

Market Analysis

June 2023 Australian Tax Loss Selling Update

The “Tax Loss Selling” investment strategy is based upon the theory that depressed shares can become *even more depressed* towards the end of June under selling pressure from investors seeking to realise losses (to offset against capital gains and minimise taxes) and that those depressed shares will then bounce back during July and August.

This can offer both a short term trading opportunity (i.e. buy depressed shares in June and sell in August) and depressed June prices could also be a good time to buy attractive shares as long term investments.

We ran a scan of all listed Australian shares using the following criteria: (1) the shares have fallen at least 60% from their annual highs (i.e. investors may have large unrealised capital losses, making these “tax loss” selling candidates), (2) a market capitalisation less than \$500 million (although many are much smaller) and (3) no net *insider* Sell trades over the last year (i.e. either net buys or no trades).

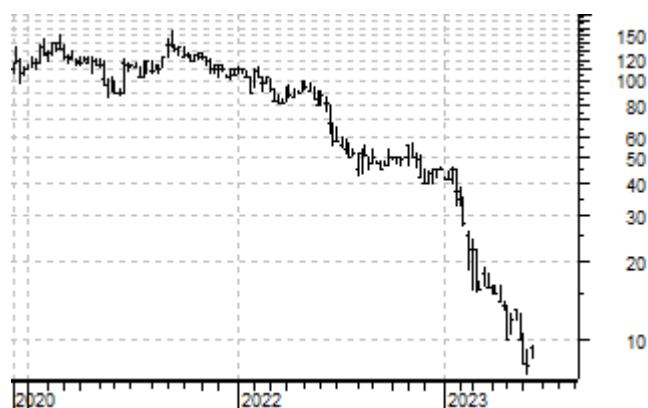
This year our scan results were dominated by (1) micro-cap companies (i.e. under \$20 million capitalisation and often much lower) and (2) “penny” shares (i.e. under 10 cents and again often lower).

There are, of course, problems trying to trade in micro-cap penny shares which may have a wide (percentage) bid/offer spread and often low (dollar value) trading volumes.

So a lot of low-quality, micro-cap, penny shares with large bid-offer spreads and limited trading volumes were eliminated from further consideration.

This still left a few companies worthy of consideration:

Cluey Ltd (code CLU)



Cluey provides “face to face online tutoring” either one to one or in small groups to students in Australia and NZ “with a proprietary adaptive learning platform” . . . so we think we are supposed to call this an “Education Technology” or “Edtech” company. In Australia the tutoring service covers year 2-10 Maths and English, and year 11-12 in Maths, English, Chemistry, Physics and Biology. In NZ, year 4-11 Maths and English.

It also provides coding and digital skills through holiday camps and after school sessions. This is proving extremely popular as an after school activity in the UK. The initial pilot testing at six schools was rolled out to 57 schools for the Spring Term (i.e. January to Easter), with a 984% increase in enrolments.

The business economics are improving. Customer Acquisition Costs (i.e. the cost to acquire one new customer) has dropped from A\$1370 in 2019 to \$348 in the first half of 2023.

The company currently provides around 44,000 tutoring sessions per month but estimates its break-even level at around 65,000 sessions per month . . . which it expects to achieve in about a year (i.e. the June 2024 quarter).

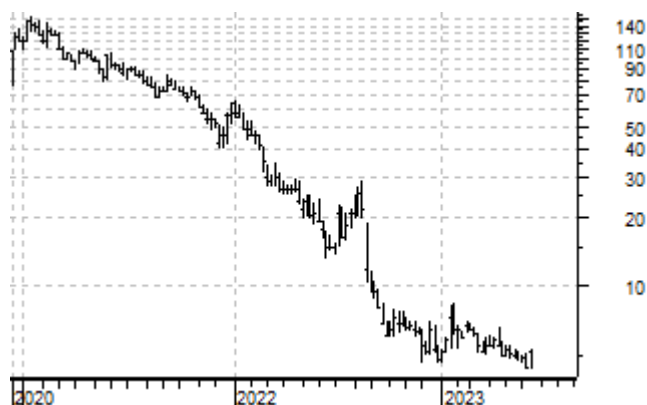
Receipts for the March 2023 quarter were \$9.7 million with a cash operating *deficit* of \$3.5 million.

In March the company raised \$9.5 million from a placement and cash issue at 15 cents per share. \$2.0 million of this new equity was contributed by the Executive Chairman and Deputy Executive Chairman.

Cash in the bank is now \$18.8 million (9.3 cents per share) and the company is debt-free.

Year end tax loss selling may be helping to depress these shares which have traded between 7.7 cents and 9.4 cents - at or below their cash in the bank - over the last two weeks.

Currently quoted at 8.0 - 10.0 cents.

