under the radar report
SMALL CAPS

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THE SCIENCE OF INVESTING

Investing isn't a science, but there are some inalienable principles, one of which is, you can't go broke taking a profit.

In this issue we look at some stocks that have been considerably higher than where they are today – namely the two medical technology groups ImpediMed (IPD) and Sirtex Medical (SRX).

In another life I covered medical technology in the European market and it soon became obvious to me that sexy science does not necessarily mean super profits. Investors love the potential of science because it can mean that for little extra investment, huge returns can be achieved if there is sufficient patent protection. That's right, the leverage is huge!

On the flip side, investors, in their haste to jump in, downplay, and often ignore the risks. These are the areas we take very seriously, which is why I would refer you back to that first principle.

Another principle is that you can't make money if you're paying too much in fees. As Andrew Brown says: "It always pays to read the fine print." Andrew has written an expose on Listed Investment Companies, or LICs. If you're not careful, more than 10% of your initial investment in a LIC could be eaten up by fees. Try and get a good return from that!

A third principle of investing is that profit growth is the only way to make big returns. Dividends come from profits, not the other way around. The key to making money is investing at cheap prices in companies that are growing earnings. You get earnings growth when you re-invest past profits and when the company was a high return on equity, you get the consequent compounding effect. This effect is especially big for Small Caps because they have a smaller capital base from which to grow. ■

Richard Hemming
Editor

the issue

LICS OR INVESTMENT CONS? 02

Don't let your hard earned $$ evaporate in needless fees. Fund manager and Under the Radar Report Columnist Andrew Brown details FIVE risks to look out for if you're thinking of investing in a LIC and then profiles TWO he's got stakes in.

RESEARCH TIP UPDATES 05

We're adding Gale Pacific to our Best Ideas. Read on to find out why and what we're doing with ImpediMed and Sirtex after their big price declines.

Gale Pacific (GAP)
Alliance Aviation (AQZ)
ImpediMed (IPD)
Sirtex Medical (SRX)
Freedom Foods (FNP)
Centrepoint Alliance (CAF)

BEST MONEY MAKING IDEAS 10

Small Talk

"If there is one rule to investing in managed funds of any description, it's that it always pays to read the fine print."

ANDREW BROWN, INVESTMENT MANAGER

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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www.undertheradarreport.com.au

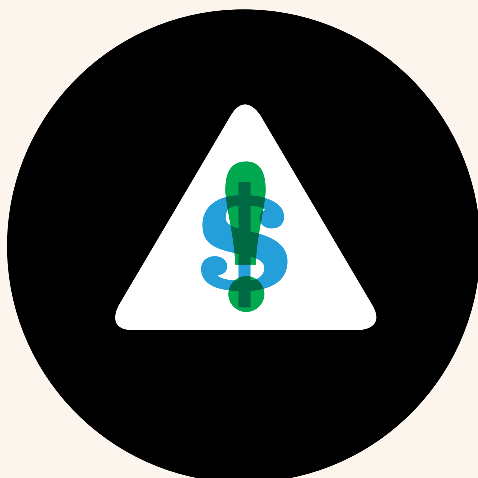
LISTED INVESTMENT COMPANIES OR LICENSED INVESTMENT CONS?

If you're not careful more than 10% of your initial investment in a listed investment company or LIC could be eaten up by fees. Try and get a good return from there! Fund manager and Under the Radar Report Columnist Andrew Brown details FIVE risks to look out for if you're thinking of investing in a LIC and then profiles TWO he's got stakes in.

DON'T BE CONNED BY A LIC!

If there is one rule to investing in managed funds of any description, it's that it always pays to read the fine print. A fee being requested by a fund manager of 1% based on performance might not seem like much, but if you include some growth assumptions on the investment portfolio and then capitalise that over a 10 year period, you are looking at a huge amount, which can be as much as 9% of the value of the fund.

This is what happens in the management fee being charged by many LICs upon listing, and this doesn't include other charges that the investor is up for when it comes to running the fund. I'm talking about fees for non-executive directors, administration, custody, accounting… the list goes on. This runs at about $300,000 a year and if you're running $30m, that's a 1% cost on top of the management fee. Before I give you a checklist of 5 areas which can help you invest profitably in LICs, I've provided a quick background on my experience with the sector.



