under the radar report
SMALL CAPS
ISSUE 246
15 JUNE 2017

TAKE ADVANTAGE OF AMAZONOPHOBIA

This week we deliver the first part of our two part series on ASX listed Small Cap retailers. This week we focus on the bricks and mortar retailers, which in some cases have been oversold on the basis of Amazonophobia. Low interest rates encourage spending and retail sales figures are actually trending positive. We think that in some cases the market has over reacted and we are seeing real value.

As Tim Boreham states, "as with any indiscriminate sell down, value emerges for the savvy investors able to see through the noise."

We cover some 15 retailers and we've still got the online ones to come next week.

Importantly, we look at how they're being effected by domestic conditions and by sentiment.

We've been speaking to numerous retail executives at all levels and have been delving deep into the financials.

We are unapologetic contrarians because this has made us big returns over the long term. We have made money when retailers have been out of favour in the past – the furniture specialists Nick Scali (NCK) and Fantastic are good examples. Nick Scali has increased five fold since we tipped it just over 4 years ago.

We're confident we can do it again. ■

Richard Hemming
Editor

the issue

RETAIL SMALL CAPS SPECIAL REPORT PART 1 02

This week we focus on the bricks and mortar retailers. Tim Boreham goes through the actual and perceived threat of Amazon. He takes you on a retail helicopter ride and then drills down to what executives are saying.

SHARE TIP 03

The Reject Shop (TRS) - Our investment proposition for the discount retailer comes down to price, price and price.

FIVE (MORE) OF THE BEST 05

Godfreys (GFY)
Specialty Fashion (SFH)
Nick Scali (NCK)
Oroton (ORL)
RCG Corp (RCG

RESEARCH TIP UPDATES 09

Pharmaxis (PXS)
Logicamms (LCM)

BEST MONEY MAKING IDEAS 11

Small Talk

"As with any indiscriminate sell down, value emerges for savvy investors able to see through the noise"

TIM BOREHAM, UNDER THE RADAR REPORT

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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RETAIL SMALL CAPS SPECIAL REPORT PART 1

This week we focus on the bricks and mortar retailers. Tim Boreham goes through the actual and perceived threat of Amazon. He takes you on a retail helicopter ride and then drills down to what executives are saying.

TAKE ADVANTAGE OF AMAZONOPHOBIA

With the pending entry of US online giant Amazon into the local market, the Australian retail sector is gripped by fear and investors have emulated consumers by zipping their purses.

Confusion reigns about inscrutable Amazon's exact intentions, especially in relation to the Amazon Prime subscription service that offers free delivery. But one thing for certain is that the online behemoth – now the biggest e-tailer in the US – is coming and it's not planning to do things by halves.

Amazon is expected to create a beachhead in the third quarter of this year and be operating fully by 2018. The retailer, which started in 1994 as an online bookseller, has been looking for a site for its first fulfilment (distribution) centre, probably in Sydney.

The pending entry has already resulted in a notable casualty: Wesfarmers' planned and now cancelled $1.5bn spin off of its Officeworks chain.

While the consumer electronics and apparel categories look especially vulnerable, investors have taken the 'scorched earth' approach and sold off most of the listed merchants.

As with any indiscriminate sell down, value emerges for savvy investors able to see through the noise.

OPEN SEASON FOR DOWNGRADES

Amazon's pending incursion on our shores is not the only thing scaring retail investors: shoppers are increasingly discerning and earnings downgrades are flowing faster than the famed Brazilian river.

Leaving no excuse unturned, footwear chain RCG Corporation (RCG) cited ***"declining consumer confidence, subdued wage growth, concerns surrounding the housing market and increased interest rates."***

Also not helping was the "perceived impact that the market entry of Amazon may have on the Australian retail landscape."

There's also an egalitarian flavour to the downgrades.

Citing ***"low consumer confidence and a competitive market"***, luxury accessories purveyor OrotonGroup (ORL) reported an 11% decline in third quarter revenue to date. This followed a 10 per cent first (December) half decline. We have more analysis on ORL on page 7.

But cheap and cheerful The Reject Shop (TRS) also issued a profit warning. This retailer has been written off before and canny investors have made big profits. We think that the market has over-reacted again and sense a buying opportunity. See page 3.

Another stock we cover below is Godfreys (GFY) the go to vacuum cleaner specialist for middle Australia, said the expected ***"challenging"*** conditions had, indeed, materialised. See page 5.

