under the radar report
SMALL CAPS
ISSUE 259
14 SEP 2017

IS THERE STILL VALUE IN MINING SERVICES?

Small Caps are companies that have to move quickly to adapt to changing circumstances and no where is this exemplified better than in mining services, which is the most cyclical of industries; you are literally only as good as your next contract.

We've moved from investing in the mining services groups we thought would survive to ones which can maintain earnings momentum. Even though these companies have re-invented themselves they still live and die based on their work in hand.

Under the Radar Report has proved particularly adept at buying and selling in this cyclical sector where it doesn't pay to simply "buy and hold". In this issue we look at where the value is and isn't.

We also cover a large number of stocks outside of those companies that don't service the extraction industries and this includes an extractor itself!

When you talk about "transformation" Cooper Energy (COE) is at the head of the pack. Since our last update on June 8, Cooper has pushed the button on its Sole project in the offshore Gippsland basin, which will dramatically change the company's production profile. Cooper is thinking big in its quest to transition from an onshore producer to an offshore operator and project developer. There are huge risks in such radical transformations, especially when substantial gearing is involved. One danger is that the projected gas deficit proves to be exaggerated. But there are rewards for the bold as well.

There are other transformative stories in this week's issue, so I won't hold you up any longer. ■

Richard Hemming
Editor

the issue

MINING SERVICES COMMENT 02

The winners have diversified, but at what cost? We look at a vast array of stocks in one sector where Australia has an undeniable competitive edge. Companies mentioned include GR Engineering (GNG), Fleetwood (FWD), Tox-free (TOX), RCR Tomlinson (RCR), Southern Cross Elec (SXE).

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Small Talk

"If they haven't diversified away from resources, the mining contractors on Under the Radar's rota have transformed their business in other ways, even if that just means simply reducing costs."
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
45 Evans Street, Balmain NSW 2041
Telephone +61 2 9106 2167 Email radar@undertheradarreport.com.au

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

MINING SERVICES: DIVERSIFICATION AT WHAT COST?

We've moved from investing in mining services groups we believed would survive to which ones can maintain earnings momentum. Even though these companies have re-invented themselves they still live and die based on their work in hand. You're only as good as your next contract. Under the Radar has proved particularly adept at buying and selling in this cyclical sector where it doesn't pay to simply "buy and hold". Here we look at where the value is and isn't.

THE WINNERS HAVE DIVERSIFIED, BUT AT WHAT COST?

If they haven't diversified away from resources, the mining contractors on Under the Radar's rota have transformed their business in other ways, even if that just means simply reducing costs.

For example GR Engineering (GNG) remains heavily exposed to the WA gold sector but has pushed into "upstream production solutions" such as maintaining oil and gas facilities. In this issue we cover pure-play drilling contactor Swick Mining (SWK) which reports "renewed optimism" and increased demand for deeper exploration holes from existing miners. It's no coincidence that about half of Swick's revenues are derived from the local gold sector, which is enjoying a prolonged purple patch.

After a difficult period, portable accommodation provider Fleetwood Corp (FWD) reports stronger demand for fly-in fly-out accommodation, with its two large mining villages at Searipple in Karratha and Osprey in Port Hedland, emerging from a prolonged funk. While Fleetwood also makes caravans and provides buildings for non-mining clients such as schools and retirement villages, the resources turnaround played no small part in management's decision to restore a dividend after a three-year absence.

Waste manager Tox-Free Holdings (TOX) was one of the earliest to spread its wings. Originally, Tox derived most of its revenue from resource-centric northern WA operations. After a string of acquisitions including water recycler Worth and Daniels Health, Tox derives only 30% of its revenue from the resource sector, compared with 60% five years ago.

With its big push into infrastructure, renewable energy and road and rail projects, engineer RCR Tomlinson (RCR) has clearly diversified its business from mining services. Specialist engineer Matrix Composites & Engineering (MCE) is mounting an international push, away from its core business of manufacturing sub sea riser equipment for oil rigs, to specialist products for the civil, infrastructure and defence sectors. Contractor Southern Cross Electrical Engineering (SXE) remains exposed to the resources sector with projects for BHP Billiton's and Rio Tinto's iron ore divisions, as well as the Wheatstone LNG project. But following the $54m purchase of the Sydney based Heyday5, only 14% of the company's $480m forward order book is attributable to the resources sector. Perth based scaffolder Global Construction Services (GCS) recently acquired two eastern seaboard formwork businesses, Gallery Facades and Summit.

