under the radar report

SMALL CAPS

ISSUE 266
02 NOVEMBER 2017

BATTERY POWERED STOCKS

There are structural changes in the automotive market because of the need to reduce pollution and carbon emissions. This is where batteries come in, of which one essential component is lithium. This sector offers exciting prospects and this issue we introduce you to the key players on the ASX. These stocks are climbing fast, but because it is a 40 to 50 year industry, there is still time to pick long-term winners.

There are many lithium explorers, but we're interested in companies that are either producing today or in the next six months. It is those ones that we believe can deliver the best risk return for subscribers. We go through our favoured lithium mining companies in detail.

Speaking of structural changes the big telcos, Telstra (TLS), Vocus (VOC) and TPG (TPM), are going through some tough times as telephony and internet prices fall because of increasing competition. The NBN is a massive churn event that will cut through household inertia. Even when people are dissatisfied, they currently don't bother changing their broadband provider. But with the NBN, everyone has to take some action to hook up.

One exception to this is a Small Cap, which we cover in this issue. The software/telephony specialist MNF is going through the roof and is closing in on $6. The stock has performed fantastically for Under the Radar Report subscribers who took our advice to buy in June at $4.28. We followed this call up with a further Speculative Buy at $5.10 in August after the results, and the stock has barely looked back in October.

If you missed MNF, don't worry. There is always another opportunity at the small end of town. Just take a look at the Small Caps we like in this issue. ■

Richard Hemming
Editor

the issue

SPECIAL REPORT: LITHIUM 02

Why lithium will keep powering some stocks to greater heights.

Pilbara Minerals (PLS)
Mineral Resources (MIN)
Kidman Resources (KDR)
Altura Mining (AJM)
Orocobre (ORE)
Galaxy Resources (GXY)

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Gale Pacific (GAP)
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MNF (MNF)

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Small Talk

"There are many lithium explorers, but we're interested in companies that are either producing today or in the next six months. It is those ones that we believe can deliver the best risk return for subscribers."

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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BATTERY POWERED STOCKS

There are structural changes in the automotive market because of the need to reduce pollution and carbon emissions. This is where batteries come in, of which one essential component is lithium. This sector offers exciting prospects and we introduce you to the key players on the ASX. These stocks are climbing fast, but because it is a 40 to 50 year industry, there is still time to pick long-term winners.

WHY LITHIUM?

Batteries are made from several substances including cobalt, nickel, lithium and graphite. We're looking at lithium because that offers the best opportunities for investors because these produces are generating cash flow now or in the very near future. The only graphite stock that ticks this box is Syrah Resources (SYR). There are no pure cobalt producers that are cash flow positive. While there are a number of nickel producers, most of their production is going into stainless steel.

WHAT HAS BEEN THE PRICE OF LITHIUM CARBONATE?

In general terms the battery grade lithium carbonate price has climbed from US$5000 a tonne to well over US$15000 in the past two and half years. This is not exact, however, because lithium is not traded on an exchange and is not transparent, which is why we put so much stock in off-take agreements.

In an off-take agreement the purchaser agrees to take a certain volume of product at a certain price range. The volumes of lithium being traded on the market are much larger than even five years ago; and off-take agreements are crucial for the bigger projects. This is both in terms of getting finance and in terms of security of sales.

"Spodumene" concentrate is produced from hard rock lithium and is produced by most Australian mines. It is lower grade than **lithium carbonate**. Off-take spodumene prices are determined from a market linked price reference to Battery Grade lithium carbonate sold in China. These have quarterly review mechanisms.

There are many lithium explorers, but we're interested in companies that are either producing today or in the next six months. It is these stocks that we believe can deliver the best risk return for subscribers.

LITHIUM BRINES

Lithium brines or evaporated salt lakes, that are predominantly in South America, have provided the majority share of lithium supply. Brines have produced high value end products such as lithium carbonate and lithium hydroxide, which can be used almost directly by battery makers.

However, faced with the sharp increase in demand from a number of new, large scale battery makers, lithium brine sources will not meet the demand because of longer construction lead times for the mines, high capital intensity, greater technical complexity and political considerations.

