under the radar report
SMALL CAPS
ISSUE 263
12 OCT 2017

BOOM TIMES?

Boom Logistics lived up to its name when times were good, but it has been a big achievement to prove that the company was not renamed "Bust" when the market turned.

A big factor in life is simply survival. The crane and construction group has been to the edge like Billabong International (BBG) which we covered last week.

Boom is now poised to benefit from some big forces in the Australian economy. From investing in RCR Tomlinson (RCR) and Seymour Whyte (SWL) Under the Radar has made good money playing the East Coast infrastructure boom and the increasing investment in renewable energy. There are not many ways to profit from these themes, but we think that this will be the case for Boom.

RCR and SWL also went through tough times. One big difference in the survivors is management. Under the Radar is fortunate to have a great deal of contact with companies, which is what you want at the small end of town.

It is important to realise that a Small Cap that has good growth prospects and is cheap will perform well no matter what the economic conditions are.

Adding value in Small Caps involves looking at individual companies and deciding which ones measure up on the crucial criteria of return on invested capital and on earnings growth.

All our team cares about is finding stocks that are going to go up; and when to sell. ■

Richard Hemming
Editor

the issue

Small Talk

"Kogan.com has climbed almost 30% in two months. This is one of the big beneficiaries of the telephony deflation. It also shows that Amazon isn't going to kill retail."

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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BOOM LOGISTICS

The crane specialist is in the turnaround phase and is trading at a 40% discount to its net asset backing. This company has strong management and should benefit from the big spending that's occurring on the East Coast infrastructure and on the renewable energy fronts.

PLAYING THE INFRASTRUCTURE AND REWABLES BOOM

When you look at the history of Boom Logistics from a financial standpoint, all you see is red, certainly in the past five years. The company has made just over $170m in losses in that period, mainly as a result of the deteriorating West Australian economy as demand for its cranes, travel towers or cherry pickers and associated technology and labour has dropped.

But Boom is now poised to benefit from some big forces in the Australian economy. From investing in RCR Tomlinson (RCR) and Seymour Whyte (SWL) Under the Radar has made good money playing the East Coast infrastructure boom and the increasing investment in renewable energy. There are not many ways to profit from these themes, but we think that this will be the case for Boom.

PAYING DOWN DEBT AND VERY CHEAP

The big positive in its favour now is that even though it has made these losses, much of which have been from asset write-downs and impairments, it has reduced its debt load; from well over $100m five years ago to close to $45m. Debt does remain high and we envisage that this will continue to fall as free cash flow remains strong through revenue growth.

Because of the negative sentiment, Boom is cheap, trading at a 40% discount to its net tangible assets per share, and this is after the big write-downs.

The company has reduced its cost base partly through an asset sales program, but also through reducing its employee numbers.

Boom is now able to aggressively grow its profits by taking advantage of the work available in the burgeoning wind farm infrastructure sector; and in the coal sector, which is going through a production boom.

MANAGEMENT IS INCENTIVISED FOR GROWTH

The company has signalled it expects to record double-digit growth on its $150m of revenues in FY17 but it will have to do more than this over the next two years to achieve its targets. Moreover, the board and senior management's confidence in being able to grow earnings quickly is underlined by its 2c target for EPS by September 2019.

In FY17 Boom generated trading EBITDA of $10.6m and because of its big depreciation expense recorded a loss of $10.9m before impairments, which mainly consisted of asset write-downs. If it is to meet its 2c EPS expectations it will need to make at least $30m at EBITDA.

As we've said, one key to meeting this expectation is operating costs, which have come off in the past five years from close to $300m and are now just shy of $140m. The company's crane numbers have gone from 400 five years ago to just over 300.

DEMAND IS CLIMBING

The other key is demand on the East Coast, which is where it is poised continue to grow revenues. Boom has moved much of its asset base or "depot infrastructure" to the East Coast, where it is capitalising on opportunities in the infrastructure and utilities sector. The company has won at least $29m in revenue that will contribute to FY18, much of which comes for the burgeoning demand for its services in wind energy.

