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Market Analysis

Issue No. 576-Update www.stockmarket.co.nz June 22, 2020

June 2020 Australian Tax Loss Selling Update

The "*Tax Loss Selling*" investment strategy is based upon the theory that depressed shares can become *ever 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.

We ran a scan of all listed Australian shares using the following criteria: (1) the shares have fallen 80% 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) with at least one (net) *insider* Buy trade over the last year.

We would have expected the first two criteria to turn up a lot of *failed* companies, cashless mining exploration companies, scam companies and other low quality companies! We included the requirement of one *insider* Buy trade to eliminate the very worst of these companies.

The resulting list of companies was actually surprising! The list consists of many very interesting companies, from a wide range of industries, most with unique businesses, unique products or unique technologies. Some of these - in the right circumstances - could become outstanding long term growth investments (especially from their current depressed share prices). The one most common characteristic of these companies are that most are new ventures, struggling to *commercialise* a new product or technology and build a potentially large business!

If new, millenial investors (or more experienced, older investors) want to make high risk investments for recovery, then forget about Airlines and leveraged index funds and bankrupt companies (e.g. Hertz) and instead have a look at our "tax loss" selling selection below. Here you can find a few depressed companies - which you may be able to buy at even more depressed prices during the rest of June - seeking to build and commercialise growth businesses in industries of the future!

Aurora Labs (code A3D)

This company develops and manufactures large format, rapid 3D metal printers (i.e. printing up to 350kg per day), using *Multi-layered Concurrent Printing* technology. This is an innovative company, with unique technology in a disruptive market. The only thing the company does not have is enough customers.

Revenues in the year to June 2019 were only $841,620 resulting in a *loss* of $7.6 million and net cash operating *deficit* of $7.7 million. Operating costs have since been cut significantly!

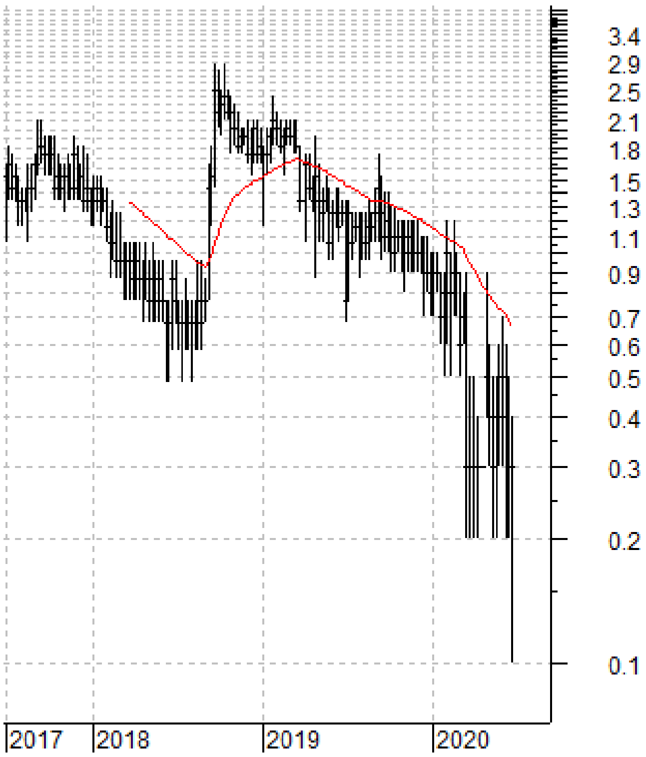
Cash at 31 March 2020 was $1,752,000 (1.5 cents per share) after the placement of 13.0 million shares at 14 cents to raise $1.82 million in November 2019. Issued capital is 117.3 million shares, so at 5.7 cents the market capitalisation is just $6.7 million.

There was one *insider* Buy in November when a Non-Executive Director purchased 150,000 shares at 27-28 cents.

Post Covid-19, companies will look to shorten supply chains and that *may* help boost the use of 3D printing in manufacturing.

Bid-Ask: 5.4-5.9 cents. Last trade 5.6 cents.