AUSTRALIAN HARD ROCK MINES NEEDED TO SUPPLY LITHIUM'S GROWTH

Hard rock lithium mining is providing the alternative. It is a complex process and results in an extracted **"spodumene" concentrate** being shipped to a 'converter', normally in China. *Approximately 7.5 tonnes of concentrate is required to produce 1 tonne of lithium carbonate.*

The spodumene concentrate is a lower value product than the lithium carbonate of the brine producers but can be very profitable, if produced efficiently at low cost in open pit mine operations.

RADAR RATING: THE BEST POSITIONED LITHIUM STOCKS

There is a great deal of heat in the lithium stocks because the hype surrounding the applications for battery technology has never been greater. These stocks have doubled, tripled and more in very short times. Does this mean you've missed the boat?

Under the Radar's view is that the miners, both the existing producers and those that are nearing production will experience big increases in cash flow, which will lead to a re-rating of those stocks. These include Mineral Resources (MIN), Pilbara Minerals (PLS), Altura Mining (AJM) and Kidman Resources (KDR), which we cover below.

The big risk is if demand from the rapidly expanding market for batteries is slower than expected. But because the automotive industry is under increasing regulatory and social pressure to reduce pollution and carbon emissions, structural change is occurring: Electric cars are only going to increase in number, while the demise of the diesel based internal combustion engine will accelerate.

WHY THERE HAS BEEN BIG RECENT SPIKES IN THE LITHIUM PRICE

Moves by a number of European governments in the past 12 months to ban or restrict the manufacture and sale of petrol or diesel vehicles by a predetermined future date (eg UK and French ban commences in 2040) has provided a burst of confidence to the lithium market. The changes are confirming the beginning of the demise for conventional petrol and diesel based internal combustion engines.

As a result of this, we are seeing the rapid development of lithium "mega" mines. This begs the question, what's so special about lithium?

LITHIUM IS THE INCUMBENT BATTERY TECHNOLOGY WITH SUPERIOR ENERGY DENSITY

In lithium–ion batteries, lithium chemicals are used for the battery cathode. The first big advantage of lithium is that it can be re-charged. The other advantage is that the batteries are lighter because they have a higher power density. You can have a much smaller battery, with a longer-life and more power, which can be re-charged. This is pretty important for a car!

Lithium based batteries are being constantly improved and almost 95% of batteries used in electronic devices are lithium based, which explains why the global motor industry, with its future based on the rise and rise of electric vehicles, is focused on lithium batteries.

LITHIUM GROWTH AND DEMAND

The demand for lithium is growing. Annual global electric vehicle sales will reach 24.4 million units by 2030, according to the energy consultant Bloomberg New Energy Finance. This would account for about 20% of all vehicle sales.

In September 2017 Pilbara Minerals (PLS) gave forecasts of **lithium carbonate equivalent (LCE)** demand provided by the independent research group, Roskill. In its base case, LCE demand is forecast to increase 4-5 times from 185,000 tonnes in 2016 to 864,000 tonnes in 2026, while the high case is 1,466,000 tonnes in 2026.

> **THERE ARE MANY LITHIUM EXPLORERS, BUT WE'RE INTERESTED IN COMPANIES THAT ARE EITHER PRODUCING TODAY OR IN THE NEXT SIX MONTHS. IT IS THOSE ONES THAT WE BELIEVE CAN DELIVER THE BEST RISK RETURN FOR SUBSCRIBERS.**

This forecast backs up the decisions of companies like the privately owned Perth based group Talison Lithium, Pilbara Minerals (PLS) and Mineral Resources (MIN) to think big on the capacity of their lithium production. Although most projects are being developed in stages.

HOW MANY GIGAFACTORIES?

The forecast base case assumption for 2030 is for there to be 24.4m cars each being powered by a 50kWh battery. This gives you a total energy capacity requirement for all electric vehicles of 1220 gigawatt hours (GWh). The Tesla Gigafactory I in Nevada has a planned annual production capacity of 35 GWh and a capital cost believed to be around US$5 billion.