MORE THAN 20 YEARS ANALYSING AUSTRALIAN LICS

Being born and starting my investment career in the UK, I've always had an attraction for the concept of listed investment companies, given the vibrant and diverse investment trust sector in that country. Then after moving to Australia I wrote research reports on the LIC sector in the early 1990's but it was a pretty dull space. There were a handful of long standing internally managed companies, usually related to a stockbroking firm, the odd family controlled, *internally* managed entity and a handful of newer *externally* managed companies run by the then go-go funds managers such as BT, Rothschild, GT and a newcomer, Platinum.

In the period between 1999 and 2003 there was a renaissance in the sector spurred by a growth in boutique fund managers who sought a source of permanent capital, which couldn't walk out the door – at least not easily. That period, unfortunately, saw the start of what I believe is an abuse of the Mum and Dad or retail investor and which over the past two to three years has created an environment where many investors in these companies are going to be severely disappointed.

In short, many LICs are little more than vehicles for the enrichment of the external manager, rather than the shareholder. These types of conflicts were largely removed from the real estate investment trust or REIT sector through internalisation of the manager, and the use of stapled securities.

How do we identify the best way to make a sensible return out of desirable LICs, and avoid the worst? ***I've compiled a 5 stage checklist which I use in my investing in the area and which you may find useful.***

NUMBER 1

WHAT'S THE PURPOSE OF THE COMPANY? ONLY BUY FUNDS THAT DO WHAT YOU CAN'T.

Back in the day, there was a role for a listed company investing in the blue chips of the Australian market; at the time, unit trusts were expensive, had excessive fees and often burned the investor with tax bills, even after units had declined in price by their forced disbursement of gains. These days, with exchange traded funds (ETFs) and low cost index replicating funds, there is little need for a LIC investing in the larger companies. The remaining LICs with such a mandate trade little, are long established, have very low expense ratios – because they are managed *internally* - and some tax advantages. If you see a "blue chip" externally managed fund – don't bother.

The benefit of a LIC is its permanent capital – the manager is not forced to sell at the most inopportune time. As a consequence, *externally* managed LICs lend themselves to more adventurous and illiquid investment strategies; in Australia, this is manifested by the reasonable number of small company/microcap LICs, and long/short type strategies. In addition, there is reasonable demand for funds with a non-Australian bent to them.

NUMBER 2

CHECK OUT THE BOARD. YOU'RE PAYING FOR THEM.

Being a non-executive Director of a LIC is a great job. You don't usually get appointed without knowing the manager, which means when the going gets tough, you're not going to try and tip them out. The danger of litigation is pretty minimal, and there's plenty of incentive to "go with the flow" – until a corporate raider arrives at the door. You need to ensure the non-executive Directors are not just "mates" but will hold the manager accountable, will push for share buy-backs where there is an appropriate discount (which reduces the manager's fees) and will show a willingness to engage with the outside world. Look around the Australia LIC scene – there aren't too many.

NUMBER 3

UNLESS THERE IS A COMPELLING REASON, DON'T SUBSCRIBE AT THE FLOAT.

When you buy a LIC, you are buying FOUR component parts, which make up the liquidation value of the company:

a) The investment portfolio itself MINUS
b) The embedded tax liability (which can be used to fully frank dividends) MINUS
c) The future stream of management fees MINUS
d) The future stream of other expenses.

Points (a) and (b) above are obvious; (c) and (d) are hidden but onerous and in many cases, downright egregious. They are one of the key reasons the LIC sector is being discredited, will lead to further disappointment and required change.

Most LICs are floated with a fee payable to the broker distributing it of around 2%; when added to the other fees of an IPO (printing, legals etc), on average for each $1 subscribed, the day 1 NTA is around **97 – 97.5c. The 97.5c is the money they're actually investing for you.**

However, all externally managed LICs have management agreements which usually run for 10 years (a waiver is needed from the ASX for more than five but is usually granted up to ten). At a 1% per annum fee, with no "performance fees", on my calculations, the future value of that management fee is over 9%[1]. **So on day 1, your $1 has actually bought you only around 88.7c of real value.**

I have not bothered to calculate the impact of the appalling quantums of performance fees which are levied to many LICs. To be blunt, I won't go near a performance fee structure which provides benchmark of cash/bank bills when managing an equity fund. In my opinion, that is bordering on unethical. The benchmark should be an equity benchmark (with a permanent high water mark).

If you didn't think the fees could get bigger, wait there's more!

