


Four potential small-cap stock reversals

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When a stock is trading at a fraction of a cent, it's usually a message for investors to abandon all hope and sell for the tax losses while they can.

After all, sub-1c stocks are usually mired in debt or running out of cash, with little or no ability to raise fresh equity. They usually have hundreds of millions if not billions of shares on issue, the - result of highly dilutive capital raisings.

In the case of the resources sector — where most of the sub-1c ultra “nano” caps reside — they've usually been unlucky with the drill bit as well.

But there's still money to be made from companies that have a decent yarn to tell. Here are four fallen souffles that could rise again.

Boart Longyear (BLY) 0.6c

The global driller reported that in the July (first) half, the company increased earnings by 90 per cent to \$US54m (\$80m), despite revenue slipping 2 per cent to \$US388m.

The Utah-based entity even recorded a net profit of \$US2m — its first surplus in seven years — with second-quarter performance strengthening over the first.

The catch is that Boart is groaning under an \$US731m debt burden, the legacy of a rescue deal in the aftermath of the global financial crisis.

Still, investors who rode this one up from a share nadir of 0.2c in November last year to 0.9c post results more than quadrupled their dough.

With 26 billion shares on issue (and that's not a misprint), Boart Longyear is doing the sensible thing and proposing a 300-to-one share consolidation. Yep, a \$2.10 share price sounds much more respectable, but the group will still bear a lowly market cap of \$180m.

Latrobe Magnesium (LMG) 1.2c

Highlighting the potential of the sub-1c laggards, Latrobe Magnesium shares have more than doubled since mid August on the company's plans to produce fly ash material from Victoria's power generators.

Given it's taken close to two decades to get this far, the investor reticence to date has been understandable.

A feasibility study has costed the plant at \$54m, based on initial output of 3000 tonnes a year and ramping up to 40,000 tonnes within 12 months.

Put in context, the world produces about one million tonnes annually.

While magnesium isn't a battery metal as such, it ticks all the "green" boxes as a lightweight - material to reduce motor vehicle fuel use and thus carbon dioxide emissions.

Latrobe's process is CO2 neutral, especially as it produces a byproduct of cement substitute material (concrete making is one of the most carbon-emitting activities).

The group also has a compact with Energy Australia — operator of the Yallourn generator — to supply the fly ash, which is hanging around in vast storage dams. In fact, it has an offtake agreements for 70,000 tonnes from Japanese and US parties.

Funding? Glad you asked. The company is confident of a \$28m grant from Ausindustry, as well as \$12m from additional state and federal funding.

The \$16m gap would be filled partly from raising additional parties from shareholders that include engineer and former army colonel Jock Murray (brother of David) and Kevin Torpey, the former head of Denison Mines and Devex Kevin Torpey.

The company expects a final investment decision by December and will turn the first sod at its 14,000sq m site, in the heart of the Latrobe Valley, shortly thereafter.

Latrobe estimates that a 3000tp plant would generate \$30.9m of revenue and EBITDA of \$5.6m annually. This is based on the magnesium market price of \$US2650 a tonne, which compared with \$US500 a tonne two years ago.

Shareroot (SRO) 0.1c

The liberating thing about trading at one-tenth of a cent is that the ASX won't allow your shares to trade at a lesser amount.

The only way is up!

Shareroot listed in late 2015 on the back of a Silicon Valley business that had something to do with social media influencers.

Needless not say, success was elusive but along the way the company acquired a useful business called The Social Science, founded by former Telstra Businesswoman of The Year Michelle Gallaher.

Now led by Gallaher, Shareroot revolves around harnessing informal patient data, such as blog entries from cancer patients, to enhance healthcare products. In regulatory circles, such data is known as "real world evidence".

In the June quarter, Shareroot recorded revenue of \$194,000 and a loss of \$218,000. The company also had a mere \$100,000 of cash, since supplemented with a \$1.2m rights issue.

Shareroot's \$2.85m market valuation would struggle to buy even a modest pile in some parts of Sydney.

Battery Minerals (BAT) 0.8c

Chaired by former Atlas Iron supremo David Flanagan, the graphite hopeful is not being given much credit for its two projects in Mozambique: Monepuez and Balama Central.

Given Battery's \$11.9m market cap and cash of \$5.7m, there's a hefty Africa Discount being applied. It doesn't help that sector heavyweight Syrah Resources has slashed output at its Balama mine, also in Mozambique, by two thirds.

There's a long way to go with both of Battery's projects, but Flanagan's dual role as Murdoch University chancellor at least means he's sure to put a lot of thought into it.

Tim Boreham edits The New Criterion.

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