under the radar report
SMALL CAPS

ISSUE 631
19 DECEMBER 2024

A (SMALL CAP) CHRISTMAS STORY

Timing is important, but the fact is, nobody ever gets it right unless they're lucky. What you need are irons in the fire that have the potential to deliver outsized returns. Superloop (SLC) has been one of Under the Radar Report's favourites over the past four years. It has been frustrating, but this Growth chrysalis has turned into a Core Christmas butterfly, having had a spectacular 2024, returning over 220%!

More to the point, we've got stocks in this issue, today, that have the potential that this company had. With that in mind, here is a brief summary of Superloop.

The company specialises in telecommunications infrastructure, including fibre, subsea cables, as well as software platforms. SLC was not a success early on, evidenced by an anaemic share price, hovering between $1.20 and 60 cents. But operationally, it was making progress. Just over two years ago new management changed strategy, selling off offshore fibre assets, reducing debt and focusing on the Australian market.

The company got into a takeover fight a year ago over another Under the Radar favourite Symbio, which it lost to ASX-listed **Aussie Broadband (ABB)**. Then Superloop did a variation of the 1980s "Pac-man" defence (if someone bids for you, you bid for them). Instead of eating Aussie Broadband, it ate its biggest customer, taking on **Origin Energy (ORG)** as a customer, which blind-sided Aussie, whose share price has struggled.

SLC then established itself as the dominant low-cost second-tier player in NBN broadband, behind Telstra, TPG and Optus, and has kept its costs low as the cash rolls in. Operating earnings (EBITDA) is growing at 50% this year and is forecast at double-digits next year, as SLC delivers high-speed broadband for monthly recurring revenues.

Superloop has now graduated from being a Growth Small Cap, into a Core holding, the only issue to us buying more right now being price. Like this company, many Small Caps are slow-burn businesses. But there's an earnings tipping point, which is when you get share price acceleration.

Under the Radar's team wishes all our members a very merry Christmas and a happy New Year. We look forward to delivering you our next Small Cap Dividend Portfolio on Thursday 2 January 205 and our Fund Manager Round Table.

the issue

RESEARCH TIP UPDATES

AIM is consolidating but has great AI led potential; while KAR is being held back by a volatile oil price and SLX has a huge opportunity, but is only for those that are comfortable with the high risk.

AI-MEDIA (AIM)	HOLD
KAROON ENERGY (KAR)	SPEC BUY
PACIFIC CURRENT (PAC)	▼ TAKE PROFITS
SILEX SYSTEMS (SLX)	SPEC BUY
SOUTHERN CROSS ELECTRICAL (SXE)	HOLD
SUPERLOOP (SLC)	HOLD

BEST STOCKS TO BUY NOW

These stocks are quality companies that we believe offer great return potential for the risks face.
We have removed KAR because of the oil price volatility, but it remains a spec buy (but higher risk). We have also removed ART after a 15% increase in the share price and we are including IMB, having initiated coverage last month (Issue 628).

Many Small Caps are slow-burn businesses. But there's a tipping point when you get share price acceleration. It's not about market timing, it's about time in the market.

Under the Radar Report

Richard Hemming
Head of Investments

Published by [illegible] Radar Report Ltd
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AI-MEDIA

SECTOR TELECOMUMMICATIONS **INDUSTRY** MEDIA

Research Tip Update

What's New?
At the AGM this month AI-Media the company re-iterated its target of $60m in operating earnings (EBITDA) by FY29; versus FY24's $4.1m. The company is further boosting R&D and marketing expenditure to $28m, from $24m in FY24 ($15m FY23) but says that aims for cash flow positive in FY25.

The shares have climbed over 140% since our initial buy rating in mid-June, only six months ago, and we are not ready to take profits. If anything, we think the trajectory is up, if management comes close to hitting its targets.

Portfolio Risk Rating: This stock will be valued well over $2 if the company achieves its $60m EBITDA target in five years, but that is a big if. The stock trades on a multiple of 2 times sales, which looks good value, but you have to remember that it's transitioning from human captioning to AI-generated captioning. The cash flow multiple (EV/EBITDA) forecast of 35 times looks expensive, but earnings quality is improving and the operating leverage is extremely high.

