under the radar report
SMALL CAPS

ISSUE 277
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RENEWABLES REPORT PART 1

There continues to be a great deal of uncertainty on the regulatory front for energy in Australia and indeed the world, but what is certain is that the cost of renewables is plummeting and its bedfellow, battery technology, is quickly improving. This is the first part of our series on how you can take advantage of this trend.

One of the things 2017 will be remembered for is the year when battery technology stepped up to the plate in (South) Australia. A blackout forced the issue and South Australia got its big battery inside the 100 day deadline. To give you an idea, the capital cost of Tesla's battery for South Australia was $800,000 per megawatt hour. The battery should last about 12 years, at most.

In contrast, Genex Power (GNX) has a technology that has battery capabilities that comes with a capital cost of $165,000 per megawatt hour and has an economic life of 80 years.

Talking of batteries, as you'll know, lithium is a big component. We initiate coverage on Orocobre (ORE) a lithium producer whose stock is going gangbusters (no surprise) but which we believe is trading at half its potential value. That's right. Think about that.

This is a must read series of issues on technology that will only improve and be an increasing part of our future. ■

Richard Hemming
Editor

the issue

RENEWABLES PART 1 02

Here we look at why battery technology is the key and what is happening on the regulatory front.

Stock tip. Genex Power (GNX).
The Queensland based company fits neatly into the renewable energy and battery themes.

STOCK TIP 04

Orocobre (ORE)
The company is now an established producer of high margin lithium carbonate product from its Olaroz Facility in Northern Argentina. Find out why we think management can deliver on its big expansion plans.

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"The stars have aligned, it's now coming down to execution."

GENEX POWER CEO SIMON KIDSTON

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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PART 1

RENEWABLES: BATTERY TECHNOLOGY IS THE KEY

There continues to be a great deal of uncertainty on the regulatory front in Australia and indeed the world, but what is certain is that the cost of renewables is plummeting and the battery technology is improving. This is the first part of our series on how you can take advantage of this trend.

IF 2017 WAS A BIG YEAR FOR RENEWABLES & BATTERIES, 2018 WILL BE BIGGER

One of the things 2017 will be remembered for is the year when battery technology stepped up to the plate in (South) Australia. A blackout forced the issue and South Australia got its big battery inside the 100 day deadline. Meanwhile the world's biggest solar thermal plant is set to begin construction in Port Augusta, and the Federal Government continues to talk up the prospect of the Snowy 2.0 Hydro storage project.

THE NEM AND THE NEG: IT'S ABOUT DISPATCHABLE ENERGY

Also in 2017, the National Electricity Market (NEM) – a series of interconnecting assets that powers the East Coast – commenced going through a big transformation, as more renewable energy comes in and older coal-fired generation is shut down.

The NEM was pushed to its limits this time last year when AGL announced it would close the NSW Liddell coal fired power plant. It was then that the Federal Government kicked into gear and came up with the National Energy Guarantee (NEG) in November, the details of which are being discussed. Basically, the NEG asserts that all energy retailers (like AGL, Origin Energy (ORG) and Energy Australia (not listed) must have a percentage of their supply **renewal and dispatchable**.

The latter means that it must be energy that can be controlled at the command of the operator. Non-dispatchable energy such as wind and solar depends upon weather factors. The only parties that can provide dispatchable energy are coal fired power stations, gas, diesel, hydro and battery.

THE PUSH FOR ENERGY SECURITY IS ON

There continues to be a great deal of uncertainty on the regulatory front in Australia and indeed the world, but what is certain is that the cost of renewables is plummeting and the battery technology is improving. In Australia, the Federal Government's push to ensure grid reliability by requiring retailers to hold a certain percentage of forward contracts with dispatchable resources, combined with various State Governments' (notably South Australia and Queensland) support for renewables puts some companies that provide alternative energy in the box seat.