Based on our calculations you would need 35 times the capacity of one Tesla gigafactory to supply the world's electric vehicles. That's a lot of lithium! ■

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There are many "lithium" companies, but the vast majority are still explorers or early stage developers. Below we have selected more advanced companies that are either in production now or planning to commence production in the next six months. They appear in order of our investment rating.

PILBARA MINERALS

Hard rock lithium developer of one of the largest lithium projects, near term production

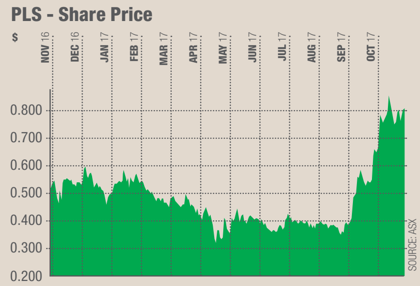
Pilbara Minerals owns 100% of its Pilgangoora hard rock lithium-tantalum project, located 120km south of Port Hedland. Initial production is planned for early 2018, with shipping targeted for Qtr 2, 2018. A preliminary feasibility study has also confirmed attractive economics for an expansion to 800,000 tonnes a year spodumene concentrate (Stage 2).

Stage 1 production has been underpinned by off-take agreements as has Stage 2. Off-take linked debt will provide a financing solution for a significant proportion of the capital requirements for Stage 2.

Pilgangoora cash margins are projected to be high due to the low cash operating costs. The project has significant scale, a low strip ratio (the amount of earth needed to be shifted to extract a tonne of ore), a tantalum by-product credit and proximity to infrastructure. The Pilganoora resource offers upside for further resources and reserve growth and the potential for an operating life in excess of 20 years. ■

RADAR RATING: After completion of the Stage 2 expansion, Pilbara Minerals has the potential to be the largest Australian listed hard rock lithium producer. SPEC BUY.

RATING **SPEC BUY**
ASX CODE **PLS**
CURRENT PRICE **$0.82**
MARKET CAP **$1.3BN**
NET DEBT **$37.1M**



MINERAL RESOURCES

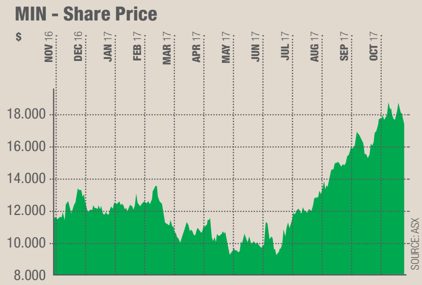
Diversified services and mining company with fast growing lithium arm

Mineral Resources is the world's largest provider of contract crushing, a significant multifaceted mining services provider and an iron ore producer with annual capacity of 13 million tonnes a year, with potential expansion to over 20m tonnes. In 2017 a lithium production arm was added.

The Mount Marion lithium mine, 40km south west of Kalgoorlie (Mineral Resources has a 43.1% interest) is already achieving an annualised rate of above 474,000 tonnes of concentrate at 6% and 4% lithium oxide. The offtake partner at Mount Marion is Jiangxi Ganfeng Lithium Co, which also owns 43.1% of the project. With a JORC resource of 78mt at 1.37% lithium oxide, a mine life of over 30 years is envisaged.

The real upside is Mineral Resources' 100% owned Wodgina project (100km from Port Hedland), which may be the largest known hard rock lithium deposit in the world. This has a JORC resource of 198mt at 1.18% lithium oxide, with potential for additional resource and a mine life exceeding 30 years. The company currently plans to commence the commissioning at a nominal 250,000 tonnes a year of 6% spodumene product each, during Q3 of CY 2018, with the commissioning of the second module immediately afterwards.

RATING **SPEC BUY**
ASX CODE **MIN**
CURRENT PRICE **$17.72**
MARKET CAP **$3.3BN**
NET CASH **$103.5M**



Mineral Resources is also carrying out feasibility level engineering and design for a lithium downstream plant. This would capture additional revenue in the lithium value chain. The initial stage would produce a nominal 50,000 tonnes a year lithium carbonate with a plant design footprint designed for expansion to 100,000 tonnes. ■

RADAR RATING: Mineral Resources is expected to continue to grow its contract crushing, mining services and iron ore mining activities. Its new lithium arm is globally significant, with progressive sales growth leading to 950,000 tonnes of annual sales volumes in the next 5 years. SPEC BUY.

