

Generate 51% Return

You can't pick a winner every time, as the legendary horseracing commentator Johnny Tapp would say. What you can do is give your portfolio the chance to reap super profits.

Just look at the performance of our portfolio manager and Radar's creation, Ivo Budelman whose portfolio has returned 51 per cent since he started investing in late March last year. Look inside to see the details.

Ivo, it would be fair to say, is no mental giant. In fact, all he does is try to do what he can to avoid any form of work. He used Under the Radar's universe of stock picks to look for companies which he felt comfortable with. Subscribers should note that Ivo will be returning to our reports and building another portfolio once he gets back from Brazil.

We also look in depth at a small cap which is fully funded and has a massive potential pay day literally around the corner. We believe that this biotech could more than triple if it delivers positive final stage clinical trial results. *Alchemia (ACL)* has already delivered subscribers a return of just over 40 per cent since we tipped it just over 12 months ago. We hope it will do much better than that in the coming months.

Not all of Radar's tips perform like Alchemia and we cannot deny that the telecommunications reseller and hosting specialist *Macquarie Telecom (MAQ)* hasn't disappointed. We spoke to the company in the wake of a profit downgrade and find out whether there is a buying opportunity following its share price decline.

There are also updates on the big performing office services group *Servcorp (SRV)*, which has returned 43 per cent since we tipped it about 10 months ago.

There is more, including our much read portfolio manager the Idle Speculator, who is managing to deliver solid returns, which demonstrates the importance of diversification.

Just remember, if Ivo can do it, you can too. ■



Richard Hemming
Editor

the issue

SHARE RESEARCH TIP. P2 ALCHEMIA (ACL)

A fully funded biotech with a big pay day around the corner. It has been a long time in coming for this Australian cancer treatment developer, but we think the wait will be worth it.

TIP UPDATES P3

*Two of these companies have underperformed and one has delivered stellar performance. We tell you what to do now. *Capral (CAA)*, *Macquarie Telecom (MAQ)*, *Servcorp (SRV)*.*

IVO BUDELMAN IS (COMING) BACK. P5

Ivo's portfolio has returned 52 per cent from his time investing from late March. He has been spending some, if not all of the proceeds at casinos in Brazil.

PORTFOLIO. P6 THE IDLE SPECULATOR

SMALL TALK

"I left Pfizer because of Dr Tracey Brown. HA-Irinotecan is a great technology. At Pfizer I spent a lot of time looking at technologies and science."

THOMAS LIQUARD
CEO, ALCHEMIA

99% of all financial news relates to the 40 to 50 biggest companies. So what about the rest? They're Under the Radar.



ALCHEMIA

A fully funded biotech with a big pay day around the corner. It has been a long time in coming for this Australian cancer treatment developer, but we think the wait will be worth it.

PLAYING MOLECULAR ROULETTE WITH AN EDGE

As many investors lose money in biotechs as make big profits. You are often playing a form of “molecular roulette,” but having spoken again with the company, we believe that Alchemia is in a great position to be a winner.

It's in a great position financially, and it's in a great position regarding the potential success of its treatment for metastatic colorectal cancer treatment HA-Irinotecan, whose final stage 415 person trial ends soon. Its results should be out by 30 September, and its chief executive Thomas Liquard told Radar: “If the Phase 3 is positive, we feel confident about approval”.

But make no mistake, an investment in this company contains bigger risks than one in an industrial company whose earnings are relatively consistent.

ON VALUATION GROUNDS IT LOOKS GOOD

Annual royalties from its fondaparinux blood thinning product should grow from their current level of \$2.5m a quarter. We estimate that this should climb to about \$3m because of the \$10m which has been spent on manufacturing improvements by the distributor Dr Reddys and by Alchemia, which split the profits 50:50.

There is high demand for fondaparinux to treat deep vein thrombosis and Dr Reddys is a big distributor of such generic drugs around the world. We would value the \$12m plus royalties which run until the patent expires in 2013 at \$60m, which is on top of the \$13m in cash the company has. This equates to about 44 per cent of Alchemia's current market valuation.

