under the radar report

SMALL CAPS

ISSUE 252
27 JULY 2017

BIOTECH SPECIAL REPORT PART 2

Nanosonics has long been a favourite company, but we've viewed it as too expensive. Currency has played a major part in its stock being down 30% and we think that this provides the buying opportunity we've been waiting for.

Currency is one of the great known unknowns in the investing world. Many people and countries for that matter have been burned by currency speculation. At Under the Radar we like to look through the currency effect to analyse the underlying business. After all, we don't base our investment philosophy on currency. Because we like this business, the exaggerated reaction to the currency move provides a buying opportunity, in our view.

Tim Boreham delivers a must read rundown on the 7 Deadly Sins of investing in the sector, which gives you a good understanding of the pitfalls and erroneous assumptions that are often made in search of the super returns Biotechs can deliver.

We also cover some interesting stocks in our updates section, which include the nickel miner Panoramic (PAN), the encapsulated chocolate manufacturer Yowie (YOW) and the IT chameleon Melbourne IT (MLB).

It is a big issue because Biotech is one of the areas in which Under the Radar has consistently provided big returns over the past six years. ■

Richard Hemming
Editor

the issue

Small Talk

"Biotech companies are prone to playing up the overall global value of their target market, usually expressed in billions of dollars."

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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BIOTECH SECTOR SPECIAL REPORT PART 2

Knowing what to avoid is as important as knowing what to look for in the high risk world of biotechnology. In this instalment, long-time sector watcher and investor Tim Boreham highlights the seven deadly 'sins' that investors should avoid in their quest to discover the next Cochlear or ResMed.

A QUICK RECAP ON PART 1

In the first of our two-part series of medical device and diagnostic stocks, Under the Radar highlighted the success of this ASX-listed sector relative to drug developers. Reasons include a faster and cheaper regulatory path to market, less onerous clinical trials and a more assured outcome, because of lower regulatory hurdles.

That's not to say that all device and diagnostic companies have succeeded. Some have stumbled at the initial regulatory hurdles, while some have failed to secure commercialisation deals. Even the highly successful Cochlear has had glitches including a product recall that cost the company $138m. But on the basis of risk reward, we have found that the payoffs for a successful foray into medical technology have had much more success. This has been the case with some off our biggest wins on Sirtex Medical (SRX), ImpediMed (IPD) and Medical Developments (MVP) the latter two are covered below. We also have confidence in our latest stock recommendations, LBT Innovations (LBT) which we covered in part 1 two weeks ago, and in Nanosonics (NAN) which is covered below.

THE SEVEN DEADLY BIOTECH SINS

First we highlight the seven traps investors often fall into when making erroneous assumptions about the biotech stocks prior to investing their hard earned cash.

ASSUMPTION ONE: *"An impressive 'addressable market' is all that counts"*

Biotech companies are prone to playing up the overall global value of their target market, usually expressed in billions of dollars. The implication is that if a particular device can snare, say a 5% share that's worth a poultice in the context of the company's modest market capitalisation.

But device stories don't play out that way: they either become the accepted 'gold standard' of care, or fizzle out altogether. For instance, the heavily backed iSonea developed a phone app based monitoring device to tackle the $60bn a year global asthma market. As it happens, asthma sufferers weren't willing to pay $150 for the requisite device that attached to the phone and the local launch failed.

It is crucial that investors look through the headline hype and focus on how well placed the company is to get its product to market in the first place. Factors include cash adequacy, a clinical program that yields results and partnering deals with big device companies that are more than loose collaboration arrangements.

ASSUMPTION TWO: *"The more complex the technology, the more likely the success"*

While complex IP might reduce the chances of the technology being knocked off or emulated, device makers should really be aiming for simplicity of use.

Nanosonics CEO Michael Kavanagh says the "under the hood" stuff may well be impressive, but in reality nurses and ancillary staff change from shift to shift and it is expensive to train everyone to use a complex gadget: "customers are interested in the outcome, not how it is delivered." His company designed its medical probe sterilisers to be used at the press of a button.

Similarly SomnoMed (SOM) which we covered last week, is making impressive progress with its oral devices to treat sleep apnoea, even though they are not too different to a humble mouthguard. Even the successful ResMed (RMD) experiences a high rejection rate in terms of users discarding the masks after a week or so because they are too uncomfortable.