Manchester and homewares retailer Adairs (ADH) reported weak sales for the Christmas period and thereafter, with ***"missed opportunities in the fashion linen product category"***.

Despite the bias to bad news, not all retailers are doing it tough.

A big disappointer after its December 2014 listing at $2 apiece, 'fast jewellery' chain Lovisa (LOV) recently reported second half sales were ***"strong and above expectations"***.

Specialty Fashion Group (SFH) reported a 36% surge in reported half-year earnings to $12.1m, despite same-store sales declining 2%.

"This is a hard-fought result, achieved in a difficult and volatile Christmas trading environment," managing director Gary Perlstein said.

NO EASE TO THE SQUEEZE

It's understandable that consumers are careful about where they spend their money given their wages are declining in real terms while cost of living pressures such as energy bills continue to rise.

Ironically, retailers have led the push for lower weekend penalty rates and the business community has forever lobbied for wage restraint. A case of being careful what one wishes for?

The spectre of higher interest rates, combined with more credit rationing by the banks, doesn't help at a time when the average mortgage is well over $400,000. There's also the emerging trend of credit rationing by the banks in the form of the selective repricing of riskier loans. The new big bank levy is also likely to be passed on to the customer by way of higher rates.

If house prices decline, as is almost universally expected, there's a flow on effect on housing related retailers such as Harvey Norman (HVN) and, at the junior end, Nick Scali and Fantastic Furniture.

SOLD UP THE AMAZON

Some sector watchers contend the 'category killers' such as JB Hi-Fi (JBH) will emerge unscathed from Amazon's assault. While others claims JB Hi-Fi will lose one-third of its sales over five years, while Harvey Norman will take a 9% revenue haircut.

There's some consensus that the retailers most affected will be those selling commoditised products that are easily shipped. There's also hope for retailers that stock differentiated products and can provide genuine value-added customer service.

Using the Kmart example, most of the goods are commoditised and customers generally know what they want. Given there's no need for intervention by sales staff, the customer is much more likely to order online from Amazon with guaranteed delivery in two days.

But a customer visiting a specialist stores such as Beacon Lighting (BLX), Godfreys (GFY), Adairs (ADH), Nick Scali (NCK) or Baby Bunting (BBN) would almost certainly need advice. Generally speaking, the bulkier or specialised the goods, the safer the retailer would be.

STOCK OF THE WEEK

THE REJECT SHOP

Our investment proposition for the discount retailer comes down to price, price and price. The stock has been sold off by more than 50% since the April 7 profit downgrade. But we believe that the group is overcoming its merchandising issues, meaning that it's well leveraged to any uptick in sales. The company has minimal debt and should continue to pay dividends, which also serves as a key catalyst for an increasing share price.

RETHINKING THE MERCHANDISE

At the heart of the 77% share price slump since its levels of over $15 nine months ago, is a decision by management to focus too much on "variety" products, rather than "everyday" items. The variety range, anything from $18 ornamental roosters to $2 yarns of wool, aligned TRS too closely with discount rivals such as Big W.

In its effort to freshen up its range TRS lost sight of its old "everyday value and bargains" philosophy. The mistake is similar to Woolworths muddling up its everyday low pricing message, resulting in arch rival Coles winning the sales battle quarter after quarter. Since then Woolworths has tightened its pricing strategy and now has Coles on the back foot.

In a similar vein, these days, TRS shoppers are more likely to confront a bargain bin of $2 packets of spaghetti bolognaise or $3 toilet paper. The headline offerings on TRS's website suggests a return to the utilitarian basics. These include a two litre bottle of Pepsi Max for $1.69, a $12 mop, a $6.50 garden hose and a pack of Itsi Bitsi GelGlitter pens for $4.

BIG REVENUES MEANS BIG OPPORTUNITIES TO PROFIT

The starting point is that TRS is still expected to generate full year revenue of a shade under $800m, which provides ample top line to convert into increasing profits.

Management has tools beyond the obvious remediation measure of stocking the shelves with stuff shoppers actually want to buy. On the efficiencies side, the company has streamlined the process of getting the goods from its distribution centre to the shelves. The company has also introduced in-store rostering tools to better coordinate staff and is rolling out an energy efficiency program. Most importantly, management is reducing excess inventory to a "manageable" position by the end of June. This is likely to result in a write down, but this appears to have been factored into the forecast.