The blue sky comes from the company's hyaluronic acid (HA) formulation, it calls “HyACT” and was developed by its chief scientific officer Dr Tracey Brown following a personal experience with cancer.

Its flagship treatment HA-Irinotecan combines it with an off-patent cancer drug called Irinotecan to fight patients suffering from metastatic colorectal cancer. This market for Alchemia is worth about \$0.5bn a year in the US alone.

THE TECHNOLOGY

HyACT is a gel like substance, which is mixed with Irinotecan to help the chemo stick to the tumour and get taken up by the tumour cells, triggering cell death. HA-Irinotecan is in its final stage 415 patient trial and is up against the current standard of care for patients in second and third line treatments.

Its goal is to beat the progression free survival (PFS) rate of the 50 per cent of patients on the standard treatment (called FOLFIRI) by six weeks. In the past a patient has lasted for just under 5 months on the standard treatment, before moving on to the next treatment. To beat the standard treatment's performance is a massive challenge.

To give you an idea of its commercial potential in the short-term, the US based Merrimack Pharmaceuticals' valuation went up by about \$400m with the successful trial of its Irinotecan formulation in pancreatic cancer. Translating this to Alchemia and could add about \$1.20 a share if it has a positive Phase 3 trial result, meaning Alchemia's shares should be north of \$1.40.

CONFIDENT FOR A REASON

The reason for Liquard's confidence in the approval of HA-Irinotecan is his confidence in Tracey Brown's HyACT's “mechanism of action”, which has been the case from the time it was trialled in the petri dish to its Phase 2 trial on 76 humans.

Cancer cells overexpress a pathway called CD44 and take in water. HyACT delivers the chemotherapy through that pathway. “We know we deliver more drugs into the cells. The Phase 2 data looked positive and there was a clear differentiation from a PFS perspective.” Alchemia shareholders will be hoping he's right. ■

SHARE PRICE **\$0.51**

MARKET CAP **\$165M**

ASX CODE **ACL**

RADAR RATING **BUY**

DIVIDEND YIELD **0%**

BULL POINTS

- ▶ PHASE 3 TRIAL RESULTS COMING BEFORE SEPTEMBER 30
- ▶ TECHNOLOGY IS EXCELLENT
- ▶ FONDAPARINUX ROYALTIES TO INCREASE

BEAR POINTS

- ▶ CLINICAL TRIAL RISK
- ▶ INCREASING COMPETITION FOR FONDAPARINUX

WHY WE LIKE IT

The 415 patient trials for its treatment for metastatic colorectal cancer treatment HA-Irinotecan began in December 2011. If the company delivers strong results, the valuation of this stock could easily eclipse \$1. Not only do you have a market worth \$0.5bn in North America for metastatic colorectal cancer, but the technology can also be used for many other cancers. Plus, Alchemia is generating \$10m to \$12m a year through royalties from fondaparinux – its generic blood thinning product.

WHAT'S NEW?

The Phase 3 results are due before 30 September for HA-Irinotecan. If successful it will file for approval in the US and Europe this calendar year and should get approval a year after this. The company is working on other forms of cancer for its drug, but much in the short-term depends upon the success of HA-Irinotecan. It has about \$13m in cash and is getting \$2m to \$2.5m a quarter in royalties from fondaparinux. Its burn rate is about \$1.5m a month, so there isn't an immediate funding issue. This leaves Alchemia in a strong position to do licensing deals with big pharmaceutical companies.

ACL - Share Price





RESEARCH TIP UPDATES

Two of these companies have underperformed and one has delivered stellar performance. We tell you what to do now.

CAPRAL (CAA)

ALUMINIUM PRODUCTS MANUFACTURER

Capral's share price continues to weaken in the face of import competition exacerbated by the high Australian dollar, supply constraints and slower demand which are weighing on the vacuum of current information to leave the sellers very much in charge. We want to update subscribers to make it clear that this should be a situation where patience will pay off. There is no reason to sell now.

