the cooperative joint venture (CJV) in China for Bisalloy quench and tempered (Q&T) steel in China and other North Asian markets.

The Australian government assisted in supplying steel plates for the AUKUS submarines, opening US opportunities.

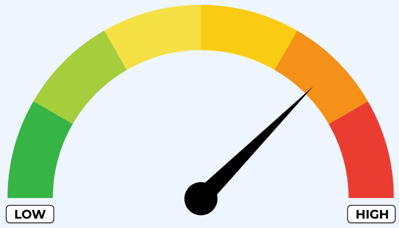
Specialised steel dumping from Finland, Sweden and Japan is a threat. The Anti-Dumping Commission is to make a final determination on continuing protection later this year.

Portfolio Risk Rating: Track record of strong EPS growth and high return on investment capital but trades on a low PE of around 10. Low single-digit cash flow multiple (EV/EBITDA). Risk factors include steel dumping and government spending timing, especially relating to AUKUS.

RADAR RATING: Niche, specialised steel player with substantial, but longer term, defence opportunities. Continues to innovate to lower costs and expand its markets.

RADAR RATING: **SPEC BUY**

RISK RATING



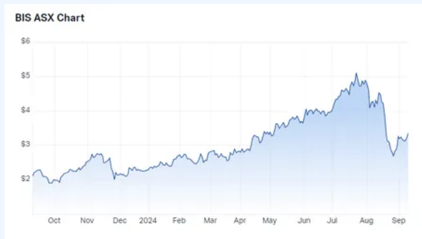
ASX CODE **BIS**

CURRENT PRICE **$3.31**

MARKET CAP $161M

DIVIDEND YIELD 6%*

NET CASH ($M) 5.6M



DATA AS AT INITIAL COVERAGE:

DATE 14 OCTOBER 2014

PRICE ($) 0.55

**Forecast 20 cents*

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CAPRAL

SECTOR MATERIALS **INDUSTRY** ALUMINIUM PRODUCTS

Research Tip Update

What's New?
Capral delivered a lower 1H24 result, mainly due to reduced detached residential housing construction with low commencements and a reduced pipeline. Industrial sectors and infrastructure investment remained solid, which is expected to continue.

The volume of aluminum products sold decreased by 6% to 33.5k tonnes, while sales fell 5% to $313m producing operating earnings (EBITDA) of $28.7m, down 9%. Net profit after tax was $14.7m, down 11% producing EPS of 81 cents. No interim dividend; and no final forecast.

CY24 guidance is for EBITDA of $52m (mid-point) vs FY23's $29m; NPAT between $24.5m vs FY23's $14.7m.

Bull Points
· Efficient aluminium fabricator
· Leveraged recovery in construction

Bear Points
· No dividend certainty
· Inflationary cost pressures

Analysis: Capral has built a nationwide business as an aluminium extrusion manufacturer and distributor and supplier of extrusions, aluminium sheet and plate, window and door framing systems and aluminium value-added services.

Exposure to residential construction is high (40% of volumes) and has been pretty flat over the past 6 years. Diversification of operations has improved, however, industrial sectors account for almost half of the volumes, while commercial construction (offices, shops, factories) is 10-12%. Industrial, in particular, has increased earnings resilience and includes transport, marine, solar, industrial construction, manufacturing, and fabrication.

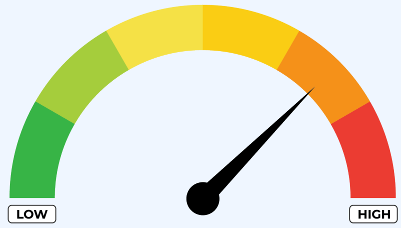
Residential building is expected to remain soft this year and start recovering next. The buyback is ongoing and we don't expect to see dividends this year.

Portfolio Risk Rating: The shares are inexpensive on a cash flow multiple (EV/EBITDA of 3 times) and a single-digit PE multiple but the dividend outlook is uncertain, which highlights the increased operational risk.

RADAR RATING: Well managed but inflation risk to cost base. Caught in a residential downturn. Well positioned for a potential recovery in 2025.

