under the radar report
SMALL CAPS

ISSUE 630
12 DECEMBER 2024

A LOW RISK, HIGH RETURN PORTFOLIO

You don't have to be a risk-taker to make money. You don't have to trade a lot. It doesn't have to be hard work. You monitor and you keep monitoring. This week we show you the results in our longest running Small Cap Portfolio, which has returned 32% in the past 12 months and has more than doubled in value in the past decade.

Last week (Issue 629) we showcased our most recent three Small Cap dividend portfolios, which have returned an average of 24% a year over the past couple of years. All returns have been well ahead of anything the indexes have delivered. Why is that? Because we invest on the basis of fundamentals – profitability, cash flow and balance sheet – and we look for value.

Today's Portfolio analysis gives you great insight into managing your portfolio. There are three key takeouts:

1. Use Under the Radar Report's Core and Growth criteria to gauge how much to invest in any individual stock (remember, up to 8% for initial investments in Core holdings and up to 2% for Growth holdings).
2. Build your cash reserves as the market climbs, then invest that cash as the market declines.
3. Take profits and recycle into Core holdings.

Wherever the market is, the great thing about Small Caps is that there's always value somewhere in the mix. Whereas in Big Caps and in Bitcoin, they are much more likely to be fully or overvalued when the market is ascendent, being bigger beneficiaries of momentum trading.

The combination of Small Caps and Blue Chip Value gives you all you need in order to run a profitable portfolio at any stage of your investment journey.

Richard Hemming
Head of Investments

the issue

PORTFOLIO REVIEW

Portfolio Performance
Strategies to reduce risk in your portfolio and maximise return
"Cash can detract from short-term performance, but over time gives you the flexibility to go after opportunities, which can supercharge returns. Our 12-month average cash holding was 16% and as you'll see we're planning on increasing this."

Portfolio Table

RESEARCH TIP UPDATES

Check out the deal $NST is doing and why we see value in $TRS. We are ceasing coverage on $CCX.

HAZER GROUP (HZR)	HOLD
DRONESHIELD (DRO)	SELL
TUAS (TUA)	▼ TAKE PROFITS

BEST STOCKS TO BUY NOW

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

> **Whether your holdings are large cap, or minnows, ensure your large positions have solid fundamentals, and therefore are less likely surprise dramatically on the downside. Upside surprises are welcome.**

