under the radar report
SMALL CAPS

ISSUE 628
28 NOVEMBER 2024

ANOTHER NEW STOCK! (AND MORE TO COME)

We have a watchlist we monitor very closely of stocks we believe are growth and quality and when we see some weakness, it's all go. That was the case with Vysarn (VYS) covered last week and it's also the case with Intelligent Monitoring (IMB) both of which have had relatively big falls and both of which have much bigger futures.

Intelligent Monitoring Group's fall comes after a capital raising for a company that is otherwise making moves to achieve leadership in the fractured domestic security monitoring market. The growth rate is eye-watering for a company that wasn't doing much until a couple of years ago when current management took over. Good management is a big deal when it comes to running companies big and small, but especially in Small Caps.

Around the world (but especially in the US) we are seeing animal spirits released as the momentum trade continues and new capital looks for bigger returns, driven by tax cuts and de-regulation in the world's biggest market. Small Caps will be the biggest beneficiaries over time because of the leverage effect they provide investors. But it is imperative that you pay the right price.

In this issue we are providing value for growth stocks such as the two listed above, but also in stocks that we consider core, the gold producer **Northern Star Resources (NST)** and the rural services group **Elders (ELD)**.

The key is always what is right for your portfolio. We advocate holding a minimum of 14 stocks. Growth stock weightings should be initially about 1-2%, while core stocks should be a maximum of 10-12% in a small cap-focused portfolio. I will continually talk about this, but for each stock, it's worth paying attention to our Risk Rating.

Running a portfolio is no easy thing, but Under the Radar Report has your back and our team of analysts is always available at radar@undertheradarrport.com.au.

Richard Hemming
Head of Investments

the issue

NEW COVERAGE!

The 36% fall came after a capital raising for a company that is otherwise making moves to achieve leadership in the fractured domestic security monitoring market and deliver fast growth through its company making acquisition of ADT in August 2023 for $42m.

INTELLIGENT MONITORING (IMB)	SPEC BUY

RESOURCES

NORTHERN STAR RESOURCES (NST)	BUY
REGIS RESOURCES (RRL)	▲ HOLD
PILBARA MINERALS (PLS)	HOLD
COMET RIDGE (COI)	▼ HOLD

INDUSTRIALS

ELDERS (ELD)	BUY
PACIFIC CURRENT (PAC)	HOLD

BEST STOCKS TO BUY NOW

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

Intelligent Monitoring has made 10 acquisitions in the three years since current management led by Dennison Hambling took over, but ADT made it the largest independent security provider in Australia.

Under the Radar Report

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INTELLIGENT MONITORING

SECTOR INDUSTRIAL **INDUSTRY** SECURITY DATA SERVICES

New Coverage!

What's New?
IMB has made 10 acquisitions in the three years since current management led by Dennison Hambling took over, but it was ADT that has made the company, taking it from being the third largest independent security monitoring provider to number one in Australia. The company increased the number of monitored security locations from 70k to 180k, added 340 staff and close to $95m in revenue in FY24.

This month the home and business security business has raised close to $23m at 48 cents a share ($20m from institutions), $7m of which was for the acquisition of Perth-based Dataline Visual and the remainder for a further five businesses across Australia and New Zealand. Concurrent with the raising of Black Craine, a Hong Kong-based private equity fund sold 15.6m shares to reduce its holding to about 36.7% from just under 47%. The fund assured that it wouldn't sell for the next six months, but the placement & sale damaged sentiment in the stock and provided a buying opportunity.

Bull Points
· Growing fast
· Consolidating the security industry
· Recurring revenue

Bear Points
· Onerous debt
· Acquisition integration risk
· Black Crane 37% ownership

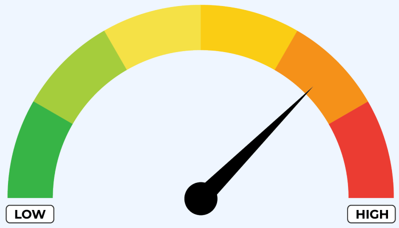
THE OPPORTUNITY
The key to IMB's success has been its ability to integrate acquisitions, providing corporate customers such as BHP, Westpac and NextDC with a one-stop-shop video-based Australia-wide strategy. This market is worth $2bn. The challenge now is to translate this success into residential security, where costs have come down due to the transition from 3g to 4g and 5g infrastructure. The market is worth $5bn, according to some estimates and only 5% of Australian houses have a monitored solution versus 30% or so in the US.

