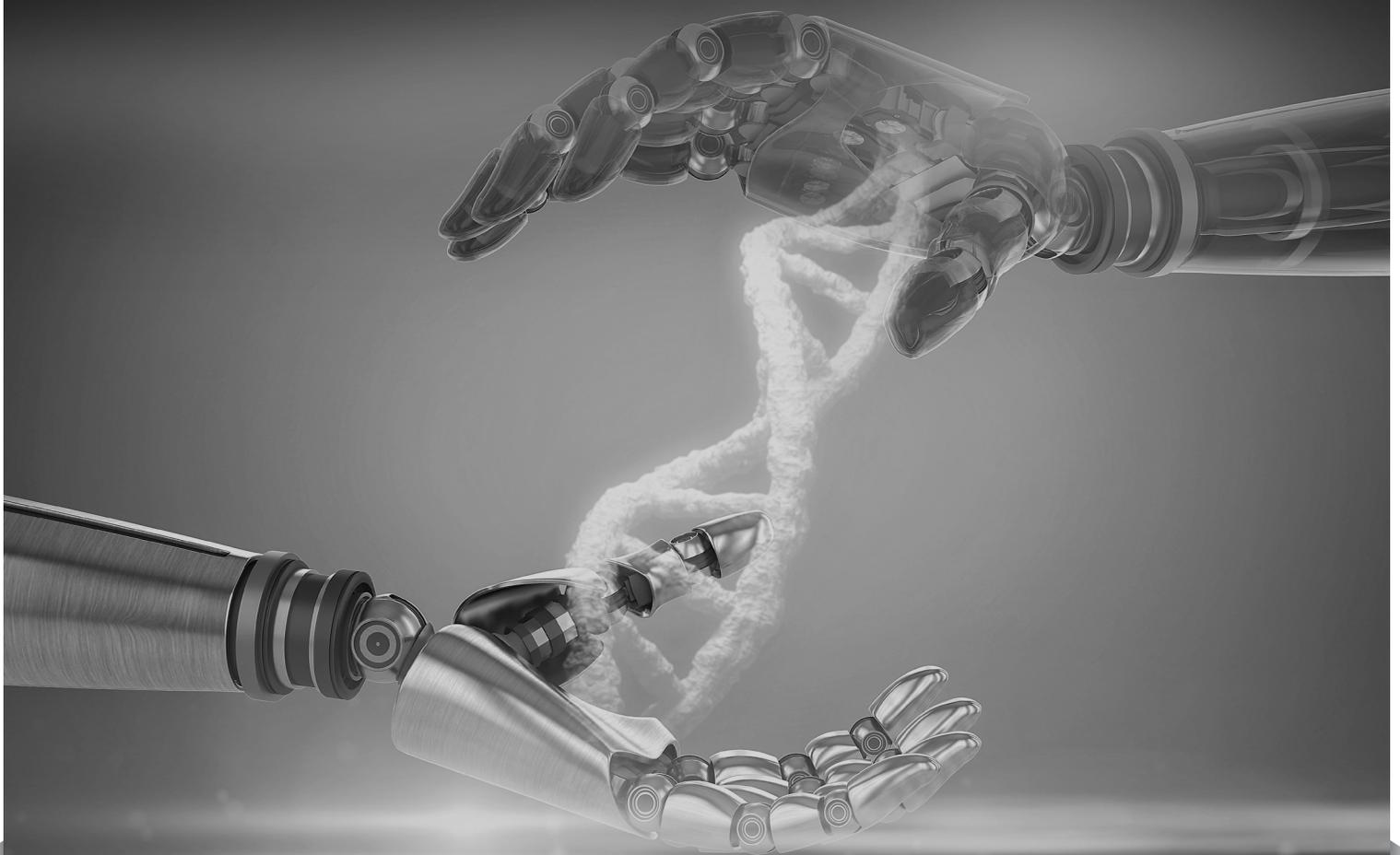




Emerging Stocks Down Under

🗨️ *All you need is love. But a little chocolate now and then doesn't hurt.* 🗨️

- Charles M. Schulz (1922 - 2000), American cartoonist and creator of the comic strip Peanuts



ETHERSTACK PLC

It doesn't stack up

URBANISE

Hard to stand out from the crowd

ALTHEA GROUP

Get it while it's hot

ETHERSTACK PLC

It doesn't stack up

Stocks Down Under rating: ★★

ASX: ESK
Market cap: A\$ 77.1M

52-week range: A\$0.46 / A\$0.85
Share price: A\$ 0.59

Based in Chippendale, NSW, Etherstack is a company specialising in wireless communication technology. The company is responsible for providing protocol stacks to radio networks and wireless technology solutions. Targeting both private and public sectors, Etherstack has diverse clients, ranging from first responders and the military to geographic information services. In recent years, the company has placed a heavy focus on strategic partnerships and public sector contracts in a bid to grow its revenues.