The old rule of thumb of investing applies: if it's not something your mother would understand, it's not something other investors (and even clinicians) will 'get' either.

ASSUMPTION THREE: *"If it's an innovative product, the economics don't matter"*

Device makers need to pass muster with financial gatekeepers including hospital boards and procurement committees and health insurers. All will demand to know how using the product will reduce their expenses, for example, by reducing patient readmission rates.

Whether public or private, the insurers are not exactly rushing to assign new reimbursement codes. Obtaining one is just as important as winning regulatory approval in the first place. ImpediMed (IPD) forged the way for initial sales by winning public health insurance reimbursement early in the piece.

But reimbursement doesn't always pan out as expected. Genetic Technologies (GTG) which markets a test for inherited breast cancer, moved to a 'private pay' model because insurers increasingly were unwilling to stump up the per-test list price of US$2,795 (A$3,519).

ASSUMPTION FOUR: ***"Clinicians will rush to adopt a new device"***
Many device makers have under estimated the risk-averse tendencies of medical specialists, which means they will continue to use manual procedures because that's what they're used to. Device makers need their product to be strongly advocated by the "key opinion leaders". For example, New Zealand breast cancer diagnosis play Volpara Health Technologies (VHT) cites the patronage of key breast cancer centres.

Clinicians are also subject to a professional form of peer pressure called peer review. If the device gets a good write up in a respected publication such as the Lancet, they're more likely to take notice. Ditto, if the company wins a respected podium speaking spot at a conference such as a recent US oncology conference attended by thousands of specialists. Investors don't have to read The Lancet, but they should keep an eye on who is singing a company's praises and why. Celebrity endorsements, such as British racing car driver Pippa Mann's support of Genetic Technologies, don't cut it.

ASSUMPTION FIVE: ***"Regulatory approval is a 'tick the box' exercise"***
There's a long history of device companies assuming an easy ride from the regulators but these bodies, most notably the powerful US Food & Drug Administration, can be quite fickle. The regulatory bar is raised for devices that are actually inserted into the body. "People under estimate the time it takes to get it right," says Nanosonics' Kavanagh. "There are lots of documents and lots of people writing them. The good news is the work for one approval can be leveraged." The FDA classes medical devices under three categories, with category one deemed the least risky, like dental floss. Class two devices include condoms and need to be reasonably safe and effective. While class three such as heart valves are subject to much more rigorous assessment, including the need for clinical testing.

The FDA has still not approved GI Dynamics (GID) endoscope device for type 2 diabetes and obesity. Australia's Therapeutics Goods Administration had approved the device, but the regulator cancelled its registration last October, citing compliance issues. A device or drug is worth nothing until it wins approval from the key gatekeepers.

ASSUMPTION SIX: ***"US companies list here for our benefit"***
In recent years the ASX has been a popular vehicle for a host of US-based device developers including Reva Medical (RVA), GI Dynamics (GID), Airxpanders (AXP), ImpediMed (IPD) and Visioneering (VTI). Their decision to list on the ASX is most likely to be driven by the prohibitive cost of a NASDAQ listing and possibly a lack of venture capital funding. They also see Australian investors as willing to take a punt because they are familiar with speculative resources stocks. "In the US, anything with a market valuation of under $500m struggles to elicit interest," biotech company director Zita Peach says. "The listed companies there are generally later stage with FDA approval."

Investors should remember that none of these are reasons to invest in a US-based biotech. Cynics suspect that in some cases the company came here as a last resort because they would not have been able to raise capital in the US.

The performance of the US stocks has been patchy: shares in breast reconstruction play Airxpanders (AXP) almost tripled after listing in mid 2015, while GI Dynamics (GID, gastric barriers) and Reva (RVA, bioreabsorable stents) have tanked.

ASSUMPTION SEVEN: ***"Distribution deals are always positive"***
Almost invariably, an ASX-listed device developer won't have access to the level of funding needed to commercialise a product and then distribute it globally. Most try to get as far as they can before wooing a deep-pocketed partner. Some companies have been successful at this such as Universal Biosensors that is partnered with both Lifescan, a Johnson & Johnson subsidiary, as well as Siemens.