RADAR RATING **BUY**

ASX CODE **BOL**

SHARE PRICE **$0.195**

MARKET CAP **$93M**

NET DEBT **$44.4M**

BULL POINTS

- LEAN BUSINESS POISED FOR PROFIT GROWTH
- SOLAR/COAL CONTRACT POTENTIAL
- MANAGEMENT INCENTIVISED

BEAR POINTS

- CONTRACTING BUSINESS MODEL
- HIGH DEBT
- NO IMMEDIATE DIVIDEND PROSPECT

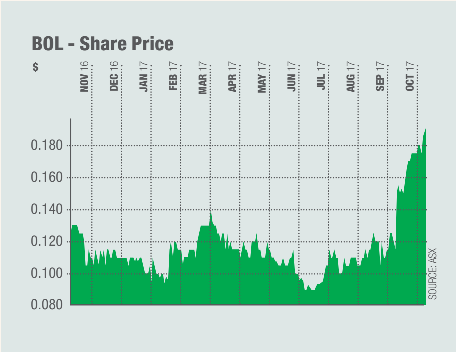
WHY WE LIKE IT

The crane operator was a market darling for some five years after it listed in 2003. It has has been a horrible performer since then, suffering from a competitive market and too much debt. The group's latest result shows that management is successfully improving profitability after cutting costs to the bone and reducing debt. More to the point, senior managers are well incentivised to grow earnings per share over the next few years (at least). If the turnaround is a success, this stock should make investors a great deal of money. After all, it's trading on a 40% discount to its net asset backing; and the group is lining up contracts in the fast growing infrastructure and wind energy markets.

WHAT'S NEW

The company has impressed reducing its net debt from almost $90m only four years ago to its current level of just over $46m through an asset sale program, which has concluded. Boom now has some $210m worth of fixed assets (mainly cranes) on its balance sheet. The company made a loss of $22.6m for the period, but it had an $18m depreciation charge. At EBITDA if you exclude one-offs, it made $10.6m on $150m in revenues. Management is highly incentivised to generate a yearly profit of 2c at earnings per share by September 2019. We estimate that this translates to about $30m in EBITDA. The pressure is on!

In its latest result it was noteworthy that the second half showed revenue was stronger than the first, and up 36% on the same period last year. Historically this has not been the case. Overall revenue for FY17 was just over $150m, split $73.1m to $77m in the first and second halves. This was almost the exact reverse of the prior year and shows that momentum is moving in Boom's favour (finally).



BOOM COULD LIVE UP TO ITS NAME AGAIN

The crane operator has been through one of the toughest periods and as it was going through this period it had well over $100m in debt, hanging over management's head.

Boom has been effected by fleet write-downs prompted by revenue declines and profit margin cuts; all a result of weaker commodity prices and project delays in Western Australia.

Boom Logistics lived up to its name when times were good, but it has been a big achievement to prove that the company was not renamed "Bust" when the market turned. The West has been hit by an oversupply of cranes together with reduced infrastructure spending. This has created intense competition for ad hoc work, which has depressed prices.

The group's survival means that it has slimmed down its cost base, and has recalibrated its business to take advantage of increasing infrastructure spend on the East Coast of Australia as well as the rapidly growing demand for renewables technology. ■

> **BOOM IS NOW POISED TO BENEFIT FROM SOME BIG FORCES IN THE AUSTRALIAN ECONOMY. FROM INVESTING IN RCR TOMLINSON (RCR) AND SEYMOUR WHYTE (SWL) UNDER THE RADAR HAS MADE GOOD MONEY PLAYING THE EAST COAST INFRASTRUCTURE BOOM AND THE INCREASING INVESTMENT IN RENEWABLE ENERGY. THERE ARE NOT MANY WAYS TO PROFIT FROM THESE THEMES, BUT WE THINK THAT THIS WILL BE THE CASE FOR BOOM.**

AUSTAL
Ship builder

Austal announced a contract to supply a 15th littoral combat ship to the US Navy from its Alabama shipyard, another successful extension of its original 10 ship order, with two new ships ordered this year. This amounts to a total of approximately $1 billion of business, which would be earned over two to three years.

The market reacted positively, which was on top of news of a less important service contract in Australia. There was also the announcement of two 100 metre ferries for one of their original trimaran ferry customers, the Fred Olsen line, amounting to $190m worth of business. Austal said that no decision had been made about whether the ships would be built in Australia or the Philippines.

The ferries will almost certainly be made in the Philippines unless Austal wins a share of the Australian Government's $35bn offshore patrol vessel (OPV) program.