RADAR RATING: **HOLD**

RISK RATING



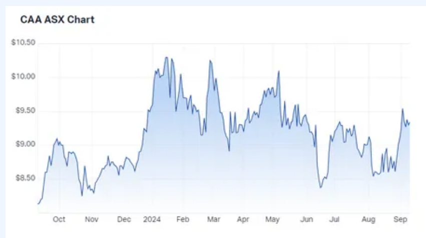
ASX CODE **CAA**

CURRENT PRICE **$9.04**

MARKET CAP $159M

DIVIDEND YIELD 0%*

NET CASH ($M) 67.8M



DATA AS AT INITIAL COVERAGE:

DATE 10 AUGUST 2016

PRICE ($) 5.10

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DIGITALX

SECTOR FINANCIALS **INDUSTRY** WEALTH

Research Tip Update

Downgrade from Spec Buy

What's New?
An interesting way to invest in the evolution of bitcoin and crypto; The investment thesis suffered a setback when Lisa Wade CEO, previously with NAB, resigned immediately after the FY24 result, which showed a loss before tax of $4.8m (FY23 loss of $7.6m) from revenues up 44% at $3.3m.

Bull Points
· Crypto assets and operations
· Cash funded

Bear Points
· Unprofitable
· CEO resigned

Analysis: The sharp rise in the price of Bitcoin to US$72,000 was relatively short-lived and has since fallen 20%. DCC took advantage of the buoyant conditions in March to raise $5m capital at 6.7 cents. The new interim CEO is existing director Greg Dooley, former MD of Computershare. The board emphasised the need to reach cashflow positive.

On that front, the FY24 result might have reduced losses but operating cash outflow was $5m, while cash on the balance sheet in June was only $6m. There is hope. The core business Sell My Shares increased its revenue by 26% to around $2.5m. The funds business increased revenue but is very small.

Net tangible assets increased, primarily as a function of the increase in the price of bitcoin, held both directly on the balance sheet and indirectly within the funds. These funds are the Bitcoin Fund unit trust, the DigitalX Fund unit trust, and the DigitalX Real World Asset Tokenisation unit trust.

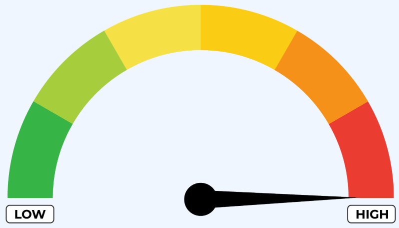
Digital assets are worth $48.9m, but liabilities include $14.5m in unitholder claims; fully consolidated. A DigitalX Spot Bitcoin ETF commenced trading in early July.

Portfolio Risk Rating: DCC is a lower-risk alternative to owning crypto, but we have only ever recommended very small positions. Until a new permanent CEO is appointed, we are downgrading to HOLD to reflect the risk of a change in strategy. NTA supports the current valuation.

RADAR RATING: Has developed revenue-generating blockchain assets which are still subscale but have some promise. DCC also receives fees for managing crypto funds. Other crypto assets also support its market value, but the resignation of the CEO has created uncertainty.

RADAR RATING: **HOLD**

RISK RATING



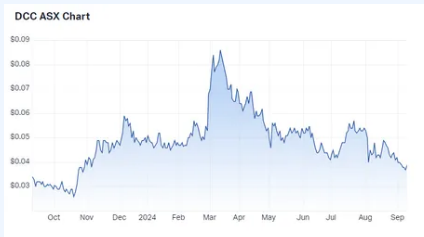
ASX CODE **DCC**

CURRENT PRICE **$0.037**

MARKET CAP $34M

DIVIDEND YIELD 0%*

NET CASH ($M) 6.1M



DATA AS AT INITIAL COVERAGE:

DATE 23 DECEMBER 2021

PRICE ($) 0.08

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Telephone 1300 100 343 Email radar@undertheradarreport.com.au

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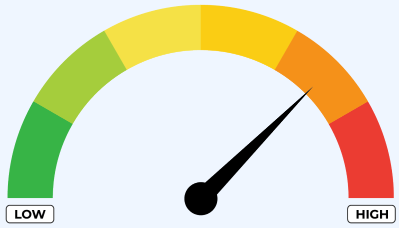
ENERGY ONE