STICK TO THE FUNDAMENTALS

Investors need to take a stock-by-stock approach, rather than a sectoral view and focus on aspects such as capital adequacy and the quality and tenure of contracts.

Over the last few years, Under the Radar has generated big returns by doing just this. For example, we achieved big returns on mine builder GR Engineering (GNG) and contract mine operator MACA (MLD) the FIFO operator Alliance Aviation (AQZ) and Southern Cross Electrical (SXE). We have not been afraid to take profits. With the easy gains now off the table, some stocks were trading at net cash backing at the depths of the downturn, a disciplined approach is required more than ever.

WHERE IS THE VALUE?

Below we review three companies in the sector: GCS, MCE, and SWK. The mining services stocks we think are good value now include Tox-Free Services (TOX), Global Construction (GCS), Pacific Energy (PEA), Matrix C&E (MCE) and Logicamms (LCM). ■

GLOBAL CONSTRUCTION SERVICES

Scaffolding, formwork and other construction services

When Under the Radar last covered the stock in mid April, we were keen to see further evidence of organic growth as well as the East Coast acquisitions bearing fruit. Judging from the guidance, GCS is delivering on both measures. A key risk remains a downturn in the Victorian housing market, although GCS's residential division is relatively small.

The Perth based company's full-year results show that close to one-quarter of its revenues derive from the Eastern seaboard, compared with 100% from WA last time around. This rebalancing reflects the acquisition of two East Coast businesses during the year: half of Gallery Facades and the Victorian based Summit Formwork.

The results suggest that these businesses have been integrated successfully, with management citing new work including a $59m contract to provide formwork for Sydney's The Towers and Ritz Carlton development at Elizabeth Bay.

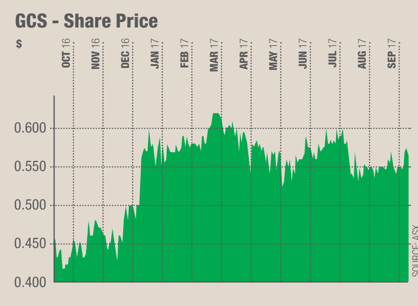
In the resources and oil and gas sector, management reports a trend to annuity-based maintenance work as large construction projects are completed. "Improving outlook and market sentiment in this sector is (being) driven by record production and output," the company says.

GCS reported underlying earnings of $13.5m, up 12% on similar revenue growth to $207.7m. EBITDA grew 4.3% to $29.2, while increased capital expenditure for new work meant free cash flow declined by 23% to $24.3m. The board declared a 1c a share final dividend, taking the full-year payout to 2c (excluding a 2c special div paid last October).

"We expect GCS to improve underlying net profit in 2017-18 at a double digit rate from the year just completed and to continue to deliver attractive returns to our shareholders," managing director Enzo Gullotti says. ■

RADAR RATING: At the low end of guidance, GCS trades on an earnings multiple of less than eight times while at the same time its balance sheet has improved with the repayment of $7m of debt. We're happy to restore the stock to a buy call. BUY.

RADAR RATING **BUY**
ASX CODE **GCS**
CURRENT PRICE **$0.62**
MARKET CAP **$131M**
NET CASH **$3.8M**
DIVIDEND YIELD **3.5%**
TIP DATE **18 JAN 2015**
TIP PRICE **$0.52**



MATRIX C&E

Oil and gas services

At face value, the specialist provider of sub-sea equipment for the oil and gas sector is going backwards financially. But the company is very much a work in progress as it releases a range of proprietary new products pitched at the civil, infrastructure and defence sectors.

Matrix posted a full year net loss of $19.5m and an underlying EBITDA loss of $4.4m, on revenue of $33.1m. The previous year, the company managed EBITDA of $11.3m on turnover of $95.7m. In 2014-15 EBITDA was $22.7m on revenue of $144m. The group also reports an order book of $US18m, which is skewed to the 2019-20 year, after the bulk of a $US17m order was deferred to that period.