Trading EBITDA is forecast to lift by between \$1m and \$3m in the first half of 2014 and deliver a full calendar year result between \$8m and \$10m, provided that the anticipated upturn in housing starts retains momentum and the industrial market improves in line with general business conditions. This implies a mid-single digit multiple, suggesting a cheap stock. Also, a renewed 3 year \$90m debt financing package as well as net cash on the balance sheet suggests that there is very limited financial risk.

New subscribers could interest themselves in a small speculative position at current levels, bearing in mind where the stock has come from and its leverage to aluminium prices and currency weakness. The company has lodged further requests for regulatory protection from anti-competitive behaviour by importers, but there is no sign that these efforts will have more success. ■

RADAR RATING: The stock has fallen from levels about 20 cents at the end of last financial year to current levels of around 12 cents – and has fallen a lot further over the past three to five years. There may be a number of sellers looking for a tax loss in the market now. That would explain the depressed stock price but possibly provide an opportunity for a speculative trade for our braver subscribers. Spec Buy.

TIP DATE **17 OCT 2013**

TIP PRICE **\$0.14**

CURRENT PRICE **\$0.125**

RADAR RATING **SPEC BUY**

MARKET CAP **\$57M**

MACQUARIE TELECOMS (MAQ)

TELCO AND IT SERVICES PROVIDER

The telecommunications reseller and IT hosting provider again disappointed investors by lowering its profit guidance for EBITDA from between \$28m to \$30m to between \$25m and \$27m. Last year the company made just over \$35m at the earnings before interest, tax, depreciation and amortisation (EBITDA) level.

About two thirds of MAQ's earnings come from reselling telecommunications products. In that segment its mobile earnings, which last year were about 6 per cent, have dwindled because it has been reselling the lower margin Telstra product rather than Vodafone.

This factor is not as important as its declining revenues from offering IT as a service in its hosting business, which represents the remaining third of earnings and also the company's ambition to achieve big profit growth.

This business provides data centres for companies to store their servers, in the same way as bigger competitors do such as Next DC and the likes of Amazon. To an extent it has been suffering from an oversupply in the Sydney marketplace.

But its growth business has always been its provision of full services to companies, involving the complete management of a business's IT needs. This is much higher margin and its margins have been hit as its customers migrate to its cloud offering, which offers them lower costs and will offer MAQ higher margins as it utilises its infrastructure. The problem in the short-term is that the profit margins are lower as it migrates those customers.

TIP DATE **20 OCT 2011**

TIP PRICE **\$8.15**

CURRENT PRICE **\$6.00**

RADAR RATING **BUY**

MARKET CAP **\$126M**

MACQUARIE TELECOMS (MAQ) CONTINUED...

We spoke to the company's CFO Michael Simmonds after the announcement, who said in explanation:

"The acceleration of customers has been faster than we thought. Although there are lower capital costs and lower operating costs we won't feel the effects of them until next year."

MAQ is nearing the end of a massive capital spending program where it has boosted its data centre offering from one to three centres at a cost of about \$100m. This capital spend is nearing an end and the company's free cash flows will show this benefit.

However, it has been a frustrating ride with the company throwing about \$10m (and counting) at a business called NineFold which as we understand it, employs computer programmers which are to be used by corporates to develop apps and the like. We cannot see the business rationale, although we accept that with about \$30m of EBITDA the company needs to be innovative. ■

RADAR TAKEOUT: This group needs to get rid of NineFold. Without it, the group is trading on a cash flow multiple of about 5 times and is forecast to produce about \$12m in free cash flow. At the current price we rate the stock a buy, but we are taking it off our best buys list because the stock is not going anywhere until it can show that it can increase its profits. Buy.

SERVCORP (SRV) SERVICED OFFICE PROVIDER

Servcorp has continued to move higher as the market has become more comfortable with its earnings and growth prospects. Investors are attracted to the company's path towards consistent earnings as its occupancy rates rise. Its appeal is also its 4 per cent dividend yield.

