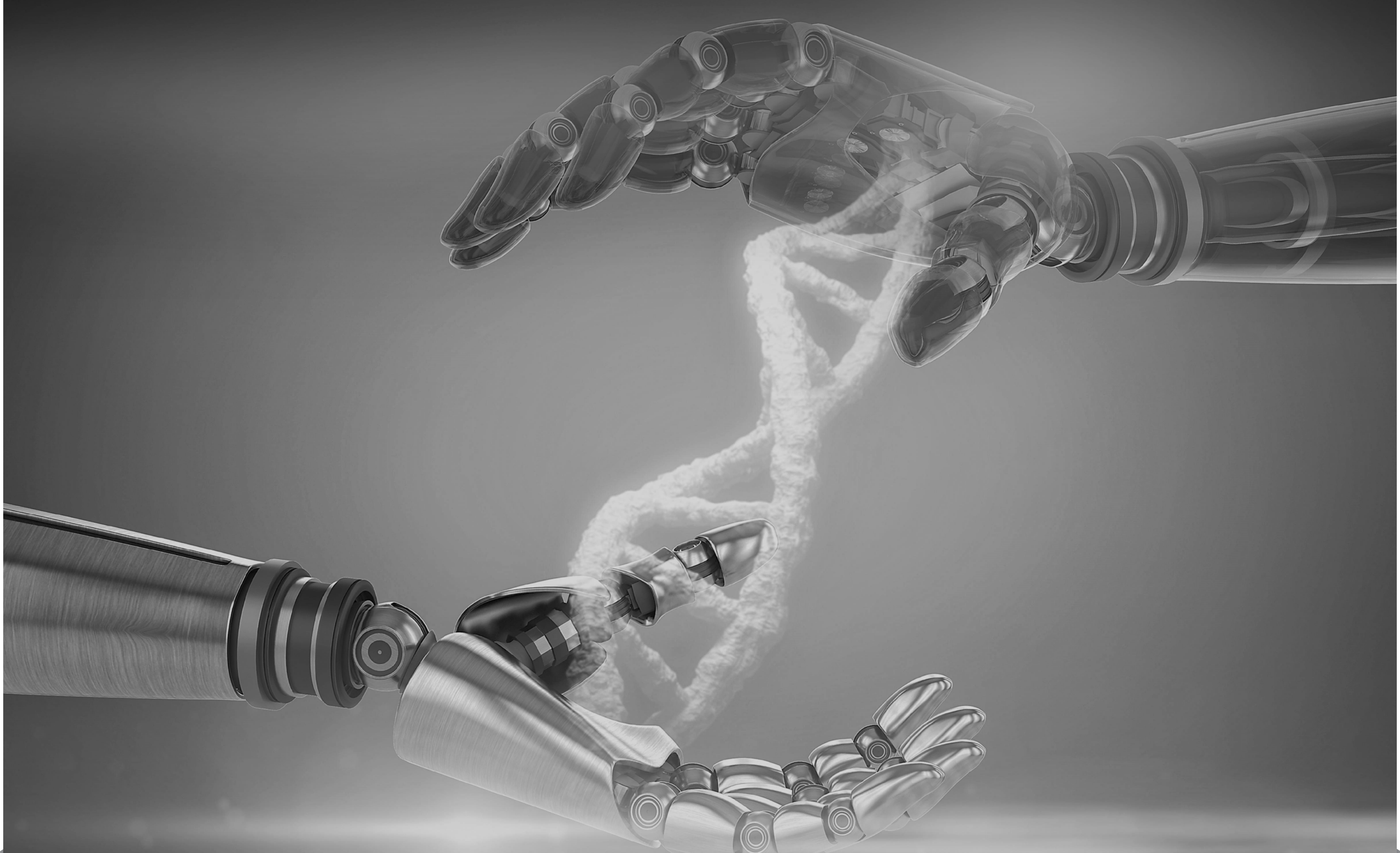
STOCKS DOWN UNDER

2 NOVEMBER 2021

Emerging Stocks Down Under

> *I'm sure wherever my dad is, he's looking down on us. He's not dead, just very condescending.*