Under the Radar's Portfolio Manager

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

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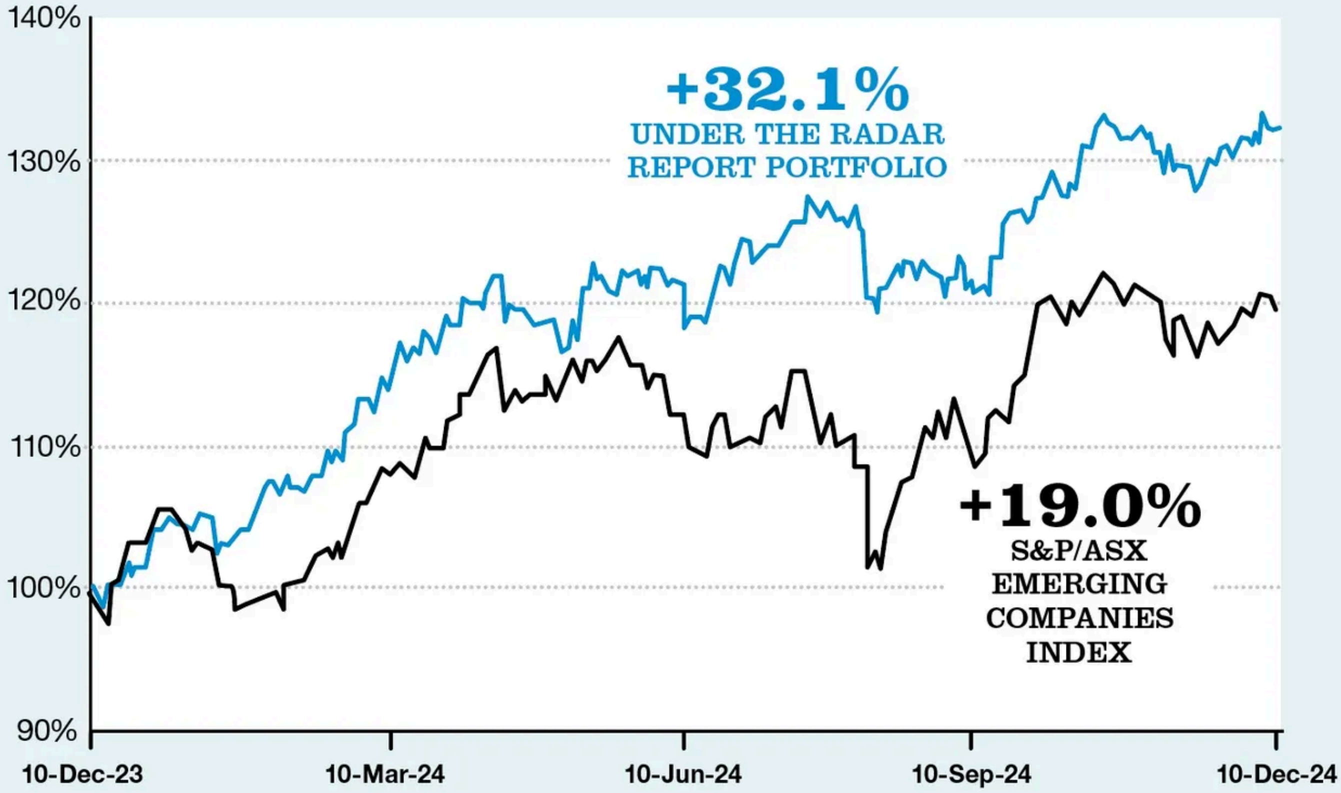
Portfolio Review December 2024

Under the Radar's Small Cap Portfolio has once again delivered solid performance, returning 32% in the past 12 months, more than double the benchmark S&P/ASX Small Cap Index return of 14%. Moreover, our performance has been steady over the 13 years almost doubling in value, more than three times the 32% return of the benchmark. Find out how you can do it too.

GROWTH & DIVIDENDS FOR LESS RISK

Under the Radar's Small Cap Portfolio over 12 months to 10 December 2024 versus the S&P/ASX Emerging Companies Index.



Removing cash (16% of the portfolio) the performance our Under the Radar Report portfolio for the past 12 months was 37.6%! The prior 12 months had seen a negative return (-3.8%) for this portfolio, but that compared favourably with the S&P/ASX Emerging Companies Index (XEC) -9.6%.

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Portfolio Review December 2024

1. FOLLOW A CORE AND GROWTH APPROACH

Under the Radar's Portfolio follows our core and growth approach, which ensures that the larger investments are in the most solid companies with the strongest fundamentals and that investments in more speculative or growthier stocks are limited to amounts we can afford to lose.

Whether your holdings are large cap, or minnows, make sure that your largest positions are companies that have solid fundamentals, and therefore are less likely surprise dramatically on the downside. Upside surprises are welcome.

2. HOLD CASH

Cash can detract from short-term performance, but over time gives you flexibility to go after opportunities, which can supercharge returns. Our 12-month average cash holding was 16% and as you'll see we're planning on increasing this.

The level of cash you hold depends on your own circumstances. 16% cash means, 84% invested, which sounds like a lot, but isn't. Running this Portfolio we are looking to ensure that we're prepared for many contingencies and over time we've held over 20%. In theory, you decrease the level of cash as prices go down. As prices go down that 16% cash might go down to 5%.

You want to hit your lowest level of cash when sentiment is poorest and your highest level when markets move materially higher.