Doctor Care Anywhere Group plc (code DOC)

Readers may remember we reviewed Doctor Care Anywhere in last year's Tax Loss Selling Update. We were able to buy some shares at 14 cents and 15 cents and sold them in early August for 22 cents, a 46-57% gain.

A lot has happened in the last year: Revenues are up, new services are being added (e.g. *Virtual Nurses* from the June 2023 quarter and a *QuickConsult* service later this year - aimed at lowering costs for routine conditions not requiring a GP) and there has been a reduction in the cash operating *deficit* and operating losses.

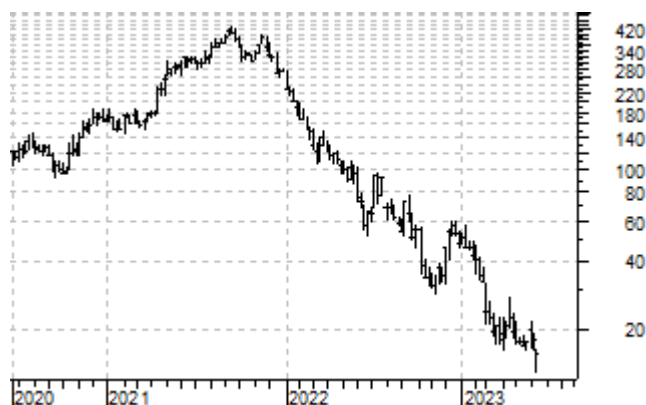
In fact, Doctor Care Anywhere now expects to be EBITDA positive in the March 2024 quarter and cashflow positive shortly thereafter!

Despite growing the business and approaching break-even the share price is *down* by two-thirds since we reviewed the company in 2022, currently quoted at 4.8 - 5.2 cents.

With an issued capital of 366.8 million shares this is a small \$19.1 million capitalisation company. Cash in the bank is £8.8 million (A\$16.4 million or 4.5 cents per share). It also has interest bearing debt of £7.5 million.

The Australian subsidiary **GP2U Telehealth** is to be sold to Australian based **Connected Medical Solutions** (which trades as *My Emergency Doctor*) for \$500,000 in cash and \$2.5 million worth of shares in unlisted Connected Medical Solutions. Readers may also remember that GP2U was originally purchased for \$11 million in September 2021.

This is still a high risk (i.e. unprofitable, negative cashflow) company but now expected to become earnings positive and cash flow positive within the year. So a small investment - if we can buy around 5.0 cents - *could* again be re-rated to a less depressed level in late July to early August.

Dubber Corporation (code DUB)

Dubber Corporation is a *Software-as-a-Service* platform providing call recording, automatic transcripts and developing other *Artificial Intelligence* related services.

This company has recurring revenues, but like many technology businesses is generating *massive* cash operating *deficits* as it invests to provide new services.

On the positive side, the company is debt-free and the share price has declined over 80% from its annual high to little more than the cash in the bank - effectively placing little value on its growing (but still unprofitable) business.

At 31 March 2023, cash in the bank was \$40.2 million (13.0 cents per share) and the company is debt-free.

March quarter receipts were \$8.1 million, but the cash operating *deficit* \$16.0 million. So cash is still disappearing fast!

The good news is that a “strategy alignment and restructuring program” is “largely complete and on track to deliver *quarterly* cost savings” of over \$5 million. New business commitments should also add over \$6 million to *annual* revenues.

The first *Dubber AI* “packaged solutions” are now becoming available, with “more advanced AI enabled” services to be launched in the June 2024 year.

Cashflow break-even is expected in the June 2025 year.

This is a “growth company” but the shares are currently depressed and trade at little more than their cash in the bank.

Currently quoted at 14.5 - 15.5 cents, we would look to buy at 14.0-15.0 cents (but, of course, flexibility and judgement are required).

Hastings Technology Metals (code HAS)

Hastings Technology Metals is a \$162 million capitalisation company seeking to develop the *Yangibana Rare Earths Project* through a two stage development. It also held \$145.6 million (113 cents per share) in cash at 31 March, although that was down to \$110 million (85 cents per share) in May.

It also has \$150 million in high interest debt, borrowed to acquire a 19.9% stake in Canadian listed **Neo Performance Materials** in August 2022 for C\$135 million (C\$15.00 per Neo share). Those shares are currently worth C\$8.74 or C\$78 million.

Stage 1 of the *Yangibana Project* - mining and a beneficiation plant producing 37,000tpa of 27% TREO concentrate - will have a Capital cost of \$470 million, Net Present Value (at 11%) of \$538 million and an after tax Internal Rate of Return of 27%.

Stage 2 - which will start three years later, funded from Stage 1 cashflow - will be a Hydrometallurgy plant processing the concentrate into 15,000tpa of higher value 59% TREO Mixed Rare Earth Carbonate. This will require a further capital investment of \$478 million (i.e. \$948 million for both stages) but lift the NPV to \$1018 million and IRR to 51%.

