under the radar report
SMALL CAPS

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SPECIAL REPORT: RENEWABLES

In this week's Special Report, Tim Boreham takes an in depth look at the Renewables Sector. As you would be aware, this is an industry that has had its fair share of set backs, but the game is changing and value is emerging.

We look in detail at those ASX listed companies that are at the forefront of the fast changing renewable energy space and which stand out from the pack; where we see that there is money to be made.

Investigating this space requires some perspective. Tim investigates the history of government policy in the sector and how companies have adapted, both successfully and in most cases not so successfully. It makes for compelling reading for anyone interested in investing in this high risk area, which continues to have a great deal of potential as its costs come down and battery technology gains traction.

We've covered Genex Power (GNX) previously as a Hot Stock, but now we are firming up on our view that this company is worth a more serious look. It's an energy stock whose project's completion date is nearing, as is the earnings it will generate. This is a big opportunity because it has successfully weathered the regulatory storm.

Energy has always been one of the keys to how the global economy works and the associated power dynamics. With the rise of renewable energy, we are seeing that geography is quickly being replaced by intellectual property. The race is on to achieve dominance and you only have to see the fixation the world has on the comments by one Elon Musk to appreciate that. Let's hope some ASX companies can muscle in on the action!

Richard Hemming
Editor

the issue

Small Talk

"Rays of hope are emerging, solar powered or otherwise, with Australia's Prime Minister talking positively about the **Genex Power (GNX)** solution of pumped storage hydro."

TIM BOREHAM, UNDER THE RADAR REPORT

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

Editor Richard Hemming **Publisher** Caroline Mark
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www.undertheradarreport.com.au

SPECIAL REPORT: RENEWABLES

Tim Boreham explores a sector that has had more than its fair share of set backs and why value is emerging. He looks in depth at three renewables companies that stand out from the pack.

RAYS OF LIGHT ARE EMERGING FOR RENEWABLES

In the past decade, the listed ASX renewables sector has been a graveyard of disappointment thanks (or no thanks) to inconsistent government policy and dubious corporate strategies in the first place.

But rays of hope are emerging, solar powered or otherwise, with Australia's Prime Minister talking positively about solutions such as pumped storage hydro. Despite the influential rump of climate change sceptics, the government has also committed to the Paris Agreement target of reducing carbon emissions by at least 26% by 2030.

The South Australia blackout crisis, a looming eastern seaboard gas shortage, and the decision by Hazelwood's French owners to close the ageing Victorian coal fired power station have also placed renewables in the spotlight.

Given the poor returns delivered by most ASX renewable stocks, we take a cautious approach to blue sky promises and wishful business models.

STOCKS THAT OFFER PROMISE

But Under the Radar nominates two stocks – Genex Power (GNX) and Pacific Energy (PEA) – as standout prospects, albeit for different reasons.

While Genex is not yet producing revenue, we like the company's strategy of building a fully funded solar facility ahead of a larger investment in a pumped storage facility at the site of the old Kidston mine in northern Queensland. The company is well backed by parties including Societe Generale, the Australian Renewable Energy Agency and the Clean Energy Finance Corporation.

A remote power specialist, Pacific Energy is enjoying record profits off its base of 'take or pay' contracts to supply remote facilities such as mine sites. Pacific generates strong cash flow and is a proven dividend payer, currently yielding 5%.

We also nominate the battery maker Redflow (RFX), the nearest local equivalent to Elon Musk's Tesla, as one to watch. The company's zinc-bromide flow batteries show great potential, but we are less convinced by the group's financial position, which is characterised by heavy cash burn.

Before we get to these companies in detail (PEA is covered in the Research Updates Section) it's important to have a quick look at the renewables sector in Australia in the context of government changes, or rather, flip-flopping. Then, it's interesting to see how some of the better known participants have gone, which we go through later.

A HISTORY OF REGULATORY FLIP-FLOPPING

For the foreseeable future, government regulation and incentives will be the crucial factors either supporting the sector or blowing it away. To date, the political environment has been marked by constant flip-flopping over carbon abatement policy and the practical measures in place to support the industry. This includes the introduction – followed by the hasty abolition – of the Gillard administration's Emissions Trading Scheme (in effect a carbon tax).