3. CORE HOLDINGS

The five largest positions are all in different sectors and add up to almost half the portfolio. We believe it's important to leverage into positions, so our initial investment would be no more than 8% of the portfolio and then if the investment performs it could go over 12-15% at which time you could decide to reduce your holdings (take profits).

The big holdings: ship builder **Austal (ASB)** gold producer **Evolution Mining (EVN)**, funds management owner **Pacific Current (PAC)** telecommunications group **Superloop (SLC)** and aluminium manufacturer **Capral (CAA)**. Due to strong performance over time, another large position is our **Gold ETF (GOLD)**.

4. TAKING PROFITS

At **Superloop (SLC)** we left a lot on the table by selling half our position at $1.30 [current price $2.26]. But in taking a profit, we can be more sanguine about our remaining position. On the other hand, **Southern Cross Electrical (SXE)** has been a fantastic performer but we took profits on half the position in June at $1.73, and the stock is down 20% since [current price $1.56].

Continued on next page...

Portfolio Review December 2024 cont...

5. GROWTH HOLDING

Utilities software group **Hansen Technologies (HSN)**, a Best Buy, is up almost 20%. We are going to buy more HSN to boost the holding up to Core (see Transactions). We are doing the same with regional airline **Alliance Aviation (AQZ)** after price weakness.

New stocks like litigation funder **Omni Bridgeway (OBL)** and encapsulation specialist **Clover Corp (CLV)** have yet to deliver, while almond producer **Select Harvests (SHV)** has also disappointed, although underlying fundamentals appear to be improving. This is now our only food exposure, offering sector diversification.

Stocks which showed some excitement earlier in the year, including game developer **PlaySide Studios (PLY)** and **Integrated Research (IRI)** have fallen back as the realities of the long haul to deliver growth for PLY, and the sometimes rocky road to recovery for IRI, delayed the timing of expected returns.

Other smaller holdings include radio owner/operator **ARN Media (A1N)** with corporate expansion undermining the value of the core business. East Coast gas producer **Cooper Energy** has been renamed **Amplitude (AEL)** which offers unique energy exposure. Shade cloth manufacturer **Gale Pacific (GAP)** faces the challenge of a potentially damaging US tariff on China-manufactured products, where its main plant is located. We are reminded just how difficult manufacturing businesses can be. The digital retailer **Kogan (KGN)** has underperformed owing to weak retail sentiment. We have doubled down on the med-tech **Medical Developments (MVP)** to benefit from a recovery.

6. DIVIDENDS MATTER

Dividends are a low single-digit proportion of the return of the portfolio and are less consistent than their bigger counterparts as companies such as **Austal (ASB)** and **Capral (CAA)** choose to invest in growth.

While this portfolio does not target income particularly, dividends received are an important reflection of underlying valuation, and ensure balance in the portfolio, and cash flow to live on! And the Under the Radar Report dividend portfolios, as highlighted in Issue 629 - the last three dividend portfolios have delivered double digit annualised returns – demonstrate the value of paying attention to dividends. The next dividend portfolio will be published in the new year, and we look forward to reviewing the same stocks for inclusion here to help boost dividend income.

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Under the Radar's Small Cap Portfolio Holdings