The program is under a cloud as far as domestic ship building is concerned after Australia's Defence Department released a specification which does not have a domestic production requirement. At a Senate hearing, Austal's chief executive David Singleton pointed out that potential partners his company had been talking to have gone quiet since the specification was released.

Austal's share price had fallen almost 20% over the past few months on negative sentiment about the OPV business, which remains in doubt.

We continue to like Austal because the underlying flow of business through its yards should ensure that the company is able to retain the talent and workforce that is critical for its ongoing production capability. It is clear that Austal's US business is delivering what its client (the US Navy) wants. ■

RADAR RATING: We upgrade to a speculative buy on the basis that the Australian Government's $35 billion offshore patrol vessel contract is too important to ignore, and it is possible or even likely that Austal's role will be much less than originally speculated. SPEC BUY.

*The Idle Speculator retains a holding in ASB in his SMSF.

RATING **SPEC BUY**

ASX CODE **ASB**

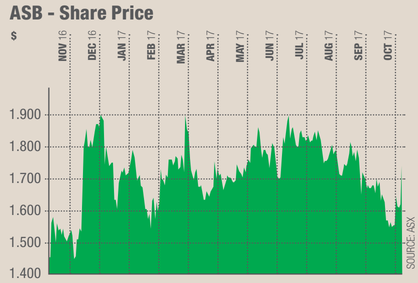
CURRENT PRICE **$1.72**

MARKET CAP **$600M**

NET DEBT **$33M**

TIP DATE **13 JAN 2016**

TIP PRICE **$1.115**



RESEARCH TIP UPDATES

12 OCT 2017

SELECT HARVESTS

Almond producer

Select Harvest had an eventful Monday, announcing a $45m placement and capital raising, which we had foreshadowed in our last note, as well as a rejected takeover approach. The takeover interest from an Abu Dhabi sovereign entity was ultra-conditional, required extensive due diligence, and was pitched at $5.85 a share in cash.

The share price before this news was under the $4 level, but the placement was priced at $4.20, and shareholders will be able to subscribe for up to $15,000 worth at $4.20 as part of a share purchase plan. At this stage there are likely to be clawbacks, as numerous shareholders attempt to acquire their full $15,000 SPP allocation.

The board rejected the takeover on the basis that the due diligence which was required was too onerous; there was insufficient regulatory certainty for this foreign bidder; and the price wasn't high enough to put to shareholders.

The impact of this year's weather-related crop shortfall should be limited. It's likely that the crop bounces back next year, subject to weather and other unanticipated conditions. We said before the results that we maintained our positive view of the stock despite current production problems, and reminded ourselves that production due to increased capacity will increase year over year through to the middle of next decade. But Select's difficulties this year have been a reminder why an agricultural stock discount exists to reflect the specific risks of the sector. ■

RADAR RATING: The stock remains a Hold, and if you have the money, shareholders should Buy the maximum possible number of SPP shares, as the Under the Radar Report portfolio will. We will review the stock after the capital raising. HOLD.

RATING **HOLD**

ASX CODE **SHV**

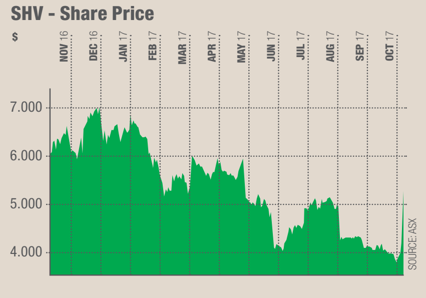
CURRENT PRICE **$5.00**

MARKET CAP **$422M**

NET DEBT **$59M***

TIP DATE **24 MAR 2016**

TIP PRICE **$2.60**



*Estimated after placement

UNDER THE RADAR SMALL CAP PORTFOLIO

There has been some big news in some of Under the Radar's big holdings. Below we say what we're doing and why.

SOLID OVERALL PORTFORMANCE

Overall, the portfolio's performance has been tracking steadily higher until a recent spike. This spike was in no small put due to a couple of large holdings. First, the litigation funding group Bentham IMF (IMF) which has moved to fresh highs. Second, the FIFO operator Alliance Aviation (AQZ) has also been a very strong performer. Since refocussing our portfolio since April, we are up over 13% on an annualised basis despite still relatively high levels of cash, reflecting our still dominant conservatism.