In this series we will be covering some small caps which we think are well positioned to benefit from these forces because they have the crucial first mover advantage. We believe that 2018 will continue the momentum of 2017 and be "the year of energy storage" as the economics for commercial and household batteries begin to stack up, providing that dispatchable factor that has been missing in the renewable equation. ■

25 JANUARY 2018

GENEX POWER

Renewable Energy

It might not seem like it, but Queensland based Genex Power fits neatly into the battery theme. Gas fired generators have traditionally offered supply during peak demand periods, but due to the price of gas more than trebling over the past couple of years in Queensland in connexion with the rise and rise of the liquefied natural gas (LNG) industry, this is no longer cost effective.

Genex listed in July 2015 at 20 cents a share having raised $8m. It purchased a disused gold mine in Kidston, North Queensland and now has the opportunity to provide lower cost as well as clean energy supply through solar and hydro in two stages.

It has just completed the first stage, having established a 50MW solar energy farm, which has started generating revenue in the form of green certificates at $80/MW and a spot energy price of just under $90/MW. It is ramping up production and in the next month will deliver supply for the Queensland Government with whom it has a 20-year contract.

Stage one was achieved in line with budget ($130m) and should generate revenues of $15m, or about $13m a year at EBITDA before head office costs (it won't be paying tax). This provides valuable cash flow and even more important, management credibility for stage 2, which is where the valuation of Genex Power gets interesting.

Stage two first involves the construction of its 250MW hydro project, which should cost $330m and involves using hydro power effectively as a giant battery. Water is pumped to the upper reservoir end of the mine when prices are low, which is effectively charging. The generation occurs when prices are high and the water flows down the mine ie discharging. The second part of stage 2 is the 270MW solar panel, which means that the project can effectively export 250MW (the solar panels are used to pump the water).

The key now is an offtake agreement with a big retailer like AGL, which CEO Simon Kidston tells Under the Radar is currently in "detailed discussions:" "the stars have aligned, it's now coming down to execution". If that can be achieved, funding should be easy and not shareholder dilutive. ■

RADAR RATING: There is a great deal of risk, but huge incentives to do a deal. As we've made clear dispatchable energy sources is one of the keys to the future. Obviously, this stock is something of a binary bet – either it gets the green light via a lucrative offtake agreement, or it will limp along. SPEC BUY.

RADAR RATING **SPEC BUY**

ASX CODE **GNX**

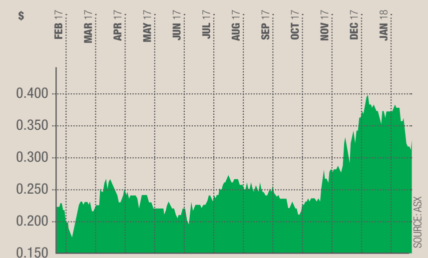
CURRENT PRICE **$0.33**

MARKET CAP **$97M**

NET CASH **$21.6M**

TIP DATE **24 NOV 2016**

TIP PRICE **$0.265**



OROCOBRE

The company owns 66.5% of the brine based Olaroz Facility in Argentina and is now an established producer of higher value refined lithium carbonate product. Its management has developed a reputation for succeeding in a highly technical and highly lucrative field, which is why we think that the company is now investment grade.

A COMPETITIVE EDGE IN THE LITHIUM SPACE

Orocobre is the one of the few companies in the world that is producing lithium at big volumes from the technically challenging, but highly lucrative brine ponds. It's certainly the only ASX listed company doing this.

The company's stock has been rocketing because investors have confidence in management's ability to overcome the technical difficulties inherent in this difficult process, and to achieve expansion in production, where few have succeeded. Most importantly, they have been successful in getting funding for this big project.

BIG VALUATION POTENTIAL

More to the point, we think that should lithium prices hold up, Orocobre's shares will be one of the big beneficiaries. Based on Orocobre's current market capitalisation of $1.67bn and its Olaroz mine's capacity of 17,500 tonnes a year lithium carbonate (Orocobre share 66.5%), Orocobre's market capitalisation/tonne of capacity is around $0.144. Applying the same ratio to Orocobre's share of total production of 42,500 tonnes a year after Phase 2 is completed gives a valuation of around $15.40/share assuming 261m issued shares after completion of the entitlement issue and the strategic placement to its partner Toyota Tsusho.