Small Cap Portfolio Performance: as at 10 December 2024

CODE	SECURITY	LAST TRANSACTION	NUMBER HELD	TOTAL COST	Price @ 10/12/2024	CURRENT VALUE	
A1N	**ARN Media**	20/05/2023	8000	($10,860)	$0.74	**$5,880**	3.70%
AEL	**Amplitude Energy**	12/11/2024	35000	($11,188)	$0.19	**$6,545**	4.10%
AQZ	**Alliance Aviation Services**	28/06/2024	1000	($3,128)	$2.81	**$2,810**	1.70%
ART	**Airtasker**	9/2/2024	20000	($9,225)	$0.34	**$6,800**	4.20%
ASB	**Austal**	1/4/2022	5000	($9,427)	$2.90	**$14,475**	9.00%
BOL	**Boom Logistics**	29/11/2024	5000	($6,180)	$1.41	**$7,025**	4.40%
CAA	**Capral**	28/06/2024	1000	($4,805)	$10.24	**$10,240**	6.40%
CLV	**Clover Corporation**	1/12/2023	5000	($5,075)	$0.45	**$2,235**	1.40%
DCC	**DigitalX**	25/02/2022	15000	($1,255)	$0.05	**$720**	0.40%
EVN	**Evolution**	30/07/2022	3500	($9,808)	$5.25	**$18,375**	11.40%
GAP	**Gale Pacific**	28/06/2024	50000	($13,413)	$0.13	**$6,500**	4.00%
HSN	**Hansen Technologies**	28/06/2024	1000	($4,568)	$5.35	**$5,350**	3.30%
IRI	**Integrated Research**	1/3/2024	12000	($4,165)	$0.52	**$6,240**	3.90%
KGN	**Kogan**	27/05/2022	1000	($5,656)	$5.65	**$5,650**	3.50%
MVP	**Medical Developments**	4/10/2024	15000	($16,519)	$0.42	**$6,300**	3.90%
OBL	**Omni Bridgeway**	17/05/2024	5000	($6,373)	$1.02	**$5,075**	3.20%
PAC	**Pacific Group**	9/3/2018	1000	($5,397)	$11.09	**$11,090**	6.90%
PLY	**Playside**	1/9/2023	3000	($1,318)	$0.42	**$1,245**	0.80%
SHV	**Select Harvests**	27/05/2022	1500	($7,751)	$4.27	**$6,405**	4.00%
SLC	**Superloop**	29/03/2024	6000	($5,558)	$2.27	**$13,620**	8.50%
SXE	**Southern Cross Electrical**	28/06/2024	5000	($1,989)	$1.40	**$6,985**	4.30%
GOLD	**ETFS Physical Gold**	20/06/2022	300	($3,868)	$38.43	**$11,529**	7.20%
Shares	**84%**					**$161,094**	
Cash	**16%**					**$29,826**	
TOTAL						**$190,920**	

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Portfolio Transactions: Time to Prune

Our Portfolio Manager's December comment

With 22 holdings we have a few more than we would prefer, but this is a very conservatively managed portfolio addressing a large audience with diverse investment needs. During 2024 we have started building new positions using our ample existing cash reserves, but without deciding which stocks to let go. We are now doing some pruning.

Some decisions are easier than others. While we still like **Capral (CAA)** we originally bought for a substantial yield. Energy cost issues are going up and an interim dividend was not paid, though a final dividend will probably be healthy. We will sell the balance of our holding for about a double. We will also take some profits on **Evolution Mining (EVN)** selling 1000 shares for a double and sell 100 units of our **Gold ETF (GOLD)** for a triple! This will bring our gold exposure down after a strong run in $A terms. We will also sell **Kogan (KGN)** at breakeven and crane owner/operator **Boom Logistics (BOL)** at a small profit.

Pacific Current (PAC) will undertake an off-market capital return very shortly, and we will see whether we can suggest a price which the shares may be tendered for an exit. While prospects are potentially good, the portfolio has achieved more than a double on PAC. Other stocks that could potentially be sold include **Gale Pacific (GAP) Southern Cross Electrical (SXE)** and **ARN Media (A1N)** but in each case we have found reasons to hold on in the short term, but will be looking at their next results closely in February.

TIME TO BUY (MORE)

With the proceeds, we are bulking up on a number of more recent purchases, buying:

- **1000 Alliance Aviation (AQZ)**
- **7000 PlaySide Studios (PLY)**
- **5000 Clover Corp (CLV)** and
- **2000 Omni Bridgeway (OBL)** as well as
- **25000 DigitalX (DCC)**,
- **500 Hansen Technologies (HSN)**

HSN is a stock we could see as one of our new core holdings if our investment thesis works out.