<u>**Consolidated Zinc (code CZL)**</u>



OK, this is a boring mineral exploration company. But perhaps not too boring. There are severals ways the shares could be re-rated.

The company has an operating, high grade, Zinc and Lead mine in Mexico, generating revenues and cashflow. Ownership of the mine increased from 51% to 100% in September 2019, production was also *doubled* in the September 2019 quarter and in November 2019 the company moved from using contract mining to being owner operator mining, *halving* mining costs. The area is under-explored and contains some *very* high grade Zinc/Lead targets.

The company is also exploring for high grade Gold.

Revenues were US$7.6 million for the year to 31 December 2019, with a *loss* of US$1,155,727 and a cash operating deficit of US$1.0 million. Interest bearing debts are just US$1.3 million.

There were 3 *insider* Buys (at 0.8 cents in July, 1.2 cents in September and 1.1 cents in November) over the last year by the Non-Executive Chairman who owns about 32% of the company!

A cash issue in October at 1.1 cents raised $2.5 million, another in May at 0.3 cents (plus a free option) raised A$1.7 million and a placement at 0.3 cents this month raised $0.57 million. The issued capital is 2,491.2 million shares which at 0.3 cents gives a market capitalisation of $7.5 million.

Bid-Ask: 0.2-0.3 cents. Last trade 0.3 cents.

<u>We suggest a bid at 0.2 cents</u>.

<u>**ECS Botanics Holdings (code ECS)**</u>

This company is involved in hemp and cannabis. This is not something that particularly interests us, but a year or so back investors were very optimistic - probably over-optimistic - about the growth potential in this sector. Now the shares are out-of-favour and depressed . . . and *that* is something of interest to us.

The shares were re-instated to trading on the ASX in July 2019 after raising $6.5 million from the sale of 162.5 million shares at 4 cents. The company owns a 28 hectare farm in Tasmania and plans to build a 4600m^2 medical cannabis growing and processing facility. It also owns a 28.4% shareholding in **TapAgrico Pty**.

The company's hemp based food products include soup mixes being sold through Woolworths supermarkets. These was one small *insider* Buy in September 2019 at 5.3 cents.

The issued capital is 210,091,067 giving a market capitalisation of $5.3 million. Cash as at 31 March was $2.5 million (1.2 cents per share).

Bid-Ask: 2.3-2.5 cents. Last trade 2.5 cents.

FAR Ltd (code FAR)

This company's shares give a *very leveraged* exposure to the price of Oil.

FAR has a 15% interest in the development (by **Woodside Petroleum**) of major oil and gas offshore fields in Senegal (and some other exploration interests). Its share of the remaining costs to develop Phase I of the Senegal fields is about US$560 million during 2020 and 2021. The equity share of this was raised earlier this year from an A$146 million placement at 4.25 cents per share and A$11.2 million (from a target of A$30 million) through a Share Purchase Plan.

The company also sought US$300 million from an "underwritten senior loan facility" . . . but this financing collapsed along with equity markets and the oil price in March. This was to be followed by raising junior debt.

The issued capital is currently 9,978,830,197 shares, which at 1.5 cents gives a market capitalisation of $149.7 million. The company also holds US$80.3 million or A$117.5 million (1.2 cents per share) in cash.

The Senegal development will be one of the lowest cost oil (and gas) producers, so this is a very valuable project. FAR is currently "reworking debt options" to finance its share of the development costs and seeking potential buyers for "all or part" of this project.

