



Small Cap Stocks Down Under

Life is very short and anxious for those who forget the past, neglect the present and fear the future.

- Lucius Annaeus Seneca the Younger (4 BCE – 65 CE), Roman Senator

CAPRAL

A lean, mean aluminium machine

APOLLO TOURISM & LEISURE

An international and domestic tourism God

AIMS PROPERTIES SECURITIES FUND

Aiming for profits

CAPRAL

A lean, mean aluminium machine

Stocks Down Under rating: ★★★★★

ASX: CAA
Market cap: A\$140M
Dividend yield: 8% (100% Franked)

52-week range: A\$4.95 / A\$8.70
Share price: A\$8.07

Queensland-based Capral is Australia's largest extruder and distributor of aluminium products. The company had a rocky last few years as it operated not only through COVID-19, but was also working on a significant, multi-year reconstruction. But now the company is a lean, mean aluminium machine and we don't believe the market has fully grasped the potential benefits Capral has to offer, providing investors with a rare opportunity.

[READ MORE](#)

APOLLO TOURISM & LEISURE

An international and domestic tourism God

Stocks Down Under rating: ★★★★★

ASX: ATL
Market cap: A\$127M

52-week range: A\$0.225 / A\$0.80
Share price: A\$0.65

In the Northgate suburb of Brisbane, Apollo Tourism & Leisure was already unloved by the market pre-COVID-19 and despite a recent bump in share price, it is still trading 18.8% below its 52-week high. However, when it comes to the post-COVID reopening, Apollo seems to be in the industry you want, with the well-entrenched operations needed to fully capitalise on the opportunity. You see, Apollo not only provides campervans and cars for rent, but also sells new and used vehicles across Australasia, Europe and North America, making this stock both an international and domestic tourism God.

[READ MORE](#)

AIMS PROPERTIES SECURITIES FUND

Aiming for profits

Stocks Down Under rating: ★★★★★

ASX: APW
Market cap: A\$55.8M

52-week range: A\$1.06 / A\$1.48
Share price: A\$1.25

Headquartered in Sydney, dual-listed (ASX and Singapore Exchange) AIMS Property Securities Fund invests in property, but it is not a Real Estate Investment Trust (REIT), because the company actually owns no property. Instead, it makes investments in both listed and unlisted property funds. Here's where things get interesting. Based on the fair value of AIMS Properties' investments as of 30 June 2021, the company has a Net Tangible Asset (NTA) value of \$2.74 per unit. While we believe AIMS Properties deserves to be discounted to its NTA, we think its current discount of 54.7% doesn't make sense.

[READ MORE](#)

CAPRAL

A lean, mean aluminium machine

Stocks Down Under rating: ★★★★★

ASX: CAA

Market cap: A\$140M

Dividend yield: 8% (100% Franked)

52-week range: A\$4.95 / A\$8.70

Share price: A\$8.07

Queensland-based Capral is Australia's largest extruder and distributor of aluminium products. The company had a rocky last few years as it operated not only through COVID-19, but was also working on a significant, multi-year reconstruction. But now the company is a lean, mean aluminium machine and we don't believe the market has fully grasped the potential benefits Capral has to offer, providing investors with a rare opportunity.

Share price chart



Source: Tradingview

Aluminium, the wonder metal

Aluminium is well and truly a metal of the modern age. It was only in 1825 that the metal was first extracted in its pure form by Danish chemist Hans-Christian Ørsted. However, it was not until 1887 that a method of producing it 'cost-effectively' was invented. Before 1887, the metal was widely considered to be more precious than gold and silver. That's right, the foil you recycle on a regular basis was once used by Emperor Napoleon the Third as his State Dinner plates. Less important guests had to settle for plates of gold and silver, how times have changed. The metal is truly a wonder, while it is not as strong as steel, it is extremely lightweight as well as durable, unable to rust (but it can corrode) and it can be produced so cheaply we use it as a disposable means to cook our snags.