Bull Points
· Technology is fast improving
· Operating leverage

Bear Points
· Fragmented market
· Data protection & privacy

Analysis: The graphic below sums it up: technology-led captioning is now the bulk of AI-Media's gross profit and is on track to exceed 90% over the next 12 months. This is the engine room to drive operating earnings (EBITDA) to $60m. The hitch is that management is increasing the investment needed to do this.

Services revenue should continue to decline at about 10% but the Tech revenue should really be shooting the lights out, because the value proposition for broadcasters seems compelling, based on the technology being at least at the standard of humans. The cost to a very large broadcaster in the US using human captioning is US$60-70 an hour, so close to A$100/hour, while using LEXI costs them US$8.80/hour.

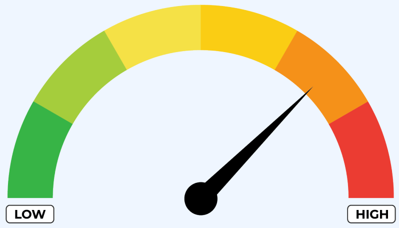
On top of that, the new version LEXI 3.0 has improved functionality, via its offer of redundancy for a system failure (LEXI DR) such as when the internet goes down, now no longer requiring human intervention.

Assuming this it's possible the company could grow revenues at 20% over time, which will boost gross profits even more because it comes on top of gross profit margin expansion.

Continued to the next page...

RADAR RATING: **HOLD**

RISK RATING



ASX CODE **AIM**

CURRENT PRICE **$0.815**

MARKET CAP $180M

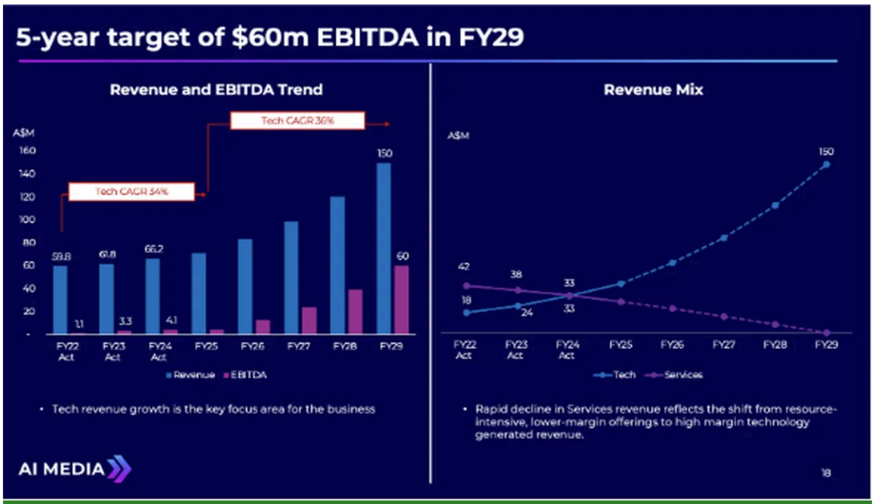
DIVIDEND YIELD 0%*

NET CASH ($M) 10.9M

DATA AS AT INITIAL COVERAGE:

DATE 20 JUNE 2024

PRICE ($) 0.34



RADAR RATING: We have increased our valuation and believe that this stock could hit $1 in the short-term as it grows technology revenue, but risks are high due to competition.

KAROON ENERGY

SECTOR ENERGY **INDUSTRY** OIL AND GAS

Research Tip Update

What's New?
This week the oil producer announced that two of the 16 chains anchor chains for its oil rigs in Bauna, Brazil, had failed and are being repaired. The shares are highly sensitive to the oil price, which has been under pressure. Prior to this news, KAR had fallen 26% since our last report in August in response to a 17% drop in the oil price from US$84/barrel to US$70/barrel. The shares fell a further 10% on this announcement.

Portfolio Risk Rating: The downgraded earnings guidance removes some uncertainty and production for FY25 is relatively secure. The stock trades on a single-digit earnings multiple, reflecting oil price volatility. A good long-term investment, but has high short-term risk, despite dividends.