There is a cost in paying the non-executive Directors (usually $25,000 per annum), registry fees, audit fees, custody costs, ASX listing fees, accounting and administration costs etc. Even a relatively small LIC has a fixed cost of around $300,000 per annum in such costs. On a $60million fund, that's 0.5% per annum. On a $30m fund, it's 1% per annum.

[1] Assumes 8% per annum total return, payment of 4% dividend and 1% management fee. The lower the dividend the higher the fee.

NUMBER 4

DON'T BUY LICS WITH ATTACHING OPTIONS OR THAT HAVE SIGNIFICANT AMOUNTS OF OPTIONS OUTSTANDING.

Many LICs float with attaching options. They exist to provide a source for potential capital for the manager but severely inhibit the performance of the shares in the LIC if the fund managers actually do their job.

Let's take a standard $1 float and assume that there are options on buying the shares for $1 in two years time. If the manager delivers a 50% return over two years and those options are exercised, then those options turn into shares and the LIC, instead of having net tangible assets (NTA) of $1.50, has its NTA eroded to $1.25 because of the dilution from the extra shares issued.

NUMBER 5

LOOK TO BUY AT A DISCOUNT.

To cater for the issues raised in (3) above, I believe it is imperative to buy LICs at a discount to their NTA and preferably liquidation value. This gets to the crux of why I am very wary about many LICs – they are run as FUNDS, not COMPANIES. Companies have infinitely more flexibility to enhance shareholder return, relative to their fund counterparts, notwithstanding the highlighted issues.

WHY LICS SHOULD BUY THEIR OWN STOCK

If you have confidence in your portfolio management capability and your current holdings, if you are given the chance to buy the same portfolio at a 20% discount to its prevailing price, you would surely do that all day long. Yet many managers simply won't, and their mates on the board don't push them. I believe one of the great attractions of a well run LIC is the ability to do this, as well as distribute franking credits and other means of capital management. So many times, fund managers who rail onto corporates about capital management fail the test in their own house.

I'm always looking to buy at a discount since it is providing at least some (hopefully additional) margin of safety to my holding, to offset the prior issues.

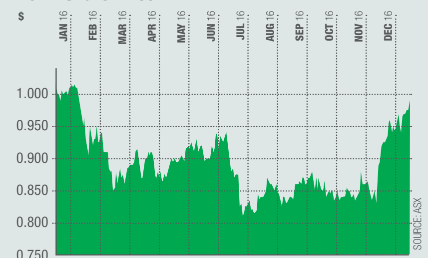
SO WHAT TO BUY?

The **first** key is to find a LIC which does something you can't easily do yourself. The **second**, is to find something which potentially gives you a double benefit – portfolio performance plus closure of the discount to NTA. **Thirdly**, find a LIC which is run by a credible manager, meeting as many of our checklist requirements as possible, but where a discount has arisen due to short-term performance hiccups.

Two opportunities arise in my opinion, and in which I have a relevant interest:

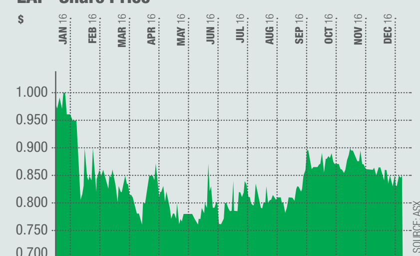
PM Capital Global Opportunities Fund (ASX: PGF)

floated in late 2013, and managed by PM Capital who returned less than half the $A-denominated performance of their benchmark in the year to 30 June 2016. However, they have an exceptional long-term record and a current portfolio which I personally find extremely appealing, replete with cheap financial shares. The shares presently trade at ~12% discount to pre-tax NTA. (fees 1% +15% of performance over benchmark).



Ellerston Asian Investments Limited (ASX: EAI)

floated in September 2015, investing in Asia (ex-Japan) equities and capturing markets such as China, India, Hong Kong and South Korea. The negative is that the company still have a significant number of dilutive options on issue, but have recently instigated a 10% buy-back program. The shares trade at a ~15% discount to pre-tax NTA (fees c.0.85% + 15% of performance over benchmark).