RADAR RATING **SPEC BUY**

ASX CODE **TRS**

SHARE PRICE **$3.65**

MARKET CAP **$105M**

NET DEBT **$12M***

DIVIDEND YIELD **6%***

*Forecast

BULL POINTS

- OVERSOLD BUT BOUNCING OFF ITS LOWS
- DIVIDEND YIELD OF AROUND 6%
- ADDRESSING POOR MERCHANDISING DECISIONS
- $800M OF ANNUAL REVENUES

BEAR POINTS

- PROSPECT OF MORE SHORT-TERM PAIN
- ONEROUS WORKING CAPITAL REQUIREMENTS
- POOR SENTIMENT

WHY WE LIKE IT

Our investment proposition for The Reject Shop comes down to price, price and price. The stock has been sold off by more than 50% since the April 7 profit downgrade, which stemmed from "extremely challenging" external retail conditions, as well as having the wrong range of merchandise. Management has a track record of managing through previous slumps. With the company worth a fraction of its $400m

Another lever at management's disposal is the extent of store rollouts.

TRS currently has 352 stores and a stated target of 400. But if anything management is more likely to close uneconomic stores and up to 30 are considered vulnerable. Also, the group is more likely to bolster its refurbishment program, with 70 stores expected to convert to a new format.

BARGAIN BIN VALUATION

After the April 7 downgrade the stock fell to a low of $3.29 and at the current level is well below our valuation. Earnings forecasts are difficult to make in this business, but under ASX disclosure rules a company is obliged to alert the market if it believes consensus expectations are too high. Two months after the downgrade, TRS has not done so. While there's still time before June 30 to do so, this hints at a further downgrade being unlikely.

Assuming no further nasties, TRS trades on a current year earnings multiple of under nine times, falling to seven times in 2017-18. Even if the company maintains only a half-year dividend payout of 24c, and we expect it to lift this payout next year, the stock trades on a fully-franked yield of 6%.

A KEY RISK

Management reports the company remains "fully compliant with its debt covenants" but it's reasonable to question why this reassurance was required. By year's end TRS should have debt of close to $22m and cash of between $2m to $15m. We're forecasting net debt of $12m as at 30 June, 2017.

This does not suggest any problems with core debt. But TRS does have working capital requirements and there is a suggestion TRS is coming close to breaching its fixed charges cover, which is the amount of earnings required to cover fixed costs, in particular leases.

If breached in isolation, we would expect the banks would agree to renegotiating the covenant. While TRS appears to be fixing its flawed merchandising strategy, the group's financials are robust.

OPERATING LEVERAGE IS THE KEY

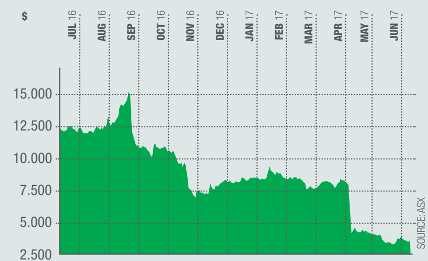
The core issue with TRS is whether the woes are structural and stem from aggressive new competition, or are internal. We believe TRS still has the reach and the brand presence to succeed, as well as an adequate balance sheet to see it through the current trough. While there's unlikely to be any improvement this side of the company's August full-year results, we believe that there is significant operating leverage in the group to deliver big returns. With $800m in revenues, improvements in inventory management will quickly improve the bottom line.

worth merely a year ago, we believe the stock has been oversold and a modicum of good news would spur a recovery. The stock trades on a forecast 2017-18 multiple of 10 times, which assumes only a tepid earnings recovery, but there is big operating leverage if it can improve its inventory management.

WHAT'S NEW

In its third quarter trading update, management reported negative comparable sales had declined 4% for the half year to date, with especially poor conditions on WA and the ACT. This will result in a net loss of "at least" $5m for the June second half, reducing full-year earnings to $12.5m, versus $17.1m for the 2015-16 year. Having paid a 24c a share interim dividend, management says it's unlikely to declare a final payout, which last year was 19c.

TRS - Share Price



WITH THE COMPANY WORTH A FRACTION OF ITS $400M WORTH MERELY A YEAR AGO, WE BELIEVE THE STOCK HAS BEEN OVERSOLD AND A MODICUM OF GOOD NEWS WOULD SPUR A RECOVERY.

RETAIL SPECIAL REPORT

15 JUNE 2017

Below we look at the retailers we believe have potential in tough market conditions. We have come up with some buying opportunities that are suitable for those who are not risk averse.