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Hard to stand out from the crowd

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ASX: UBN
Market cap: A\$ 76.8M

52-week range: A\$0.99 / A\$1.80
Share price: A\$ 1.38

Urbanise is a Sydney-based cloud computing solutions provider that primarily operates in the strata management and facilities management space. The company provides SaaS solutions for everyone, ranging from utility operators to property managers. The company's current plans include expansion to regions that it has not targeted in the past, such as the Middle East. That said, Urbanise still offers a product with fairly limited potential and we are apprehensive as to the maximum growth that the company can achieve.

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Share price chart



Source: Tradingview

This is the real boring company

If Elon Musk didn't name companies sarcastically and wanted to create an actually boring company, Etherstack is what he would make. With a website design straight out of 2005, the company is the antithesis of sexy. However, when it comes to business, Etherstack is as serious as it gets.

Etherstack offers a total of five different products. Its main product is its protocol stacks. Protocol stacks are suites of wireless communication protocols. 'Stack' refers to the software implementation and integration that allows multiple protocols to function as part of a single network, i.e. by "stacking" them. The company offers professional mobile radio (LMR) stacks and solutions that allow clients to enter the market faster through the use of small form-factor transceiver designs.

Apart from this, Etherstack is responsible for developing network elements for tactical radio networks. The company uses both Radio over Internet Protocol (RoIP) and 3G soft switching. The company provides complete end-to-end solutions, meaning that they are responsible for deploying the technology, ensuring compliance and software updates.

Government and military radio play a key part in the company's operations. Until now, Etherstack has never failed to deliver upon the initial contract price, something that taxpayer-backed agencies really appreciate. The company specialises in both commercial and military software-defined radio (SDR), allowing companies to

outsource the risk of deploying their radio networks.

Lastly, the company allows legacy narrowband networks to communicate with LTE networks, thereby enabling push-to-talk solutions for its clients. To round out its portfolio, Etherstack also offers advanced testing services that allow observation of radio interfaces, benchmark their performance and test their capability in various scenarios.

Serving those that serve the public

Etherstack listed on the ASX in 2012. During 2013 and 2014, the company signed numerous contracts with police departments across the globe. A contract for the police radio network of American Samoa was commissioned in August 2013, followed by a contract for the expansion of Russia's police radio network to the city of Rostov-on-Don. Etherstack also won a contract to supply the Australian federal police with tactical communications equipment. Pleased with the quality, the Australian police placed over three new orders for equipment over the next 18 months.

Public-sector contracts are the biggest source of revenue for Etherstack. This is mainly because large-scale radio networks are almost exclusively used by government organisations nowadays. As such, Etherstack's major contracts are from emergency services as well as police forces and the military. These organisations need a tailor-made network, both to ensure reliability and security.

In April 2016, the company signed its first contract with the Australian Department of Defence. This led to two further defence contracts, worth over \$2m in June 2018.

Everything is the same

There is a reason why the company's website looks like it's from 2005. Radio technology has mostly stayed the same since then and so has Etherstack. Since it listed on the ASX, the company has signed almost identical contracts. For example, since December 2020, the company has signed a total of three major defence contracts worth over \$5m, among numerous other contracts with police forces, public works organisations and a few private companies.

The only unique task undertaken by the company is a collaboration with Samsung to provide LMR and Push to Talk over 4G and 5G. The companies plan to combine their experience and ensure that they can adequately serve public safety needs. In July 2021, the companies finally agreed on a deal worth \$11.6m, where Etherstack would supply network elements for a telecommunication carrier client of Samsung.

While this may be the biggest contract signed by the company yet, it isn't any different from numerous other company contracts. This isn't necessarily a bad thing. You see, the company can afford to stay the same, because there are no substitute products for its offerings and revenue is revenue. But while mobile technology has advanced quite a bit, radio technology is easily sufficient for the modern-day public sector. And that doesn't really help when you want to grow revenues.

