13 February 2020

Stocks Down Under

'Don't wait to buy real estate. Buy real estate and wait.'

- Will Rogers (1879-1935), American newspaper columnist

Sensera: Mr. Market gets it wrong

Stocks Down Under rating ★★★★

ASX:SE1 Share price: A$ 0.012 Market cap: A$ 3.9M

Sensera has had a rough start to the year. This manufacturer of so-called Micro Electro Mechanical Systems (MEMS) hit a few speedbumps and had production issues and saw customers pulling orders recently. MEMS are basically semiconductors with a very specific function, such as gyroscopes and accelerometers that you have in your mobile phone and smart watch. But MEMS also have more high-end applications, such as in microfluidics. This is where Sensera comes in; they provide their MEMS to the Medical and Military verticals, for instance to be used in implantable heart rate monitors.

Company Share Price Chart

Source: Tradingview

Like all semiconductors, MEMS are manufactured in clean rooms in which the air purity is extremely high. And the tools used to manufacture MEMS are high-precision tools that enable manufacturers to produce devices with electronic circuitry that is only 20 to 30 nanometres wide. In other words, many times smaller than a human hair.

Hitting a rough patch

Sensera recently announced that it experienced yield issues with production for its largest customer Abiomed, a large medical devices company in the US, which meant that it couldn't ship a substantial part of the products it had planned to ship in late 2019 and early 2020, impacting the top line by US$1.1M. Another customer cancelled a US$0.5M project.

The company also announced that its IOTS unit in Germany experienced issues with their reporting systems, i.e. their revenue forecasts and cost projections had been too optimistic. Sensera's IOTS unit manufactures sensors for the Mining and Agricultural verticals, for instance systems used to track livestock and sensors used for mining safety. The reporting issues meant that the company has had to lower its revenue projections for the current financial year, ending in June.

Gross margins are actually improving

While the revenue projection for the second half of financial year is now lower than the first half, i.e. US$ 4.3M versus US$ 6.9M in 1HY20, the gross profit is actually expected to be higher than the first half of the year, at US2.9M, which comes after a record gross profit of US$2.8M in 1HY20 to begin with. In part this is due to the completion of low margin projects and a renewed focus on high margin business. On top of that, management has taken a range of measures to structurally resolve the issues it reported.

We believe Mr. Market is wrong

Sensera's share price has obviously taken a beating after this news and is now trading around A$ 0.01. But the question investors need to ask themselves is this: should a company that is expected to generate around US$ 11M in revenues and US$ 5.7M in gross profit this financial year be valued at a total market capitalisation of just A$ 3.9M? Especially given its expectation that it will reach break even in 2Q21, so about 9 months from now.

Granted, the company missed its first break even target, so we understand investors will be cautious. Also, Sensera will be looking to raise a bit more capital in the market. But a A$ 3.9M valuation seems very low to us for a company that has already mapped out the problem areas and has initiated a company-wide restructuring.

We believe the fundamental drivers, for MEMS in particular, are very healthy and promising. And IOTS will be generating substantially higher margins going forward and has already crossed the break-even line into positive territory last month. So, from where we're sitting, it seems Mr. Market is valuing Sensera as if it is some obscure Tech start-up with no revenues and no prospects. Well, at 1 cent per share, we believe Mr. Market is wrong on Sensera, which presents opportunities for investors, either now or once the company has raised some more capital.

Full disclosure: Sensera is a research client of Pitt Street Research and we own stock in the company.

Mincor Resources: Nickel spoils the party

Stocks Down Under rating ★★

ASX:MCR Share price: A$ 0.64 Market cap: A$ 223M

Often in the mining game, progress in terms of bringing new mines into production, tends to be overshadowed by a weaker price for the commodity being produced. That's the problem Perth-based Mincor Resources has right now. Sometime this quarter it will release a Definitive Feasibility Study on its plans to restart nickel mining at Kambalda in Western Australia. The only trouble is a weak nickel price.

Company Share Price Chart

Source: Tradingview

Nickel had rallied strongly between June and September 2019 because of falling stockpiles and talk that Indonesia, a major nickel exporter, would reinstate a ban on exports that had been in place from 2014 to 2017. When the ban was officially announced, in September, it was worse than expected because the initial proposal had been to ban exports from 2022, whereas in fact that ban was brought forward to January 2020. Nickel came down after the spike to over US$18,000 when it became clear that the previous rally had been somewhat speculative in character, as evidenced by the rebound in nickel stockpiles from November.

An important battery mineral

Many commentators are bullish on nickel in the medium term because it's a metal the world doesn't really have enough of right now – there's actually been a deficit since about 2016 that has been met by reductions in stockpiles – and will need a lot more of in the future. Most nickel today (i.e. around 80% of it) gets used to make stainless steel. A lot of nickel tomorrow will be going into lithium-ion batteries, with the cathode of those batteries having nickel as the primary metal. For instance, the hot new NCM811 battery style is so called because it is eight parts nickel, one part cobalt and one part manganese.

The rise of nickel as a battery mineral could stand Mincor Resources in good stead. Mincor is currently getting ready to restart nickel mining at the famous

Kambalda nickel camp (in mining a ‘camp’ is an area with a lot of mines close together), around 60 km south of Kalgoorlie in Western Australia.