KIDMAN RESOURCES

The only ASX listed integrated spodumene project in WA

Kidman Resources is developing the Mt Holland hard rock lithium project, located about 300km south west of Kalgoorlie WA, with partner SQM. SQM is investing US$110m to earn 50% of the project. SQM is a Chilean head-quartered, global integrated producer and distributor of speciality chemicals and the world's largest lithium producer.

After establishing a mine and processing plant to produce 6% spodumene concentrate, the parties are looking to develop a refinery to produce lithium carbonate and/or hydroxide. SQM has proprietary designs for a refinery, with indicated production of 44,000 tonnes of lithium hydroxide or 37,800 tonnes of lithium carbonate. The project has an expected start date of 2019. ■

RADAR RATING: KDR's partnership with SQM, potential extensions to the Mt Holland resource and progress regarding downstream value adding with the production of lithium carbonate or hydroxide all offer potential for positive catalysts and news flow. SPEC BUY.

RATING **SPEC BUY**

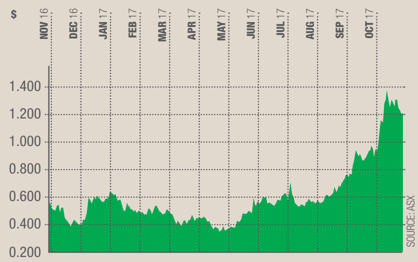
ASX CODE **KDR**

CURRENT PRICE **$1.30**

MARKET CAP **$459M**

NET DEBT **$3.8M**

KDR - Share Price



ALTURA MINING

Hard rock lithium developer

We've covered Altura a number of times over the years which really illustrates how this company can continually rise from the ashes because it has a diverse resource base in the Pilbara region of Western Australia. In its latest iteration the company is working to develop its Pilgangoora hard rock lithium-tantalum project, located 120km south of Port Hedland. Its Pilgangoora mineral deposits adjoin those of Pilbara Minerals but their ownership is separate. However, the two parties have a mutual access agreement and a Memorandum of Understanding.

Initial scheduled production of 220,000 tonnes a year at 6% lithium oxide spodumene concentrate is planned to commence from the first quarter of 2018, with shipping targeted before 30 June of that year. A feasibility study is underway to consider options for an expansion to 450,000 tonnes a year and is expected to be delivered early next year.

Binding five year off-take contracts, with market linked annual pricing, have been established for 100% of planned production with two leading battery manufacturers. These contracts, for 6% spodumene concentrate, have maximum US$950 per dry

RATING **HOLD**

ASX CODE **AJM**

CURRENT PRICE **$0.35**

MARKET CAP **$622M**

NET DEBT **$6.3M**

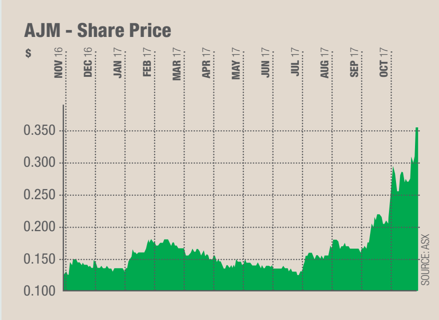
TIP DATE **3 NOV 2011**

TIP PRICE **$0.17**

metric tonne and minimum US$550 prices. With projected life of mine costs of A$316 a tonne, margins are attractive throughout the contract price range.

Altura mining has a JORC resource of 42.6 mt at 0.99% lithium oxide and a projected mine life of around 20 years. ■

RADAR RATING: Altura Mining is scheduled to be shipping lithium concentrates in Q2 2018. The company provides exposure to the lithium price and potential production growth from an expansion, but there is so much hype that we believe it's a good thing to wait. HOLD.



OROCOBRE
Australian lithium brine operator

Orocobre is the only lithium brine operator listed on the ASX. It is also a current producer.