IMB's competitive edge is its cost-effective solutions. Implementation time has been reduced from weeks to days.

Continued on next page...

RADAR RATING: **SPEC BUY**

RISK RATING



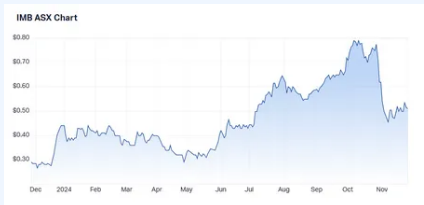
ASX CODE **IMB**

CURRENT PRICE **$0.50**

MARKET CAP $175M

DIVIDEND YIELD 0%*

NET DEBT ($M) -51M



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PRICE ($)

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IMB has grown sales from $33m in FY23 to $122m last year while operating earnings (EBITDA) have gone from just over $3m to almost $27m. Guidance is for $38m in FY25, a 41% increase, which is an effective rise of 17% when you include the cost of the 3g transition.

The fly in the ointment is a substantial and expensive debt, a legacy of the ADT transaction. The interest, of course, is not included in EBITDA and is at an effective rate of 15% (10% in cash and 5% in payment in kind – meaning the debt increases!) on the $80m owed and due for repayment in July 2026. Last year finance costs were a total of $16m, well over half of operating earnings, of which the interest paid on the $80m was $11.2m. The company has told Under the Radar Report that it is refinancing the debt with banks and the interest bill will reduce from $11m to $8m on an annualised basis. The company has enough capital to undertake the five additional acquisitions under consideration and says it will not come back to the market, unless an ADT opportunity presents itself, which we cannot see happening.

The fundamentals of the business improve markedly with the removal of this high-interest private equity style debt finance arrangement. The growing operating earnings will translate to a profitable business at the bottom line. In FY24 the company made an after-tax loss of $3m and due to its history of losses, we are not expecting dividends any time soon.

INVESTMENT CONCLUSION

The company trades on a cash flow valuation (enterprise value to EBITDA) of just below 6 times and is marginally profitable at the bottom line. We anticipate earnings growing at double-digit rates for some time, considering the opportunity, hence a double-digit multiple is warranted, which implies a valuation closer to $1. There is operating risk and this is magnified by the debt. This is a high-risk proposition but worthwhile for those with robust portfolios.

RADAR RATING: The tailwinds from increasing commercial and retail demand for security are there and the group has a dominant position in a lucrative market. Financial and operating risks are high.

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NORTHERN STAR RESOURCES

SECTOR METALS_MINING **INDUSTRY** GOLD

Resources

What's New?
Northern Star shares sold off in early November after the Trump victory in the US election, owing to a weaker gold price, but have resumed their upward trajectory since mid-November. The big news for NST is the $1.5bn expansion of the Kalgoorlie Super Pit, WA, a major organic growth initiative with production increasing from 650k ounces to 900k ounces from FY29. This should be completed by Christmas and includes the mill expansion, which is the crucial component.

Bull Points
· Strong internally driven organic growth
· Long mine lives

Bear Points
· Pogo (Alaska) has underperformed

Analysis: The Super Pit expansion is the key to increasing gold production from forecast FY25 1.7m ounces to 2m ounces by FY26. Other operations that need to grow include Yandal (WA) and Pogo, Alaska.

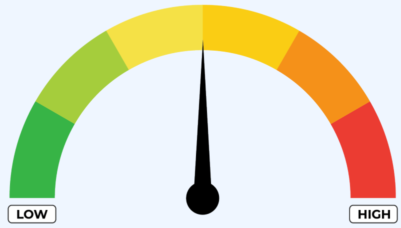
At the Kalgoorlie Super Pit, free cash flow plus cash on hand is expected to fully fund the cost. The primary objective is to double the processing capacity. After the mill expansion, there will then be a two-year ramp (FY27-28) with throughput rising 27m tonnes, culminating in a rise in capacity to 900k ounces a year.

