under the radar report
SMALL CAPS

ISSUE 623
24 OCTOBER 2024

FINDING THE NEXT NICK SCALI

Experience gives us, as investors, patience with downside moves, and also less greed when the stock goes up. This is what happens when a company goes through our pathway and becomes a core part of our small cap portfolio. Nick Scali (NCK) is a case in point, but so is Austal (ASB). These are Small Caps that have earned the right to be a part of our core portfolio.

We are often asked what percentage of a portfolio Small Caps should hold. NCK and ASB have moved into our “core holding” category and can represent up to 12% of a Small Cap focused portfolio and up to 5% of a broader market portfolio, which includes the big banks and diversified resource stocks.

They are big companies trading in a small cap. They’re sustainably profitable and in some cases are part of a major market index, such as the S&P/ASX 300.

We were buyers of Austal at $2 and below, prior to its move above $3 in the past month on $900m in new contracts, increasing confidence in the shipbuilder’s delivery of the US Navy's submarine construction programme for AUKUS (covered in Issue 619).

Nick Scali has delivered a 10-fold plus return since we first recommended the stock as a buy 12 years ago at $1.40. Over the past week, the furniture retailer has declined 10% on lowered profit expectations due to higher freight costs and uncertainty relating to its UK acquisition. At over $14, the stock remains above the $13.25 a share price in May where we recommended taking up the SPP to fund its UK expansion.

When you establish these core positions, you do have the opportunity to trade around them. But your efforts are much better spent on adding a stock to your portfolio which isn’t as reliable a business but has more potential. For these growth stocks keep your investment to a minimum and let them prove their worth, as we have done with Austal and Nick Scali. Sometimes you’ll be wrong, but the key is to keep your exposure low.

We’re investing for the long term and we want to help you to minimise your risks to find the next Nick Scali.

Richard Hemming
Head of Investments

the issue

RESEARCH TIP UPDATES

COE and LBL continue to represent great value because of their growth potential, which involves a turnaround in their fortunes. OFX has had a tough time but we see hope, while HZR is early stage but has great potential.

COOPER ENERGY (COE)	SPEC BUY
HAZER GROUP (HZR)	HOLD
LASERBOND (LBL)	SPEC BUY
NICK SCALI (NCK)	HOLD
OFX GROUP (OFX)	HOLD

SUBSCRIBER PICKS

These are the stocks subscribers ask us about. We run our investment ruler over them and give you our Radar Diagnosis.

BEST STOCKS TO BUY NOW

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

We’re investing for the long term and we want to help you to minimise your risks to nd the next Nick Scali.

Under the Radar Report

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au

Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

COOPER ENERGY

SECTOR ENERGY | **INDUSTRY** OIL AND GAS

Research Tip Updates

What's New?
Cooper is entering a new chapter as it achieves production records in the first quarter to 30 Sep (1q25) with the Orbost processing plant producing near capacity of 68 terajoules of gas a day. The group is changing its name to Amplitude Energy under ASX code AEL.

Bull Points
· Orbost reliability boost to gas sales
· Otway Basin potential

Bear Points
· LNG imports could cap prices
· High debt

Analysis: Performance has been improving for the past 12 months but ramped up in July, resulting in gas sold above the contract levels generating a premium price because spot prices are higher, which is normally the case. We envisage this improvement to be sustainable.

First quarter (1q25 to 30 Sep) was a record 6.85 petajoules delivering revenue of $65.8m, up 15%.

Beyond Orbost, Cooper is continuing to progress on its project Otway Basin, which is still early days, the eventual size being unknown. The company is talking it up as being the "biggest project" on the East Coast and utilises the 150Tj/d Athena processing plant (COE 50%, Mitsui 50%).

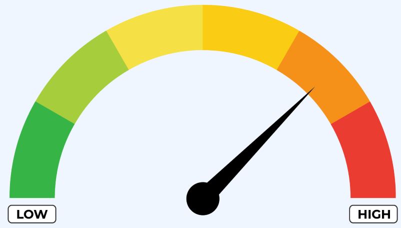
Cooper is targeting a three-well programme as part of Otway and plans to drill in the current fiscal year – FY25, having held discussions with Mitsui.

Portfolio Risk Rating: The debt levels are high but the cash flow is improving. The Orbost plant has been derisked and increasing sales at higher spot prices. The debt being paid down does represent a risk but also an opportunity for investors.