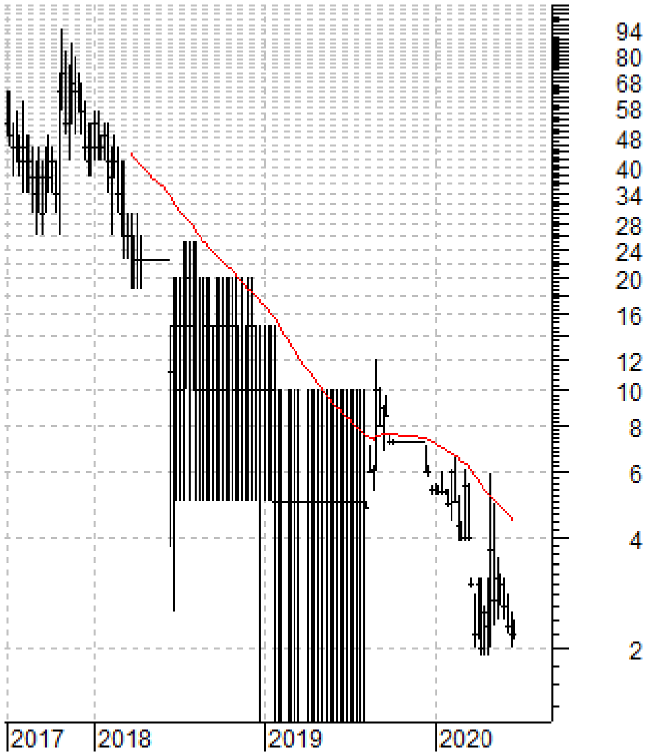
There were three *insider* Buys in February (after subscribing for SPP shares but before the debt raising failed) with the Managing Director buying 600,000 shares at 3.1 cents, an Executive Director buying 700,000 shares at 3.2 cents and a Non-executive Director buying 1,000,000 shares at 3.13 cents.

The shares are clearly depressed - trading at little more than their current cash asset backing - but it has large development obligations. The shares *could* bounce in value if the current more stable Oil price enables the company to raise debt financing and/or sell part of the Senegal project and/or make FAR a takeover target.

Bid-Ask: 1.4-1.5 cents. Last trade 1.5 cents.

We suggest a bid of 1.4 cents or lower.

Family Insights Group (code FAM)



The original business was control over children's internet access. Now the main business seems to be something to do with food shopping information. The *frugl* grocery app allows consumers to compare prices *and* nutritional information across supermarkets and brands. This is a free app, so presumably to collect consumer data for sale to supermarkets, producers and advertisers.

A cash issue in May at 2.0 cents raised $660,000.

The shares have lost significant value over the long term and in August 2019, 50 old shares were consolidated into one new share. The issued capital is now 99,000,000 shares for a market capitalisation of $2.2 million.

There have been six *insider* Buys (and no Sells) over the last year, mostly in July to August 2019 and one recent buy at the end of May 2020 of 500,000 shares at 2.9 cents.

Bid-Ask: 2.2-2.4 cents. Last trade 2.2 cents.

Global Energy Ventures (code GEV)

This company has an innovative and efficient system of transporting CNG (i.e. compressed natural gas) on its *CNG Optimum* ships which have a capacity of 200MMscf. This is a virtual "floating gas pipeline solution".

This solution would be economic in many offshore oil and gas production sites where existing LNG and CNG solutions are not economic. Two major current projects involve *Offshore Brazil Pre-Salt* (i.e. transporting gas from offshore production to onshore pipelines, which would otherwise be uneconomic and re-injected back into the oil wells) and *Offshore US Gulf of Mexico* (where CNG could be economically exported to Mexico, Central America and Caribbean islands).

A *CNG Commercialisation Study* for Brazil was completed in April and the company is in discussions to provide gas transportation with multiple operators developing Pre-Salt projects with their own Final Investment Decisions in 2020 and 2021.

The company is also investigating exports from the Gulf of Mexico, initially targeting deliveries to the Yucatan region in Mexico. Costs will be 40-50% lower than US LNG export projects.

Global Energy Ventures business plan requires it to enter into 15-20 year supply contracts for CNG (e.g. either to provide the "floating pipepline" at a fixed price, or long term supply contracts to buy gas and long term take-or-pay contracts to sell gas). The company can then borrow against that guaranteed income to finance the construction of the necessary CNG ships.

The issued capital is 386,728,223 shares, giving a market capitalisation of just $19.3 million. There was one *insider* Buy in December 2019 of 200,000 shares at 14.5 cents.

Bid-Ask: 5.0-5.3 cents. Last trade 5.0 cents.

