under the radar report
SMALL CAPS

ISSUE 621
10 OCTOBER 2024

CHARGE YOUR PORTFOLIO WITH GROWTH

The lithium price hasn't moved much in the past few months, but there have been developments that augur well for lithium fundamentals and hence lithium stocks. Sound familiar? Last week we noticed the same phenomenon with nuclear stocks.

These sorts of stocks can be game changers. They certainly have been for me, for our marketing director Caroline Mark and for many subscribers. One wrote in the other day and to whom I spoke. He was diagnosed with lung cancer which had metastasised, but the other week the scans were clear. I've never heard anything like it. The diagnosis caused him to ponder the good happenings in his life.

We said to invest in things that you care about and he flew over the Hunter Valley and saw coal trains kilometres long and holes everywhere. He thought, "The world has to change" and took the plunge, investing in our recommendations of **Vulcan Energy (VUL)** and **Kidman Resources (taken over by WES)**. He made over $700,000 out of Vulcan alone, selling half, taking profits over $10, and transforming his retirement. He now doesn't have to worry about finances. He still owns 50%, worth over $50,000.

The cancer outlook is the big one, but it was good to hear him say that he tracked us down because we've made a difference in his life. He took profits!

You have to keep these stocks in perspective; don't invest more than 2% of your portfolio and don't be afraid to take profits. These are boom-bust commodities, early on in their life cycle. Iron ore was once in this position.

We prefer nuclear stocks: **Paladin Energy (PDN)**, **Boss Energy (BOE)** and **Lotus Resources (LTR)**, the latter being higher risk.

If the lithium price goes up, there is already a big supply response in position. This isn't the case with nuclear, with only Paladin and Boss bringing on new production as we speak.

Life is nothing without risk; we exist to help you find financial peace.

Richard Hemming
Head of Investments

the issue

LITHIUM & URANIUM ANALYSIS

Rio Tinto's bid for **Arcadium Lithium Plc (LTM)** puts a number of stocks that could now be in the takeover firing line. As an investor, there is a risk that if you wait too long, you might miss the boat. We're seeing the same thematic in uranium.

LIONTOWN RESOURCES (LTR)	HOLD
PILBARA MINERALS (PLS)	HOLD
LOTUS RESOURCES (LOT)	SPEC BUY

RESEARCH TIP UPDATES

CATAPULT (CAT)	▼ HOLD
CLOVER CORP (CLV)	HOLD
GENTRACK (GTK)	HOLD

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.

> Those who took profits in Gentrack at lower levels should now be playing with house money, and growth has justified our faith.
>
> **Under the Radar Report**

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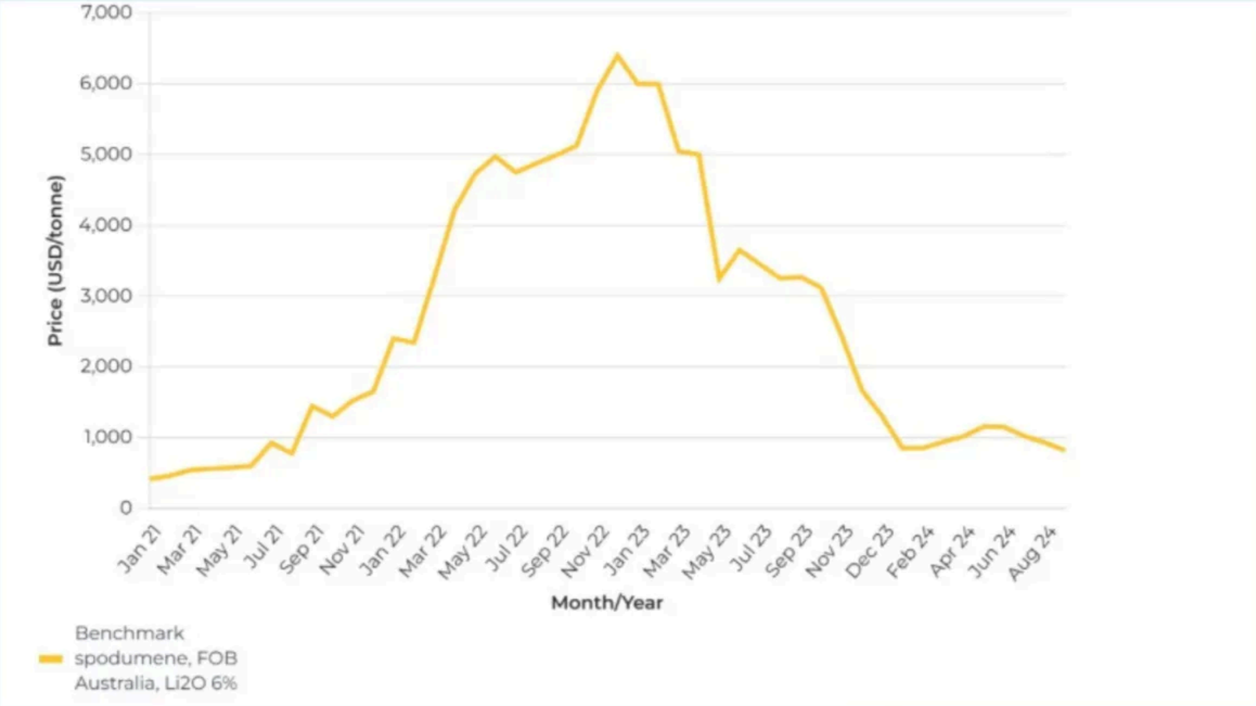
LITHIUM ANALYSIS