The group's strong performance has withstood some negative moves, which goes to show how important diversification is and also having a solid cash weighting. Pacific Current (PAC) sold its 40% holding in Investors Mutual, led by Anton Tagliaferro, which sent its stock down by around $1. We covered the story in the last issue, and do not think that the market's reaction was the right one. We had already downgraded to hold, and maintained that recommendation. We can live with one of our holdings improving its balance sheet without losing too much of its earnings and cash flow power.

ACTIONS WE'RE TAKING

We are going to sell a couple of our longest held holdings, both of which have done more than their share of water carrying for us over the last few years, but both of which have been downgraded by our analyst team to take profits. We think that it makes sense to recycle profits into other names and doing this gives us room for new names as they become available at the right price.

The new stocks that we are going to introduce into the portfolio include entertainment and leisure group Village Roadshow (VRL) which we think represents one of the better larger bargains on the market. Its debt position had become a slight problem, but the current plans to sell the Singapore business and the land under the Gold Coast theme parks will solve that problem and leave plenty of headroom for growth.

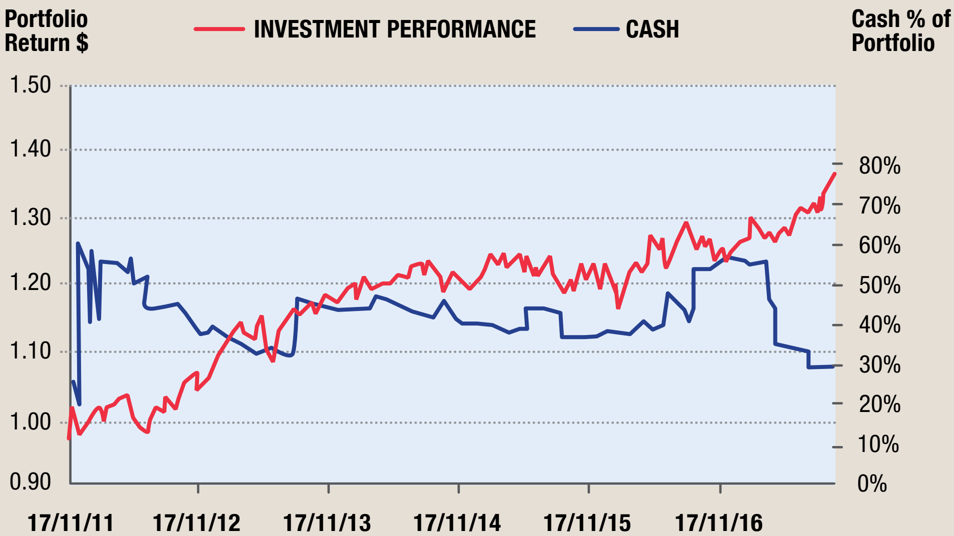
For some time, we have also been interested in adding the shade manufacturer Gale Pacific (GAP) to the portfolio, and its price has not moved much since slightly disappointing full year results. A company run share buyback should provide ongoing support, and we think that the operational results have room to improve from here.

We will add to our position in the niche pharmaceutical company Medical Developments (MVP) where we did not quite have enough skin in the game to move the needle with the recent price trend. The company's "green whistle" has been licensed to be used in all UK ambulances, and the market has obviously taken this as a positive sign for the global potential of the business.

STEADY AS SHE GOES

Performance of Under the Radar's Small Cap Portfolio

First Dollar measured this portfolio's total investment performance for the period from 17/11/2011 to 10/10/2017 as 36.6%, a compound annual growth rate (CAGR) of 5.4%.