FINAL COMMENT

We are increasing our cash allocation substantially to over 20% at the end of a strong year, bulking up some of our newer positions, and expecting to find fresh bargains in the new year. We are also looking to increase the weighting towards dividend-paying small caps to boost the resilience of the portfolio.

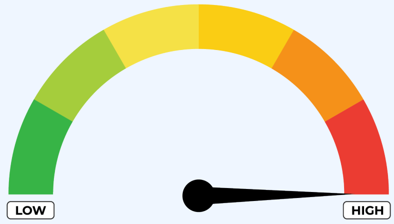
“*All transactions at Friday’s close “

HAZER GROUP

SECTOR MATERIALS **INDUSTRY** MANUFACTURING

RADAR RATING: **HOLD**

RISK RATING



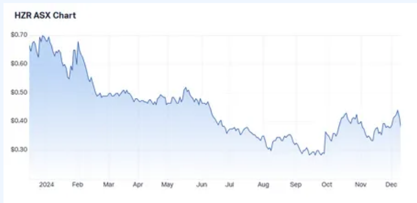
ASX CODE **HZR**

CURRENT PRICE **$0.38**

MARKET CAP $91M

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?
The share price has been essentially flat since our last report in late October. Progress continues with the successful completion of the Demonstration Plant programme with over 450 hours of continuous operation with an uptime of 99.6%, which is very high.

Portfolio Risk Rating: High-risk growth with very little certainty, although early revenues. Depending on the project flow, may still need to raise more capital. No certainty of project relationships converting to commercial projects.

Bull Points
- First revenues
- Target for ten 50k tonne plants in 10 years

Bear Points
- Long lead times for projects
- No certainty for future plant rollouts

Analysis: The completion of the demonstration plant programme has substantially derisked Hazer's scale-up and commercialisation strategy. The group's methane pyrolysis technology (using a furnace and an iron ore catalyst) is being recognised for producing affordable clean hydrogen, especially given the expensive green hydrogen from electrolysis (passing an electric current through water via renewable energy). The company says that potential project partners seek plant capacities of 50-100k tonnes a year of hydrogen production.

Hazer aims to produce hydrogen at around US$1/kg in its process compared to its estimates of US$3/kg for blue hydrogen using the standard steam methane reforming process using natural gas and carbon capture and over US$6/kg for green hydrogen from electrolysis.

Hazer's capital-light model is to generate licence fees and royalty income with no capex. The company has produced a case study for a Hazer plant that produces 50k tonnes a year of hydrogen from an industrial plant (such as a steel mill). The study assumes a 20-year project with first payments to Hazer after year 3. Based on a discount rate of 8%, Hazer calculates a return of US$80m (A$115m) after 10 years of use.

This recent campaign has produced sizable volumes of high-quality graphite which will be shipped to the company's partners for further testing.

A key patent related to Hazer graphite has been accepted in Europe with an option to secure protection in all 39 EU member states. Hazer has patents in Japan, the US, Korea, Aus & New Zealand.

RADAR RATING: Hazer's process gaining credibility following pilot testing success and high energy producer corporate partners seeking carbon abatement with hydrogen production.

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DRONESHIELD

SECTOR INDUSTRIAL **INDUSTRY** SECURITY DATA SERVICES

Research Tip Updates

What's New?
The shares have almost halved since our initial report on the drone defence systems specialist, four months ago in August (Issue 613) where we advised to sell at $1.18 a share.

The company has been ramping up manufacturing floor space and staffing levels from the capacity of $400m a year to $500m a year but only achieved $9.1m in sales in the three months to 30 September (year-end 31 December). FY24 forecast revenue is $55m (FY23 $54m).

Portfolio Risk Rating: Low visibility on future revenue with a rising cash burn as it ramps up for a hoped-for massive lift in sales. The strong cash balance won't last. Competition is high.

Bull Points
- Strong relationships in the US and with NATO
- Manufacturing capacity to deliver

Bear Points
- Revenue still low
- Operating in a very competitive market

Analysis: While DroneShield has great products, the counter-drone market has many players and is very competitive, particularly in the small drone market. DRO is ramping up very rapidly with no certainty of achieving its revenue goals, creating a high risk for investors.

