

under the radar **SMALL CAPS**

SMALL TALK

"This year was our fiscal cliff. FY14 is when we realise all the hard work from our strategy."

*Richard Pang, CEO
ISS Group*

27th August 2013

High Conviction

Welcome back to another year of Under the Radar. Investing is all about doing a great deal of research and then having the confidence to back your call.

Stephen "The Sheik" Aboud and Marcus Hughes of LHC Capital who we interview in this issue certainly have those qualities. The outstanding returns they have so far generated are based on substantial investments in only five companies.

Most investment funds hold positions in anywhere from 45 to 60 securities, which goes some way towards replicating the index. A "high conviction" fund usually holds about 15 stocks.

This duo has picked 5 high conviction stocks in which it has ploughed a significant portion of its portfolio into. These companies have little or no debt, strong management, are in growing industries, and have a great deal of operating leverage.

Radar tells you which ones they are, and we put the spotlight on two of them.

Happy investing and best wishes,

Richard Hemming
Editor



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

ISSUE #34

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under the radar

SHARE
TIP

01

MAYNE PHARMA

This is an under appreciated asset that is coming to life under its new chief executive.

SHARE PRICE **33C** MARKET CAPITALISATION **\$180M** ASX CODE **MYX** RADAR RATING **BUY**

A HISTORY OF HIGHS AND LOWS

Mayne Pharma owns technology focused on oral drug delivery (such as pills and ventilators), plus it makes products for other companies. In the past, Mayne's earnings have been volatile, leading to a see-sawing share performance.

The only people who have made consistent money out of the stock seem to have been investment bankers and lawyers.

In 2001 Mayne Group acquired listed company FH Faulding in 2001. Its activities included drug wholesaling and health products. It was not run well and was split into two: Mayne Pharma and Symbion Health. Mayne Pharma had one drug – Subacap, a fungal infection treatment. In 2007 the Spanish giant Hospira purchased the company.

Hospira soon bailed out, and in 2009 the business was sold into a biotech Halcygen, which was renamed Mayne Pharma. The board of the new company decided that it wanted to put the old Mayne Pharma back together again a year ago, and hired ex-Faulding executive Scott Richards to take charge.

FORTUNES ARE ON THE UP

In the past year Mayne Pharma's fortunes have been turning around, as Richards' rehires many ex-Faulding executives. The stock hit a 21 cent low in March and is now trading above 30 cents.

Richards' big move has been acquiring US based Metrics, which effectively doubles Mayne's size. Metrics is a manufacturer, developer and a marketer of generic drugs in the US. It specialises in narcotics, or sedatives, which are heavily regulated and can only be produced domestically.

In the wake of the acquisition Mayne no longer looks cheap, but its quality has improved. Although after recent purchases it will have some debt on its balance sheet, its cash flow and potential has never been better.

In the year to 30 June 2012 it reported a profit of \$6.2 million, up from \$1.7 million in the prior financial year. The merged company is expected to make a profit of about \$9 million on \$75 million in sales, comprising about a third each of generic products, contract services, and branded products.

The combined business will have 14 marketed products, plus 16 in various stages of development.

A big positive is Mayne's aggression in going after international markets. Metrics means it now has a bigger presence in the US. It has also done a deal with an Indian generics producer Intas to distribute its injectable products into Australia.

A CLOUD ON THE HORIZON

The one cloud of note hanging over the company is Doryx, which has been its biggest seller. It is a treatment for acne, and is under attack from generic competition in the US. Mayne manufactures the drug for the distributor Warner Chilcott. Doryx lost 35 market share in the US last year, and is not being manufactured for an unspecified period this year due to the influx of competition.

Management says it's not losing any further market share and the company has an application for reformulation awaiting approval. In 2012 it represented about 70 per cent of Mayne's 2012 sales, this year it will be around 10 per cent.

There is also an antitrust lawsuit hanging over Doryx, having been filed by Mylan Pharmaceuticals of the US. The situation hasn't played itself out. Mayne Pharma says it doesn't expect any "material financial liabilities" in relation to this based on its "current legal advice".