Portfolio Risk Rating: Strong operating cash flow cash flow from diversified, long-life, low-cost, gold projects. FY25 PE ratio of 16 times, a slight premium to like peers. Well justified in our view.

RADAR RATING: The largest Australia domiciled gold producer. Focussed on the prolific and globally significant Kalgoorlie goldfield. Continuing production growth.

RADAR RATING: **BUY**

RISK RATING



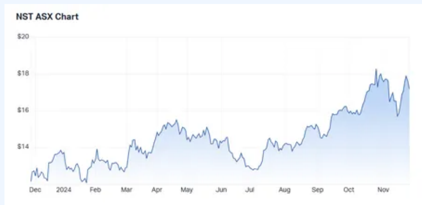
ASX CODE **NST**

CURRENT PRICE **$17.62**

MARKET CAP $20.6BN

DIVIDEND YIELD 3.1%*

NET CASH ($M) 148M



DATA AS AT INITIAL COVERAGE:

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PRICE ($) 0.72

**Forecast 54 cents*

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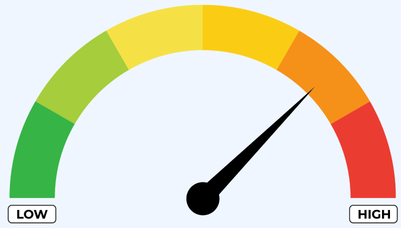
REGIS RESOURCES

SECTOR METALS_MINING **INDUSTRY** GOLD

RADAR RATING: **HOLD**

RISK RATING



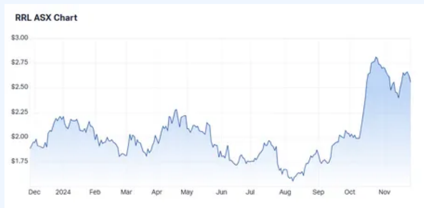
ASX CODE **RRL**

CURRENT PRICE **$2.57**

MARKET CAP $1.9BN

DIVIDEND YIELD 0%*

NET CASH ($M) 80M



DATA AS AT INITIAL COVERAGE:

DATE 15 OCTOBER 2020

PRICE ($) 5.09

Resources

Upgrade from Sell

What's New?
In our Regis report in Issue 609 last July we recommended Sell, based on a fall in gold output, with a particular reference to the closure of Duketon North (WA) operations. In hindsight, our call was incorrect, the shares have rallied around 33% since.

The reasons for the rally are twofold: 1. gold has rallied by US$200 an ounce; 2. cash has been boosted by the closeout of the legacy hedge book this time last year. The company has debt but now has over $380m of cash.

Bull Points
· Full exposure to the gold price
· Strong cash flow

Bear Points
· Gold production in decline
· No future growth projected

Analysis: Having stabilised at current levels there appears to be buying support due to strong cash flow. Investors are looking through the declining production and are looking at the cash levels. The company needs exploration success, so the risk is high.

Our cautious outlook on the company remains due to deteriorating production. FY25 guidance is for a broad 200-250k ounces at Duketon and a narrower 130-145k ounce at Tropicana (WA) generating a total of 330-395k ounces, lower than 417k ounces produced in FY24. Further, extra production sources are needed to maintain production beyond FY28.

Even with four underground mines at Duketon South, production is falling versus last year and is well short of prior projections. Exploration is targeting underground and new open pits.

Following the Section 10 Declaration, which deals with Aboriginal heritage, by the Federal Government last August over part of the McPhillamys site (NSW) RRL says the timeframe to progress alternatives will take years, with no certainty of a viable alternative. Legal options are being considered.

Portfolio Risk Rating: Appears to be inexpensive relative to peers with an FY25 PE of 12, but this reflects gold production uncertainty and the absence of growth.