Bull Points
- Low-cost, profitable pure oil producer
- Expected organic growth at Neon and Who Dat

Bear Points
- Share price can be volatile, due to oil price leverage
- Natural well decline at Bauna, Brazil

Analysis: The company produces solid cash flow, which is why it's doing buybacks and paying dividends, but the share price is vulnerable to oil price moves. The guidance has been cut, but not by much and potential remains from two projects in Brazil, which are smaller than the current Bauna operations.

Total guidance for CY24 has been cut by around 5% to 10.2m barrels of oil equivalent (midpoint), down from 10.75m. In addition to Bauna, there is also a downgrade to Who Dat production (US Gulf of Mexico) due to Hurricane Rafael.

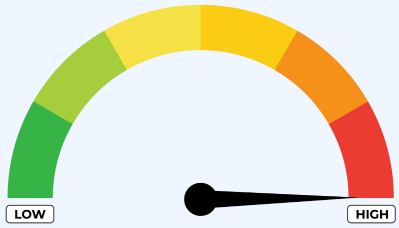
Prior to the shut-in, Bauna production had stabilised after maintenance activities at 24,000 barrels of oil a day with its reservoirs performing in line with expectations. Bauna CY24 guidance was cut by 4% to 7.3m barrels of oil.

Who Dat CY24 guidance was cut to 2.9m barrels of oil from 3.05m due to hurricane impacts which extended a scheduled shutdown.

RADAR RATING: The company produces solid cash flow, which is why it's doing buybacks and paying dividends. But removed from best buys because of oil price volatility. High operating leverage and production growth.

RADAR RATING: **SPEC BUY**

RISK RATING



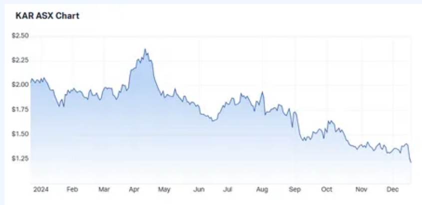
ASX CODE **KAR**

CURRENT PRICE **$1.22**

MARKET CAP $943.1M

DIVIDEND YIELD 6.6%*

NET DEBT ($M) -US$41.8M (A$66.0M)



DATA AS AT INITIAL COVERAGE:

DATE 21 JANUARY 2021

PRICE ($) 1.10

**FY24 forecast 8 cents*

Published by Under the Radar Report Ltd
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PACIFIC CURRENT

SECTOR FINANCIALS **INDUSTRY** WEALTH

Research Tip Update

Downgrade from Hold

What's New?
Pacific Current is returning up to $300m cash or $12 a share to shareholders, slightly less than half the total asset base. $12 is as high as it has traded for many years. After the buyback, remaining shareholders will be leveraged to a small number of boutique portfolio investments, and PAC will have enough liquidity to fund new investments.

Portfolio Risk Rating: We estimate the fair value NAV after the buyback at up to $15, so there is an upside to look for, but there will be significantly reduced liquidity in the stock. The Under the Radar Report portfolio will probably accept the $12 for its entire holding, and we will put the stock on the coverage back burner.

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

Bear Points
· Limited transparency
· Future liquidity

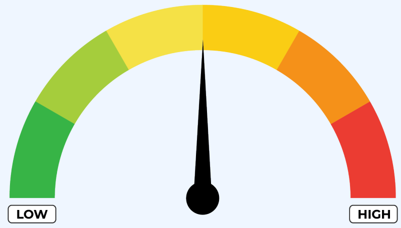
Analysis: The cash comes principally from the sale of its 4% stake for $250m in ASX-listed **GQG Partners (GQG)** shares. Even after the buyback, PAC retains a few boutique stakes and can invest in others, with a focus on general partner stakes, at the top of the returns pyramid. PAC's deal with GQG allows it to participate in some general partner investment alongside GQG itself.

The details of the off-market buy back will be released by early January and may offer the opportunity to sell a part of a position. Three shareholders control 45%, and may not accept the $12 buyback, which would concentrate their interest dramatically. At that point, market liquidity could be limited. Patient investors had many opportunities to buy the stock at a yield of 6% or more. PAC was featured in a recent dividend portfolio and our Best Buys at much lower levels. The Under the Radar Report portfolio bought a small position at $7.90, before bulking up at and below $5, and then reduced the position size to $6.69 before the pandemic.