RADAR RATING: Provides volume and price exposure to the tight East Coast gas market through its Victorian Gippsland project, with future upside from the Otway Basin.

RADAR RATING: **SPEC BUY**

RISK RATING



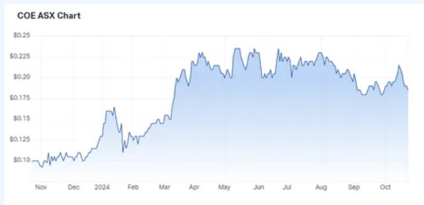
ASX CODE **COE**

CURRENT PRICE **$0.18**

MARKET CAP $502M

DIVIDEND YIELD 0%*

NET DEBT ($M) -279M



DATA AS AT INITIAL COVERAGE:

DATE 28 JULY 2017

PRICE ($) 0.24

under the radar report
SMALL CAPS

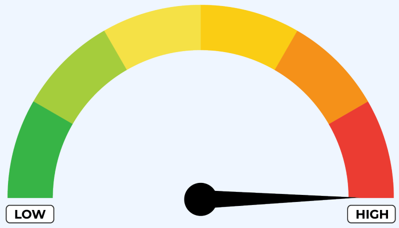
ISSUE 623
24 OCTOBER 2024

HAZER GROUP

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

RADAR RATING: **HOLD**

RISK RATING



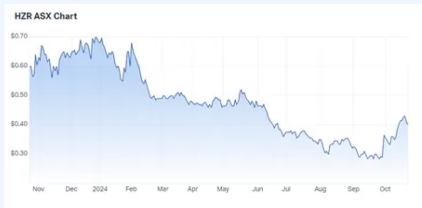
ASX CODE **HZR**

CURRENT PRICE **$0.40**

MARKET CAP $92M

DIVIDEND YIELD 0%*

NET CASH ($M) 8.4M



DATA AS AT INITIAL COVERAGE:

DATE 10 MARCH 2019

PRICE ($) 0.41

Research Tip Updates

What's New?
Hazer's demonstration plant has now achieved over 360 hours of continuous production of hydrogen and graphite, which is evidence the company can commercialise its technology for large-scale operations such as steel making, refining and petrochemicals enabling carbon abatement.

HZR now has $8.4m in cash, having burned $4.4m during the quarter. The company received $0.4m from FortisBC and anticipates $1.8m for work. Final investment decision expected mid-2025 relating to a scaled-up version of the technology, which plans to produce initially 2.5k tonnes a year hydrogen.

Bull Points
- Demonstration plant works
- Attracting large partners

Bear Points
- Long timelines for projects
- No certainty of large-scale, profitable adoption

Analysis: The Hazer process uses methane pyrolysis to produce low-emission hydrogen and carbon graphite products. One key is that the process is low capital – Hazer will not own and operate plants that use its process. The other is that it's low cost, utilising waste & gas (methane). This is cheaper than green hydrogen, which uses electrolysis to separate water.

Income will come from licence fees and royalties. We need to see the group become sustainably profitable. On this front, HZR has agreements with a number of industry heavy weights, including FortisFC (Canada), Mitsui (Japan) and POSCO (South Korea) but the road to profitability is far from clear. The FortisFC agreement is by far the most important, because HZR is receiving engineering related payments and the overall deal provides a template for future agreements.

Hazer's potential technological advantages include being lower cost (a third of the cost of blue hydrogen which requires carbon abatement and a sixth of the cost of green hydrogen, which uses renewables) and low-emissions; can be plugged in to big plants and has a secondary earnings source in graphite.

Portfolio Risk Rating: Very high! Fundamentals are not clear and capital raisings are highly likely. Reliant on positive announcements with partners for share price appreciation. Lacking control over its destiny.

RADAR RATING: Hazer's low carbon emission hydrogen technology has potential but needs widespread commercial adoption and pathway to profitability. Carries risk, requires patience.

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au
Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

under the radar report
SMALL CAPS

ISSUE 623
24 OCTOBER 2024

LASERBOND

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

Research Tip Update

What's New?
Laserbond's stock has fallen further after disappointing interim results due to customer-related problems and an acquisition that required the issue of stock – see issue 615 in August. But the 7% boost yesterday after an upbeat AGM highlights how there continues to be potential, with demand high for the surface engineer's services and technology.