- Jack Whitehall (b. 1988), British comedian



CORUM GROUP
Bouncing back

TINYBEANS GROUP
Large beans when it comes to growth

BPH ENERGY
Multiple gambles

CORUM GROUP

Bouncing back

Stocks Down Under rating: ★★★★

ASX: COO
Market cap: A$46M

52-week range: A$0.062 / A$0.12
Share price: A$0.08

Based in Sydney, the Corum group is a software development company that primarily serves the healthcare and eCommerce sectors. These segments work in tandem, with the company's main products being Point-of-Sale (POS), pharmaceutical dispensing and retail management software. Apart from this, the company provides payment gateway solutions to pharmacies and companies in the real estate space and support services for all of its solutions. After a few uninspiring years, Corum finally seems on the right track on account of partnerships, an acquisition and a focus on its core business.

READ MORE

TINYBEANS GROUP

Large beans when it comes to growth

Stocks Down Under rating: ★★★★

ASX: TNY
Market cap: A$41.7M

52-week range: A$0.88 / A$1.85
Share price: A$0.89

Sydney-based the Tinybeans Group might have a relatively tiny market capitalisation, but there is nothing small about its growth plans in the United States. Tinybeans is an application and web platform for parents to record and share digital versions of their children's memories. This subscription services allows for unlimited storage for its subscribers and the ability for family members to view the photos without a subscription, all while keeping the rest of the world out. While the service is available in Australia, the real growth opportunity is in the United States and we believe the company's opportunities there are anything but tiny.

READ MORE

BPH ENERGY

Multiple gambles

Stocks Down Under rating: ★★★★

ASX: BPH
Market cap: A$38.6M

52-week range: A$0.029 / A$0.33
Share price: A$0.058

At first glance, Perth-based BPH energy seems like an absolute mess. The company engages in everything from oil and gas exploration to pharmaceutical product development and biomedical research. As a company that partners with other companies to provide funding and commercialisation opportunities, you would think that management would want to focus on a single industry, especially considering the company's small size. However, we believe that targeting multiple fields can make sense as it allows risk diversification and multiple avenues for growth. However, you can risk spreading yourself too thin.

READ MORE

CORUM GROUP

Bouncing back

Stocks Down Under rating: ★★★★

ASX: COO
Market cap: A$46M

52-week range: A$0.062 / A$0.12
Share price: A$0.08

Based in Sydney, the Corum group is a software development company that primarily serves the healthcare and eCommerce sectors. These segments work in tandem, with the company's main products being Point-of-Sale (POS), pharmaceutical dispensing and retail management software. Apart from this, the company provides payment gateway solutions to pharmacies and companies in the real estate space and support services for all of its solutions. After a few uninspiring years, Corum finally seems on the right track on account of partnerships, an acquisition and a focus on its core business.

Share price chart

Source: Tradingview

Perfecting its craft

Corum was founded in 1950 and has been listed on the ASX since 1971. In the mid-1990s, the company began to provide POS, dispensing and management software to pharmacies across Australia. Since then, the company's business has primarily stayed the same. However, it has expanded and diversified the portfolio of clients considerably.

Corum currently has two segments: Health and eCommerce. The health segment continues the legacy business of providing software and support services to pharmacies. In contrast, the eCommerce segment primarily deals with electronic bill payment, transfer of funds and processing services for various entities, mainly in real-estate, although a few government agencies and corporations use the software too.

The company has partnered with Dell Corporation, the US-based computer manufacturer and services provider. With this partnership, the company can provide an end-to-end solution for its clients, including sourcing the hardware, setting up the software and providing training and support.

Corum has not changed its core business or attempted to diversify it excessively. However, it has been consistently moving into adjacent fields, such as providing training services and hardware, perfecting its craft in the process. This way, the company can provide services that its clients would previously have to source elsewhere. It is cheaper for the client because Corum can handle all their POS, dispensing and retail needs. And it is more profitable for Corum as it can increase its revenues considerably with only a marginal increase in costs.