Kambalda is being born again

As old-timers will doubtless remember, the Kambalda nickel discovery of 1966 was an important event in Australia’s economic history because it sparked a renewal of interest in the nation’s mining industry that has never abated in the decades since. In recent years the mines around Kambalda, part of BHP’s Nickel West operation, which it inherited with the WMC acquisition of 2005, have closed.

Mincor, which holds around 300 sq km of land in the Kambalda region, wants to develop a number of nickel deposits in the neighbourhood and then process the ore through BHP’s nickel concentrator at Kambalda under an offtake agreement reached early last year. Mincor has also made the first major greenfields nickel sulphide discovery in the Kambalda area in decades – a deposit it is calling Cassini. The company raised $35m at 60 cents per share in November and December 2019 through a placement and Share Purchase Plan to move forward on the Kambalda restart. And that restart could be huge – the BHP offtake agreement will see up to 600,000 tonnes of ore processed at the concentrator and Mincor currently has a JORC resource of 4.94 million tonnes at 3.8% nickel for 187,900 contained tonnes of metal.

Between the BHP offtake agreement of March 2019 and late January 2020 Mincor stock ran hard, rising 78% from 42 cents to 75 cents. However, the stock now appears to be caught up in a bearish near-term environment for nickel at a time where there is surplus shares about from the late 2019 capital raising. We’d be optimistic about Mincor in the medium term. In the short term we’d be bearish until global nickel warehouse stockpiles start coming down again. They’re currently 209,000 tonnes as against ~152,000 tonnes at the end of September 2019. Now you know why they once called nickel Old Nick’s cursed metal.

RMA Global: RateMySharePrice

Stocks Down Under rating

ASX:RMY   Share price: A$ 0.64   Market cap: A$ 257M

It's a stock that's on fire right now. RMA Global is the Melbourne-based company whose RateMyAgent platform allows people to rate the performance of real estate agents. Back in late June 2019 you could buy RMA for just 17 cents. Since then the stock has more than tripled. The catalyst for the re-rating has been a rapid uptake in usage of RateMyAgent in the United States. We believe that the good times for RMA can continue for a while yet.

Company Share Price Chart

Source: Tradingview

The idea behind RateMyAgent is simplicity itself. The digital economy of the 21st Century is based on trust, and trust is built by user ratings. You take a ride in an Uber and afterwards you rate the driver via the Uber app. Or you buy a product on eBay and you rate the vendor. The average rating figures are readily available from all Uber passengers and eBay buyers respectively, so that it becomes harder and harder to get away with bad service as the 'network effect' kicks in. RateMyAgent brings that same principle to real estate agents.

Would you buy a used apartment from this person?

Say you are in the market for a new apartment in Sydney. You know the agent's name and his or her firm. You visit ratemyagent.com.au and look up the agent. You can read reviews from people who have dealt with that agent, find out the value of properties the agent has helped move, and you can see where he or she ranks compared to other agents operating in the neighbourhood. And most importantly, you can see how many stars the reviewers have given that agent on average.

The reason why RateMyAgent is such an important innovation is that, traditionally, real estate agents have been among the least trusted members of the community. In 2017 when the market research firm Roy Morgan conducted their annual 'Image of Professions Survey' in Australia, it found that nurses and doctors were the most trusted professionals Down Under, with 94% and 89% respectively of Australians aged 14 and over rating these professions as 'high' or 'very high' for their ethics and honesty. Accountants only enjoyed the same view from 50% of those surveyed, while for business executives the figure was 18%. For real estate agents it was 7%. That's right. 7%. But it was always a low-rated profession – way back in 1983 you could only get 11% of Australians to say that real estate agents had high ethics and honesty. It's a little different in the US, where Gallup found, in 2018, that 25% of Americans rated real estate agents highly on ethics and honesty, but the industry was still low on the esteem scale, with 19% rating the same group of professionals as 'low' or 'very low'.

What all this is telling you is that RateMyAgent is a product with global potential whose time has come - people desperately want to know who's trustworthy in the real estate game, and agents want to be able to market themselves as one of the 'good guys'.

Rapid growth

No wonder, then, that RateMyAgent is taking the market by storm, with the number of claimed profiles and reviews rising as fast as Sydney property prices in a good year (i.e. very fast). In Australia there are around 35,000-40,000 active real estate agents and by the end of 2018 about 30,500 had profiles at ratemyagent.com.au, up from just 200 four years earlier. That growth has been great for RMA because over 10,000 of these agents became paid subscribers, getting a more prominent profile and access to RMA's marketing products in return for a monthly fee. A syndication arrangement with Domain in Australia (profiled in Stocks Down Under on 11 February 2020) went live in October 2019. RMA has also been doing well in the smaller New Zealand market and it's now growing in the biggest market of all, the US. Canada, the UK, Singapore, and Hong Kong are future market opportunities under consideration.

RMA is still a small company and not yet profitable, but it is growing fast. Revenue rose 19% to $7.3m in FY19. It will probably be some years before the company makes a profit, but the last capital raising, in September, yielded $9m at 20 cents. We expect that, so long as RMA executes as well as it has to date, it will be well-supported as it grows into its global opportunity. How big is that opportunity? Well, around 1 million agents were active in the US residential market last year. As at last month there were around 40,000 agents on the ratemyagent.com platform in America. There's clearly a lot of growth potential in this venture.

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