Is lithium close to a turning point? The lithium price hasn't moved much in the past few months, but there have been a number of developments that augur well for lithium fundamentals and hence lithium stocks. Front and center has been Rio Tinto's bid for Arcadium Lithium Plc (LTM) but there are a number of stocks that could now be in the takeover firing line. As an investor, there is a risk that if you wait too long, you might miss the boat. We're seeing the same thematic in uranium.

SPODUMENE PRICE CLOSE TO BOTTOM

Spodumene (lithium concentrate) in US$ per tonne since early 2021, when prices were also depressed.



The lithium price probably won't reach the highs of late 2022 & early 2023, but there doesn't have to be a big move to put a rocket under lithium stocks. Moreover, lithium assets are highly prized, as evidenced by Rio's bid for Arcadium and batteries will certainly be a big part of the energy transition to renewables.

SOURCE: Benchmark Lithuim Prices Accessment

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LITHIUM ANALYSIS

Resources stalwart makes an approach to Arcadium

Rio Tinto (RIO) had made an approach to ASX-listed **Arcadium Lithium (LTM)**, which we had covered previously when it was Orocobre and then when it was Allkem, prior to its merger last January with US-based lithium miner and chemicals company Livent. RIO already has lithium projects in Argentina and Serbia.

RIO is still committed to lithium despite the massive price fall

Driven by the energy transition, particularly for electric vehicle batteries, and an extreme estimated disparity between future demand and supply, lithium prices reached a peak in late 2022 before crashing and finding a floor around September 2024.

The peak lithium carbonate price was CNY600k a tonne (US$85k) prior to a fall of over 90% to a three-year low of CNY71.5k (US$9.8k). The peak spodumene (lithium concentrate) hard rock price was around US$6400 a tonne in December 2022 with a low of around US$800 a tonne, which is applicable for Australian producers.

What led to the lithium price fall?

Factors include many new sources of lithium supply, actual and potential, and a slowing of global EV adoption caused by interest rate and cost inflation, technical factors, particularly related to vehicle range, which has accelerated demand for hybrid vehicles, which use a combination of battery and petrol, where Toyota is the dominant producer.

Catalysts can be lead indicators for recovery before commodity prices

At this point, any recovery in lithium prices has been small. However, there has been a modest recovery in the share prices of many lithium producers and advanced lithium developers and explorers related to catalysts. What this means is that catalysts can start the recovery of a sector before the underlying commodities improve.

Catalyst 1 – CATL

In early September, CATL, China's largest lithium battery maker, said it would halt extraction at its Yichun lepidolite mine, Jiangxi, to stabilise lithium prices. This is believed to account for about 8% of China's lithium output. Costs are believed to be US$11k per tonne.

Catalyst 2 – African lithium production

There have been concerns regarding lithium oversupply from low-cost production in Africa. Recent reports suggest that African production may not be the threat it was once thought to be because of quality issues and high transport costs (often road based) to seaports.

Catalyst 3 – Rio Tinto

Rio's approach to Arcadium confirms that the company is still committed to growing its lithium business despite the recent machinations in the lithium price. This sends a positive signal regarding the lithium price outlook.

