under the radar report
SMALL CAPS

ISSUE 254
10 AUG 2017

WHAT RESOURCES SLUMP?

In this week's issue we drill down into an area that isn't covered much anywhere anymore: mining services. As well, reporting season is heating up and we cover numerous companies, both pre-views and stocks that have reported.

Mining contractors are usually among those that report towards the end of the reporting season, which leaves many value investors like us on edge. What's interesting is the effects of changes at the big end of town. Australia is producing mineral commodities in record volumes as we discuss in our upcoming **Big Value** publication. The profit reporting season will reveal whether the glory is rubbing off on the broader mining services sector.

Knowing when to fold them is a crucial factor when it comes to investing in mining services stocks. We have made some mistakes in this sector, paying up too much during the peak of the construction cycle.

But just as importantly, we've had even more big wins. We doubled and tripled our money on stocks including GR Engineering (GNG), MACA (MLD) and Southern Cross Electrical (SXE) – and that's because we took profits.

The week we cover off on a number of participants in this sector, which does deliver rewards for those who time their investments well.

We also cover some companies that have released profit "updates", meaning downgrades. We tell you whether they are buying opportunities, whether you should get out, or simply hold on. Investing is never boring, there are always decisions to make. ■

Richard Hemming
Editor

the issue

RESEARCH TIP 02

RXP Services (RXP)
The digital services group is delivering solid dividends, is one of the best operators in its sector, and is poised to be taken over.

RESULTS SEASON PRE-VIEW: MINING SERVICES 04

Alliance Aviation (AQZ)
Southern Cross Electrical (SXE)
Fleetwood (FWD)
RCR Tomlinson (RCR)
LogiCamms (LCM)

RESEARCH TIP UPDATES 08

Capilano Honey (CZZ)
Mayne Pharma (MYX)
Oroton (ORL)
Reckon (RKN)
Select Harvests (SHV)
Universal Biosensors (UBI)

BEST MONEY MAKING IDEAS 13

Small Talk

"Today's mining services providers could be equated to the providers of pots and pans in the gold rush days. In other words, they often do better than the miners themselves in the long run."
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.

Published by Under the Radar Report Pty Ltd
Suite 201, 116 Devonshire Street Surry Hills NSW 2010
Telephone +61 2 9211 8899 Email radar@undertheradarreport.com.au

Editor Richard Hemming **Publisher** Caroline Mark
ABN: 65147404662. AFSL: 409518.

www.undertheradarreport.com.au

RXP SERVICES

The digital services group is delivering solid dividends, is one of the best operators in its sector, and is poised to be taken over.

IT'S ALL ABOUT THE HUMAN ASSETS

The art of any consultancy is to maximise billable hours and productivity and RXP is doing this admirably as clients struggle to adapt to the pace of digital transformation.

Founded by ex Telstra exec Ross Fielding and his brother Paul in 2010, RXP initially was a traditional IT consulting house, but these days targets the burgeoning digital sector. The business is high risk because a high utilisation of people is a requirement for profitability. But its services are broad-based across the IT spectrum. Services include mobile and web development, digital design strategies and cloud-based systems to improve user experience.

One example is installing a cloud contact centre for the Australian Catholic University, which has 32,000 students across seven campuses. Another is designing a self-service portal for a law firm employing 4000 staff across 86 locations.

ACQUISITION AND ORGANIC GROWTH

RXP has not been shy to acquire, having made at least ten bolt-on acquisitions in the last five years. In the most recent forays, in August 2015 it bought the project delivery contractor Engage Viidacom for $6m. RXP then followed up with the October 2015 purchase of digital creative agency 10collective for a base $3.5m in October 2015. Despite this, RXP grew its organic revenue by 10% in 2016-17.

INDUSTRY LEADING PROFIT MARGINS AND DIVERSIFICATION

We gage RXP's productivity per employee to be among the best of the sector. In 2015-16, RXP's head count grew 66% to 779, with each of them generating an average $20,000 of profit (a margin on 20%).

RXP's clients come from most sectors, but with a weighting to banking and finance (37%) and telcos/media (26%). Government bodies account for 12% of turnover. Geographically, RXP still gleans about two-thirds of revenue from its home town, but has opened offices in Sydney, Hobart, Canberra and Hong Kong.

MORE DEALS AND DIVIDENDS IN THE WORKS

The purchase of the Sydney based digital agency The Works adds about 10% to the company's revenue base in the current year and increases its workforce by 61 to around 840. The deal is consistent with RXP's strategy of expanding in both NSW and in the $70 billion digital sector. Pre-acquisition, RXP had $16.4m of debt but net cash of $2.2m.

We expect RXP to pay a final dividend of at least 2c at its August 16 results, taking the full-year payout to at least 4c a share. With The Works purchase expected to boost current-year earnings per share by 10%, RXP should remain in a strong position to pay healthy dividends.

The acquisition looks to be a sound one. RXP should be seen as an eventual takeover target given three of its listed peers have been taken over in the last two years.