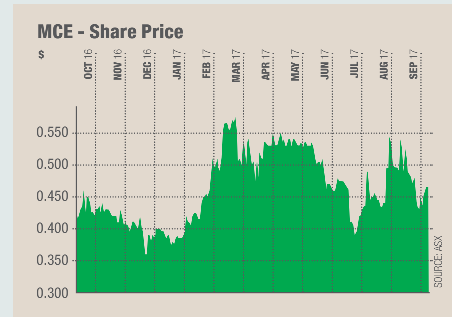
The steady erosion reflects the severe oil and gas sector downturn, with the company dependent on riser buoyancy systems for new rigs that just weren't being

RADAR RATING **HOLD**
ASX CODE **MCE**
CURRENT PRICE **$0.48**
MARKET CAP **$45M**
NET CASH **$14.1M**
TIP DATE **15 JUN 2015**
TIP PRICE **$0.34**

commissioned at the same rate. However Matrix's balance sheet is solid for now. The net cash balance has improved to $11.4m from $2.8m previously, while operating cash flow leaped to $11.4m from $2.8m previously.

Matrix now has to demonstrate a market for its own-developed suite of new products: Matrix LGS (drag reduction), Paragon (epoxy resins), Kinetica (energy absorbing foam) and LiCos (reducing the density of concrete while maintaining strength). The new-look Matrix may take some time to reveal itself in full glory, with management warning of "subdued" current year earnings. ■

RADAR RATING: In the 1999 sci-fi classic The Matrix, the main character is offered the choice between the red pill (painful truth and reality) and the blue pill (blissful ignorance). As with this Matrix, it's easy to opt for the blue pill and upgrade to a 'buy' call without true insight into how, when and where the new revenue streams will derive. However taking the red pill – assigning a sell call on the reality the company's progress will be prolonged – seems too harsh. So we'll decline both pills and stick with a hold call pending a progress update on the new-look Matrix. HOLD.



SWICK MINING
Drilling services

It's disconcerting when a company chief ups stumps unexpectedly, as is the case with Swick CEO Vahi Haydari who has quit to pursue "other career opportunities". He will be around until October and in this case there's an immediate replacement, with managing director Kent Swick assuming the CEO role as well. To outsiders, the roles are one and the same as co-founder Kent would have called the shots anyway.

Last Thursday's announcement came a few days after the drilling specialist reported an 18% reduction in EBITDA to $12.1m, with revenue declining 4% to $130m. Swick also disclosed a net loss of $4.56m compared with a $2.8m shortfall previously. Management's commentary is generally upbeat: "renewed optimism" and increased demand for deeper exploration holes from existing miners.

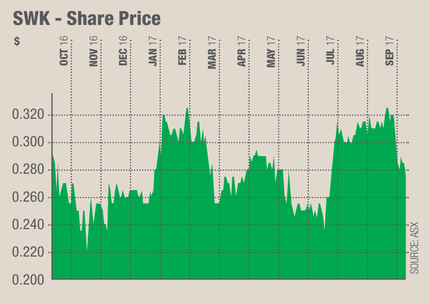
About half of Swick's revenues are derived from the local gold sector, which remains buoyant. The company carried out a record 1.122 million metres of underground drilling, with 21 extra rigs deployed in the second half. While this extra activity is positive, the cost of the extra rigs in the field affected current year profitability, as did a 40-day weather disruption at the Tanami gold project in the Northern Territory.

The company has also extracted itself from a low-margin contract, releasing five rigs for better margin work. Plus good times are hear to stay, according to the company: "With the recently improved outlook for global commodity markets and therefore the mining industry, the drilling sector is also expected to see a strong uplift in activity over the next year."

While Swick believes a shortage of capacity is emerging, the company's shares have been marked down 12% since the August 31 results and the Sep 7 CEO exit announcement. ■

RADAR RATING: The stock is close to returning to the 25c level as of June 1, when we rated it a hold. Given the lack of specific guidance it's hard to gage Swick's prospects, but suffice to say conditions aren't getting any worse and the company's performance could be a lot better this year. Still, we wouldn't rush to buy – or sell. HOLD.