Capral has a long history with aluminium, commencing operations in Australia in 1936, a mere 49 years after Austrian engineer Karl Josef Bayer developed the chemical process allowing alumina to be extracted from economical bauxite.

Today, Capral has six aluminium extrusion plants across Australia. When operating at maximum capacity, these plants can produce 65,000 tonnes of aluminium profiles per year. At 85% of 1HY21's volume, extrusion aluminium represents the vast majority of Capral's production. The other 15% is rolled sheet and plate aluminium. During 1HY21, EBITDA grew 54.1% to \$26.2m.

With an annual turnover in excess of \$500m, Capral has achieved approximately 26% market share. If you assumed residential building was the company's largest market, your close, but think again. During 1HY21, 45% of its industry exposure was industrial, residential building 42% and commercial construction 13%. It's important to note that the first half of 2021 saw the largest volume of aluminium produced by Capral since at least the first half of 2015. We expect demand and production to remain high during the second half of 2021 and into 2022, despite recent setbacks caused by the Delta strain.

The dividend is here to stay

The March and September 2021 declared dividends were \$0.45 and \$0.20, respectively. These may seem like normal dividend payments at first glance, but dividends was amounted to \$0.005, \$0.01 and \$0.005 during September 2018, March 2019 and March 2020, respectively. During these periods, Capral was in the midst of a significant restructuring. Now that this restructuring is completed and proving to be successful, management has made it clear that we can expect dividends to be significantly higher in the future.

Looking for a massive 2021 win

On 25 August 2021, Capral released its 1HY21 results and in its presentation provided the market with EBITDA guidance between \$51m and \$53m in for FY21. This is off the back of management's expectations that residential building and non-residential construction will grow and recover, while industrial sector demand will continue to be strong. The strong fundamental basis behind the massive aluminium price rally will not hurt either.

On a year-over-year basis, management's guidance places 2021's EBITDA growth between 125.7% and 136.6%. When we combine this with the indicative 4.9% annual dividend yield, it's clear to us that not only is Capral out of the danger zone, but its already thriving. Using 2021's guidance also gives us a 2021 EV/EBITDA multiple of around 3.9x, indicating to us that Capral is a stock that the market has clearly missed. And when you consider that the company's three-month average daily volume has only been 20,000 shares, or \$163,200 in value, the stock is definitely not well known.

All-in-all, Capral seems to offer a good way to play the return of domestic Australian construction and the fundamentally-backed aluminium price rally. The company is well and truly out of its risky reconstruction period and ready to rock, four stars.

APOLLO TOURISM & LEISURE

An international and domestic tourism God

Stocks Down Under rating: ★★☆☆

ASX: ATL
Market cap: A\$127M

52-week range: A\$0.225 / A\$0.80
Share price: A\$0.65

In the Northgate suburb of Brisbane, Apollo Tourism & Leisure was already unloved by the market pre-COVID-19 and despite a recent bump in share price, it is still trading 18.8% below its 52-week high. However, when it comes to the post-COVID reopening, Apollo seems to be in the industry you want, with the well-entrenched operations needed to fully capitalise on the opportunity. You see, Apollo not only provides campervans and cars for rent, but also sells new and used vehicles across Australasia, Europe and North America, making this stock both an international and domestic tourism God.

Share price chart



Source: Tradingview

Apollo, that's a Greek God right?

In Ancient Greek mythology, Apollo was the God of the sun, light, healing and plagues, prophecy and knowledge and a whole lot more. If there was one thing the ancient Gods of the Mediterranean did not have to worry about it was a lack of responsibilities. Apollo Tourism & Leisure on the other hand has two main responsibilities: renting out Recreational Vehicles (RVs) and cars and selling new RVs and ex-fleet cars.

While renting and selling occurs everywhere Apollo has a presence, renting revenue has historically been mainly generated in Europe, North America and New Zealand, although there is some rental income in Australia as well. While cars are available for rent at Apollo, its renting business really revolves around RVs and motorhomes.