IS RXP 50% UNDERVALUED?

In June this year ASG Group (ASZ) offered to buy SMS Management & Technology (SMX) for $120m in a friendly deal, outbidding initial suitor DWS. ASG itself was taken over by Japan's Nomura Research for $360m late last year. In late 2015 UXC Services was taken over by Computer Sciences Corp of the US for $415m.

RADAR RATING **SPEC BUY**

ASX CODE **RXP**

CURRENT PRICE **$0.82**

MARKET CAP **$132M***

NET CASH **$2.2M****

DIVIDEND YIELD **$4.7%****

*Based on 140.5m existing shares and 21m new shares issued in this month's $16.9m placement

**Under the Radar Report estimates

BULL POINTS

- HIGH PROFIT MARGINS
- HEALTHY DIVIDEND YIELD
- POTENTIAL TAKEOVER TARGET

BEAR POINTS

- RELIANT ON NEW CONTRACTS
- TWO-THIRDS OF REVENUE DERIVES FROM MELBOURNE OFFICE
- INTEGRATION RISK WITH NEW ACQUISITION

WHY WE LIKE IT

The Melbourne based digital services specialist is enjoying record revenue and earnings on strong demand for digital products and advice from its diverse suite of corporate and government customers. RXP last week bought the Sydney-based digital agency The Works for up to $33m. The initial $17.5m payment will be largely funded by a $16.9m placement at 80.5c a share. While a rising headcount is usually something to fear, RXP's growing pool of consultants is positive because the group produces margins at the upper end of the industry standard. While the business model is high risk, there is the possibility of being taken over.

WHAT'S NEW

Alongside the announcement of The Works acquisition, RXP pre-announced its 2016-17 results: revenue of $140.5m (up 11%) and underlying EBITDA of $19.5m (up 7%). Revenue was in line with the guided 10-15% increase, while the earnings margin at EBITDA of 13.8%

These deals were struck on an average multiple (enterprise value to EBITDA) of around 11 times, while on forecast 2017-18 earnings RXP currently trades on a multiple of 5.5 times, a 50% discount.

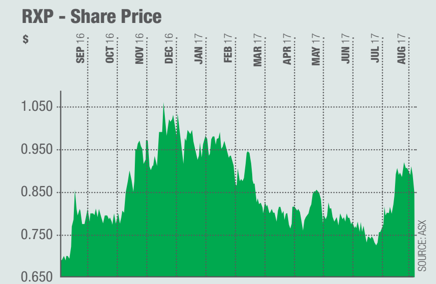
The prospect of a takeover aside, RXP's valuation still compares favourably to that of its remaining listed peers: DWS (DWS), Data#3 (DTL), Citadel Group (CGL), Empired (EPD) and Melbourne IT (MLB).

IT SPEND IS CLIMBING

While Melbourne IT is perceived as RXP's closest competitor, it is more likely to compete with global giants such as Accenture, Deloitte and PWC. As with its rivals, RXP needs companies to be in an expansive mood because IT spend tends to be discretionary. The trend is that businesses are not only increasing their IT spend, but are outsourcing their IT requirements in order to keep up. Technology has never been so important to profits. ■

Disclosure: the author owns RXP shares.

was at the top end of the guided 13-14%. Taking The Works into account, management forecasts 2017-18 revenue of $176.5m and EBITDA of $26.4m.



> **RXP HAS NOT BEEN SHY TO ACQUIRE, HAVING MADE AT LEAST TEN BOLT-ON ACQUISITIONS IN THE LAST FIVE YEARS.**

RESULTS SEASON PREVIEW: MINING SERVICES

What resources slump? Australia is producing mineral commodities in record volumes, and the upcoming profit reporting season will reveal whether the glory is rubbing off on the broader mining services sector.

WE'VE GONE FROM A CONSTRUCTION BOOM TO A PRODUCTION BOOM

Although companies that service the miners of this world are reliant on high commodities prices, their businesses are actually more leveraged to mining volumes.

The resources downturn during and after the global financial crisis showed that mining services stocks (often referred to as contractors) are not immune from a downturn in commodity prices.

Similarly, they should benefit from the recent surge in commodity prices, notably iron ore and copper.

One important factor is how these businesses have transitioned themselves to playing a role in the production phase, when the mines are operating.

Resources giants BHP Billiton and Rio Tinto are recovering and once again growing profits.

Part of the recovery is due to an iron ore price which has clambered up from close to US$40 a tonne to US$70 in the past 20 months; but the other part is just as important. We have gone from a construction boom during 2007 to 2011 and subsequently we're in the middle of a production boom.

Many mining services companies are benefiting from increased production volumes and the upcoming reporting season will indicate how big a beneficiaries the individual participants are.

Another key for many has been their diversification away from mining, as many of them have done with varying degrees of success. This will be another area of focus in their upcoming results.