The company owns 66.5% of the Olaroz Lithium Facility located in the Jujuy Province in Northern Argentina. The giant car manufacturer Toyota Tsusho Corp owns 25%.

In FY17, lithium carbonate sales from the Olaroz Facility were 12,296 tonnes at an average price of US$9,673/t. Sales of 14,000 tonnes are projected for FY18 – the company is forecasting a price of over US$10,000/t. Orocobre is gradually overcoming production hurdles and is working towards achieving its Phase 1 designed capacity of 17,500 tonnes a year.

At a later stage, a Phase 2 expansion of 17,700 tonnes a year is proposed, which would double the capacity of the facility and incorporates lithium hydroxide production. This sells at a significant premium to lithium carbonate. The Salar de Olaroz brine resource has a substantial measured and indicated resource of 6.4 Mt lithium carbonate.

The Olaroz Facility generated FY17 EBITDAIX* of US$71.2m (*before interest, tax, depreciation, amortisation, impairment and forex) from US$120m revenue at an operating cash cost of US$3,710/t. ■

RADAR RATING: Orocobre provides a high profit margin exposure to a proven lithium brine producer with rising production and future expansion. However, there are technical hurdles, which the company is struggling to over come, which is why we rate this stock WATCH LIST.

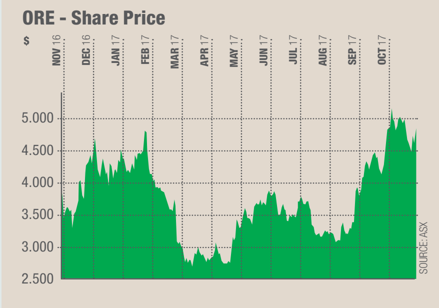
RATING **WATCH**

ASX CODE **ORE**

CURRENT PRICE **$4.92**

MARKET CAP **$1.0BN**

NET DEBT **US$68.4M**



GALAXY RESOURCES

Hard rock lithium producer and lithium brine developer

Galaxy Resources is an existing hard rock lithium producer and is benefitting from the high prices in the current lithium market. In the third quarter to 30 September CY2017, its 100% owned Mt Cattlin hard rock operation generated earnings at EBITDA of A$21.6m at a spodumene price of A$843 per dry metric tonne, which in our view is a very good price.

The price is regularly re-negotiated. As an independent producer, Galaxy is in a strong position to negotiate spodumene sales prices because it doesn't have any cross shareholders.

The company's principal development project is its 100% owned Sal de Vida lithium brine project in the so called 'Lithium Triangle' in Argentina. Lithium brine developments in this region account for approximately 60% of current global lithium production. Galaxy's project is located in the same evaporated salt lake or "salar" as FMC's Fenix operation. FMC is the world's second largest supplier of lithium chemicals. If you're next door to FMC, it's a good address to have.

Galaxy has recently revised the definitive feasibility study for Sale de Vida which now targets 25,000 tonnes a year in battery grade lithium carbonate and 95,000 tonnes a year of potash. The revision incorporates lower operating costs and a greater ability for expansion.

RADAR RATING: This company is in production, which gets our attention. But the Sal de Vida lithium project is still some years away and negotiations on financing are yet to be finalized. WATCH LIST.

RATING **WATCH**

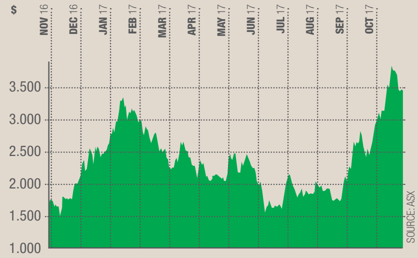
ASX CODE **GXY**

CURRENT PRICE **$3.62**

MARKET CAP **$1.5BN**

NET CASH **$48.9M**

GXY - Share Price



RESEARCH TIP UPDATES

02 NOVEMBER 2017

GALE PACIFIC

Shade manufacturer

The shade cloth's manufacturer's shares have fallen about 10% in the past couple of weeks, but remain pretty much flat over the past 12 months. The group is making all the right moves by reducing its costs, streamlining its product base and growing offshore, but struggles to lift profits. Patience is the key, and we remain positive.