SECTOR INFORMATION TECH

RADAR RATING: **SPEC BUY**

RISK RATING



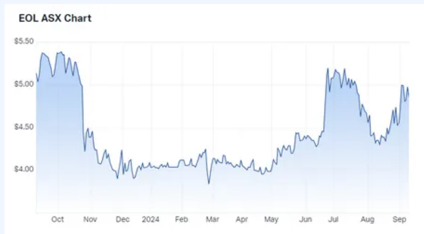
ASX CODE **EOL**

CURRENT PRICE **$4.99**

MARKET CAP $152M

DIVIDEND YIELD 1.2%*

NET DEBT ($M) -14.2M



DATA AS AT INITIAL COVERAGE:

DATE 15 OCTOBER 2020

PRICE ($) 4.11

**Forecast 6 cents*

Research Tip Update

What's New?
The stock is proving to be a winner, rebounding impressively on an FY24 result highlighting revenue growth of 17%, matched by annual recurring revenues up almost as much at $50m. Operating earnings (EBITDA) were marginally down at $11.9m. The company has produced compound annual growth of 43% since 2019, partly through acquisitions.

Bull Points
- Global platform
- Europe opportunity

Bear Points
- Investing for growth
- Complex environment

Analysis: EOL is a novel way to invest in the energy transition, providing the picks and shovels of the new energy trading markets. Building part of a long-term position at current prices seems sensible, as the company grows recurring revenues and profit margin.

The company's software trades in three-quarters of energy market activity in Europe. As a one-stop shop, EOL provides customer solutions, rather than specific services.

Almost half of the revenues come from ANZ, a mature market with underlying growth due to the energy transition. There are 250 generators in Australia, up from 150 in 2018. If it were a generator, EOL would be the fourth largest in the National Energy Market, its software managing 13% of the East Coast non-LNG gas volumes, without energy price risk. The balance from the UK & Europe, where physical scheduling products are in demand led by day-ahead and intraday markets.

The revenue metrics were strong, staff costs increased 28% to support growth in Australia and Europe and were spread across sales and marketing, product development and trading, additional to the investment in 24/7 (follow-the-sun) support capability. Restructuring costs were $1.2m, with only $300k identified as the cost of responding to a cyber-attack, from which there were no serious consequences.

Portfolio Risk Rating: Organic recurring revenue growth to continue. An enterprise valuation (EV/EBITDA) multiple of 13 times is reasonable for the opportunity. Net debt was down.

RADAR RATING: A niche in an active market. Delivery of organic revenue growth has been held back at the bottom line in FY24 by investment for future prospects, and the potential for further medium-term growth is good.

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Website www.undertheradarreport.com.au

GR ENGINEERING

SECTOR INDUSTRIAL **INDUSTRY** CONTRACTOR

Research Tip Update

What's New?
Since we took profits at $2.38 this time last year (Issue 607) the price has fallen almost a third. The FY24 result was in line with our expectations. Operating earnings (EBITDA) rose 15% and net profit after tax up 13% to $31.2m.

Net cash flow from operations was $30.3m (FY23 $12.7m). A final fully franked dividend of 10 cents (FY24 total 19 cents).

Bull Points
· Acknowledged skills in project delivery
· Recurring earnings increasing

Bear Points
· Exposed to commodity cycles
· Project timing uncertainty

Analysis: Cash flow improved but uncertainty is ratcheting up due to commodity price weakness, hence we think it's too early to step back in amid deteriorating conditions for its mining customer base.

The EBIT margin for FY24 increased to 12% (FY23 8.1%) reflecting a portfolio mix of higher margin projects, but this is on declining revenues. FY24 revenue was $424 vs $551m the prior year.

Mineral Processing revenue declined by almost 30% to $346.2m. leading to a 7% fall in segment earnings to $39m. Oil and gas earnings more than doubled but represent a much smaller contribution at $7.0m.

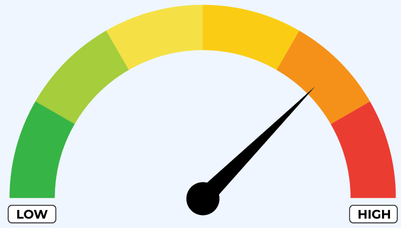
The outlook is for a growing pipeline, but until it's approved, it's just a pipeline. The timing is a big risk. A key area for growth includes recurring revenue from process controls business (acquired in the two years).

Portfolio Risk Rating: Strong cash flow, low debt, variable pipeline of work. Capital light model with low EV to EBITDA cash flow proxy of 4 and low prospective PE of 9, close to peers.