Revenues from selling vehicles, on the other hand, are almost exclusively generated through the company's Australian operations. In fact, while RV sales outside of Australia and New Zealand are through third-party manufactures, Apollo has its own facility in Brisbane that produces motorhomes and caravans under the Winnebago and Coromal brands, to be sold exclusively through its Australian and New Zealand retail networks.

Comparing the views through the looking glass

Before COVID, when travel was unrestricted and we didn't have to worry about masks, Apollo was getting slammed by the market, largely due to the significant uncertainty surrounding BREXIT. Additionally, operations on the mainland of Europe were still in the early stages of being established in Germany and France. This led to lower margins for the European division during FY19 and Apollo's European operations in FY20 operations looked rather dicey.

While FY21 did not exhibit a full recovery when compared to FY19's 'normalised' results, significant strides were made despite the continued challenges of COVID-19. During FY21, rental revenue totalled \$53.2m, while the sales of RVs and ex-rental fleet totalled \$238.8m. While we believe FY19's results are a good indication of FY22's results, Europe is the exception as Apollo's EU operations were still being launched in Germany and France at the time.

Productive during an industry lockdown

During the crisis that was 2HY20 and FY21, Apollo management refused to sit on its hands and got to work on a number of major improvements that we believe will prove to be booster fuel for the company in FY22 and FY23. The first is its partnership with the Qantas Frequent Flyer program. Starting in May 2021, guests are able to earn points on their Apollo bookings in Australia and New Zealand. While international travel for Australia will become an option again in the next couple of months, we expect domestic vacations will still experience a significant uptick in demand. Therefore, while unlikely to drive consumers to use Apollo on its own, we believe the Qantas partnership has the potential to turn a maybe into a yes from a budgeting standpoint, while also offering significant publicity.

During FY21, Apollo also hired Deloitte to do a major operational review of its Brisbane factory. Deloitte came back with a number of suggestions and initiatives that management has said have caused a significant, but unspecified increase in efficiency and margins. With production levels at the factory currently surpassing pre-COVID-19 levels to meet the current demand, we believe these improvements will have an amplified effect during FY22.

The Greek God of the sun regains his power

As things return to 'normal' around the world the Chairman's address on 25 October 2021 has made clear that demand has returned to both the retail and rental divisions. During 1Q22 alone, the company delivered 472 new units versus 106 during 1Q21. On an annualised basis, this comes to 1,888 versus FY19's 2,267 RVs sold. When we factor in how many dealerships were heavily impacted by lockdowns in Australia during this period and management's belief that demand will remain strong during FY22, we believe 1Q22's result indicates that we can expect FY22's result to meet or exceed FY19's in Australia.

The current market consensus puts EBITDA growth at 155% year-over-year during FY22, 64.2% during FY23 and 20.5% during FY24. Based off these growth estimates, the company is currently valued at FY22, FY23 and FY24 EV/EBITDA multiples of 10x, 6.1x, and 5x, respectively. We not only believe that these EBITDA growth rates are feasible, but that they may even be on the conservative side. Apollo is finally regaining his powers and that means we are giving this company four stars.

AIMS PROPERTIES SECURITIES FUND

Aiming for profits

Stocks Down Under rating: ★★★★★

ASX: APW
Market cap: A\$55.8M

52-week range: A\$1.06 / A\$1.48
Share price: A\$1.25

Headquartered in Sydney, dual-listed (ASX and Singapore Exchange) AIMS Property Securities Fund invests in property, but it is not a Real Estate Investment Trust (REIT), because the company actually owns no property. Instead, it makes investments in both listed and unlisted property funds. Here's where things get interesting. Based on the fair value of AIMS Properties' investments as of 30 June 2021, the company has a Net Tangible Asset (NTA) value of \$2.74 per unit. While we believe AIMS Properties deserves to be discounted to its NTA, we think its current discount of 54.7% doesn't make sense.

Share price chart



Source: Tradingview

A portfolio of portfolios

The AIMS Properties Securities Fund calls itself a 'diversified real estate securities fund' at first glance, this sounds like the fund invests in property. However, upon closer examination, we can easily determine that this is not technically correct. Yes, AIMS Properties' investments can be categorised under real estate, but it invests in listed and unlisted real estate funds, and doesn't have direct ownership of property.