The bigger game is the Metrics acquisition, which dilutes the Doryx results. If this goes to plan, profit could well reach more than \$13 million in fiscal 2014, putting the stock on a PE of about 10 times. ■

BULL POINTS

- Good drugs portfolio
- Increasing geographical reach
- Under-utilised capacity
- Little debt

BEAR POINTS

- Drug under threat from generic competition and litigation
- Not paying dividends any time soon

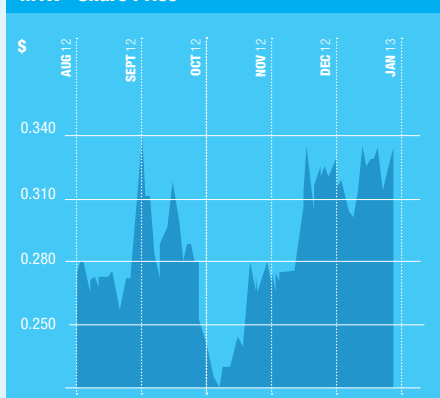
WHY WE LIKE IT

For the first time this speciality pharmaceuticals company has a formidable portfolio after an acquisition that more than doubles its size. It has 14 marketed products, plus 16 new products in various stages of development. It has distribution throughout the world, and has a strong niche. It is poised to increase its revenues as products are launched.

WHAT'S NEW?

Late last year Mayne purchased US based Metrics Inc for \$105m, made up of \$65m of equity and \$48m debt. Prior to the deal its market cap was \$55m. It is now more than 3 times that. Most recently it raised \$18m at 29.5c a share to purchase a pain relief product from global drug giant GlaxoSmithKline.

MYX - Share Price



SOURCE: ASX

RESEARCH TIP UPDATES:

A SELL OFF CREATES A BUYING OPPORTUNITY FOR ONE OF RADAR'S BEST PERFORMERS.

ISS GROUP (ISS)
SFG AUSTRALIA (SFW)
ALTONA MINING (AOH)

ISS GROUP (ISS) – SOFTWARE FOR PRODUCTION LINES

TIP DATE: 12 JANUARY 2012

TIP PRICE: 14 CENTS

CURRENT SHARE PRICE: 20 CENTS

ISS's stock slid from 23 cents to 20 cents after it confirmed the end of the existing Schlumberger contract on 31 May, which was worth about \$17 million over five years.

Management had been preparing for this for a while. It also provided an earnings update and the underlying numbers still look quite positive, although an area of concern is licence sales. If you strip out the Schlumberger contract there is no growth there, although the business pipeline remains strong.

Chief executive Richard Pang was upbeat when he spoke to Radar and envisaged a bigger share in the upstream oil and gas market, meaning when gas comes out of the well:

“We are more focussed on doing the business ourselves and being in control of our destiny. I've always said this year was our fiscal cliff. Fiscal 2014 is when we realise all the hard work from our strategy of generating sales internally.”

The stock trades on about 10 times forecast PE, and has 10.6m in cash and receivables and no debt. It's also a dividend paying company. We are hopeful for growth in fiscal 2014.

We regard the weakness as a buying opportunity.

SFG AUSTRALIA (SFW) – FINANCIAL PLANNING GROUP

TIP DATE: 20 SEPTEMBER 2012

TIP PRICE: 40 CENTS

CURRENT SHARE PRICE: 56.5 CENTS

Our thesis on SFG being part of the consolidating world of financial services has been paying off (it's up 44 per cent on our tip) but it hasn't come to fruition.

A factor driving the share price has been a proposed \$600 million merger with accounting services group WHK Australia, but reports now indicate that this merger is being put on the scrap heap.

The financial planning business is much tougher than it once was, due to the advent of self-managed super funds. And the group no longer looks as cheap as chips, trading on a PE of about 12 times.

We wouldn't be buyers at these levels, but we continue to like the story. Hold.

ALTONA MINING (AOH) – COPPER MINER

TIP DATE: 14 NOVEMBER 2012

TIP PRICE: 27 CENTS

CURRENT SHARE PRICE: 24.5 CENTS

Last week it emerged that Altona has to go it alone or find a new partner to develop its Queensland copper project after global miner Xstrata changed its mind and decided not to buy a majority stake in the project.