Road to nowhere

While Etherstack's revenues have fluctuated between \$4.1m and \$5.2m from FY17 to FY20, recurring revenues as a percentage of total revenues have gone up from 35 to 52% over the same time. We believe this gives Etherstack a strong foundation for the years to come and the company should be able to achieve slightly higher revenue growth going forward.

However, the company hasn't generated a profit in recent years, apart from a tiny \$53,000 in FY18, and it doesn't pay a dividend. So, for a long time now, Etherstack has struggled to create shareholder value. And we don't see how the company can achieve anything more than marginal improvements with the product offering it currently has. As such, we think Etherstack is a two-star stock that isn't going anywhere.

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Share price chart



Source: Tradingview

A platform for your building

Urbanise aims to be a one-stop solution for building owners and utility operators to manage their operations. The company's platform offers two solutions: Facilities management and strata management. The facilities management side of the software includes features such as workforce management (including job scheduling that allows clients to plan and forecast workload up to a year in advance), asset management, compliance and supply chain management. It combines this with a system that can easily integrate with other platforms and analytics to enhance the operations' efficiency further.

Strata management, on the other hand, includes features to enhance productivity for apartment buildings and large residential complexes. Urbanise provides an end-to-end solution that handles everything from accounting and budgeting to work order management. The software is used to manage over 320,000 properties.

Both solutions are cloud-based, offering integrations across multiple departments, allowing management to oversee all operations from the platform itself. The major advantages provided by the Urbanise platform include task automation, scalability and security.

The company also offers advanced features to facility management teams. These features include the ability to sell services to residents, real-time data analytics and real-time support. Urbanise charges its clients on a per-lot basis, which allows the clients to pass the costs onto their customers through management fees. This, coupled with migration services, training and volume discounts, make Urbanise a very competitive management platform, in our view.

Hard to stand out from the crowd

Urbanise has a very competent and well-rounded platform. However, we believe strata and facilities management software is not extremely complex. So, the field is saturated with companies that are all attempting to do the same thing.

While we can easily assume that Urbanise has a lot of growth potential because it can target building owners and managers globally, that is equally true for its competitors. This means that much larger competitors than Urbanise can undercut the company and even take away long-term clients by offering better alternatives and prices.

Even in Australia, Urbanise faces heavy competition from companies such as Strataspot and More Than Strata. These companies all try to differentiate themselves in various ways. Still, the actual products are similar and that is not good news from an investment perspective.

Urbanise listed on the ASX in September 2014 and did not make any major changes to its product until 2017. In February 2017, the company raised \$21.5m at 22.5 cents per share through an institutional placement. \$12m was used to fund the acquisitions of Wattkeeper and Intelligen. Wattkeeper is a cloud platform that allows users to efficiently manage electricity costs, generate bills and analyse electrical usage. Intelligen is a mobile asset-management platform.

The remaining \$9.5m was to be used to fund further complementary acquisitions to better the Urbanise platform. In May 2018, the company partnered with Strata Vote for three years. Strata Vote is a platform that allows residents to set up meetings, determine agendas and vote on key decisions. The partnership allowed a specialised version of Strata Vote to be integrated with Urbanise, further bolstering the company's suite of services.

Despite this broadening of services in the last several years, our initial concerns stands; most of Urbanise's competitors do almost exactly the same thing. This makes achieving significant and sustainable long-term growth an extremely difficult endeavour, in our view.

Not for your portfolio

Currently, Urbanise operates in four markets: Australia, South Africa, Europe and the Middle East. The company has been focusing extensively on the Middle East and Africa, as the growth potential is larger in those regions. In April 2021, the company signed a three-year agreement to provide fully integrated services to the Dubai-based property developer Nakheel. Large-scale contracts such as these will be quintessential to the company becoming profitable.

The company has seen a consistent rise in revenue over the last few years, going from \$5.4m in FY18 to \$11.5m in FY21. However, the increase in revenue has been hampered by an almost equal rise in costs. As such, the company is still operating at a loss.