TAKING PROFITS IS THE KEY IN A CYCLICAL INDUSTRY

Knowing when to fold them is a crucial factor when it comes to investing in mining services stocks. We have made some mistakes in this sector, paying up too much during the peak of the construction cycle.

But just as importantly, we've had even more big wins. We doubled and tripled our money on stocks including GR Engineering (GNG), MACA (MLD) and Southern Cross Electrical (SXE) – and that's because we took profits.

Taking profits is crucial in a sector as cyclical as mining services because operating leverage makes for a 'feast or famine' scenario. In other words, most of the costs are fixed and the capital has already been spent on equipment such as earth movers.

If volumes increase, the companies' profits grow fat and in many cases, they pass these on to investors with big dividends. But in thin times the fixed costs become a liability and it is crucial the companies have a strong enough balance sheet to obviate the need to raise dilutive capital.

If they don't, holding on and hoping is not the right investment approach.

WATCH OUT FOR WORK-IN-HAND AND PROFIT MARGINS

The upcoming results season is crucial for businesses that rely upon work in hand and contracts to be profitable.

Under the Radar Report has a value orientated philosophy, which has meant that mining services has been one of the areas where we've been concentrating in the wake of the big falls in the sector. Now that times are improving, there will be an expectation that these companies can deliver strong returns to match.

REPORTING SEASON PREVIEW

10 AUG 2017

ALLIANCE AVIATION

FIFO operator and aviation services

Alliance Aviation has reported contract renewals since our last coverage, as well as continuing to benefit from the May 2017 ACCC decision to approve its air charter joint venture with Virgin Australia. Both events provide us with confidence in our Buy recommendation.

Shareholders including the Under the Radar Report portfolio have been rewarded by a share price rise in 2017 which has left the stock more reasonably valued, though still at a (small) discount to net book value.

Since the acquisition of the Fokker planes from Austrian Airlines eighteen months ago, there has not been much transparency about profit margins on equipment sales and leasing or charter operations, but there is evidence the company's asset base will generate substantial positive operating cash flow, with $17m in the first half. Alliance has successfully renewed air service contracts with BHP and CITIC, and is managing clients' airports.

The company is likely to report substantially increased revenue, mainly from equipment sales, and we expect further revenue increases in FY18 as the benefit of the recent wet lease deal for Virgin comes through. This is separate from the charter deal approved by the ACCC, which may produce forecasts of healthy double-digit revenue growth for the year ahead.

We are reassured by management's positive statements at the half-year regarding future shareholder returns, and we still hope for an increased dividend for FY17 when the company reports.

RADAR RATING: Alliance sat on our Best Ideas list for 2 or 3 months as we recommended the stock as a Buy a number of times since September last year. After the substantial price rise over the past few months, we are downgrading our recommendation to HOLD.

RADAR RATING **HOLD**

ASX CODE **AQZ**

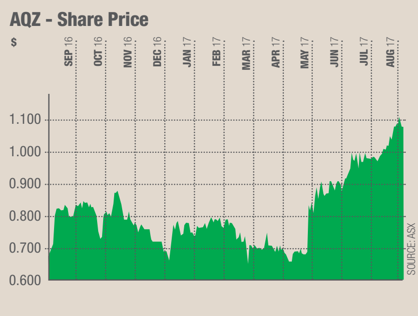
CURRENT PRICE **$1.08**

MARKET CAP **$132M**

NET DEBT **$70M**

TIP DATE **7 DEC 2014**

TIP PRICE **$0.93**



SOUTHERN CROSS ELECTRICAL

Electrical and communications contractor

Southern Cross Electrical has moved away from its mining services roots and diversified its business towards data and infrastructure opportunities through the acquisition of Datatel in WA and Heyday5 in NSW in February. After a series of contract wins, SXE's results should have a good story to tell about its prospects. The share price has risen sharply in the last few weeks as investors anticipated a results report that will be closely analysed to make sure the company will deliver strong growth in revenue and profitability in FY18.

SXE has performed well for subscribers who bought after our recommendations in the 30s in late 2015. About a year ago, when the share price was 53 cents, we said to Take Profits. The Under the Radar Report portfolio held on to its small holding at that time. We then upgraded again in October, in the mid 40 cents, after a first half profit downgrade, and we have stayed positive all the way since, including a recent Buy recommendation at 49 cents only 3 months ago. The portfolio picked up a few more at 52 cents in April this year.