Xstrata had a 51 per cent option over the Roseby project although the two parties failed to agree on its valuation. And even paying an independent expert couldn't sort the situation out.

Roseby is located less than 100km away from Xstrata's Mt Isa-Ernest Henry mines in the region. So it had strategic value for Xstrata.

The decision is a definite blow for Altona, whose management has repeatedly said it will not develop the project on its own.

Altona's outspoken managing director Alistair Cowden said that it “was not a disaster”. If a processing facility is built at Roseby it will have strategic value for others. This will take more time, but if anyone can do a deal, it's Cowden.

We are still confident in this company's long-term viability and do not advocate selling.

INVESTMENT THEME: ROTATION, ROTATION, ROTATION

THE IDLE SPECULATOR SEES THAT THERE IS ROTATION OCCURRING OUT OF BONDS AND INTO EQUITIES, OUT OF MINERS AND INTO BANKS, AND (EVENTUALLY) OUT OF BIG CAPS AND INTO SMALL CAPS.

Rotation, or selling one security and buying another, has become the newest most popular phrase over the past few weeks to describe money moving from bonds to equities, from growth stocks to cyclicals.

This time last year, people were selling equities and buying cash. This is no longer the case as growing optimism takes hold in global investment markets.

There are a number of phases to an overall rotation process. The first stage of that rotation process started in June, possibly dating back to the statements by Mario Draghi that the Euro would be defended at all costs.

That process of rotation may have lasted through October, followed by a period of consolidation between October and mid-December. Since then, the process of rotation has recommenced and we now feel that we are on a second plateau.

So far the rotation has been a benign one with profits being taken on big performing stocks and invested into stocks and not cash, where it might have moved a year ago.

Ultra-performers like Apple and its satellites have fallen in the region of 30 per cent in the past months, having climbed exponentially in the prior decade. With so much cash on its balance sheet there are no fundamental risks to the Apple business, in its current form it might be argued that its highest growth days are behind it, and we can easily see Apple suffering a further 30 per cent fall to as low as \$300 as its growth rate and margins deteriorate against expectations. At that point Apple might be a serious value stock.

But the money has not moved out of the stock market. There is nowhere else to hide, except property, which is very illiquid, meaning it is costly to get into and out of. Recurring income is hard to find and getting more expensive all the time until short and long-term interest rates start offering a more compelling alternative.

So in other manifestations of the "great rotation" the long-bond market has come off, though not dramatically. A few sectors, in particular those synonymous with growth, such as mining, have performed badly.

Elsewhere, a few sectors have performed extremely well. These are those that benefit from the expectation of increasing economic growth. One example is banking, particularly in Europe and the UK. This has also happened in Australia, but to a lesser extent because companies were not coming from distressed levels.

There is limited evidence yet of a rotation from large stocks into the small caps that Under the Radar Report specialises in.

And if such a rotation into small caps coincides with a rise in longer-term interest rates, the Small Caps that will benefit are those with little or no debt.

This rotation may end in a sell-off, but the best performances occur at the end of any period of growth. So now is not the time to be selling your equity portfolio. Now is the time to be positioning for stronger growth in Small Caps.

There will be a time to sell aggressively and we are watching out, but right now we would argue that now is the time to be holding on. ■

RADAR TOP 10 STOCKS (AS AT 23 JANUARY 2013)

NAME	CODE	SECTOR	TIP DATE	TIP PRICE \$	LAST \$	RETURN *%
SILVER CHEF	SIV	Fin serv	6/10/11	2.69	6.04	133.4
BIGAIR GROUP	BGL	Telco	26/01/12	0.32	0.59	87.5
SIRTEX MEDICAL	SRX	Biotech	14/06/12	6.28	11.65	85.5
CLOVER CORP	CLV	Biotech	12/01/12	0.30	0.55	83.3
SOUTHERN CROSS ENGINEERING	SXE	Min. services	6/10/11	0.71	1.195	71.5
KORVEST	KOV	Manufacturing	23/02/12	4.50	6.9	65.1
ISS GROUP	ISS	Info Tech	12/01/12	0.14	0.2	53.6
PRIME MEDIA GROUP	PRT	Media	26/01/12	0.65	0.915	50.9
NORTHERN STAR RESOURCES	NST	Gold mining	14/06/12	0.83	1.222	50.2
MELBOURNE IT	MLB	Info Tech	15/12/11	1.38	1.875	46.7
* Return includes dividends and is after brokerage						72.8