Conclusion

Recent catalysts have caused a rally in the share prices of some lithium stocks. Investors should look for more 'green shoots' as evidence that lithium is turning the corner. Lithium stocks are very high risk and those in production should be prioritized for investors, which is why we are covering two of our favourites, **Pilbara Minerals (PLS)** which is looking at expansion to reduce costs and **Liontown Resources (LTR)** which has made its first shipment.

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LIONTOWN RESOURCES

SECTOR METALS_MINING **INDUSTRY** LITHIUM

Lithium & Uranium Report

What's New?
Liontown has made its inaugural shipment of 11,855 wet metric tonnes of spodumene (lithium concentrate) from Kathleen Valley, WA.

Bull Points
- Emerging battery minerals producer
- Hancock Prospecting 19.9% stake

Bear Points
- Depressed lithium prices
- Uncertain market outlook

Analysis: Liontown has only just reached production in its WA project and can be viewed as a smaller, higher-risk Pilbara Minerals. Consequently, there is more potential for growth, but LTR is much earlier stage. We believe that this is reflected in the price and you would expect as it ramps up, the discount between PLS & LTR will narrow.

As of 30 September, LTR had produced over 28k wmt at a weighted average grade of 5.2% lithium oxide (LiO2) since its first production.

Post the June 30 balance date, an earlier debt facility was cancelled and replaced with an improved funding agreement with LG Energy Solution via US$250m in convertible notes.

LTR is targeting mine production at a 3m wet tonnes a year rate and we anticipate this climbing to 4m tonnes when market conditions improve.

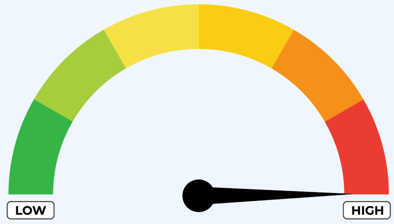
Like Pilbara Minerals, LTR is looking to develop value-added products downstream to improve profit margins and is working with the Japanese steel giant Sumitomo on Australia-Japan supply chain processing.

Portfolio Risk Rating: High because lithium is a boom/bust commodity and there is a single mine risk. Mitigating this is that production is ramping up, albeit from early stages. The first shipment of spodumene concentrate was successfully achieved. Spot sales have commenced.

RADAR RATING: Globally significant large-scale hard rock lithium project. Valuation upside as production and cash flow ramp up. Possible corporate target.

RADAR RATING: **HOLD**

RISK RATING



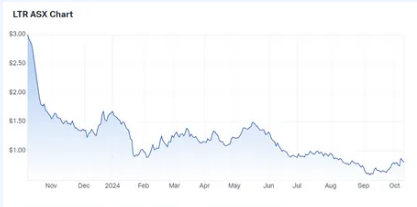
ASX CODE **LTR**

CURRENT PRICE **$0.795**

MARKET CAP $2BN

DIVIDEND YIELD 0%*

NET DEBT ($M) -195M



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PRICE ($) 1.533

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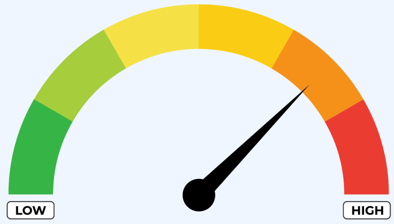
PILBARA MINERALS

SECTOR METALS_MINING **INDUSTRY** LITHIUM

RADAR RATING: **HOLD**

RISK RATING



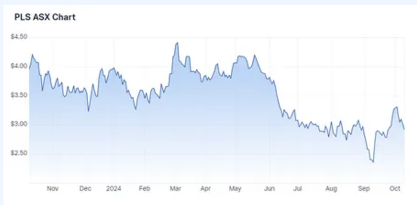
ASX CODE **PLS**

CURRENT PRICE **$2.855**

MARKET CAP $9BN

DIVIDEND YIELD 0%*

NET CASH ($M) 1.2BN



DATA AS AT INITIAL COVERAGE:

DATE 02 DECEMBER 2017

PRICE ($) 0.75

Lithium & Uranium Report

What's New?
Spot spodumene (lithium concentrate) prices have edged up by about 3% in the past week to an average of US$810/tonne CIF China for a 6% lithium oxide (Li2O). This price is too low for some hard rock lithium miners to be profitable, a factor which may limit spodumene supply until prices improve and a far cry from the late 2022 peak price of US$6,400.

Pilbara's FY24 operating costs including shipping and royalty costs, were A$818/dry metric tonne and puts the company in profitability, which will improve as unit costs come down.