RADAR RATING **HOLD**

ASX CODE **SXE**

CURRENT PRICE **$0.625**

MARKET CAP **$100M**

NET CASH **$10M***

TIP DATE **29 JULY 2015**

TIP PRICE **$0.365**

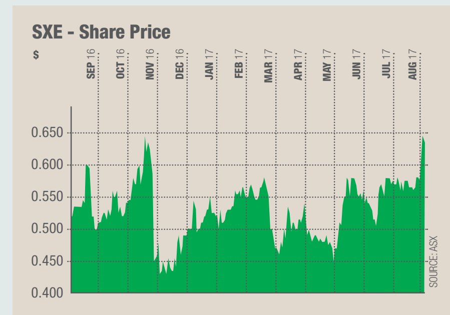
*After first tranche of acquisition payment

REPORTING SEASON PREVIEW

10 AUG 2017

Management's forecast of $4m H2 NPAT suggests that the core SXE business was still not performing in the second half. If Heyday5 is performing as expected, it should have delivered $2m+ EBIT over the last four months, implying the earnings recovery in the original SXE business was less than might have been hoped. But it may be that its opportunities (like the NBN in WA) have only been delayed.

No earnings forecasts have been made for FY18, when the group will be substantially different than in previous years, but revenue is forecast at over $300m. If FY18 earnings were equal to core FY16 earnings PLUS forecast Heyday5 FY17 earnings, that would imply EBIT of $16m, or 5% operating margins. With an unlevered balance sheet, the valuation would be a reasonable 6 - 7 times, but our assumptions may be completely unrealistic, especially since FY16 was a banner year for iron ore projects at SXE. There might be prospects for cost savings, but the Datatel acquisition has not yet been a huge success, and Heyday5 may be operated independently for some time. ■



RADAR RATING: A final dividend will probably not be paid. Due to the recent sharp price rise, we are downgrading to Hold, and we will remove the stock from our Best Ideas list pending a review of H2 results and the FY18 outlook. HOLD.

FLEETWOOD

Caravan manufacturer and mining accommodation provider

RADAR RATING **TAKE $$$**

ASX CODE **FWD**

CURRENT PRICE **$2.73**

MARKET CAP **$167M**

NET DEBT **$9.6M**

TIP DATE **13 OCT 2015**

TIP PRICE **$1.50**

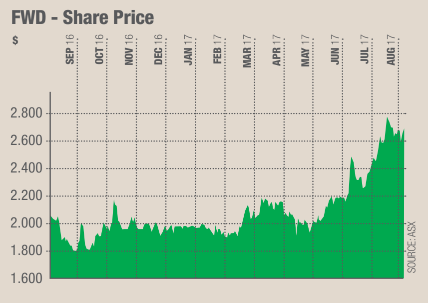
Fleetwood has impressed with its ability to manage its way out of the commodities malaise, through impressive contract agreements to manufacture accommodation not only for mining communities but also for both the Victorian education department and more recently for Gateway Lifestyle (GTY). The latest agreement with Gateway means Fleetwood supplies modular homes to residential communities for two years, after which it has an option for two to four years.

Fleetwood's mining exposure is still a key swing factor when it comes to earnings: the company owns the Rio-supported Searipple Village in Karratha and the Osprey village in Port Hedland underpinned by a deal with the WA government.

In the upcoming results, Fleetwood will be under pressure to announce a dividend policy after years of promising but not delivering. In our last note on FWD in early July we commented on the EGM called by activist fund manager Sandon Capital and Ron Brierley's Mercantile Investment Company.

The anticipation of the dividend could be one reason behind the recent share rally. Another could be a deal to unhitch the unprofitable caravan division.

In the first half Fleetwood delivered a big improvement just by being profitable. It generated EBIT of $5.5m, which would have been better but for the $3m loss from its caravan business. ■



RADAR RATING: It is often better to travel than to arrive and we think that Take Profits is in order due to the uncertainty about dividends and corporate activity. TAKE PROFITS.

REPORTING SEASON PREVIEW

10 AUG 2017

RCR TOMLINSON

Engineering & infrastructure services

RCR is among the least transparent businesses that we cover, which is one excuse for us taking profits too early.

The company has impressed by generating numerous contracts in the fast growing infrastructure and renewable energy industries. RCR has successfully diversified its business out of mining services. The company has focussed on renewable energy, gas fired power, road tunnels and rail projects.

At last count the company had six solar projects on its books subsequent to its half-year result in February, with a contract value in excess of $250m.

While these contract wins will contribute to FY18 earnings, they will cost money to implement and could be a drag on the upcoming FY17 profit numbers. The company should come in with revenue of about $1.1bn and an EBITDA of about $55m. The focus will be on FY18 considering its big contract wins. ■

RADAR RATING: We are loath to do anything but recommend subscribers hold off buying. Trading on a cash flow multiple of close to 7 times EBITDA, the stock is priced at the upper limit of what we would pay. The result will be keenly observed. HOLD.