Bull Points
· Many opportunities for growth
· Unique intellectual capital

Bear Points
· Still needs further scale
· Growth-related costs

Analysis: Laserbond continues to be a growth stock. Every year for the past five years, revenue has gone up and were it not for hiccups of a one-off nature, bottom-line profitability would have gone up even more. These problems relate to growth pains, which LBL has been correcting with additional workforce alleviating capacity constraints.

The big opportunity for LBL is to monetise the demand out of the US for the company's laser cladding and thermal spray technologies which reduce wear and tear of manufacturing components. But this is also very uncertain because of the form the expansion will take i.e. whether it involves acquisition or the purchase of plant and equipment.

The domestic opportunity has greater certainty, introducing LBL's surface engineering capabilities to Perth-based Gateway (LBL 40% ownership).

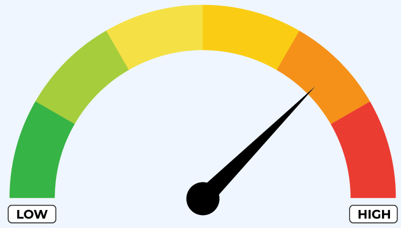
We have been encouraged by LBL's focus on innovation, expanding the Service Division applications for a broader range of industry sectors, including cement, beverages, clean and wastewater and renewable energy. In addition, LBL has started licencing its technology, which will also include products it is developing, such as laser cladding in a modular form.

Portfolio Risk Rating: Customer concentration risk is receding amid overall business strength from high operating profit margins, positive cashflow and high return on capital (15%). Low earnings multiple, encouraging.

RADAR RATING: Engineering services and manufacturing with unique capabilities that reduce customer costs. Significant growth potential in Australia and the US.

RADAR RATING: **SPEC BUY**

RISK RATING



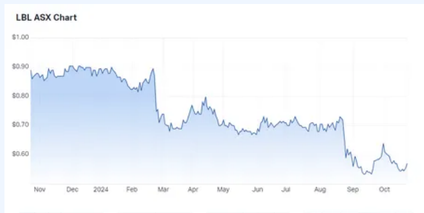
ASX CODE **LBL**

CURRENT PRICE **$0.61**

MARKET CAP $66.8M

DIVIDEND YIELD 3%*

NET CASH ($M) 5.8M



DATA AS AT INITIAL COVERAGE:

DATE 09 JULY 2020

PRICE ($) 0.45

**Forecast 1.7 cents*

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au

Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

under the radar report
SMALL CAPS

ISSUE 623
24 OCTOBER 2024

NICK SCALI

SECTOR CONSUMER DISCRETIONARY **INDUSTRY** RETAIL

Research Tip Updates

What's New?
In the past 10 days, the furniture retailer has declined 10% on a downgrade to profit expectations for the first half (1h25) to 31 December, due to inflationary factors at the end of the period, including higher freight rates. The gross profit margin has declined 2.4% to 63.6%. The new guidance for ANZ first half net profit after tax is $31.5m (midpoint) down from $43m in 1h24. Expected operating losses in its UK acquisition will also weigh.

The stock remains above the $13.25 at which we recommended members take up their share purchase plan entitlements in May to fund its UK expansion.

Bull Points
· Founder led
· UK opportunity

Bear Points
· Freight cost increases
· UK expansion costs

Analysis: Costs are going up, but Nick Scali has a strong product and can pass the costs on. The downgrade means the stock looks expensive in the short-term but we are confident of strong growth in FY26.

The ANZ business was the main reason for the downgrade, but other costs are climbing, such as freight costs to the UK as well as Asia-Australia. Asia-Europe containers now go around South Africa, which ties up vessels for longer making shorter Asia-Australia routes less attractive.

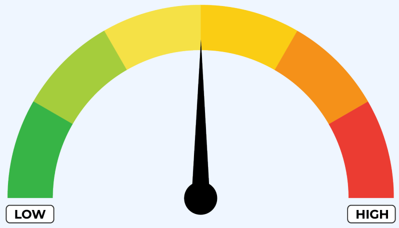
The UK acquisition has potential and NCK is moving fast to integrate, but risks remain high, such as questions over the product range and aforementioned freight costs. The first half operating loss is expected to be $3.5m, which includes $2m in one-off integration costs. Gross profit margin increases in the UK are already being achieved, but from much lower levels than Australia at 40% and freight costs are on top of this.

Portfolio Risk Rating: This is a core stock, but uncertainty has increased and it's too early to upgrade. Dividends will fall from last year's 68 cents; forecast PE is now high at 20 times, but growth should return in FY26. Financial risks are contained and shareholders are patient.