RADAR RATING **HOLD**
ASX CODE **SWK**
CURRENT PRICE **$0.29**
MARKET CAP **$67M**
NET DEBT **$17.1M**
TIP DATE **22 APR 2015**
TIP PRICE **$0.15**



BEYOND INTERNATIONAL

Media production company

Beyond will be pleased to put FY17 behind it where it was hit by a one-off change in DVD trading where that market shrank 17% and Beyond's Home Entertainment business appears to have fallen by an underlying 30%. It's noteworthy that the home entertainment segment can remain profitable at these sales levels but in this case the operational shortfalls were exacerbated by the financial impact of changes in customer terms from outright sale to consignment deliveries.

For the 12 months to 30 June revenues were down 15% to $86.3m, producing an EBIT loss of $8.2m versus $5.6m in the prior year. At the bottom line Beyond lost $7.5m, which translated to a loss of just over 12c a share. The positives were that much of the deterioration was attributable to one-off circumstances, which should make the business strong and that the company paid out 2c a share in dividends.

The impact of these changes was foreshadowed at the AGM last year, and the decision to fully implement the consignment model across their entire DVD business in one year meant that full year reported sales in this business were down over 90% from FY16. The company's balance sheet reflected these changes, with inventory increasing by 30% although this is valued at cost, which is a relatively small proportion of the wholesale price.

There was a total of $10m write offs, a substantial sum for a company of Beyond's size, most for the write down of DVD inventory. Notably, none of the write-offs were in the Production and Copyright business, the largest division, where sales were up 33% at $51m. This business is benefitting from sales to Netflix and other platforms, delivering long running commissioned productions eg Mythbusters and Deadly Women. It also has 10 pilots in various stages of development. Earnings in this division were down 24% at $7.6m due partly to lower copyright revenues from archive sales.

The company's net cash fell dramatically from $6.4m to $1.9m, attributed to specific borrowing to fund tax rebates and cash generation for working capital remains a priority. Because of the FY17 net loss, the company immediately breached its debt covenants, but the bank has waived those breaches and there should be no continuing impact. It seems unlikely that capital will be raised, but more cash would allow management to invest aggressively in its growth engine. ■

RADAR RATING: The underlying business is intact and the content business is good. BYI has opportunities to deliver longer-term rewards although the stock is highly illiquid. HOLD.

RADAR RATING **HOLD**

ASX CODE **BYI**

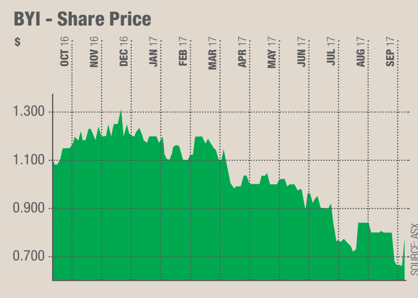
CURRENT PRICE **$0.70**

MARKET CAP **$43M**

NET CASH **$1.9M**

TIP DATE **29 APR 2015**

TIP PRICE **$1.25**



RESEARCH TIP UPDATES

14 SEP 2017

COOPER ENERGY

Gas explorer/developer

Cooper Energy may draw its name from the eponymous inland hydrocarbon basin, but its future prospects lie off Victoria's waters. Wherever Cooper draws its gas from, the molecules are likely to be hotly in demand from local users deprived of supply from the Queensland LNG exporters.

Since our last update on June 8, Cooper has pushed the button on its Sole project in the offshore Gippsland basin, which will dramatically change the company's production profile. Sole is being funded by a $400m debt and equity package, consisting of $265m debt and a $135m rights issue. The latter consists of a $98m institutional raising, which has been completed and a $37m retail raising which closes on Sep 19.

The two-for-five offer is priced at 29.5c, an 11.8% discount to the theoretical ex-rights price and a 16% discount to the August 25 closing price of 35c (ahead of the announcement). Sole is costed at $355m (with $346m remaining to be spent) which means there will be change let over for other measures such as further acquisitions and developing the neighbouring Manta field.

With 249 petajoules of reserves, Sole is expected to deliver 24 petajoules of gas per annum – enough to put a serious dent in the projected gas shortage. In short, it will boost Cooper's output by roughly four fold by 2020 and quadruple the company's reserves to 54 million barrels of oil equivalent. The project leverages existing infrastructure, with the gas processed at APA's Orbost plant acquired from Cooper for $20m. Cooper's current clients include AGL, Energy Australia and Alinta.