The stock is highly reliant on positive economic growth in major markets across the globe, because its tenants are often the least stable and smallest of companies and businesses.

There is also a material amount of operating leverage in the business model and lower capacity utilisation would contribute to a more dramatic downturn in operating earnings if economic conditions slow down.

At the same time serviced offices represent a flexible downsize option for larger and more established companies, and residual demand will remain somewhat dependent on vacancy rates in the commercial office market in the cities in which they operate. Vacancy rates in Australia have been rising, but overseas markets are at a different stage in the cycle and are harder to measure. ■

RADAR RATING: We are downgrading Servcorp from a Buy to a Hold to reflect the strong performance over the past year, and we look forward to reviewing the full year results in August.

TIP DATE **15 AUG 2013**

TIP PRICE **\$3.53**

CURRENT PRICE **\$4.88**

RADAR RATING **HOLD**

MARKET CAP **\$481M**

under the radar IVO BUDELMAN

HOW DO YOU GENERATE A 51% RETURN IN JUST OVER A YEAR?

Ask Under the Radar Report's Ivo Budelman. You can't pick a winner every time, as the legendary horseracing commentator Johnny Tapp would say. What you can do is give your portfolio the chance to reap super profits.

UNDER THE RADAR REPORT'S "IVO" PORTFOLIO

Just look at the performance of our portfolio manager, Ivo Budelman* whose portfolio has returned 51% since he started investing in late March last year. (Online, you can download Ivo's column under the stock research tab/download reports/Issues 39 to 44.)

Our publication is all about finding strong small caps that can deliver returns throughout the economic cycle. It is also about putting your irons in the fire and coming up with some explosive returns, which Ivo has clearly done.

Ivo, it would be fair to say is no mental giant. In fact, all he does is try to do what he can to avoid any form of work. He used Under the Radar's universe of stock picks to look for companies which he felt comfortable with. Subscribers should note that Ivo will be returning to our reports and building another portfolio once he gets back from Brazil. If Ivo can do it, you can too.

ASX CODE	COMPANY NAME	TRANSACTION DATE	PURCHASE PRICE	AMOUNT INVESTED	NO. OF SHARES	DIVIDENDS (\$)	PRICE @ 20.6.14	CHANGE	PROFIT (LOSS) (\$)
TGR	Tassal	21.3.13	1.97	10,000	5,076	532.99	3.97	101.3%	10,660
CKF	Collins Foods	21.3.13	1.72	10,000	5,814	581.40	2.04	18.6%	2,442
SFW	SFG	21.3.13	0.62	10,000	16,129	645.16	0.85	37.1%	4,355
NCK	Nick Scali	21.3.13	2.10	10,000	4,762	571.43	2.60	23.8%	2,952
ESV	eServGlobal	04.4.13	0.41	10,000	24,390	-	0.81	96.3%	9,634
AZZ	Antares Energy	04.4.13	0.43	10,000	23,256	-	0.50	16.3%	1,628
NST	Northern Star	18.4.13	0.69	5,000	7,246	253.62	1.29	87.2%	4,616
MXI	MaxiTrans	02.5.13	1.21	2,000	1,653	132.23	0.97	-19.8%	(264)
EPW	ERM Power	16.5.13	2.56	2,000	781	89.84	1.76	-31.4%	(539)
				\$69,000				TOTAL	\$35,483
							TOTAL RETURN	51.4%	

SMALL CAPS: INFORMATION RISK PROVIDES GREAT INVESTMENT OPPORTUNITIES

For small caps across the board there is less transparency about how their operations are traveling. There are less executives to inform the market of their company's progress; there are less, if any, analysts from either the fund managers or the stock brokers covering them; and there are less investors in each individual stock asking questions of management and the board.

It is this end of the market where the returns can be massive, because there is so much less certainty. When these companies do perform, in an earnings sense, especially, they can get re-rated by the market very quickly. One of Under the Radar and Ivo's big performers is the Tasmanian based salmon producer *Tassal (TGR)*.