RADAR RATING: The UK expansion creates opportunities but there are operating risks. Weaker consumer demand is exacerbated by freight cost margin pressures.

RADAR RATING: **HOLD**

RISK RATING



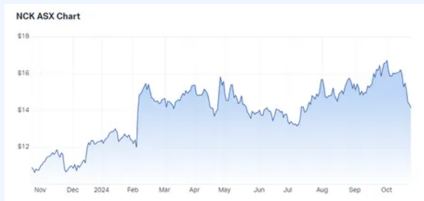
ASX CODE **NCK**

CURRENT PRICE **$14.30**

MARKET CAP $85M

DIVIDEND YIELD 2.1%*

NET CASH ($M) 40M



DATA AS AT INITIAL COVERAGE:

DATE 18 OCTOBER 2012

PRICE ($) 1.40

Forecast 30 cents

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au

Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

under the radar report
SMALL CAPS

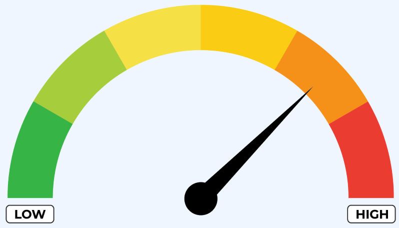
ISSUE 623
24 OCTOBER 2024

OFX GROUP

SECTOR FINANCIALS **INDUSTRY** WEALTH

RADAR RATING: **HOLD**

RISK RATING



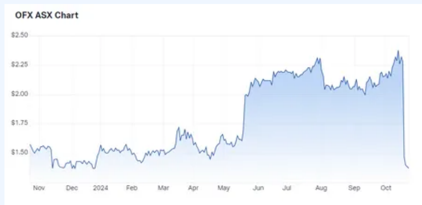
ASX CODE **OFX**

CURRENT PRICE **$1.36**

MARKET CAP $332M

DIVIDEND YIELD 0%*

NET CASH ($M) 25.9M



DATA AS AT INITIAL COVERAGE:

DATE 14 APRIL 2022

PRICE ($) 2.43

Research Tip Updates

What's New?
Late last week OFX got heavily sold, declining 35%, on stating that it will miss what was considered to be conservative guidance of net operating income (a proxy for revenue) climbing 10% a year and operating margins (EBITDA/sales) of 28-30%.

The year-end is 31 March and OFX now expects to deliver a first half (1H25) NOI of $111m (to 30 Sep) which annualised is lower than FY24's $227.5m. While the first few months of the first half were in line, fees and trading income (revenue) was lower late in the half, especially in September, which OFX attributed to a strong USD and weak corporate confidence.

Bull Points
· Operating leverage increasing
· Digital platform aiding diversification growth

Bear Points
· Revenue impacted by business confidence
· Global competition

Analysis: We have been nervous about this stock since early last year when we downgraded to hold (Issue 537) and the company has been making efforts to reduce earnings volatility (or cyclicality) through increasing corporate custom. The news late last week indicates that there is more volatility in the corporate customer base than was factored in.

The company expects the depressed conditions to improve in the second half (2h26) but our confidence in the company has taken another hit after the initial dent early last year. On the positive front, operating earnings margins are holding up, albeit at slightly lower than guidance, where EBITDA/Sales is 26%. Bad debts can be a factor, which increases in risk during depressed periods, like we're in now.

The digital platform for customers is progressing and new revenue growth of 38% in the first is very encouraging, driven by non-FX revenue from new Corporate clients (half of revenue).

OFX is to provide a medium-term outlook and pathway back to 10% NOI growth in May next year and remains committed to 15%+ NOI growth and a 30% EBITDA margin.

Portfolio Risk Rating: Customer volatility is high, but mitigated by net cash holding and positive operating cash flow. Low forward PE around 10. High ROE.

RADAR RATING: Business is strengthening via non-FX income and new digital platform, but confidence has been damaged due to customer demand weakening. We're holding on.

under the radar report
SMALL CAPS
ISSUE 623
24 OCTOBER 2024

Subscriber Picks

These are the stocks subscribers ask us about. We run our investment ruler over them and give you our Radar Diagnosis.