Bull Points
- Pilgangoora expansions
- Lithium prices may be close to the base

Bear Points
- Lithium market uncertainty
- Earnings outlook uncertain

Analysis: Pilbara Minerals is profitable, even at current relatively low spodumene prices. The company is expanding its production, hence is able to reduce unit costs through very good scale. PLS will also be in a very good position to obtain better prices than other producers because of its size, and has shown the ability to achieve this in the past, plus has initiatives to go up the value chain via processing. The successful completion of the P680 primary rejection facility at Pilgangoora demonstrates scale unit cost benefits, on top of record production and sales in FY24.

Unit costs are projected to decrease further with the completion of the P1000 project, which increases spodumene production to 1m tonnes a year.

Beyond this current expansion, the P2000 project pre-feasibility study has been completed offering the potential for a further step up in production to 2m tonnes a year spodumene and potentially lower unit cost benefits in the future.

Portfolio Risk Rating: High because lithium is a boom/bust commodity and there is a single mine risk. Mitigating this is that PLS is profitable, even in the current depressed lithium market. Strong net cash. Expanding cash flow from rising production. Long mine life.

RADAR RATING: World's largest hard rock lithium producer. Latin acquisition adds a growth project, following the Pilgangoora expansion. Leveraged to the lithium price recovery.

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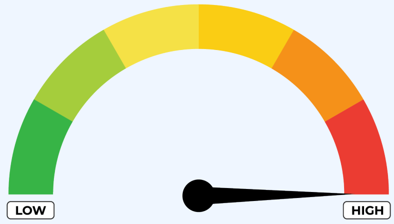
LOTUS RESOURCES

SECTOR METALS_MINING **INDUSTRY** URANIUM NUCLEAR

RADAR RATING: **SPEC BUY**

RISK RATING



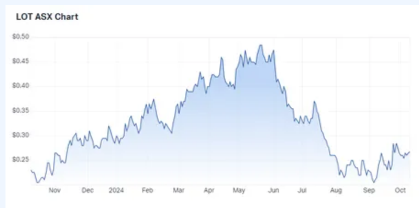
ASX CODE **LOT**

CURRENT PRICE **$0.272**

MARKET CAP $486M

DIVIDEND YIELD 0%*

NET CASH ($M) 34M



DATA AS AT INITIAL COVERAGE:

DATE 18 NOVEMBER 2021

PRICE ($) 0.32

Lithium & Uranium Report

What's New?
Lotus is accelerating by 10 months the re-start of its Kayelekera uranium project (LOT 85%) in Malawi, which should occur by September next year. The new plan is lower cost, focusing on essential investment. Supporting and derisking the ramp-up of operations are 4 million pounds of stockpiled uranium.

Bull Points
· Initial production accelerated cost-effectively
· Second project adds scale

Bear Points
· Not in production
· Letlhalkane still needs a feasibility study

Analysis: Lotus's Malawi project bucks the trend in the sector, being ready earlier than anticipated. The sector needs new production, which Lotus provides, plus the valuation looks very good. The company holds unprocessed uranium ore, which gives the project a kick-start and reduces the risk substantially.

LOT is good value because it's not in production, hence is cheaper, and has de-risked the project. Plus, the company has a second project in Botswana. This means LOT is positioned to be the second largest uranium producer on the ASX behind **Paladin Energy (PDN)**.

The restart follows the signing of a Mine Development Agreement in late July with the Government of Malawi, securing a stable fiscal regime for the operations.

Capital expenditure has been reduced to US$50m (previously US$88m). Historically, US$200m was invested in the plant when it operated previously. The initial restart capital intensity will be a low US$21.0/lb. The average planned production in the first 7 years is 2.4m lbs/yr, excluding ramp-up.

Life of mine operating costs have been maintained at a steady state C1 cash cost of US$34.5/lb and an all-in sustaining cost (AISC) of US$44.8/lb. The initial capital payback, at a uranium price of US$90/lb, is estimated to be two years. Initial mine life is 10 years.

In late September, the results of a Scoping Study for Lotus' second uranium project at Letlhakane, Botswana were released. This has a potential 15-year mine life at 3m lbs/yr.

Portfolio Risk Rating: High because there is a single mine risk and uranium is a boom/bust commodity, plus the company is not in production. Has cash and a $15m loan facility for the restart. An earlier start at lower capex brings cash flow forward. Track record of 11m lbs historical production.

RADAR RATING: Combination of two African projects puts us in a good position, but with very high risk.