Distribution deals are not necessarily for life and most contain exit clauses favourable to the big partner. "A big issue is the sales force needs to be well remunerated to stay interested in the product, or else they'll drop it," says one biotech observer. In the case of LBT Innovations (LBT) which we covered two weeks ago, French partner bioMerieux handed back the rights to LBT's agar plate testing technology. Nanosonics (NAN) dropped GE Healthcare as an exclusive US distributor in favour of its own sales force, although GE still distributes its product. For investors, a distribution deal may in fact be a cue to exit if the share price soars on the announcement.

NANOSONICS

Shares in the sterilising equipment specialist have declined 30% since early May partly because of the appreciating Australian dollar, yet the company is as profitable as ever.

A GLOBAL SUCCESS STORY

Regulators globally are on the warpath against disease control and are mandating higher standards to prevent ailments such as HPV (human papilloma virus). This should not surprise given there are around 200,000 healthcare associated infections occurring in Australia alone every year, many of which are fatal.

Nanosonics has been at the front line in this war for six years, with its highly specialised automated sterilisation technology used for ultrasound probes.

Over the past six years the group has gone from a standing start to selling some 12,300 of its Trophon EPR device to hospitals in Australia, the US, the UK, Germany and France. North America accounts for 10,700 or close to 87% of these. The Trophons are also approved for sale in Singapore, South Korea, Hong Kong and Japan.

US-LED GROWTH POTENTIAL

Crucially, the med tech group's product reduces costs for cash-strapped hospitals. The company cites an addressable market of 120,000 units globally, including 40,000 in North America.

To seek out this potential Nanosonics has a direct sales staff of 30, but also distributes through names such as GE Healthcare, Siemens, Philips, Samsung and Toshiba. After commercialising its product in Australia, the bulk of the firm's efforts are directed at the US, where it has been achieving significant success.

A CURRENCY-LED BUYING OPPORTUNITY

Nanosonics manufactures its product at Lane Cove in Sydney, so significant fixed costs are in Australian dollars, while over 80% of its sales are in US dollars. Although the company has currency hedging in place, there is significant leverage to profits when the currency moves. Hence we've seen that when the US dollar has depreciated against the Australian dollar by almost 8% in the past couple of months, Nanosonics' stock has been hit much harder.

From our experience, currencies rise and currencies fall and at Under the Radar we don't base our investment philosophy on currency. Because we like this business, the exaggerated reaction to the currency move provides a buying opportunity, in our view.

PRODUCING STRONG FREE CASH FLOW

Nanosonics' revenues are split between capital sales (the actual device) and accessories; as well as recurring annuity items (consumables and service contracts). Whether the currency goes up or down, it doesn't alter the fact that this business is producing positive cash flow. In the first half to 31 December free cash flow (operating cash minus investing spend) was up 19% to $8.2m, and the group had cash of just under $57m and no debt.

We expect the group to post a $4.6m net profit in 2016-17, rising to circa $11m in 2017-18 and $16m in 2018-19.

RADAR RATING **SPEC BUY**

ASX CODE **NAN**

CURRENT PRICE **$2.36**

MARKET CAP **$703M**

NET CASH **$57M**

BULL POINTS

- BIG PROFIT MARGINS
- MEETS CLINICAL NEED
- REDUCES COSTS FOR HOSPITALS

BEAR POINTS

- EXCHANGE RATE RISK
- THREATS FROM RIVAL PRODUCTS

WHY WE LIKE IT

The maker of automated sterilising units for ultrasound probes has successfully commercialised its technology the "Trophon EPR" device. Yet its shares have declined by more than 30% since hitting a record high of $3.35 a share on May 10 this year, presenting a buying opportunity. Close to 90% of Nanosonics revenues are in US dollars, which has declined almost 9% against the Aussie dollar since that time. We think the currency effect is temporary (yesterday the Aussie declined after weak inflation data) but what isn't is the quality of Nanosonics' business. Trophon EPR units meet a real clinical need and the device is readily understandable to investors and clinicians. The bottom line is that Nanosonics is also highly profitable, with a gross profit margin of over 60%, which means sales growth will go straight to the bottom line.