INGENIA COMMUNITIES

This property group is successfully transforming itself into a focussed retirement village owner.

SHARE PRICE **\$0.27** MARKET CAPITALISATION **\$121M** ASX CODE **INA** RADAR RATING **BUY**

A DISCOUNT OFFER As our friend Geoff Wilson always says: “You never pick the top or the bottom, but if you can find a company trading at a discount to its cash backing, what could be better than that? The next best thing is a stock trading at less than the value of its net assets, and only after this, do you look at earnings.”

With Australia’s biggest retirement village owner Ingenia Communities, you have just that. Later this month it will receive above \$50 million in cash, putting its net tangible assets at 36 cents. If it sells its New Zealand student accommodation, it will have another \$6 million to invest into the Australian business.

Based on its current unit price, this company is trading on a 25 per cent discount to its valuation. Plus, a unit buy-back of up to 10 per cent of the company’s issued capital will only improve its value for investors.

IMPRESSIVE UNIT REGISTER Sure, some big money has been made by unitholders like Geoff Wilson’s Wilson Asset Management, Simon Marais’ Allan Gray, Ron Brierley’s Mercantile Investments, and our friends at LHC Capital. Its units have climbed 55 per cent in the past 12 months.

But you have to remember that massive amounts of risk have been taken out of the company by the management team led by Simon Owen, whose background is in retirement villages, having previously run the ASX listed operator Aevum Healthcare.

When Owen came on board 3 years ago he entered an ING Trust that was going broke.

CHEQUERED PAST Ingenia was originally an ING trust set up in 2004 to buy student accommodation on the West Coast of the USA, which would generate a yield of 13 per cent versus the cost of raising money at 7 per cent. The ING Trust expanded into different countries and different industries, primarily because its management was incentivised by growing its assets under management, instead of generating unitholder returns.

In the end its units were worth only a few cents, and Simon Owen started a programme of selling assets to pay off debt. It has internalised its management and now is a group that is focussed on retirement villages in Australia.

RISK TURNING INTO REWARD Hence the interest of the big names above whose faith is paying off. Its profit for fiscal 2012 more than doubled to \$33.6 million, although much of this was due to a revaluation of its New York property portfolio. More importantly it announced its first dividend for four years amid increasing demand for retirement accommodation in Australia.

Last year 56 per cent of its \$12.5 million incomes was rent, while the remainder was development related, which the company calls DMF (deferred management fees). Here Ingenia purchases properties, refurbishes them, and then sells them to a retiree. It receives a small operating fee until it is sold, at which time it gets a percentage of the profit.

The latter strategy is working in high growth areas like Gladstone, Queensland because of the improving property prices. There is the risk that the properties remain on its balance sheet untenanted, and the market does not value this business highly because of the lack of an annuity stream.

PROFITING IN DIFFICULT TIMES Ingenia is benefiting from strong cash generation, which it is using to purchase properties at less than replacement cost.

For example, this month it purchases a 44-unit rental village in Mandurah, Western Australia for \$2.8 million, which translates to about \$63,000 a unit. You can’t build a unit for that price, and it was bought on a yield of 11 per cent. This yield should increase to 14 per cent based on Owen’s track record of increasing the occupancy rating from 70 per cent to 90 per cent. The end result should be an ungeared internal rate of return of about 20 per cent.