RADAR RATING: Depending on your risk appetite and degree of concentration in the stock after the proposed $300m buyback at $12, the residual assets in PAC may still have some appeal. We recommend selling at least half a position into the buyback.

RADAR RATING: **TAKE PROFITS**

RISK RATING



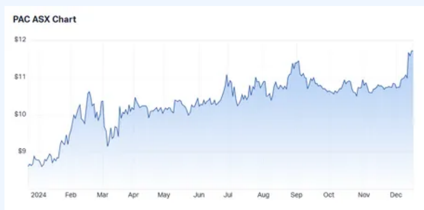
ASX CODE **PAC**

CURRENT PRICE **$11.72**

MARKET CAP $604M

DIVIDEND YIELD 0%*

NET CASH ($M) 313M



DATA AS AT INITIAL COVERAGE:

DATE 27 APRIL 2016

PRICE ($) 4.40

**TAKE PROFITS ON THE $12 SHARE BUYBACK PORTFOLIO ACTION!*
The Under the Radar Report Portfolio holds 1000 PAC shares at an average cost of $5.40, now 6% of the portfolio. We will be selling into the $12 buyback early next year.

Published by Under the Radar Report Ltd
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SMALL CAPS

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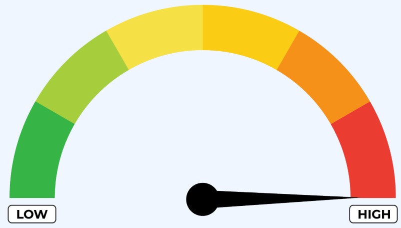
SILEX SYSTEMS

SECTOR METALS_MINING **INDUSTRY** URANIUM NUCLEAR

RADAR RATING: **SPEC BUY**

RISK RATING



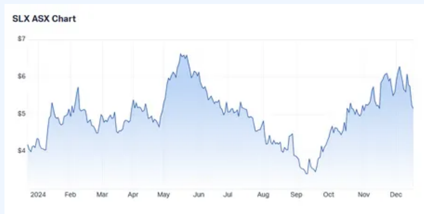
ASX CODE **SLX**

CURRENT PRICE **$5.12**

MARKET CAP $1.36BN

DIVIDEND YIELD 0%*

NET CASH ($M) 113.1M



DATA AS AT INITIAL COVERAGE:

DATE 08 SEPTEMBER 2022

PRICE ($) 3.98

Research Tip Update

What's New?
Silex has done extremely well since we first recommended the stock over two years ago, having returned 30%, which is a combination of the improving uranium price and, just as important increasing demand for its nuclear enrichment technology, not yet in commercial production.

This month's news is particularly positive. The joint venture between Silex and one of the biggest listed uranium producers, Cameco (Silex 51%, Cameco 49%) – GLE – has been selected by the US Department of Energy as an enrichment supplier to enable the US to be self-sufficient in nuclear fuel including for new reactors.

Bull Points
- Pathway to uranium production of 5mlbs a year
- Natural UF6 and high-value enrichment products

Bear Points
- Completion of demonstration project required

Analysis: The US is seeking to diversify nuclear fuel supply away from Russia, being the largest generator of nuclear power, nuclear fuel supply. Several uranium enrichment facilities will be built, which includes GLE with up to US$3.4bn funding available across six projects.

In addition to GLE, the other awardees are American Centrifuge, a subsidiary of Centrus Energy (NYSE: LEU), Louisiana Energy Services, owned by Urenco, a British-German-Dutch nuclear fuel consortium, Orano Federal Services, owned by Paris-based Orano, US-based Laser Isotope Separation Technologies and California based General Matter.

GLE is offering its new laser enrichment technology, alongside Laser Isotope Separation Technologies, which isn't as advanced. Centrus, Urenco and Orano are existing nuclear fuel producers.

GLE has acquired land for its Paducah Laser Enrichment Facility, Kentucky, located next to a former DOE facility where there are over 200k tonnes of depleted uranium tails. This will be the feed for uranium fuels using SILEX laser enrichment.