RADAR RATING **HOLD**

ASX CODE **RCR**

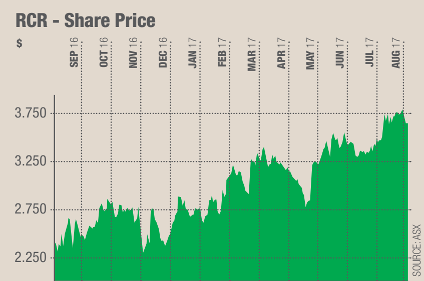
CURRENT PRICE **$3.66**

MARKET CAP **$512M**

NET DEBT **$64M**

TIP DATE **9 APR 2015**

TIP PRICE **$1.77**



LOGICAMMS

Engineering Services

The engineering group's shares rose 40% last week, illustrating that the valuation was so low that a change in sentiment had a dramatic effect on the stock price. The company's latest announcement suggests that having already achieved annualised cost savings of $4m in February, a further $6.6m of overhead costs has been removed from the business in the last 2 months, at a one-off cash cost of $2.1m.

The company also reported an increase in activity, linked to the general improvement in commodity prices across their customers' businesses. And management was excited about the strongest forward order book for years, which includes work that was expected in the 2nd half of FY17 but had been deferred.

The turnaround in news flow since the last announcement has been dramatic, and it is understandable that the share price should respond markedly. The company has good prospects of delivering a healthy EBITDA result for FY18 with increased activity on a sharply reduced cost base. Sales are down over 30% from 2015 levels, indicating how far the company has fallen. ■

RADAR RATING: We again upgrade to Speculative Buy, noting that the stock will only be available in relatively small quantities, and should be expected to remain volatile, though upwardly so over the next few months. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **LCM**

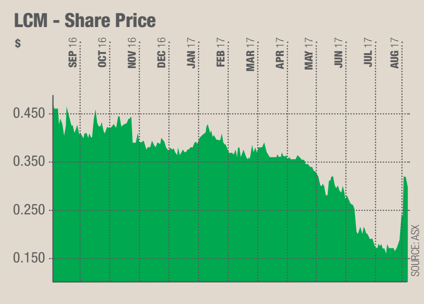
CURRENT PRICE **$0.30**

MARKET CAP **$25M**

NET CASH **$5.6M**

TIP DATE **9 JUN 2017**

TIP PRICE **$0.27**



CAPILANO HONEY

Leading honey packager

The great honey shortage has abated, which is good news for Capilano, the honey packager and which now pays less to beekeepers for supply of the raw product. In a case of making do with less, Capilano's full-year revenues shrank 0.4% to $133.1m, but net earnings rose 9% to $10.33m. The company's balance sheet has improved with debt at $7.8m from $9.62m a year previously.

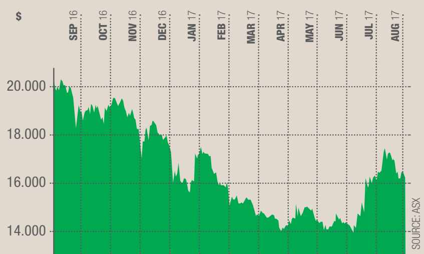
As with most agricultural commodities, weather plays a key role and in this case the rain has been falling in the key producing areas, resulting in what CEO Ben McKee says is the biggest winter supply for "many many years". This has resulted in a greatly increased inventory, to 5953 tonnes compared with 4960t a year previously and 2901t at the end of June 2015. This buffer means the company is less likely to have to import honey to meet local demand. Most of Capilano's supply flows from two captive joint venture operations. "Weather permitting we remain very optimistic of the potential for increased honey production in the coming season from spring 2017," the company says.

So far at least, Capilano has fended off the threat to its dominant position from generic brands and rival Beechworth Honey. But export revenues are disappointing, having tumbled 18% to 22.47m over the year (17% of total revenues, compared with 20% previously). The company claims to be making inroads into China because of expanded distribution channels including the Tmall online site. But the heady Australian dollar is not helping in terms of selling what's a premium-priced product offshore.

A year ago Capilano launched Beeotic, a prebiotic honey that is claimed to promote gut health. Without offering any specifics, McKee says Beeotic's share of the health and wellbeing market has "improved considerably."

RADAR RATING: Trading on an earnings multiple of around 15 times and a 2.5%, the stock seems fairly priced. We maintain a hold because there aren't any obvious growth catalysts, while on the export side the company could get further stung by currency. HOLD.

RADAR RATING **HOLD**
ASX CODE **CZZ**
CURRENT PRICE **$16.27**
MARKET CAP **$155M**
NET DEBT **$7.79M**
DIVIDEND YIELD **2.4%**
TIP DATE **24 APR 2014**
TIP PRICE **$5.30**



MAYNE PHARMA

Speciality pharmaceutical

Citing "current market volatility", the Mayne Pharma board on Tuesday pre-announced its full-year results ahead of the global generic company's scheduled August 25 release date. Given the sense of urgency, it's not surprising the numbers fell well adrift of expectations.

Mayne shares have been sold down 19% in the past 2 days, but they have been under pressure since the company acquired Teva's generic portfolio for $US652m a year ago. The purchase elevated Mayne from almost nowhere on the big pharma 'league ladder' to the second biggest supplier of oral contraceptives in the US.