The fund generates revenue through the capital gains and the distributions earned. This is not usually a model we are especially fond of for a number of reasons. The key reason being the increasing complexity and opaqueness surrounding non-listed investments. However, AIMS Properties has an attribute that we believe more than covers all of these risks, i.e. it is trading at a very substantial discount to its Net Tangible Asset (NTA) value. However, before we dive into that, we need to understand where the fund's investments are allocated first.

We mentioned that AIMS Properties earns its revenue from the funds it has invested in distributions. During FY21, these funds generated \$1.3m in distributions. Excluding the gains on financial assets held by AIMS Properties, distribution income accounted for 90.6% of the company's total revenue. Total revenue, including net gains on financial assets held at fair value (\$12.6m during FY21) was \$14m. While cash generated will continue to be mostly through distribution income, the figure that will make or break AIMS Properties' earnings will almost always be the net loss or gain on financial assets, in our view.

Total sector assets during FY21 were \$116.3m, made up of four listed property funds and six unlisted ones. Currently, the listed assets are Blackwall Limited (ASX: BWF), Arena REIT (ASX: ARF | [see 3 July 2020 report](#)), AIMS APAC REIT (SGX: AAREIT), and WOTSO Property (ASX: WOT | [see 27 August 2021 report](#)).

The unlisted assets are AIMS Property Fund St Kilda Road, AIMS Total Return Fund, AIMS Property Fund Felix St, AIMS Property Fund Laverton, Waratah Hotel Group and AIMS Real Estate Opportunity Fund. Looking at it by sector, AIMS Property Securities Fund is currently invested in industrial (37.7% of total assets), office (30.7%), diversified (29.2%), pubs (2.4%) and childcare (less than 0.1%).

A rare discount to fair value

As of 30 June 2021, the NTA per unit was \$2.76. However, we believe the company deserves to be traded at a discount larger than for other REITs. The main reason for this is that the company does not directly own property itself, but rather through direct minority ownership of other entities. Currently the split between ownership of publicly traded entities and unlisted is 7.5% and 92.5%, respectively. This means, that outside of the regular reports, it is extremely hard to track the current fair value of AIMS Properties Securities Fund's holdings, leaving investors open to more surprises in value changes.

On the other hand, this exposure to unlisted funds can also be seen as a major benefit to shareholders as most investors would not normally have access to these unlisted funds. Therefore, while the high allocation to unlisted funds adds risk, the exposure can also be the main reason an investor would be interested in the stock.

All-in-all, we believe the current discount of 54.7% is too high to pass up, especially with the strong exposure to industrial properties and with office property in the early beginnings of a recovery. Therefore, AIMS Properties Securities Fund gets four stars from Stocks Down Under.

Pitt Street Research Pty Ltd

95 Pitt Street, Sydney, NSW 2000, Australia

Pitt Street Research Pty Ltd provides issuer-sponsored research for Small & Mid Cap companies and is founded on more than 40 years of combined experience researching companies in a range of different sectors.

You are receiving this email because you subscribed to our Stocks Down Under newsletter.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission from Pitt Street Research Ltd Pty. All intellectual property relating to the Content vests with Pitt Street Research unless otherwise noted.

Stocks Down Under (Pitt Street Research AFSL 1265112) provides actionable investment ideas on ASX-listed stocks. The Content has been prepared for general information purposes only and is not (and cannot be construed or relied upon as) personal advice nor as an offer to buy/sell/subscribe to any of the financial products mentioned herein. No investment objectives, financial circumstances or needs of any individual have been taken into consideration in the preparation of the Content. Financial products are complex, entail risk of loss, may rise and fall, and are impacted by a range of market and economic factors, and you should always obtain professional advice to ensure trading or investing in such products is suitable for your circumstances, and ensure you obtain, read and understand any applicable offer document.