According to consensus estimates, FY22 will be the first year the company turns a positive EBITDA. Bottomline profitability is still a few years away, though. Keeping that in mind, we believe that the company is not in a position to achieve the kind of growth that would make it a worthwhile investment. On top of that, the current EV/Revenue multiple for FY22 is 4.6x, which we find high for a company that we think will struggle to differentiate longer term. As such, we think that Urbanise is a two-star investment that will face trouble expanding in the face of competition, despite having a comprehensive portfolio of services.

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Share price chart



Source: Tradingview

A safe way to 420

As the negative undertones associated with cannabis have diminished over the last decade, an increasing number of doctors is beginning to take cannabis-based therapies seriously. Cannabis has shown potential in treating glaucoma, nausea, pain, seizures and eating disorders, among other illnesses.

Althea was founded in 2017 with the express aim to provide medical cannabis in Australia and then expand beyond it. The company controls the entire supply chain, meaning that it produces its cannabis and then distributes it to patients. However, the company also signed contracts with other distributors to quickly expand its footprint in Australia. For example, the company signed an agreement with Health House International, a major independent cannabis distributor, in October 2018. The agreement allowed the company to access the Western Australian market without setting up its own distribution in the state.

In the same month, the company also hit a significant milestone of having 100 patients. The company had 42 doctors prescribing its products by this time, with a 100% approval rate from the Therapeutic Goods Association (TGA). Cannabis therapies needed to be approved on a per-patient basis back then. Still, that did not hamper the company's progress.

Apart from providing cannabis, the company also owns and operates Althea Concierge. This platform guides potential patients on how they can easily access medical cannabis. Althea tries to engage directly with their customers as much as possible and it is a strategy that works. In January 2019, the company signed its 300th patient, with sales accelerating rapidly.

International ambitions

After gaining its license to manufacture cannabis in November 2018, the company only needed another couple of weeks to get the license to export its products.

As such, the company entered the UK market in February 2019, a market where cannabis could be used to treat over 2.9 million patients. In May, the Concierge platform was launched to apply Althea's customer acquisition strategy, that had been quite successful in Australia, to the UK.

After this, the company began to expand rapidly. It hit the 1,000-patient milestone in June, followed by 1,500 patients in August. By September, the company had signed over 2,000 patients. After its success in the UK market, the company began to target other countries with a high demand for cannabis.

Althea began its entry into the German market in November 2019, signing an agreement with the German distributor Nimbus Health. The company had also acquired Peak Processing Solutions, a Canadian manufacturing company, in October of that year. Through its newly acquired subsidiary, the company commenced entry into the Canadian market in April 2020. It did this by submitting its evidence package to Health Canada, which is the final approval needed to gain a license to process cannabis in the country.

The company was granted its license in September 2020, which allowed it to begin its operations. Peak Processing started to not only manufacturing products from Althea, but also from other companies, thereby increasing its scale of production. The German license was granted to the company a month later, with over 2,000 products delivered to Nimbus Health in December.

Don't stop doing what works

The company has been enjoying explosive growth over the last couple of years. In December 2020, the company moved into South Africa, signing a supply agreement with multiple companies. Althea also raised \$6m in the same month at 44 cents per share to support its growth ambitions.

Experiencing a 90% monthly growth in December (in the UK), the company's total sales for the month were almost \$1.2m. We can only expect this number to increase as the company keeps expanding geographically. From 2021, the Australian TGA has stated that CBD products can be sold over the counter in Australia. This will only bolster the company's sales, as a prescription will not be required to purchase medical cannabis any longer.

Althea now has over 19,000 registered patients, with hundreds being added monthly. After experiencing 175% year-on-year revenue growth in 1HY21, the company generated total revenue of \$11.6m in FY21, a 128% increase over FY20.

According to consensus estimates, sales are expected to reach \$29m in FY22 and \$52.4m in FY23. By FY23, the company is expected to be profitable and is currently trading at an EV/EBITDA for FY23 of 7.7x. On an EV/Revenue basis the shares are currently trading at a modest 2x for FY22.

Beyond FY25, we expect the company to experience modest growth over the long term as a higher number of competitors enter the CBD space. With an ever-increasing number of medical cannabis companies being founded in the US and Canada, we believe this space will get substantially more competitive over the long run, although established players, like Althea, will be pretty well-entrenched by then. At the current share price, we think this makes Althea a four-star investment that will grow rapidly for the next few years.

Pitt Street Research Pty Ltd

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