GALE PACIFIC
Shade cloth manufacturer

RADAR RATING **BUY**

ASX CODE **GAP**

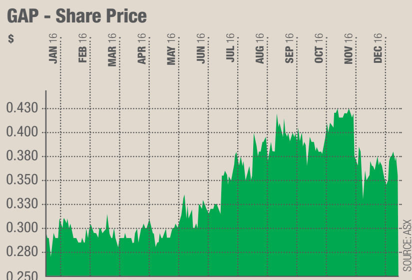
SHARE PRICE **$0.35**

MARKET CAP **$106M**

NET DEBT **$8M**

TIP DATE **2 SEP 2015**

TIP PRICE **$0.22**



The share price of Gale has come back somewhat since we last covered the stock, and is languishing in the mid 30 cents. Limited net debt, and an enterprise value of just around 5 times EBITDA seems inexpensive for a stock with anticipated sales growth and big prospects throughout its international markets. We are upgrading to Buy despite some headwinds in Australia arising out of the Masters shutdown.

As a result of the Masters shutdown and the consequent lost sales management anticipate slower growth in FY17, but suggest that the business platforms and processes now in place will deliver improvements in revenues to enhance profit margins over time. The strategies of identifying and putting resources behind a limited range of key products we hope will continue to deliver growth for a few years.

The company forecast a modest increase in revenue and profits in the first half, followed by a stronger 2nd half, repeating pattern of previous years. Having delivered last year, we have some faith in management's ability to continue to meet or exceed expectations.

There is potential for growth in the US, but Australian and New Zealand growth will be harder to achieve, impacted by the closure of Masters. Since local regions represent more than 50% of total sales, and those headwinds will not ease until the first half of FY18, growth will be slower this year than anticipated, hence the share price weakness.

Other statements by the company in recent times illustrate Gale's numerous options to improve its efficiency and deliver growth to shareholders.

The ongoing restructure of Chinese manufacturing operations will deliver benefits over the next few periods. In particular, management expects to reduce costs through improved focus on core manufacturing skills, more flexible production and concentrated procurement. Gale is accelerating its US growth, developing the sales infrastructure in its Middle East and North African business, and delivering more meaningful innovation for the key products and sectors targeted for investment and growth.

Shareholders may need to be patient while the company overcomes various hiccups in its growth strategies, but as we pointed out previously, we think that the company's opportunities are limited only by working capital and management bandwidth. ■

RADAR RATING: This seems as good an opportunity to invest in a company that we have liked for a long time. Buy up to 40 cents, and we will add it to our Best Ideas list. BUY.

RESEARCH TIP UPDATES

15 DECEMBER 2016

ALLIANCE AVIATION

Aviation services

Alliance Aviation is in the middle of an evolution from fly in fly out, or FIFO operator into a broader based aviation services supplier.

At the AGM, the company pointed out that its on-time performance of 96% for the year was one of the most important factors for its FIFO clients. The announcement this week that Alliance had extended its contract with Citic Pacific Mining for 12 months, with a five-year contract period beyond that under negotiation, was an endorsement of those attributes.

Alliance has been servicing the Citic account since 2009, and this extension reinforces the group's reliability of service, which includes timeliness and safety. The shares were up sharply on this contract news, offsetting some weakness earlier last week. Alliance's major shareholder Austrian Airlines has sold 4.5m of the shares it received as part consideration for the major Fokker aircraft acquisition late last year and now sits at just over 8%. Alliance will pay no cash tax for over three years, and has franking credits for cash dividends. By the end of that time, debt could be much lower, and shareholders might receive some healthy dividends. But never forget that this is the airline business, so we must not forget to take some profits if they appear. ■

RADAR RATING: Our decision to put Alliance on our Best Ideas list only a couple of weeks ago now looks well timed. We said in November that we thought the company will continue to surprise on the upside, and so far we have not been disappointed. The benefits of its partnership with Virgin Australia are due to start in the second half. We continue to rate the shares as Buy, and look forward to more operational detail at the half-year results. BUY.

RADAR RATING **BUY**

ASX CODE **AQZ**

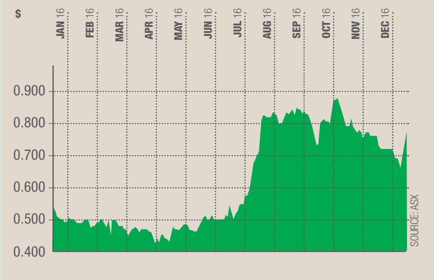
CURRENT PRICE **$0.76**

MARKET CAP **$93M**

NET DEBT **$78M**

TIP DATE **7 DEC 2014**

TIP PRICE **$0.93**



IMPEDIMED

Medical technology

Over seven weeks at the end of June IPD's share price enjoyed a rise from $0.90 at the end of June to $1.80 as validation of the company's technology gathered momentum. But when rises of such magnitude happen so quickly without accompanying certain and quantifiable cash flows, particularly when the market cap is significant, the stock will be vulnerable to profit taking when buying is exhausted. The recent correction has provided a much better entry level.