A company lacking direction

Corum has a torrid history. During the 2000s, it managed to enjoy a consistently positive EBITDA, but net profits were small and inconsistent. The company would experience loss in one year, profit the next and repeat the cycle. The primary reason for this was not the software itself, but rather the terrible decisions made by management. The company was engaged in numerous lawsuits, some from its former employees. By the beginning of the new decade, most of these lawsuits had been settled or come to a close, with Corum having to pay damages in most cases. The company took on debt in the form of credit lines and convertible notes to keep operating.

Despite this, the company's revenue rose consistently and amounted to more than $21m by FY11. After settling the lawsuits, Corum enjoyed a consistent rise in profit, going from $1.1m in FY10 to $6.3m in FY13. However, the company's revenue came from not only its core services, but also from numerous companies that it had invested in. As the performance of those entities began to dwindle, so did Corum's overall financial performance. By FY18, revenue was down to $12.5m.

However, after the appointment of a new CEO in January 2017 and numerous changes to the board, the company began to bounce back. By signing multiple strategic partnerships, such as the one with Pharmacy Alliance (Australia's largest independent pharmacy network) in October 2019, Corum slowly began to improve its core business activities again.

Building an Ecosystem

With the arrival of the new CEO, the company also started to work with the Australian Digital Health Agency, helping build connectivity and functionality for the 'My Health' project that allows Australians to view their government health records. And in July 2018, the company launched Corum Clear: Its new flagship dispense product. To add to that, the company started the acquisition of PharmX, a company that links over 5,500 Australian pharmacies with suppliers. The acquisition was finalised in September 2020, with a 57% stake in the company being bought for $7.9m (funded through a $5.6m capital raise at $0.042 per share). Lastly, the aforementioned Dell partnership allowed the company to provide hardware solutions to clients. By the end of FY20 Corum had finally managed to build a complete ecosystem of software solutions for pharmacies.

The results speak for themselves. After years of declines, revenues increased from $10.6m in FY20 to $13.4m in FY21, allowing the company to generate its first profit of more than $1m since FY16. Moving forward, consensus estimates show the company increasing its revenue to $16.5m in FY23 with an EBITDA of $5.4m and 1Q22 seems to be right on track with a revenue increase 7% year-over-year to $3.3m.

In terms of valuation, Corum is currently trading at an EV/EBITDA ratio of 8.3x for FY22 and 7.7x for FY23, which is not bad ratio for a company expected to grow EBITDA by 13.6% this financial year and 8% next year.

With over 31,000 registered pharmacists in Australia, the company's core business alone should be able to drive the company's bottom line going forward, albeit only in a gradual manner. And before the Australian market is saturated, we think expanding internationally would be a logical step. Corum has sporadically paid a dividend, most recently from FY13 to FY15. As profits rise, we expect the company to reinitiate its dividend at some point.

We believe Corum Group is a four-star investment for patient investors that like stable and consistent growth with medium risk and a chance of future dividends.

TINYBEANS GROUP

Large beans when it comes to growth

Stocks Down Under rating: ★★★★

ASX: TNY
Market cap: A$41.7M

52-week range: A$0.88 / A$1.85
Share price: A$0.89

Sydney-based the Tinybeans Group might have a relatively tiny market capitalisation, but there is nothing small about its growth plans in the United States. Tinybeans is an application and web platform for parents to record and share digital versions of their children's memories. This subscription services allows for unlimited storage for its subscribers and the ability for family members to view the photos without a subscription, all while keeping the rest of the world out. While the service is available in Australia, the real growth opportunity is in the United States and we believe the company's opportunities there are anything but tiny.

Share price chart

Source: Tradingview

Tinybeans is more than just an online photo album

The years of the COVID-19 pandemic have been tough on everybody, but even before this time, we could not always be there for those we loved whenever we wanted. Solving this problem is one of the main goals of the Tinybeans Group when it was founded in 2012. The founders, Stephen O'Young, Sarah-Jane Kurtini and Eddie Geller decided to take on this challenge with their online platform and iOS and Android compatible application: Tinybeans.