RADAR RATING: Appeal of strong free cash flow due to hedge book close out and reduced spending. Risk to valuation from production decline and uncertainty.

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PILBARA MINERALS

SECTOR METALS_MINING **INDUSTRY** LITHIUM

Resources

What's New?
First quarter revenue to 30 September declined 31% to $201m and the shares have been depressed by continuing uncertainty surrounding the lithium price, which is why we have not upgraded from hold. The lower revenues were a combination of a 19% fall in the realised price and lower volumes being shipped. Spodumene production was 220k tonnes, only 3% down. Costs remain competitive and new projects are performing to expectations.

Bull Points
· Pilbara above profit breakeven
· Large portion of lithium supply loss-making

Bear Points
· Near term uncertainty in lithium market
· EV production has slowed

Analysis: Sentiment might be ebbing but PLS is increasing cash flow, improving the fundamentals of the company and the operating leverage. The fact that the lithium carbonate price is rising, having climbed from around 70,000 Chinese yuan per tonne at the end of last month to over 79,000 CNY gives us hope!

At current prices, much of the global lithium capacity is loss-making because unit production costs are higher than prices received. This should cause the lithium price to rise further from recent lows. However, the dominance of China as a source of lithium and a producer of batteries complicates the situation.

Cost reduction at the flagship Pilgangoora mine in WA includes the Ngungaju plant being placed into care and maintenance and should boost cash flow by $200m. The company is lowering production but reducing costs substantially. The guidance for FY25 is for 720k tonnes spodumene production, cut from 800-840k tonnes. Lower unit FOB costs are projected at A$620 a tonne from A$650.

At the Pilgan plant (Pilgangoora project) process improvements have lifted recovery to 75.3% lithium in the first quarter from 72.2% in the prior quarter.

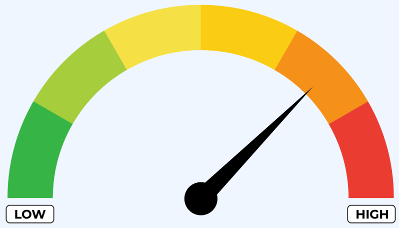
At the downstream manufacturing joint venture with Posco in South Korea (Pilbara 18%), the first production line (Train 1) produced a solid 1,965 tonnes of Lithium Hydroxide Monohydrate in the quarter. The material is sold at a higher price and provides an alternative market to China. The commissioning of Train 2 started in August and has a capacity of 43k tonnes a year.

Portfolio Risk Rating: A boom-bust commodity but PLS is at the low-cost end of the sector, is improving cash flow, and has huge cash reserves.

RADAR RATING: Lithium demand out to 2035, but recovery timing is uncertain. Well positioned as the largest hard rock miner in the world, could double output.

RADAR RATING: **HOLD**

RISK RATING



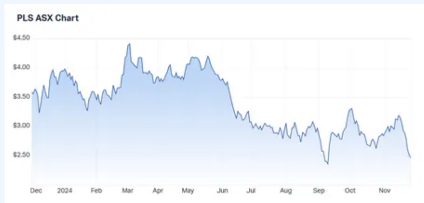
ASX CODE **PLS**

CURRENT PRICE **$2.44**

MARKET CAP $7.4BN

DIVIDEND YIELD 0%*

NET CASH ($M) 1.2BN



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PRICE ($) 0.75

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COMET RIDGE

SECTOR ENERGY **INDUSTRY** OIL AND GAS

Resources

Downgrade from Spec Buy

What's New?
The share price has been bobbing around where we bought it but the gas producer's key initiatives are progressing with government support. The Mahalo Joint Venture (Comet 57.14%, Santos 42.86%) is moving into the engineering design and the final investment decision is next year. The same goes for the pipeline, which is being operated by Jemena. In addition, the Mahalo East drilling phase, within Comet's separate 100% owned flagship Mahalo Gas Hub, has been successful. The Mahalo East Wells were drilled with the support of the Queensland Government's Frontier Gas Exploration Grants Program.