Ingenia, with its strong balance sheet, and track record of improving returns on the properties it purchases, is in a great position to keep increasing its profits, and its dividends to security holders. ■

BULL POINTS

- Good at operating retirement homes
- Good at the financials of retirement homes
- Growth industry
- Possibility of unit buy-back

BEAR POINTS

- Risk development units don’t sell
- Market doesn’t value development profits

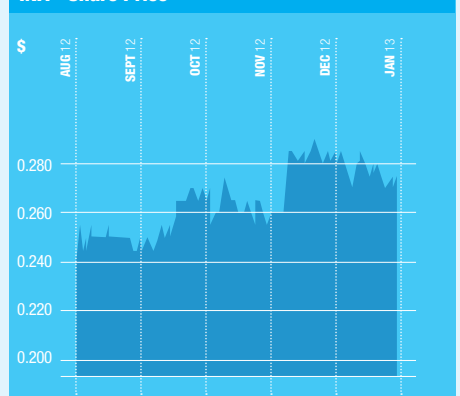
WHY WE LIKE IT

Under chief executive Simon Owen Ingenia has thrown off its baggage as an ING property trust and is now a focused owner and operator of retirement villages. His team has expertise in both the operating side, the development side and the financial side, which reflects its improving profitability. After its full year profit, the company paid out its first income for four years.

WHAT’S NEW

The company has almost rid itself of its non-retirement related offshore businesses. Towards the end of this month it should receive about \$50m for the sale of its New York property portfolio at a big premium to its book value, and adds about 2c to its book value of 34c. It is working on selling its New Zealand student accommodation, which can convert into 1.4c a share of cash.

INA - Share Price



LHC CAPITAL

STEPHEN ABOUD AND MARCUS HUGHES

THE BALDWIN OF THE AUSTRALIAN FINANCIAL MARKETS

It's hard to walk for long in the Australian investment markets and not hear the name "Aboud" mentioned. It's sort of similar to how the Baldwin brothers were in Hollywood during the 90s.

There is Russell Aboud, the ASX director, and previous head of UBS, and then there is his nephew Anthony, previously a gaming analyst with UBS, and now a fund manager with Perpetual Investments. In this case we are interested in Russell's brother Stephen, who is almost universally known as "The Sheik" in the small pond of the Australian financial markets.

Less than two years ago Stephen ran money for the Lowy family, and now he has set up on his own as a hedge fund manager. Helping him in his endeavours is Marcus Hughes, who comes from the investment banking world. He worked for (you guessed it) UBS, but most recently managed money for Caledonia Investments.

They now manage over \$50 million and have attracted high profile investors, which include the Salteri family, whose Tenix Group sold its defence business for \$775 million in 2008.

STELLAR PERFORMANCE

The two are making waves in not only the hedge fund world, but also those of small caps, having performed extremely well on the back of holding very few positions. Since kicking off in May 2011 its fund has returned investors almost 27 per cent to the end of last year. This compares to the ASX Small Ordinaries return of -13 per cent.

It has generated this return from holding, or going "long" in a small number of stocks. Currently it has big positions in only five. Although it can invest in any sized company, its philosophy of looking for companies that aren't well understood by brokers dictates that it has so far only invested in Small Caps, or companies with market capitalisations less than \$500 million. Says Marcus Hughes:

"We make money on the long side by identifying smaller companies which fly under the radar and where we think we have an information advantage to generate strong returns over three to five years."

A SMALL NUMBER OF HIGH CONVICTION INVESTMENTS

Investments it has made include the Len Ainsworth inspired poker machine manufacturer **Ainsworth Game Technology (AGI)**, automotive repairer **AMA Group (AMA)**, retirement village property group **Ingenia (INA)**, nutritional products provider **Freedom Foods (FNP)** and speciality pharmaceuticals company **Mayne Pharma (MYX)**.

In the world of professional investors, there is "high conviction" and there is LHC Capital. Most investment funds hold positions in anywhere from 45 to 60 securities, which goes some way towards replicating the index. A "high conviction" fund usually holds about 15 stocks.

The duo pick stocks that have little or no debt, have strong management, are in growing industries, and have a great deal of operating leverage.

The last factor means that the business has high gross margins (the difference between the price received and the cash costs). As the volume of sales in the business increases, each new sale contributes less to the fixed costs and more to profitability.