GODFREYS

Retailer of vaccuum cleaners

In early February, shares in the vacuum cleaner specialist traded at $1.15, before a poor half-year result sent the stock as low as 62c. A subsequent update in late May provided some relief, if only because there was no further earnings downgrade. As it happened, the share recovery proved temporary.

At face value, the share price punishment doesn't fit the crime: the February downgrade forecast EBITDA of $14-15m, compared with the previous $17m. The May update confirmed EBITDA at the lower end of this range.

But the sales trend is not the investor's friend. Godfrey's underlying problem was the 7% decline in same store sales in the second half, although overall sales rose 2.8% to $92.4m. In May the company said second half sales would also be lower, but conditions have ***"stabilised and are showing signs of improvement"***.

The biggest provider of floor care and associated cleaning products, Godfrey's listed in 2014 at $2.75 a share. Performance was poor from the outset, hampered by management's inability to pick up on the trend towards upright 'stick vacs'.

Subsequent remediation efforts revolve around converting 60 company-owned stores to franchised outlets over the next three years. The franchise model involves less capital and the owner-operators have more incentive to succeed than a salaried store manager.

Godfrey's has also refinanced a $30m of bank debt with an entity associated with major holder Arcade Finance.

Godfrey's is now priced for failure – and to an extraordinary degree. Its stock now trades on a multiple of under four times for the current year, falling to 3.5 times in 2017-18. The company is also expected to pay a 2.5c a share final dividend – taking the full year payout to 5c – and a 10.c total dividend in 2017-18. These represent fully franked yields of 8% and 16% respectively. ■

RADAR RATING: Double-digit dividend yields are usually too good to be true and presage an earnings collapse. If management is good to its words, the stock will re-rate to a more normal valuation. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **GFY**

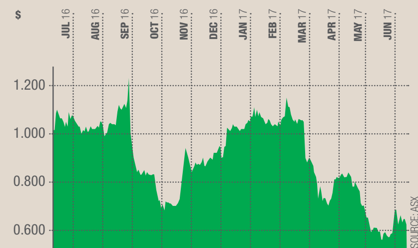
CURRENT PRICE **$0.65**

MARKET CAP **$27M**

NET DEBT **$21M**

DIVIDEND YIELD **7.8%**

GFY - Share Price



SPECIALTY FASHION

Fashion retailing

A number of factors could have caused the decline in the affordable fashion retailer's share price, which includes the failure of a takeover proposal from an investment fund backed by the Qatar royal family. These things happen and it was simply bad luck, but Speciality's challenges remain. These include online competition, a weaker Australian dollar and high property rents; and a bout of Amazonophobia in the Australian market.

This business has to be tightly managed to deliver the right stock for the right customers in the right place at the right time.

After the stock price jumped on news of the proposed takeover by Middle East interests at 70c, we downgraded to Hold, and we did not upgrade until more recently, when the share price declined. ■

RADAR RATING **SPEC BUY**

ASX CODE **SFH**

CURRENT PRICE **$0.36**

MARKET CAP **$69M**

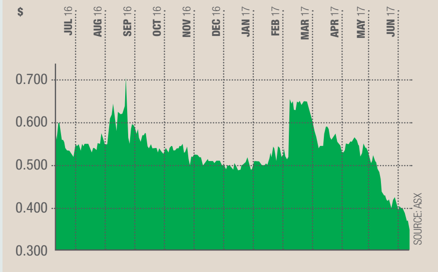
NET CASH **$13M**

TIP DATE **24 FEB 2016**

TIP PRICE **$0.60**

RADAR RATING: Despite the failure of the takeover proposal, we think that the company still has the resources it needs to continue to grow and to deliver improved results reflected in cash flow for shareholders, but its chequered history means that this is by no means a given. SPEC BUY.

* The Idle Speculator owns SFH in his SMSF



NICK SCALI

Furniture retailer

Shares in Nick Scali have continued to fall from their $7 high reached in April. Although the delivery of promised growth metrics impressed at one level, investors have been wary about growth in the future. These investors include us, which is why we have been taking profits.

On the positive front, recent announcements have confirmed FY17 NPAT growth at 40%. This result will be some $3m ahead of our forecasts, and confirms that the company is firing on all cylinders, delivering from new stores as well as the existing network.