Bull Points
- To supply the tight East Coast gas market
- Expected to be a low-cost gas producer

Bear Points
- Projects still need to be developed and funded
- First gas 2-3 years away

Analysis: Comet has two gas projects, one of which is a joint venture with Santos, giving it credibility. The company remains two years away from production; the company has been elusive on this. The larger of the two, the Mahalo Joint Venture with Santos (which is the operator) is located to the south of the other, which is the Mahalo Gas Hub.

Operations at the Mahalo Gas Hub will start with Mahalo North, supplemented by the planned development of gas resources from its other permits at Mahalo East, Mahalo Far East and the newly awarded Mahalo Far East Extension.

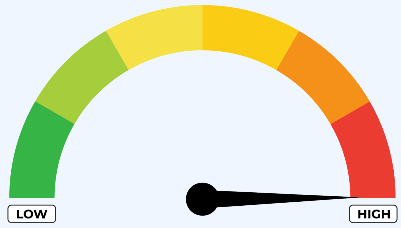
In the recent Mahalo East drilling, testing shows strong gas volume potential and production tests are due early next year. This should underpin initial reserves, supporting Comet's other acreage and reserves at Mahalo North.

Portfolio Risk Rating: This is high risk but the company has a great position in East Coast Australian gas, where demand is high and supply is short. Capital raising for development funding is a certainty.

RADAR RATING: New east coast gas supply entrant with large reserves. The potential is worth holding on to and government support boosts confidence, but the timing remains highly uncertain.

RADAR RATING: **HOLD**

RISK RATING



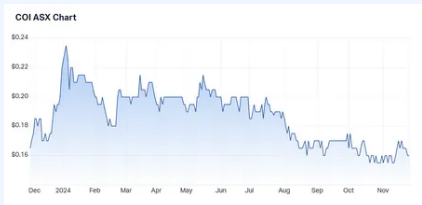
ASX CODE **COI**

CURRENT PRICE **$0.16**

MARKET CAP $178M

DIVIDEND YIELD 0%*

NET CASH ($M) 1.9M



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ELDERS

SECTOR CONSUMER STAPLES **INDUSTRY** FOOD

Industrials

What's New?
Elder's is up 12% on where we reinstated our buy recommendation this time last year (Issue 575) but it's been a wild ride and we're down on our most recent recommendations. For FY24 to 30 Sept, profits improved over the first half, but sales were down 6% to $3.1bn and operating earnings (EBIT) were at the low end of guidance at the half. ELD also announced A $475m acquisition of Delta Agribusiness and associated $110m loan facility and $246m equity raising at $7.85 a share, with the retail offer closing on 9 Dec, which we do not advise to take up at this stage (the shares being below this price). A final 18-cent dividend (70% franked) ex-date 17 December (FY24 total 36 cents).

Bull Points
· Delta acquisition synergies
· Dominant market position

Bear Points
· Cyclical industry
· Weather sensitivities

Analysis: We are comfortable with the purchase with debt well under control, rising to about 2 times EBITDA (3 and it starts to look risky). New shares in the equity raising will be priced at $7.85 per share, and the retail entitlement offer will close on 9th December.

Delta delivered FY24 revenue of $835m, and operating earnings (EBITDA) of $53m and fits geographically, filling network gaps in NSW, Victoria, SA and WA. The valuation comes down to 9 times EBIT post synergies, which is in the ballpark if it produces the expected double-digit growth.

Delta optimises customer production through data analysis, marketing and financing. The group has in-house agricultural chemicals, an animal health private label, as well as substantial fertiliser storage on the East Coast.

ELD FY24 earnings decline resulted from weak livestock pricing, despite significant improvement in the second half in lamb and lower fertiliser prices. Real estate contributed to the gross margin contribution increase, benefiting from acquisition.

Portfolio Risk Rating: Very cyclical but a dominant operator in a big market. Diversification benefits with exposure to agricultural trends.

RADAR RATING: The agricultural cycle has been a headwind, but ELD is a long-term asset for a diversified portfolio. Well positioned for potential cyclical upside.