Even after the valuation fall, the current valuation assumes that buyers of DRO'S C-UxS equipment are gearing up for large acquisitions after earlier smaller purchases and trials. However, much of the pipeline is uncertain, with 34 separate opportunities over $5m.

The potential is there. The US is the largest market, across military and non-military agencies. In Europe, the NATO framework agreement should produce sales.

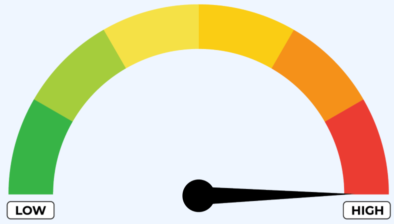
In the Ukraine, Middle Eastern and other global conflicts, small drones are heavily used, which is driving innovation. DRO competes not only with other C-UxS companies but also with drone technologies themselves.

Costs are going up. DRO has a staff of 220 including 140 engineers, projected to increase to 300 (220 engineers) over the next year. The group has signed a lease for an additional 1,800 sqm space in Sydney to reach 3,900 sqm by 31 December.

RADAR RATING: A risky proposition with a business model that has the hallmarks of being unsustainable. Best to wait on the sidelines.

RADAR RATING: **SELL**

RISK RATING



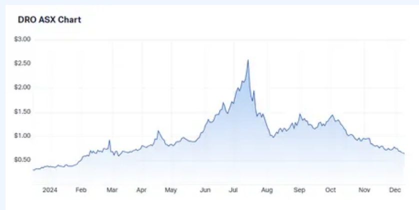
ASX CODE **DRO**

CURRENT PRICE **$0.64**

MARKET CAP $560M

DIVIDEND YIELD 0%*

NET CASH ($M) 238M



DATA AS AT INITIAL COVERAGE:

DATE 15 AUGUST 2024

PRICE ($) 1.18

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TUAS

SECTOR TELECOMUMMICATIONS **INDUSTRY** TELCO

Research Tip Update

Downgrade from Hold

What's New?
This month's AGM confirmed the broadband business has attracted its first 10,000 customers, supported by a mobile business that goes from strength to strength, delivering $18m operating cash flow in the first quarter to 31 October.

TUA has been a 10-bagger in 4 years for subscribers who followed our multiple recommendations in 2020 and 2021 after it was spun out from Australian telecom giant **TPG Telecom (TPG)** as part of the Vodafone merger. The stock price has gone virtually vertical recently. This week shareholder **Washington H Soul Pattinson (SOL)** announced it had sold 4.3% at $6.10. Short-term investor demand will be satisfied, but more than half the stock is held by management and SOL. Liquidity will remain tight.

Portfolio Risk Rating: The valuation is at the higher end of expensive. Just under 40 times FY25 operating earnings (EBITDA). The planned capex of around $50m suggests a free cashflow multiple of over 100x. EBITDA is growing by over 40%.

Bull Points
· Mobile subscriber growth
· High speed broadband opportunity

Bear Points
· Valuation stretched
· Potential competitive threats

Analysis: The $2.8bn market valuation assumes substantial market share gains in mobile, on top of continuing success in the high-speed broadband market, which we don't doubt will occur. But any hiccup will be punished.

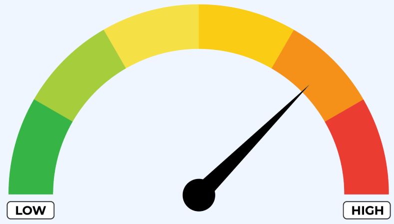
First quarter active mobile services grew at a monthly rate of 20k to reach 1.1m. New mobile innovations include data-only plans ($5 monthly/300GB) for iPads, Watches, and other connected devices. Keeping costs low, these are available online only and activate immediately. In broadband, TUA has the lowest-cost high-speed plan on the market, backed by the existing Simba brand, which should together deliver meaningful growth. There are also grants from the government that will contribute to capital expenditure on high-speed capacity.