RADAR RATING: Cyclical business that is successfully weathering the storm of commodity price uncertainty and project deferrals. Well placed for a recovery.

RADAR RATING: **HOLD**

RISK RATING



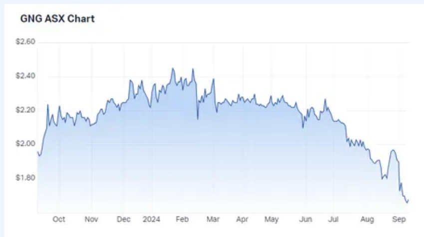
ASX CODE **GNG**

CURRENT PRICE **$1.705**

MARKET CAP $280M

DIVIDEND YIELD 11.2%*

NET CASH ($M) 65.3M



DATA AS AT INITIAL COVERAGE:

DATE 02 OCTOBER 2013

PRICE ($) 0.58

**Forecast 19 cents*

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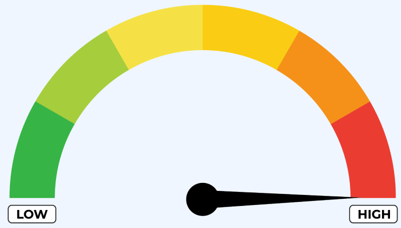
MEDADVISOR

SECTOR HEALTHCARE **INDUSTRY** EHEALTH MED TECH

RADAR RATING: **SPEC BUY**

RISK RATING



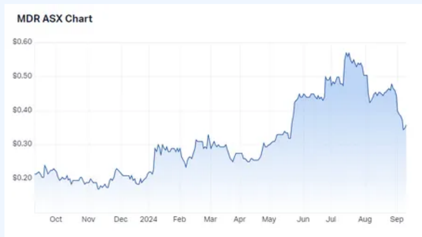
ASX CODE **MDR**

CURRENT PRICE **$0.35**

MARKET CAP $199M

DIVIDEND YIELD %*

NET CASH ($M) 3.2M



DATA AS AT INITIAL COVERAGE:

DATE 15 FEBRUARY 2024

PRICE ($) 0.27

Research Tip Update

Upgrade from Hold

What's New
FY24 was an impressive result with revenue climbing 25% to $122m producing operating earnings (EBITDA) of $7m and Medadvisor's first bottom-line profit (NPAT) of $0.8m. The shares have reversed a portion of their recent gains though still trade just above where we tipped them at the start of the year. The weakness is due to raised capital expenditure and acquisition expectations.

Bull Points
· Growth in the US & Australia
· Strong cash flow

Bear Points
· Increasing capital expenditure
· Management of rapid US growth

Analysis: Sells software as a subscription in Australia and direct-to-consumer marketing in the US, the latter being a huge opportunity with exposure to 32k pharmacies servicing 230m people (90m via digital reach and growing).

MDV is in a strong financial position with momentum across both the US and Australia; cash reserve climbed $1.4m over 12 months to $15.6m; $12.1m of debt re-financed; and revenue growth alongside improving profit margins, albeit slightly.

THRiV, MDR's patient engagement platform in the US, is growing fast off a small base, with revenues increasing 7.6 times on last year; the challenge being to replicate across the entire business. MDR is embarking on an IT project "Transformation 360" – the cost of which was not specified. Not cheap.

The group has a 5-year "aspirational" target to more than double revenues to $250m and to grow earnings at 20-25% a year on a compound basis. This is bold, but US-based CEO Rick Ratcliff did admit it required an acquisition.

Portfolio Risk Rating: 20% a year growth may require more capital, but the business model is sound. Trading on a sales multiple of 1.5 times is a very good value when you consider the much-reduced financial risk.

RADAR RATING: The stock has weakened on capital raising concerns that we don't believe are justified. The business is producing positive cash flow and is now profitable.

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Telephone 1300 100 343 Email radar@undertheradarreport.com.au
Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

NZME

SECTOR TELECOMUMMICATIONS **INDUSTRY** MEDIA

Research Tip Update

What's New?
The stock is recovering impressively after an extended period of underperformance. We think thing the momentum will continue due to rising advertising rates. The interim result was in-line, with operating earnings (EBITDA) at $21m, down 8% on 3% growth in revenues at $172m in the face of a weak domestic economy and higher marketing costs (up 16%).