The Tinybeans platform has four main features: storage, capture, record keeping and sharing. A subscription to the platform currently costs US$4.99 per month, or US$39.99 per year, well within the price range of most families. Based off this single subscription, subscribers are granted unlimited photo and video storage, allowing them to upload and record (capture) an unlimited amount of media content. This could be for the parents' own records, or they can share these 'journals' with their family members, allowing them to securely view the digital records of their kids' childhoods.

These journals can also be used to create physical photo books very easily, right on the platform. However, the record keeping abilities don't stop at digital media as the platform allows for the recording of all information relating to the child's development over time. For example, if you used the platform for three years, you could track your child's height and weight over that three-year period. Not only is this something you can securely share with grandparents, but we believe many children may find this 'time-capsule' of their growth interesting later in life.

Security is paramount

Due to the nature of the data stored on Tinybeans' platform, data security is paramount. Keep in mind, this is images, videos and other highly personal information of people's children. If Tinybeans has a single cybersecurity breach, the consequences for the business would likely be catastrophic. Fortunately, no security breaches at Tinybeans have been recorded, but it is important to note that we couldn't find any publicly available security audits. Tinybeans has a strong reputation for security and privacy. This reputation fits squarely into the phrase 'right place right time' as many parents are finally realising how dangerous it is posting these types of photos and information on other platforms, like Facebook.

1Q22 proves Tinybeans still has large demand

While 1Q22 generated an impressive 42% increase in year-over-year revenue, it was far below 1Q21's 123% growth rate. Looking back at the first three months of FY21 and you will remember that COVID-induced travel restrictions meant families were unable to meet in person for a period of time, which we believe is why the company experienced such a significant bump in year-over-year back then. So, 1Q22's lower revenue growth of 'only' 42%, to US$2.5m, is not so shabby seen in that light.

Breaking down 1Q22's revenue growth into its two main parts highlights the main divisions of advertising and subscription. Advertising revenue is by far the biggest source of revenues, generating 84.7% of the total in 1Q21 and 90% in 1Q22. Management has been working hard to ensure the platform's advertising revenue is not reliant on just a few companies and, in our view, it has achieved this goal. The company currently has 20 ad partners (seven booked during 1Q22) spending over US$100,000 and US$2.5m in contracted ad revenue booked for 2Q22 alone.

Subscription revenue continued to grow during 1Q22, although at a much lower rate of 19% year-over-year. However, it is important to note that the difference to 1Q21 is significantly less, only 3%-points. While Tinybeans experienced 9% growth in its Monthly Active Users (MAU) to 4.4m in 1Q22, management has warned that it expects its MAU to decline during 2Q22 as the company finishes optimising and merging its mobile application and website. The MAU decline is expected to stabilise and return to growth during and after 3Q22.

Tinybeans generating large growth

During 1Q22, Tinybeans realised an EBITDA loss of US$160,000, a decline of 38.5% year-over-year due to increased revenue. Investments in growth and operating costs increased year-over-year. Unfortunately, management doesn't provide any guidance and the stock is not covered by brokers. So, using a 12-month trailing EV/Revenue multiple we see the company is trading at 3.6x. We believe this is a reasonable valuation as Tinybeans' 1Q22 results proved that the company's strong growth is sustainable and not a one off resulting from COVID-19. And on 27 April 2021 the company announced that it was launching Pets, allowing pet owners to use its platform for pet memories. This is a massive market, in our view, and we agree with management that there will likely be strong crossovers with its existing customer base. We expect these two customer bases will provide referrals for each other going forward and Tinybeans has already closed a US$1m adverting contract for this platform (launched in May 2021) with Hill's Pet Nutrition for 2022.

All-in-all, we believe there's nothing tiny about Tinybeans growth potential and at its current valuation is a four-star investment for us.