WHAT'S NEW

In June, Nanosonics announced a tie-up with infection prevention giant Sakura Seiki to sell its Trophon EPR devices in Japan, the world's second biggest healthcare market behind the US. Sakuri Seiki is a well-known name in infection control and it's expected the parties will carry out local clinical trials to validate the benefit of the units. Japan has an addressable market of some 2000 units, with 10,000 ultrasound devices sold across 8500 hospitals.

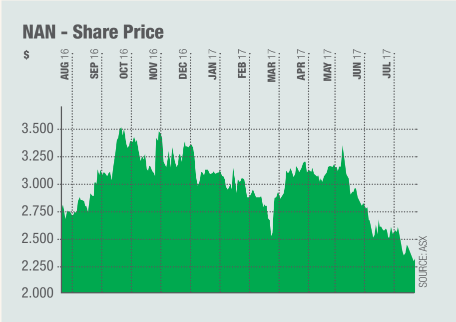
THE RISE OF NANOSONICS AND ITS TROPHONS PRODUCT

Until now, disinfection has required a bucket of chemicals in an isolated room. Some clinicians complain they can only fit the shaft of the probe in to the bucket. Not only does the process take longer and is less effective, but it poses obvious occupational health and safety threats.

About the size of a briefcase, the wall-mounted Trophon units use disposable canisters containing a hydrogen peroxide solution. This biocide is converted into droplets and sprayed as a fine mist in the disinfection chamber. Only water and oxygen are produced as by-products.

Disinfection and labelling takes place within ten minutes, compared with the current 'soak in solution' method, which does not appear to be a solution at all. Trophons are also compatible with some 1000 different types of probes.

Nurses and assistants can use the Trophon with the press of a button. "You want as much automation as possible to eliminate the possibility of human error," CEO Michael Kavanagh told Under the Radar Report. "There might be complexities under the hood but at a customer level the beauty always is in the simplicity."



A FINAL WORD ON VALUE

Despite Nanosonics shares retreating by almost-one third from their May 2017 peak, Nanosonics still sports a $700m market valuation. The shares currently trade on a lofty multiple of around 55 times, but this is projected to fall to 24 times in the current year and 16 times in 2018-19.

Given the global Trophon rollout is only just gathering steam, Nanosonics has a long way to go. ■

> **CRUCIALLY, THE MED TECH GROUP'S PRODUCT REDUCES COSTS FOR CASH-STRAPPED HOSPITALS. THE COMPANY CITES AN ADDRESSABLE MARKET OF 120,000 UNITS GLOBALLY, INCLUDING 40,000 IN NORTH AMERICA.**

UNIVERSAL BIOSENSORS
Blood monitoring devices

The blood diagnosis group's June quarter update didn't impress investors because the company appears to be going backwards in terms of revenue flowing from distribution partner Johnson & Johnson subsidiary Lifescan for its One Touch Verio diabetes testing strips.

While that's true to an extent, there's a longer game to be played with this one.

UBI reported second quarter sales fees of $4.67m from Lifescan, 14% lower than a year ago and 30% down on the first (March) quarter. This was despite strip volumes rising 5% to 422m.

The discrepancy relates to the terms of the Lifescan deal, which entitles UBI to US1.25c (A1.58c) for the first half a million strips, supplied to Lifescan in a year. Thereafter, the rate drops to US75c.

Because of a ramp-up in volumes, this threshold was reached earlier in 2016-17 than in the previous year. In pushing UBI shares 8% lower, investors overlooked the encouraging early sales of its Xprecia Stride strips, which monitor blood-thinning medications. UBI's partner for this side of the business, Siemens, only started selling in the US during the quarter and this generated $1.43m of fees to UBI.

In the meantime, the ungeared UBI's cash has increased to $19.6m from $17.78 at the end of the March quarter.

UBI shares are adrift of our 43c tip price in mid May, but investors should hang in there because the company is likely to receive a large upfront payment.

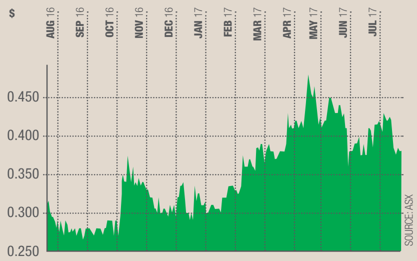
That's because Lifescan is likely to avail of an option to terminate its profit-sharing agreement that results in quarterly service fees being paid to Universal. The formula is complex and depends on how many Verio strips (supplied by Universal) are sold. But on current indications Universal eventually should expect a lump sum payment of $80-90m.