Meanwhile, Cooper reported a $12.3m net loss for 2016-17 year, compared with a $34.8m deficit previously. Underlying EBITDA of $5.3m compared with $1.2m previously.

Cooper Energy is thinking big in its quest to transition from an onshore producer to an offshore operator and project developer. There are huge risks in such radical transformations, especially when substantial gearing is involved. One danger is that the projected gas deficit proves to be exaggerated. But there are rewards for the bold as well. ■

RADAR RATING: We're confident that Cooper will be a winner when it produces first output from Sole in March 2019 and we upgrade from a hold to a speculative buy. As for the rights issue, with the shares trading in line with the offer price it's a moot point whether investors should add to their holdings. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **COE**

CURRENT PRICE **$0.29**

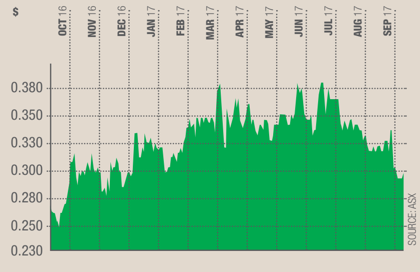
MARKET CAP **$465M***

NET DEBT **$96M***

TIP DATE **9 AUG 2015**

TIP PRICE **$0.21**

COE - Share Price



*Post capital raising and financing package

RESEARCH TIP UPDATES

14 SEP 2017

DATA3
IT services

Having delivered six consecutive quarters of growth, Data3 management could be excused for a round of back slapping after its recent full-year results that showed revenue topping the $1 billion mark for the first time. The party poppers are also justified given Data3 is celebrating its 40th birthday – 20 as a listed company.

The numbers do indeed look solid and we concur that with the shares up 18% so far this calendar year, investors have enjoyed outstanding returns. The question is whether Data3's current $275m market cap (albeit backed by lots of cash) more than factors in the growth as it transitions from a product-based business to a service-based one.

While Data3's overall revenues gained almost 12% to $1.1bn, 'cloud' revenues surged 70% to $169m. These relate to annuity based service work, rather than the upfront installation of capital equipment. Of this public cloud solutions such as Microsoft Office 365 and Azure remained major elements.

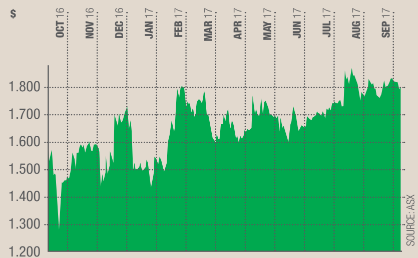
Cut another way, Data3's product revenue grew 12% to $889m and services revenue by 9.5% to $208m. While this implies the old part of the business is growing faster than the new one, the product revenues increasingly are based on a cloud subscription model. In the end, net profit climbed 11% to $15.3m.

Data3 chief Laurence Baynham expects "relatively stable" economic conditions in the current year, which means likely flat demand for traditional technology applications. However the digital-related transformation work will continue to burgeon and that's where the company sees its future.

The robust share run means the stock is trading on a current-year earnings multiple of around 17 times and a yield of around 5%. Investors who weighed in at 99c in May last year are sitting on an 80% gain. ■

RADAR RATING: The stock looks fully valued but is worth holding on for corporate action. If an investor sells out and then the company courts a takeover offer they'll really feel they've missed out on the party. HOLD.

RADAR RATING **HOLD**
ASX CODE **DTL**
CURRENT PRICE **$1.80**
MARKET CAP **$277M**
NET CASH **$135M**
DIVIDEND YIELD **5%**
TIP DATE **25 MAY 2016**
TIP PRICE **$0.99**



ELLEX MEDICAL LASERS
Ophthalmology equipment

Increasingly, the growth driver for the optical equipment maker is its fast-growing iTrack device for minimally invasive glaucoma surgery (MIGS). The risk for investors is that the required investment in rolling out iTrack will continue to weigh on profits as it did on the company's reported full-year results.

In late July Ellex signalled its intention to focus on its high returning iTrack division by re-locating CEO Tom Spurling to Fremont, California where iTrack is based. Production of the iTrack is ramping up to 50,000 units versus 10,000 sold in the 2016-17 year.

Ellex's headquarters is in Adelaide where the laser and ultrasound equipment production facilities are. The separation recognises that while the core business sells capital equipment, iTrack is more profitable being a single-use catheter and thus a consumable.