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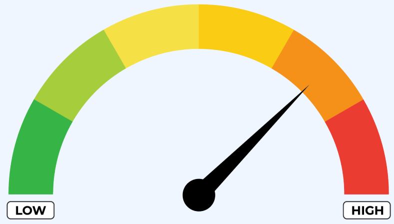
CATAPULT

SECTOR INFORMATION TECH **INDUSTRY** SOFTWARE

RADAR RATING: **HOLD**

RISK RATING



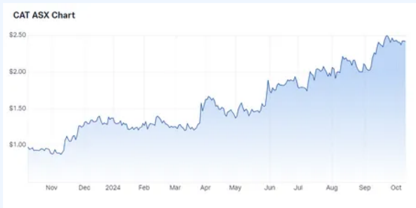
ASX CODE **CAT**

CURRENT PRICE **$2.42**

MARKET CAP $660M

DIVIDEND YIELD 0%*

NET CASH ($M) US$0.6M (A$0.9M)



DATA AS AT INITIAL COVERAGE:

DATE 29 MARCH 2018

PRICE ($) 1.22

Research Tip Update

What's New?
We've done well spotting the dips and taking advantage. We were buyers in April 2023 at 68 cents (Issue 543) then again at $1.14 the following November (issue 576). The stock is now close to where we had previously taken profits, but the fundamentals have improved due to cost-cutting and sales growth.

Catapult's stock has consolidated after positive news at its AGM in August where it reaffirmed its FY25 (year to 31 March) guidance which anticipates strong annual contract value (ACV) growth (FY24 20%) with low churn (4%), continued improvement in margins, and higher free cash flow as the business scales. With FY25 first half (to 30 Sept) due next month, investors are expecting positive outcomes and may look for numerical guidance for the full year.

Bull Points
- Strong customer engagement
- Global Opportunity

Bear Points
- Market valuation
- Balance sheet

Analysis: Continues to develop new markets for its technology, having won a contract for the Brazilian national soccer teams, plus is introducing new product lines, with specific algorithms analysing sport-specific movements.

The global market opportunity is over $US40bn where CAT is a leader with software-as-a-service revenue five times the nearest competitor. Free cash flow has turned positive in FY24, $US4.6m, with $US3.2m in the second half.

The group's aspirations are not unrealistic, aiming for a net profit margin of 30%, with gross margins of 55% and R&D, including capital expenditure of 15%. In the medium-term (2-3 years) we expect a 20% increase in contracted professional teams, which equates to 5k, with half taking multiple products, and a 95% retention rate.

Earnings should now grow much faster than revenue, albeit from a low base, and CAT should grow into a valuation that is not stretched. Successful software companies can sell for up to 10x revenues, and the current price is shy of half that. We estimate that at current growth rates, the stock can achieve a valuation multiple (EV/EBITDA) in the low to mid-teens, which will then look cheap.

Portfolio Risk Rating: Negative net current assets, a current ratio of 0.5, and long-term debt of $US11m illustrate how CAT uses high-margin revenue to fulfil its contract obligations, fund R&D and develop new software functionality. FY24 operating cash flow of $US31m funded $US27m operating investment.

RADAR RATING: Earnings have the momentum to grow rapidly as maximum operating leverage takes hold from a low base.

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CLOVER CORP

SECTOR HEALTHCARE **INDUSTRY** EHEALTH MED TECH

Research Tip Update

What's New?
Clover's stock spiked 50% following its recent FY24 result for the 12 months to 31 July but remains just over half its level 12 months ago. Revenue for the period of $62m actually came in towards the lower end of the $60-$70m guidance, which was lowered from "over $70m" in late 2023. But the result demonstrated substantial recovery in the second half with $35m revenue vs $27m in the first, and a net profit of $2.1m was a turnaround from the first half's $0.6m loss. Declared a 0.75 cent dividend, a measure of confidence given previous balance sheet concern.

Bull Points
· Balance sheet improved
· New product potential

Bear Points
· FY24 revenue fell 22%
· Growth risks remain

Analysis: Importantly, there is progress in reducing inventory, down 20% from $36m to $29m, which delivered a turnaround from net debt to net cash. The majority of the reduction came from raw materials, though there was also $1m in write-offs for obsolescence. At the same time, Melody Dairies, a now 43% owned drying facility, traded profitably for the first time in the fourth quarter.