The Xprecia Stride business has been valued at $60-90m, excluding the growing home-testing sector that Universal plans to enter in its own right.

RADAR RATING: The combined worth of both businesses is between $140 and $180m, which is at least twice Universal's current valuation. SPEC BUY.

RADAR RATING **SPEC BUY**
ASX CODE **UBI**
CURRENT PRICE **$0.365**
MARKET CAP **$64M**
NET CASH **$19.9M**
TIP DATE **11 MAY 2017**
TIP PRICE **$0.43**

UBI - Share Price



MEDICAL DEVELOPMENTS
Speciality pharmaceutical

Medical Developments has been one of the best performing stocks for Under the Radar Report, with the stock soaring from a price close to $1 where we first recommended subscribers Buy. Above $6, we recommended subscribers take profits about a year ago, and the stock has been consolidating its position up and down around $5 since.

At these levels we think that the stock is good value because it has great products for which there is high demand, and is supported by a strong proprietary manufacturing know-how. The company has net cash, a solid earnings base and is paying dividends, albeit at very low levels. The speculative tag is justified because there are inherent risks in medical technology, particularly in the authorisation process it is going through in the US market for its flagship Penthrox "green whistle" product, which is being successfully rolled out around the world.

RADAR RATING **SPEC BUY**
ASX CODE **MVP**
CURRENT PRICE **$5.14**
MARKET CAP **$303M**
NET CASH **$5.5M**
TIP DATE **14 MAY 2014**
TIP PRICE **$1.18**

Speaking of which, MVP should report solid progress in the UK, Ireland and other European territories as well as Australia and New Zealand over the past 6 months. Earnings and sales growth are likely to be lumpy, but we expect the company to remain operating cash flow positive, although it is likely to need regular injections of relatively minor amounts of capital to take it through the US and other countries' regulatory approval processes for Penthrox.

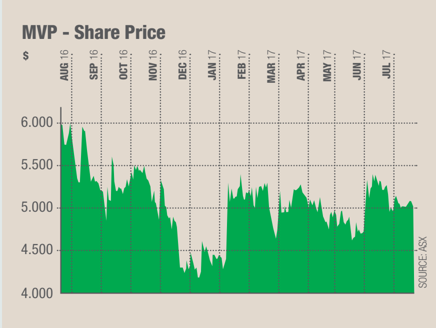
MVP has estimated the potential for Penthrox, based on usage for acute pain, acute anxiety, breakthrough pain and home use markets, at well over $10bn globally. Even though the IP in its underlying compound is unprotected, the manufacturing process of the Green Whistle and the delivery mechanism are patented, and Penthrox has over a decade of experience.

As a sign of the group's ambition, management expect to obtain approval to sell Penthrox in more than 30 countries over the next 18 months. Manufacturing expertise is critical for management to deliver multiple new market launches in bulk at relatively short notice.

Away from Penthrox, MVP is pursuing the respiratory devices market, and is now selling its antistatic space chamber devices in up to 10,000 pharmacies cross the US, with full reimbursement from healthcare funds, and sales in 20 other countries. There are apparently 67,000 US pharmacies so there is a significant market still to secure. The existing competition advertises extensively on television, so marketing will be critical.

It is an astonishing achievement for a relatively small management team in Victoria to have got this far without significant external capital. One risk factor may be management bandwidth for the global business, even if the partnership strategy currently being pursued is executed flawlessly.

RADAR RATING: We still think the risks are outweighed by the potential rewards in the medium term. SPEC BUY.



IMPEDIMED
Diagnostic devices

RADAR RATING **TAKE $$$**
ASX CODE **IPD**
CURRENT PRICE **$0.69**
MARKET CAP **$258M**
NET CASH **$54.8M**
TIP DATE **09 APR 2014**
TIP PRICE **$0.20**

ImpediMed has disappointed investors with quarterly revenues that fell short of expectations, but the real valuation driver is eventual take-up of the company's improved device to measure fluid status and body composition. On Monday the group reported June quarter revenue of $1.33m, 18% higher than the March quarter. The market expected sales of around $2m. The quarterly result took 2016-17 revenues to $4.8m, from $4m previously. Its cash balance declined to $54.8m from $62m previously.