RADAR RATING **SPEC BUY**
ASX CODE **ELX**
CURRENT PRICE **$0.96**
MARKET CAP **$116M**
NET DEBT **$0.2M**
TIP DATE **1 OCT 2015**
TIP PRICE **$0.40**

RESEARCH TIP UPDATES

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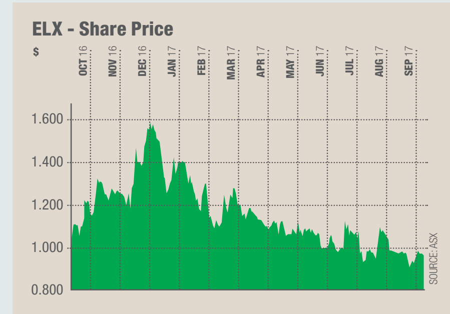
Revenue declined 1.7% to $71.6m and Ellex's full-year bottom-line loss of $1.9m was attributed to $2.5m of extra sales and marketing for the "transformational" iTrack, as well as the 2RT laser for early aged related macular degeneration. The company reported EBITDA of $1.5m; 81% down on the previous year and was expected. Excluding exchange rate moves, underlying EBITDA was $3.2m.

iTrack was the top-line star performer, with volumes up 41% producing sales of $8.2m. iTrack's US sales grew 53%, to $4.7m. ■

RADAR RATING: Ellex shares have drifted from $1.10 in late July, which we attribute to the indifferent full-year results and currency headwinds. We still like Ellex's growth prospects and maintain a SPEC BUY rating. In particular, the expanded iTrack expansion capacity bodes well.



EMPIRED

IT services

It's a case of the Empired striking back for the diversified IT services house that converted a previous $2.4m deficit into a $3.2m net profit for the 2016-17 financial year. Empired has been transitioning from one-off work and providing 'body shop' labour to ongoing digital-based assignments.

Empired's revenue grew 5% to $168m, with two-thirds of the work flowing from multi-year contracts. The group serves about 200 clients locally and in NZ, generally mid to large corporates or government organisations. After some hesitancy these organisations are spending on IT again, if only because they need to concentrate on areas such as managed services, mobile delivery and data and analytics.

A feature of the result was that net debt levels have been halved to $13.8m. Of the operating cash flow of $9.8m, $8.9m was derived in the second half. Interestingly, management highlights the opportunities flowing from the recent sectoral consolidation. Presumably, this refers to market share gains or attracting discontented staff. ■

RADAR RATING: Assuming the company doubles earnings this year, which is expected, the stock trades on a forward earnings multiple of 13-14 times. Given the risk of this not happening we still suggest taking profits, but it's a close call. One shareholder cashing in its chips is the Geoff Wilson web of listed investment companies, which was a 7.3% shareholder but is no longer substantial. TAKE PROFITS.

RADAR RATING **TAKE $$$**

ASX CODE **EPD**

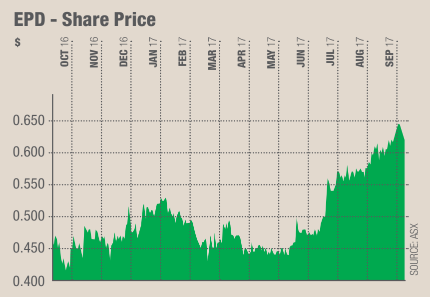
CURRENT PRICE **$0.62**

MARKET CAP **$99M**

NET DEBT **$13.8M**

TIP DATE **6 JULY 2016**

TIP PRICE **$0.34**



RESEARCH TIP UPDATES

14 SEP 2017

HERE, THERE & EVERYWHERE (HT&E)

Media and entertainment

The company is now called Here, There & Everywhere(HT&E), renamed from Australian Provincial News. While headline figures grew dramatically, there was a significant contribution from the remaining 50% of the outdoor advertising business Adshel acquired in October. That acquisition was financed with stock issued at $2.45, and we think that the new investors will continue to put pressure on the HT1 price.