RADAR RATING: High risk and further trials required but Silex offers a groundbreaking technology for higher efficiency for uranium enrichment. Playing with the big boys.

under the radar report
SMALL CAPS

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SOUTHERN CROSS ELECTRICAL

SECTOR INDUSTRIAL **INDUSTRY** CONTRACTOR

Research Tip Update

What's New?
We have been taking profits in the stock, which has been a big performer for Under the Radar Report, having been a best buy for a long time. The stock has returned 77% in the past 12 months and 42% a year over the past three. SXE provided operating earnings guidance for FY25 EBITDA of $53m, up 32%. This month the contractor announced new awards worth $225m, but kept guidance unchanged.

Portfolio Risk Rating: Earnings are cyclical and multiple reflect big contract wins, which includes data centre work. The forecast PE of 12 times is below peers, but recurring revenues are a third of the total.

Bull Points
· Strong EBITDA growth over the next two years
· Comprehensive skill set and diversified

Bear Points
· Share price has run hard
· Labour intensive

Analysis: The recent contract awards were very diverse, reflecting success in expanding into new areas and strong growth. But recent share price weakness reflects a labour intensive business model. We anticipate earnings and dividend growth, albeit at slowing rates.

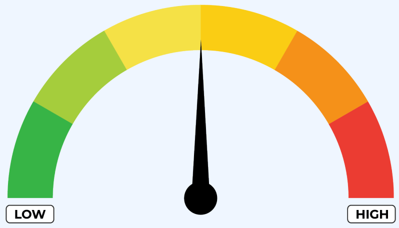
New contracts include data centre, commercial, manufacturing, resources and water sectors. The desalination plant in WA and major transport projects in Victoria and NSW, along with data centre work demonstrates exposure to infrastructure.

In the second announcement, project awards totalled over $100m and included Southern's largest ever hospital project with electrical, communications and security work at the new Shellharbour hospital, NSW. Southern's subsidiary Trivantage, which manufactures switchboards, now has a record order book.

RADAR RATING: Structural tailwinds of data centres, the energy transition and infrastructure. Growth slowing but value improving.

RADAR RATING: **HOLD**

RISK RATING



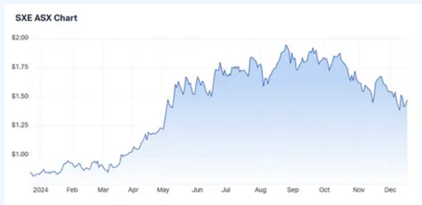
ASX CODE **SXE**

CURRENT PRICE **$1.537**

MARKET CAP $374M

DIVIDEND YIELD 4.7%*

NET CASH ($M) 84M



DATA AS AT INITIAL COVERAGE:

DATE 30 DECEMBER 2020

PRICE ($) 0.365

Forecast 7.0 cents

Published by Under the Radar Report Ltd
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SUPERLOOP

SECTOR TELECOMUMMICATIONS **INDUSTRY** TELCO

Research Tip Update

Upgrade from Growth to Core

What's New?
Superloop has had a spectacular 2024, returning over 220%! As we speculated in late 2023 (Issue 571), SLC received an unsolicited bid in February before turning the tables on its bidder with a major wholesale contract win from Origin Energy. We had remained positive at much lower levels for a long time before benefitting tidily as the stock price tripled this year.

SLC is acquiring fibre assets from Optus for $17.5m, including 2000 km of high-capacity fibre, in 800 km of owned duct, in Sydney, Melbourne and Brisbane/Gold Coast CBD and metro. Direct access to 1900 buildings and 50 data centres.

Portfolio Risk Rating: We took profits on 50% of the SLC position in the Under the Radar Report portfolio, but held the balance for what is a strong longer-term growth story, with significant cash generation ahead. FY25 forecast revenue growth of up to 30% and operating earnings (EBITDA) of 50% gives a cash flow multiple (EV/EBITDA) of 13 times. The balance sheet is healthy, negative net current assets are offset by recurring monthly revenues, and free cash flow is growing fast. SLC has GROWN into a CORE holding!