On Tuesday, Mayne said it had impaired the carrying value of Teva's portfolio by $25m, after revising the useful life of some of the Teva-related intangibles from 20 to 15 years. Excluding this charge, full-year underlying EBITDA for 2016-17 is expected to be $212-216m, compared with expectations of around $225m. Full-year revenue will be $581m compared with the expected $620m.

RADAR RATING **SPEC BUY**
ASX CODE **MYX**
CURRENT PRICE **$0.74**
MARKET CAP **$1.14BN**
NET DEBT **$112M**
TIP DATE **24 JAN 2013**
TIP PRICE **$0.55**

"Sales were down in the second half reflecting a more competitive generic sector pricing environment coupled with very strong trading in December," the company said. However the base generics business (excluding the Teva portfolio) continues to perform well, particularly the heart arrhythmia drug dofetilide.

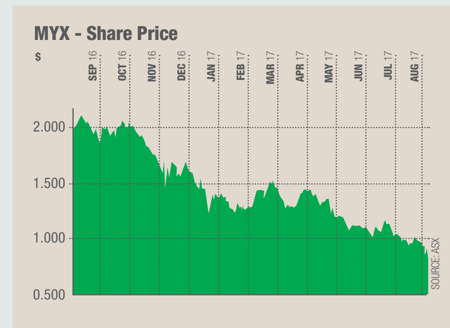
Mayne has also launched the first available generic alternative to the popular acne treatment, Acticlate.

Mayne also this week said it would move CEO Scott Richards to the US, where the company derives 94% of its revenue. Interestingly, Cochlear last month said its US-based CEO Chris Smith would depart the company because the rigours of travel were too much.

It looks like Mayne bit off more than it could chew with its big-hit acquisition – and it's certainly not the only ASX listed company to do so. The shares have also been affected by allegations in the US of industry wide generics price fixing, as well as President Trump's intention to lower drug prices.

But that's not to say the company is broken. Far from it, in fact. The Teva portfolio will still contribute $US94.5m of ebitda in 2016-17 – 44% of total revenue. The generics market, while hotly competitive, will continue to expand as more branded drugs come off patent. ■

RADAR RATING: We believe the well-managed Mayne is merely going through a rough patch and the stock is a buy – albeit a speculative one – at current levels. SPEC BUY.



OROTON

Luxury fashion retailer

In calling time on its Gap apparel chain local franchise, Oroton hopes to cauterise the losses that have blighted the US-based retailer here. Oroton on Friday said Gap's six Australian outlets, located in Sydney and Melbourne, would cease trading by January next year.

The fashion retailer first entered a joint venture with the San Francisco-based Gap to fill the revenue void from the loss of its long-held Ralph Lauren franchise in 2013. A similar venture with the US Brooks Brothers menswear chain lasted about two years.

Oroton is not yet able to quantify the cost of exiting Gap, although it is estimated at $6m.

Now on its third CEO in five years, Oroton has put itself up for sale as part of a strategic review initiated in May. While this suggests the company hasn't been knocked over by offers, market talk suggests multiple parties are interested in talking turkey including 7% shareholder Gazal Corp.

On a positive note, the company also said Westpac had agreed to extend a $35m credit facility from April 2018 to October 2018. Substantial shareholder Will Vicars had pledged $3m to support the facility, but this didn't have to be drawn on. Westpac has required his ongoing support to protect the bank if the company defaults before October 2018. The group's drawn debt has actually been reducing: end of year net debt is expected to be around $6m, compared with the guided $10m and management confirmed earlier guidance of underlying EBITDA of $2-3m in 2016-17, compared with $5m in the first half and $12.9m in 2015-16. ■

RADAR RATING **HOLD**

ASX CODE **ORL**

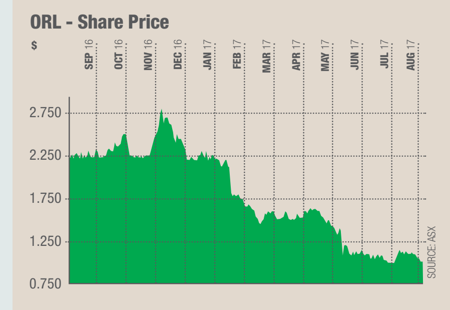
CURRENT PRICE **$1.01**

MARKET CAP **$42M**

NET DEBT **$6M**

TIP DATE **4 NOV 2014**

TIP PRICE **$2.56**



RESEARCH TIP UPDATES

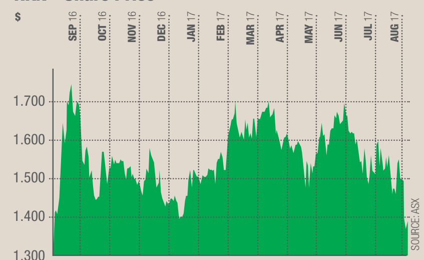
10 AUG 2017

RADAR RATING: The decision to exit Gap is positive, especially given the long shadow cast by Amazon over the retail sector. At least management can now focus on its core competency of selling glitzy handbags and purses. We maintain a hold maintained ahead of the September 21 full year results and – more importantly - some clarity on the same process. HOLD.