To date, most of ImpediMed's sales have come from its L-Dex devices to measure fluid-build up in patients suffering from lymphedema, a common side effect of cancer. The company reports 110 US medical sites have adopted L-Dex.

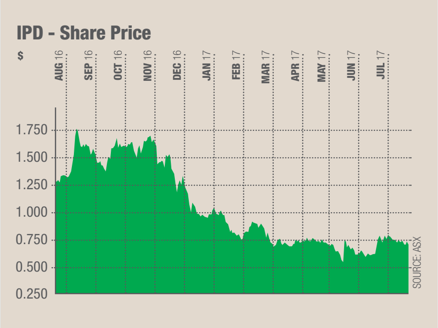
The challenge now is to convert them to Sozos, a more sophisticated version of the device. The Sozos are approved in Europe to monitor not just lymphedema but fluid-build up in heart failure patients. The company this month failed for FDA clearance.

A key to Impedimed's success to date has been its ability to win reimbursement status from the public US insurers. It's expected that private insurers will also get on board.

It's worth noting that the history of biotech devices shows that even ground-breaking instruments won't be commercialised unless they are affordable to hospitals, clinicians and patients.

The company cites likely upcoming positive catalysts including FDA clearance and the first results of a post approval clinical trial that enrolled 1100 cancer patients. It's hoped the results will encourage private insurers to cover the devices. ■

RADAR RATING: We recommended investors take profits at 79c and we maintain that stance. While FDA approval would be positive fore the shares, revenues are likely to remain modest and the company is not expected to turn a profit for some years. TAKE PROFITS.



ATCOR
High blood pressure management

With the blood pressure monitoring device maker's shares languishing at record lows, management has flagged a third-party review to consider "all options including joint ventures, licensing, acquisitions, sale or other capital solutions." Ominously, this acknowledged the likely need for a capital rising in the current year.

AtCor has been a disappointment, with sales of its SphygmoCore units falling short of expectations. The units monitor blood pressure non-invasively and more accurately than the standard method of blowing up a cuff around the arm.

The issue is economics. With US reimbursement set around $US18 per test and the units costing $US15,000, there hasn't been enough incentives for smaller GP clinics to make the investment.

Sales to pharma companies have been less than expected because of the slow-down in new hypertension drugs.

On July 12 AtCor announced three clinical trial support contracts worth a collective $800,000, which should at least help to keep the lights on. ■

RADAR RATING: With the share price hovering around 4c, this patient is in critical care. We move to a sell because any capital measure is likely to involve dilution. SELL.

RADAR RATING **SELL**

ASX CODE **ACG**

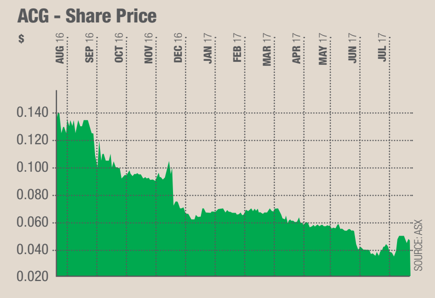
CURRENT PRICE **$0.05**

MARKET CAP **$12M**

NET CASH **$1.7M**

TIP DATE **09 DEC 2015**

TIP PRICE **$0.20**



RESEARCH TIP UPDATES

27 JULY 2017

YOWIE GROUP
US Chocolate manufacturer

Yowie's share price reacted badly to news that the company's USA CEO was leaving, and the job will be assumed by the company's chief operating officer Mark Schluesser. At the same time, management released FY17 figures for net sales revenue growth of 51%. This was short of the 55% indicated only a month ago and suggested that the company is either seeing things through rose tinted spectacles, or doesn't have as close control as might be expected.

When we upgraded again to Speculative Buy in June, we said "… a further downgrade in fourth quarter sales expectations reinforced market concerns, so we may still be too early." Sure enough, we were too early.

Management cited new competition at the checkout shelves of its largest customer, Walmart, when admitting the problems resulted in flat US Q4 net sales against the same period in FY16. The quarterly cash outflow was $2.3m, which if continued at the same level over the course of a full year would put a very large dent in the cash pile of $26.9m. And with Q4 Walmart sales down 15% over FY16, there must be an increased risk that Yowie's product might be deselected.