Yet, the share price came off quite sharply, prompting an ASX "please explain" notice, which the company responded to by pointing out that earnings remain on target, and the share price stabilised.

We have had a very good run with Nick Scali, introducing it to subscribers at the lowly price of $1.40 in late 2012, less than 5 years ago, taking profits at over $3 late in 2013, before buying back late in 2014 at slightly lower prices for the most recent move, from which we only took profits at our last comment piece in March at $6.59.

We suspect that it is too early to buy back into Nick Scali. The housing boom in Sydney and Melbourne has peaked and an extended period of flat to falling house prices may be ahead, even though increasing volumes at slightly less inflated prices should generate continuing demand for Nick Scali's premium furniture.

The Australian consumer remains careful about their discretionary purchases, and we do not expect Nick Scali's sales to grow as fast over the next 2 or 3 years as they have in the past 3. ■

RADAR RATING: We remain fans of the company and its management as well as its strategy, but think that taking some money off the table remains the right call at current prices. TAKE PROFITS.

RADAR RATING **TAKE $$$**

ASX CODE **NCK**

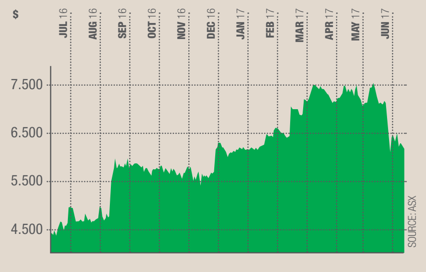
CURRENT PRICE **$6.26**

MARKET CAP **$507M**

NET CASH **$16M**

TIP DATE **18 OCT 2012**

TIP PRICE **$1.40**



RETAIL SPECIAL REPORT

15 JUNE 2017

OROTON GROUP

Fashion goods retailer

After a number of disappointments, we are asking whether the retailer of expensive hand bags and leather goods has a future as a successful independent company. We think that the answer to that question is yes, there are positive signs, but management is critical and at the moment it is impossible to develop new faith. As far as we can see there has not yet been permanent brand damage from the decline in sales or in the share price.

The possibility remains that performance can be reset through a fresh product lineup or an improvement in financial conditions for the key buying demographic. But either execution or demand has gone amiss, and we need to see management's response to these disappointing results, before we can turn positive again.

RADAR RATING: In the meantime, there is still minimal financial risk, and a modest market capitalisation should limit the downside for the share price. HOLD.

RADAR RATING **HOLD**

ASX CODE **ORL**

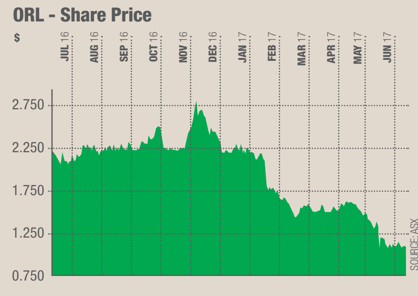
CURRENT PRICE **$1.04**

MARKET CAP **$44M**

NET CASH **$2M**

TIP DATE **22 MAR 2015**

TIP PRICE **$2.56**



RCG CORP

Footwear retailer

Has RCG lost its sole? After being market darling for years, the shoe is on the other foot for the sports footwear retailer after a poor trading update.

As we mentioned in the main piece, RFG blamed sagging sales and earnings on declining consumer confidence, subdued wage growth, housing market concerns and the "perceived" impact of Amazon's entry. In a May 1 update management guided to full-year of EBITDA of $74-80m, compared with the previously guided $85-88m. In the 2015-16 year RCG reported EBITDA of $60m and net earnings of $29.9m. RCG also reported March and April sales were below expectations.

A leader in "athleisure", RCG owns 300 stores operating under a number of shingles. These include The Athletes Foot, Skechers, Platypus, Merrell, Vans and Timberland. RCG also distributes 12 international brands. Last year it spent $200m to buy the Accent Group chain and then followed up with the $105m purchase of the Hype DC chain.

Sports footwear follows US fashions and it's important to anticipate the shifting trends. RCG's great sales hope is You by Skechers, which arrives in July and the company also expects to launch a new Merrell product by the end of the year.

Apart from the aforementioned worries, RCG stock has been weighed down by concerns that the vendors of Accent would dump their stock when they came out of escrow in late May. They have pledged not to and so far they haven't.