BPH ENERGY

Multiple gambles

Stocks Down Under rating: ★★★★

ASX: BPH
Market cap: A$38.6M

52-week range: A$0.029 / A$0.33
Share price: A$0.058

At first glance, Perth-based BPH energy seems like an absolute mess. The company engages in everything from oil and gas exploration to pharmaceutical product development and biomedical research. As a company that partners with other companies to provide funding and commercialisation opportunities, you would think that management would want to focus on a single industry, especially considering the company's small size. However, we believe that targeting multiple fields can make sense as it allows risk diversification and multiple avenues for growth. However, you can risk spreading yourself too thin.

Share price chart

Source: Tradingview

BPH Energy does what BPH Energy wants

It is best to think of BPH Energy as a holding company with interests in various companies, including a spin off from the parent company itself. BPH listed on the ASX in 2004 and was initially known as BioPharmica Limited. Focusing on medical research through its partners and subsidiaries, the company's foray into energy began in late 2009 with the exercise of an option to purchase a stake in Advent Energy, a Perth-based oil and gas exploration company.

Since then, the company has been focusing equally on energy exploration and medical research. With good access to power generation infrastructure, the company can quickly turn untapped resources into a commercial product. The Petroleum Exploration Permit 11 (PEP11), located in the Sydney basin, is estimated to have 13.2 trillion cubic feet (Tcf) of recoverable gas resources and Advent has an 85% stake in the permit.

The company also owns RL1 oil and gas assets in the Bonaparte Basin. However, BPH's primary focus is now on PEP11 as its sheer size coupled with the proximity to Australia's largest energy market potentially makes it a highly profitable venture.

Partners, in sickness and in health

Partnerships are the lifeblood of BPH Energy and nowhere is this more evident than in its medical research venture. Cortical Dynamics is the company's leading medical venture, which works together with Swinburne University of Technology to develop the Brain Anaesthesia Response Monitor (BARM). BARM is a device that measures a patient's brain electrical activity to determine the response to drugs administered during surgery.

On 30 September 2021, Cortical filed a 510(K) application for its BARM device with the FDA. A 510(K) approval allows a medical device to be marketed and sold in the US. Similar approvals are already in place for Australia, South Korea and Europe, leading us to believe that FDA approval will come through as well.

In February 2021, BPH raised $9m at $0.13 per share to increase its share in Advent from 22% to 33% and in Cortical from 16% to18%. The increase in exposure to both these companies is a testament to them inching closer to commercialisation.

BPH also has exposure to the cancer research space. Molecular Discovery Systems (MDSystems), one of the company's partners, is currently performing pre-clinical testing for anti-tumour activity with initial tests showing a drug with no toxic side effects in animals. Lastly, MDSystems is developing hemopoietic lineage switch 5 (HLS5), a gene that could target cancer, Parkinson's, Huntington's and HIV due to it working through multiple pathways.

Low valuation, but risky proposition

Advent is BPH's major play right now with substantial profit potential. If the PEP11 reserves are indeed as large as the estimates claim and the company can find a viable way to store and distribute the fuel, we believe it would be appropriate to label BPH a gold mine. However, Advent is not the only way forward for BPH. Cortical is a lot closer to commercialisation and MDSystems could make big inroads into cancer treatment over the next few years.

The major announcement to watch out for is the approval for drilling a well in PEP11. The company has undertaken massive steps to ensure approval, including a commitment to net-zero emissions and a promise to use any resources discovered for local supply only.

As for Cortical, a partnership with the Medical Device Partnering Program of Flinders University began in March 2021. The purpose of the partnership is to validate the company's research and start the commercialisation process for BARM. We expect potential new partnerships that directly lead to BARM's commercialisation over the next few months may have a big impact on the share price.

We believe that BPH's strong diversification and unrelated potential income streams make BPH an interesting investment opportunity at the current market capitalisation of $38.6m. While the company's multiple gambles carry a significant amount of risk, just one of them taking off could propel the share price to substantially higher levels, in our view. Following a share price spike to $0.24 late January 2021, the shares are now trading at $0.058.

In our opinion, this makes BPH Energy a four-star investment. While the risks are fairly significant, the company is priced relatively cheap compared to the potential upside in each of its ventures.

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.

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.