RADAR RATING: **BUY**

RISK RATING

LOW HIGH

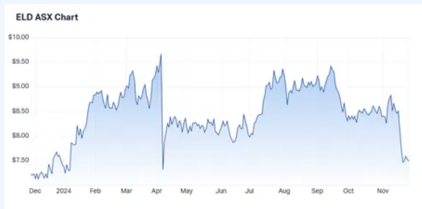
ASX CODE **ELD**

CURRENT PRICE **$7.58**

MARKET CAP $1.2BN

DIVIDEND YIELD 4.7%*

NET DEBT ($M) -437M



DATA AS AT INITIAL COVERAGE:

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PRICE ($) 0.80

**Forecast 36 cents*

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PACIFIC CURRENT

SECTOR FINANCIALS **INDUSTRY** WEALTH

Industrials

What's New?
The stock has been a slow but very profitable burn and is trading at near record levels having returned 16% a year over the past five years and 36% in the past 12 months alone. The AGM this month confirmed a $300m off-market buyback, supported by major shareholders (45% of the register) who took stakes during the takeover discussions last year.

Bull Points
· Cash to be returned to shareholders
· Latent value in continuing portfolio

Bear Points
· Externalising portfolio management
· Limited transparency

Analysis: PAC's portfolio of minority investments has been simplified dramatically through the sale of its shareholding in ASX-listed fund manager **GQG Partners (GQG)**, and the subsequent outsourcing of its investment management capabilities to that group. This has led to a substantial fall in operating expenses and a reduction in investments, which will further reduce when it sells most of its Victory Park stake to Janus Henderson.

Performance fees were 20% of FY24 revenue, Victory Park and ROC major contributors, but in the current year, their contribution will decrease.

After the buyback, there will be US$112m of financial assets able to be monetised relatively easily, which augurs well for future investment opportunities. The company plans to keep investing either directly or indirectly, and with GQG or without.

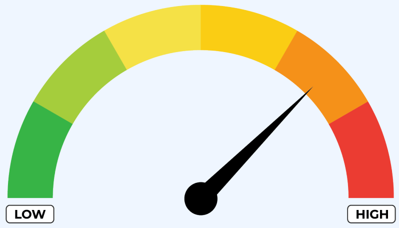
We will review the valuation once the details about the proposed up to $300m buyback are available. The company has an internal fair value (net asset) estimate of $13.47 in June 2024. Once the cash has been repaid, any portfolio investment gains will have a much greater impact on the share price.

Portfolio Risk Rating: The details of the off-market buy back will be released soon. Shares can be held or sold into the buyback, which we expect to be conducted at above the current share price. After the buyback, risks will increase.

RADAR RATING: A substantial buyback is expected to return cash to shareholders. The remaining holdings represent an interesting diversified non-equity portfolio, selling at a discount to fair value.

RADAR RATING: **HOLD**

RISK RATING



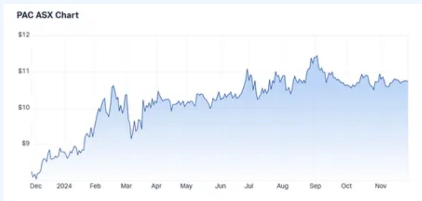
ASX CODE **PAC**

CURRENT PRICE **$10.77**

MARKET CAP $561M

DIVIDEND YIELD 0%*

NET CASH ($M) 313M



DATA AS AT INITIAL COVERAGE:

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PRICE ($) 4.40

PORTFOLIO
The Under the Radar Report Portfolio holds 1000 PAC shares at an average cost of $5.40, now 6% of the portfolio.

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BEST STOCKS TO BUY

The stocks on this list are quality companies that we believe offer great return potential for the risk faced.

ACROW FORMWORK (ACF) — SPEC BUY

INDUSTRY	**CONTRACTOR**
MARKET CAP	**$331M**
DIVIDEND YIELD	**5.5%**
12 MONTH HIGH	**$1.35**
PRICE @ 2024-11-27	**$1.09**

Formwork is on a strong growth path including internally developed proprietary products and processes. Industrial Services is one-third of revenue targeting recurring business and is expected to grow through M&A.