At its annual general meeting last Friday its chairman indicated a weaker first half would lead to a flat profit for FY18. The group said that the first half would be "well below" the same period last year due to a "poor grain season in Australia" which led to lower demand for grain cover fabrics, while hurricanes effecting the south of the USA had effected demand there. The effect is about -$4m before tax. Last year's first half pre-tax profit was $3.9m so the current first half should be break even. The company expects a stronger second half due principally to continuing strength in US sales, where the group has already secured "significant product ranging commitments" in its window and shade sail categories. Pre-tax profit for FY18 should be in line with last year's $13.5m.

In our recent notes we said that the group was in line to improve from its 3.4 cents EPS achieved in the past two years to climb to 4 cents. We have reduced our FY18 EPS forecast to 3.5 cents, which also reflects the share buy back. This is disappointing, but it's worth emphasising that the group continues to produce strong cash flow and has reduced its debt to a slight net cash position. Even though the first half dividend might be passed, we expect that the company can pay 2 cents for the year and puts the stock on a yield of 5.3%.

The group's renewed financial flexibility is enabling it to invest in the future, which includes spending about $8m on a coating machine for its Braeside headquarters. Capital expenditure should increase from FY17's $4m to about $10m for FY18. This will enable the company to grow much faster because it doubles its capacity and could add as much as $25m in revenues from FY20, from a current base of $175m.

RADAR RATING: The bottom line for this company is that it has rid itself of unprofitable products and is quickly improving sales in the giant US market. This gives us much hope that as its profit margins improve, so will its profits, and its dividends. The group trades on a PE of 11 times and a current dividend yield of 5.3%. We envisage double-digit profit growth from FY19 onwards. BUY.

RATING **BUY**

ASX CODE **GAP**

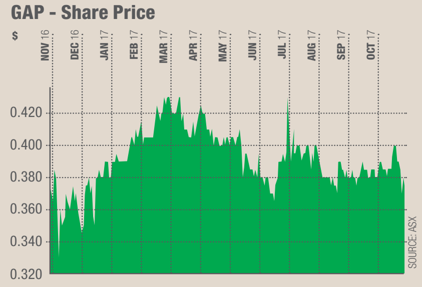
CURRENT PRICE **$0.38**

MARKET CAP **$111M**

NET CASH **$1.3M**

TIP DATE **14 MAR 2014**

TIP PRICE **$0.26**



RXP SERVICES

Digital Services

RXP's price has not moved higher since the acquisition of digital agency The Works in early August, which was partly funded through a placement of 21m shares at $0.805, which might reflect selling from investors in the new shares on issue. Certainly there is pressure on management to ensure the acquisition performs. Deferred consideration of approximately $7.5m is payable in 12 months, plus a further 1-1.5 years' earnings, or up to $8m total.

The acquisition of The Works moved RXP into idea creation and generation, and the creative end of the digital value chain. By being involved at the early stages of the planning of campaigns, RXP hopes for "maintenance" type business. Now that RXP has a creative shop, it aims to meet clients' digital needs from strategy to brand, creative/campaigns.

RATING **SPEC BUY**

ASX CODE **RXP**

CURRENT PRICE **$0.79**

MARKET CAP **$127M**

NET CASH **$2.2M**

TIP DATE **10 AUG 2017**

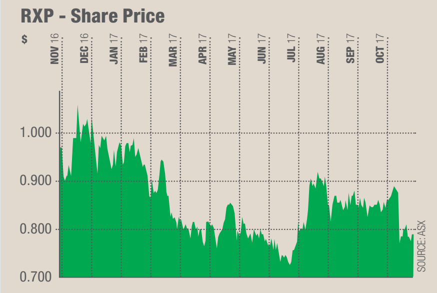
TIP PRICE **$0.82**

RESEARCH TIP UPDATES

02 NOVEMBER 2017

Companies hire digital consultants like RXP to fill a knowledge gap. In harder economic times, customers may cut spending on digital initiatives. At the same time, digital expenditure is an ongoing staple of operations and marketing for most businesses, so the demand environment looks solid, even if there will be cyclicality.