The only fly in the ointment might be an increase in competitive response, as major market players wonder how they managed to lose 10% market share in only four years to a (well-funded) start-up. Management said that while trading has been positive, competition is dynamic.

RADAR RATING: We want to ensure that we have some profits banked and suggest selling to two times the original investment, then running the balance.

RADAR RATING: **TAKE PROFITS**

RISK RATING



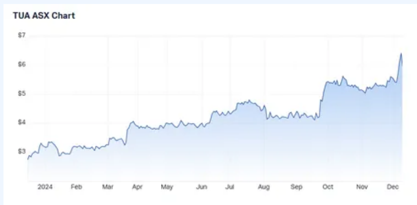
ASX CODE **TUA**

CURRENT PRICE **$5.96**

MARKET CAP $2.6BN

DIVIDEND YIELD 0%*

NET CASH ($M) 62.1M



DATA AS AT INITIAL COVERAGE:

DATE 23 OCTOBER 2020

PRICE ($) 0.58

The Idle Speculator retains a holding in TUA in his SMSF

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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	**$323M**
DIVIDEND YIELD	**5.7%**
12 MONTH HIGH	**$1.35**
PRICE @ 2024-12-11	**$1.06**

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	**$159M**
DIVIDEND YIELD	**0%**
12 MONTH HIGH	**$0.38**
PRICE @ 2024-12-11	**$0.35**

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

ALLIANCE AVIATION (AQZ) — SPEC BUY

INDUSTRY	**CONTRACT AVIATION SERVICES**
MARKET CAP	**$463M**
DIVIDEND YIELD	**0%**
12 MONTH HIGH	**$3.40**
PRICE @ 2024-12-11	**$2.88**

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	**$1.338B**
DIVIDEND YIELD	**4.7%**
12 MONTH HIGH	**$9.97**
PRICE @ 2024-12-11	**$7.60**

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	**$191M**
DIVIDEND YIELD	**1.0%**
12 MONTH HIGH	**$6.47**
PRICE @ 2024-12-11	**$6.25**

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	**$1.102M**
DIVIDEND YIELD	**1.8**
12 MONTH HIGH	**$5.88**
PRICE @ 2024-12-11	**$5.45**

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	**$1.113M**
DIVIDEND YIELD	**5.8%**
12 MONTH HIGH	**$2.42**
PRICE @ 2024-12-11	**$1.39**

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	**$165M**
DIVIDEND YIELD	**0%**
12 MONTH HIGH	**$0.59**
PRICE @ 2024-12-11	**$0.30**

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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BEST STOCKS TO BUY

NORTHERN STAR RESOURCES (NST) — BUY

INDUSTRY	**GOLD**
MARKET CAP	**$19.418B**
DIVIDEND YIELD	**3.2%**
12 MONTH HIGH	**$18.32**
PRICE @ 2024-12-11	**$16.89**

Northern Star reaffirms its position as the largest Australia-domiciled gold producer with Hemi, which adds ~25% to gold production over the medium term.

NZME (NZM) — BUY

INDUSTRY	**MEDIA**
MARKET CAP	**$180M**
DIVIDEND YIELD	**7.7%**
12 MONTH HIGH	**$1.04**
PRICE @ 2024-12-11	**$0.97**

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	**$253M**
DIVIDEND YIELD	**2.4%**
12 MONTH HIGH	**$1.93**
PRICE @ 2024-12-11	**$1.80**

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

Head of Investments Richard Hemming, Publisher Caroline Mark
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Website www.undertheradarreport.com.au

under the radar report
SMALL CAPS

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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.

WARNING: This publication is general information only, which means it does not take into account your investment objectives, financial situation or needs. You should therefore consider whether a particular recommendation is appropriate for your needs before acting on it, and we recommend seeking advice from a financial adviser or stockbroker before making a decision.

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