HUGE DEMAND

Underlying all this, as we discussed in detail in previous issues, is the huge demand for lithium because it is a key component to batteries. We do not see this changing any time soon. In 2017, 750,000 electric vehicles (EVs) were sold. OPEC has suggested the global vehicle fleet will include 266m EVs by 2040. Bloomberg New Energy Finance has an even higher estimate and has suggested there will be 530m EVs by 2040, which implies one third of all cars will be EVs by then.

THE OLAROZ LITHIUM FACILITY

The jewel in Orocobre's crown is the Olaroz Facility, where it has an effective 66.5% interest; the remainder is owned by Toyota Tsusho 25% and Jemse 8.5%. Toyota Tsusho is the trading company of the Toyota Motor Company. The project is located in the Jujuy Province in Northern Argentina and is now achieving output rates approaching the plant's nameplate capacity of 17,500 tonnes per year. This follows the rectification of pond management issues that had presented a technical hurdle. Record production of 3,937 tonnes lithium carbonate was achieved in the December quarter, equivalent to an annualised rate of almost 16,000 tonnes per year.

Orocobre is experiencing strong demand for its lithium chemicals. A price of US$11,550/tonne was achieved in the December quarter delivering revenue of US$40m for the facility. With prices continuing to rise, Orocobre expects the June half 2018 price to be 25% higher than the price in the December half 2017. This translates to potential revenue of around US$100m.

RADAR RATING **SPEC BUY**

ASX CODE **ORE**

SHARE PRICE **$6.99**

MARKET CAP **$1,674M**

NET CASH **$63M**

BULL POINTS

- ESTABLISHED LITHIUM PRODUCER
- MAJOR EXPANSION CLOSE TO FINALISATION
- GROWING LITHIUM DEMAND

BEAR POINTS

- RISK OF LITHIUM OVERSUPPLY IN THE MEDIUM TERM
- LITHIUM PRICE MAY BE CLOSE TO A PEAK

WHY WE LIKE IT

Orocobre is one of the few established lithium producers, with a big competitive edge. Its brine operations in Northern Argentina produce lithium carbonate, which sells for close to US$11,000 a tonne, and is projected to climb to US$14,000 a tonne. Compare this to lithium producers in Australia, which mine a hard rock and produce a lithium concentrate called spodumene, which sells for between US$500 and US$850 a tonne. The news this month that the company is in expansion mode prompted us to have a closer look at its fundamentals, which we liked! Subject to certain hurdles, Orocobre's 66.5% owned Olaroz mine should increase production capacity by 140% over the next two years, which means that at current lithium prices this project remains undervalued.

WHAT'S NEW?

The brine pond management issues Olaroz faced that presented technical hurdles have been rectified in the three months to 31 December 2017, which increased our confidence significantly. Production has improved and is tracking towards planned capacity. Funding for a Phase 2 expansion is now underway. This involves a strategic placement to the Japanese manufacturer Toyota Tsusho, an underwritten 1 for 20 entitlement offer at $6.55 a share, and Japanese bank debt funding. The proposed

EXPANSION IS THE KEY TO A CLIMBING SHARE PRICE

The Phase 2 Olaroz expansion is essentially a lower risk brownfields project, which is duplicating a previously successful project, will now be accelerated and should result in capacity being increased 140% or 25,000 tonnes a year, which is an increase from the 17,500 tonnes originally proposed. This will take full Olaroz production capacity to 42,500 tonnes per annum. Orocobre expects that Phase 2 operating costs will be lower than Phase 1 operating costs. The capital cost of Phase 2 is estimated at A$340m.

The infrastructure is there; the experienced people are there; and there is undeniable demand. The resulting annual revenues for the project could be in the region of US$500m. This factors in our belief that the lithium price will not climb from here. But even if lithium prices come off slightly, this project remains undervalued chiefly because it has first mover advantage and much bigger profit margins than the other big volume supplier of lithium: the mainly Australian based lithium rock producers (see *Why we like it*).