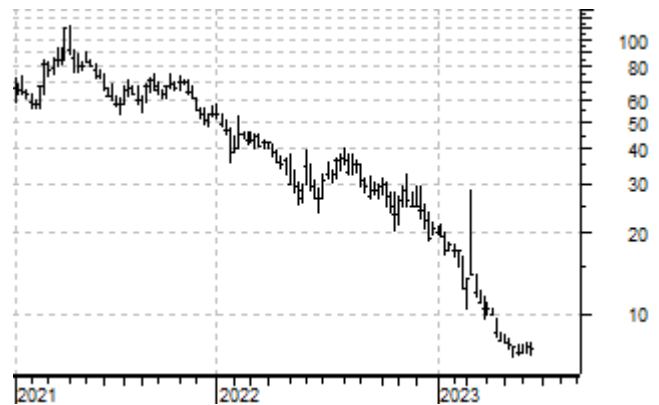
Stage 1 funding will be around \$380 million in debt (i.e. a \$220 million facility with NAIF, advanced discussions with **Export Finance Australia** for a \$100 million loan and other commercial lenders). Equity funding of \$390 million includes \$90 million already spent, \$110 million in cash with around \$190 million of additional equity funding required.

The \$150 million debt, to fund the Canadian shares which have fallen 40% in value, offers additional risk.

The issued capital is 129.3 million shares.

The shares are down from an annual high of around 550 cents to around 125 cents now and probably depressed by year end tax selling. They could likely bounce higher in late July to early August.

The current quotes are 125 - 133 cents, which is a wide 6.4% spread. That is much wider than normal. The shares are very actively traded in large volumes, so next week we *may* even be able to pick up shares in the 120-125 cents price range.

Pentanet Ltd (code 5GG)

Pentanet is a Perth based telecommunication and ISP company, reselling NBN services and provides *neXus* ultra high speed mesh wireless services from 50 towers.

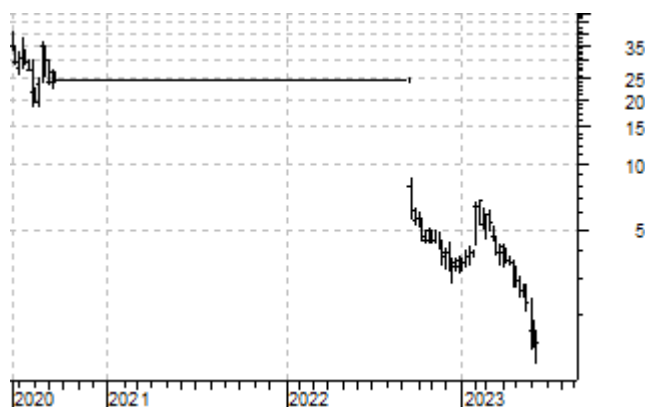
It is also a *NVIDIA Alliance Partner* for *GeForce NOW*, providing cloud gaming as a subscription service although this is currently only a small, single digit percentage of group revenues. In March 2023 it signed an agreement where *Optus Mobile* will become the exclusive reseller throughout Australia for an initial period of one year (with an option to extend, based upon paid subscriber volume).

The business is approaching a break-even level. In the March 2023 quarter, cash receipts were \$4.9 million with a cash operating *deficit* of just \$668,000. Operating margins are high, so more subscribers on its network could make the business very profitable.

It has just completed a share placement and *Share Purchase Plan*, raising \$6.4 million at 8.3 cents per share. That should give a cash holding of about \$11 million (2.9 cents per share).

The issued capital is now 373.7 million shares.

The shares are down 80% from their annual high, with current quotes of 7.2 - 7.4 cents.

Phoslock Environmental Technologies (code PET)

This \$9 million capitalisation company manufactures in China and markets globally a patented *Phoslock* water remediation product (which removes Phosphorous) and related services to improve water quality in lakes, rivers, wetlands and water reservoirs. Distribution partners re-sell for smaller projects.

It is also developing a new *Phosflow* product to remove Phosphorous from flowing water.

The business is currently unprofitable so the shares of this debt-free company trade for about 1.4-1.5 cents - which is less than the \$11.0 million (1.76 cents per share) cash in the bank! The cash operating *deficit* for the March quarter was \$3.2 million, so this cash could rapidly disappear if business performance does not recover.

The company was profitable in the year to December 2019, with revenues of \$27.8 million and a net profit of \$3.1 million - but revenues dropped with the Covid-19 lockdowns and have yet to recover.

The issued capital is 624.4 million shares and at 1.5 cents the price is down about 80% from its annual high but trading volumes are low.

The shares are currently quoted at 1.4 - 1.5 cents. Trades on Friday were at 1.3, 1.4 and 1.5 cents, so it may be possible to buy at 1.4 cents.