ASX newcomer Tilt Renewables (TLT) describes an "intense debate" around the interrelated issues of emissions reductions, energy security and affordability: "Politics and vested interests are clouding this debate, causing uncertainty for energy users and infrastructure investors."

But now things could be different. Under the so-called Paris Agreement, Australia is formally committed to reducing emissions by 26-28% by 2030, from 2005 levels. This will require 33m megawatt (MW) hours from renewables by 2030, or 3000-4000MW of new capacity. This isn't the end of the story. The federal target is overlaid by state-based renewables target, such as Victoria's quest to hit a 40% renewables share by 2025. Federal policy will be further shaped by the pending results of two reviews: the review on security and supply (due this quarter) by chief scientist Alan Finkel; and a review of energy and climate policy announced by Energy Minister Josh Frydenberg last December.

GENEX POWER

Pumped energy storage/solar developer

In contrast to the higher profile battery solutions, pumped energy storage is elegantly simple and has been used for decades. In short, water is pumped to a higher facility at off-peak times and then released with the help of gravity to the lower dam (and powering turbines) in times of need.

Genex acquired the disused Kidston gold mine in northern Qld, which conveniently has two pits at an uneven altitude. The mine was named after two-times former Qld premier William Kidston, with great great grandson Simon Kidston co-founding the company.

Genex should benefit from the near quadrupling of domestic gas prices, the result of the Gladstone-based LNG export facilities ramping up. A feasibility study, carried out by Hydro Tasmania, costed the proposed 1500MW project at $330m.

Australia has three major precedent pumped-storage facilities: Tumut 3 (Snowy Hydro, 1500MW), Shoalhaven (Origin Energy, 240MW) and Wivenhoe (CS Energy, 500MW). Pumped storage does not create more electricity as such. But the facilities are feasible because hey use off-peak power to pump uphill and receive peak rates for the power. In the case of Kidston, the off-peak rate is around $20MWh. Peak rates vary between $70-100MWh and have briefly spiked to as high as $14,000MWh.

Genex's starter project is a nearby 50MW solar station, which is under construction at a cost of $115m.

The company has funded the project with $104m of debt, raised in equal parts from Societe Generale and the Clean Energy Finance Corporation. ARENA contributed $9m. The power will be fed into utility Ergon's nearby grid, with revenue guaranteed by a 20 year guaranteed off take deal with the Qld government, with an assured floor price. While the pumped storage and solar facilities are not inter-dependent, Genex is mulling expanding the 50MW solar facility to 270MW. This output would not go to the grid, but would be used to power the uphill cycle.

The Kidston hydro proposal might not be leading edge, but technical and financing risks still abound. We are reassured by the solar 'starter' project, which has a 20-year off take deal with the Qld government at a guaranteed floor price (market sources suggest this rate is around $90KWh). The company also hopes to win ARENA/CEFC backing for the pumped hydro facility, with ARENA already providing $4m ($2m undrawn). ■

RADAR RATING: We have looked at this stock previously as a Hot Stock but because the completion date is edging closer we are gaining confidence. The project is due to commence in early 2018 and the company will be generating some $15m in EBITDA. Pretty much all of the debt is project specific, and once the market believes that the hydro project will achieve the green light, we believe the stock will climb, notwithstanding the inevitable capital raising. As you can tell, it's extremely speculative. SPEC BUY.

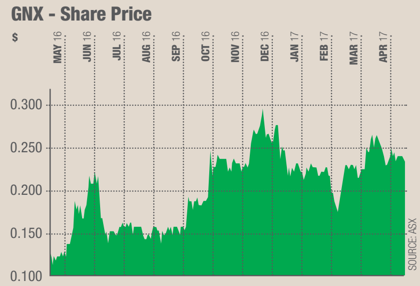
RADAR RATING **SPEC BUY**

ASX CODE **GNX**

CURRENT PRICE **$0.22**

MARKET CAP **$63M**

NET DEBT **$120M**



REDFLOW
Battery innovator

The Queensland based Redflow makes domestic-scale zinc-bromide flow batteries, as well as a larger “plug and play” industrial version. The vaunted advantages of the batteries include an unlimited shelf life and more constant power. They can also be unused for long periods without affecting performance.