THE FUNDING IS THERE

As part of the financing for Phase 2, Orocobre is raising equity through a strategic 15% $282m placement to Toyota Tsusho (in two tranches) and through a fully underwritten $79m 1 for 20 renounceable entitlement offer to existing shareholders. Orocobre and Toyota Tsusho are also targeting project finance of up to US$100m. After the funding of Orocobre's share of Phase 2, the company estimates it will have remaining cash of around $223m. This will be used to cash back project financing guarantees, be available for any Phase 2 cost overruns and provide a level of cash liquidity that it believes is appropriate for its scale of operations.

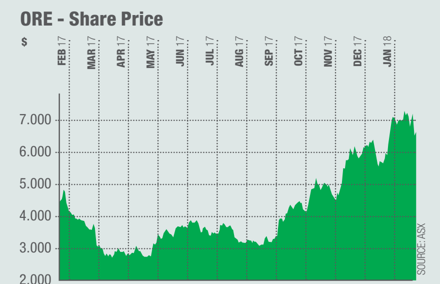
MORE EXPANSION PLANNED TO REDUCE COSTS

Orocobre has also indicated that work is to commence on assessing the potential for an Olaroz Phase 3. In the meantime, Orocobre and Toyota Tsusho have also agreed to accelerate plans to build a 10,000 tonnes per annum lithium hydroxide plant in Fukishima, Japan, with final investment decisions in mid calendar 2018. This plant would enhance margins on the proportion of Olaroz lithium carbonate treated, diversify the company's lithium product range and enhance relationships with end users.

Compared to previous estimates, the operating costs of the hydroxide plant are expected to be reduced by approximately US$1,000 per tonne to US$1,500/tonne. Total capital expenditure of US$60-70m is anticipated. After taking into account a possible Japanese Government subsidy and subsidised Japanese bank debt financing, Orocobre expects its equity contribution to be a modest US$6m.

This company's management will be very busy and if it executes, shareholders will be big beneficiaries. ■

expansion has been accelerated and upsized due to the strong market conditions. Plans are also to be accelerated for a lithium hydroxide plant which will enhance profit margins.



OROCOBRE IS THE ONE OF THE FEW COMPANIES IN THE WORLD THAT IS PRODUCING LITHIUM AT BIG VOLUMES FROM THE TECHNICALLY CHALLENGING, BUT HIGHLY LUCRATIVE BRINE PONDS. IT'S CERTAINLY THE ONLY ASX LISTED COMPANY DOING THIS.

RESEARCH TIP UPDATES

25 JANUARY 2018

KIDMAN RESOURCES

Lithium developer

The West Australian based lithium developer has been a strong performer, having climbed almost 50% since our November Spec Buy recommendation. Catalysts have included the finalisation of the 50/50 Mt Holland joint venture with SQM, the world's largest lithium producer; the payment to Kidman of US$3.5m for the transfer of a 50% interest to SQM; and the receipt by the newly established JV of a US$15m from SQM, representing the first stage contribution.

All up, SQM will invest a total of US$110m to earn its 50% interest in the Mt Holland JV, located near Southern Cross in Western Australia. This includes a US$30m cash payment to Kidman and a US$80m capital contribution to fund feasibility studies and mine, concentrator and infrastructure construction.

The next few months include updating the project's economics culminating in a Mt Holland feasibility study in the June quarter 2018 and the decision to mine, shortly after. If Mt Holland gets the green light, SQM will make further payments of US$25m directly to Kidman and US$60m to the JV. Construction of an on-site lithium concentrator is targeted to commence in the December 2018 quarter. It's all happening!

SQM has the processing and marketing expertise to enable Kidman, through the JV, to become a vertically integrated hard rock lithium (spodumene) mine to refinery operation. This should eliminate the JV's reliance on third party lithium refining and maximising revenue from the project.