Tassal now has what institutions love: free cash flow, which refers to monies which enter the company's coffers after the payment of all its costs, its capital expenditure commitments and its dividends. This is cash Tassal can use to grow and to increase dividends in the future.

It spent about \$200m over two years on its hatchery facilities in Macquarie Harbour and now it has a virtual monopoly on sales to the big supermarkets in Australia. When we first tipped it the stock had a PE of 6 times and a dividend yield of 7 per cent! Its recent rise places the stock on a PE and yield which are much closer to the market average, although it still looks great value compared to the banks, in our view.

You can be assured that Ivo and Under the Radar are constantly looking for the next Tassal. ■

* Please note that Ivo is Under the Radar Report's creation and clearly falls under the disclaimers found on our website.



UNDER THE RADAR DIVERSIFIED SHARE PORTFOLIO

The Idle Speculator's consistent performance continues, illustrating the benefits of a strategy of diversification in big caps and small caps.

ASX CODE	COMPANY NAME	LAST TRANSACTION DATE	NUMBER HELD	TOTAL COST (\$)	PRICE @ 24/06/14 (\$)	CURRENT VALUE (\$)	SHARES (%)
AQZ	Alliance Aviation Services Limited	20-May-14	1500	-\$2,496	\$1.125	\$1,688	1.4%
ASB	Austal Limited	17-Dec-12	1900	-\$1,878	\$1.260	\$2,394	2.0%
CLV	Clover Corporation Ltd	10-Jun-14	6000	-\$2,435	\$0.430	\$2,580	2.1%
EGN	Engenco Limited	18-Jan-13	12500	-\$3,608	\$0.130	\$1,625	1.3%
ELD	Elders Limited	09-Apr-13	20000	-\$2,405	\$0.175	\$3,500	2.9%
ESV	Eservglobal Limited	07-May-13	4000	-\$1,468	\$0.800	\$3,200	2.6%
MAQ	Macquarie Telecom Group Limited	10-Jun-14	300	-\$2,395	\$6.000	\$1,800	1.5%
MLB	Melbourne IT	30-Jan-14	1500	-\$1,435	\$1.620	\$2,430	2.0%
NGF	Norton Gold Fields	14-Feb-12	5000	-\$1,003	\$0.110	\$550	0.5%
ARG	Argo Investments	19-Jun-12	2000	-\$10,531	\$7.520	\$15,040	12.4%
STW	SPDR S&P/ASX 200 Fund - ETF	22-May-12	500	-\$19,794	\$51.500	\$25,750	21.2%
WHF	Whitefield Limited	06-Nov-12	1500	-\$4,573	\$4.150	\$6,225	5.1%
Shares	56%					\$68,542	
Cash	44%					\$52,829	
Portfolio	100%				GRAND TOTAL	\$121,371	

Please note: The share portion of the portfolio is made up of 69% Market linked shares, and 31% Small cap shares.

FIRST, SOME MACRO COMMENT

Stock markets worldwide appear to have gone on holidays, allowing prices to drift up in the absence of specific bad news and in the face of continuing problems in Iraq and Ukraine.

Traders have found more opportunities for aggressive bets on the World Cup soccer than on financial markets.

Gold made a significant move late last week as uncertainty ratchets up in the Middle East. Clearly recent comments by the Chairman of the US Federal Reserve Janet Yellen that inflation remained benign are not being accepted by many in the market.

We continue to suspect that gold may go much higher over time as the money printed by the Federal Reserve and other central banks leaks into the real economy.

Companies and stocks will also be big beneficiaries, although for many stocks much of that benefit is already "baked in" to their prices.

PORTFOLIO ACTIVITY

Melbourne IT (MLB) has become more volatile as the possibility that a new story has emerged after the acquisition of Netregistry could create a growth story which the broader market would be relatively underexposed to. We remain positive, despite the suggestion that Google is entering the domain name market.