While Redflow’s potential is apparent, the company’s finances could do with some energising.

Redflow last month copped a ‘please explain’ from the ASX, which queried the company’s ability to continue given its December quarter net operating cash flow $3.83m and expected March quarter burn of $5.41m, compared with cash on hand of $5.42m.

Management confirmed outflows would continue to be negative “for the time being” but said the company had since received a research and development grant of $2.2m. Shortly after, the company announced that entities associated with executive chairman Simon Hackett would inject $2m via a convertible note. ■

RADAR RATING: Every time Tesla founder Elon Musk opens his mouth – which is often – other players in the sector are promoted as well. Redflow shares peaked at 58c in June last year, but have since retreated on the reality of modest revenues and a weak balance sheet. A cash injection aside, we believe the stock needs a catalyst such as a major contract or partnership before it is worth investing in. WATCH LIST.

RADAR RATING **WATCH**

ASX CODE **RFX**

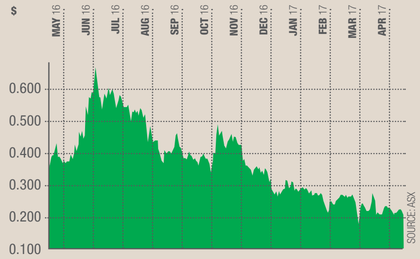
CURRENT PRICE **$0.205**

MARKET CAP **$83M**

NET CASH **$3.9M**

CASH BURN **$5.41M***

RFX - Share Price



* ESTIMATED MARCH QUARTER

THE BEST OF THE REST

Until recently, Infigen Energy (IFN) was the only ASX-listed pure-play wind and solar producer of substance (with a market cap of just under $1bn). Infigen operates 557MW of capacity across seven projects, with a further four in development. The company has launched a $151m rights raising to fund its Bodangora wind project near Wellington in NSW, which will increase its installed capacity by 20%.

Late last year IFN was joined on the ASX boards by Tilt Renewables (TLT), which demerged from New Zealand’s Trustpower in October last year. Tilt claims an 11% of installed capacity, with 307 turbines across seven farms accounting for 582MW of capacity. Tilt also has a development pipeline of 1700MW in Australia and 530MW in NZ.

Formerly, Carnegie Wave Energy, the Fremantle-based Carnegie Clean Energy (CCE) has broadened from wave energy (based on its patented buoy technology, CETO) to microgrid technology based on a combination of wave, solar wind and energy storage. Last year Carnegie paid $13m in cash and scrip for the remaining 65% of the private Energy Made Clean (EMC) that it did not own. With 25 projects in the pipeline, EMC is focused on solar battery and hybrid systems engineering and maintenance. EMC turned over $16m in 2016. Carnegie enjoys good institutional backing and currently has $49m of undrawn grant facilities, including a $16m EU endowment for a facility in Cornwall. Carnegie is in talks with the SA government about a “utility scale battery energy solution” to the state’s energy crisis.

Solar innovator Dyesol (DYE) has a busy slate of research work globally as it attempts to develop its perovskite solar cell (PSC) technology. According to Dyesol the PSC cells are half the cost of conventional solar panels and can be embedded into materials including glass, metal and cement. Dyesol earns modest revenue from supplying its ‘ingredients’ to 600 research-based customers. Otherwise, commercialisation appears elusive and the shares have suffered as impatient investors exit.

Meanwhile, geothermal pioneer Geodynamics lives on (just) as ReNu Energy (RNE), a biogas, solar and battery play. ■

PACIFIC ENERGY
Remote power specialist

The provider of remote power generation revealed robust half-year numbers which lwere a record on most measures: revenue rose 19% to $29m, with EBITDA and net profit both gaining 23% (to $21.3m and $9m respectively). Managing director Jamie Cullen said new capacity bought on last year would help the company achieve full year EBITDA guidance of $40-41m: "Importantly for the business, recent tendering activity on new projects have been strong and there are several expansion opportunities with existing customers."

The company's profit margins at the EBITDA level are incredibly high, where the main requirement is to deliver the capital equipment and technical expertise to establish reliable power in remote regions. Pacific Energy also has existing hydro assets, currently immaterial, but together with their solar interest, these tie the company into this issue's renewables theme.