Work on finalising the location for the refinery is progressing, with WA State Government support. The refinery should produce both lithium hydroxide and lithium carbonate, while production is projected to be 220-300,000 tonnes a year lithium concentrate (spodumene) which would convert to approximately 40,000 tonnes per annum lithium carbonate and lithium hydroxide in the refinery. ■

RADAR RATING: Kidman's edge is its JV with the credentialed SQM, which is funding the development of the Mt Holland project and contributing technology, global experience and development. The shares have been re-rated in line with our expectations. Further share price progress can be expected as the Mt Holland project is developed. HOLD.

RADAR RATING **HOLD**

ASX CODE **KDR**

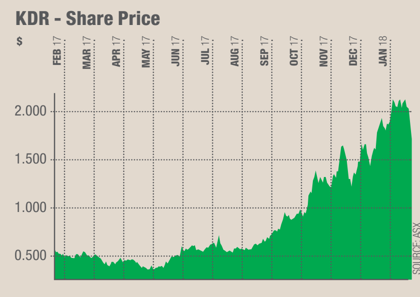
CURRENT PRICE **$1.85**

MARKET CAP **$648M**

NET DEBT **$0.1M**

TIP DATE **2 NOV 2017**

TIP PRICE **$1.30**



* Estimate

SELECT HARVESTS

Almond producer

Select's share price has spiked a little recently, possibly due to some positive sentiment arising out of the potential damage to the Californian almond crop capacity from recent extreme weather events. To remind subscribers, California produces up to 80% of global almond output, and weather conditions there have a big impact on the global almond price.

The company's last public announcements were at the AGM, when management acknowledged a poor performance in 2017, reiterated their confidence in the strategy and assets, but admitted that operational deficiencies had also contributed to the group's FY17 performance.

RADAR RATING **SPEC BUY**

ASX CODE **SHV**

CURRENT PRICE **$5.02**

MARKET CAP **$477M**

NET DEBT **$50M***

TIP DATE **31 MAR 2013**

TIP PRICE **$2.60**

RESEARCH TIP UPDATES

25 JANUARY 2018

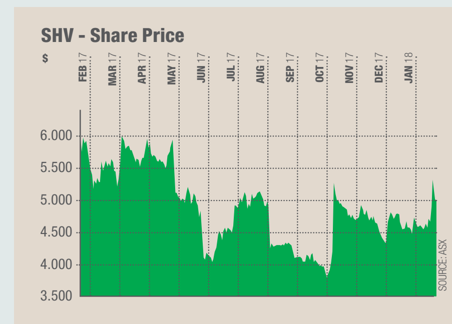
Almond production should increase organically by up to 50% over the next five to seven years due to capital investments, which have also reduced the Select's unit costs to the industry's lowest quartile.

This growth should easily be absorbed by the growing demand for almonds. The global market appears to be growing at 6% to 8% a year, driven by its health and protein attributes. Also underpinning Select's shares is corporate interest. A conditional bid for Select was made last October around the time of a $65m share capital raising. The bid came from a Middle East sovereign fund, where the potential of almonds as a food source may be better appreciated. That highly conditional bid was pitched at $5.85, but the value of the business has been diluted by the issue of 21m shares at $4.20 as part of the capital raising.

The business is solidly focused on the almond market. We believe that any prospect of horizontal diversification is on the back burner until the company's vertically integrated almond producing processing and marketing operation is operating more efficiently.

We have followed this stock for a few years, having recommended it first at $2.60 four years ago, and the company has paid some substantial dividends since then. The timing of our Take Profit and subsequent Buy calls was not as good as we might hope, and recent movements prove this is a volatile stock. ■

RADAR RATING: With a more robust balance sheet after the capital raising, the business can continue to generate cash for shareholders which will be distributed through dividends. We are therefore upgrading to Speculative Buy. We recommend positions are accumulated slowly. The Under the Radar Report Portfolio owns 1000 SHV shares. SPEC BUY.