The company is still forecasting positive FY18 EBITDA excluding certain items, which would be a terrific achievement. If growth is strong towards the end of FY18 the stock should move north. The problem is that the first quarter is going to be single digit growth, so shareholders are going to have to hold faith through the launch of a Series 3 chocolate product in September, which is expected to drive the growth.

There are various other marketing initiatives intended to achieve the revenue growth rate of 55% to 70% still forecast for FY18, though now off a slightly lower base because of the FY17 fourth-quarter shortfall.

Yowie has already managed to achieve substantial retail distribution, which is critical. Now, the business needs more successful engagement to convert occasional impulse sales into more dependable repeat business.

If you exclude Yowie's net cash, the stock price values the business at one times FY17 sales, not expensive at all if growth resumes. ■

RADAR RATING: Yowie's five strategies are US and International expansion, talent development, innovative marketing, efficient manufacturing and longer term entering new categories. The risks are significant, but the upside possibility is still sufficient to justify a small position. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **YOW**

CURRENT PRICE **$0.25**

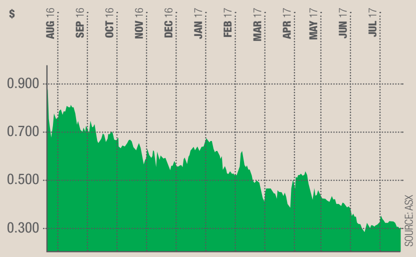
MARKET CAP **$55M**

NET CASH **US$27M**

TIP DATE **29 JUN 2017**

TIP PRICE **$0.31**

YOW - Share Price



RESEARCH TIP UPDATES

27 JULY 2017

MELBOURNE IT

IT services

Melbourne IT had a good few months until the last couple of days when the stock stumbled for no reason other than people wanted to bank some profits. We understand that well because, with the stock above $3, we had also been eyeing off the profits, wondering whether this would be a time to bank some. Since we made the decision to write about it, our opinion is now coloured by the fact that the stock has fallen 10% in 2 days, and we missed the top.

In these circumstances, we can only go back to the fundamentals, and point out that the company has forecast earnings per share of around $0.17 to $0.19 this financial year to December, and at a multiple of 14-16 times, the price is less inflated than many.

These numbers assumes that the business has sustainably managed to roll up the elements of the various acquisitions, which include Uber Global, Outware. It also assumes that both major divisions are benefitting from acquisitions, although execution and integration risks remain. And as we said in our last note, we question whether the recently acquired WME business has a significant competitive advantage.

Melbourne IT should be able to pay a substantially higher dividend for FY17, which may reach more than 12 cents based on a payout ratio of 55%-75%. A 4% yield is a nice bonus in a growth company, and the shares could be held. ■

RADAR RATING: Those of a more nervous frame of mind may already have taken profits in the last couple of days. Those who haven't, but retain a level of nervousness about embedded gains, might take their original investment out. TAKE PROFITS.

The Idle Speculator retains a historic holding in MLB in his SMSF.

RADAR RATING **TAKE $$$**

ASX CODE **MLB**

CURRENT PRICE **$2.74**

MARKET CAP **$323M**

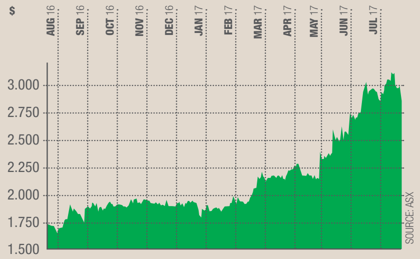
NET DEBT **$60M EST**

TIP DATE **14 DEC 2011**

TIP PRICE **$0.59***

* After 54 cent capital return AND 25 cent special dividend

MLB - Share Price



PANORAMIC RESOURCES

Nickel miner

Previously a poor-cousin by product of Panoramic's WA nickel operations, cobalt will play a lead role in any decision to re-open the company's underground Savannah mine that was put on care and maintenance in May last year. The miner last week released an optimised feasibility study that favourably tweaks the assumptions of February's initial study.