under the radar report

PORTFOLIO UPDATE

12 OCT 2017

ASX CODE	COMPANY NAME	LAST TRANSACTON DATE	NUMBER HELD	TOTAL COST ($)	PRICE @ 10/10/17 ($)	CURRENT VALUE ($)	SHARES (%)
AQZ	Alliance Aviation Services	04/04/2017	500	$3,678	$1.37	$6,850	7.2%
ASB	Austal	14/06/2016	2500	-$3,078	$1.74	$4,363	4.6%
CAA	Capral	18/07/2017	50000	-$8,383	$0.14	$6,750	7.1%
CLV	Clover Corporation	18/07/2017	8000	-$3,383	$0.47	$3,720	3.9%
ESV	eServGlobal	29/07/2016	10000	-$2,215	$0.20	$2,000	2.1%
GETB.LN	GetBusy Plc	04/08/2017	1333	$0	$0.50	$667	0.7%
IMF	Bentham IMF	12/04/2016	4000	-$5,508	$2.22	$8,880	9.3%
INA	Ingenia Communities	18/07/2017	2636	-$7,209	$2.67	$7,038	7.4%
IPD	Impedimed	04/04/2017	5000	-$3,728	$0.80	$4,000	4.2%
MAQ	Macquarie Telecom Group	10/06/2014	300	-$2,395	$14.24	$4,272	4.5%
MLB	Melbourne IT	08/08/2016	2500	-$3,203	$3.00	$7,500	7.9%
MVP	Medical Developments	13/04/2017	400	-$2,080	$5.55	$2,220	2.3%
NZM	New Zealand Media	23/06/2016	1143	$0	$0.82	$943	1.0%
PAC	Pacific Current	26/07/2016	1500	-$8,096	$6.75	$10,125	10.6%
QHL	Quickstep Holdings	24/11/2015	13030	-$2,499	$0.09	$1,108	1.2%
RKN	Reckon Limited	27/04/2017	4000	-$6,395	$1.27	$5,080	5.3%
SFH	Specialty Fashion Group	29/06/2016	10000	-$6,778	$0.28	$2,800	2.9%
SHV	Select Harvests	04/04/2017	1000	-$4,935	$5.10	$5,100	5.3%
SXE	SCEE	04/04/2017	10000	-$4,595	$0.74	$7,400	7.7%
GOLD	ETFS Physical Gold	04/11/2014	30	-$3,868	$156.80	$4,704	4.9%
SHARES	**70%**					**$95,519**	
CASH	**30%**					**$40,388**	
TOTAL VALUE						**$135,907**	

The performance of the mobile payments specialist eServGlobal (ESV) has finally improved, and though we are slightly down on the position, we are happy to still have our small speculative position now that the company's remittance associate HomeSend (which is controlled by Mastercard) appears to be close to kicking some goals.

Of the other existing holdings, we were considering topping up the stake in almond producer Select Harvest (SHV) at around $4, but the recent bid and capital raising activity and share price spike means that we'll hold back for the moment. It is also important to concentrate on our losers, to identify what mistakes we have made, and what needs to be done about them. The losing positions that most concern us include the fashion retailer Specialty Fashion (SFH) the accounting software group Reckon Limited (RKN), and at a much smaller level the carbon fibre technology group Quickstep(QHL). Although the latter two are not big positions, these are the stocks that have performed on fundamental level the furthest away from our hopes and expectations when we bought. We are not ready to sell yet, and Reckon may yet improve, but if we need tax losses, we know where to go.

SUMMARY OF PORTFOLIO ACTIONS

The following trades will be struck at tomorrow's closing prices:

SELL 300 Macquarie Telecom (MAQ)

SELL 2500 Melbourne IT (MLB)