As we mentioned last January, PEA derives over 85% of revenue from profitable clients, which have an impressive all in sustaining cost margin that exceeds 30%. The client-list includes AngloGold, St Barbara, Newmont and Saracen. The weighted average remaining contract duration is around a reasonably long four years.

There are outstanding tenders to deliver over 100MW, which would provide a substantial increase on its current 258MW operating capacity. The company also indicated that its expansion strategy in Africa was proceeding to plan, where it has won a contract to build a hybrid 10MW fuel oil/5MW solar facility for an unnamed customer. Its strategic alliance with solar provider juwi Renewable Energy is helpful in delivering marginal capacity.

The balance sheet illustrates how capital intensive its business is, with relatively minor current assets and liabilities, but substantial property plant equipment and some intangibles, supported by net debt of $31m. First half operating cash flow increased by 31%. Equipment acquisition costs were much lower in this period than in the previous first half, current performance is a function of growth in its capital equipment base last year. ■

RADAR RATING: There's a lot to like about Pacific Energy: low debt, excellent cash flow and a likely full year dividend of 3c a share (for a yield of almost 5%). The share price has performed very well since we issued multiple buy recommendations through the middle of last year, but we expect management to continue to deliver and remain strong supporters of the business strategy. BUY.

RADAR RATING **BUY**

ASX CODE **PEA**

CURRENT PRICE **$0.69**

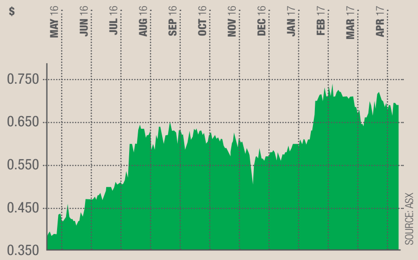
MARKET CAP **$237M**

NET DEBT **$31M**

TIP DATE **23 MAR 2014**

TIP PRICE **$0.47**

PEA - Share Price



RESEARCH TIP UPDATES

20 APRIL 2017

1300 SMILES

Dental services

We had some success tipping 1300 Smiles over the years, where focussed management in a niche business with a strong balance sheet and generous dividend policy has delivered good returns for subscribers. But the stock has not been cheap enough to buy for some time, so while we continue to monitor the company's performance, we are unlikely to turn positive unless there is a major acquisition, or a change in government policy that will deliver a substantial increase in business.

The company faced challenges in the first half, and with revenue down 3.4%, the company did well to achieve normalised NPAT growth in the mid-single digits to $3.8m. This represents 16c EPS, from which an 11.25c interim dividend was paid.

Management put the revenue decline down to four factors, including political precariousness in Queensland, uncertainty from the Trump election, a disheartening economic outlook in regional Queensland, and finally the mining sector downturn. It is only the final factor in this list that has any prospect of reversal in our mind. Other factors identified are subject to ups and downs that are unavoidable and likely to recur.

The company continues to make dental practice acquisitions, but there has been nothing of significant size since FY15. Late last year, 1300Smiles did make a couple of acquisitions in inner south Sydney, which adds to an existing business on the lower north shore, and should improve management economies of scale and scope which the company can achieve across the city.

Management talked about its Triple A dental plan - Availability, Accessibility and Affordability of dental services. MD and 62% shareholder Dr Darryl Holmes has a clear vision, but the industry could be buffeted by future overcapacity, constrained demand and the increasing impact of the buying power of health funds. ■

RADAR RATING: We retain our rating until there are more significant changes to the business, the industry or government policy. HOLD.

RADAR RATING **HOLD**

ASX CODE **ONT**

CURRENT PRICE **$7.10**

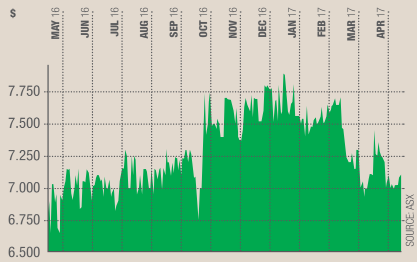
MARKET CAP **$151M**

NET CASH **$8.6M**

TIP DATE **31 MAY 2012**

TIP PRICE **$5.37**

ONT - Share Price



MACQUARIE MEDIA

Radio stations

Although the radio station owner's first half reported EBITDA was up 7%, the inclusion of a retrospective license fee reduction in the results suggests profit growth will be constrained in the future. The revenue result was stronger in the 2nd quarter than the first for overall revenue growth of 2%, but the radio advertising market remains very short and unpredictable like other broadcast media markets.