RECKON

Accounting software

RADAR RATING	**HOLD**
ASX CODE	**RKN**
CURRENT PRICE	**$1.40**
MARKET CAP	**$156M**
NET DEBT	**$50M**
TIP DATE	**13 AUG 2015**
TIP PRICE	**$2.04**



It's early days, but Reckon's demerger of its document management arm GetBusy hasn't provided the valuation uptick hoped for. The accounting software producer's half year results released on Tuesday were also underwhelming, although the group is making some progress converting its SME and accounting customers to a subscription, cloud-based platform.

The GetBusy shares debuted on London's AIM exchange last Friday at 35 pence (57c). Given Reckon holders received one GetBusy share for every three Reckon shares, this equates to added value per Reckon share of around 19c.

Reckon holders also had the opportunity to buy extra GetBusy shares in a rights raising at 48c apiece, a 9 per cent discount to the deemed pre-money value of GetBusy shares.

As is usually the case with rights issues retail investors shunned the offer, with less than half of the 10.62m shares subscribed for. The remainder was taken up by the underwriters: Reckon founder Greg Wilkinson, Reckon CEO Clive Rabie and Reckon chief operating officer (and now GetBusy chief) Daniel Rabie.

Meanwhile, Reckon on Tuesday reported a 19% decline in first (June) half earnings on a continuing operations basis, to $5.5m. EBITDA crept up 3% to $18.4m while revenue also increased by 3% to $50.1m. A highlight was operating cash flow, which increased by 6% to $16.3m as the group wound back on development spending.

As with rivals MYOB and Intuit, Reckon has been transitioning from licence-based desktop products to subscription based 'cloud' services. Xero started out as a cloud provider in the first place.

Reckon reports that one-third of its revenue are now derived from cloud offerings, with 43,000 cloud users signed up (a 21% increase). The next generation Reckon One product is being progressively released in Australia, NZ and Hong Kong and the company reports solid take up. But competition is hotting up: US giant Intuit recently introduced a cloud-based version of QuickBooks and claims a take-up of 50,000 subs. Given Reckon used to distribute QuickBooks, it is feared that Intuit will target Reckon's customer base.

Reckon has promised much but delivered little and some investors are getting impatient, notably Forager Funds Management which recently sold its 7% stake. But value is in the eye of the beholder, because Microequities Asset Management, Fidelity and Wilson Asset Management have all increased their stakes. ■

RESEARCH TIP UPDATES

10 AUG 2017

RADAR RATING: On the back of Reckon's indifferent performance, we downgrade the stock to a hold. We also suggest GetBusy is worth retaining. Detractors argue Reckon increasingly will be squeezed by its much bigger rivals. That's a legitimate concern, but bear in mind that Reckon's customer base remains valuable and the market values the company at around $150m compared with almost $2bn for MYOB and well over $3bn for Xero. HOLD.

SELECT HARVESTS

Almond producer

RADAR RATING **HOLD**

ASX CODE **SHV**

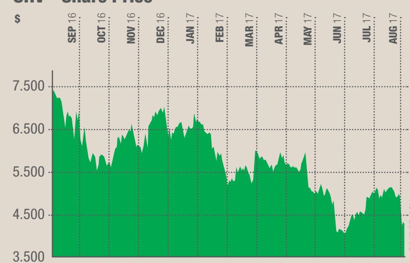
CURRENT PRICE **$4.27**

MARKET CAP **$314M**

NET DEBT **$98M**

TIP DATE **24 MAR 2016**

TIP PRICE **$4.76**



The almond producer and harvester issued its second profit downgrade in six months last week, which to some degree vindicated our decision to hold off upgrading to a buy in our note in the middle of the year when the company's shares were at $5 the group had announced that its 2017 crop would be 5-10% below expectations.

Last week SHV's shares were hit by 13.5% on the day it said that although production will be at the upper end of guidance at 14,100 metric tonnes (guidance had been 13.5-14,000 metric tonnes) because of increased costs, NPAT would be $7.5m to $8.5m. The company produced a half-year NPAT of $11.7m and the market was estimating a profit of at least $12m prior to this.

The increased costs come from a variety of sources. First there were higher production costs owing to the wet weather, which can be considered one-off. Other costs weren't however, and are of more concern. These were currency (a higher Australian dollar reduces the value of its US dollar receipts) increased rent from the property owner Rural Funds and higher electricity costs.

The agriculture risk in stocks like this should never be underestimated and much volatility in earnings expectations is to be expected at the bottom of the cycle.

SHV's shares have bounced around $4 and the question is whether this provides a buying opportunity. The sharp selling reflects the huge operating leverage in a single commodity producing group. If it can survive these conditions without needing more capital, profitability will climb rapidly when conditions improve.

Just remember, this company is producing some 14 million kilograms of almonds and is on track to produce close to 18 million kilograms a year in the next few years!