BUY 400 Medical Developments (MVP) @<=$6.00

BUY 1500 Village Roadshow (VRL) @<= $4.00

BUY 10000 Gale Pacific (GAP) @<=$0.40

BEST MONEY MAKING IDEAS

AS AT 11 OCTOBER 2017

**Return includes dividends and is after brokerage*

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

COMPANY	ASX	INDUSTRY	MARKET CAP $M	DIVIDEND YIELD (%)	LAST PRICE $	RETURN %	WHY WE LIKE IT
CABCHARGE	CAB	Financial services	208.9	11.5	1.74	-28.6	The taxi payment and operator's shares have breached the $2 level and trade at historic lows, despite the reasonable full-year results unveiled on August 29. While there's no doubting Cabcharge's uber-sized challenge the group is fighting back against payments rivals and improving customer satisfaction. Cabcharge's operating cash flow remains strong and the stock yields 10%, fully franked.
COOPER ENERGY	COE	Oil & Gas	428.0	-	0.27	-54.7	With forecasts of a dire east coast gas shortage dominating the headlines, Cooper Energy is in pole position to tap firming prices with its planned $355m Sole project in offshore Gippsland. Funded by debt and a completed $135m rights raising, Sole will radically transform Cooper Energy by boosting its output and reserves four fold. While there are attendant risks with such big projects, we believe Cooper will have no trouble signing up hungry gas users for its output.
GALE PACIFIC	GAP	Manufact.	114.4	5.2	0.39	78.4	The shade cloth manufacturer produced a solid first (June) half result, one highlight being sizeable debt reduction. Gale has a global view, selling in markets including the US and the Middle East. If anything, revenue performance has been a bit weak, with record operating cash flow attributed to tight inventory control. If top-line sales pick up, Gale has the leverage to generate big profit growth.
INGENIA COMMUNITIES	INA	Property	559.7	3.8	2.66	7.3	Because of its use of new technology and an innovative funding scheme for retirees, the retirement community specialist is a value proposition that is almost without peer. The trust continues to be good value because its weakness reflects the market's view that its expansion is limited. We beg to differ. This group is in a sweet spot and trading on a PE of 12 times and on a dividend yield of 4.5% and it continues to justify a place on our Best Ideas.
MAYNE PHARMA	MYX	Pharma-ceuticals	1041.2	-	0.68	105.2	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 1.5bn shares on issue. We think it's speculative but very cheap.
MILLENIUM SERVICES	MIL	Services	77.1	4.7	1.68	6.3	The contract cleaning group is delivering strong earnings growth based on its shopping centre clients. The next stage of evolution is a concerted push into security services, either stand alone or through integrated (security and cleaning) contracts. The company does not seem to have suffered from June's abrupt management change that saw the departure of managing director Mark Baldwin. Millennium trades on a low earnings multiple and is a strong dividend performer, while the services on offer are resilient to a downturn.

BEST IDEAS

12 OCT 2017

COMPANY	ASX	INDUSTRY	MARKET CAP $M	DIVIDEND YIELD (%)	LAST PRICE $	RETURN %	WHY WE LIKE IT
MONEY3	MNY	Financial services	237.2	3.7	1.53	6.3	Once well known as a "payday" lender, Money3 has been through a painful process of transforming its business to a predominantly secured lender, focused on financing used cars by purchasers with blemished credit histories. Money3 trades at a deep discount to the financial sector, a legacy of past issues that have largely been resolved. We see no reason why the group should not continue to generate strong auto earnings, either from its direct business or brokered operation. The stock looks cheap on a multiple of eight times and a yield of 3.7%, fully franked.
PHARMAXIS	PXS	Biotech	84.6	-	0.27	82.8	The drug developer's coffers are to be further bolstered with its partner Boehringer Ingelheim confirming a second clinical program for Pharmaxis's anti-inflammatory compound PSX-4728. Having already started trials to treat fatty-liver disease, BI is now also targeting the common vision disorder diabetic retinopathy. The immediate bottom-line benefit for Pharmaxis is a $15m up-front payment this half, adding to the $27m due for the first indication. With more than $50m in the bank, Pharmaxis will be more than adequately funded to pursue its separate promising clinical programs.
RURALCO	RHL	Rural Services	296.8	3.5	2.84	-7.5	This is a well-diversified Australian agriculture play as a rural merchandiser, orchardist, property agent and water rights holder and trader. Despite dry conditions in WA and SA cropping areas, management expects a similar second half result to the first half when it reports in November. Given earnings are normally biased to the first half, this is positive. Meanwhile, recent share weakness means the stock is trading on an earnings multiple of ten times and yield approaching 5%.
TOX FREE	TOX	Waste Services	500.6	3.7	2.47	16.3	From a big-picture viewpoint the waste manager is in a high growth sector given population grown inevitably means more detritus. At a corporate level the WA-based Tox has successfully grown and diversified via a string of acquisitions, most recently the $186m purchase of Daniels Health. We like the stock for its mid-term prospects, although it carries significant debt. Management's intention to focus on its existing purchases and organic growth is also welcome.
VILLAGE ROADSHOW	VRL	Tourism & Leisure	637.1	-	3.93	-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. The proposed sale and leaseback of Gold Coast land is under way for about $100m to meaningfully reduce debt, which is high relative to depressed earnings in all three main divisions. But with FY17 operating cash flow of $130m, the earnings power of the operating assets remains intact. Most of its businesses should be able to return to growth in FY18, although there are always likely to be cyclical roadbumps in any consumer facing operations. Once the operations have been stabilised, the stock should (literally) pay dividends again.

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