There is other evidence of the profitability improving. In August (see Issue 612) we reported the $5m investment in the supply chain through a fish oil facility in Ecuador, increasing capacity and improving profit margins. The oversupply of baby formula in China has alleviated, and concerns about fish oil products have eased. CLV is also extending sales through ingredient extensions.

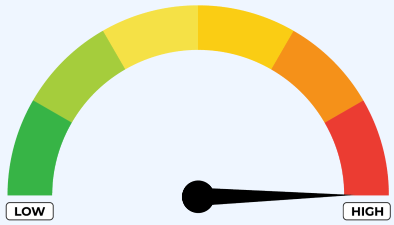
Also encouraging is diversification outside of infant formula is delivering early success in the nutraceutical markets (where Clover's ingredient is called Gelphorm) and postnatal pharmaceuticals (Premneo). For Premneo, regulators required a review of all available clinical trials involving DHA and preterm infants to prove safety.

Portfolio Risk Rating: We had backed off our positive recommendation on Clover after-sales faced headwinds, as well as our concerns about the composition of the previously strong balance sheet. Some of these concerns have been addressed, but the market will take time and will need demonstrated successes outside its core market to get comfortable again.

RADAR RATING: The most recent financial results demonstrated a recovery in revenue, particularly in the second half. Now a show-me stock and we are not ready to upgrade.

RADAR RATING: **HOLD**

RISK RATING



ASX CODE **CLV**

CURRENT PRICE **$0.545**

MARKET CAP $167M

DIVIDEND YIELD 2.8%*

NET CASH ($M) 3.8M

DATA AS AT INITIAL COVERAGE:

DATE 07 JANUARY 2012

PRICE ($) 0.30

**Forecast 1.5 cents*
The Under the Radar Report Portfolio has bought 5000 shares in total, now 2% of the portfolio.

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GENTRACK

SECTOR INFORMATION TECH

Research Tip Updates

What's New?
Gentrack has been a phenomenal performer where we have taken profits along the way. The company continues to grow, being a disrupter in billing software for energy utilities, as well as selling software for airport services. The company has just completed its financial year to 30 September (FY24) and revenue guidance was upgraded six months ago by almost 20% to $200m, almost doubling the first half. Operating earnings (EBITDA) should be over $25m vs just over $23m in FY23.

Bull Points
· Disrupting existing market
· Strong balance sheet

Bear Points
· Long sales lead times
· High expectations

Analysis: The news flow should be positive over the next 12 months, though we are not sure whether eventually **Gentrack (GTK)** and **Hansen (HSN)** will become more competitive. HSN is a Best Buy, and has a slightly smaller market capitalisation than GTK, despite sales about 75% higher, and about three times greater operating earnings (EBITDA). Gentrack has superior growth in its favour, but trading on a cash flow multiple (EV/EBITDA) of over 30 times is relatively expensive, especially when compared to HSN's of around 10 times.

GTK has managed to grow customers, which include Saudi Arabia's water and energy, as well as new clients in Australia and the UK. New customers bring an acceleration in revenue for the implementation phase, followed by annual recurring revenue increases at a lower rate, following implementation.

Adding to the growth has been its g2.0 product iteration, based on Amazon Web Services cloud and Salesforce customer relations management, to deliver upgraded functionality that allows rapid development cycles. This is a major change for any utility customer, contributing to long sales lead times as a large company assesses its alternatives.

The Veovo airports business had an exceptional first half, benefiting from new contracts for its passenger predictability software, as well as new markets like Saudi Arabia boosted earnings and should deliver recurring revenue growth.

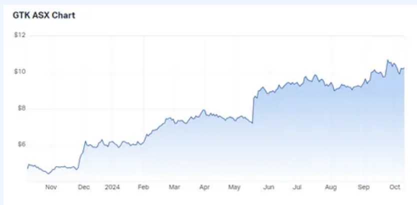
Portfolio Risk Rating: Those who took profits at lower levels should now be playing with house money, and growth has justified investors' recent faith. The balance sheet is strong, with net cash and net current assets, and minimal long-term liabilities; growth is embedded.

RADAR RATING: We identified GTK's ability to deliver growth as low as $1.30 only two years ago. Subscribers have had opportunities to take profits, and should hold the balance.

RADAR RATING: **HOLD**

RISK RATING

ASX CODE	**GTK**
CURRENT PRICE	**$10.13**
MARKET CAP	$1.06BN
DIVIDEND YIELD	0%*
NET CASH ($M)	NZ$39M (A$36M)



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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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