The new study has decreased assumed cash costs by $US3.30 ($4.20) a pound to $US2.40/lb, based on higher production over a shorter mine life (8.5 years against ten years previously). While the initial study assumed an average nickel price of $US6/lb, the updated study is based on the prevailing spot price of around $US4.20/lb. and a breakeven price of $US3.75/lb.

Underpinning the economics, cobalt output has been upped from 670 tonnes a year to 760t. The spot price for the battery metal stands at $US27.50/lb, compared with $US14.40/lb in February. While cobalt and copper credits combined accounted for 20% of the mine's revenue in the past, cobalt alone is projected to contribute 25%.

We believe that there is scope to reduce costs further at the mine, located in the East Kimberley region. Options include using new equipment such as smaller electric trucks and automated vehicles. He expects diesel vehicles to be phased out of underground operations, obviating the need for expensive ventilation.

RADAR RATING **HOLD**

ASX CODE **PAN**

CURRENT PRICE **$0.24**

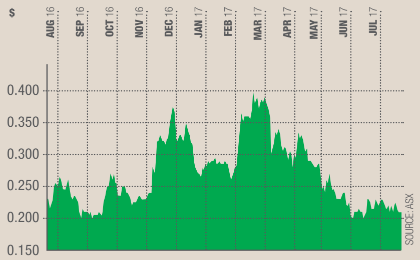
MARKET CAP **$103M**

NET CASH **$12.8M**

TIP DATE **14 JUL 2016**

TIP PRICE **$0.20**

PAN - Share Price



Nickel, by the way, is also a key battery ingredient but has escaped the hype enveloping the cobalt, lithium and graphite markets.

Allowing for Panoramic's cash of $12.8m and the $11m value of its 51% stake in Horizon Gold, Panoramic shares equate to the estimated $70m net present value of a reborn Savannah. The group also holds other assets including the Lanfranchi copper-nickel mine near Kambalda, which has also been mothballed and the Thunder Bay North platinum group metals project in Canada. Rio Tinto is farming in to this project to earn 70%. ■

RADAR RATING: We last rated Panoramic as a hold at 32c in mid April. We retain the call, if only because the company is well paced to deliver cobalt to a hungry market in a shorter rather than later time span. Investors should expect a small capital raising if the Savannah re-start goes ahead. HOLD.

BEST MONEY MAKING IDEAS

AS AT 26 JULY 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
INGENIA COMMUNITIES (INA)	Property	535.6	3.9	2.60	1.4	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.
MYNETFONE (MNF)	Telecom.	346.8	1.5	4.77	271.6	We have been keeping a close eye on MNF because we like its business model – high growth both at the top and bottom line; low fixed costs; innovative; lots of cash and paying dividends. The problem is that it was too expensive! With some selling related to a big shareholder exiting because of a change in personnel, we believe that there is a buying opportunity for subscribers.
MAYNE PHARMA (MYX)	Pharma	1545.7	-	1.01	204.5	This is a well run company which expanded quickly at the top of the cycle. The shares have more than halved, which is why we see value. The group's balance sheet is not stretched because of capital raisings but it does have some 1.6bn shares on issue. We think it's speculative but worth a punt at current prices.
PHARMAXIS (PXS)	Biotech	84.6	-	0.27	82.8	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	91.2	2.4	0.57	69.1	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.
THE REJECT SHOP (TRS)	Retail	138.9	8.9	4.83	32.3	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 worth merely a year ago, we believe the stock has been oversold and a modicum of good news would spur a recovery.

BEST IDEAS

27 JULY 2017

COMPANY	INDUSTRY	MARKET CAP $M	DIVIDEND YIELD (%)	LAST PRICE $	RETURN %	WHY WE LIKE IT
VILLAGE ROADSHOW (VRL)	Tourism & Leisure	645.6	7.0	3.99	0.8	The theme park and cinema owner has been through a tough period where attendances have fallen and profits have declined even further. Cyclone Debbie in North Queensland, the tragedy at Dream World on the Gold Coast and poor weather in Western Sydney have hit the bottom line hard. But we think that the group's poor returns are temporary. Our optimism is high because the company will reduce its debt by $175m from the sale of its cinema joint venture in Singapore. Village also has a hidden asset in the form of its 20% holding in the film distribution group VREG, which could be worth a great deal.

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