The sale of the 2CH station will derive net proceeds of $5.1m. Operating cash flow fell $10m to $3m, as payables were reduced. The current ratio, that is current assets to current liabilities, is a healthy 2 times, and the company retains plenty of cash for flexibility despite an overall net debt position of $28.5m.

As usual, MRN didn't give much away, but expects to improve 2nd half earnings through an improved sales structure in Perth and further cost reductions. A new "talking lifestyle" format is apparently successful and is generating growth. Our full year target EBITDA of $33m seems unlikely to be achieved from $13.8m in the first half, after

RADAR RATING **HOLD**

ASX CODE **MRN**

CURRENT PRICE **$1.00**

MARKET CAP **$171M**

NET DEBT **$28M**

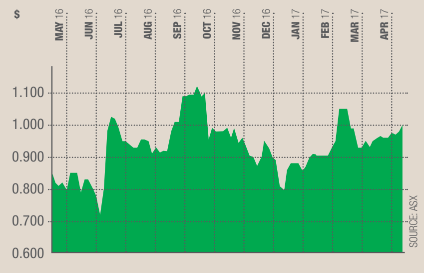
TIP DATE **8 JUN 2016**

TIP PRICE **$0.72**

revenue growth in the second half of FY16 slowed in H1 FY17, so $30m EBITDA would be a good result, for an EV/EBITDA multiple of almost 7 times.

RADAR RATING: When we introduced the stock last June, we said "If you are a small investor, you should pick up small quantities up to $1", and those who got some near the recommendation price of $0.72 will be relatively happy. But a much less attractive FY17 outlook means there is not much short-term upside. HOLD.

MRN - Share Price



ESERVGLOBAL*
Mobile payments technology

The mobile payments company continues to be a work in progress, but a new presentation by management of the 35% owned remittance joint venture, HomeSend suggests the opportunity remains live.

Frustration has been the key feature of this investment. Its core business is to provide payments services to mobile phone companies in the Middle East. This has failed to maintain profitability through the last two years and has been magnified by HomeSend's need to invest heavily to develop its capability and footprint to ensure that it is relevant in a highly competitive market.

HomeSend is a wholesale business, providing capabilities to financial institutions, global disbursement organisations and private businesses through currency transfer and international remittance services. These markets represent about $22 trillion of cross-border currency flows, the vast majority of which by number, if not by value, are subject to substantial friction costs of up to 5%, including lack of transparency and speed, delivered with low efficiency and predictability.

The opportunity to create a business which corrects some of these deficiencies is obvious but incredibly complex due to the large number of wholesale and retail parties involved. This is where HomeSend's majority owner, Mastercard, comes in. Through Mastercard, HomeSend offers send organisations, i.e. financial institutions, the ability to reach many thousands of receiving service providers in currently 80 countries. These service providers may be mobile wallet providers, money transfer providers, cash out organisations, banks and others who are in the business of providing financial intermediary services to clients at the receiving end of international transfers. Those who have followed our coverage of the stock will be familiar with many of these features of HomeSend, and this should be the year that the rubber hits the road.

The core business of eServ provides systems to mobile operators, mainly in the Middle East, which allow for financial interaction with prepaid mobile customers, and should now be on the way to breakeven with a new scalable platform that can be resold through distribution channels. At the same time, the HomeSend business is also supposed to break even in 2017 which suggests increasing traction in its strategy.

RADAR RATING: eServ's stock remains an interesting opportunity, which is likely to offer a binary outcome. Either HomeSend gets a material market share and builds a successful growth engine in a huge market, or an investor in ESV will be lucky to get their money back. SPEC BUY.