Elders (ELD) moved for the first time for almost 2 years above 15 cents on reasonably significant volume. This has been a positive development for the portfolio and for the Idle Speculator's own SMSF, where the two largest positions are

stocks which have now done well for Under The Radar Report subscribers, Elders and APN (APN). With the new financial year approaching, both these stocks are Hold/Take costs out/Let profits run, and the Idle Speculator's SMSF will undoubtedly be doing exactly that.

Macquarie Telecom's (MAQ) mild profit warning was disappointing, but we still think the company is building a base for a higher level of profitability in the medium term, and your Editor has spoken with management for today's update.

As foreshadowed in Issue 93, we have increased our positions in *Macquarie Telecom (MAQ)* and *Clover (CLV)*. This helps to ensure that the portfolio remains focused and fully invested in the small capitalisation stocks in which we specialise. Both of these stocks appear to us to be good long term stories whose share prices are based on the negative effects of short term influences. Our lower level of commitment to the market related portion of the portfolio reflects our distrust of current large capitalisation stocks equity markets. ■



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TOP BUY RECOMMENDATIONS

As at 25 June 2014

**Return includes dividends and is after brokerage*

NAME	CODE	SECTOR	MARKET CAP \$M	NET CASH/-NET DEBT \$M	DIVI-DENDS	ORIGINAL TIP DATE	TIP PRICE \$	LAST PRICE \$	RETURN %	COMMENTS
BENTHAM IMF	IMF	Services	304	70.0	Y	14/11/13	1.71	1.84	10.2	The litigation funder probably won't be one of the biggest performers, but over time it will be one of the most consistent.
GALE PACIFIC	GAP	Manufact	68	-11.0	Y	13/03/14	0.25	0.23	-2.8	Record FY13 result and gaining offshore contracts. Sun shading has never been this profitable.
SPECIALTY FASHION	SFH	Retail	169	20.0	Y	1/08/13	0.93	0.88	3.4	The company has relatively high fixed costs and is entering into a period where sales growth will be translated directly onto the bottom line. After some share price falls it is not expensive and there is upside from its Rivers acquisition.
THINKSMART	TSM	Fin services	60	40.0	Y	20/03/14	0.40	0.37	-7.5	In one word: Cash. This consumer finance specialist has it, having sold its Australian business for \$43m to FlexiGroup, and it now has 26c a share worth of cash. The group's remaining UK business is generating about \$5m in EBIT, though this could climb substantially if its trial with DIY giant Kingfisher is a success.

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

So please LOGIN online using just your email. We have a fuller version of this top 10 BUY table online, plus links through to the latest research.



TOP 10 STOCKS

By Performance

RADAR TOP 10 STOCKS (AS AT 25 JUNE 2014)

**Return includes dividends and is after brokerage
Average Return: 171.0%*

NAME	CODE	SECTOR	TIP DATE	TIP PRICE \$	LAST \$	RETURN **%
TASSAL	TGR	Food	31-May-12	1.33	3.97	212.8
ISS GROUP	ISS	Information Tech	12-Jan-12	0.14	0.32	200.0
APN NEWS & MEDIA	APN	Media	11-Jul-13	0.27	0.79	190.7
ESERVGLOBAL	ESV	Information Tech	19-Apr-12	0.28	0.80	185.7
BIGAIR GROUP	BGL	Telco	26-Jan-12	0.32	0.88	181.3
SIRTEX MEDICAL	SRX	Biotech	14-Jun-12	6.28	16.85	171.8
MAYNE PHARMA	MYX	Pharmaceuticals	24-Jan-13	0.33	0.89	168.2
FREEDOM FOODS	FNP	Food	04-Apr-13	1.05	2.75	165.2
SFG	SFW	Financial services	20-Sep-12	0.40	0.85	125.0
WARRNAMBOOL CHEESE	WCB	Food	03-May-12	3.83	7.80	109.4

AVERAGE RETURN OF TOP TEN: 171.0%

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WARNING: This publication is general information only, which means it does not take into account your investment objectives, financial situation or needs. You should therefore consider whether a particular recommendation is appropriate for your needs before acting on it, and we recommend seeking advice from a financial adviser or stockbroker before making a decision.

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