Bull Points
· Stable earnings
· Market leadership

Bear Points
· Legacy cost structure
· Reduction in tech payments

Analysis: The growth business, property portal OneRoof, was the highlight with sales growing 47% to $14.1m on a 30% increase in inquiries from listings and listings upgrades grew 70%. Operating earnings (EBITDA) of $1.4m was a turnaround from a loss this time last year. Listings in Auckland and nationally are still 20% lower than before interest rates started rising, showing potential.

Audio revenue was up 3% to $55m due in part to higher agency commissions, but EBITDA was down 30% to $4.4m. Podcast download numbers increased 12% driving strong revenue growth. Share of advertising revenue outperforms audience share for market-leading media businesses. Publishing remains the leader and earnings declined 2% on falling circulation offset by rising prices.

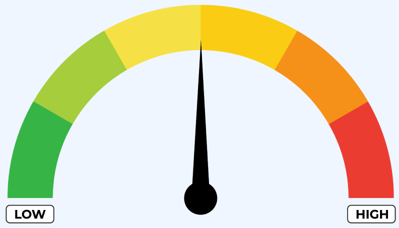
Earnings are rebounding based on an improving economy with the fourth quarter being the key to increasing revenues on a much-reduced cost base ($6m in annualised reductions from this half). FY24 operating earnings (EBITDA) should come in at just below $60m, a big improvement in the first half. A left-field boost could come from the proposed Fair Digital News Bargaining Bill, benefitting local media.

Portfolio Risk Rating: Tax-augmented healthy dividends are a desirable quality in any portfolio; the price being the lack of growth. A healthy balance sheet and blue chip customers underpin optimism.

RADAR RATING: We maintain our positive recommendation because the stock is cheap on current earnings, is well positioned to benefit early from NZ economic growth, and pays dividends.

RADAR RATING: **BUY**

RISK RATING



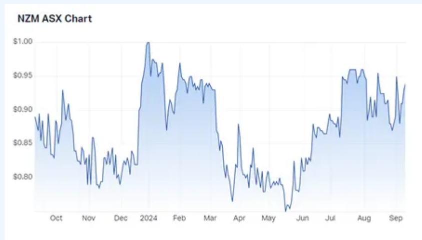
ASX CODE **NZM**

CURRENT PRICE **$0.925**

MARKET CAP $176M

DIVIDEND YIELD 8%*

NET DEBT ($M) -NZ$30M



DATA AS AT INITIAL COVERAGE:

DATE 13 JULY 2016

PRICE ($) 0.66

Forecast NZ$0.080 cents (A$0.074)

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SMALL CAPS

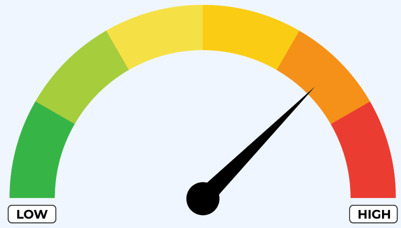
ISSUE 617
12 SEPTEMBER 2024

SILK LOGISTICS

SECTOR INDUSTRIAL | **INDUSTRY** CONTRACTOR

RADAR RATING: **HOLD**

RISK RATING



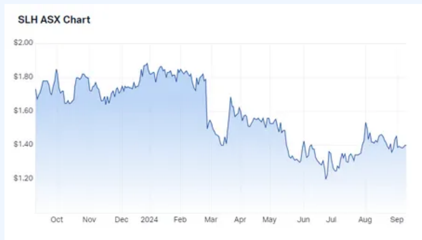
ASX CODE **SLH**

CURRENT PRICE **$1.385**

MARKET CAP $110M

DIVIDEND YIELD 2.5%*

NET DEBT ($M) -23.7M



DATA AS AT INITIAL COVERAGE:

DATE 07 DECEMBER 2023

PRICE ($) 1.74

**Forecast 3.5 cents*

Research Tip Update

Downgrade from Buy

What's New?
Silk Logistics has been a difficult investment, with lease costs ramping up more than expected amid difficult conditions. Revenue rose just under 14% to $556m producing operating earnings of $95m, up 11%, and net profit after tax of $7.4m, less than half last year's $16.4m. The final dividend will be 1.42 cents (fully franked) – a total of 4.24 cents (FY23 8.4 cents) and we have reduced our forecast to 3.5 cents in FY25.