*The Idle Speculator owns Eserv in his SMSF

RADAR RATING **SPEC BUY**

ASX CODE **ESV**

CURRENT PRICE **$0.09**

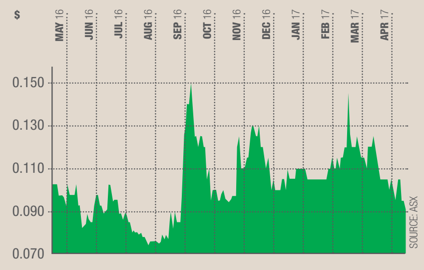
MARKET CAP **$58M**

NET DEBT **$2M**

TIP DATE **30 SEP 2015**

TIP PRICE **$0.18**

ESV - Share Price



BEST MONEY MAKING IDEAS

AS AT 19 APRIL 2017

**Return includes dividends and is after brokerage*

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

COMPANY	INDUSTRY	MARKET CAP $M	DIVIDEND YIELD (%)	LAST PRICE $	RETURN %	WHY WE LIKE IT
ALLIANCE AVIATION (AQZ)	Aviation	81.1	3.0	0.67	-16.9	The niche airline trades at a 30% plus discount to its net assets and produces good cash returns on its existing fleet of 28 Fokker aircraft. AQZ has abundant tax losses from which to deliver fully franked dividends well into the future. The company is turning its business around which we believe will produce earnings growth and it has a key relationship with Virgin Air.
CAPRAL (CAA)	Manufact.	83.5	7.1	0.17	2.9	The aluminium products producer is cashed up and delivers a dividend yield of over 6% at current prices (with franking credits to boot). It's been heavily sold down over the years and is cheap, considering its potential growth from a much lower capital base and an easier trading environment. Much of the dumping from Asian competitors into the domestic market has ceased.
GALE PACIFIC (GAP)	Manufact.	122.7	4.9	0.41	82.4	The manufacturer of shade cloth is in the middle of a successful turnaround program under new management. Both its distribution and its production processes are being consolidated to produce a slimmer operating structure. Plus it has big opportunities to increase sales in export markets - the US in particular where it has an American sales force. This stock is trading at below market multiples and is a second half story.
INGENIA COMMUNITIES (INA)	Property	483.0	3.8	2.75	5.9	Because of its use of new technology and an innovative funding scheme for retirees, the retirement community specialist is a value proposition that is almost without peer. The trust continues to be good value because its weakness reflects the market's view that its expansion is limited. We beg to differ. This group is in a sweet spot and trading on a PE of 12 times and on a dividend yield of almost 5% it continues to justify a place on our Best Ideas.
SELECT HARVESTS (SHV)	Food	405.0	6.4	5.58	39.9	The almond producer has outstanding cash flow and a competitive edge its mainly Californian competitors can only dream about - water security. SHV is a story of increasing production through maturing almond groves and increased acreage in Snowy River country. Its product is the cheapest source of protein for the giant Asian market and the company's valuation is not demanding.
SOUTHERN CROSS ELECTRICAL (SXE)	Mining services	77.6	2.8	0.49	46.3	The electrical instrumentation specialist now has a commanding position in big projects in both the West and East of Australia. Its stock has pulled back after an a $54m acquisition and associated capital raising and no interim dividend. We think it's a buying opportunity because the stock is cheap and management have shown over a long period of time that they have the nous to grow earnings and increase dividends.

BEST MONEY MAKING IDEAS

AS AT 19 April 2017

**Return includes dividends and is after brokerage*

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COMPANY	INDUSTRY	MARKET CAP $M	DIVIDEND YIELD (%)	LAST PRICE $	RETURN %	WHY WE LIKE IT
TASSAL (TGR)	Food	725.3	3.5	4.32	11.8	The hidden asset in this Tasmanian company is its under appreciated wholesale seafood operation, which it purchased from the Costa family. The company will be working hard to integrate this business but to outsiders it will not appear that much is happening. That is, until the financials start making this stock look really cheap and fund managers hop back in. Managment has performed over a long period of time and we believe that periods of share price weakness should be taken advantage of.

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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Suite 201, 116 Devonshire Street Surry Hills NSW 2010
Telephone +61 2 9211 8899 Email radar@undertheradarreport.com.au

Editor Richard Hemming **Publisher** Caroline Mark
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