At 31 December 2016 Select had just over $100m in debt, which puts it on an uncomfortable net debt/EBITDA ratio of just over 3 times. Admittedly this is temporary, because on our number this bounces back to a more comfortable 1.8 times in FY18. There remains some risk that this company will have to raise capital to ensure it meets its debt covenants. ■

RADAR RATING: There is value in SHV at current prices but with the risk of a capital raising we continue to advise subscribers to hold off purchasing. The company reports on 25 August and we'll be able to get a much better handle on which costs are one off in nature and which aren't. HOLD.

RESEARCH TIP UPDATES

UNIVERSAL BIOSENSORS

Blood monitoring devices

Universal's half-year results have been overshadowed by news of a CEO appointment to replace retiring executive chairman Andy Denver. The new appointment, Rick Legleiter has held senior roles at Siemens Healthcare, Universal's partner on the blood coagulation testing side, and current director Craig Coleman has been made chairman.

Universal's results weren't too surprising because the company released its June (second) quarter numbers on July 17. The company recorded a $2.5m net profit – a turnaround on the previous loss of $3.7m – on revenue of $14.3m (up 36%). Notably, this includes product revenue of $2.3m from its Xprecia Stride (coagulation) strips, up sharply on the previous $200,000.

Lifescan, Universal's distribution partner on the blood glucose side, sold 837m OneTouch Verio testing strips compared with 703m in the previous first half.

On the funding side, the company says it will start accruing $US revenue to repay a $US15m loan facility due in December next year. The facility, from Athyrium Opportunities is at an unattractive 10.5% so it would be desirable for the company to find an alternative lender for any residual amounts.

Investors shrugged off both the financial update and the management changes. Given the latter can be unsettling, this is arguably positive. ■

RADAR RATING: The end game for investors in this one is a pending decision by LifeScan to terminate a profit sharing agreement by which quarterly fees are paid to Universal, and which could result in $80-90m lump sum payment to Universal. The decision becomes due when Universal accrues cumulative quarterly service fees on its OneTouch Verio strips of $US45m. At the end of June, aggregate QSFs stood at a touch under $US40m. At the current run rate, LifeScan could give notice in calendar 2018 but is not bound by this timetable. We remain on board for a potentially lucrative payday. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **UBI**

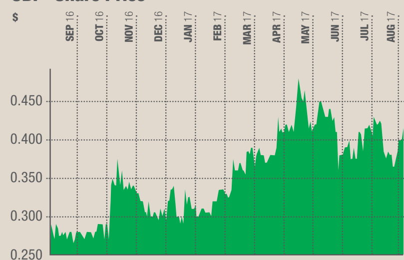
CURRENT PRICE **$0.40**

MARKET CAP **$74M**

NET CASH **$8.1M***

TIP DATE **11 MAY 2017**

TIP PRICE **$0.43**



*Assumes expected receipt of $7.52m R&D refund in the current quarter

BEST MONEY MAKING IDEAS

AS AT 09 AUGUST 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	523.2	4.0	2.54	-0.9	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.
MAYNE PHARMA (MYX)	Pharma	1168.9	-	0.76	130.3	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	86.2	-	0.27	86.2	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.
VILLAGE ROADSHOW (VRL)	Tourism & Leisure	632.8	7.2	3.91	-1.3	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.

We have removed Southern Cross Electrical (SXE) after it's 11% spike in the past 2 weeks. See note on page 5.

99% of all financial news relates to the 40 to 50 biggest companies. So what about the rest? They're Under the Radar.

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

DISCLAIMER: This publication has been prepared from a wide variety of sources, which Under the Radar Report Pty Ltd (UTRR), to the best of its knowledge and belief, considers accurate. You should make your own enquiries about the investments and we strongly suggest you seek advice before acting upon any recommendation. All information displayed in this publication is subject to change without notice. UTRR does not give any representation or warranty regarding the quality, accuracy, completeness or merchantability of the information or that it is fit for any purpose. The content in this publication has been published for information purposes only and any use of or reliance on the information in this publication is entirely at your own risk. To the maximum extent permitted by law, UTRR will not be liable to any party in contract, tort (including for negligence) or otherwise for any loss or damage arising either directly or indirectly as a result of any act or omission in reliance on, use of or inability to use any information displayed in this publication. Where liability cannot be excluded by law then, to the extent permissible by law, liability is limited to the resupply of the information or the reasonable cost of having the information resupplied. No part of this publication may be reproduced in any manner, and no further dissemination of this publication is permitted without the express written permission of Under the Radar Pty Ltd.

Published by Under the Radar Report Pty Ltd
Suite 201, 116 Devonshire Street Surry Hills NSW 2010
Telephone +61 2 9211 8899 Email radar@undertheradarreport.com.au

Editor Richard Hemming **Publisher** Caroline Mark
ABN: 65147404662. AFSL: 409518.
Website www.undertheradarreport.com.au