This explains much of the correction in the price, although this was accentuated by shorting, which was evidenced by a substantial shareholder notice lodged on 23 November 2016.

There has been no obvious fundamental change to the company's very substantial economic potential. IPD is an emerging global provider of medical technology to measure, monitor and manage fluid status and body composition. The first product L-Dex is for early detection of lymphedema, a common symptom of cancer, and particularly after mastectomy, usually associated with breast cancer. The L-Dex post-approval trial for lymphedema is expected to deliver interim results in January 2017. This is a large trial which is likely to accelerate take up of the device in a very large market.

A recent development is a device called SOZO, recently launched into the health and wellness market. SOZO is in a validation study for monitoring patients with heart failure at

RADAR RATING **SPEC BUY**

ASX CODE **IPD**

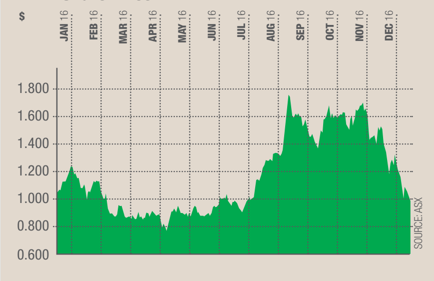
CURRENT PRICE **$0.97**

MARKET CAP **$358M**

NET CASH **$82.3M**

TIP DATE **10 APR 2014**

TIP PRICE **$0.20**



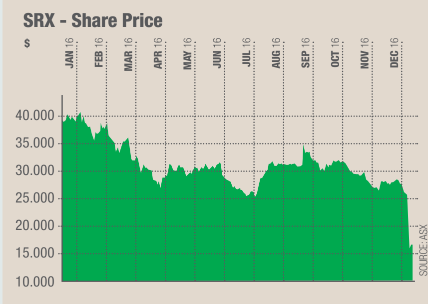
leading US cardiovascular hospital Scripps Green Hospital. SOZO is a device and platform which incorporates the group's bioimpedence technology, which it takes into the home.

Regulatory approval for SOZO is expected in the US market in 2017. The potential market of congestive heart failure patients is large with around 6m in each of the US and EU markets. The L-Dex post-approval trial for lymphedema is expected to deliver interim results in January 2016. In a sense this is a marketing trial designed to provide additional evidence of its usefulness and generally increases awareness of the device. ■

RADAR RATING: With the assistance of significant shorting the heat has come out of the share price of this highly prospective life science technology company, providing an attractive entry price. We have always felt that ImpediMed's model of upfront sales and ongoing consumables gave it better prospects than many. SPEC BUY.

SIRTEX MEDICAL
Medical technology

RADAR RATING **HOLD**
ASX CODE **SRX**
CURRENT PRICE **$16.84**
MARKET CAP **$960M**
NET CASH **$107M**
TIP DATE **14 JUN 2012**
TIP PRICE **$6.28**



In the past 18 months investors have had two opportunities to buy liver cancer technology company Sirtex well below $20. Now is that second chance.

Both occurrences have involved a halving of the share price within the space of days. This is not a stock for the fainthearted! Two factors are responsible for the extremity of these moves. Firstly, SRX became a darling growth stock trading on very high multiples; secondly, the perceptions of its prospects are inherently prone to significant alteration.

The recent plunge followed a significant downgrade by the company of expected growth in FY17. This came as a shock, as only two months ago at the AGM the company confirmed guidance for continued double-digit dose sales growth. It is a little disturbing that management lacked visibility of what is a quite sharp reduction in near-term growth prospects. This raises questions about the control management has over operations – it's difficult to manage in the absence of good information.

The company downgraded FY17 sales growth guidance to 5%-11% from double-digit, but more significantly, downgraded full-year constant currency EBITDA expectations to between flat to down 12%.

Reasons cited by the company for this profit deceleration include increased competition from a drug Lonsurf, approved for late stage liver cancer, and from other liver directed therapies. Treatment for liver cancer is currently around 40% of SRX's market. The other factor the group cited was reimbursement reductions in the UK and Germany.

Trial results do not appear to suggest Lonsurf is as effective as SRX's SIR-Spheres radiation based treatment, and generates much worse side effects. But as a tablet, Lonsurf, is much easier to deliver and we understand quite a bit cheaper.