The company reported for the six months to 30 June 2017 and underlying earnings grew in the low double digits to 7c a share, from which a 3c fully franked interim dividend will be paid. There is a heavy amortisation charge for the goodwill related to Adshel. These were the first results for some time which reflect the new HT&E, after the stock evolved from the five or six businesses in the original APN. The company's revenue is now balanced between Adshel, the outdoor and transport advertising business, and Australian Radio Network (ARN), which operates two key FM networks in all the large City markets.

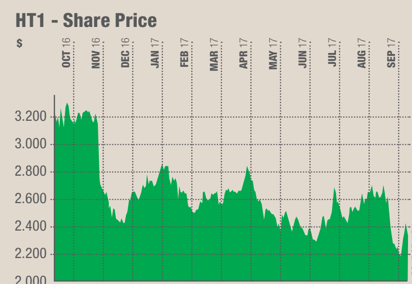
Adshel delivered H1 revenue growth of 14% to $105m, lower than FY16, and underlying EBITDA growth of 23% to $34m, and continues to invest substantial capital expenditure (up to $40m in 2017) in digital locations and smart capabilities.

The company is also investing in the Esports event market or competitive videogaming; something that is very popular. The stock market reacted negatively to the results, even though there were no substantial surprises. The disappointing performance in the radio market is dragging on the stock, and we are not yet convinced by the company's digital initiatives but will look closer when the business becomes more meaningful. ■

RADAR RATING: We were reasonably right to take profits on APN at $2.68 in March and even sharper with the same call at the equivalent of around $4.10 in May 2016, ahead of the demerger of NZM. We think that the market valuation is now coming in towards the value of the underlying business, and we are therefore upgrading to HOLD.

The Idle Speculator retains a holding in HT1 in his SMSF

RADAR RATING **HOLD**
ASX CODE **HT1**
CURRENT PRICE **$2.32**
MARKET CAP **$713M**
NET DEBT **$155M**
TIP DATE **10 JUL 2013**
TIP PRICE **$1.12***



*Net of NZM demerger shares

PHARMAXIS

Drug developer

Pharmaxis can expect to bank an extra $15m in the current quarter after its commercialisation partner Boehringer Ingelheim (BI) confirmed the nature of a second clinical program involving one of its anti-inflammatory compounds. BI said it had initiated a phase-two clinical trial to tackle diabetic retinopathy, a leading cause of vision loss in adults aged 20 to 74. Despite the prevalence of the disease there are few effective treatments.

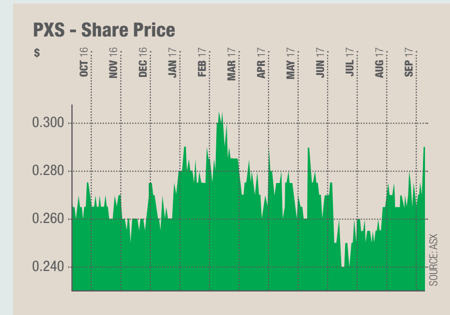
Pharmaxis is entitled to a 10m Euro (A$15m) milestone payment, which is expected in the current quarter. In May 2015 BI bought the rights to the drug, PSX-4728. It is carrying out a clinical program for non-alcoholic steatohepatitis, or fatty-liver disease and has already paid $68m milestones, plus an expected additional $27m in the third quarter. While it was known that BI was interested in a second indication, until now the nature of the program was a mystery.

RADAR RATING **SPEC BUY**
ASX CODE **PXS**
CURRENT PRICE **$0.28**
MARKET CAP **$89M**
NET CASH **$22M**
TIP DATE **30 MAR 2016**
TIP PRICE **$0.245**

RESEARCH TIP UPDATES

Across the two programs, Pharmaxis stands to earn total payments of a maximum $625m but this assumes that both drugs get to market. Separately, Pharmaxis has two drugs set to start phase-one trials in late 2017 or 2018, with two others expected to progress from pre-clinical status. ■

RADAR RATING: The appeal of Pharmaxis lies with its $87m market cap relative to its June cash balance of $22m, plus the now-confirmed $32m of milestones in the current half. With $54m in the bank by Christmas, PXS is well funded to pursue current and future programs and we maintain the stock as a SPEC BUY.



PRIME MEDIA

Regional Television

The regional media company is an affiliate of Seven Network. Its FY17 profit result showed continued progress in reducing debt which is now just around one times NPAT, or just over 50% of EBITDA of $64m, up 15%. Revenue was flat for the full year, offsetting a weak television advertising market despite the benefits of broadcasting the Rio Olympics.