Switched-on younger buyers tend to know exactly what sneaker they want to buy, and the more expensive the better if mum and dad are paying. Given this, RCG would appear to be

RADAR RATING **WATCH**

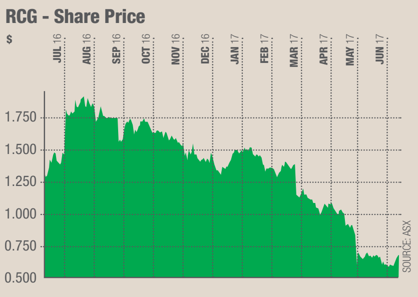
ASX CODE **RCG**

CURRENT PRICE **$0.70**

MARKET CAP **$325M**

NET DEBT **$42M**

DIVIDEND YIELD **7%**



vulnerable to the encroaching Amazon, although there's been nothing to stop customers from buying overseas-sourced sneakers online often at a keener price.

RCG is trading at an almost 40% discount to the overall market. On current year forecasts, the stock is trading on an earning multiple of nine times and a circa 9% yield. The stock has been roundly punished since the May 1 update and it's a moot point how much is attributable to the generally soft conditions and how much to the Amazon threat. As a seller of costly but easily shippable items that tap into US youth culture, RCG is vulnerable to Amazon and it may be trading at a discount for a reason. ■

RADAR RATING: Having a leading brand portfolio doesn't make you impervious to failure. Colorado, the owner of the Williams the Shoemen brand, collapsed in 2011 under private equity ownership, owing $430m. WATCH LIST.

PHARMAXIS

Drug developer

A drug that is 2.2% more effective than the current standard of care doesn't sound too exciting, but in the case of the Pharmaxis-developed Bronchitol it's hoped the improvement is enough to win long-awaited US approval as a cystic fibrosis treatment.

On Tuesday the biotech reported that a 423-patient clinical study met its "primary endpoint" of detecting some improvement in lung function, so a 2.2% gain is a bare pass. Given Bronchitol already is approved here and in Europe, the $33m study was pitched solely at supporting a new drug application to the US Food & Drug Administration, which was intimately involved in the trial design, including selecting the endpoints.

Pharmaxis' partner in Bronchitol's development, the Italian drug company Chiesi, owns the US rights to the drug and funded all but $4m of the trial cost. Despite the so-so results, Chiesi will forge ahead with an FDA application, and for Pharmaxis, there's only upside because it bears no more costs. If the FDA approves the drug, Pharmaxis receives a $US10m ($13m) milestone payment from Chiesi and double-digit royalties on sales.

Pharmaxis' managing director Gary Phillips told Under the Radar that while Bronchitol sales elsewhere have been modest, the drug is expected to generate cash from this year onwards. Unlike most biotechs, Pharmaxis has substantial cash reserves stuff thanks to a separate partnership with the German giant Boehringer Ingelheim.

In May 2015 Boehringer acquired the rights to the investigational anti-inflammatory drug PXS-4728A, which Boehringer is exploring to treat the common liver condition non-alcoholic steatohepatitis (NASH). Boehringer has confirmed it will start a phase two trial this month, triggering an 18m Euro ($27m) payment to Pharmaxis. If the drug is ever approved for NASH Pharmaxis pockets as much as $288m. Boehringer is also expected to announce trials for a second indication, which will trigger another $14.8m milestone. ■

RADAR RATING: Pharmaxis has $26m of cash at the end of the March quarter, with the Boehringer milestones likely to swell this to $68m by the end of the year. Given the company's $80m market capitalisation, little upside from any of the drug programs has been factored in. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **PXS**

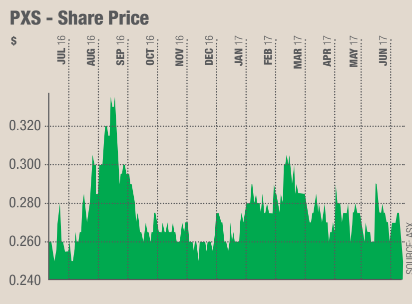
CURRENT PRICE **$0.25**

MARKET CAP **$80M**

NET CASH **$26M***

TIP DATE **30 MAR 2016**

TIP PRICE **$0.245**



*As of March 31 and excluding expected milestone payments

LOGICAMMS

Engineering Services

Logicamms has perennially managed to disappoint us, and this week was no exception. Our recent coverage upgrading the stock to a Speculative Buy triggered disclosures from within the company that all was not necessarily well behind the scenes, which included that its hopeful second half prognosis would not be delivered. When we put the stock on a speculative buy rating, we specifically suggested buying small quantities, and the share price reaction is the kind of move that can easily happen to a smaller company with a downgrade.