COMPANY	ASX CODE	DESCRIPTION	MARKET CAP ($M)	NET CASH / DEBT($M)	ENTERPRISE VALUE ($M)	LATEST PRICE ($)*	12-MNTH HIGH ($)	NOTES	RADAR DIAGNOSIS
ALDERAN RESOURCES	AL8	Copper and lithium exploration	5.7	0.1	5.6	0.003	0.02	Specialising in critical minerals. Copper exploration at Cactus, Utah, lithium in Minas Gerais and Bahia in Brazil. Both have supportive governments and are in regions where there have been discoveries.	Exploration is early stage, but board and management have experience. WATCHLIST.
ALTECH BATTERIES	ATC	New battery technologies	89.1	-7.2	96.3	0.05	0.1	Two battery projects: Cerenergy and Silumina anodes utilsing different technologies. The former uses table salt and nickel and is touted as an alternative to lithium iron batteries for grid storage. Targeting an offtake agreement and finance for a 120 MWh plant. Silumina plant in commissioning phase to produce 120kg/day anodes, also plans to disrupt lithium ion batteries because of its higher energy capacity.	Two new potentially ground breaking battery technologies, but still in commercialistion phase. WATCHLIST.
ATTURRA	ATA	Technology consultant	351.9	46.1	305.8	1.13	1.28	A consultant growing through acquisition, but will find life difficult as economic growth slows and costs remain high - mainly labour. FY24 profit decline on one offs, including higher share count, but guidance for double-digit growth. Has AI aspirations to improve profitability. In talks re acquisition of a telecommunications company from private equity.	IT spend is defensive, but double digit growth factored in at current levels. Better exposure to IT consulting is Data#3 (DTL) - higher quality. HOLD.
COBRE LTD	CBE	Copper exploration	30.2	1	29.2	0.08	0.1	Exploring on the Kalahari copper belt, Botswana in a joint venture with BHP. Cobre also owns the Ngami and Okavango copper projects in Botswana. Ngami has potential for production at 40k tonnes of copper a year, which is quite large (a large project is 100k tonnes).	BHP partnership increases the chances of a major discovery but uncertainty remains high. WATCHLIST.
CRITICA	CRI	Critical minerals exploration (previously Venture Minerals)	32	1.6	30.4	0.01	0.02	Flagship Jupiter clay rare earth discovery in, in WA near Lynas Rare Earths (LYC) Mt Weld concentration plant. Wants to sell Mount Lindsay tin-tungsten project in Tasmania.	Very early stage, exploration risk. WATCHLIST.

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au
Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

under the radar report
SMALL CAPS

ISSUE 623
24 OCTOBER 2024

Subscriber Picks

These are the stocks subscribers ask us about. We run our investment ruler over them and give you our Radar Diagnosis.

COMPANY	ASX CODE	DESCRIPTION	MARKET CAP ($M)	NET CASH / DEBT($M)	ENTERPRISE VALUE ($M)	LATEST PRICE ($)*	12-MNTH HIGH ($)	NOTES	RADAR DIAGNOSIS
FASTBRICK ROBOTICS	FBR	WA based, robotic brick layer technolgoy	201.2	-3	204.2	0.04	0.06	The company specialises in building robots. Its first industrial application is Wall as a Service. A wall building robot. Saves money and minimises waste with no onsite support. Interesting idea, but red flags. Keeps raising money - over $31m in past 12 months, although in the money @ 2.7 cents. No operating revenues. Basic accounting errors (overcapitalising r&d tax incentive refund) in FY22/23. But it's manufacturing robots! First completed 1h24 and has a "binding suite of option agreements with CRH Ventures", a large US congrete block supplier.	One robot - how many walls building per day? Idea with a listing, now the serious building begins. What are the economics? Too early for us. WATCHLIST
FELIX GROUP	FLX	Software	44	1.7	42.3	0.22	0.23	Vendor management software for all tiers of supply chain. Connects contractors and vendors in the cloud. Product used internationally to manage supply chains. Still early stage. Has halved since we first looked at it three years ago. Sales growing but still thin at $6m and making operating losses.	Idea for the times but under capitalised and increasingly competitive space. HOLD.

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com.au
Head of Investments Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au

under the radar report
SMALL CAPS

ISSUE 623
24 OCTOBER 2024

99% of all financial news relates to the 40 to 50 biggest companies.
So what about the rest? They're Under the Radar.

Published by Under the Radar Report Ltd
655A Darling St, Rozelle, NSW 2039
Telephone 1300 100 343 Email radar@undertheradarreport.com

Editor Richard Hemming, Publisher Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au