Forecasting the profits of these businesses is generally pretty difficult, because a small error in sales expectations makes a big impact on where you think the bottom line is going to go.

KICKING TYRES IS THE KEY

Investing isn't for the feint hearted and Aboud sites an example that shows he isn't afraid to kick a few tyres. It's **Ainsworth Game Technology (AGI)**, which not surprisingly has produced its biggest return:

"All that came from a guy I play golf with who sells poker machines. I asked him what the best-selling poker machine was, and he said Ainsworth.

"I looked at the company and it had a tiny market cap, so I went and saw them. I got their story and bought some."

Ainsworth now has a market capitalisation of about \$880 million.

DON'T BE AFRAID OF COMPLEXITY

Many of the companies are not well understood, or covered (at least initially) and Aboud and Hughes say that they always make sure that they can see a catalyst for the market to identify what they have had the foresight to see.

"I love complicated stories," says Hughes. "People don't want to look at them and there is often a difference between the underlying business performance and how the market perceives the company to be trading."

Aboud agrees:

"Half the fun is finding things. Many of these companies have a terrible history, which means people give up on them."

Freedom Foods is definitely one that takes a bit to get your mind around.

It has three operating businesses and a big share in the New Zealand listed A2, which processes milk from cows carrying the A2 protein.

Elsewhere, Hughes says that only when you understand the history of **Mayne Pharma (MYX)** do you have a chance of getting to grips with the narcotics producer. And **AMA Group** consists of no less than six automotive related businesses including its panelbeating business Mr Gloss.

In addition to owning stakes in eight listed companies at any one time, the two are adamant that "shorting stocks" provides them with an avenue to reduce the overall risk of their portfolio.

SHORT SELLING

Shorting means it sells stocks it doesn't own in order to (hopefully) buy them back at a lower level and make a profit.

It must be considered a right of passage for any budding hedge fund, but Hughes is adamant that it is essential to achieve big returns from its two principles of "conviction investing and capital preservation".

The companies it looks to do this with are ones it considers to be "over earning" or that will "earn less tomorrow than do today".

LHC has a "larger number of short positions" according to Hughes, although each position is much smaller than the individual long positions.

Shorting is a very risky game, and if the Lowys and the Salteris trust Aboud, it speaks volumes about his market savvy. ■

TOP 4 HOLDINGS

INDUSTRY (AT DEC 2012)

Mayne Pharma (MYX)
Pharmaceutical

AMA Group (AMA)
Manufacturing

Ingenia (INA)
Property Trust

Freedom Foods (FNP)
Food Products

UNDER THE RADAR DIVERSIFIED SHARE PORTFOLIO

AFTER SOME HEAVY RESEARCH AND MUCH PONDERING, RADAR'S PORTFOLIO MANAGER, "THE IDLE SPECULATOR" TAKES A PUNT ON ELDERS

TRANSACTIONS FOR UNDER THE RADAR SMALL CAPS PORTFOLIO

ASX CODE	COMPANY NAME	LAST TRANSACTION DATE	NUMBER HELD	TOTAL COST (\$)	PRICE @ 21/01/13 (\$)	CURRENT VALUE (\$)	SHARES (%)
AJM	Altura Mining	6/12/11	10000	-\$1,678	\$0.175	\$1,750	1.6%
ASB	Austral Limited	17/12/2012	1900	-\$1,878	\$0.620	\$1,178	1.1%
CLV	Clover Corporation Ltd	19/06/2012	4000	-\$1,548	\$0.530	\$2,120	1.9%
EGN	Engenco Limited	18/01/2013	12500	-\$3,608	\$0.180	\$2,250	2.1%
MLB	Melbourne IT	6/02/12	1500	-\$2,245	\$1.860	\$2,790	2.5%
NGF	Norton Gold Fields	14/02/2012	5000	-\$1,003	\$0.200	\$1,000	0.9%
PRT	Prime Media	14/02/2012	3000	-\$2,083	\$0.950	\$2,850	2.6%
RED	Red 5 Limited	20/12/2011	400	-\$722	\$1.200	\$480	0.4%
WHF	Whitefield Limited	6/11/12	1500	-\$4,573	\$3.240	\$4,860	4.4%
ARG	Argo Investments	19/06/2012	2000	-\$10,531	\$6.470	\$12,940	11.8%
AFI	Australian Foundation Investment	19/06/2012	2500	-\$10,440	\$5.320	\$13,300	12.1%
STW	SPDR S&P/ASX 200 Fund - ETF	22/05/2012	500	-\$19,794	\$44.640	\$22,320	20.3%
Shares	62%					\$67,838	
Cash	38%					\$41,909	
Portfolio	100%			Grand Total		\$109,747	