RXP is nominally a cheap stock, selling on under 10 times historic earnings, with a historic yield of over 5% and forecast yield over 6%, and the stock falls firmly into a value basket. But the quality of the business has historically been quite low, although there is no debt. A significant part of their revenue base is derived from commoditised services. The speculative edge to our current recommendation is therefore that the integration of The Works will change the equation so that 2+2=5+. ■



RADAR RATING: Since the company's plans rely on cross-selling and capturing a greater share of client expenditure, there are lots of things that can go wrong. Nevertheless, we give management the benefit of the doubt. SPEC BUY.

MNF
Software and telephony

RATING **HOLD**

ASX CODE **MNF**

CURRENT PRICE **$5.72**

MARKET CAP **$418M**

NET CASH **$41M**

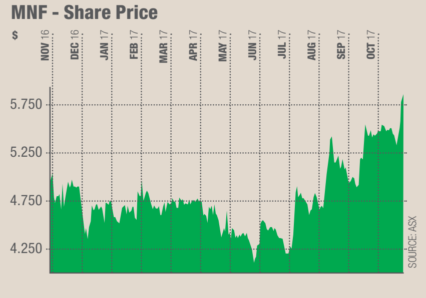
TIP DATE **08 JUN 2017**

TIP PRICE **$4.28**

MNF has performed fantastically for Under the Radar Report subscribers who took our advice to buy in June at $4.28. We followed this call up with a further Speculative Buy at $5.10 in August after the results, and the stock has barely looked back in October running up towards $6. This came long after we first picked the stock in 2013 at $1.34. We had spent much of the time since waiting for other opportunities to Buy, and we are pleased that we were able to give subscribers some well-timed advice to jump aboard this year.

The company is well run and has products addressing substantial markets. The voice niche it targets may avoid some of the competitive dynamics of other parts of the telecoms market, and we have always felt that the shares should be tightly held onto. The problem with the stock is that it has rarely been cheap enough to recommend.

Its five-year average earnings growth of 26% almost justifies the high valuation multiple of over 30 times historic earnings, and management maintain there are plenty of opportunities for growth. In the domestic retail sector, the broader penetration of the NBN could stimulate fresh demand for next generation telephony as existing systems have to be upgraded. The government segment especially appears to offer good opportunities for growth over the next couple of years. And the Global Wholesale division is a work in progress which could have substantial growth prospects, though these are less clear at this stage. ■



RADAR RATING: Opportunities to buy this stock at a reasonable price have proved to be few and far between, but we have been lucky enough to make a few calls which should have made our subscribers some good returns. After the recent sharp price move higher, we are downgrading again to Hold, but we will keep our eye open for any weakness which may provide a fresh opportunity. HOLD.

BEST MONEY MAKING IDEAS

AS AT 01 NOVEMBER 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 CODE	INDUSTRY	MARKET CAP $M	DIVIDEND YIELD (%)	LAST PRICE $	RETURN %	WHY WE LIKE IT
CABCHARGE	CAB	Financial services	195.7	12.3	1.63	-32.9	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	468.1	-	0.29	-50.5	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.	111.5	5.3	0.38	74.4	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	551.2	3.8	2.66	5.4	Because of its use of new technology and an innovative funding scheme for retirees, the retirement community specialist is a value proposition that is almost without peer. The trust continues to be good value because its weakness reflects the market's view that its expansion is limited. We beg to differ. This group is in a sweet spot and trading on a PE of 12 times and on a dividend yield of 4.5% and it continues to justify a place on our Best Ideas.
MAYNE PHARMA	MYX	Pharma-ceuticals	1017.5	-	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	73.2	5.0	1.60	0.9	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

02 NOVEMBER 2017

COMPANY	ASX CODE	INDUSTRY	MARKET CAP $M	DIVIDEND YIELD (%)	LAST PRICE $	RETURN %	WHY WE LIKE IT
MONEY3	MNY	Financial services	242.3	3.6	1.56	8.3	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	81.4	-	0.26	75.9	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	299.9	3.6	2.87	-6.7	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	485.1	3.8	2.49	12.9	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	612.7	-	3.78	-4.5	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.

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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