Profits were increased by the government's decision to waive its license fee for FY17, but were reduced by a 6% decline in the regional advertising market. Management was expecting earnings to be down 25%-30% in FY18 due in part to higher programme costs payable to Seven.

Subscribers who took our Buy and Speculative Buy recommendations through the course of FY16 saw their shares decline before recovering most losses as the market has become more comfortable with the ongoing dividend payment and the reduction in the company's debt. A final dividend of 1.7 cents was paid, fully franked, making 3.4 cents for the full year, representing a yield at current prices of 7.5%, or over 10% gross. We think that the dividend provides sufficient support for a business which remains market leader in the regional television space. Its advertising revenue share is almost 44%, from an audience share of 40%. ■

RADAR RATING: Television remains a cash generating business, and Prime's current enterprise valuation of just over 3 times historic EBITDA does not reflect some of the positive cash flow and revenue generation attributes of the business, despite rapidly increasing competitive threats. We are upgrading again to SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **PRT**

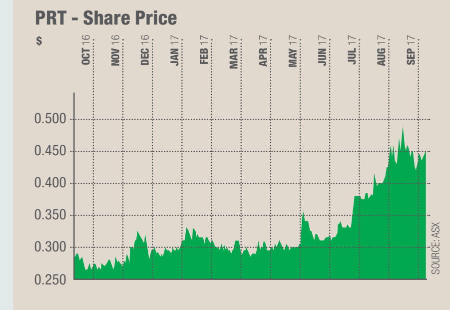
CURRENT PRICE **$0.44**

MARKET CAP **$161M**

NET DEBT **$37M**

TIP DATE **30 SEP 2015**

TIP PRICE **$0.515**



RESEARCH TIP UPDATES

14 SEP 2017

YOWIE
Confectionary

In forecasting a maiden underlying profit for the second half of 2017-18, Yowie management hopes that quintessentially Australian names such as Boof the Bottlebrush, Rumble the Redgum and Squish the Fiddlewood will deliver in the US market.

Given the US chocolate market is capacious but highly competitive, it's creditable that the company sold 13.3 million Yowies during the year, for revenue of $US19.89m ($25.39m), 52% higher. But this disguises an ordinary fourth-quarter performance of a flat $US3.48m, partly the result of the delayed launch of a new product line.

Yowie's full-year reported loss narrowed to $US6.6m from $US7.0m previously, with the deficit resulting from spending on product and manufacturing improvement "to overhaul shortfalls in market progress". Excluding non-cash incentive share expenses, the company's EBITDA loss of $US3.3m was an improvement on the previous $US4.1m.

Yowie CEO Bert Alfonso predicts a "subdued" current quarter, after which 2017-18 growth will accelerate with full-year sales forecast to grow by 55 to 70%.

In May the company launched the Yowies locally, via a distribution tie-up with Universal Candy, but it's the US that investors are focussed on where its suppliers include Wal-Mart and Safeway.

On this front, management itself describes the company as "rejuvenated", which acknowledges sales progress to date has not hit the mark. Despite the progress, Yowie shares are trading at four-year lows, which reflects hiccoughs including the departure in July of US CEO Sal Alvarez. ■

RADAR RATING: If Yowie's fortunes have indeed turned, the stock is exceptionally cheap given the $8m valuation ascribed to the stock once you subtract cash holdings. At the low point, this represents less than one-fifth of forecast current year sales. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **YOW**

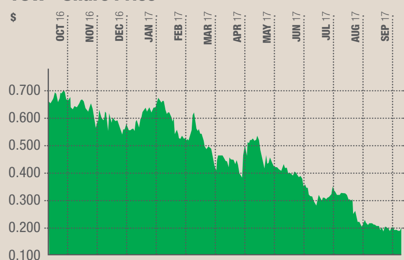
CURRENT PRICE **$0.185**

MARKET CAP **$40M**

NET CASH **$32.5M**

TIP DATE **30 APR 2014**

TIP PRICE **$0.65**



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

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

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Published by Under the Radar Report Pty Ltd
45 Evans Street, Balmain NSW 2041
Telephone +61 2 9106 2167 Email radar@undertheradarreport.com.au

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