There was some good news hidden inside the otherwise dour announcement, which emphasised that an intangible write-down was all but inevitable in the full year results. At the same time, the company suggested it was targeting flat revenues in FY18, around $80m, with targeted mid-digit EBITDA margins suggesting the stock is priced on a multiple of single digits in depressed conditions. ■

RADAR RATING **HOLD**

ASX CODE **LCM**

CURRENT PRICE **$0.20**

MARKET CAP **$16.5M**

NET CASH **$5.6M**

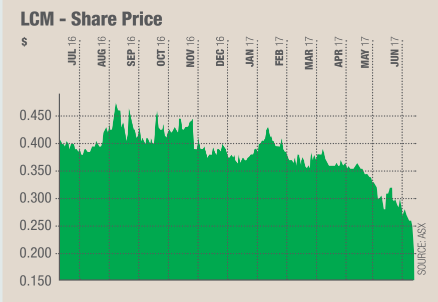
TIP DATE **26 NOV 2014**

TIP PRICE **$0.71**

RESEARCH TIP UPDATES

15 JUNE 2017

RADAR RATING: The possibility remains that sentiment could improve, but our upgrade last week was a mistake, and we downgrade to Hold again until we see the accounting for the second half in the group's final result. HOLD.



BEST MONEY MAKING IDEAS

AS AT 14 JUNE 2017

**Return includes dividends and is after brokerage*

THIS LIST IS IN ALPHA ORDER.
PLEASE GO ONLINE TO CHECK OUR FULL COMPANY RESEARCH.

COMPANY	INDUSTRY	MARKET CAP $M	DIVIDEND YIELD (%)	LAST PRICE $	RETURN %	WHY WE LIKE IT
GALE PACIFIC (GAP)	Manufact.	115.1	5.3	0.38	72.4	The manufacturer of shade cloth is in the middle of a successful turnaround program under new management. Both its distribution and its production processes are being consolidated to produce a slimmer operating structure. Plus it has big opportunities to increase sales in export markets - the US in particular where it has an American sales force. This stock is trading at below market multiples and is a second half story.
INGENIA COMMUNITIES (INA)	Property	557.3	3.8	2.70	5.3	Because of its use of new technology and an innovative funding scheme for retirees, the retirement community specialist is a value proposition that is almost without peer. The trust continues to be good value because its weakness reflects the market's view that its expansion is limited. We beg to differ. This group is in a sweet spot and trading on a PE of 12 times and on a dividend yield of almost 5% it continues to justify a place on our Best Ideas.
PHARMAXIS (PXS)	Biotech	78.8	-	0.25	70.3	In short: lots of cash and multiple clinical prospects backed by two global pharma partners. Pharmaxis has received a hefty upfront payment from Boehringer, which acquired the rights to the compound PXS-4728A. Boehringer has confirmed it will undertake a phase-two clinical study to treat the common liver condition non-alcoholic steatohepatitis (NASH). This will trigger a $27m milestone payment to Pharmaxis, as well as a further $15m payment if Boehringer pursues a second indication.
SOUTHERN CROSS ELECTRICAL (SXE)	Mining services	85.6	2.5	0.55	60.6	The electrical instrumentation specialist now has a commanding position in big projects in both the West and East of Australia. Its stock has pulled back after an a $54m acquisition and associated capital raising and no interim dividend. We think it's a buying opportunity because the stock is cheap and management have shown over a long period of time that they have the nous to grow earnings and increase dividends.
TASSAL (TGR)	Food	693.4	3.6	4.13	7.0	Tåhe hidden asset in this Tasmanian company is its under appreciated wholesale seafood operation, which it purchased from the Costa family. The company will be working hard to integrate this business but to outsiders it will not appear that much is happening. That is, until the financials start making this stock look really cheap and fund managers hop back in. Managment has performed over a long period of time and we believe that periods of share price weakness should be taken advantage of.

* We have removed Capral (CAA) from the best ideas after recent profit warnings. We believe that it will take longer than previously expected to improve its profitability. We remain fans of the company and retain our Buy rating. We have replaced Capral with Pharmaxis (PXS), which also has net cash, but more potential in the short-term, albeit at higher risk.

under the radar report

SMALL CAPS

15 JUNE 2017

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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