Nuheara Ltd (code NUH)

This business (acquired in 2015 by **Wild Acre Metals**, which then changed its name to Nuheara) provides "affordable" (i.e. $400-500) hearing aids direct-to-consumers globally (on 30-day trial). It especially targets the larger market of people with mild to moderate hearing who do not usually have a hearing aid.

The "average" customer is a 54 year old male, compared with traditional hearing aids where it is a 72 year old male. This is potentially a new $10 billion per annum market, based upon 30% of first world people with mild/moderate hearing eventually using this type of product.

The major shortcoming of this product may be that it is currently available in just one colour: black.

Like many other companies reviewed here the problem is *commercialising* this product. Revenues remain below the cost of marketing, development and other overheads. Nevertheless, in May the company reported sales continued to "grow in economies heavily affected by Covid-19". April sales rose 251% in the US, 162% in the UK and 198% in Canada. Production in Malaysia was temporarily halted during the shutdown, but has restarted and back orders are being shipped.

The company has just completed a Share Purchase Plan and placement, raising $4.5 million from the issue of shares at 1.7 cents. The issued capital is now 1,359,811,584 shares giving a market capitalisation of $20.4 million.

There were two on-market *insider* Buys in May with Non-Executive Directors buying 588,235 shares at 1.7 cents and 554,447 shares at 1.8 cents.

This is a (loss-making) growth company, seeking to create a new multi-billion global market *and* with a potentially high-margin, direct-to-consumer business strategy that benefits from Covid-19.

Bid-Ask: 1.4-1.5 cents. Last trade 1.5 cents.

Rhinomed Ltd (code RNO)

This company produces and sells nasal strip sleep apnea devices (and newer products that deliver essential oils and is developing one for medicinal cannabis) globally through several major retailers. Revenues are growing at around 50% per annum, but remain below marketing, research and overhead costs. So this is another "commercialisation" business problem!

In September 2019 the company raised $6.0 million through a placement at 22 cents and is currently seeking to raise $6.5 million from a 1 for 2 cash issue at 7.7 cents (which closed last Friday). The issued capital (before the current issue) is 169.2 million shares so the market capitalisation is $13.0 million. That *could* be 253.6 million shares and a capitalisation of $19.5 million *if* the cash issue is fully subscribed.

There were two *insider* trades in March when the Chairman bought 500,000 shares on-market at 10 cents and 300,000 shares at 7 cents.

Bid-Ask: 7.6-8.0 cents. Last trade 7.7 cents.

Venturex Resources Ltd (code VXR)

Venturex Resources is a very small company with a very large *development*-ready Copper/Zinc project in the Pilbara, with most funding in place.

The issued capital is currently 317,546,898 shares giving a market capitalisation of $15.6 million. A *Share Purchase Plan* and a $2.5 million proposed placement will increase this to about 390 million shares and $19.6 million capitalisation.

The capital cost of developing the *Sulphur Spring* Copper/Zinc five year open pit and five year underground mine will be around $169 million, while the project has a Net Present Value (after-tax) of $310 million and an Internal Rate of Return of 39% per annum.

This project is based on a 10 year mine life, but with "high potential" to extend mining to 30-40 years.

In August 2019, global commodity trader, **Trafigura Pte**, agreed to provide US$75-90 million (A$100-120 million) through a *Copper and Zinc Concentrate Pre-payment Facility* - to be repaid over four years from future mine production. Trafigura has also entered an off-take agreement to purchase all copper and zinc concentrate produced over the first 11 years and 50% of subsequent mine production.

Interest on this facility is LIBOR +8.5% for the first year, LIBOR +9.5% for the second year and LIBOR +12.5% for the third and fourth years.

Environmental approval for the mine was received in May 2020, bring the company close to commencing development of this project.

There was one *insider* Buy in December 2019 when an Executive Director purchased 330,555 shares on-market at 10.7 cents.

The company's current SPP is priced at 5.5 cents (plus 1 option exercisable at 10 cents until 15 December 2021) although the shares last traded at 4.9 cents (Bid-Ask 4.9-5.2 cents). These shares are depressed - and may bounce back in July after the SPP closes (on 6 July) but this looks more like an attractive long term investment.