Please note: The share portion of the portfolio is made up of 79% Market linked shares, and 21% Small cap shares.

RESULTS AND PERFORMANCE

One of our listed investment company holdings, **Australian Foundation Investment (AFI)** reported results this week, where strong markets led to an increase in its book value, or net tangible assets (NTA) of 15 per cent in the 2012 calendar year, and the shares now stand at a premium to NTA of almost 10 per cent both before providing for deferred tax.

AFI will be a candidate for raising cash through disposal if we reach that sort of decision over the next few months.

Other changes in the portfolio include the investment of \$1,125 at fifteen cents in the **Engenco (EGN)** entitlement issue which closed last Friday. The opportunity will exist to sell these shares into the takeover bid at eighteen cents, but we will stick with this one for its turnaround potential.

Buying slowly for our Self Managed Super Fund ("SMSF") We first started looking at **Elders (ELD)**, the old Futuris, in August 2012 when a number of moves on the shareholder register caught our eye, as well as an appreciation that the car supply business was on the block, and thought that there might be some unrecognised value in the core agricultural franchise for which Elders is best known.

This was before the approach to Graincorp by ADM, and before Ruralco announced their proposal for separating the

agricultural business from the rest of the Elders capital structure.

Elders management then announced that it was putting its agricultural business up for sale, attempting to regain control of the process by which the company's assets are going to be auctioned, with all three divisions (including forestry assets) now up for sale.

The story appears to be that the directors believe that greater value will be realised through a multi-party sale process than the market was reflecting. The share price fell more than 50 per cent, and we are still been struggling to explain and understand this price performance.

But we are trying to value the ordinary shares in response to management effectively announcing that there are no sacred cows in this process of realising value. Surely this is what shareholders are looking for - a management that is honest enough to say this is not the right vehicle for all stakeholders to realise their value. We mentioned that we had already bought a few Elders for the SMSF in the course of the articles that were written and published in the weeks leading up to Christmas.

The company then released its annual report and accounts for the year to September, and we have been reviewing this 142 page document over the last few weeks together with the prospectus for

CONTINUED OVER

the hybrids, essentially searching for reasons not to buy the equity.

We have engaged in numerous different buy transactions of Elders ordinary shares for our SMSF and each time we buy a few more we try to identify where the pitfalls might be.

The bottom line is that reading the annual report closely suggests that the company's debt position is being over-discounted in the combined price of the ordinaries and the hybrids (ELDPA).

Our view is that any reasonable price for either of the company's two key business assets would see the equity cashed up and the value too transparent to ignore.

The upside is that there are multiple bidders for both major divisions and management should deliver an exit closer to NTA (30 September 2012) than to the current price.

[Up to 15 cents, we will purchase 10,000 for the Under the Radar Report portfolio.](#)

Subscribers are reminded that Elders represents a binary situation. If we are wrong, then we will probably lose all our money, but if we are right we think the upside could be attractive. Either way we should know before the end of June this year. ■

AS STATED CLEARLY ABOVE, THE IDLE SPECULATOR HAS A HOLDING THROUGH HIS SMSF IN ASX CODE ELD THAT HAS NOT CHANGED IN THE PAST 7 DAYS AND WILL NOT CHANGE IN THE 7 DAYS FOLLOWING PUBLICATION. SUBSCRIBERS WILL BE ADVISED WHEN THAT POSITION DOES CHANGE.

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