* Estimate

PACIFIC CURRENT

Owner of minority stakes in boutique fund managers

Pacific Current is flush with cash from the $120m sale of its 40% stake in the Anton Tagliaferro funds management group Investors Mutual. The IML stake was the largest of the minority holdings within Pacific's stable of funds. The equity holdings in the remaining 15 or so funds are at most 30%, and in some cases much lower, like the fast-growing GQG where the equity stake is only 5%.

These ordinary equity positions do not reflect preference shares in these companies owned by Pacific, or sales agreements that exist between Pacific and its partner funds. Based on our analysis, these preference shares and sales arrangements have more influence Pacific's annual earnings than the ordinary equity position, as opposed to its financial participation in the event of a sale or other realisation of value in the associates.

Management make clear that they regard the group as "ultra-long-term" investors, and recent busy activity and realisations within the portfolio may not be indicative of a medium-term pattern. At the same time, management are willing sellers if the underlying fund managers decide that their interests are best served by this.

Despite management's efforts to improve transparency, it is still extremely difficult to ascribe financial values to the underlying holdings within Pacific. One method of valuation at the parent level might be the dividend, which was $0.25 in FY16, $0.20 paid at the interim stage and $0.05 as a final. In FY17, this figure fell to $0.18 per

RADAR RATING **HOLD**

ASX CODE **PAC**

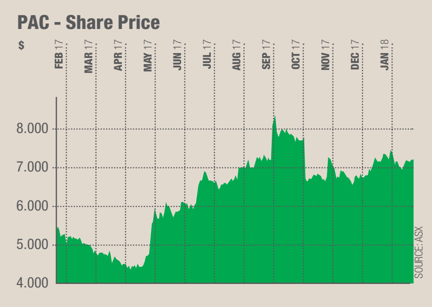
CURRENT PRICE **$7.66**

MARKET CAP **$365M**

NET CASH **$100M***

TIP DATE **27 APR 2016**

TIP PRICE **$4.40**



share, all paid and determined after the full-year results. Despite the company's transformed balance sheet, the FY18 dividend will also be determined at the full-year stage. We think this means that no interim dividend will be paid.

Certainly, Pacific had no intention at the AGM of paying a special dividend or otherwise paying out the proceeds of the sale of the IML stake. Perhaps the company will give shareholders an idea of ongoing dividend paying capacity, with the balance sheet to back up long-term commitments. Underlying FY17 EPS of over $0.50 was up almost 30%, which would suggest a healthy premium over the current 15 times earnings is justified, but the usual valuation parameters may not apply in the short-term.

We still like the company, and we very much like the fact that the two major sales in recent years, those of the infrastructure fund RARE and IML, have both achieved more than 30 times the original investment. This bodes well for current investments or investments expected to be made in the current financial year, though the record is offset by less successful boutique outcomes. The problem with the strategy for shareholders is the long timeframe between realisations, during which time the fund management business and the investment strategy of individual fund managers within Pacific Current may come under sustained question which could cause the shares to react disproportionately in the short-term. We think the company has relatively limited control over its earnings reports, and the shares may not always reflect the underlying fundamental value of its holdings. ■

RADAR RATING: We like this company but there is a great deal of risk. Subscribers should attempt to ensure that their positions amount to no more than 5% of any portfolio, and the Under the Radar Report portfolio will need to sell 500 shares, or one third of its holding, to achieve this target. After the 6% sharp upwards move in the share price Tuesday, we will wait until after the results before executing this change. HOLD.

UNDER THE RADAR SMALL CAP PORTFOLIO

The Idle Speculator talks about the difference between our stock recommendations and managing the Under the Radar Small Caps Portfolio.

THE PORTFOLIO APPROACH VERSUS THE INDIVIDUAL STOCK

Following our article last week, we have been asked by a number of subscribers to explain why we reduced or sold our positions in three stocks where our recommendation is currently *Hold*.

These questions illustrate the fundamental differences between the selection by stock pickers like ourselves of individual stocks for investment consideration, and the use of those ideas in the cautious and effective management of a particular portfolio.