Bull Points
· Earnings growth momentum
· Wholesale contract wins

Bear Points
· Competition increasing
· Valuation after a strong run

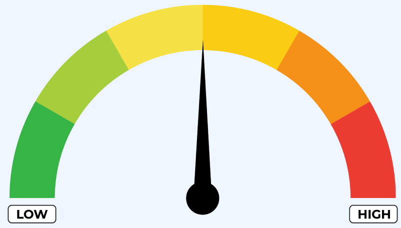
Analysis: **Origin Energy (ORG)** is a significant shareholder after moving its internet customers to Superloop, fuelling market growth and ed fibre assets, which delivers high margin revenues. We have focussed on this dark fibre for years as the potential source of significant growth in underlying cash flow, and that growth is now being delivered.

The current share price anticipates continued market share gains, Optus's fibre assets acquired complementing the existing intercity and international backbone. While the acquisition is earnings neutral in the short-term, the ownership of more fibre network km allows SLC to compete more effectively.

RADAR RATING: Growth supported by low-cost strategy delivering high-speed internet. Management has shown an ability to make interesting tactical moves and now has an ungeared fast-growing cash-generating business to pursue further growth.

RADAR RATING: **HOLD**

RISK RATING



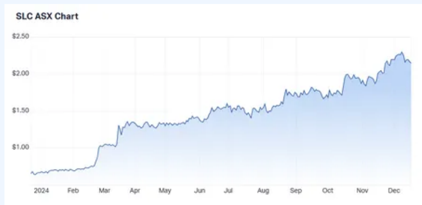
ASX CODE **SLC**

CURRENT PRICE **$2.18**

MARKET CAP $1.1BN

DIVIDEND YIELD 0%*

NET DEBT ($M) -8.6M



DATA AS AT INITIAL COVERAGE:

DATE 25 FEBRUARY 2021

PRICE ($) 0.93

**Forecast 0 cents*
The Under the Radar Report portfolio has 6,000 shares, now around 5% 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	**$314M**
DIVIDEND YIELD	**5.8%**
12 MONTH HIGH	**$1.35**
PRICE @ 2024-12-18	**$1.03**

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.

INTELLIGENT MONITORING GROUP (IMB) — SPEC BUY

INDUSTRY	
MARKET CAP	**$172M**
DIVIDEND YIELD	**0%**
12 MONTH HIGH	**$0.82**
PRICE @ 2024-12-18	**$0.50**

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.

ALLIANCE AVIATION (AQZ) — SPEC BUY

INDUSTRY	**CONTRACT AVIATION SERVICES**
MARKET CAP	**$461M**
DIVIDEND YIELD	**0%**
12 MONTH HIGH	**$3.40**
PRICE @ 2024-12-18	**$2.87**

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	**$1.227B**
DIVIDEND YIELD	**5%**
12 MONTH HIGH	**$9.97**
PRICE @ 2024-12-18	**$7.25**

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

ENERGY ONE (EOL) — SPEC BUY

INDUSTRY	**SOFTWARE**
MARKET CAP	**$206M**
DIVIDEND YIELD	**0.9%**
12 MONTH HIGH	**$6.86**
PRICE @ 2024-12-18	**$6.61**

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

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BEST STOCKS TO BUY

HANSEN TECHNOLOGIES (HSN) — BUY

INDUSTRY	**SOFTWARE**
MARKET CAP	**$1.101M**
DIVIDEND YIELD	**1.8**
12 MONTH HIGH	**$5.88**
PRICE @ 2024-12-18	**$5.41**

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.

MEDADVISOR (MDR) — SPEC BUY

INDUSTRY	**EHEALTH MED TECH**
MARKET CAP	**$160M**
DIVIDEND YIELD	**0%**
12 MONTH HIGH	**$0.59**
PRICE @ 2024-12-18	**$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.

NORTHERN STAR RESOURCES (NST) — BUY

INDUSTRY	**GOLD**
MARKET CAP	**$18.522B**
DIVIDEND YIELD	**3.4%**
12 MONTH HIGH	**$18.32**
PRICE @ 2024-12-18	**$16.11**

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	**$179M**
DIVIDEND YIELD	**7.7%**
12 MONTH HIGH	**$1.04**
PRICE @ 2024-12-18	**$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	**$260M**
DIVIDEND YIELD	**2.4%**
12 MONTH HIGH	**$1.93**
PRICE @ 2024-12-18	**$1.85**

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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