We expect a profit reset in FY17 followed by 10%-15% EBITDA growth thereafter as the company penetrates new geographies in Europe, the Middle and Far East. On this basis we value the stock at around $16, implying a free option on the potential for three large clinical trials that report in the first six months of next year to drive greater uptake higher up the treatment cascade than the small salvage market where Sirtex's treatment is currently positioned. That said, it might be prudent to wait until nearer the release of first half results some time in February because of the tendency for companies to follow initial

downgrades with further bad news. We'd wait to two weeks before the interim result announcement as by then any disclosures are likely to have been made. ■

RADAR RATING: SRX's radioactive microsphere treatment for liver cancer appears increasingly established in what is a highly conservative market; but the recent profit downgrade suggests the low hanging fruit is depleted. Additional clinical trials due to report in 2H17 that include Sirtex's treatment in second and first line treatment protocols, as opposed to current use largely in "salvage" patients could provide a big boost to sales. The fallen share price now implies a free option on growth into these large segments, but prudent to wait for any further bad news that could emerge prior to the interim result. HOLD.

FREEDOM FOODS

Allergen free food producer

RADAR RATING **TAKE $$$**

ASX CODE **FNP**

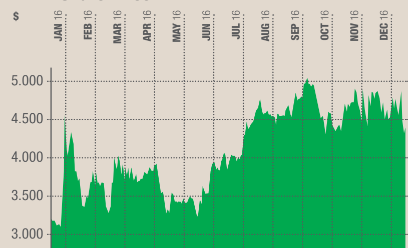
CURRENT PRICE **$4.42**

MARKET CAP **$877M**

NET CASH **$86M**

TIP DATE **4 APR 2013**

TIP PRICE **$1.05**



Another day, another equity capital raising for Freedom Foods. Since we last covered it, the group has grown, but its shares have come off. For one thing it's doing a big capital raising, and the other is that investors are a bit more sceptical about the potential in China, following the big collapse of the high profile organic milk formula marketing group Bellamy's (BAL).

Freedom is in the final stages of completing its $75m equity capital raising at $4.45 a share. It's now undertaking the retail component of the offer, which closes on 23 December. As you can see, the shares are currently trading below the $4.45 issue price, and below $4.64, which was where we last said for investors to Take Profits.

The company has locked in $62m of the $75m from the institutional component. A key point is that the Perich family, which were the founders and are 55% shareholders has taken up its entitlement although did not participate in the $10m placement. This is a positive.

Another positive is that the company is now flush with cash. Before the raising the company had $24m in net cash (cash minus debt). From the current raising it says it's pursuing "growth" initiatives. $50m of the funds will be used to acquire the 50% it doesn't own in Pactum Dairy Group (PDG) from a family owned milk supplier, Australian Consolidated Milk (ACM). PDG runs an ultra high temperature (UHT) dairy production operation, which the company says was "gradually moving into profitability" in FY16. Freedom increased its shareholding to 50% on 1 January 2016 by converting notes it issued to finance the venture.

Part of the hope is that PDG's milk product will be exported to China. On this front it appears Freedom intends to replicate the a2 milk success, which it has been a part of.

The company will also spend about $20m on an Australian based manufacturer of a "sports and adult nutrition brand". Who says manufacturers are cheap? Freedom assures that it will be "accretive to earnings in its first full year of operation (FY18)".

But wait, there's more! Freedom has entered into "an exclusive term sheet" whatever that means to buy a controlling interest in a North American based natural food company that markets "all-natural breakfast foods". It doesn't specify how much it's spending on this venture.

Last but not least, it talked up its "memorandum of understanding" with a Chinese group Shenzhen JiaLiLe Food to establish a company called "Australia's Own Dairy Company China" to grow the Australia's Own branded Kid's Milk products in China.

RADAR RATING: As usual Freedom has a lot of corporate activity going on, and more cash going out than in via its actual operations. The market is growing more sceptical about Australian companies' abilities to tap into the Chinese market place, and rightly so. On the numbers, Freedom continues to look expensive, trading on a forecast FY17 cash flow multiple of over 25 times. TAKE PROFITS.

CENTREPOINT ALLIANCE

Financial services provider

Centrepoint's shares have climbed 40% since we last tipped them less than two months ago. The financial services specialist is running hot, which is partly due to some bullish comments from the managing director John de Zuart at its AGM in late November, where he indicated that earnings in the current half (1H17) are "well ahead" of the same period a year ago, "with all business lines contributing strongly with a combination of revenue growth and expense management."