AIRTASKER (ART) — SPEC BUY

INDUSTRY	**SOFTWARE**
MARKET CAP	**$134M**
DIVIDEND YIELD	**0%**
12 MONTH HIGH	**$0.38**
PRICE @ 2024-11-27	**$0.30**

Funding growth from earnings and media partnerships. Robust Australian earnings now need to be translated to the bigger international business.

ALLIANCE AVIATION (AQZ) — SPEC BUY

INDUSTRY	**CONTRACT AVIATION SERVICES**
MARKET CAP	**$429M**
DIVIDEND YIELD	**0%**
12 MONTH HIGH	**$3.40**
PRICE @ 2024-11-27	**$2.67**

Balance sheet and cashflow are limiting factors, despite strong operating fundamentals. Rerating likely when close to free cash flow positive with enlarged E190 fleet utilised.

ELDERS (ELD) — BUY

INDUSTRY	**FOOD**
MARKET CAP	**$1.331M**
DIVIDEND YIELD	**4.8%**
12 MONTH HIGH	**$9.97**
PRICE @ 2024-11-27	**$7.56**

The agricultural cycle has been a headwind, but ELD is a long-term asset for a diversified portfolio. Well positioned for potential cyclical upside.

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BEST STOCKS TO BUY

ENERGY ONE (EOL) — SPEC BUY

INDUSTRY	**SOFTWARE**
MARKET CAP	**$183M**
DIVIDEND YIELD	**1.0%**
12 MONTH HIGH	**$5.95**
PRICE @ 2024-11-27	**$5.88**

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.

HANSEN TECHNOLOGIES (HSN) — BUY

INDUSTRY	**SOFTWARE**
MARKET CAP	**$1.123M**
DIVIDEND YIELD	**1.8**
12 MONTH HIGH	**$5.71**
PRICE @ 2024-11-27	**$5.52**

The founder led business is working hard on Powercloud, which will create new growth opportunities if it can be successfully turned around. The much larger core business is cash-generative and is still growing.

KAROON ENERGY (KAR) — SPEC BUY

INDUSTRY	**OIL AND GAS**
MARKET CAP	**$1.097M**
DIVIDEND YIELD	**5.9%**
12 MONTH HIGH	**$2.42**
PRICE @ 2024-11-27	**$1.37**

The purest ASX-listed oil stock for oil price leverage. Leverage increasing as the company scales up due to production growth and new projects.

MEDADVISOR (MDR) — SPEC BUY

INDUSTRY	**EHEALTH MED TECH**
MARKET CAP	**$160M**
DIVIDEND YIELD	**0%**
12 MONTH HIGH	**$0.59**
PRICE @ 2024-11-27	**$0.29**

Early stage with ambitious targets. This is high risk but high reward and based on big pharma's demand for the marketing pipeline MDR provides.

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SMALL CAPS

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BEST STOCKS TO BUY

NORTHERN STAR RESOURCES (NST) — BUY

INDUSTRY	**GOLD**
MARKET CAP	**$20.281M**
DIVIDEND YIELD	**3.1%**
12 MONTH HIGH	**$18.32**
PRICE @ 2024-11-27	**$17.62**

The largest Australia domiciled gold producer. Focussed on the prolific and globally significant Kalgoorlie goldfield. Continuing production growth.

NZME (NZM) — BUY

INDUSTRY	**MEDIA**
MARKET CAP	**$178M**
DIVIDEND YIELD	**7.7%**
12 MONTH HIGH	**$1.04**
PRICE @ 2024-11-27	**$0.96**

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.

XRF SCIENTIFIC (XRF) — SPEC BUY

INDUSTRY	**CONTRACTOR**
MARKET CAP	**$225M**
DIVIDEND YIELD	**2.8%**
12 MONTH HIGH	**$1.79**
PRICE @ 2024-11-27	**$1.60**

Exposed to materials testing, which is essential for global mining and industrial users. Capital light model, high margins, self-funding growth.

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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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