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

Bear Points
· Rebased bottom line earnings
· Highly cyclical business

Analysis: Silk Logistics shares have almost halved in the past 18 months as lease charges ratchet up. Earnings have been re-based in FY25 and the operating leverage can still deliver growth from FY26, but there is considerable uncertainty.

Depreciation in the P&L may appear non-cash but includes a $52m provision relating to leases. Operating earnings (EBITDA) is $95.4m but is only $32.2m after $63.2m lease payments. Contract Logistics had an EBITDA of $44.0m but only an EBIT of $6.8m after depreciation, most of which relates to lease payments. After net finance cost (interest on ordinary debt), the pre-tax loss was $3.9m.

FY24 includes 10 months of the Victorian port operations, Secon, which is where the revenue growth comes from. Now that it has been fully integrated, this growth should improve. Also assisting is improving trading conditions. Warehouse area increased 20% to 505.5k sqm and average occupancy is rebounding from just over 70% to 76%, towards last year's 89.0% average.

Portfolio Risk Rating: While the P&L shows an apparent profit ($11.5m normalised, $7.4m reported), there does not appear to be much free cash flow. The issue is how quickly can SLH ramp up pallet space occupancy and lift revenue. Net debt is reducing but lease payments have climbed substantially.

RADAR RATING: The lease costs have ramped up more than we had anticipated and we want to see profit growth before we buy more.

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SMALL CAPS

ISSUE 617
12 SEPTEMBER 2024

XRF SCIENTIFIC

SECTOR INDUSTRIAL **INDUSTRY** CONTRACTOR

Research Tip Update

What's New?
Continues delivering earnings growth, validating our Buy recommendation in early September (Issue 601) which is already up 17%. FY24 net profit after tax of $8.9m increased by 16% on revenue of $60m, up 9%. A final fully franked dividend was declared of 3.9 cents a share, up 18%.

In late July, XRF acquired the remaining 50% of Orbis Mining, a manufacturer of laboratory jaw crushers. In FY24, Orbis achieved before tax of $1.7m from $5.8m in revenue.

Bull Points
· Growing demand
· High recurring revenue

Bear Points
· Commodity weakness
· Technology risk

Analysis: XRF experienced strong levels of activity, mainly driven by the mining industry. Sales growth was achieved in key markets across Europe, Asia and the Americas.

The outlook is for new product releases from all divisions, geographical expansion, complimentary manufacturing acquisitions and work to improve scale; this includes Orbis's xrTGA machine.

Consumables is the strongest of its three divisions in profit terms and achieved record volumes and new customer acquisitions, with demand from mine production and exploration. Revenue rose 11% to $18.8m, lifting divisional profit to $5.7m.

Capital Equipment revenue grew 16%, boosting divisional profit to $4.6m, up 35%. There is high demand for its machines in mining and industrial applications with sales growth in numerous markets worldwide.

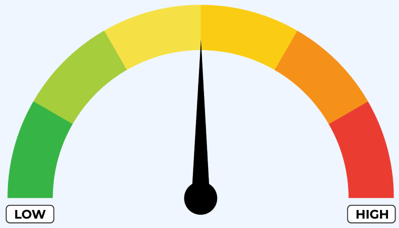
Precious Metals is involved in the manufacture and recycling of labware products made from platinum metal. Revenue declined 1% to $21.5m, due to lower precious metals prices. Divisional profit was unchanged at $3.6m, but new business should boost profits.

Portfolio Risk Rating: A high prospective PE of 21 is consistent with reliable earnings growth, a capital-light business model and net cash. A quality small cap.

RADAR RATING: Raw materials demand and global customers driving growth. Capital light model.

RADAR RATING: **BUY**

RISK RATING



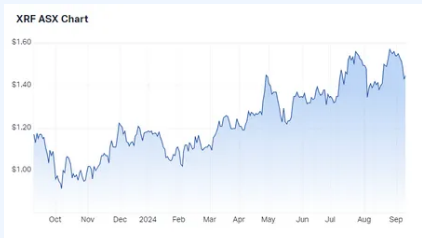
ASX CODE **XRF**

CURRENT PRICE **$1.475**

MARKET CAP $202M

DIVIDEND YIELD 3%*

NET CASH ($M) 10.4M



DATA AS AT INITIAL COVERAGE:

DATE 09 SEPTEMBER 2024

PRICE ($) 1.25

**Forecast 4.4 cents*

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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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