Underpinning this growth is the group's steady (in its words) recruitment of financial planners to promote its increasing range of products. It is also seeing an improvement in volumes of its much troubled insurance premium funding business. Its review of the latter will be out in the coming months.

There remains the risk, although much diminished, of claims relating to prior cases of mal-advice. The provision for this remains at $4.7m even though settlements of these cases were well down in FY16 on the prior years.

RADAR RATING: This has been a very profitable company for subscribers who took our advice, but on no real news, in the space of less than 8 weeks it has climbed from a historic cash flow (EV/EBITDA) multiple of just over 11 times to over 16 times. We like its business but it's looking expensive. TAKE PROFITS.

RADAR RATING **TAKE $$$**

ASX CODE **CAF**

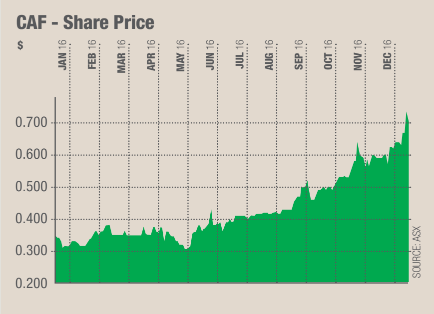
CURRENT PRICE **$0.74**

MARKET CAP **$115M**

NET CASH **$10M**

TIP DATE **18 APR 2013**

TIP PRICE **$0.44**



BEST MONEY MAKING IDEAS

AS AT 14 DECEMBER 2016

**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	92.0	2.6	0.76	-6.0	The company trades at a 30% plus discount to its net assets and produces good cash returns on its existing fleet of 28 Fokker aircraft. It makes $1.6m a year per plane. It has a much bigger inventory of planes to work with, having purchased 21 Fokker aircraft from Austrian Airlines for cash and scrip worth US$15m (A$20m), which is less than $1m per plane. There is demand for these aircraft whether it's for parts or for leasing because the Fokker has proven itself adaptable to Australia's arid conditions.
GALE PACIFIC (GAP)	Manufact.	106.1	5.0	0.35	+56.4	Shareholders may need to be patient while the company overcomes various hiccups in its growth strategies, but as we pointed out previously, we think that the company's opportunities are limited only by working capital and management bandwidth. This seems as good an opportunity to invest in a company that we have liked for a long time.
INGENIA COMMUNITIES (INA)	Property	477.9	3.1	2.70	+3.4	Because of its use of new technology and an innovative funding scheme for retirees, it is a value proposition that is almost without peer. As managing director Simon Owen says, "We sell manufactured homes for as little as $160,000 which gives your retiree (who has sold her house) at least $200,000 to live a more comfortable lifestyle."
SPECIALTY FASHION (SFH)	Retail	94.1	-	0.49	-38.2	Because Specialty has 1100 stores it has the potential to be a big company, but right now is masquerading as a small cap. It's trading single digit earnings multiple and it has net cash. The bottom line is despite the anaemic retail environment this company can deliver accelerated earnings growth over the next couple of years.
SOUTHERN CROSS ELECTRICAL (SXE)	Mining Services	83.2	5.2	0.52	+56.3	A fully franked dividend yield of at least 5%, substantial cash backing, and price to sales ratio of less than 50% add up to a cheap stock in a difficult sector. We have been consistently impressed by the company's management and its financial flexibility. We will watch closely for signs of further deterioration, but maintain a SPEC BUY rating.
TASSAL (TGR)	Food	600.4	3.8	4.00	+1.7	Demand is growing for salmon because of its health benefits; while supply is limited by natural fishing constraints and capital costs. Tassal has been around for a long time and has been incrementally improving its processes. The 4% dividend yield is good and there is the prospect of capital growth because of its strong domestic market position in both salmon and its potential in seafood distribution.
TOX FREE (TOX)	Waste Services	473.4	3.7	2.44	+4.7	Shares in the waste manager have declined 36% since mid-2014 but it is now poised for 30% plus earnings growth following two acquisitions amounting to some $360m. The business is now diversified throughout Australia, trades on a dividend yield of 4% and has a big competitive edge.

We're adding Gale Pacific (GAP).

under the radar report

SMALL CAPS

15 DECEMBER 2016

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

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