We are showing how these stocks may be combined in a solid portfolio to illustrate one way in which our recommendations may be used, but no portfolio is the same as another. All portfolios are different, reflecting the personality and risk appetite of the individual or group of individuals responsible for the management and safe return of the money they are investing. Tax considerations mean that the net returns of any investor will be different, and their decisions should reflect a variety of circumstances and needs.

Ideally, we would like to own stocks which we rate as *Buy*, and we might want to include some stocks we currently rate as *Speculative Buy*. It would be possible to operate a portfolio on the basis that anytime a stock was downgraded to *Hold* from *Buy* or *Speculative Buy*, the stock was removed from the portfolio. Equally we could operate a hard and fast rule that it is only when stocks are downgraded from *Hold* to T*ake Profits* or *Sell* that we make the portfolio decision.

THE PORTFOLIO TAKES A BALANCED APPROACH

But it is easy to demonstrate that such any hard and fast portfolio policy would rapidly result in a portfolio that is unbalanced. While individual subscribers may want a concentrated portfolio of only our *Best Ideas* at any particular time, the Under the Radar's Small Cap Portfolio is intended to illustrate a more balanced approach.

When we talk about a portfolio's balance, we are talking about the balance between sectors, the balance between income producing investments and growth, the balance of companies with strong balance sheets and less robust balance sheets based on intangibles or with substantial debt, the balance between companies exposed to consumers and companies exposed to other industrial companies. Then there is the diversification provided by a balance between companies only exposed to the domestic Australian economy and those more predominantly exposed to international factors.

COMBINING YOUR INSTINCTS WITH UNDER THE RADAR'S RATINGS

A portfolio's internal timing will not coincide with our changes in recommendations, and we will continue to operate the Under The Radar's Small Cap Portfolio where most new investments will be our Best Ideas. These will be balanced by other investments currently rated Hold which may be stocks we bought months such as Alliance Aviation (AQZ); or years ago, Southern Cross Electrical (SXE), are showing a profit, and can be used as a source of cash when the particular portfolio needs it. We made a portfolio decision to reduce the number of holdings as well as raise cash for other purchases, and it is important to act on your own instincts when investing your own money. ■

BEST MONEY MAKING IDEAS

AS AT 24 JANUARY 2018

*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
AUSTAL	ASB	Ship Building	649.6	2.2	1.84	215.3	We think that the Australian Government's patrol boat business is a positive, enabling Austal to avoid making value destructive and expensive shutdown, closure or other retrenchment decisions for its WA operations. We continue to like the stock because the current share price discounts only some of its existing business and prospects in the US. The big positive is the high barriers to entry in this specialised business.
BOOM LOGISITICS	BOL	Construction	116.6	-	0.24	20.5	The crane operator'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 30% discount to its net asset backing; and the group is lining up contracts in the fast growing infrastructure space.
CAPRAL	CAA	Aluminium Products	74.0	8.1	0.16	-8.8	The manufacturer's depressed share price belies its cash producing ability. In fiscal 2016 (year ending 31 December 2016) operating cash flow was $15.5m, while the total dividend cost $6m. At the half year, for fiscal 2017 EBITDA was forecast at between $15m and $19m, and Capral expects to generate positive operating cash flow and to declare a fully franked dividend for a second year in a row. This company has a track record of under promising and over delivering. We expect that more dividends like last year's will see this company re-rated.
COOPER ENERGY	COE	Oil & Gas	508.2	-	0.32	-46.3	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-uring	108.5	5.5	0.37	72.4	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.

BEST IDEAS

25 JANUARY 2018

COMPANY	ASX CODE	INDUSTRY	MARKET CAP $M	DIVIDEND YIELD (%)*	LAST PRICE $	RETURN %	WHY WE LIKE IT
MAYNE PHARMA	MYX	Pharma-ceuticals	1037.8	-	0.67	103.0	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.
VILLAGE ROADSHOW	VRL	Tourism & Leisure	659.7	-	4.07	2.8	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.

*Historic dividends.

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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